Strategic entrepreneurship in New Zealand’s state-owned enterprises: 
Underlying elements and financial implications

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<td>ACP</td>
<td>Animal Control Products Limited</td>
</tr>
<tr>
<td>AgriQuality</td>
<td>AgriQuality Limited</td>
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<tr>
<td>Air NZ</td>
<td>Air New Zealand</td>
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<tr>
<td>Airways</td>
<td>Airways Corporation of New Zealand Limited</td>
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<td>Asure</td>
<td>Asure New Zealand Limited</td>
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<td>AsureQuality</td>
<td>AsureQuality Limited</td>
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<tr>
<td>BBC</td>
<td>British Broadcasting Corporation</td>
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<td>BlueScope Steel</td>
<td>BlueScope Steel Limited</td>
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<tr>
<td>BNZ</td>
<td>Bank of New Zealand Limited</td>
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<tr>
<td>CCMAU</td>
<td>Crown Company Monitoring Advisory Unit</td>
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<tr>
<td>CFROI</td>
<td>Cash flow return on investment</td>
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<td>EPS</td>
<td>Earnings per share</td>
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<td>EVA</td>
<td>Economic value added</td>
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<td>GEM</td>
<td>Global Entrepreneurship Monitor</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>Genesis Energy</td>
<td>Genesis Power Limited</td>
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<td>Kiwibank</td>
<td>Kiwibank Limited</td>
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<td>Kordia</td>
<td>Kordia Limited</td>
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<td>Landcorp</td>
<td>Landcorp Farming Limited</td>
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<td>Learning Media</td>
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<td>Mercury Energy</td>
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<td>Meridian Energy</td>
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<td>MetService</td>
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<td>Mighty River Power</td>
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<td>NPAT</td>
<td>Net profit after tax</td>
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<td>NPE</td>
<td>New public entrepreneurship</td>
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<td>New public management</td>
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<td>NZ Post</td>
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<td>NZ Railways</td>
<td>New Zealand Railways Corporation Limited (trading as Ontrack)</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>Park Road Post</td>
<td>Park Road Post Limited</td>
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<td>Qantas</td>
<td>Qantas Airways Limited</td>
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<td>Quotable Value</td>
<td>Quotable Value Limited</td>
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<tr>
<td>ROA</td>
<td>Return on assets</td>
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<td>ROCI</td>
<td>Return on capital invested</td>
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<td>ROE</td>
<td>Return on equity</td>
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<td>ROI</td>
<td>Return on investment</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprises</td>
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<td>SOE</td>
<td>State-owned enterprise</td>
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<td>Solid Energy</td>
<td>Solid Energy New Zealand Limited</td>
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<td>Terralink</td>
<td>Terralink New Zealand Limited</td>
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<td>Timberlands</td>
<td>Timberlands West Coast Limited</td>
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<td>Transpower</td>
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<tr>
<td>Treasury</td>
<td>New Zealand Treasury</td>
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<td>TVNZ</td>
<td>Television New Zealand Limited</td>
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RESEARCH OUTPUTS TO DATE ARISING FROM THIS STUDY

Journal articles


Conference papers


ATTESTATION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Co-authored publications arising from this research originated from my own work, and their inclusion in this thesis has been approved by the relevant co-authors, as supervisors of this doctoral study.

Belinda Luke
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ABSTRACT

The concept of strategic entrepreneurship has received increased attention over the past ten years. Viewed as the intersection of entrepreneurship and strategy, this field of research is populated by conceptual studies which focus mainly on the nature and perceived benefits of strategic entrepreneurship. Similarly, the study of entrepreneurship in a public sector context has gained increasing support in recent years, but also remains underexplored.

To address these gaps, this thesis considers:

*What are the underlying elements and financial implications of strategic entrepreneurship in New Zealand’s state-owned enterprises (SOEs)?*

New Zealand’s SOE sector, comprising 17 government-owned, commercially focused organisations, is considered to be a prime subject for this research. Well known for their implementation of new public management (NPM), many New Zealand SOEs have also been publicly recognised as both innovative and entrepreneurial. The research question is addressed by first developing a preliminary framework of strategic entrepreneurship from literature on entrepreneurship and strategy. This framework is then examined in the context of case studies on activity which is entrepreneurial and/or strategic within 12 of the 17 SOEs operating in New Zealand as at 2006. Transcripts from a series of interviews, and publicly available documents are analysed thematically. SOEs’ financial statements over a five year period are also analysed.

The thesis contributes in two broad areas. First, much-needed empirical support is lent to the concept of strategic entrepreneurship. Key elements of strategic entrepreneurship identified include opportunity identification, innovation, acceptance of risk, flexibility, vision, growth, and leveraging from core skills and resources such that existing knowledge and skills are transferred and applied to create new products, services, and markets. Important supporting elements identified include an open, flexible, and progressive culture, operational excellence, and cost minimisation. The nature of each of these elements is also investigated. A detailed understanding of the relationship between strategic entrepreneurship and wealth creation reveals various internal and external factors which may influence the nature and strength of the relationship. These factors include changes within the organisation, as well as changes in the economic and political environment, and are important influences on the resulting returns realised.
Second, this thesis offers valuable evidence in support of emerging change in the public sector towards the adoption of strategic entrepreneurship. Support for the value of NPM is provided, with clear evidence of financial returns from New Zealand’s SOE sector. Further, a key finding is the structured and systematic approach to entrepreneurial activity within the context of NPM in several New Zealand SOEs. Such behaviour is referred to in this thesis as new public entrepreneurship. This form of activity offers the potential for competitive advantage and financial gain traditionally associated with entrepreneurial activity, but also limits the respective risks through its structured, systematic approach.
CHAPTER 1

INTRODUCTION

Entrepreneurship has been referred to as the core of the dynamics of capitalism (Baumol, 1993) and, not surprisingly, is of tremendous interest to scholars, managers, and policy-makers alike. The potential benefits of entrepreneurship have been widely documented, including business creation (Gartner, 1985), financial gain (Ireland, Hitt, Camp, & Sexton, 2001), competitive advantage (Zahra, 1991), national identity (Reynolds, Bygrave, Autio, Arenius, Fitsimmons, Minniti et al., 2004)1, and economic growth (Hayek, 1948). While most studies to date have examined entrepreneurial activities from the standpoint of individuals (McClelland, 1961, 1962) and organisations (Miller, 1983; Morris & Kuratko, 2002), governments too have received increasing attention as to how they might foster entrepreneurial activity in order to deliver greater economic prosperity (Weinstock, 2002).

As a small, open, and progressive economy (Federation of International Trade Associations, 2006), New Zealand has been noted for its entrepreneurial nature (Minniti, Bygrave, & Autio, 2006). Yet, the country’s economic development is an area of both priority and concern within various government organisations, given New Zealand’s relatively low rating for economic growth. In 2006 for example, New Zealand was ranked in the lower half of Organisation for Economic Co-operation and Development [OECD] countries (20th out of 30), in terms of gross domestic product [GDP] per capita (Ministry of Economic Development & New Zealand Treasury, 2006). In recent years, the Government has been actively promoting innovative activity and economic development through programmes such as “Growing an innovative New Zealand” (New Zealand Government, 2002), as well as creating awareness of New Zealand’s competitive position in global markets through publications such as “New Zealand in the OECD” (Statistics New Zealand, 2005).

A notable component of the New Zealand economy, and one which has been looked upon to promote economic development, is the state-owned enterprise [SOE] sector. Established as part of the country’s public sector reforms in the 1980s, SOEs are government-owned but commercially focused organisations, operating in deregulated markets with express profit-making requirements. Specifically, New Zealand’s wide-spread adoption of new public management

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1 In accordance with APA referencing style, where there are more than six authors, only the first six authors are detailed in the in-text reference, followed by “et al.”. Full details of the reference are shown in the reference list.
[NPM], being a more business-like approach to government, was undertaken in an attempt to progress from a welfare state to a progressive, competitive country (Brash, 1996; Trotter, 2001). Over the past two decades, the comprehensive nature of these reforms, including a programme of both privatisation and corporatisation, has earned New Zealand a reputation as a leader in NPM, and a point of reference for other countries adopting similar principles (Cullen, 2003a; Hood, 1991). Yet within New Zealand, debate continues on the role and future of SOEs, and whether corporatisation or privatisation is in the best interests of the country (Bennett, 2007; James, 2002; Oliver, 2007). In particular, attention has focused on whether these organisations (and the value they represent) would be better placed in the public or private sector. Despite this contention, several of New Zealand’s SOEs have been publicly recognised, both nationally and internationally, as innovative, entrepreneurial, and established competitors on a global scale in their respective industries. Accordingly, this study seeks to examine the potential for entrepreneurial activity, and strategic entrepreneurship in particular as a more structured approach to entrepreneurial activity, in New Zealand’s SOEs.

1.1 BACKGROUND
Entrepreneurial activity, referred to as a process centred on opportunity-seeking (Schendel & Hitt, 2007), has traditionally been associated with innovation (Schumpeter, 1934), risk (Knight, 1921), and returns (Hawley, 1901); and considered particularly appropriate for dynamic and hostile environments (Miller, 1983). From the mid 1980s however, management research began to increasingly focus on combining entrepreneurship and strategy, examining a more structured approach to entrepreneurial activity. In particular, strategy and strategic management, seen as fields concerned with value creation and competitive advantage, represent an important balance for entrepreneurship; a “natural relationship” (Schendel & Hitt, 2007, p. 1). As researchers explored entrepreneurship as a partner for strategy (Dess, Lumpkin, & Covin, 1997; Venkataraman & Sarasvathy, 2001), attention and debate also turned to entrepreneurship’s associated financial and economic benefits (Davis, Haltiwhanger, & Schuh, 1996; Storey, 1994). A lack of clear financial measures, limited application of interdisciplinary research (e.g. borrowing from accounting and economics), and definitional issues on what constituted entrepreneurship, left much unclear with respect to entrepreneurship’s financial and economic returns. And at a similar time, in a different area of management research, academics and policy-makers began to explore the potential for NPM. Referred to as a more managerially focused and commercial approach to public sector management (Hood, 1991), NPM was seen as a viable alternative to traditional or “old” public sector management approaches (Mulgan, 1997a) which were proving to
be costly, bureaucratic, and increasingly less effective. This thesis focuses on the convergence of these three concepts: strategic entrepreneurship, its financial implications and economic returns, and NPM.

My interest in the topic of strategic entrepreneurship began with a review of the literature developed by a small number of researchers, which seemed to incorporate an undue emphasis on strategic elements and seemingly overlook entrepreneurship. An initial study of strategic entrepreneurship in three of New Zealand’s SOEs (Luke & Verreyne, 2006a) explored the nature of strategic entrepreneurship, and confirmed this type of activity was possible in a public sector context. However, the limited number of firms examined, and the identification of issues not yet explored (such as the associated financial and economic returns) led to this current study being undertaken. Accordingly, this research explores the notion of strategic entrepreneurship by examining activity within 12 of the 17 SOEs operating in New Zealand (as at 2006), in order to gain a better understanding of strategic entrepreneurship’s underlying elements and financial implications, as well as insight into the public sector context of SOEs.

1.2 Problem Orientation

Entrepreneurship has been associated with creative destruction (Schumpeter, 1934), economic change (Menger 1892), risk (Knight, 1921), and reward (Hawley, 1901; McClelland, 1962). Yet strategic entrepreneurship, referred to as the intersection of entrepreneurship and strategy (Hitt, Ireland, Camp, & Sexton, 2001), a balance of opportunity-seeking and advantage-seeking behaviour (Ireland, Hitt, and Simon, 2003), a combination of exploration and exploitation (Ireland & Webb, 2007); potentially represents a more structured and systematic approach to entrepreneurial activity. The evolving nature of this construct, however, within predominantly theoretically-based literature, raises the question as to what are the underlying elements of strategic entrepreneurship in practice.

Essentially, the study of strategic entrepreneurship involves the combination of actions distinctly entrepreneurial - focusing on opportunity, with actions essentially of a strategic management nature - creating competitive advantage (Hitt, Ireland, Camp, & Sexton, 2002). This combination is what Meyer, Neck, and Meeks (2002) refer to as the creation-performance relationship. Certainly there are elements of entrepreneurship reflected in the theories put forward by Hitt et al. (2001) and Ireland et al. (2001). Arguably, however, the development of strategic entrepreneurship research from a predominantly management-oriented perspective has produced
findings which are perhaps unnecessarily detached from the core principles of entrepreneurship. Recent studies on strategic entrepreneurship have addressed some of the theoretical concerns and criticisms (Ireland et al., 2003), but have added further detail and complexity without empirical support (Ireland & Webb, 2007; Ketchen, Ireland, & Snow, 2007). By way of example, references to bundling resources (Ireland et al., 2003) lack specific guidance and direction. In contrast, the requirement for continuous (Ireland & Webb, 2007) and collaborative innovation (Ketchen et al., 2007) provides specific detail, but raises questions regarding the necessity, feasibility, and practicality of such direction. Thus, strategic entrepreneurship’s evolving nature and lack of empirical support indicate a need for a re-evaluation of strategic entrepreneurship theory, and an examination of strategic entrepreneurship in practice.

While the benefits of entrepreneurial activity are widely accepted, an awareness of the association between entrepreneurship and risk (financial risk in particular) is also well entrenched. Although the association between entrepreneurship and wealth creation is clearly stated within the literature, closer examination reveals a number of anomalies and gaps. In particular, the lack of clear financial terms (Naman & Slevin, 1993) and empirical evidence to support this association (Wennekers & Thurik, 1999), leaves much unanswered with respect to entrepreneurship’s financial and economic returns. As noted by Storey (2006), “many studies on entrepreneurship provide little or no basis on which to support a clear association between entrepreneurship and financial or economic growth”.

Of those studies which have begun to examine the financial and economic implications of such activity in clear financial terms (Zahra, 1995; Zahra & Garvis, 2000), incorporation of a range of financial measures is limited and theoretical support often lacking. Hence, there is a need for a more comprehensive assessment of entrepreneurship’s financial implications, taking perhaps a more rounded view of financial and economic returns. In the context of strategic entrepreneurship, an association with wealth creation is also clearly presented in the literature. However, research has not yet progressed to examine this association in practice. Accordingly, this study aims to address this gap by borrowing from accounting and finance literature to consider appropriate financial measures from a number of different perspectives, and examine the financial and economic implications of strategic entrepreneurship.

Last, while governments have shown strong interest in promoting innovative and entrepreneurial activity, the question arises as to what level of government involvement is feasible and/or
advisable. Given the ongoing privatisation versus corporatisation debate (Stiglitz, 2008), a key issue for consideration is whether government’s role should be limited to policy-making, or go beyond this to a more direct involvement by way of entrepreneurial and strategic practice. Certainly, there is a general acceptance that government involvement is necessary (Minniti et al., 2006).

The creation of appropriate institutions conducive to the development of markets is the fundamental responsibility of governments interested in promoting entrepreneurship in their countries (Minniti et al., p. 11).

Precisely what form this involvement takes, however, continues to be debated. Despite the increasing adoption of NPM principles, debate on government’s role being one of “rowing” (i.e. a direct involvement) versus “steering” (being a more indirect involvement) (Moore, 1992) continues to resurface. This debate has become increasingly complex, however, due to the variation within NPM practices employed by various countries. Despite this variation, and objections to governments actively being in business (Moore, 1992), support for corporatisation remains. As noted by Easton (1999, ¶10) “if privatisation is the answer, very often one has misunderstood the question”. Further, as support for innovative and entrepreneurial activity increasingly comes from governments pursuing and promoting economic growth, it is important to assess and understand the economic implications of such activity. Accordingly, a review of corporatisation “after two decades of experimentation” (O’Flynn, 2007, p. 358) is perhaps timely, to understand the environment and context in which SOEs operate, examine the financial and economic returns, and consider the potential for entrepreneurial and strategic activity in the public sector context of SOEs.

1.3 RESEARCH QUESTION
The focus of this research is strategic entrepreneurship in the context of New Zealand’s SOEs. As the scope of strategic entrepreneurship research evolves, so too has the nature of the construct, and its underlying elements. Yet a review of extant research also reveals a distinct emphasis on conceptual models, and a notable absence of empirical or practical support for such theories. Accordingly, it is not clear whether this literature appropriately reflects the underlying elements and financial implications of strategic entrepreneurship in theory and practice. By examining this issue within the context of 12 SOEs, the central research question to be addressed is:

What are the underlying elements and financial implications of strategic entrepreneurship in New Zealand’s SOEs?
Given the unique nature of SOEs as government-owned yet commercial organisations with specific profit-making requirements, the public sector context of this study also provides the opportunity to examine NPM, and its financial and economic returns. Hence, specific research questions to be addressed as part of this study include:

1. *What are the underlying elements of strategic entrepreneurship in theory and practice?*
2. *What are the financial (and economic) implications of strategic entrepreneurship?*
3. *What are the financial (and economic) returns available from NPM in the context of New Zealand’s SOE sector?*
4. *To what extent is entrepreneurial activity possible and advisable in the public sector?*

Thus, the specific objectives of this study are first, to examine the intersection of entrepreneurship and strategy, and develop a preliminary framework of strategic entrepreneurship which appropriately reflects the underlying elements and financial implications, based on existing literature. The second objective of this study is to examine activity recognised as both entrepreneurial and strategic within 12 of the then 17 SOEs operating in New Zealand, for the purposes of investigating strategic entrepreneurship and its financial and economic implications in practice. Such findings, uncovered through both inductive and deductive research, are then used as a basis to revise the preliminary framework. The third objective is to explicitly consider NPM in practice through an examination of New Zealand’s SOEs. As noted previously, this investigation is particularly relevant given the ongoing privatisation versus corporatisation debate. Last, the fourth objective is to consider the extent to which entrepreneurial activity is possible and advisable in the public sector. A number of issues arise and are considered during the course of this research including the elements which are central to strategic entrepreneurship, and the associated financial returns. Further, insights from a review of the public sector context of this study are also addressed, to consider NPM in practice, and the potential for government organisations to be entrepreneurial.

### 1.4 Research Method

A combination of qualitative and quantitative research is employed to investigate the *how* and *why* (Cohen, Manion, & Morrison, 2000) of strategic entrepreneurship, through examination from the outside and inquiry from the inside (Evered & Louis, 1981). Findings uncovered both inductively and deductively are compared with the preliminary framework to consider practical support, and provide a basis for a refined framework underpinned by detailed case study research.
Case studies on activity which is considered entrepreneurial and/or strategic are constructed using a range of data, both qualitative and quantitative. Qualitative data include focused interviews with SOE executives over a two year period, documents (e.g. legislation, media reports, annual reports, and corporate and government websites), and observation. Quantitative data incorporate basic statistics involving revenue, profit, equity, and payments to government in the form of dividends and taxes, based on the information in SOEs’ audited annual reports from 2001 to 2006. Thus, triangulation of data (Yin, 1993), and a longitudinal perspective (Low & MacMillan, 1988) are two important features of this research. Triangulation provides a range of perspectives and enhances the reliability of findings. The longitudinal aspect provides valuable insight into the developments of strategic entrepreneurship (both financial and non-financial) over time, as well as the changing nature of politics as New Zealand approached an election year. Comparing and contrasting case study findings provides the opportunity to gain insight into strategic entrepreneurship, its financial implications, and the public sector context of SOEs.

1.5 Structure of this thesis
The following chapters examine strategic entrepreneurship from theoretical and practical perspectives. Chapter 2 reviews the research undertaken on entrepreneurship, strategy, and strategic entrepreneurship, to develop a preliminary conceptual framework of strategic entrepreneurship. Chapter 3 reviews the financial and economic benefits of entrepreneurship and strategic entrepreneurship, considering prior research and suggested directions for future studies. Chapter 4 examines the public sector context of this study, presenting an overview of various approaches to entrepreneurship within government, NPM, and New Zealand’s SOE sector in particular. Chapter 5 outlines the research method for this study, involving an examination of the preliminary framework in a practical business context using both qualitative and quantitative data within a case study approach. Findings in the three key areas of this study are examined in Chapters 6 to 8. Chapter 6 presents findings specific to the public sector context of this study. Chapter 7 presents findings from an examination of case studies on activities recognised as entrepreneurial and/or strategic within the 12 participating SOEs. And Chapter 8 presents findings on strategic entrepreneurship’s financial and economic implications. Discussion of the findings specific to the public sector context of this study, are detailed in Chapter 9. Chapter 10 discusses the findings on strategic entrepreneurship and its financial benefits through a comparison of the individual case studies and extant literature on strategic entrepreneurship. The final chapter of this study, Chapter 11, presents brief conclusions, highlighting significant
findings, research implications for both theory and practice, limitations within the study, and areas for further research.
CHAPTER 2
A REVIEW OF STRATEGIC ENTREPRENEURSHIP

2.1 INTRODUCTION
While much has been written on strategy and to a lesser extent on entrepreneurship, since 2001 attention has also focused on the emergence of strategic entrepreneurship, referred to as the integration of strategy and entrepreneurship (Ireland et al., 2003), a combination of opportunity-seeking and advantage-seeking behaviours (Ireland & Webb, 2007). However, while several researchers have explored issues around the concept of strategic entrepreneurship (see Hitt et al., 2002), very few have specifically focused on exploring strategic entrepreneurship as a distinct construct. With respect to the financial benefits of entrepreneurship and more recently strategic entrepreneurship, a clear association between both forms of entrepreneurship and financial gain has been made within the literature (Cornwall & Naughton, 2003; Hitt et al., 2001; Reynolds et al., 2004; Timmons, 1999). Yet, little research has specifically focused on examining the financial benefits in clear financial terms, or examining and contrasting the underlying factors which contribute to differing outcomes of financial gain and loss, resulting from such activity.

Accordingly, this chapter examines the construct of strategic entrepreneurship, from its foundations in entrepreneurship and strategy, to its development as a unique construct. From a review of the literature on entrepreneurship (Section 2.2), strategy, and strategic entrepreneurship (Section 2.3), a conceptual framework of strategic entrepreneurship is developed (Section 2.4), highlighting the elements viewed as fundamental to this construct. The financial benefits of strategic entrepreneurship are then examined to explore the possible outcomes, both financial gain and loss, and the factors which may contribute to such outcomes (Section 2.5). The limitations of existing research are briefly reviewed (Section 2.6). And last, a summary is presented outlining the direction this research assumes (Section 2.7).

2.2 ENTREPRENEURSHIP
Entrepreneurship as a concept has been examined in a number of disciplines including economics (Schumpeter, 1934), psychology (McClelland, 1961, 1962), sociology (Weber, 1905), and anthropology (Barth, 1969). While detailed examination across these disciplines has led to entrepreneurship being associated with a number of concepts, there is still little consensus on the definition of an entrepreneur, and the elements which characterise entrepreneurship (Beaver, 2003; Hitt et al., 2001; Shane, 2003; Shane & Venkataraman, 2000).
The term entrepreneur originates from the French verb *entreprendre*, meaning “to undertake”. This origin is particularly important given that entrepreneurship has been viewed from various perspectives, but is increasingly recognised as an activity or process (Shane, 2003; Van de Ven & Engleman, 2003; Venkataraman & Sarasvathy, 2001). What defines entrepreneurship, however, is somewhat unclear, due perhaps to researchers considering different parts of the entrepreneurial process, rather than all relevant aspects collectively (Shane, 2003). Hence, Mitton (1989, p. 9) refers to the “entrepreneurship theory jungle”.

The theories on entrepreneurship, outlined below, vary in their acceptance of the central elements and respective emphasis on different aspects within entrepreneurship. Such elements include the nature and necessity of risk as a dominant aspect (Cantillon, 1755), representation or meaning of profit (Hawley, 1901), the significance of personal attributes inherent (McClelland, 1962) or acquired (McMullan & Gillin, 2001), and the importance of the environment and the opportunities it presents (Acs & Audretsch, 2003). However, the range and development of perspectives contributed by these theories provides a valuable basis from which to construct a more complete and precise view of what constitutes entrepreneurship².

### 2.2.1 Economic Perspectives of Entrepreneurship Theory

Within the sphere of economics, entrepreneurship has been associated with a number of elements. From the early works of Cantillon (1755) and Smith (1776), profit has been identified as a central element of entrepreneurship. Profit has been viewed as a reward for services (Marshall 1890, 1893), investing and risking capital (Hawley, 1901), a return for entrepreneurial or uninsurable risk (Knight, 1921); reinforcing the importance of both profit and risk. An emphasis on economic change through decision-making (Menger, 1892), behaviour which both influences the future and is influenced by it (Von Mises, 1919), and creative destruction (Schumpeter, 1934), also highlight innovation and change as key themes within entrepreneurship.

More recently Kirzner (1979, 1997), Shane (2003), and McMullen and Shepherd (2006) have emphasised the identification and exploitation of opportunity within entrepreneurship. Thus, within divergent viewpoints, a number of themes emerge as central to entrepreneurship, including risk, innovation, reward, and opportunity identification.

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² Consideration of different perspectives on entrepreneurship is intended to facilitate a more complete view of entrepreneurship, rather than begin with a narrow or specific view.
2.2.2 Other Perspectives of Entrepreneurship

Beyond the sphere of economics, entrepreneurs and entrepreneurship have also been examined from a number of other humanitarian or social perspectives. Within the field of anthropology, Barth (1969) emphasises opportunity recognition and the notion of risk, both financial and social, as inherent to an entrepreneur’s actions. Such risk, Barth suggests, may lead to questioning and challenging basic social norms and community values, which extends to the ethical and moral aspects of entrepreneurial activity (Cornwall & Naughton, 2003). Economic history findings focus on the relationships inherent in entrepreneurial situations, with a particular emphasis on the history of the industrial corporation (Chandler, 1990). In contrast, psychology studies on entrepreneurship have focused on personality traits, and patterns of behaviour. These studies identify entrepreneurs as risk-takers and social deviants, with a high need for achievement (McClelland, 1962) and an internal locus of control (Shapero, 1975). Studies on entrepreneurship within the field of sociology identified entrepreneurs as charismatic leaders whom others want to follow; breaking the constraints imposed by established norms to create change (Weber, 1905). Thus, themes of risk, opportunity, and reward are further reinforced.

More recent perspectives on entrepreneurship encompass a wide range of applications and contexts. Such perspectives include social entrepreneurship (Dees, 1998; Granovetter, 1985; Leadbeater, 2000) focusing on social rather than commercial outcomes, civic (Drucker, 1985) or public sector entrepreneurship (Bellone & Goerl, 1992; Frohlich, Oppenheimer, & Young, 1972; Ramamurti, 1986; Shockley, Frank, & Stough, 2002) examining the need for government organisations to be entrepreneurial, and the concept of intrapreneurship where individuals within an organisation instigate acts of entrepreneurship which have not been influenced by the direction of an organisation’s strategy, structure, or culture (Hisrich & Peters, 1985; Pinchot, 1985, 1986). Thus, the breadth and diverse nature of entrepreneurship emerges. In an attempt to manage such diversity, various researchers have conducted comparative analyses to contrast entrepreneurship with other business activity. A brief overview of these studies is presented below.

2.2.3 Distinguishing Entrepreneurship

Throughout the literature, a number of distinctions have been made and broadly accepted regarding the differences between entrepreneurs and individuals involved in similar business activities. Entrepreneurship is often associated with new business creation (Glancey & McQuaid, 2000), small business management (Covin & Slevin, 1989), and the concept of owner
management or self-employment. Yet Carland, Hoy, Boulton, and Carland (1984) make a clear distinction between entrepreneurs and small business owners, characterising entrepreneurs by their principal purpose of profit and growth, innovative behaviour, and use of strategic management practices.

Similar distinctions are made by Beaver (2003) regarding risk-taking, innovation, and strategic management activities with respect to entrepreneurs versus small business owners. Bhide (1994) highlights entrepreneurs as those with the flexibility to act quickly, without relying on extensive analysis. Sarasvathy, Simon, and Lave (1998) contrast the approach to risk assumed by entrepreneurs versus bankers, suggesting the distinguishing feature of risk within entrepreneurship may be that of perception and management. Essentially, they argue that entrepreneurs see opportunity where others see risk, and effectively work towards managing that risk. Hence it is the perception of risk, and perhaps a view of risk as acceptable or manageable in a broader context, which largely differentiates entrepreneurs from others in business (Busenitz & Barney, 1997; Glancey & McQuaid, 2000; Knight, 1921). Loasby (2007) supports this view, noting uncertainty is contextual, based on the judgement of the individual or organisation. Hamel and Prahalad (1994) highlight the vision of entrepreneurs to visualise a future not seen or thought possible by others. Witt (2007) refers to entrepreneurial vision in the context of how entrepreneurs structure their business operations to exploit market opportunities. Thus, a more refined view of the elements central to entrepreneurship emerges, and the scope of entrepreneurship as a theoretical concept is narrowed.

A further distinction is made in the literature regarding different aspects and levels of entrepreneurship. Research at the individual level tends to focus on the nature and characteristics of entrepreneurs, emphasising skills of discovering and identifying opportunity (Kirzner, 1979; Shane & Venkataraman, 2000), and the need for achievement (McClelland, 1962). At the organisational level, research focuses on the attempt to foster entrepreneurship within the organisation in whole or part (Stopford & Baden-Fuller, 1994), emphasising renewal (Kanter, 1983), new strategic direction and change (Guth & Ginsberg, 1990; Sharma & Chrisman, 1999), and examining entrepreneurial practices and strategies such as innovation, risk-taking, and proactivity (Covin & Slevin, 1989). This perspective is often referred to as corporate entrepreneurship, and has been extended to concepts such as entrepreneurial strategic posture (Covin & Slevin, 1989), entrepreneurial orientation (Dess & Lumpkin, 2005; Lumpkin & Dess, 1996), entrepreneurial intensity (Morris & Kuratko, 2002), and strategic entrepreneurship (Hitt et
These concepts reflect the extent to which organisations embrace innovation and proactiveness, and how frequently they occur within a business's operations.

While numerous researchers view the different levels of entrepreneurship as distinct and separate (Gartner, 2001; Glancey & McQuaid, 2000; Hitt et al., 2001; Ireland et al., 2001), others such as Drucker (1985) and Sonfield and Lussier (1997) take the view that entrepreneurship does not differ between these levels, be it a large corporation or an individual undertaking a new business venture. Specifically, Drucker (1985, p. 165) contends

it makes little or no difference whether the entrepreneur is a business or non-business public service organisation, not even whether the entrepreneur is a government or non-government institution. The rules are pretty much the same. In every case there is a discipline we might call entrepreneurial management.

Thus, entrepreneurship may be viewed as a concept not bound by context or level.

The increasing acceptance of entrepreneurship as an activity or process applying broadly to all forms of business is noted (Alvarez & Barney, 2007; Drucker, 1985; Gartner, 2001; Low & MacMillan, 1988; McMullen & Shepherd, 2006; Van de Ven & Engleman, 2007; Venkataraman & Sarasvathy, 2001) and effectively addresses much of the debate and inconsistencies within the literature regarding the appropriate manner in which to explain this phenomenon (Gartner, 2001). Thus, the roots of this term entrepreneurship: entreprendre – to undertake, resurface. In particular, Gartner (2001) questions the diversity of entrepreneurship when characterised as a single discipline, referring to the “elephant of entrepreneurship”, and suggests the analysis of specific areas such as small and medium enterprises, new business creation, and family businesses in the context of entrepreneurship may be a study of “different topics with no underlying connection. There is, simply, no theoretical way to connect all of these disparate research interests together” (p. 30). Rather, Gartner identifies the need for a framework to address the vagaries and inconsistencies of prior research, and suggests the study of entrepreneurship as a process provides that framework, while still accommodating the diversity of entrepreneurship in different contexts (e.g. individuals, small and large firms, society, and government).

The view of entrepreneurship as a process is also consistent with established definitions of entrepreneurship such as that by Shane and Venkataraman (2000), who refer to entrepreneurship as the discovery, evaluation, and exploitation of opportunity to create future goods and services. Similarly, Stevenson and Jarillo (1990) refer to entrepreneurship as the
pursuit of opportunity regardless of the resources controlled. In particular, McMullen and Shepherd (2006) note entrepreneurship requires action, and suggest that many of the different perspectives of entrepreneurship within the literature are essentially studies of action characterised as entrepreneurial, in various contexts. Figure 2.1 summarises the different contexts to which entrepreneurship has been linked through a selection of extant literature, highlighting the development over time of entrepreneurship as a distinct field of research.

**Figure 2.1 THE DIFFERENT PERSPECTIVES WITHIN ENTREPRENEURSHIP LITERATURE**

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Date</th>
<th>Reference</th>
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<tbody>
<tr>
<td>A process which may be best undertaken by firms when financial risk is high</td>
<td>2007</td>
<td>Alvarez &amp; Barney, 2007</td>
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<tr>
<td>A process with event driven or outcome driven focus</td>
<td>2007</td>
<td>Van de Ven &amp; Engleman, 2007</td>
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<tr>
<td>A process of opportunity identification and exploitation</td>
<td>2006</td>
<td>McMullen &amp; Shepherd, 2006</td>
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<td>A competitive behaviour that drives the market process</td>
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<td>Davidson, 2006</td>
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<td>O entrepreneurial orientation influencing corporate entrepreneurship</td>
<td>2005</td>
<td>Dess &amp; Lumpkin, 2005</td>
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<tr>
<td>O corporate entrepreneurship: entrepreneurial intensity</td>
<td>2002</td>
<td>Morris &amp; Kuratko, 2002</td>
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<td>O intersection of entrepreneurship and strategic management in organisations</td>
<td>2001</td>
<td>Hitt et al., 2001</td>
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<tr>
<td>O intersection of entrepreneurship and strategic management in organisations</td>
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<td>Ireland et al., 2001</td>
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<td>A entrepreneurship as a process</td>
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<td>A entrepreneurship as a process</td>
<td>2000</td>
<td>Venkataraman &amp; Sarasvathy, 2001</td>
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<td>O entrepreneurial edge: strategic management within an entrepreneurial firm</td>
<td>1999</td>
<td>Eisenhardt et al., 2000</td>
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<tr>
<td>A process of opportunity discovery, evaluation, and exploitation</td>
<td>2000</td>
<td>Shane &amp; Venkataraman, 2000</td>
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<tr>
<td>N entrepreneurship in small businesses</td>
<td>1997</td>
<td>Sonfield &amp; Lussier, 1997</td>
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<td>I entrepreneur as an individual: creativity and strong execution skills</td>
<td>1994</td>
<td>Bhide, 1994</td>
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<tr>
<td>O corporate entrepreneurship as a process in three forms</td>
<td>1994</td>
<td>Stopford &amp; Baden-Fuller, 1994</td>
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<tr>
<td>A pursuit of opportunity</td>
<td>1990</td>
<td>Stevenson &amp; Jarillo, 1990</td>
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<tr>
<td>N entrepreneurship as new business creation</td>
<td>1990</td>
<td>Gartner, 1990</td>
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<tr>
<td>N entrepreneurship in small businesses: entrepreneurial strategic posture</td>
<td>1990</td>
<td>Covin &amp; Slevin, 1990</td>
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<tr>
<td>A businesses of all forms and sizes</td>
<td>1989</td>
<td>Drucker, 1989</td>
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<tr>
<td>O entrepreneurial process in different firms</td>
<td></td>
<td>Miller, 1989</td>
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<tr>
<td>O model of the strategic process of entrepreneurial activity in firms</td>
<td>1983</td>
<td>Burgelman, 1983</td>
</tr>
<tr>
<td>O conservative versus entrepreneurial firm</td>
<td>1982</td>
<td>Miller &amp; Friesen, 1982</td>
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<tr>
<td>O tracking strategy in an entrepreneurial firm</td>
<td>1982</td>
<td>Mintzberg &amp; Waters, 1982</td>
</tr>
<tr>
<td>I Individuals acting quickly to identify and exploit opportunity</td>
<td>1979</td>
<td>Kirzner, 1979</td>
</tr>
<tr>
<td>I individuals: high internal locus of control</td>
<td>1975</td>
<td>Shapero, 1975</td>
</tr>
<tr>
<td>I bold risk-taking individuals</td>
<td>1973</td>
<td>Mintzberg, 1973</td>
</tr>
</tbody>
</table>

| 1940 I individuals: innovative, disturbing the status quo | 1934 | Schumpeter, 1934 |
| I individuals willing to bear risk and uncertainty | 1921 | Knight, 1921 |
| I individuals seeking profit as a reward for investing and risking capital | 1901 | Hawley, 1901 |

A review of this literature reveals specific variations and at times conflicting perspectives have been taken within the literature on entrepreneurship. Closer examination, however, also reveals
a number of recurring themes from various research disciplines, perspectives, and levels of entrepreneurship, suggesting emerging consensus in a number of areas. Collectively these themes can be summarised as innovation (Schumpeter, 1934), opportunity recognition (Kirzner, 1997; Shane, 2003), acceptance of risk (Busenitz & Barney, 1997), flexibility (Bhide, 1994), vision (Prahalad & Hamel, 1990), and growth as a form of reward (Drucker, 1985; McClelland, 1961). These core principles can be viewed as fundamental to entrepreneurship as a process-based concept, rather than entrepreneurship in a particular environment or context. Sonfield and Lussier (1997) support this view, noting that the nexus between entrepreneurship and small business has been replaced with the concept of entrepreneurship being associated with “business activity of all sizes” (p. 73). Such is the approach taken in this study, which explores activity recognised as entrepreneurial in government-owned SOEs of varying sizes.

2.3 From strategy to strategic entrepreneurship

As noted above, entrepreneurship has been associated with disturbing the status quo (Schumpeter, 1934), seizing opportunity (Kirzner, 1979), swift action (Bhide, 1994), and rapid economic change (Barth, 1969). Thus, the dynamic and volatile nature of entrepreneurship emerges. By extension, entrepreneurship is also often viewed as random and irregular in nature, a source of creative destruction (Schumpeter, 1934). In contrast, literature on strategy often emphasises establishing direction (Mintzberg, Ahlstrand, & Lampel, 1998), purposeful action (Drucker, 1985), incremental change to achieve fit within the organisation, and with the external environment (Porter, 1996). Within the discipline of strategy, however, a more structured or deliberate approach to entrepreneurship has been examined through the combination of entrepreneurship and strategy (Eisenhardt, Brown, & Neck, 2000; Hitt et al. 2001; Venkataraman & Sarasvathy, 2001). Accordingly, this section examines the literature on strategy which has gradually formed an entrepreneurial focus, resulting in the development of strategic entrepreneurship as a distinct construct.

2.3.1 The evolution of strategic entrepreneurship

While entrepreneurship has its roots in the field of economics (Knight, 1921; Schumpeter, 1934), the construct of strategic entrepreneurship has gradually been developed through management research (Drucker, 1985; Mintzberg, 1973). Ansoff (1965, p. 107) is perhaps one of the first to identify a relationship between entrepreneurship and strategy, explaining the term “strategic

3 Up to March 2009, being the date this thesis was submitted.
decisions” as those which appropriately match a firm to its environment, but then elaborating to suggest a better term may have been “entrepreneurial decisions”. Miles and Snow (1978) consider firms operating in an entrepreneurial context, through their examination of firms as defenders, prospectors, and reactors. Specifically, they refer to prospectors as those firms which actively search for new products, markets, and opportunities. Miller and Friesen (1977, 1978) examine strategy in particular types of firms, two of which include the innovator and entrepreneurial organisation, characterised by a bold, powerful leader, focused on innovation, growth, and risk-taking. Later, Miller and Friesen (1982) explore the notion of the entrepreneurial firm, by contrasting the entrepreneurial and conservative firm. Mintzberg and Waters (1982) suggest strategy in the entrepreneurial firm is characterised by a clear, complete vision of the future, with the flexibility to allow that vision to change. Moreover, they contend strategy within an entrepreneurial firm is a balance of controlled boldness, based on knowledge and intuition.

Burgelman (1983) further develops the notion of entrepreneurship within strategy, by presenting a model of the strategic process for entrepreneurial activity. Similarly, Miller (1983) explores variables within entrepreneurial and strategic processes of firms with different profiles (e.g. simple, planning, and organic firms). An important concept put forward by Miller is that an entrepreneurial strategic process is not specific to one type of organisation, but rather may take various forms for different business profiles (e.g. firms of different sizes). Hence, a brief review of strategy reveals a distinct segment of the literature which incorporates an entrepreneurial focus.

2.3.1.1 Exploring the relationship between entrepreneurship and strategy

The relationship between entrepreneurship and strategy has been conceptually examined in detail by Hitt et al. (2001), who note that while the fields of entrepreneurship and strategy have developed somewhat independently, both focus on adapting to change and exploiting opportunity. Specifically, Hitt et al. (2001) associate entrepreneurship with the creation of new products and markets, and strategic management with a focus on establishing competitive advantage through the products and markets created. Thus a need for the integration of entrepreneurial and strategic thinking has been identified (McGrath & MacMillan, 2000; Venkataraman & Sarasvathy, 2001).

The potential for benefit through combining entrepreneurship and strategy is clearly noted within the literature (Burgelman, 1983; Miller, 1983; Venkataraman & Sarasvathy, 2001). The need for both diversity (through entrepreneurship) and order (through strategy) has been emphasised by
various researchers (Burgelman, 1983; Drucker, 1985; Peters & Waterman, 1982; Venkataraman and Sarasvathy, 2001). Thus, the complementary or interdependent nature of the two concepts has been established (Hitt et al., 2001; Ireland et al., 2001; Miller, 1983; Mintzberg, 1973). Surprisingly, however, only limited study has been undertaken in an area such as strategic entrepreneurship to specifically examine the integration of entrepreneurial activity and strategic management. While research increasingly focuses on the issues surrounding strategic entrepreneurship (Alvarez & Barney, 2002; Mosakowski, 2002; Johnson & Van de Ven, 2002), very few studies have specifically explored the concept of strategic entrepreneurship.

Studies in the area of strategic management in particular, have gradually uncovered the relationship between entrepreneurship and strategic management. Mintzberg (1973) introduced the notion of entrepreneurial strategy-making; Pinchot (1985) examined intrapreneurship; Hart (1991, 1992) refers to generative strategy-making; Covin and Slevin (1989) presented the concept of an entrepreneurial strategic posture within organisations, referring to both strategic decisions and an operating management philosophy which incorporates an entrepreneurial focus, encompassing innovative, risk-accepting, and proactive practices. Lumpkin and Dess (1996) extend this concept, introducing the entrepreneurial orientation construct, which they identify as the tendency for organisations to demonstrate autonomous and competitive-aggressive behaviour.

More recently research has begun to focus on identifying the specific relationship between the two concepts. Researchers such as Michael, Storey, and Thomas (2002) view entrepreneurial management embedded in the broader topic of strategic management. Others such as Bird (1988) consider it important to distinguish the two, such that entrepreneurial activity and strategic management are viewed as entirely separate concepts. Hitt et al. (2002) take a similar but more moderate view, presenting the two fields as independent, but related. Verreynne and Meyer (2007) note the potential for integration.

Researchers such as Bhide (1994) highlight the importance of combining entrepreneurship and strategic management, suggesting one of the key strengths of entrepreneurs is their ability to identify and act on opportunities, without resorting to extensive research. Rather, a more efficient approach is typical, which involves a balance of analysis, judgment, and intuition. Entrepreneurs, however, cannot rely on innovation and market anticipation alone. Hence there is a need for both creativity and strong execution skills, something Bhide refers to as “the edge” (p. 149).
The notion of competing on the entrepreneurial edge is extended upon by Eisenhardt et al. (2000), who suggest strategic management within an entrepreneurial organisation is essentially a balancing act on the edge of chaos. The numerous demands on entrepreneurs and managers to identify and focus on multiple opportunities, address staffing or financial issues often experienced by growing organisations, and maintain an increasing profile in the marketplace, represent the complex and often chaotic environment in which entrepreneurial ventures operate. According to Eisenhardt et al. (2000), the alternative to the entrepreneurial venture is the structured, controlled, inflexible, and risk adverse organisation, which does not easily adapt to change. In contrast, the entrepreneurial venture operating in chaos has neither the structure nor mechanisms to co-ordinate change. As such, Eisenhardt et al. suggest the ideal position is a balance lying between these extremes. This balance between extremes is similar to the concepts put forward by Miller and Friesen (1982) as they contrast the entrepreneurial organisation with the conservative firm.

Bettis and Hitt (1995), and later Hitt and Reed (2000), draw an association between entrepreneurship and strategic management, referring to ongoing change and innovation as characteristic of the contemporary competitive landscape. Hitt and Reed (2000) subsequently refer to this environment as an entrepreneurial landscape. Meyer and Heppard (2000) further build on this concept, and introduce the notion of entrepreneurial strategy as the new dominant logic in organisations; the term dominant logic referring to the manner in which an organisation identifies and interprets information, and formulates strategy. With strategic entrepreneurship accepted as the dominant logic, Meyer and Heppard (2000) suggest firms are well placed to remain focused on opportunities, balance structure with flexibility, and establish and maintain competitive advantage in a landscape which continues to change. Thus the concept of combining entrepreneurship and strategic management emerges as a key tool for organisational survival and success.

Hitt et al. (2001) suggest strategic management involves the actions, decisions and commitments designed to achieve competitive advantage and earn above average returns. Stopford (2001) emphasises the aspect of decision-making within strategic management, noting that it requires choices to be made against competing objectives, and Ireland et al. (2001) further broaden this concept to interpret strategic management as a context for entrepreneurial actions. Specifically, they identify six domains contending activity in those areas can be jointly classified as both entrepreneurial and strategic. This model was subsequently revised in 2003 by Ireland, Hitt, and Sirmon, and further explored in 2007 by Ireland and Webb, and Ketchen, Ireland, and Snow.
The development of literature focusing on the combination of entrepreneurship and strategy through to the identification of strategic entrepreneurship is summarised in Figure 2.2, revealing elements central to these combined concepts are essentially those common to both entrepreneurship and strategy as separate disciplines.

**Figure 2.2  THE DEVELOPMENT OF ENTREPRENEURSHIP “THEORY” FROM STRATEGY LITERATURE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Concept</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>entrepreneurship and strategy as independent but related</td>
<td>(Hitt et al., 2002)</td>
</tr>
<tr>
<td></td>
<td>intersection of entrepreneurship and strategic management</td>
<td>(Hitt et al., 2001)</td>
</tr>
<tr>
<td></td>
<td>intersection of entrepreneurship and strategic management</td>
<td>(Ireland et al., 2001)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurship and strategy as two sides of the same coin</td>
<td>(Venkataraman &amp; Sarasvathy, 2001)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurial strategy as the new dominant logic</td>
<td>(Meyer &amp; Heppard, 2000)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurial edge: strategic management within an entrepreneurial firm</td>
<td>(Eisenhardt et al., 2000)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurial orientation</td>
<td>(Lyon et al., 2000)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurial strategy-making</td>
<td>(Dess et al., 1997)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurial orientation: includes autonomy and competitive aggressiveness</td>
<td>(Lumpkin &amp; Dess, 1996)</td>
</tr>
<tr>
<td>2000</td>
<td>&quot;the edge&quot;: combining creativity and strong execution skills</td>
<td>(Bhide, 1994)</td>
</tr>
<tr>
<td>1995</td>
<td>entrepreneurial strategic posture: proactive, innovative, risk-taking</td>
<td>(Covin &amp; Slevin, 1989)</td>
</tr>
<tr>
<td>1990</td>
<td>entrepreneurial management</td>
<td>(Drucker, 1985)</td>
</tr>
<tr>
<td></td>
<td>entrepreneurial process in different firms</td>
<td>(Miller, 1983)</td>
</tr>
<tr>
<td></td>
<td>model of the strategic process of entrepreneurial activity</td>
<td>(Burgelman, 1983)</td>
</tr>
<tr>
<td></td>
<td>conservative versus entrepreneurial firm</td>
<td>(Miller &amp; Friesen, 1982)</td>
</tr>
<tr>
<td></td>
<td>tracking strategy in a entrepreneurial firm, entrepreneurial strategy-making</td>
<td>(Mintzberg &amp; Waters, 1982)</td>
</tr>
<tr>
<td>1985</td>
<td>innovator and entrepreneurial firm within 10 firm archetypes</td>
<td>(Miller &amp; Friesen, 1977, 1978)</td>
</tr>
<tr>
<td></td>
<td>prospector firms</td>
<td>(Miles &amp; Snow, 1978)</td>
</tr>
<tr>
<td>1980</td>
<td>entrepreneurial strategy-making</td>
<td>(Mintzberg, 1973)</td>
</tr>
<tr>
<td>1975</td>
<td>entrepreneurial strategy-making</td>
<td>(Frohlich et al., 1972)</td>
</tr>
</tbody>
</table>

The presentation of research on a timeline highlights the increasing attention given to entrepreneurship and strategy over the last 10 years, resulting in the intersection of the two concepts (Ireland et al., 2001). The strategic entrepreneurship framework proposed by Ireland et al. (2001) is an important development within the literature for two reasons. First, it draws on the progressive development of entrepreneurship within strategy and strategic management research since the 1960s (Ansoff, 1965). Second, Ireland et al.’s (2001) framework represents the first of three conceptual models presented in the literature which expressly focus on strategic
entrepreneurship as a unique construct to be explored and explained. These models and subsequent literature are considered in further detail in the following section.

2.3.1.2 UNCOVERING STRATEGIC ENTREPRENEURSHIP

The combination and subsequent integration of entrepreneurship and strategic management has gradually evolved into the concept of strategic entrepreneurship. This combination is what Meyer et al. (2002) refer to as the creation-performance relationship and may be viewed as an extension of entrepreneurial strategy-making, being a mode of strategy which integrates multiple strategies with each other and the external environment (Mintzberg & Waters, 1982); the ability to make quick decisions in a changing environment (Bird, 1988). Specifically Mintzberg and Waters (1982) characterise entrepreneurial strategy-making by its degree of deliberateness and clear, complete vision, with the flexibility to allow that vision to change. Bird (1988) reinforces the concept of vision within the integration of entrepreneurship and strategic management, by identifying a focus on the present with a firm picture or vision of the future; Eisenhardt et al. (2000) reinforce flexibility within the notion of a chaotic environment.

According to Hitt et al. (2002), entrepreneurs are essentially involved in the creation of goods and services, and managers ultimately seek to establish a competitive advantage with the goods and services created. Thus the two roles are seen as complementary, particularly in the context of wealth creation. For this reason, then, the concepts of entrepreneurship and strategic management have been integrated to form the basis of strategic entrepreneurship. As noted above, Ireland et al. (2001) further develop the association between the two concepts by identifying six domains which are relevant to both entrepreneurship and strategic management. These domains include innovation (creating and implementing ideas), networks (providing access to resources), internationalisation (adapting quickly and expanding), organisational learning (transferring knowledge and developing resources), growth (stimulating success and change), top management teams and governance (ensuring effective selection and implementation of strategies). Activity in these areas, they contend, can be jointly classified as both entrepreneurial and strategic. Hence the intersection of entrepreneurship and strategic management is identified (Ireland et al., 2001), albeit with a strong strategic emphasis, which arguably overlooks themes central to entrepreneurship.

Continued development of strategic entrepreneurship as both a field of study and a specific concept by Hitt et al. (2001), led to revised key domains including external networks and
alliances, resources and organisational learning, innovation and internationalisation. While the two models incorporate an emphasis on networks, learning, and growth, Hitt et al.’s revised model projects an added emphasis on resources, competencies, and capabilities to develop a sustainable competitive advantage. Common to both models however, is a clear emphasis on strategic aspects, raising the question as to the appropriateness of the frameworks, given the foundations of strategic entrepreneurship lie in both entrepreneurship and strategy.

Returning briefly to the discussion in Section 2.2.3, a number of themes were identified as central to entrepreneurship. In particular, opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth as a form of reward, were viewed as central to entrepreneurship, irrespective of the context. However, a review of the two strategic entrepreneurship models proposed by Ireland et al. (2001) and Hitt et al. (2001) incorporate few of these themes. Innovation is clearly represented, yet other themes featuring prominently in entrepreneurship literature are lacking. Thus, while each model has merit, it is difficult to accept that either one captures the nature of strategic entrepreneurship, as a construct rooted in both entrepreneurship and strategy. Arguably, the elements comprising a model of strategic entrepreneurship should reflect a balance of both the entrepreneurial and strategic foundations. As the intersection of entrepreneurship and strategy, strategic entrepreneurship’s elements should be central to both founding concepts. Further, such elements should also be inherent to the strategic entrepreneurship process. Thus, an examination of the proposed models of strategic entrepreneurship raises a number of concerns. Certainly there are elements characteristic of entrepreneurship such as growth and flexibility, reflected in the theories put forward by Hitt et al. (2001) and Ireland et al. (2001). Arguably, however, the development of strategic entrepreneurship research from a predominantly management-oriented perspective has produced findings which are perhaps unnecessarily detached from the core principles of entrepreneurship.

A review of strategic entrepreneurship in practice also raises a number of concerns. Given the diverse range of businesses which are recognised as entrepreneurial, it is difficult to conceive that collaboration both internal and external (Hitt et al., 2001), or internationalisation (Hitt et al., 2001; Ireland et al., 2001), are essential elements of all forms of entrepreneurship. Certainly there are recognised entrepreneurs within a range of countries who have not expanded the scope of their operations to international markets, but rather focused on growth in a domestic market context. As noted by Feeser and Willard (1990), the opportunities in an international market of one industry, may be equated with opportunities in a domestic market of another industry, not
well serviced by existing competitors. Hence the breadth of vision to identify opportunities in atypical or non-traditional markets, is perhaps more important than the specific concept of internationalisation. Similarly, many entrepreneurs value autonomy, independence, and self-reliance (Burgelman, 1983; Drucker, 1985; Lumpkin & Dess, 1996), such that they prefer to develop an idea or product alone, rather than rely on collaboration; external collaboration in particular. As noted by Alvarez and Barney (2007), alliances are simply one option available for businesses to access resources they may not already have. On this basis perhaps, Ireland et al. (2001) note the elements within their proposed framework are subject to certain conditions and contradictions. Thus, a distinction should be made between elements which may in some cases be relevant to strategic entrepreneurship, and elements which are essentially fundamental to all cases of strategic entrepreneurship, and therefore included in a strategic entrepreneurship framework.

Further concern relates to the association between strategic entrepreneurship and wealth creation, based solely on theory. While the financial and economic benefits of entrepreneurship are examined in detail later in this chapter (see Section 2.5), a review of entrepreneurial activity in practice shows clear variation in the financial outcomes of such activity, with incidences of both financial gain and loss (Davidsson, 2006). Thus, to draw a relationship between strategic entrepreneurship and financial gain, without condition or exclusion, suggests the association is over-simplified. Based on the above, the value of understanding strategic entrepreneurship is acknowledged, however, a review of the initial frameworks suggests further development is required to conceptually refine and test this understanding.

In 2003 Ireland, Hitt, and Sirmon again revised the dimensions central to strategic entrepreneurship to include an entrepreneurial mindset, entrepreneurial leadership and culture, strategic management of resources, and applying creativity to develop innovations. The integration of these dimensions, Ireland et al. (2003) contend, results in wealth creation. This model reflects a significant change in the direction of the literature, and is important for several reasons. First, it addressed many of the criticisms raised with respect to previous research on strategic entrepreneurship, and in particular incorporates a more appropriate balance of entrepreneurial and strategic elements. Second, it develops the notion of strategic entrepreneurship as a distinct construct.

More recently, developments in strategic entrepreneurship literature have moved away from
models and focused on conceptual details. In 2007, Ireland and Webb emphasised strategic entrepreneurship as a balance between opportunity-seeking (exploration) and advantage-seeking (exploitation) behaviours, and highlighted the importance of continuous innovation. Specifically, Ireland and Webb refer to alternatives such as mergers, acquisitions, and alliances, flexible organisational structure (balancing decentralised authority with centralised processes and routines), a culture which values experimentation, and an emphasis on research and development, as valuable pathways to strategic entrepreneurship. Later that year, Ketchen, Ireland, and Snow reinforced the exploration and exploitation balance, and promoted collaborative innovation, together with continuous innovation through networks. In particular, Ketchen et al. (2007) see strategic entrepreneurship as a dual process (i.e. advantage-seeking and opportunity-seeking) and emphasise the need for businesses to do both activities. Further, they distinguish between large and small firms as having different strengths and weaknesses (e.g. more resources in large firms; more flexibility in small firms), and highlight the liability of smallness. Table 2.1 summaries the main dimensions of the strategic entrepreneurship frameworks presented from 2001 to 2007, highlighting the progression of strategic entrepreneurship from a developing concept to emerging construct, with ongoing revisions.

While various concepts within Ireland et al.’s 2003 model reinforce themes previously incorporated in Ireland et al.’s (2001) and Hitt et al.’s (2001) initial frameworks (e.g. the importance of wealth creation to strategic entrepreneurship, the association between strategic entrepreneurship, growth, and competitive advantage), there are also significant differences, as highlighted in Table 2.1. Such differences include the four key dimensions of strategic entrepreneurship, being an entrepreneurial mindset (encompassing insight, alertness, and flexibility to use appropriate resources), entrepreneurial culture and leadership (such that innovation and creativity are expected), strategic management of resources (including financial, human, and social capital), and applying creativity to develop innovations (both radical and incremental). The integration of these dimensions, Ireland et al. contend, results in wealth creation. Thus, Ireland et al. (2003) present a model which reflects a more balanced view of strategic entrepreneurship, encompassing both entrepreneurial and strategic foundations. Further, it includes elements central to both entrepreneurship and strategy, such as flexibility, innovation, and strategic use of resources. Arguably, however, what the model lacks is simplicity and clarity in how businesses may employ strategic entrepreneurship in practice. Terms such as structuring the resource portfolio and bundling resources to exploit entrepreneurial opportunities give little practical guidance on how strategic entrepreneurship may be achieved. These terms
are later examined by Simons, Hitt, and Ireland (2007) in some detail, in the context of strategic management (rather than strategic entrepreneurship), as they consider the “black box” of managing resources.

**Table 2.1  Comparison of Strategic Entrepreneurship Frameworks**

|-----------------------|-------------------|----------------------|-----------------------|----------------------|
| Innovation            | Innovation        | Applying creativity developing innovation | Continuous innovation | Collaborative innovation  
  • continuous flow  
  • networks |
| Networks              | External networks | Alliances            | Variations in organisational activity, e.g.  
  • alliances  
  • mergers and acquisitions |
| • access to resources |                   |                      |                       |
| Internationalisation  | Internationalisation |                   |                       |
| • expansion            |                   |                      |                       |
| Organisational learning | Resources  
  • transfer of knowledge  
  • developing resources | Organisational learning  
  • managing resources strategically  
  • leveraging capabilities | Organisational structure  
  • decentralised routines  
  • flexibility  
  • learning resources |
| Growth                |                   |                      |                       |
| • stimulates success and change |
| Top management teams and governance  
  • effective strategies |                   |                      | Managerial mindset for broader capabilities  
  • distinction between small v. large firms |
|                       |                   |                      |                       |
| Organisational learning | Entrepreneurial culture & leadership  
  • innovation  
  • risk-taking  
  • vision | Organisational culture  
  • valuing experimentation  
  • acceptance of uncertainty  
  • tolerating failure |
|                       |                   |                      |                       |
| Entrepreneurial mindset | Entrepreneurial mindset  
  • recognising opportunity  
  • flexibility to use appropriate resources | Balancing opportunity-seeking and advantage-seeking behaviour  
  • emphasis on research and development |
|                       |                   |                      | Balancing opportunity-seeking and advantage-seeking behaviour  
  • must do both |

Ireland and Webb’s (2007) and Ketchen et al.’s (2007) subsequent analysis of strategic entrepreneurship adds both direction and emphasis on elements within strategic entrepreneurship, such as a balance between exploration and exploitation, as well as continuous and collaborative innovation. Yet the emphasis remains theoretical, with little practical support or guidance. Further, concern emerges with respect to the need for alliances and collaborative
innovation (questioned previously), and the practicality and viability of continuous innovation, given the struggle many businesses face to be innovative at all. Thus a gap remains for the development of a more lucid and perhaps pragmatic framework of strategic entrepreneurship from a conceptual standpoint, and more useful guidance for businesses aiming to employ strategic entrepreneurship in practice. How can businesses, for example, effectively bundle resources to exploit entrepreneurial opportunities in practice? For those businesses which have undertaken strategic entrepreneurship, precisely how was this achieved and what did it involve?

A study by Luke and Verreynne (2006a) as a precursor to this thesis, examined strategic entrepreneurship in the context of three SOEs, Meteorological Services of New Zealand Limited [MetService], New Zealand Post Limited [NZ Post], and Quotable Value Limited [Quotable Value]. Examination of activity recognised as entrepreneurial and potentially strategic within each SOE reviewed the entrepreneurial aspects of such activity, as well as exploring the relevant strategic context. Findings revealed a number of elements both central to and supportive of strategic entrepreneurship in a public sector context. Central elements included opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth. Six supporting elements which effectively provided a strategic context for entrepreneurial activity were identified as strategy, culture, branding, operational excellence, cost minimisation, and transfer and application of knowledge, each of which are discussed briefly below.

Strategy was noted as being closely aligned with vision, and encompassed flexibility, innovation, and a deliberate acceptance of risk. Culture was identified in terms of the growing confidence levels shown in the organisation to take on new projects, and experiment with innovation, as well as a genuine concern for people reflected in the developmental growth of staff, and flexibility within the work environment. Branding was identified as an important strategic aspect through the promotion of a new profile which allowed disassociation from the traditional view of a bureaucratic public sector and the traditional roles and responsibilities associated with each SOE. Operational excellence was viewed as an important strategic aspect in promoting a positive reputation (both within and outside the organisation), as well as providing a platform for experimentation with innovations. In each case, cost minimisation was viewed as central to supporting experimentation and innovation, particularly in a public sector context where resources were at times limited, and public accountability levels high. Last, transfer and application of knowledge was considered central to supporting entrepreneurship, given that it provided an element of familiarity to businesses undertaking new ventures. Thus, rather than entering into
unfamiliar waters, the new ventures were often variants of a business the organisation already knew, and in which it had developed a level of skill or competency (see also Stopford & Baden-Fuller, 1994).

While the supporting elements were broadly common to each of the SOEs examined (Luke & Verreynne, 2006a), findings from a study of only three organisations indicated that these elements were essentially variable in nature, such that a number of strategic contexts potentially exist in which entrepreneurial activity may be conducted. These findings raise two important issues. Firstly, there is a need for a refined framework of strategic entrepreneurship given conceptual development remains in the very early stages. And second, research involving a larger number of SOEs is necessary to clarify and test which strategic aspects are central to strategic entrepreneurship in practice. The first of these issues is the focus of the following section, which builds on theory and practice to present a refined framework of strategic entrepreneurship. The second issue is addressed in the later half of this study, which specifically explores strategic entrepreneurship in the context of 12 of the 17 SOEs operating in New Zealand in 2006.

2.4 A CONCEPTUAL FRAMEWORK OF STRATEGIC ENTREPRENEURSHIP

Building on the concepts detailed previously, this section presents a preliminary framework of strategic entrepreneurship, highlighting the fundamental elements of this construct. Drawing on findings from an examination of strategic entrepreneurship in theory and to a lesser extent, practice, a more refined framework of strategic entrepreneurship is developed in the following sections, detailing elements central to the integration of entrepreneurship and strategy. As part of this framework, two central issues are considered: creating strategic entrepreneurship within a business, and managing strategic on an ongoing basis to realise financial benefits.

2.4.1 CREATING STRATEGIC ENTREPRENEURSHIP

From the previous sections, six elements were identified as central to entrepreneurship: identifying opportunity, innovation, acceptance of risk, flexibility, vision, and growth. A review of the strategy literature which specifically incorporates an entrepreneurial focus also reinforced the importance of these elements in a strategic context (Bhide, 1994; Bird, 1988; Eisenhardt et al., 2000; Ireland et al., 2003; Mintzberg & Waters, 1982). Yet the question remains as to what characterises strategic entrepreneurship, as the integration of entrepreneurship and strategy.
As noted above, entrepreneurship has been associated with dynamic, destructive, and high-risk activity through the use of resources for financial gain (Bhide, 1994; Kirzner, 1979; Schumpeter, 1934). In contrast, strategy is often associated with a more structured, planned, and deliberate approach towards the effective use of resources for competitive advantage and wealth creation (Conner, 1991; Eisenhardt et al., 2000; Mintzberg, 1987). Thus, a more structured approach to entrepreneurship potentially offers the benefits of entrepreneurship without having to assume the associated risks. Another distinction between entrepreneurship and strategy is the focus on resources. Stevenson and Jarillo (1990) emphasise the notion within entrepreneurship that an organisation is not limited by the resources it controls. In contrast, literature on strategy often emphasises the importance of selecting, managing, leveraging, bundling, and co-ordinating resources to the organisation’s strategy (Simon et al., 2007). In the context of strategic entrepreneurship, Ireland et al. (2003) and later Ireland and Webb (2007), specifically refer to managing resources strategically as one of the four dimensions of strategic entrepreneurship. However, little practical guidance is given as to how this can be achieved.

The importance of resources and the resource-based view of the firm can be traced back to the work of Penrose (1959), and was subsequently developed by Barney (1991, 1996) among others (Alvarez & Barney, 2002; Barney & Arikan, 2001), to explore the nature of resources which may provide a sustainable competitive advantage. Looked upon as perhaps the dominant theoretical perspective within strategic management (Barney & Mackey, 2005), the resource-based view is also an important foundation within entrepreneurship (Alvarez & Barney, 2001). This view is often considered as an alternative to the knowledge-based view of the firm (Conner, 1991; Grant, 1996; Nonaka & Takeuchi, 1995), which promotes knowledge embedded in an organisation’s identity, culture, people, and routines, as the most significant strategic tool in establishing superior performance. Theory on core competencies (Prahalad & Hamel, 1990) and dynamic capabilities (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997) was subsequently developed as a bridge between the two perspectives, encompassing a process of reconfiguring competencies to achieve ongoing fit within a changing environment, emphasising resource development and renewal. Thus, dynamic capabilities theory acknowledges both skills (competencies) and resources as jointly important, rather than opposing perspectives.

Research by Makadok (2001), and later Helfat and Peteraf (2003) further bridges the divide between the resource-based view and the knowledge-based view of the firm by promoting a synthesis between core skills and resources within an organisation. This synthesis recognises
both skills and resource perspectives as crucial, but emphasises the importance of combining the two. Thus, individual organisations may place differing levels of emphasis on skills or resources, depending on the nature of the organisation, and the business in which it operates. By way of example, service organisations may place an emphasis on core skills or competencies. Organisations dealing in the manufacture or sale of goods may place an emphasis on core resources. Both organisations, however, would rely on the underlying knowledge within the organisation regarding those goods or services, and the staff (human resources) which have accumulated that knowledge and know-how over time. As noted by Audretsch and Keilbach (2007), it is this knowledge which aids businesses in identifying and generating opportunities.

In the context of how core strategic skills and resources may be used in an entrepreneurial context, researchers have referred to the importance of alertness to opportunities with respect to existing resources (Alvarez & Barney, 2002), co-ordination and leverage (Ireland et al., 2003; Ireland & Webb, 2007), and flexibility in using resources creatively, such that less is sometimes more (Mosakowski, 2002). Specifically Mosakowski notes that limited resources may often stimulate an organisation to consider how they can be applied most effectively, generating a range of creative options. In terms of how such resources can be used to optimise value, Simon et al. (2007) raise two important issues. First, while much has been theorised on the management, exploitation, application, and leverage of resources, explaining how these processes are achieved in practice remains a black box. Second, Simon et al. (2007) note that while core skills and resources must be managed and developed within an organisation, there remains the ongoing task of achieving fit or position between such skills and resources, and the dynamic environment in which an organisation operates.

These challenges were also noted in an examination of strategic entrepreneurship in practice (Luke & Verreynne, 2006a), whereby SOEs faced competitive (or hostile) environments in deregulated markets, in stark contrast to their former operations as government departments with extensive financial support from central government and guaranteed contracts for the provision of goods and services. In each of the three cases, SOEs successfully employing entrepreneurial activity in a strategic context undertook two key processes. First, they developed a level of expertise in relation to the organisation’s core skills or resources. And second, they subsequently leveraged from those core skills or resources by transferring and applying that knowledge to create new products, services, or markets. By way of example, MetService developed and applied weather forecasting skills to television graphics to create Weatherscape XT, recognised
as world-leading weather graphics (Talbot, 2004). NZ Post, recognised for its process efficiencies, leveraged from its infrastructure of post offices located throughout the country, and staff skilled in processing routine transactions, to create a New Zealand-owned and customer focused retail banking network, Kiwibank (Moore, 2003). Quotable Value developed and applied valuation skills, and leveraged from a complete dataset of all properties throughout New Zealand to introduce an online valuation service, E-Valuer. Thus, in each case, these organisations used their existing core skills and resources as a base from which to leverage, and considered alternative products, services, and markets where they could apply their knowledge, skills, and resources.

A number of other elements were also noted within the study of strategic entrepreneurship in practice (Luke & Verreyne, 2006a), including strategy (closely aligned with vision), and culture (emphasising both confidence and people who shared a common vision). These elements were viewed as supportive of strategic entrepreneurship, as they created an environment conducive to strategic entrepreneurship, rather than represented elements fundamental to this construct. Thus, they assisted in the strategic entrepreneurship process, but were not essential to it. Similarly, findings pertaining to branding and cost minimisation, while useful in any business context, may have been particularly relevant to the study of SOEs, given the public sector context. Strong associations traditionally made between public sector organisations and bureaucracy or inefficiency (Moe, 1994), indicated branding of SOEs (as well as their subsidiaries, products, and services) was often a useful approach to overcome or avoid these associations. Limited financial resources available to SOEs, coupled with high levels of accountability in how those resources are used, also created an environment where awareness of cost minimisation was heightened. Thus, in the context of a framework for strategic entrepreneurship in general, such elements may also be viewed as supportive in certain contexts, but not fundamental to strategic entrepreneurship as a construct.

On that basis, a refined framework of strategic entrepreneurship is proposed, comprising two key components. First, strategic entrepreneurship is founded on a combination of elements central to entrepreneurial activity, being opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth. Second, entrepreneurial activity is applied in the strategic context of businesses which develop expertise within their core skills and resources, and then leverage from that by transferring and applying their knowledge of those skills and resources to new products, services, or markets. These concepts are summarised below.
1a. Strategic entrepreneurship is a distinct process, founded on the combination of opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth.

1b. Strategic entrepreneurship is represented by entrepreneurial activity applied in the strategic context of businesses which develop expertise within their core skills and resources, and leverage from that by transferring and applying their knowledge of those skills and resources to new products, services, or markets.

Together, these concepts can be referred to as the foundations of strategic entrepreneurship (1a – the central elements) and the foundations for strategic entrepreneurship (1b – the strategic context). Thus, the integration of these two concepts constitutes strategic entrepreneurship as a distinct construct, and is depicted in Figure 2.3 below.

![STRATEGIC ENTREPRENEURSHIP](image)

This framework is essentially a configurational approach (Dess et al., 1997; Meyer, Tsui & Hinings, 1993) which identifies elements central to the concept of strategic entrepreneurship, and considers the integration and interdependency of these elements. Ultimately the framework reinforces a process-based view of entrepreneurship which is event-driven (Van de Ven & Engleman, 2007), and may be applied by businesses in all forms to structure and refine their enterprise or business architecture (Veasey, 2001; Wolfenden & Welch, 2000). Essentially, this process involves not only establishing strategic entrepreneurship through the integration of entrepreneurship and strategy, but also managing and maintaining a balance of the central elements in a dynamic environment. Effective management, Ireland and Webb (2006) note, determines the financial benefits an organisation realises and maintains over time. The issue of managing strategic entrepreneurship to realise the financial benefits is considered further below.

2.4.2 MANAGING AND MAINTAINING STRATEGIC ENTREPRENEURSHIP

As noted by various researchers (Hitt et al., 2002; Porter, 1980; Sirmon et al., 2007; Veasey,
refinement of both structure and strategy represent a continuous challenge to establish fit within a dynamic business environment and maintain competitive advantage. With respect to the ongoing management of strategic entrepreneurship, and the realisation of financial gain or wealth, such outcomes are considered to be a function of managing both internal forces and the external environment. Thus, an important feature of strategic entrepreneurship is maintaining a balance of the core elements, and ensuring they are appropriately applied in a strategic context.

By way of example, innovation by itself does not constitute strategic entrepreneurship. But innovation, together with the other core elements can facilitate strategic entrepreneurship. Hence it is essential that each of the core elements is combined to achieve a balance. The actual balance of these elements may (and should, given the ongoing changes in the competitive landscape) change over time. This balance, and its fit with the external environment, will determine the strength of any competitive advantage created. Thus, there may be occasions when a choice must be made between two elements (e.g. further growth versus risk; flexibility to change strategic direction versus vision to continue following that direction), such that different elements may dominate at different times.

Examining strategic entrepreneurship in practice, Luke & Verreynne (2006a) identified clear variations in the nature of strategic entrepreneurship in each of the three cases. Innovation within Quotable Value’s activity was viewed as incremental in nature, through the gradual development of E-valuer within the organisation’s existing market. In contrast, NZ Post’s establishment of Kiwibank Limited [Kiwibank] was viewed as somewhat radical, bold, and risky (Moore, 2003; Vaughan, 2005), with its rapid expansion into a distinctly different and highly competitive market. The nature of innovation within MetService’s Weatherscape XT software (recognised as a highly creative product introduced into a market quite new to MetService) may be viewed as lying somewhere between these two points.

Similarly, with respect to the strategic aspects of the activity in each case, clear variations are also evident. Quotable Value developed a very deliberate focus on developing its business strategy around expansion within the property market, evidenced by a series of purposeful steps undertaken to support that strategy (e.g. establishing a number of paths to access core strategic resources (property data) throughout New Zealand, and then leveraging from that (by designing and introducing an online valuation service based on those resources). In contrast, both NZ Post and MetService referred to a number of entrepreneurial and strategic activities which were clearly
unplanned by those organisations, and evolved through circumstance (e.g. overseas organisations approaching NZ Post for consultancy services not previously offered; a local television network approaching MetService to work on a joint project of updating the network’s weather graphics). Thus, clear differences can be noted in the nature of innovation (incremental versus radical) within strategic entrepreneurship, and the strategic context (deliberate versus emergent). These variations are shown in Figure 2.4 below.

**Figure 2.4** **CONTEXTUAL NATURE OF STRATEGIC ENTREPRENEURSHIP**

![Diagram showing the relationship between Deliberate and Emergent approaches with Incremental and Radical innovations]

The variation depicted in Figure 2.4 represents an important departure from Ireland et al.’s (2003) framework of strategic entrepreneurship, which specifies a need to balance both incremental and radical innovation within strategic entrepreneurship, and indicates the range of innovation which strategic entrepreneurship encompasses. Thus, radical innovation is not a pre-requisite for strategic entrepreneurship. Similarly, while many businesses may deliberately aim to employ strategic entrepreneurship, it is possible to achieve this form of activity through an emergent approach. Further, insight from the cases of strategic entrepreneurship in practice suggests incidences of strategic entrepreneurship activity may change in nature over time, evolving from incremental to radical, and emergent to deliberate. By way of example, MetService was initially approached by Television New Zealand Limited [TVNZ], requesting assistance to develop weather graphics software for its own broadcasts. However, after the initial development phase, TVNZ was satisfied with the software produced and did not wish to continue further development. In contrast, MetService saw further potential, and continued to refine the software, adding features and functions to achieve a highly innovative, flexible, and user-friendly application (Scoop, 2004a). Thus, the second phase of development which was subsequently licensed to the British Broadcasting Corporation [BBC] under a multi-million dollar contract (Talbot, 2004) and later sold to numerous television networks around the world, may be more appropriately classified as building on and developing existing opportunities in an incremental manner. Based on the above, a second concept is presented such that:

2. *The nature of strategic entrepreneurship may take various forms, ranging from incremental to radical innovations, with deliberate to emergent approaches.*
Recognising diversity within the nature of strategic entrepreneurship is an important development on previous frameworks, and raises a number of related issues with respect to the financial benefits of strategic entrepreneurship. These issues are considered in the following section.

2.5 STRATEGIC ENTREPRENEURSHIP AND FINANCIAL BENEFITS

Within the literature, the association between entrepreneurship and financial or economic benefit is widely accepted (Covin & Slevin, 1989; Ireland et al., 2001; OECD, 1998; Timmons, 1999; Ward & Aronoff, 1993). In particular the GEM Executive Report 2003 (Reynolds et al., 2004) contends there is a positive, statistically significant association between national economic growth and the national level of entrepreneurial activity. This association is consistent with numerous studies which identify micro, macro, and socio economic benefits arising from entrepreneurship. Such benefits include profit and wealth creation (Hawley, 1901; Hitt et al., 2001), increased levels of innovation, productivity, and employment (Longenecker, McKinney, & Moore, 1988), creation of value through jobs, civic leadership, and hard work (Ward & Aronoff, 1993).

Studies by Schumpeter (1934) and later Kirzner, (1979) suggest the economic benefits of entrepreneurship stem from a more efficient allocation of resources resulting in new products and markets. Cantillon (1755) and Hawley (1901) draw a clear association between entrepreneurship and surplus or profit. Knight (1921) refers to increased economic efficiency arising from entrepreneurs acting on opportunity. Say (1821) and more recently Casson (1990) relate entrepreneurship with economic benefit through the allocation and co-ordination of factors of production or scarce economic resources to areas of higher productivity and yield.

With respect to the micro or financial benefits for individual organisations, the association between entrepreneurial strategy-making and wealth creation for example (Dess et al., 1997; Ireland et al., 2001) has been widely accepted. Specifically, in the context of strategic entrepreneurship, a more deliberate approach to entrepreneurial activity suggests the potential for enduring benefits and recurring rather than one-off or sporadic profits within a business (Venkataraman & Sarasvathy, 2001). Thus, an examination of the financial benefits of this form of entrepreneurship is particularly valuable for both individual organisations, and the economies to which they contribute. Essentially, however, associations between strategic entrepreneurship and financial benefits such as wealth creation remain focused on conceptual contributions (Ireland et al., 2003), and have not been applied in a practical setting. Given the potential,
however, for financial benefits, an examination of such activity across a range of businesses (e.g. a specific market sector of a region or country’s economy) is also an important area for research.

The value of entrepreneurial activity as a contributor to firm performance has been recognised as important within the literature since the late 1980s and for most of the 1990s (Kuratko, Ireland & Hornebsy, 2001). Zahra (1991) and later Zahra and Covin (1995) find a positive association between corporate entrepreneurship and profitability. Lee, Lee and Pennings (2001) find a positive effect of entrepreneurial processes on performance in technological start-up firms. Similarly, research on entrepreneurial orientation presents an association with firm performance. Covin and Slevin (1991) argue that firms adopt an entrepreneurial orientation in the hope that it will help to create or sustain a high level of performance. Wiklund (1999) finds both that there is a positive relationship between entrepreneurial orientation and firm performance, and that the relationship increases over time. Thus, it seems there is strong support for the financial benefits of entrepreneurial processes and orientations at the firm level, although empirical evidence supporting a similar result for strategic entrepreneurship could not be found within the extant literature.

Research suggests entrepreneurial activity has a positive impact on firm growth and wealth creation through the realisation of reward (Drucker, 1985) from a more efficient allocation of resources, and the creation of new products and markets (Casson, 1990; Kirzner, 1979; Schumpeter, 1934). Yet not all research concurs that entrepreneurial processes produce positive financial benefits (e.g. Dess et al. (1997) on entrepreneurial strategy-making processes and Verreynne (2005) on intrapreneurial strategy-making processes). Morris and Sexton (1996), and later Morris and Kuratko (2002) suggest performance differences arising from entrepreneurial activity are attributable to a firm’s entrepreneurial orientation or entrepreneurial intensity. In particular, Morris and Sexton (1996) refer to entrepreneurial frequency and degree variables as determinants of entrepreneurial intensity, and contend the relationship between entrepreneurial intensity and firm performance is strongest when more emphasis is placed on degree rather than frequency. Given the importance of degree and frequency to entrepreneurial intensity - a concept with theoretical foundations in the field of entrepreneurship - these two variables may be viewed as equally relevant to strategic entrepreneurship.

Mintzberg (1991) and Venkataraman and Sarasvathy (2001) highlight the importance and ongoing task of managing activities such as entrepreneurial ventures to realise and sustain
successful performance and financial reward. In particular, Mintzberg (1991) emphasises balancing the combination of elements involved (such as innovation and risk in the context of strategic entrepreneurship), as well as responding to changes in the external environment. Thus, the challenge of maintaining a balance involves management of both internal and external forces (Mintzberg, 1991). Accordingly, it may be argued that while the financial benefits of strategic entrepreneurship may be a reflection of degree and frequency (Morris & Kuratko, 2002; Morris & Sexton, 1996), these forces alone are unlikely to determine the associated financial implications and ultimate financial outcomes. Rather, once strategic entrepreneurship is established or created, it must be managed effectively within the organisation, and within the context of an external environment which continues to change. Figure 2.5 shows these forces as four dimensions or determinants of strategic entrepreneurship’s financial benefits, below.

**Figure 2.5 Determinants of Strategic Entrepreneurship’s Financial Benefits**

![Diagram showing the determinants of strategic entrepreneurship's financial benefits.](image)

Specifically, degree and frequency are referred to as determinants of strategic entrepreneurship’s financial benefits, to highlight that activity which is perhaps radical rather than incremental, or recurring rather than one-off, is more likely to bring significant or sustainable financial gain. Equally important, however, is the management of such activity within the organisation and in response to changes in the external environment. Activity emphasising an entrepreneurial focus for example, without maintaining a strategic balance of focusing on the organisation’s core competencies where it has developed expertise may lead to difficulties in managing the activity. Other internal forces and contextual variables such as those noted previously (e.g. strategy and its alignment with vision, culture (e.g. openness to change and innovation, confidence to enter new markets), branding, and cost minimisation), will also influence the effective management of strategic entrepreneurship and the resulting financial benefits. Similarly, and perhaps most importantly, changes in the external environment such as competition and regulation will also
impact on the financial returns and must be responded to strategically in order to preserve and maintain any financial benefits created.

While some researchers (Ireland et al., 2003) suggest radical and deliberate approaches to strategic entrepreneurship are likely to result in higher financial gain, contingency theory suggests strategic entrepreneurship must be managed internally (i.e. maintaining a balance), and externally to achieve an appropriate and ongoing fit with the changing external environment. This notion is similar to the system of forces Mintzberg (1991) refers to in the context of effective organisations, as he examines the factors which influence the effectiveness of firms. Thus, consistent with contingency theory, the internal structure and force of strategic entrepreneurship is not considered to exist in a vacuum (Donaldson, 2001), and once established, strategic entrepreneurship must be managed to respond to changes in both the internal and external environment. Effective management aids in preserving the benefits of strategic entrepreneurship activity, such that they are ongoing and sustained over time. This notion is evidenced through steps taken by MetService such as continual modifications and upgrades to Weatherscape XT, as well as establishing a user group to obtain feedback and suggestions from customers, thereby reinforcing customer service and the customer relationship. Thus, a third concept arises:

3. **Strategic entrepreneurship offers the potential for financial benefit, subject to managing changes in both internal and external forces (e.g. the external environment).**

Accordingly, a conceptual framework of strategic entrepreneurship has been established and illustrated. The three concepts comprising this framework of strategic entrepreneurship are summarised in Figure 2.6 below.

**Figure 2.6 CONCEPTUAL FRAMEWORK OF STRATEGIC ENTREPRENEURSHIP**

| 1a. | Strategic entrepreneurship is a distinct process, founded on the combination of opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth. |
| 1b. | Strategic entrepreneurship is represented by entrepreneurial activity applied in the strategic context of businesses which develop expertise within their core skills and resources, and leverage from that by transferring and applying their knowledge of those skills and resources to new products, services, or markets. |
| 2. | The nature of strategic entrepreneurship may take various forms, ranging from incremental to radical innovations, with deliberate to emergent approaches. |
| 3. | Strategic entrepreneurship offers the potential for financial benefit, subject to managing changes in both internal and external forces (e.g. the external environment). |
2.6 LIMITATIONS OF PRIOR RESEARCH

In reviewing the research on the emergence and development strategic entrepreneurship, a number of limitations have been noted. First, there is very little research on this topic to date. Further, much of this research is both theoretical and developmental in nature, such that the frameworks of strategic entrepreneurship presented within the literature are notably different, and at times conflicting. For the two most recent studies on strategic entrepreneurship (Ireland & Webb, 2007; Ketchen et al., 2007) questions surround the feasibility and practicality of specific details (e.g. continuous and collaborative innovation). Of the one study (Luke & Verreyenne, 2006a) which does examine strategic entrepreneurship in practice, is it limited to only three organisations, and presents findings which require further investigation and testing.

With respect to the financial benefits of strategic entrepreneurship, this aspect of theory remains untested, and has not been explored to consider under what circumstances financial gains (as opposed to financial losses) may be realised. Further, practical guidance on how to implement strategic entrepreneurship, other than structuring the resource portfolio and bundling resources to exploit opportunity (Ireland et al., 2003), is absent. Thus, additional research is necessary in each of these areas to gain further insight, test proposed frameworks, and build upon them.

2.7 SUMMARY

This chapter has examined the literature on entrepreneurship and strategy to review the relationship between the two concepts and the subsequent emergence of strategic entrepreneurship. From concept to construct, a revised conceptual framework of strategic entrepreneurship was presented, representing the integration of entrepreneurship and strategy. As detailed previously, the concepts comprising this framework have strong theoretical grounding as well as notable empirical support in the context of the three case studies on strategic entrepreneurship in SOEs (Luke & Verreyenne, 2006a). While the potential for financial benefit is noted, limitations of previous frameworks, and the importance of the contextual environment (both internal and external) are acknowledged, such that ongoing management of strategic entrepreneurship is necessary to realise the financial benefits. How to appropriately measure such benefits in practice, and the contextual issues surrounding strategic entrepreneurship in a SOE environment, are two relatively complex issues directly relevant to this study. Accordingly, these issues are considered in the following chapter.
CHAPTER 3
MEASURING STRATEGIC ENTREPRENEURSHIP’S FINANCIAL AND ECONOMIC BENEFITS

3.1 INTRODUCTION
As indicated previously, the financial and economic benefits of entrepreneurship are widely accepted within the literature (Hitt et al., 2001; Ireland et al., 2001; OECD, 1998; Reynolds et al., 2004), despite the significant variation in financial outcomes noted from entrepreneurial activity in practice (Shane, 2008). In particular Shane (2008) notes entrepreneurship creates a lot of wealth, however such wealth is variable in nature, and very unevenly distributed. Thus, the question arises as to what elements underlie incidences of financial gain and loss in relation to entrepreneurial activity. Regarding strategic entrepreneurship’s association with wealth creation, this association seems limited to theory, and has not yet been examined in practice to confirm a relationship between the two concepts from either a micro (financial) or macro (economic) perspective.

The conceptual framework of strategic entrepreneurship presented in Chapter 2 details the potential for financial benefit depending on a number of forces, such as degree and frequency of strategic entrepreneurship activity, and management of change in both the internal and external environment. Yet this framework also remains untested. An examination of strategic entrepreneurship activity in the context of New Zealand’s SOEs offers the potential to address this issue, however, it is first necessary to consider how strategic entrepreneurship’s financial and economic benefits may be measured, in order to test the conceptual framework in practice. Given the limited research on measuring the financial and economic benefits of strategic entrepreneurship, literature on entrepreneurship’s financial and economic benefits serves as a valuable point of reference. Accordingly, this chapter examines prior literature (Section 3.2), limitations, and potential approaches for future research to address measurement of the financial and economic benefits of entrepreneurial activity (Section 3.3). The financial and economic benefits specific to strategic entrepreneurship are then briefly considered (Section 3.4). Last, the financial and economic benefits of strategic entrepreneurship in a government (SOE) context are reviewed (Section 3.5), before summarising the key findings from this chapter (Section 3.6).

3.2 ENTREPRENEURSHIP’S FINANCIAL AND ECONOMIC BENEFITS
As detailed in Chapter 2 (Section 2.5), an association between entrepreneurship and financial and economic gain can be identified from early entrepreneurship literature (Cantillon, 1755;
Hawley, 1901) and continues to be promoted (Davidsson, 2006). However, a review of prior research promoting the financial and economic benefits of entrepreneurship reveals the importance of environmental and mediating factors in the context of financial gain and loss are often overlooked. Further, such research commonly presents entrepreneurship’s financial and economic benefits in non-financial terms such as employment statistics, new job creation in specific market segments (Glancey & McQuaid, 2000; Timmons, 1999), and relative data on the importance and satisfaction of individuals with respect to the financial performance of organisations (Covin & Slevin, 1989; Dess et al., 1997). As such, there is a lack of research examining and substantiating the financial and economic benefits of entrepreneurship in clear financial terms.

The notion of entrepreneurship in a government context is also an area of contention, with significant debate surrounding the nature and scope of entrepreneurship within the public sector (Bellone & Goerl, 1992; Terry, 1993), and the associated financial and economic returns (Osborne & Gaebler, 1992; Savas, 1981). While researchers such as Zahra, Ireland, Gutierrez, and Hitt (2000) contend privatisation strategies promote entrepreneurial activity and have the potential to transform national economies, others such as North (1990), note the importance of contextual variables. Specifically, North highlights the importance of idiosyncrasies within individual countries’ economic structures, and the profound effect they can have on privatisation and the related financial and economic outcomes. Similar observations have been made with respect to corporatisation, specifically in the context of New Zealand’s public sector reforms (Schick, 1998). Schick’s article, “Why most developing countries should not try New Zealand’s reforms”, emphasises the importance of a well-developed public sector and formalised financial markets, regulation of contract enforcement, and reliable external controls over public finance and corruption, if gains are to be made from corporatisation. The emergence of concepts such as managerialism (Martin, 2003) and new public management (Hood, 1995) suggest there is scope for entrepreneurship within government; however the returns from such activity remain subject to much debate (Luke, Verreyenne, & Kearins, 2007). To date, only one study (Frohlich et al., 1972) has expressly considered strategic entrepreneurship within public sector organisations, but it does not encompass the financial and economic implications.

Various researchers, however, note financial objectives such as wealth are not necessarily relevant to all entrepreneurial ventures (see Davidsson (2006) for a discussion on non-financial objectives). It has been argued that where the primary or significant objectives include non-
financial goals such as autonomy, financial independence, and the opportunity to experiment resulting in positive learning outcomes, an evaluation of performance in financial terms is inappropriate (Cooper, 1979). While such views are acknowledged, within the literature there remains a clear acceptance of and association between entrepreneurship and financial and economic benefit, based on rational economic theory (Davidsson, 2006; Kirzner, 1979; Schumpeter, 1934). Thus, it is this association which is of particular interest and is examined in further detail below from a financial (e.g. individual firm) and economic (e.g. sector or national) perspective.

From a financial perspective, benefits have commonly been traced to individuals and organisations engaged in entrepreneurial activity. Famous entrepreneurs such as Bill Gates and Steve Jobs are well-known for both their innovative ideas and their accumulated wealth (About, 2007). Similarly, organisations recognised as leaders in creativity are also widely-recognised for their financial growth and gains (Cameron & Massey, 1999; Hitt, Hoskisson, & Kim, 1997). Reinforcing these concepts, Dess et al. (1997) draw an association between entrepreneurial strategy-making and wealth creation. Ireland et al. (2001) suggest the combination of entrepreneurship and strategic management produces both competitive advantage and wealth. Similarly, from an economic perspective, references to higher productivity and yields (Casson, 1990) through a more efficient allocation of resources, also clearly indicate the collective benefits of entrepreneurship. Such research tends to focus on the relationship between organisational strategy, action or implementation, and performance outcomes. However, research addressing measurement of the relevant financial and economic benefits raises several concerns with respect to the validity of the methodologies and research measures used, and the reliability and generalisability of the related research findings. These issues are considered below, in the context of entrepreneurship’s financial and economic benefits.

3.2.1 Previous assessment methodologies

Financial benefits
A key research issue within entrepreneurship is the explanation of financial performance differences among individual organisations (Kuratko et al., 2001). Thus, appropriate financial performance measures are necessary to establish these differences within entrepreneurship research. With respect to the financial benefits for individual organisations, the association between entrepreneurial strategy-making processes and wealth creation for example (Dess et al., 1997; Ireland et al., 2001; Smart & Conant, 1994), has involved measurement of financial
performance (e.g. sales growth, profitability) in terms of executives’ rankings of relative importance and relative satisfaction within their organisations (Covin & Slevin, 1989). Thus, literature on the purported financial benefits of entrepreneurship has largely been based upon subjective measures of individual perceptions from a cross-section of executives and firms. The absence of more objective or standardised financial measures to support such perceptions raises both concern and contention regarding the selection of measures, underlying rationale, and validity of the related research findings. As noted by Davidsson (2006), the choice of appropriate methodologies within entrepreneurship research directly impacts on the validity of the related research findings, an issue which is extremely important given the early stage of entrepreneurship research, and strategic entrepreneurship research in particular.

An examination of research in other areas of management, however, reveals financial measures have gradually been incorporated into studies of financial performance. Naman and Slevin (1993) measure financial performance of small and medium sized enterprises [SMEs] in terms of executives’ assessments of importance and satisfaction with financial results, but also use self-reported financial data for the purposes of verifying these assessments. Anna, Chandler, Jansen, and Mero (1999) acknowledge the importance of financial data in research on business owners, requesting self-report data on sales over three years, but found that most participants did not provide these details. Accordingly, sales data in the form of broad categories was also requested as a “back-up”. Thus, while the importance of financial measures is recognised, the associated difficulties in accessing such data are also noted. In view of these difficulties, numerous studies on SMEs, new businesses, and entrepreneurship have relied on self-report financial measures using ordinal scales (Hartenian & Godmunson, 2000; Lerner & Haber, 2001; Lu & Beamish, 2006), with many referring to prior studies which support this approach as an acceptable substitute for financial measures (Dess & Robinson, 1984; Geringer & Herbert, 1991).

Within research on corporate entrepreneurship (Zahra, 1991; Zahra, 1995; Zahra & Garvis, 2000) and new business (Zahra & Bogner, 1999), developments have been made towards the evaluation of financial performance using financial measures and ratios. Zahra (1995) uses self-report data for financial measures such as sales to assets ratio and return on investment [ROI], and then verifies these measures for a subset of organisations using secondary financial data. Similarly, studies by Zahra and Bogner (1999) and Zahra and Garvis (2000) use self-report data for financial measures such as return on assets [ROA], return on equity [ROE], and ROI, which are also verified for a subset of organisations based on secondary financial data. As noted by
Zahra and Bogner (1999), however, the verification of financial data for only a subset of organisations warrants cautious interpretation of the results.

Research in the context of corporate entrepreneurship (Burt, 1978; Vozikis, Bruton, Prasad & Merikas, 1999; Zahra, 1991), strategic planning (Robinson & Pearce, 1983), and SMEs (Randoy & Goel, 2003) has begun to address the gap between studies on financial performance and the lack of financial measures based on independent or audited data. Hence, an examination of financial performance in terms of earnings per share [EPS], ROI, ROA, and ROE has been undertaken in a limited number of studies, using secondary audited financial data. Randoy and Goel (2003) go further to incorporate slightly more complex measures such as an organisation’s Q value (an alternative to Tobin’s Q), to reflect the value of the organisation. Specifically, they calculate Q as the ratio of the market value of the organisation (measured as the sum of the market value of equity and the book value of total liabilities) to the book (accounting) value of total assets. The various research approaches used to evaluate financial performance are summarised in Table 3.1 below, showing the development of methodologies from executives’ perceptual assessments, to self-reported measures, the use of secondary financial data in commonly recognised ratios, to slightly more complex or advanced calculations such as Q values.

Thus, while studies in other areas of management and to a lesser extent, entrepreneurship, have gradually moved towards the use of financial measures in evaluating financial performance, a number of difficulties have also been signalled. Smart and Conant (1994) highlight the various obstacles faced by researchers in using financial measures, including lack of publicly available data, limited access to financial data within small firms in particular, and associated sensitivities of small business owners in releasing such data. Risks have also been identified in analysing data among different organisations which may not be directly comparable due to the use of distinctly different accounting methods (Smith, 1992). Studies by Dess and Robinson (1984) and more recently, Public and Corporate Economic Consultants (2001) suggest subjective measures of performance can be used as a suitable proxy for objective measures of financial performance, a premise various studies continue to cite as support for the adoption of similar methodologies. Yet given the developments in entrepreneurship research over the past 20 years, arguably there is a need for research on the financial and economic benefits of entrepreneurship to progress beyond replication of methodology (Fillis, 2007; Organizational Research Methods, 2007) and examine the purported financial benefits using clear financial measures.
### Table 3.1 Previous Methodologies Used to Examine Financial Performance

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus of study</th>
<th>Measurement</th>
<th>Data used</th>
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<tr>
<td>Covin &amp; Slevin (1989)</td>
<td>SMEs</td>
<td>• relative importance and relative satisfaction with sales, sales growth</td>
<td>• self report data based on executive’s perceptions</td>
</tr>
<tr>
<td>Naman &amp; Slevin (1993)</td>
<td>SMEs</td>
<td>• relative importance and relative satisfaction with sales, sales growth, cash flow, ROE, gross profit, net profit, profit to sales ratio, ROI, ability to fund business growth from profit</td>
<td>• self report data based on executive’s perceptions • primary data verified for a subset of firms using self reported financial data</td>
</tr>
<tr>
<td>Anna, Chandler, Jansen, &amp; Mero (1999)</td>
<td>Business owners</td>
<td>• sales growth over 3 years</td>
<td>• self report data (most participants did not respond) • broad categories of sales data for 1 year as a “back-up”</td>
</tr>
<tr>
<td>Lu &amp; Beamish (2006)</td>
<td>SMEs</td>
<td>• profitability</td>
<td>• self-report measure of profitability (profit, break even, loss)</td>
</tr>
<tr>
<td>Lerner &amp; Haber (2001)</td>
<td>Small firms</td>
<td>• revenue, profit, income of entrepreneur</td>
<td>• self report measures of profit on a 3 point scale (profit, loss, neither), income of entrepreneur on a 5 point scale (1= much below the market average; 5 = much above market average)</td>
</tr>
<tr>
<td>Hartenian &amp; Godmundson (2000)</td>
<td>Small business</td>
<td>• changes in revenue, net income, and owner income, over a 3 year period</td>
<td>• self report data</td>
</tr>
<tr>
<td>Zahra (1995)</td>
<td>Corporate entrepreneurship</td>
<td>• sales to assets ratio, ROI, EBIT to assets ratio, over a 6 year period</td>
<td>• self report data • data verified for a subset of firms using secondary financial data</td>
</tr>
<tr>
<td>Zahra &amp; Bogner (1999)</td>
<td>New business</td>
<td>• ROE &amp; growth in market share</td>
<td>• self report data • ROE data verified for a subset of firms using secondary financial data</td>
</tr>
<tr>
<td>Zahra &amp; Garvis (2000)</td>
<td>Corporate entrepreneurship</td>
<td>• ROA, net profit margin, ROS, and ROI over a 3 year period</td>
<td>• self report data based on survey responses specifying 1 of 5 categories (5 = top 20% of the industry; 1= lowest 20% of the industry) • data verified for a subset of firms using secondary financial data</td>
</tr>
<tr>
<td>Zahra (1991)</td>
<td>Corporate entrepreneurship</td>
<td>• EPS, ROI, net income to sales, ROA</td>
<td>• secondary financial data</td>
</tr>
<tr>
<td>Randoy &amp; Goel (2003)</td>
<td>SMEs</td>
<td>• market value calculated by Q (variation of Tobin’s Q), and ROA</td>
<td>• secondary financial data</td>
</tr>
<tr>
<td>Robinson &amp; Pearce (1983)</td>
<td>Strategic planning</td>
<td>• measures of profit margin, ROA, loan growth, and ROE</td>
<td>• secondary financial data</td>
</tr>
<tr>
<td>Burt (1978)</td>
<td>Strategic planning</td>
<td>• profitability, ROI, and ROIC</td>
<td>• secondary financial data</td>
</tr>
<tr>
<td>Orlitzky (2005)</td>
<td>Social responsibility</td>
<td>• share market returns and accounting returns (e.g. ROE and ROA)</td>
<td>• secondary financial data</td>
</tr>
</tbody>
</table>

**Key**

- **EBIT**: Earnings before interest and tax expense
- **ROS**: Return on sales (profit / sales)
- **ROIC**: Return on invested capital (equivalent to ROI)

#### 3.2.2 Economic Benefits

Davidsson (2006) reinforces the notion of entrepreneurship as a micro level activity, but notes its implications extend to macro level environments. Thus, on a broader level of aggregation, entrepreneurship has been considered in a number of macro level contexts, such as industry sectors, geographic regions, and countries (Davidsson & Wiklund, 2001). Within each of these...
contexts, the objectives of entrepreneurial activity vary widely, ranging from the creation of new products and markets (Schumpeter, 1934), and a more efficient allocation of resources (Casson, 1990), to civic leadership and hard work (Ward & Aronoff, 1993). However, the financial objectives, such as financial gain and economic growth (Reynolds et al., 2004) tend to remain a central goal.

Hindle and O'Connor (2005, p. 3) refer to entrepreneurship as “the most important dynamic driver of the economy”, reinforcing the association between entrepreneurship and economic gain. Initiatives taken by the New Zealand Government in recent years (e.g. “Growing an Innovative New Zealand” in 2002; Mallard, 2006a), further support this notion to foster economic development. Potential economic benefits include increases in GDP, exported goods and services, and enhanced balance of payments (Reynolds et al., 2004). Subsequent economic benefits which may be viewed as secondary or indirect include increases in taxation arising from entrepreneurial profits, and savings in welfare payments attributable to increased employment from entrepreneurial ventures (Luke et al., 2007). A review of research on the association between entrepreneurial activity and economic benefits however, reveals that while research promotes this association, it has also predominantly been explored in non-financial terms.

With respect to measurement of the economic benefits of entrepreneurship, less subjective measures have focused on employment statistics and new job creation within different industry segments. Timmons (1999) examines the importance of entrepreneurship in the context of small and large firms by reference to employment rates, noting Fortune 500 companies accounted for 20 per cent of employment within the United States in 1980. By the late 1990s, this figure had decreased to seven per cent of employment. During this time, new business represented 77 per cent of new jobs created, while Fortune 500 companies lost 5 million jobs. Thus the economic benefits of entrepreneurship are presented by drawing a direct association between entrepreneurship and new business creation. Glancey and McQuaid (2000) present a similar analysis of firms in the United States, European Union, and the United Kingdom, reinforcing the association between entrepreneurial activity, new businesses, and new job creation. Although consistent with the notion that entrepreneurship is neither unique nor specific to new and small businesses (Drucker, 1985), a direct association between the two concepts seems misleading. Glancey and McQuaid (2000) acknowledge this view, noting entrepreneurial activity within businesses of all sizes is important to a country’s economy. Further, they accept many new and small businesses do not undertake activity which is entrepreneurial in nature. Hence,
methodological flaws emerge as inherent to studies which associate entrepreneurship with economic growth by direct reference to new businesses and new job creation (Glancey & McQuaid, 2000; Storey, 1994).

In relation to entrepreneurial activity which may be identified in the context of new businesses, further concern arises regarding the validity of statistics on employment and new business creation which consider gross rather than net increases in new businesses, as a measure of economic benefit. With respect to new business creation, Shapero (1975) estimates one in three new firms does not survive during the first five years of business. Glancey and McQuaid (2000) estimate this rate may actually be closer to one in two new firms. While survival rates reported in the literature vary (Altman, 1983; Cooper, Woo, & Dunkelberg, 1989), any rate of survival less than 100 per cent suggests statistics are misleading, unless determined by reference to both new business creation and closure. Similarly, an evaluation of entrepreneurship’s financial and economic benefits in the context of employment statistics should also be referenced to both job creation and loss within entrepreneurial ventures.

The distortion of statistics tracing the benefits of entrepreneurship to new and small business is clearly outlined by Davis et al. (1996), who refer to the size and distribution fallacy as an important issue in the evaluation of studies addressing the benefits of entrepreneurship. These sentiments are echoed by Storey (2006) who concludes that “many studies on entrepreneurship provide little or no basis on which to support a clear association between entrepreneurship and financial or economic growth”. Rather, a relationship between entrepreneurship and economic growth traced solely to new firms may actually reveal economic disruption through job loss and unemployment, rather than economic stability and growth.

Davidsson (2006) presents a counter-argument on this issue, questioning the validity of survival rates as a measure of successful performance, given that not all business closures represent failure. Specifically he notes business closures may be attributable to a deliberate choice arising from more attractive employment opportunities, mergers, acquisitions, and changes in the identity of individual firms. Thus Davidsson (2006) argues that failure rates or business closures are over-reported in the literature. Similarly, research by Headd (2003) on a sample of business closures in the United States reveals most closures did not result in substantial job or financial loss (referred to as loss of capital less than US$50,000). While the existence of such cases is acknowledged, incidents involving significant job and financial loss (for all stakeholders) cannot
be overlooked. Hence, a balanced examination of this issue requires consideration of the actual losses, both minor and significant, in clear financial terms.

With respect to individual cases of entrepreneurial activity, incidences of financial gain have been widely promoted (Cameron & Massey, 2002; Gaynor, 2006). Yet while cases of successful entrepreneurship have been recognised for their financial gains, equally notable are cases of entrepreneurial activity resulting in financial loss (Dess et al., 1997). Thus, the relationship between entrepreneurial activity and financial benefit is by no means exclusive, and an evaluation of the financial and economic implications of entrepreneurship requires due consideration of both gains and losses arising from entrepreneurial activity.

3.2.3 Evaluating Previous Research Findings

The Global Entrepreneurship Monitor [GEM] study (Reynolds et al., 2004; Acs, Arenius, May, & Minniti, 2005; Minniti et al., 2006) is increasingly recognised as a key reference in measuring entrepreneurial activity, in part perhaps, due to the extensive scope of the research which involves an annual report of entrepreneurial activity in approximately 40 countries. However, criticisms regarding the design of the GEM study and associated research methods (Hindle, 2006; McLauchlan, 2004) suggest it has not yet evolved to address the intended purpose.

The GEM Executive Report for 2003 (Reynolds et al., 2004) for example, uses data on individuals who are involved in business start-ups (including those who intend to start a business), and owner-managers of young businesses as a measure of entrepreneurial activity. However, a number of issues arise including the small sample size used, and the recurring assumption that new business creation and new business owner-managers are necessarily entrepreneurial. While subsequent GEM studies (Acs et al., 2005; Minniti et al., 2006) consider aspects more characteristic of entrepreneurial activity (e.g. innovation and growth potential), further concerns relate to the subjective views of randomly selected interviewees regarding self-assessment of these elements within their personal business activities and work environment. Thus, the inherent reliance upon small sample sizes and interviewees’ judgement and self-awareness raise concerns regarding both reliability and generalisability.

As noted previously, entrepreneurship is increasingly recognised as a process involving a combination of elements such as innovation and opportunity identification. Hence, research which considers entrepreneurs as those who have started their own business, or intend to do so,
raises validity concerns, given that these two concepts or activities are distinctly different in nature. These concerns are perhaps reinforced by the inconsistencies between GEM findings which identify countries such as New Zealand, Venezuela, and Mexico as highly entrepreneurial (implying wealth), and OECD studies which indicate such countries rank relatively low in terms of economic indicators such as income per capita. While entrepreneurship may be one of several factors contributing to a country’s economy (Hindle, 2006), the inconsistencies identified suggest further work is required to substantiate a relationship between entrepreneurship and financial and economic benefits. Hindle (2006) highlights the inverse relationship between GEM findings of reportedly entrepreneurial countries and OECD studies, suggesting GEM reports provide a very comprehensive measure of new business creation, under the very misleading guise of an entrepreneurial measure. Such inconsistencies are relevant to numerous studies on SMEs and new business creation referred to as studies of entrepreneurship (Lu & Beamish, 2006; Randoy & Goel, 2003), and raise concern regarding the credibility of the GEM study as a measure of entrepreneurship, and the financial and economic benefits of entrepreneurship in general. Further, the noticeable absence of financial measures as a basis to support the association between entrepreneurship and wealth creation is also cause for concern.

Interestingly, an examination of research expounding the financial and economic benefits of entrepreneurship reveals a distinct lack of financial measures. Of the 51 studies on entrepreneurship examined by Murphy, Trailer, and Hill (1996), 75 per cent relied on primary (non-financial) data sources, 29 per cent used secondary data sources, and only six per cent incorporated both. The high reliance on primary, non-financial source data in the field of entrepreneurship is consistent with findings confirming the scarce use of relevant secondary sources (Chandler & Jansen, 1992; Sapienza, Smith, & Gannon 1988). Lumpkin and Dess (1996) add to the debate, stating that performance constructs which are not multi-dimensional may result in theory building which is misleading. Lubatkin and Shrieses (1986) rationalise this issue by noting different disciplines often study a single activity from fundamentally different perspectives, and acknowledge that management studies have taken more of a conceptual rather than empirical approach in evaluating performance. Thus, a need for future research to address this gap is highlighted. In the context of research on new and small businesses, studies have begun to examine financial performance using multiple financial measures such as sales growth and profitability (Amason, Shrader, & Tompson, 2006), return on assets, equity, and invested capital (Ebben & Johnson, 2005), revenue and profitability (Lerner & Haber, 2001), economic value added and market value added (Chen & Lin, 2006). Within entrepreneurship research,
however, very little focus has been given to an examination of financial performance in clear financial terms. Morris and Sexton’s (1996) study of entrepreneurial orientation and firm performance, which incorporates two measures of financial performance (percentage changes in revenue and profits compared to industry averages) is one of the few studies to broach this area of research. Hence, this gap remains.

3.3 Quantifying the Financial and Economic Benefits of Entrepreneurship

The challenge of establishing the financial and economic benefits of entrepreneurship in objective fiscal terms gives rise to several issues. As noted by Murphy et al. (1996), all data sources, both financial and non-financial, have some degree of subjectivity. Thus, a distinction between objective and subjective or “soft” data (Ittner & Larcker, 1998) is problematic. While various studies have made a distinction between the two (Brush & Vanderwerf, 1992; Venkatraman & Ramanujam, 1986), Murphy et al. (1996) suggest it is better to distinguish between primary (interview and questionnaire) and secondary (archival) data. Thus, financial measures based on independently audited financial statements may be viewed as valuable secondary data with, in principle, limited subjectivity.

A number of difficulties are also commonly recognised in undertaking such research. The challenge of accurately tracing revenues and costs to a specific entrepreneurial activity within the broader context of an organisation’s total business operations involves both uncertainty and assumption (Balachandran & Ramakrishnan, 1996). Comparing the financial outcomes of entrepreneurial activity between different organisations adds to the complexity, due to inconsistent treatments of joint, common, and indirect costs among those organisations (Thomas, 1977). Further, Morris and Sexton (1996) highlight complexities associated with the time lag (a delay between an activity and the realisation of financial benefit from that activity) and time series (financial benefits realised over a number of years) with respect to entrepreneurial activity. Accordingly, the value or utility of such measures must be evaluated in terms of the trade-off between obtaining financial data which is entirely accurate versus approximately correct.

The use of accounting information has been both supported (Phillips, 1998; Speed & Smith, 1990) and criticised (Eccles, 1991; Smith, 1992) in measuring the financial outcomes or benefits of business activity in general and entrepreneurship in particular. Charkravarthy (1986) argues financial performance measures are necessary but not sufficient. Letza (1996) contends such measures report on stewardship of money and resources rather than strategic (or
entrepreneurial) direction, and are therefore insufficient. Dess and Robinson’s (1984) study found no significant differences in using objective and subjective measures of performance. With respect to small and medium sized enterprises, it has been noted that objective or financial data may be unreliable, difficult to obtain (Covin & Slevin, 1989) and interpret (Cooper, 1979). Further criticisms relate to accounting measures as essentially short-term, and hence the need to add non-financial measures also (e.g. Kaplan & Norton’s (1992) balanced scorecard; Kenny’s (2003) focused scorecard). Yet these approaches have been noted as inadequate and at times misleading (Lynch & Cross, 1991; Moore, 1992; Villalonga, 2000), in the context of both public and private sector organisations. Benchmarking may involve soft targets. Evaluation of an organisation’s targets in isolation may not reveal inconsistencies between those targets and central Government’s broader strategies (in the case of public sector organisations), qualitative measures are inherently subjective, and may involve indicators which do not clearly represent positive or negative outcomes (Moore, 1992). By way of example, an increase in staff numbers may be a positive reflection of a growing business, or a negative reflection of employment policies which accommodate inefficiency and low productivity.

In accounting and finance research, financial indicators remain the dominant and accepted measure of performance (Brown & Laverick, 1994). Phillips (1998) highlights the role of the financial function is to evaluate the effectiveness of strategy and operations. Speed and Smith (1990) support the use of financial data, contending research measures should be both impartial and replicable. There is, however, no consensus and very little consistency on which financial measures to use (Hitt, Ireland, & Stadter, 1982; Rockmore & Jones, 1996; Seashore & Yuchtman, 1967).

3.3.1 Past approaches to quantifying entrepreneurship’s financial and economic benefits
A review of literature examining the benefits of specific business activity in financial terms reveals a range of different measures. Sales turnover (Baumol, 1959), share price (Lubatkin & Shrievess, 1986), sales revenue and growth in percentage terms (Norburn & Birley, 1988), growth in assets (Gordon & DiTomaso, 1992), and ratio of revenue to expenses (Siciliano, 1996, 1997), have all been employed as measures of financial performance. More recently, financial measures such as cash flow return on investment [CFROI] (Chen & Dodd, 1997) and economic value added (Stern, Stewart, & Chew, 1995) have been promoted as useful measures of business activity, but also criticised as complex and poorly understood within business (Ittner & Larker, 1998). Consistent with the notion that financial benefit is not a unitary dimension, however, numerous
researchers have also emphasised the need for multiple financial measures (Brown & Laverick, 1994; Gupta, 1987; Venkatraman & Ramanujam, 1986). This approach is particularly relevant given that Dess et al. (1997) found different measures produced markedly different results and findings. Yet an overview of research on financial performance and outcomes within entrepreneurship reveals a continued focus on only one or two measures, often with no justification for selection (Murphy et al., 1996). Hence the need to both incorporate a range of useful, relatively parsimonious financial measures, and support the use of such measures with a theoretically based rationale is noted. This view is consistent with Lubatkin and Shrieves (1986) who contend techniques and underlying assumptions of other disciplines must be understood and evaluated before borrowing from them. Further, the research question and objectives should determine the most appropriate techniques and procedures to use (Lubatkin & Shrieves, 1986).

Finance and economics literature also reveal a number of measures and indicators which may be used to examine the financial and economic benefits of entrepreneurship. Such measures include discounted cash flows and net present values from a finance perspective (Ross, Westerfield, & Jaffe, 2002), opportunity costs, economic profit, and excess returns from an economic perspective (Jones, 2004). Essentially these concepts and calculations are based on accounting data such as revenues, expenses, and cash flows, which are then adjusted by other variables such as the cost of capital and normal returns, to calculate alternative and arguably more complex measures. However, given the added complexities and additional variables which must either be identified or estimated within individual organisations (e.g. the cost of capital) and across industry or market sectors (e.g. normal returns), a focus on fundamental accounting concepts such as revenues, profits, and cash flows, provides a relatively simple and valuable starting point to begin to consider the association between entrepreneurship and financial or economic benefit.

3.3.2 A VALUABLE APPROACH FOR FUTURE RESEARCH

Through an analysis of the financial and economic benefits of entrepreneurship, a number of limitations within existing research are identified, as well as a suggested approach for future studies to more directly address these issues. Drawn from entrepreneurship, accountancy, and finance literature, a framework comprising a number of measures is presented as an important development in entrepreneurship research. Details of this framework, relevant to both the financial and economic benefits of entrepreneurship, are summarised below.
Financial benefits

From an individual firm perspective, an examination of revenues and profits arising from entrepreneurial activity, together with growth in revenues and growth in profits over a number of years (Davidsson, 2006) provides a useful measure of commercial success and viability, and an indication of the financial performance and progress from a longitudinal perspective. Similarly, examination of cash flows from entrepreneurial activity provides an important and objective measure of the cash resources generated and required, reflecting the net cash position and financial viability of the activity (Clarke, Maguire, & Davies, 2006; Pizinni, 2006). As noted previously, this measure is particularly relevant in the context of entrepreneurial activity, given that inadequate cash flows are a common cause of failure (Cameron & Massey, 1999).

Further, examination of both profits and cash flows in terms of the funds invested in an entrepreneurial activity should also be considered, through measures such as ROI (profit divided by funds invested), and CFROI (cash returns divided by funds invested). These latter two measures offer valuable insight into the financial returns of an activity relative to the funds employed, providing useful comparative measures for small and large scale activities, and between alternatives such as entrepreneurial and non-entrepreneurial activities (Capon, Farley, & Hoenig, 1990). Thus, a research approach incorporating these measures represents a valuable starting point to evaluate the financial benefits of entrepreneurial activity.

Economic benefits

With respect to the economic benefits of entrepreneurial activity, measurement of the financial benefits within a specific market segment (e.g. industry sector, regional market, or public sector organisations) could be used as a basis to project aggregate market or sector economic benefits in direct terms such as revenues and profits, growth in revenues and profits over time, and ROI in terms of profit and cash flow. Further, in relation to the broader economic benefits derived by government from entrepreneurial activity, consideration could also be given to additional measures such as increases in tax revenue attributable to entrepreneurial activity and profits, increases in employment, and resulting decreases in welfare costs (Davidsson, Lindmark, & Olofsson, 1995). While the suggested approach represents an initial step towards measurement of entrepreneurship’s financial and economic benefits, it is both a viable and valuable starting point for the development of entrepreneurship theory regarding a topic on which much has been written, but little has been established. As such, the progression of entrepreneurship research in this area represents an important development and contribution.
3.4 STRATEGIC ENTREPRENEURSHIP’S FINANCIAL AND ECONOMIC BENEFITS

As indicated previously (Section 2.5), literature on strategic entrepreneurship emphasises wealth creation from a theoretical perspective (Ireland et al., 2003); however conceptual developments in this area have not progressed to applied research. Given however, that entrepreneurship represents a foundation of strategic entrepreneurship, and that a more deliberate approach to entrepreneurial activity offers the potential for enduring rather than sporadic profits (Venkataraman & Sarasvathy, 2001), theory on the financial and economic benefits of entrepreneurship logically extends to the concept of strategic entrepreneurship. Accordingly, using entrepreneurship research as a theoretical foundation, the principles and concepts presented in this chapter arguably apply to strategic entrepreneurship, and potentially offer a more structured context from which to begin examining the related financial and economic implications and outcomes.

3.5 GOVERNMENT ENTREPRENEURSHIP’S FINANCIAL AND ECONOMIC BENEFITS

Turning to a public sector context, the association between entrepreneurship and economic benefit has been considered primarily from a macro-economic perspective, in the context of privatisation (Zahra et al., 2000). Moore (1992) emphasises the economic benefits of the United Kingdom’s [UK] privatisation process, noting the sale of SOEs raised £34 billion for the UK Government. Eggers (1997) highlights $14 billion in sales proceeds was received by the New Zealand Government through privatisation of assets as part of its public sector reforms. Moore (1992) also refers to the ongoing macro-economic benefits through increased productivity and profits of privatised businesses, resulting in increased tax collections and GDP. As noted by Villalonga (2000), however, studies which aim to measure the ongoing benefits of privatisation rarely succeed in doing so. Essentially, privatisation as a process often coincides with a number of other changes such as organisational restructures, and market deregulation. Thus, isolating any one variable, such as privatisation within the context of all three dynamics is difficult, and attributing the benefits of all three variables to privatisation alone is misleading (Villalonga, 2000).

This view is supported by Osborne and Gaebler (1992) who note the issue of ownership should not be confused with importance of market dynamics.

Zahra et al. (2000) contend privatisation is an ideal strategy for the promotion of entrepreneurial activity, with the potential to transform national economies. Specifically, they refer to the privatisation process as “infusing a spirit of entrepreneurial risk taking” (2000, p. 510), by unleashing the forces and discipline within the free market. Transformation, Zahra et al. (2000)
argue, stems from adjustment to the competitive realities of a market economy, and extends to transformation and changes in management, culture, cognition, strategy, and structure. Such changes require quick learning of how newly acquired resources should be used. These changes also, according to Zahra et al. (2000), induce innovation, calculated risk-taking, and entrepreneurial actions. As noted by Stiglitz (2008), however, effective privatisations are difficult to achieve.

The potential benefits identified from applying entrepreneurship within government (Osborne & Gaebler, 1992; Ramamurti, 1986), and the lack of conclusive evidence to draw a relationship between entrepreneurship and financial and economic gain particularly in a government context, represents an important area for future research. While various researchers and practitioners (e.g. Moe, 1994; Moore, 1992) present strong cases for and against entrepreneurial activity in a government context, increasingly research is uncovering incidences involving mixed results, with cases of both financial success and failure (Khaleghian & Das Gupta, 2005; Polidano, 1999). Thus, further examination of this issue is required to understand the elements underlying cases of financial and economic gain and loss, with developments in this area of research being highly relevant to both practitioners and policy-makers.

As noted above (and considered further in Chapter 4), contention exists regarding the appropriateness or otherwise of entrepreneurship in a public sector context. Concerns regarding innovation and risk-taking, particularly with public sector funds (Morris & Kuratko, 2002), suggest a more structured or strategic approach to entrepreneurship is particularly well-suited to the public sector. Accordingly, this study explores the notion of strategic entrepreneurship within government, and the related financial implications for individual public sector organisations (New Zealand’s SOEs), as well as the broader economic outcomes for the SOE sector and the New Zealand economy to which SOEs contribute.

Using a range of financial measures, this approach provides the opportunity to explore the relationship between strategic entrepreneurship and financial benefit within individual activities and organisations in the context of revenue, profits, and profitability. This approach also provides the opportunity to consider the relationship between strategic entrepreneurship and economic benefit by comparing the investment by Government in SOEs which have conducted entrepreneurial activities, and the return on that investment through payments such as dividends and taxes. A summary of the measures used in this study is detailed in Table 3.2 below.
<table>
<thead>
<tr>
<th>Financial measure</th>
<th>Calculation</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue (sales and growth in sales)</td>
<td>$ amount of operating revenue and percentage increase in revenue</td>
<td>Reflects the revenue earned and growth in revenue over time</td>
</tr>
<tr>
<td>NPAT (Net profit after tax and growth in NPAT)</td>
<td>$ amount of NPAT and percentage increase in NPAT</td>
<td>Reflects profitability and efficiency of a firm to manage both revenue and expenses over time</td>
</tr>
<tr>
<td>Assets (Total assets and growth in total assets)</td>
<td>Total assets and percentage increase in total assets</td>
<td>Reflects profitability and efficiency of a firm to manage growth in terms of asset base</td>
</tr>
<tr>
<td>ROE (Return on equity)</td>
<td>NPAT</td>
<td>Represents a traditional measure of profitability and efficiency</td>
</tr>
<tr>
<td>ROCI (Return on capital invested or contributed)</td>
<td>NPAT contributed capital</td>
<td>Represents an alternative measure of profitability and performance which does not disadvantage a firm or distort ratios where profits are made and retained in the organisation</td>
</tr>
<tr>
<td>ROI* (Return on investment)</td>
<td>(dividends + taxes paid) / contributed capital</td>
<td>Reflects cash returns to Government in the form of both dividends and taxes paid by SOEs, compared to the capital invested by Government in a SOE</td>
</tr>
</tbody>
</table>

Specifically, these measures included operating revenue and growth in revenue (Norburn & Birley, 1988) as a reflection of commercial success, net profit after tax (Ansoff, 1965; Kudla, 1980) as a reflection of profitability, efficiency, and commercial viability. Assets and growth in assets are included, as reflection of an organisation’s ability to manage growth. ROE (Rumelt, 1974) and two variations thereof, being ROCI (Brown & Laverick, 1994) and cash flow return on investment (ROI*), are also included as a reflection of both profitability and viability of SOEs as Government investments (Luke, 2008b).

While the term ROI is often used interchangeably with ROE to consider profit after tax divided by the total owners’ equity or total investment (e.g. initial capital, retained earnings, and reserves) of the owner, here ROI* is denoted with an asterisk to highlight an alternative calculation method, and is considered in terms of the cash returns to Government (through payment of dividends and taxes) compared to (divided by) the capital contributed or invested by Government in each SOE. Thus, valuable insight into the performance of individual SOEs as well as the returns to Government as owner and investor in SOEs, can be obtained (M Bradbury, Accounting Professor, personal communication, September 1, 2006; Luke, 2008b).

3.6 Summary

An examination of the literature on the financial and economic benefits of entrepreneurship suggests this topic is a particularly valuable area of research for both individual organisations and the economies to which they contribute. Yet a review of such research indicates various
qualifications and clarifications should be made regarding previous research methodologies and findings. Consideration of relevant financial measures used in accounting, (and to a lesser extent) finance and economics, has provided a basis for the development of a suggested research approach to begin to quantify the financial and economic benefits of entrepreneurship.

While the financial and economic benefits of entrepreneurial activity are widely accepted within the literature, research verifying these benefits in clear financial terms is noticeably lacking. Establishing a definitive association between these concepts provides important insights for researchers, practitioners, and policy-makers, seeking enhanced understandings, improved financial returns, and more progressive economies. Further, tracing entrepreneurial activities to financial and economic outcomes (both gains and losses) provides an important starting point to identify the underlying variables attributable to such outcomes. While challenges and limitations of the suggested approach have been acknowledged, the potential for developing an enhanced understanding of entrepreneurship’s financial and economic benefits indicates the importance of this research direction.

With respect to the financial and economic benefits of strategic entrepreneurship, a number of measures were identified as valuable for future research. Drawing on studies from entrepreneurship, accounting, and finance; measures such as revenue, profits, and cash flow, together with ratios which consider profit and cash flow relative to the value of funds invested, provide valuable insight into the financial and economic returns of strategic entrepreneurship, undertaken by New Zealand’s SOEs. Prior to examining the preliminary framework of strategic entrepreneurship (presented in Chapter 2) and evaluating the financial and economic returns from such activity using the measures proposed in this chapter, it is first necessary to consider the public sector context of this study, and SOEs in particular. Such is the focus of the following chapter.
CHAPTER 4
STRATEGIC ENTREPRENEURSHIP IN A PUBLIC SECTOR CONTEXT AND SOES

4.1 INTRODUCTION
Zahra (2007) notes contextualising theory as one of the most important yet overlooked aspects of entrepreneurship research, referring to the need for grounding data and theory in the unique, complex, and rich contextual environment on which the study focuses. Accordingly, this chapter examines the public sector context of this study, presenting an overview of entrepreneurship in government. Given the very limited literature on strategic entrepreneurship in government, this chapter initially focuses on entrepreneurship (as a foundation of strategic entrepreneurship) in government, under the headings of policy, privatisation, and practice, before examining strategic entrepreneurship in a government context (Section 4.2). The concept of new public management [NPM] is then explored, from its theoretical foundations (Section 4.3) to its practical application in the context of New Zealand’s SOE reforms (Section 4.4). Contemporary issues faced by SOEs are subsequently examined (Section 4.5), providing readers with a contextual background to this study. A summary on public sector entrepreneurship, NPM, and New Zealand’s SOE sector concludes the chapter (Section 4.6).

4.2 ENTREPRENEURSHIP IN GOVERNMENT
Traditionally the role of government has been associated with policy and administration - implementing appropriate legislation and regulations to establish a stable, progressive society (Moe, 1994; Moore, 1992). Implied within this conception of government’s role is the provision of basic public services which often extend beyond core functions such as standard-setting and enforcement. Historically these services have included basic functions and utilities such as health care, education, electricity, water, and telecommunications (Hardwick, Kahn, & Langmead, 1999; Stretton, 2000). However, the scope of such services differs between countries, depending on the level of market deregulation, and the development of private sector organisations.

The traditional divide between public and private sector services has become blurred in recent decades. Due to changes over time, resources such as large scale finance, capital assets, and expansive networks have become increasingly accessible to private sector organisations (OECD, 1996).

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4 Given the orientation of this chapter towards the New Zealand context, it is informed by a range of sources including academic references, newspaper articles, and media releases, to reflect extant theory and research, public perception and opinion, and portrayal of issues by individual SOEs, respectively.
Further, advancements in technology and liberalisation of financial markets, particularly in developed nations, have effectively removed traditional barriers to entry in large scale markets and industries. Issues such as high start-up costs, significant capital investment, and large scale demand and supply requirements (often at a regional or national level), traditionally associated with core public service industries, have diminished considerably (Verreynne & Luke, 2006). Hence, these industries have become increasingly manageable for private sector organisations. Subsequent deregulation of these industries (such that previously monopolistic environments are open to competition) has also facilitated entry to these markets. This trend has resulted not only in increased competition for public sector organisations, but also the opportunity for governments to privatise existing public sector organisations (Zahra & Hansen, 2000) which they do not wish to continue operating.

The issues of deregulation, competition, and privatisation are particularly relevant given the increasing demand for accountability within government, from both a financial and social perspective (Carnegie & West, 2005; White, 2005). As a reflection perhaps of increased competition in a global economy, governments are increasingly looked upon not only for policy-making, but also for the promotion of continued economic development by way of fostering growth, innovation, and entrepreneurial activity (Reynolds et al., 2004; Teske & Schneider, 1994). In this respect, management of the public sector has been considered from various perspectives (Savas, 1981) with a common divide being government’s role as one of “rowing” versus “steering” (Morris & Kuratko, 2002; Osborne & Gaebler, 1992), as explained below.

Support for the traditional role of government is evident from both researchers and practitioners. Moe (1994) and Moore (1992) maintain government’s role is one of policy and administration to foster economic development, providing a stable and progressive society. The notion of new public management or managerialism (Aucoin, 1990; Hood, 1991; Mulgan, 1997a; Pollitt & Bouckaert, 2000), however, has gained increasing attention in recent years, and is supported by various researchers (Osborne & Gaebler, 1992; Ramamurti, 1986; Weinstock, 2002) who contend there is a strong case for government contributing directly (through activity or “rowing”) as well as indirectly (through policy or “steering”) to economic development and entrepreneurial activity. Alternative approaches to NPM can be considered from three perspectives – policy, privatisation, and practice (Luke & Verreynne, 2006b), and are summarised below.
4.2.1 Policy

Attention in the area of “steering” has focused on government assisting and supporting the private sector through the promotion of policies to foster economic development and growth. Such policies include legislation which is open and supportive of business development (Swierczek & Quang, 2004), streamlined regulatory requirements (Bharath, 2004), and increased assistance in accessing finance (Prince, 2003). Specific initiatives employed by governments include establishing trade export offices in foreign cities, attracting foreign investment through the establishment of industry and trade zones, business incubators, tax incentives for foreign investors, regionalised finance incentives (e.g. low interest loans for businesses located in areas of high unemployment), and government supported capital venture programs. While Ventriss (2002) acknowledges the popularity of such initiatives by governments in developed countries, he also questions their effectiveness, comparing funding allocated to such programs with the returns received. Similarly, approaches such as competitive tendering and contracting (Parker & Gould, 1999) have been viewed as an inefficient use of taxpayer funds, often with unfair tendering processes, and inequitable and costly outcomes.

4.2.2 Privatisation

Economic development through privatisation has also been widely promoted as effective government policy (Moore, 1992; Zahra & Hansen, 2000). A priority of policy-making and a contrast in skill base between politicians and businessmen (Moe, 1994; Morris & Kuratko, 2002) are common factors in the case for privatisation. Economic benefits resulting from privatisation include substantial revenue from the sale of government assets, reduction in national debt, elimination of losses sustained by unprofitable government organisations, and increased revenue from taxation of growing profits under private sector management (Moore, 1992).

Those in support of privatisation, however, have also acknowledged a number of obstacles (Zahra & Hansen, 2000). Such obstacles include privatisation essentially being a costly and involved process, the loss of national resources through the sale of assets, uncertainties regarding the abilities and intentions of any new private sector management, increase in unemployment due to subsequent downsizing, resulting loss of trust in the political system, public resentment of foreign ownership, reduction in public sector spending, increased costs of good and services, and elimination of industry subsidies to domestic private sector organisations operating within privatised industries. Nations such as Chile, Egypt, Poland, and Russia have all provided lessons on what to avoid in the course of privatisation (Zahra & Hansen, 2000).
Extreme disparity of wealth, perceived inequity (Chang, 2007), corruption within the privatisation process (Parker & Gould, 1999), and lengthy delays in transforming established institutional mindsets of SOEs, “a monumental undertaking that sometimes takes decades to achieve” (Zahra & Hansen, 2000, p. 97), are some examples. Undervaluing privatised firms (Shirley, 1999) and pressures to privatise on a timely basis while ensuring shares are not under-subscribed (Chang, 2007) have also been identified as a potential sacrifice of public interest. Despite these issues, exploring privatisation continues to be seen as a viable option by policy-makers in response to the “persistent failure of SOEs” (Zahra & Hansen, 2000, p. 85). Moore (1992, p. 116) reinforces this view, noting “state-owned industries will always perform poorly” due to a lack of self-interest, competition, and customer focus.

A common rationale for the promotion of privatisation is a market-orientated ideology that the private sector is more efficient due to the discipline of market forces and competition (Stiglitz, 2008). As noted by Ogden and Clarke (2005), however, the paradox is that privatisation of natural monopolies (e.g. rail, water, electricity) does not result in competition. Further, concepts such as market forces and competition are not necessarily inconsistent with public sector organisations. Thus, the notion that privatisation is a frame-breaking event that compels managers to adopt different perspectives on how best to manage (Zahra et al., 2000), raises the question as to whether other mechanisms such as corporatisation or undertaking entrepreneurial activity in practice can also achieve such change.

4.2.3 Practice

The notion of entrepreneurial government practice has gained increasing attention in recent years, suggesting a more direct approach to entrepreneurial activity. Such principles are not new, and can be traced back to the works of Woodrow Wilson (1887) who viewed public administration as a business. Doig (1985), among others, argues these views remain equally relevant to modern day public administration. Thus, government interest in employing private sector management techniques in order to move towards a more commercial and efficient form of public administration has been reignited.

Within the literature, however, the concept of entrepreneurial practice in government is both criticised (Terry, 1993) and supported (Borins, 2000). While those such as Moe (1994) and Moore (1992) suggest conducting entrepreneurial activity is outside the scope of government, others have supported entrepreneurship within a public sector context from various perspectives.
including the promotion of democracy (Shockley et al., 2002), citizen involvement (Bellone & Goerl, 1992), and increased efficiency with minimal bureaucracy (Moon, 1999). Specifically, entrepreneurial government has been associated with a deliberate search for innovative change (Linden, 1990), cost minimisation (Ramamurti, 1986), generation of new revenue sources (Bellone & Goerl, 1992), ongoing innovation to achieve increased efficiency and effectiveness (Osborne & Gaebler, 1992), operating with a strong customer focus under competitive market forces (Cullen & Cushman, 2000), and adopting creative and risk-taking activity (Lewis, 1980). Other approaches to government entrepreneurship in both theory and practice include downsizing staff and operations, and public-private partnerships (Gore, 1993).

While some researchers (Morris & Kuratko, 2002; Terry, 1993) maintain the concepts of innovation, risk-taking, and proactivity seem inconsistent with public sector organisations traditionally viewed as bureaucratic, risk-averse and conservative, others (Osborne & Gaebler, 1992; Ramamurti, 1986; Weinstock, 2002) note the increasing acceptance and growing expectation of efficient, proactive, and even entrepreneurial activity within the public sector. Thus, the adoption of entrepreneurial activity within government organisations may represent an effective pathway to address both the increasing expectations placed upon government, as well as to promote entrepreneurial activity on a national scale (Osborne & Gaebler, 1992). A variation of entrepreneurship in government which offers the potential benefits of entrepreneurial activity while attempting to minimise the associated risks, is the concept of strategic entrepreneurship in a public sector context. While this topic has been given very limited attention to date, arguably strategic entrepreneurship is well-suited to a risk averse and widely accountable public sector context, and is considered in further detail in the following section.

4.3 STRATEGIC ENTREPRENEURSHIP IN A GOVERNMENT CONTEXT

Strategic entrepreneurship in a government context involves the promotion of activity which is both entrepreneurial and strategic, within the public sector. Frohlich et al. (1972) have considered a specific aspect of this form of activity from an economic perspective, in the context of political leadership and the supply of collective goods. Others such as Shockley et al. (2002) and Osborne and Gaebler (1992) have broached certain aspects of strategic entrepreneurship in a government context, such as an emphasis on innovation and customer focus. Essentially, however, the notion of strategic entrepreneurship as the integration of entrepreneurship and strategic management has not yet been comprehensively explored in the context of public sector or government organisations.
While the association between government organisations and bureaucracy is a long-standing one (Moe, 1994), characterised by inefficient processes and overly regulated environments (Miller, 1994), this association is neither universal nor fixed (Wilson, 1989). Change within government organisations is possible, as evidenced by governments in various countries which have adopted “new” public management techniques over the past two decades (Pollitt & Bouckaert, 2000). Moreover, adoption of strategic entrepreneurship as an extension of such change seems a particularly viable option, which offers both financial and non-financial benefits. Such benefits include financial returns (e.g. dividends), as well as enhanced trust in and support of government. Thus, given the objectives and expectations of governments to be more innovative and strategic in providing efficient and cost effective services to the public (Gore, 1993), an approach which is both entrepreneurial and strategic deserves consideration (Luke & Verreynne, 2006a; Ramamurti, 1986). Specifically, if governments are to address the call for innovative and strategic conduct together with fostering continued economic development, strategic entrepreneurship seems a potentially valuable approach to achieve this objective.

Among those who have begun to examine the notion of entrepreneurial activity within a government context is Weinstock (2002). Specifically, Weinstock contends there is a strong foundation for government organisations incorporating entrepreneurial activity, entrepreneurial focus, and entrepreneurial strategy. While such organisations “are still a minority…their ranks are growing” (Weinstock, 2002, p. 55). Hence, a review of this minority can provide lessons for government and non-government organisations elsewhere. Teske and Schneider (1994) support this notion, arguing cases of entrepreneurial government can be analysed and explained systematically, providing guidance for others, rather than considered as rare, chance occurrences.

Thus, while entrepreneurial activity within government as an alternative to privatisation is acknowledged as viable, research has not yet progressed to examine how strategic entrepreneurship can be (or is being) operationalised within public sector organisations such as SOEs. Accordingly, this research seeks to contribute precisely to this gap in the literature, as an important and substantively new area of research, hereafter referred to as new public entrepreneurship [NPE]. The following section examines the theoretical foundations of NPM, and in particular, the potential for SOEs to embrace NPE, as one approach to government entrepreneurship in practice.
4.4 THEORETICAL FOUNDATIONS OF NEW PUBLIC MANAGEMENT AND STATE-OWNED ENTERPRISES

New public management emerged in the late 1970s, as a key issue on the reform agenda of various OECD countries (Hood, 1991, 1995; Parker & Gould, 1999). In particular, the concept has been linked to four other administrative trends of that era. These are: (1) the attempt to slow down or reverse growth in overt public sector spending and staffing; (2) a focus on privatisation and quasi-privatisation; (3) increased automation with respect to the production and delivery of public services; and (4) the development of an increasingly international agenda focused on management, policy design, decision-making styles and co-operation (Hood, 1991). During the 1980s, the need to limit the size and reach of government spending became an increasingly prominent issue in various countries, due to a culture of dependency on state welfare, increasing deficits in countries’ balance of payments, rising levels of unemployment, and fluctuating interest rates (Parker & Gould, 1999).

The theoretical foundations of NPM have been traced to new institutional economics and managerialism. New institutional economics itself is founded on public choice theory (Buchanan & Tulloch, 1962), transaction cost economics (Williamson, 1979; 1998), and principal-agent theory (Althaus, 1997), and emphasises user choice, efficiency, and transparency. The concept of managerialism promotes professional management and freedom to manage as central to improved organisational performance (Martin, 1983). As such, supporters of NPM contend each of these principles can be applied to activity in the public sector. In contrast, proponents of traditional property rights theory (Alchian, 1987; Coase, 1960; Demsetz, 1967) promote an agenda for government focused on politics rather than business, arguing the public sector is less efficient in using resources to maximise wealth. While Hood (1991) notes NPM as a concept may not be an all-encompassing solution, with inevitable sources of conflict (e.g. government intervention resulting in imperfect market competition), he also acknowledges its potential, subject to the inclusion of number of important features central to successful NPM frameworks (e.g. separation of management and state).

Despite continued debate on government’s role of rowing versus steering, not everyone sees the alternatives as mutually exclusive. Research by the World Bank indicates a combined programme of privatisation and corporatisation (i.e. incorporating government departments with a commercial focus such that they become separate legal entities such as state-owned enterprises) is the most effective approach in managing the public sector (Shirley, 1999). Given the relative newness of NPM, and the ongoing development of such reforms in various countries – something
O’Flynn (2007, p. 358) refers to as “two decades of experimentation” – arguably the long-term success of NPM remains a question for the future (Mulgan, 1997a). Yet, a review of the SOE reforms, such as those in New Zealand which have been implemented and refined over the past two decades, can provide valuable insight into the medium-term success of such policy, as well as issues to be considered for future NPM agendas.

Notwithstanding the relatively early development stage of NPM, researchers such as Stoker (2006) and O’Flynn (2007, p. 353) have started to look beyond NPM’s framework and limitations, towards new and alternative paradigms such as public value – “a way of thinking which is both post-bureaucratic and post-competitive”. Essentially, however, it is the principles of NPM which remain at the fore of numerous countries’ political agendas (O’Flynn, 2007; Shirley, 1999). While various approaches to NPM have been taken (refer to Section 4.2), a policy initiative which gained significant attention in the 1980s was the corporatisation of SOEs. In particular, New Zealand’s SOE reforms of the 1980s are considered a prime example of NPM (Khaleghian & Das Gupta, 2005) and have attracted significant attention from foreign governments (Cullen, 2003a) due to their success. The following section examines the SOE model, before presenting an overview of New Zealand’s SOE reforms, as the contextual background to this study.

4.4.1 The SOE Model
The SOE model has been adopted in numerous countries with variations in both the SOE framework and the resulting outcomes. Essentially the model is an alternative to privatisation, such that state assets remain in public hands, but are required to operate as efficiently as private sector organisations. Those in support of the model outline a number of public administration benefits including, maintaining ownership of core infrastructure assets often considered national icons (Ernst, 1999), security of supply (particularly for essential services), continuity of service provision in markets where the private sector may not have sufficient interest, and increased accountability to the extent that SOEs are directly accountable to government (Chang, 2007).

The issue as to whether natural monopolies are inconsistent with NPM, given its emphasis on competition and market forces, is also subject to debate (Chang, 2007). One way governments have addressed this issue is to exclude monopolies from the SOE framework. In New Zealand, for example, government organisations not selected for SOE status may be classified as government departments or crown entities, which are required to operate efficiently but do not have the same profit-making focus as SOEs. Alternatively, organisations which do operate as
monopolies (natural or otherwise) may be included in the SOE framework, and required to operate as a commercial and competitive organisation. Such is the case with New Zealand Railways Limited [NZ Railways], Transpower New Zealand Limited [Transpower], and to a lesser extent, Asure New Zealand Limited [Asure].

Another feature of the SOE model is that it may be modified and refined over time, and adjusted to changing political and economic conditions. With respect to New Zealand, ongoing review of the SOE sector has resulted in small but continued changes to the portfolio of SOEs. In 2001, SOE Terralink New Zealand Limited [Terralink] was placed into receivership due to sustained losses, with the Government refusing to offer financial support (Lawrence, 2001). In 2004, SOE Television New Zealand Limited [TVNZ] was reorganised such that TVNZ was reclassified as a crown entity (government organisation with a primarily social focus) and its subsidiary Transmission Holdings Limited (now Kordia Group Limited) was designated as a SOE, consistent with its primarily commercial focus. In 2005, three other crown entities were reclassified as SOEs, namely Animal Control Products Limited, Learning Media Limited, and Quotable Value Limited [Quotable Value] (SOE Act, 1986). Such changes reflect ongoing modifications to the initial SOE reforms in New Zealand, the background to which is presented below.

4.5 CONTEXTUAL BACKGROUND: NEW ZEALAND’S SOE SECTOR

Easton (1999, ¶1) notes “one of the greatest upheavals of the 1980s was the ‘corporatisation’ of the state owned enterprises”. During this time, the New Zealand Government embarked on a comprehensive public sector reform agenda. As part of these reforms, Government organisations with a strong trading function were corporatised as SOEs. While similar reforms were being undertaken in various countries, few implemented a reform program as comprehensively as New Zealand (Hood, 1991), involving national and local government organisations. This section focuses specifically on New Zealand’s SOE reforms, presenting a brief overview of the reforms, including the history to the reforms, SOEs’ regulatory environment, and contemporary issues in New Zealand’s SOE sector.

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5 Both NZ Railways and Transpower operate as monopolies with respect to their core business (maintaining New Zealand’s railway network and national power grid, respectively). However, both organisations also undertake a small amount of non-core business (e.g. consulting) in competitive markets.

Asure’s (now part of AsureQuality Limited) core business of meat inspection was essentially a service offered in New Zealand’s deregulated market. However regulations by overseas governments, such that overseas meat products will only be allowed for import if inspected by overseas government organisations, effectively excluded private sector companies from New Zealand’s export meat inspection market. Asure also conducted other business activities in competitive markets.
4.5.1 Relevant New Zealand History

New Zealand is considered a small, progressive country, and has a population of more than four million people. Maori are acknowledged as the indigenous people of New Zealand whose occupancy long preceded discovery of the land by Dutch explorer, Abel Tasman in 1642. European settlement occurred from the early 1800s, and a treaty between Maori and the British Crown – the Treaty of Waitangi - was signed in 1840. This treaty was essentially a device for the British to cede sovereignty to the Crown without conquest, and also acknowledged the rights of Maori. In 1854 the first New Zealand Parliament was established. Although conflict did occur between the European settlers and Maori, New Zealand ultimately became independent. It remains part of the British Commonwealth, with the British Crown being represented in New Zealand by a Governor General.

After decades of mostly Liberal and conservative Reform Governments, the Depression of the 1930s led to the election of the first Labour Government, which established a comprehensive welfare state and a protectionist economy (Rudd, 2001). New Zealand experienced increasing prosperity following World War II, with an economy supported by primary products such as wool, meat, and dairy. High demand for these products resulted in continued economic prosperity throughout the 1950s (Roper, 1993). During the 1970s, however, other factors such as unrest within the Maori community, increasing oil prices, and Britain joining the European Economic Community thereby affecting trade with New Zealand, led to a significant downturn in the economy. Prior to 1973, New Zealand’s living standards exceeded those in both Australia and Western Europe. Yet, changing social and economic events led to an economic crisis in New Zealand, during which its living standards fell dramatically. By 1982, New Zealand was the lowest ranking country based on per-capita income of the developed nations surveyed by the World Bank (National Review, 1994), and by the mid 1990s Government expenditure represented more than 40 per cent of GDP (New Zealand Treasury, 2007).

From the mid 1970s until the late 1990s, New Zealand faced a number of economic challenges and changes. During the 10 years from 1975-1984, the conservative National Government led by Robert Muldoon introduced a number of economic restrictions including a three year wage and price freeze, in an attempt to suppress high inflation. Extensive economic and social change then took place from 1984-1990 under the subsequent Labour Government; such changes commonly

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$^6$ 4,027,947 people as at 7 March 2006, based on official census records (Statistics New Zealand, 2008).
referred to as “Rogernomics” after the then Minister of Finance, Roger Douglas (Reid, 2001). Policies promoting free-market economic reform included the removal of industry subsidies and trade barriers, corporatisation and subsequent privatisation of public assets, deregulation of financial markets, floating of the New Zealand dollar, and a decrease in the top marginal tax rate from 66 per cent to 33 per cent (compensated to some extent by the introduction of goods and services tax at the rate of 10 per cent). The following National Government (1990-1999) continued to undertake major macroeconomic restructuring, transforming New Zealand from a highly protectionist and regulated economy to a liberalised free-trade economy. These changes of the 1990s, sometimes referred to as “Ruthanasia” after Minister of Finance Ruth Richardson, resulted in the reduction of social welfare benefits and allowances, the introduction of individual employment agreements, and the resulting loss of bargaining power by the trade unions (Trotter, 2001). A further change implemented by the National Government in 1993 was the introduction of a mixed member proportional (MMP) electoral system. This system is effectively two-tiered, such that each voter has two votes - a party vote and an electorate vote (Elections New Zealand, 2008). As a result, coalitions have been formalised between elected governments and various political parties since the mid 1990s to maintain a majority in Parliament. By way of example, Labour formed a coalition with the Alliance Party in 1999 (Executive Government, 1999), and subsequently formed a coalition with the Progressive Party in 2005 (New Zealand Government, 2005). More recently, the National Party was voted into office in November 2008, and formed a coalition with the ACT Party, the Maori Party, and the United Future Party. A summary of the changes in New Zealand Government since the mid 1970s is shown in Table 4.1 below.

A recession which began after the 1987 share market crash caused unemployment to reach 10 per cent in the early 1990s. However, the economy recovered and New Zealand’s economic performance improved with a gradual decrease in national debt, inflation, and unemployment, and an increase in GDP. In 1999 the Labour Party returned to power in New Zealand undertaking a number of small, relatively modest reforms which were broadly consistent with the free-market reforms of former Governments. By 2005 New Zealand’s net debt had decreased to 4.9 per cent of GDP (previously 49 per cent of GDP in 1992/1993), with repayments financed by consistent operating surpluses and proceeds from asset sales prior to 1999 (New Zealand Treasury, 2007). By 2006 New Zealand’s unemployment rate was ranked second lowest among the OECD nations (OECD, 2006).

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7 Later increased to 12.5 per cent on 1 July 1989 (Alley et al., 2005).
TABLE 4.1  CHANGES IN NEW ZEALAND GOVERNMENT SINCE THE MID 1970S

<table>
<thead>
<tr>
<th>Year</th>
<th>Government</th>
<th>Key features</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-1984</td>
<td>3rd National Government</td>
<td>• three year wage and price freeze</td>
</tr>
<tr>
<td></td>
<td>Robert Muldoon, Prime Minister</td>
<td>• high inflation</td>
</tr>
<tr>
<td></td>
<td>Robert Muldoon, Minister of Finance</td>
<td>• refusal to devalue New Zealand dollar, which was generally considered to be over-valued and adversely affecting the economy</td>
</tr>
<tr>
<td>1984-1990</td>
<td>4th Labour Government</td>
<td>• “Rogernomics”</td>
</tr>
<tr>
<td></td>
<td>David Lange, Prime Minister</td>
<td>• free-market economic reform</td>
</tr>
<tr>
<td></td>
<td>Roger Douglas, Minister of Finance</td>
<td>• removal of subsidies and trade barriers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• privatisation and market deregulation</td>
</tr>
<tr>
<td>1990-1999</td>
<td>4th National Government</td>
<td>• “Ruthanasia”</td>
</tr>
<tr>
<td></td>
<td>Jim Bolger, Prime Minister</td>
<td>• decrease in social welfare benefits and allowances</td>
</tr>
<tr>
<td></td>
<td>Ruth Richardson, Minister of Finance</td>
<td>• introduction of individual employment agreements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• loss of bargaining power for trade unions</td>
</tr>
<tr>
<td>1999-2008</td>
<td>5th Labour Government *</td>
<td>• relatively modest reforms consistent with policies of former Governments</td>
</tr>
<tr>
<td></td>
<td>Helen Clark, Prime Minister</td>
<td>• support for continued ownership of SOEs by Government</td>
</tr>
<tr>
<td></td>
<td>Michael Cullen, Minister of Finance</td>
<td></td>
</tr>
<tr>
<td>2008-</td>
<td>5th National Government*</td>
<td>• supports continued ownership of SOEs for first year in office</td>
</tr>
<tr>
<td></td>
<td>John Key, Prime Minister</td>
<td>• will review ownership of SOEs thereafter</td>
</tr>
<tr>
<td></td>
<td>Bill English, Minister of Finance</td>
<td></td>
</tr>
</tbody>
</table>

* Government formed with various coalitions

Despite this progress, New Zealand ranks in the lower half of OECD countries (20th out of 30 countries) in terms of GDP per capita (Ministry of Economic Development & New Zealand Treasury, 2006), and has focused on improving its performance in this area in recent years (New Zealand Treasury, 2006). One approach identified by Government for improving the country's OECD ranking is through the growth of SOEs. Specifically, in 2006, the New Zealand Government adopted a change in policy, encouraging SOEs to expand into related regions and markets. The following section presents an overview of New Zealand’s public sector, the SOE sector, and relevant sectoral reforms, before discussing some of the contemporary issues relevant to New Zealand’s SOEs.

4.5.2 NEW ZEALAND’S SOES

New Zealand’s public sector or government organisations include Parliament, the courts, police, and armed forces. Collectively, these organisations serve three main functions - legislative, executive, and judicial. These organisations, together with government departments which are publicly funded and directly responsible to a minister (and therefore Cabinet and Parliament) are referred to as New Zealand’s “core public service” (Mulgan, 1997a). Beyond the core public service, various other government departments and organisations are funded by the Government, but are not directly responsible to or controlled by the Government. Within this category are crown entities, SOEs, and other government-owned businesses (New Zealand Government, 2005). The term “crown entities” refers to quasi-autonomous organisations such as commissions, agencies, review committees and tribunals, which are established to exercise public power or
advise ministers outside the ambit of the central government. SOEs were essentially large trading departments within government which were subsequently corporatised and established as separate legal entities. Thus SOEs are a particular form of government organisation, often established with a strong commercial focus. Other government-owned businesses are those outside the scope of crown entities and SOEs, but which have a significant crown shareholding (e.g. Christchurch International Airport).

During the 1980s, New Zealand’s public sector witnessed significant change, with the intention of making government organisations more effective (Mulgan, 1997a). As noted previously, these reforms were introduced in response to various social and economic issues including increased public spending and a lagging economy. Such reforms were consistent with an international trend in public sector management, intended to align management of public sector organisations with that of private sector organisations (Martin, 2003). Hence, this new approach focused on emphasising results and outcomes, together with effective use of public sector resources. Three principal acts governing the state sector reforms are the State-Owned Enterprises Act 1986 which transformed government trading departments into commercial entities, the State Sector Act 1988 which substantially altered employment in the public service, and the Public Finance Act 1989 which established responsibilities and reporting procedures within government organisations (Levine & Harris, 1999). Such reforms have continued, with recent amendments to these acts, as well as the introduction of the Crown Entities Act 2004.

As part of these reforms various government departments with a strong trading function were corporatised and held as SOEs or privatised, on the premise that such services could be more efficiently provided by commercially orientated organisations, rather than subject to ministerial control and Government interference. Some departments such as the Government Printing Office and Post Office were disbanded, and specific trading activities within those departments were undertaken by newly incorporated SOEs. In the case of the Post Office, for example, three separate SOEs were established, being NZ Post, Post Bank Limited, and Telecom New Zealand.

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8 Significant Government reforms were also undertaken in the local government sector, with major reductions in the overall numbers of local government organisations, and operational reforms which in part, mirrored those occurring in the wider public sector. Specifically, provision was made for Local Authority Trading Enterprises [LATEs], somewhat similar to SOEs, to operate with a profit-making focus, a policy-administration split, and increased accountability (McKinlay Douglas Ltd, 1998).
A listing of the 17 SOEs operating in New Zealand as at 1 March 2006 (being the date this study commenced) is detailed in Table 4.2 below.

**Table 4.2 New Zealand’s SOEs as at 2006**

<table>
<thead>
<tr>
<th>Company name</th>
<th>Industry/ Core Business</th>
<th>Total assets* $m</th>
<th>Profit p.a.^ $m</th>
<th>Dividends p.a.# $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgriQuality Ltd (AgriQuality)</td>
<td>Biosecurity services</td>
<td>54.6</td>
<td>2.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Airways Corporation of New Zealand Ltd (Airways)</td>
<td>Air traffic control services</td>
<td>125.2</td>
<td>7.9</td>
<td>8.8</td>
</tr>
<tr>
<td>Animal Control Products Ltd (ACP)</td>
<td>Pesticide manufacturer</td>
<td>5.0</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Asure New Zealand Ltd (Asure)</td>
<td>Meat inspection</td>
<td>18.6</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Genesis Power Ltd (Genesis)</td>
<td>Energy generation</td>
<td>2,041.5</td>
<td>68.7</td>
<td>18.4</td>
</tr>
<tr>
<td>Landcorp Farming Ltd (Landcorp)</td>
<td>Farming</td>
<td>1,379.6</td>
<td>25.3</td>
<td>14.6</td>
</tr>
<tr>
<td>Learning Media Ltd (Learning Media)</td>
<td>Developer of educational products</td>
<td>14.9</td>
<td>.7</td>
<td>.1</td>
</tr>
<tr>
<td>Meridian Energy Ltd (Meridian)</td>
<td>Energy generation</td>
<td>5,339.3</td>
<td>280.3</td>
<td>259.3</td>
</tr>
<tr>
<td>Meteorological Service of New Zealand Ltd (MetService)</td>
<td>Weather forecasting</td>
<td>16.3</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Mighty River Power Ltd (Mighty River Power)</td>
<td>Energy generation</td>
<td>2,708.4</td>
<td>96.5</td>
<td>30.6</td>
</tr>
<tr>
<td>New Zealand Post Ltd (NZ Post)</td>
<td>Postal services</td>
<td>3,733.8</td>
<td>58.0</td>
<td>23.7</td>
</tr>
<tr>
<td>New Zealand Railways Corporation Ltd (NZ Railways)</td>
<td>Transport</td>
<td>394.3</td>
<td>31.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Quotable Value Ltd (Quotable Value)</td>
<td>Property valuation services</td>
<td>15.0</td>
<td>1.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Solid Energy New Zealand Ltd (Solid Energy)</td>
<td>Energy generation</td>
<td>441.0</td>
<td>44.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Timberlands West Coast Ltd (Timberlands)</td>
<td>Forestry</td>
<td>64.4</td>
<td>-1.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Transmission Holdings Ltd (Transmission Holdings, now Kordia Group Ltd)</td>
<td>Transmission services</td>
<td>205.6</td>
<td>12.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Transpower New Zealand Ltd (Transpower)</td>
<td>Energy infrastructure provider</td>
<td>2,888.3</td>
<td>93.1</td>
<td>36.9</td>
</tr>
</tbody>
</table>

* Asset numbers are for the 2006 year, based on SOEs’ annual reports.  
^ Profit amounts represent 5 year averages for the period 2002-2006.  
# Dividend amounts represent 5 year averages for dividend payments during the period 2002-2006. Given that dividends are based on cash payments and profits are recorded for a particular reporting period, there may be some disparity between the timing of dividend payments and the profits to which those payments relate. Thus, time lags and accounting regulations which may require income from a transaction to be recognised over a number of years, means these numbers are not directly comparable.  
Nb. Where a company has not operated as a SOE for the full 5 years, average numbers are adjusted accordingly.

The rationale for the SOE reforms was the inefficiency of government (or government departments) as a provider of commercial services, due to protection from the discipline of a free market economy, often operating in a monopolistic environment, with the availability of on-going financial support from central government. Mulgan (1997a) also raises the issue however, that as

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Subsequent changes to this list as at March 2009 (being the date this thesis was finalised) include the change of name from Transmission Holdings Limited to Kordia Group Limited on 22 March 2007, and the merger of AgriQuality Limited and Asure New Zealand Limited to form AsureQuality Limited on 1 October 2007 (SOE Act, 1986).
government departments their business operations were often required to include non-commercial and social objectives, which were inconsistent with otherwise commercial choices. Thus, corporatisation provided a viable solution for these departments to become both efficient and profitable, enabling freedom of commercial choice and responsibility for commercial results.

Specifically, Section 4(1) of New Zealand’s State-Owned Enterprises Act 1986 provides:

The principal objective of every State enterprise shall be to operate as a successful business and, to this extent, to be
(a) As profitable and efficient as comparable businesses that are not owned by the Crown; and
(b) A good employer; and
(c) An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavours to accommodate or encourage these when able to do so.

Key features of New Zealand’s SOE reforms included self-funding obligations, separation SOE of management and the State, the role of Government as purchaser of outputs rather than provider of inputs, and performance based contracts and rewards (Brash, 1996). Other features included the appointment of experienced executives often from the private sector to lead SOEs as chief executives, deregulation of markets such that SOEs were forced to compete against private sector organisations, and express profit-making requirements intended to result in increased accountability for both competitive services and commercial results.

The State-Owned Enterprises Act 1986 allows for the provision of both commercial and non-commercial services. Specifically, Section 7 of the Act enables the Government to purchase services which would not otherwise be offered, on the basis that they are considered to be non-commercial or unprofitable. Thus, any non-commercial activities must be transparent, and funded on a fee for service basis by the Government (e.g. NZ Railways’ public safety education campaigns). Other commercial services can be undertaken at a SOE’s discretion, similar to private sector organisations, and are not in general, subject to price controls or other restrictive Government regulations. As registered companies, however, SOEs are subject to the Companies Act 1986, as well as other relevant legislation and industry regulations. By way of example, Transpower is answerable to New Zealand’s Commerce Commission and Electricity Commission, the later imposing revenue restrictions on Transpower in 2005.\(^{10}\)

\(^{10}\) The restrictions, calculated by reference to the consumer price index less one per cent, were viewed as unreasonable by Transpower, given its future investment plans. Transpower refused to comply with these
SOEs are expected to pay regular dividends to the Crown, based on their surplus cash balance available. This payment is negotiated regularly between individual SOEs and the Government. Funding requirements, in addition to the amount of capital contributed by Government, are the responsibility of individual SOEs, and typically represented by debt financing from private sector institutions on commercial terms\(^1\). The Government expects SOEs to have a balance of debt and equity funding, and SOEs’ debt to equity ratios are reviewed regularly by the Government.

According to then Minister of Finance, Michael Cullen (2003a), the original intention of the reforms was that SOEs would be prepared for privatisation. Approximately half of the government departments initially corporatised in New Zealand were subsequently privatised. Such organisations include Air New Zealand Limited, Bank of New Zealand Limited, New Zealand Steel Limited, and Telecom New Zealand Limited, each of which have had varying degrees of commercial success and public support (or dissent). Table 4.3 below presents a summary of post-privatisation performance for various organisations privatised in New Zealand.

Views on the success of New Zealand’s privatisation program are mixed. As noted by Gaynor (1999), with respect to the Government’s main objective of repaying increasing public sector debt, the program was reasonably successful. From 1987 to 1999, public sector foreign debt decreased from a high of $26.3 billion to $17.4 billion. As detailed in Table 4.3, however, a number of privatised companies subsequently failed financially. In 1989, Bank of New Zealand recorded the biggest loss in New Zealand history (Weir, 1995). In 2001, Air New Zealand was placed into voluntary liquidation following a series of losses arising from unsustainable growth (Air New Zealand, 2008). In both cases, the Government, faced with the potential collapse of each company, and the related implications for investors and the respective industries, intervened with financial rescue packages. Financial assistance of $600 million was provided to Bank of New Zealand in 1989 (Weir, 1995). A further $885 million was provided to Air New Zealand in 2001 (Rochfort, 2004). In the case of New Zealand Railways, privatisation of the rail network led to poor service and continued under-investment, such that the Government repurchased the poorly maintained rail network for $1 in 2003 (Luke, 2008b).

\(^1\)The establishment of Kiwibank by NZ Post in 2001 is one exception, whereby the Government agreed to provide additional capital of $72.2 million as start-up funding (New Zealand Government, 2001).
TABLE 4.3  NEw ZEALAND’S PRIVATISED FORMER PUBLIC SECTOR COMPANIES:
POST-PRIVATISATION PERFORMANCE

<table>
<thead>
<tr>
<th>Company</th>
<th>Year privatised</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air New Zealand Limited [Air NZ]</td>
<td>1989</td>
<td>• New Zealand’s national air carrier, sold to a consortium in 1989 for $660 million, and subsequently listed on the New Zealand Stock Exchange (NZX)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• purchased 50% of Ansett Holdings in 1996, and later purchased the remaining 50% in 2000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• placed into voluntary administration in 2001 following a series of losses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• recapitalised in 2002 following a substantial capital injection by the New Zealand Government, with the Government effectively acquiring a controlling interest in the company and designating it as a crown entity (Air NZ, 2008)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• profit after tax for the year ended 30 June 2007: $214 million ($96 million in 2006) (Air NZ, 2007)</td>
</tr>
<tr>
<td>Bank of New Zealand Limited [BNZ]</td>
<td>1987</td>
<td>• experienced financial trouble in 1987 due to stockmarket crash, and unsuccessful expansion efforts, and subsequently listed on the NZX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government reduced its shareholding to 51%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government rescue package of $600 million required to avoid the collapse of BNZ (Weir, 1995)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• BNZ subsequently purchased by National Australia Bank Group in 1992 (BNZ, 2008)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• profit after tax for the year ended 30 September 2007: $683 million ($605 million in 2006) (BNZ, 2007)</td>
</tr>
<tr>
<td>National Film Unit</td>
<td>1990</td>
<td>• sold and renamed Park Road Post Limited, a post production facility, by purchaser WingNut Films, a production company owned by Peter Jackson (director of Lord of the Rings and King Kong, both of which won Academy Awards for best sound mixing) (Park Road Post, 2008)</td>
</tr>
<tr>
<td>New Zealand Rail Limited</td>
<td>1993</td>
<td>• sold to a consortium of companies for $328 million, subsequently renamed Tranz Rail</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• listed on the NZX in 1996 (NZ Treasury, 1999)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• awarded the Roger Award on three occasions for the worst transnational corporation operating in New Zealand due to poor safety standards, inadequate maintenance, asset stripping, and insider trading (Roger Awards, 2003)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• rail network repurchased by the Government in 2003 for $1 (NZ Railways, 2008)</td>
</tr>
<tr>
<td>New Zealand Steel Limited</td>
<td>1987</td>
<td>• acquired by Equitcorp, which subsequently went bankrupt during the stockmarket crash of 1987</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• subsequently acquired by Helenus Corporation, and later controlled by BHP (now Bluescope Steel) before being listed on the NZX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• became the biggest site employer in New Zealand with 1,300 staff and 200 contractors (New Zealand Steel, 2008)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bluescope Steel Group profit after tax for the year ended 30 June 2007 was $703 million ($343 million in 2006) (BlueScope Steel, 2007)</td>
</tr>
<tr>
<td>Petroleum Corporation of New Zealand Limited</td>
<td>1988</td>
<td>• former SOE involved in petroleum exploration activities, and a partner in the Maui gas field venture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• sold to New Zealand Company Fletcher Challenge, and listed on the NZX (NZ Treasury, 1999)</td>
</tr>
<tr>
<td>State Insurance Limited</td>
<td>1990</td>
<td>• formerly the State Fire &amp; Accident Office, State Insurance Limited was purchased by Norwich Insurance for $735 million (NZ Treasury, 1999)</td>
</tr>
<tr>
<td>Telecom Corporation of New Zealand Limited</td>
<td>1990</td>
<td>• former division of the New Zealand Post Office, privatised and later listed on the NZX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• former monopoly which some view was undervalued in the sale by Government (Gaynor, 1999)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• subject to significant controversy due to poor service, monopoly of local-loop phone lines, and accusations of unfair and anti-competitive activity (NZ Herald, 2008a)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• awarded the Consumer Institute’s ‘supreme ass award’ for bad products regarding its broadband service (Steward, 2007)</td>
</tr>
<tr>
<td>Terralink New Zealand Limited</td>
<td>2001</td>
<td>• former SOE placed into receivership in 2001 due to sustained losses (Weir, 2001)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• subsequently purchased by a consortium of private investors</td>
</tr>
</tbody>
</table>


Further criticism of New Zealand’s privatisation program relates to gains made by foreign investors, and the resulting outflow of funds from New Zealand. In particular, Gaynor (1999) notes foreign investors who purchased shares in Telecom New Zealand and Bank of New Zealand (after being rescued by the Government) accrued gains of more than $2 billion from increased share prices. Specifically, gains of $3.2 billion were made by each of Telecom New
Zealand’s original two investors (Ameritech and Bell Atlantic), and $2 billion was made by Bank of New Zealand’s investor, National Australia Bank. In addition, continued payment of dividends to overseas investors has had an ongoing negative impact on New Zealand’s balance of payments. From 1990 to 1999, Telecom has paid dividends of $5.5 billion and made capital repayments of $1.5 billion, most of which have gone offshore (Gaynor, 1999).

In 1999, the election of New Zealand’s 5th Labour Government led to the introduction of a long-term hold policy, such that SOEs would remain in state hands. Accordingly, while minor changes to the SOE portfolio have been made in recent years, no significant changes in the portfolio of the 17 SOE operating in New Zealand as at 2006 were expected under the incumbent Labour Government. Within opposition parties, however, privatisation remained a topical issue, and one which was regularly debated in the public domain. In 2008, John Key, leader of the National Party continued National’s history of favouring privatisation. However, in the lead up to the 2008 election, Key showed caution with respect to privatisation, noting he would not rule out privatisation if elected, but would also listen carefully to the views of the New Zealand public (New Zealand Herald, 2008b).  

Despite the criticisms, the reorganisation of the public service with respect to SOEs is largely viewed as successful, resulting in increased efficiency of services to the public. Mulgan (1997a) and Spicer, Powell, and Emmanuel (1997) view the reforms as successful, particularly with respect to the initial objectives. Others such as Easton (1999, ¶8) take a more critical view of the reforms. “There is a lot of evidence that the corporatisation of SOEs gave some benefits, especially in financial productivity, but there is very little that there was an overall benefit to the economy”. Scott (2001) notes that while the policy relating to SOEs has been very successful in terms of the objectives that were initially set, the policy has not done well in areas where it was subsequently applied without the necessary conditions (e.g. freedom from political interference). Mulgan (1997a) contends it is too early to determine whether such restructuring has been successful. Key issues identified by Mulgan which are beyond the scope of immediate financial performance and customer satisfaction, include public accountability which no longer formally rests with the Government in relation to privatised organisations, and resulting loss of protection

12 Key subsequently won the November 2008 election and became Prime Minister of New Zealand. However there had not been any definitive change or significant announcements with respect to SOE policy by March 2009 (being the date this thesis was finalised), other than confirming the new National Government would not sell state assets during its first term in office.
for the people of New Zealand if privatised organisations fail to establish successful ongoing operations with an adequate standard of service. Thus while there is limited criticism of the SOE reform process, uncertainties remain.

As indicated above, a number of terms and conditions are considered central to the success of New Zealand’s SOE reforms. The following section (Section 4.5.3) presents an overview of the regulatory framework governing SOEs, which is intended to preserve the benefits of the reforms and provide a safeguard against future uncertainties. This overview is followed by a brief review of some of the contemporary issues relevant to the SOE sector in New Zealand (Section 4.6).

**4.5.3 SOEs’ REGULATORY ENVIRONMENT**

While the intention of the SOE legislative framework is that individual SOEs are given independence and freedom to manage, there is a clear regulatory framework involving a number of parties. In each SOE there are two shares, one held by the Minister for SOEs and the other held by the Minister of Finance, on behalf of the Crown. These Ministers also have independent advisors – New Zealand Treasury [Treasury] for the Minister of Finance and the Crown Company Monitoring Advisory Unit [CCMAU] for the Minister for SOEs, and are accountable to Parliament for performance of their duties. Treasury primarily advises on SOEs’ financial performance, economic issues, and balance sheet matters. CCMAU focuses on commercial and performance matters (J. Andre, New Zealand Treasury, personal communication, June 30, 2006; CCMAU, 2007).

Consistent with the SOE framework, Ministers are intended to have an advisory role, but not interfere with SOEs’ operations. Individual SOEs are governed by a Board of Directors appointed by the shareholding Ministers. SOE Boards typically have seven to nine directors, who are appointed based on their business skills and experience (CCMAU, 2008). Directors have a number of responsibilities under the SOE Act 1986, including the duty to act in the best interests of the company (CCMAU, 2007). In general, directors are appointed for a period of three years, and may then be reappointed for a second three year term.

Areas of SOE accountability include annual audits undertaken by the Auditor General, answering to Parliamentary Select Committees, reviews and inquiries conducted by CCMAU, Treasury, and relevant portfolio ministers. SOEs are required to submit a Statement of Corporate Intent to Government on an annual basis, as well as half-yearly and annual reports outlining proposed
plans and past performance. Consistent with the Government’s “no surprises” policy, SOEs also maintain regular contact with Government ministers to inform and consult with them on intended future activities (Cullen, 2003a). Thus, a clear reporting framework exists for the SOE sector.

While researchers and commentators in New Zealand are somewhat reserved or measured in their views on the success of New Zealand’s SOE reforms, evaluation and assessment of New Zealand’s reforms from abroad indicates extensive support. Hood (1991, p. 6) refers to New Zealand’s NPM reforms as unique in “producing an analytically driven NPM movement of unusual coherence”. Polidano (1999) notes New Zealand’s reforms are a clear example of NPM, involving a systematic approach. O’Flynn (2007) refers to New Zealand as an exemplar of NPM, breaking from the bureaucratic paradigm of public administration. Khaleghian and Das Gupta (2005, p. 1084) view New Zealand as a “poster country” for NPM with the sweeping reforms of the 1980s. Further, various foreign governments have visited New Zealand to learn from its SOE sector reforms and success (Cullen, 2003a).

Despite this support, however, debate continues to resurface in New Zealand on the future of SOEs (Bennett, 2007; James, 2002; Oliver, 2007). Outlining its position on the debate, New Zealand’s Labour-led Government announced an intention not to prepare further SOEs for sale upon being elected into office (Clark, 1999), and subsequently introduced a “long-term hold” policy (Cullen, 2003a). This policy provided a definitive view on the Government’s stance on the corporatisation versus privatisation debate, and gave assurance to SOEs that they would continue to operate under government ownership and could plan accordingly. More recently, a number of developments in SOE policy have emerged, resulting in new direction and debate. These developments are outlined below.

4.6 Contemporary issues in the SOE sector

In 2006, Trevor Mallard, New Zealand’s then Minister for SOEs, announced a change in policy for SOEs, encouraging them to broaden the scope of their business operations into complementary markets and regions. “SOEs will be encouraged to expand into new areas of business that are linked to what they already do” (Mallard, 2006a, ¶2). Reinforcing the New Zealand Government’s “long-term hold” policy, and aiming to quash the Opposition Party’s promotion of privatisation, Mallard (2006a, ¶4) commented:

New Zealanders have agreed that we should keep state assets in public hands. But that does not mean that they should not be put to work for us. They’re big commercial
operations and that's why they're perfectly placed to play a key role in helping to change New Zealand into an innovative, high-wage, and high-value economy.

In anticipation perhaps, of inevitable concerns regarding the potential financial risks relevant to SOE expansion, Mallard also presented a framework outlining criteria for new projects, thereby addressing concerns of unnecessarily risky behaviour. “There are risks, and the government is not about to play fast and loose with taxpayer assets” (Mallard, 2006a, ¶9). The four point criteria for diversification included:

1. effective utilisation of existing core competencies into adjacent technologies, products, and markets;
2. demonstrated potential to the competitive competencies of other firms and industries;
3. diversification financed from SOEs’ existing balance sheets; and
4. robust evaluation processes, explicit performance indicators, and clear exit routes for non-performing ventures (Mallard, 2006a).

While the announcement generated varied responses (ACT New Zealand, 2006; Kerr, 2006; Small, 2007), individual SOEs generally viewed the idea as positive and consistent with their existing operations. Meanwhile, alternative views on management of the SOE sector continue to emerge, including partial privatisation, joint ventures facilitating public-private partnerships, and the issue of non-voting shares such that SOEs represent opportunities for investment both for the Government and the general public (Bennett, 2007; Coote, 2007; Weldon, 2006). Such discussion perhaps reinforced the Labour Government’s view that the era of pure privatisation in New Zealand is “truly over” (Cullen, 2003b), and is important for a number of reasons. First, it represents the importance of SOEs to the New Zealand economy with respect to their significant asset base, profits, and dividend payments (refer to Table 4.2). And second, it reflects the success of various SOEs which have been publicly recognised for incidences of entrepreneurial and strategic activity13. Such activity is not without controversy, and has been both criticised and commended. By way of example, Meridian Energy’s investment in an overseas power station was criticised for the investment of funds (more than $800 million) which could have been used to improve New Zealand’s troubled electricity industry (Kerr, 2006), but also commended for the resulting profits (more than $600 million) arising from the sale of that investment (Steeman, 2006; Thomas, 2006). Essentially, however, incidences of entrepreneurial and strategic activity have been noted in relation to a number of SOEs, and thus provide a very valuable focus for the study.

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13 As noted previously, while the New Zealand Government changed in November 2008, following the National Party’s victory over the Labour Government, there had not been any changes made to SOE policy as at 1 March 2009.
of the financial returns from NPM, entrepreneurial and strategic activity in government (or more specifically NPE), and the financial returns from NPE.

Against this background, entrepreneurial and strategic activity is examined within 12 of the 17 SOEs operating in New Zealand in 2006. Each of these organisations was corporatised as a SOE as part of the Government reforms introduced in the 1980s. As at 2006, each of these organisations continued to operate on that basis, with a strong commercial focus. Accordingly, research and related findings on these organisations have been considered and evaluated in the context of government organisations which operate with a deliberate commercial focus in the context of New Zealand’s political system.

4.7 SUMMARY
An examination of entrepreneurship in government reveals a number of attitudes and approaches. While some view entrepreneurship as having no place in the public sector, others contend such a role does exist in the form of policy-making, privatisation of public sector organisations, and practice within those organisations which remain in public hands. Strategic entrepreneurship, as a more structured and measured approach to entrepreneurship potentially represents a very valuable concept in the context of a traditionally risk-averse public sector; however little attention has focused on this area to date. An examination of the theoretical foundations of NPM and SOEs reveal significantly more attention has focused on these areas in the last 20 years, with New Zealand’s SOE reforms being recognised as a prime example of NPM. Accordingly, in order to progress the development of research in these areas, this study specifically examines strategic entrepreneurship in the context of New Zealand’s SOEs. How this examination was conducted, together with the underlying theoretical rationale, is the focus of the following chapter.
CHAPTER 5
RESEARCH METHOD

5.1 INTRODUCTION
As noted previously, research on strategic entrepreneurship remains in the very early stages of development with a clear emphasis on conceptual frameworks (Ireland et al., 2003; Ireland & Webb, 2007). Accordingly, this study was designed to encompass both theoretical and practical perspectives, reviewing the literature on strategic entrepreneurship to develop a preliminary framework, and subsequently examining that framework in the context of state-owned organisations which have conducted activity recognised as both entrepreneurial and strategic. As such, the research question of “What are the underlying elements and financial implications of strategic entrepreneurship in the context of New Zealand’s SOEs?” underpins this study.

This methods chapter details the research approach adopted (Section 5.2), outlining the underlying epistemological and ontological paradigms and perspectives from which this research is conducted. Section 5.3 presents the case study approach which is central to this research, providing details of the case study participants and overall research design. An overview of the main data sources is then presented (Section 5.4), together with details relating to the analysis and presentation of the data (Section 5.5). Last, information is presented on reliability and validity (Section 5.6), and the ethical issues of this study (Section 5.7).

5.2 RESEARCH APPROACH
This study primarily considers strategic entrepreneurship within an interpretivist paradigm (Putnam, 1983), providing the opportunity to identify, interpret, and translate the elements which collectively constitute strategic entrepreneurship. By examining activity recognised as both entrepreneurial and/or strategic in 12 of the then 17 SOEs operating in New Zealand, a hermeneutic approach was taken, focussing on refining the understanding of strategic entrepreneurship as a situated event (Geertz, 1975). Essentially, a hermeneutic approach, similar to Weber’s (1947) notion of “Verstehen”, involves identifying the underlying themes and meanings through the analysis process (Bryman & Bell, 2003), considering both the historical and social context. This approach supports the view of strategic entrepreneurship as a complex phenomena to be examined and understood (Husserl, 1964), and as a social construction within the context of the business environment (Schutz, 1962).
To the extent that this study uses a conceptual framework of strategic entrepreneurship as a foundation for identifying such activity in practice, and then examines strategic entrepreneurship for the purposes of developing or refining theory, it may be viewed as partially positivist in nature (Eisenhardt, 1989; Kuhn, 1970). Essentially, however, the focus of this research is to gain insight into the underlying elements and financial outcomes of strategic entrepreneurship through a process of data identification, analysis, and interpretation, based on the experiences and perspectives of SOE executives. Accordingly, interpretivism lies at the core of this study.

Christensen (2006) suggests theory development happens in two stages, namely a descriptive and a normative stage. By exploring and progressing the development of strategic entrepreneurship, this study focuses on the descriptive stage, using the three step process of observation, categorisation, and association. Thus, the scope of the study involved “observing” strategic entrepreneurship in SOEs, identifying and categorising its defining characteristics, and explaining its association with financial performance and economic growth. Schumpeter (1954) in particular, notes the importance of the descriptive stage, referring to the need for intimate collaboration of theory and observation, and the development of theory through observations over time: an adequate command of historical facts, an adequate sense of historical experience, to develop theory explaining the observations made before proceeding to empirical testing. This view lies between the interpretivist and functionalist approaches or paradigms (Pittaway, 2005), indicating the importance of both subjectivity and contextualism.

To the extent that established theory on strategic entrepreneurship is challenged, and anomalies between theory and practice are exposed, this research contributes to the development of both theoretical knowledge and practical understanding (Walliman, 2001). Yet, as an interpretive study, both personal understanding and subjectivity are inherent (Cohen et al., 2000). While this view is acknowledged, awareness of such issues was an important aspect of the study, reflected in various aspects of the research design (e.g. in-depth case study approach, triangulation of data from multiple sources, and inclusion of excerpts directly from interviews, as detailed in Section 5.4). Such aspects were deliberately incorporated to ensure a detailed and systematic approach to data collection, analysis, and presentation, allowing readers to form their own assessments of the findings and conclusions drawn (Eisenhardt, 1989; Stake, 2004). Within the interpretivist approach, a range of research methods are available. Given the nature of the research question and the limited scope of research specifically undertaken in this area however, a qualitative design using case study analysis was considered particularly valuable (Eisenhardt, 1989; Yin,
The following section presents an overview of the research design and methods used, together with the rationale for selection.

### 5.2.1 Combining Qualitative and Quantitative Research

On the basis that research on strategic entrepreneurship remains in the very early stages of identifying, defining, and understanding this concept, qualitative research was considered the appropriate choice (Schumpeter, 1954; Stake, 2004; Yin, 1993) to explore strategic entrepreneurship’s underlying elements. With respect to the financial implications of strategic entrepreneurship, however, basic quantitative analysis was also considered necessary to begin to examine the financial and economic implications of such activity in practice. The benefits of combining these two research approaches, referred to as “inquiry from the inside” and “examination from the outside” (Evered & Louis, 1981, p. 385), are promoted by various researchers (Bryman & Bell, 2003; Davidsson, 2006; Greene, Kreider & Mayer, 2005), and are considered in further detail below.

A qualitative approach provided the opportunity to address the how and why questions relating to the phenomena of strategic entrepreneurship, probing, examining, and conducting detailed investigation (Cohen et al., 2000). Rich data, thick description, and a greater depth of analysis were enabled through this approach (Denzin, 1970; Geertz, 1973), such that a fuller understanding of strategic entrepreneurship might be obtained through the insights and experiences of SOE executives. Hence, this approach allowed strategic entrepreneurship to be examined not simply as an object with specific properties in precise measurements, but as a complex subject and concept to be explained and understood (Allan, 1991).

In addition to the qualitative aspect of this study, a deliberate focus on quantitative data was also incorporated in order to evaluate the financial implications of entrepreneurial and strategic activity. Thus, the use of quantitative data primarily from audited financial statements provided the benefit of integrating multiple data sources, as well as a more objective form of data (Bryman & Bell, 2003), thereby facilitating comparative analysis in quantifiable terms. While Davidsson (2006) notes the difficulties of examining the financial and economic benefits of entrepreneurship, he also acknowledges such measures as two of the most appropriate, given the view of entrepreneurship as an activity or behaviour that drives the market process. Thus, enhanced insight and clarity through measurement of direct (financial) and extended (economic) fiscal implications, represents an important development in strategic entrepreneurship research. The
synergy created from combining the two types of data provided a more complete picture or rounded view of strategic entrepreneurship (Greene et al., 2005), and was used to construct case studies on the relevant activities within each organisation.

5.2.2 Role of Theory in this Research

As noted by Blaikie (1995), the relationship between theory and research is such that theory shapes research undertaken, and is subsequently shaped by it. In the context of this study, the author’s Masters research previously undertaken on entrepreneurial and strategic activity within three SOEs provided interesting insight into strategic entrepreneurship within a limited number of cases, and also highlighted a broader range of research questions relevant to the SOE sector in general (Luke, 2005; Luke, 2008a). Accordingly, this study began by returning to the literature on entrepreneurship, strategy, and strategic management, to review prior findings in each of these areas and develop a more refined conceptual framework of strategic entrepreneurship (presented in Chapter 2). Similarly, literature on financial performance and public sector management was also reviewed to consider how the financial implications of strategic entrepreneurship might be examined, and what specific issues might be relevant to strategic entrepreneurship in a public sector context. Thus, preliminary conclusions and specific research questions were formed based on a review of theory, prior to any formal data collection, and used as a basis for comparison with and critical evaluation of alternative strategic entrepreneurship frameworks presented in the literature. While the framework developed was considered to build on and add to previous studies focusing on the concept of strategic entrepreneurship, it was also acknowledged as incomplete, and lacking detail in areas. Accordingly, the framework was used as a guide or starting point from which to explore strategic entrepreneurship in practice, within the context of individual SOEs. Primary and secondary data relating to activity within those SOEs was then used as a basis to refine the framework developed, providing further insight into strategic entrepreneurship based on both theory and practice.

With respect to the distinction between deductive and inductive research, Blaikie (1995) refers to the research process and where that process begins. As such, this research may be viewed as primarily deductive in nature by drawing on theory (based on the initial phase of the study), but also incorporated an inductive approach by identifying emergent findings contributing to theory in the second phase of the study (being formal data collection). A deductive approach is also evident from the development of a conceptual framework drawn from theory, and the reasoning from which that framework was formed. This approach is consistent with Low and MacMillan’s
(1988) call for more experimental and theory-driven designs within entrepreneurship research, such that underlying elements and causality are pursued more aggressively, with theoretical concepts put forward and tested. Thus, deductive reasoning was incorporated within this research through a combination of analysis and interpretation of both theory and practice, and subsequently drawing conclusions from the findings.

In the latter stage of the research, however, an inductive approach also applied, to the extent that data collection and analysis identified and uncovered findings not expected nor previously considered, thereby contributing to theory. While both processes were undertaken with objective intent using systematic procedures (Allan, 1991; Eisenhardt & Graebner, 2007), essentially one was aimed at examining practical findings for the purposes of comparison with developed and established theory, while the other was focused on examination of practical findings to uncover and reveal elements for which no prior theoretical expectations had been established. Thus, while certain themes, predominantly entrepreneurial, were apparent from the literature review and the interview questions, findings on other aspects (e.g. the way in which key strategic resources and competencies were leveraged, the concept of NPE) were uncovered inductively. As such, this study was both shaped by theory, and contributed to its further development. Importantly, however, within both approaches the data collected were examined with an open mind as to what might be found (Eisenhardt & Graebner, 2007; O’Hear, 1989), using structured instruments and techniques (detailed in Sections 5.4 and 5.5).

The notion of objective intent is an important feature of this study. As noted by Anderson (1977), researchers and readers alike bring their own conceptual structures or schemata to a case. Through the process of data collection and analysis, however, there must be disciplined interpretation (Stake, 2004) to provide grounds for validating both observation and theoretical generalisation. Thus, the primary focus of this study was not to make the data fit the preliminary framework, but to understand and learn from the case study data (Stake, 2004). This understanding related both to the preliminary framework, as well as extending beyond it into areas such as the strategic aspects and public sector context of strategic entrepreneurship. Malinowski (1984) in particular draws a distinction between a closed mind and an idea of what to look for, highlighting that conceptual frameworks are not necessarily burdensome, provided theory is moulded to the findings of a study rather than vice versa. This approach is consistent with Eisenhardt’s (1989) notion of theory building from case study research, whereby analysis may be guided but not limited by conceptual frameworks. Such was the approach taken within
this research, linking data analysis and findings to theory, both derived from the literature and emergent.

A combined view of both deductive and inductive research, drawing on theory and contributing to it through emergent findings, has gained increasing recognition, as the interrelatedness and reciprocal nature of the two approaches is acknowledged (Hempel, 1966; Wallace, 1971). Essentially, a combination of the two approaches was adopted in this research, helping to balance and address the criticisms relating to each, such that observation influenced deductive logic, and deductive logic was then formalised through observation.

5.3 CASE STUDY ANALYSIS

Central to this research are case studies on activity in New Zealand’s SOEs. Given the complexity of strategic entrepreneurship and the very limited applied research on this topic, a case study approach provided a valuable opportunity to collate and analyse data using a range of research methods and techniques which encompassed multiple views (Eisenhardt, 1989), lenses (Yin, 1993), and perspectives (Denzin & Lincoln, 1998). Thus, Denzin and Lincoln (1998) refer to case study research as a form of bricolage, piecing together data from multiple methodologies to obtain a clearer picture of the research topic.

Benefits associated with a case study approach include the opportunity to examine strategic entrepreneurship in detail, thereby obtaining what has been described as a more complete or rounded understanding of that phenomena (Birley & Moreland, 1998). Thus, case study analysis was undertaken in an attempt to capture the unity or wholeness of strategic entrepreneurship (Mitchell, 1983), to describe and understand both the concept and its environmental context in depth, and to afford attention to the subtleties and complexities relevant to each activity and SOE. This form of research allowed data to be presented in a manner such that individual readers could make their own assessments on the findings and implications of the study (Adelman, Jenkins, & Kemmis, 1984; Eisenhardt, 1989). Further, the case study approach provided the opportunity to place events in a social, economic, and historical context (Rose, 1991). This contextualisation is particularly important given the New Zealand setting of a small, progressive economy which has openly embraced NPM (Eggers, 1999; Osborne & Plastrik, 1997).

Examining activity recognised as entrepreneurial and strategic within SOEs not only provided the opportunity to consider the relationship and interaction of those elements within the concept of
strategic entrepreneurship, but also the relationship between strategic entrepreneurship and its context - the operating environment in which that activity occurs. This added complexity central to case study research is referred to by Rose (1991, p. 191) as a "focus on a bounded system, in which the relationship between the system and its context may be as important as the relationship and interactions within the system". Accordingly, this study examines strategic entrepreneurship (reviewed in Chapter 2) and the public sector context within New Zealand (Chapter 4), analysing findings from both perspectives.

5.3.1 SOEs AS CASE STUDY SUBJECTS

As noted previously (Section 2.2.3), this study argues that the concepts of entrepreneurship and strategic entrepreneurship are not restricted to a particular domain, but rather apply to all levels and forms of business. Accordingly, the deliberate selection of SOEs as case study subjects provided a number of benefits, including the opportunity to examine entrepreneurship in the public sector, a context often overlooked in this area of research (Bahaee & Prasad, 1992). With respect to the financial implications of strategic entrepreneurship, Cooper (1979) and more recently Davidsson (2006) note financial objectives are not relevant to all entrepreneurial ventures. Thus, the specific focus on an area of the public sector expressly accountable for commercial and profitable operations (SOE Act, 1986) provided valuable subjects for the study of strategic entrepreneurship and the related financial implications.

Referring to the emphasis on new businesses and the private sector within entrepreneurship research, Bahaee and Prasad (1992, p. 48) conclude that scant progress has been made towards a full understanding of entrepreneurship due to the "systematic exclusion" of entrepreneurial behaviour by individuals in public sector and non-profit organisations. While these areas have received increasing attention in recent years (Morris & Kuratko, 2002; Osborne & Gaebler, 1992), they have also developed as smaller, somewhat isolated or specialised areas of entrepreneurship, rather than adding to core entrepreneurship literature. Hence this research aims to study strategic entrepreneurship in the context of the public sector, while drawing conclusions which may also be applied beyond that context, contributing to the understanding of strategic entrepreneurship as a construct within the broader business environment.

While this study supports the view that strategic entrepreneurship is relevant to all forms of business (similar to Drucker’s (1985) view of entrepreneurship), the research design, involving a detailed examination of strategic entrepreneurship in practice, effectively created a restriction on
the number of businesses to be included. Further, the purposeful selection of a homogenous group involving cases both with and without strategic entrepreneurship activity, and with clear profit-making intentions, meant New Zealand’s SOEs were an extremely valuable group to examine as part of this study. With a total of (then) 17 SOEs operating in New Zealand, the study of SOEs as a complete population presented a challenging but manageable task. Agreement to participate from 12 of those SOEs effectively made the challenge more manageable, and provided valuable insight into the sector as a whole. From a validity perspective, there were no clear differences between those SOEs which participated, and those which did not participate, other than executives from the non-participating group viewing their SOE activity as either not entrepreneurial, or too confidential to discuss at that time.

The benefit of choosing participants with similar attributes was that replication and consistency of results were strengthened (Yin, 1993). The diversity of organisations within the sample (e.g. industry, age, maturity) also provided enhanced support for the generalisability of findings within the SOE sector, while still providing the opportunity for generalisability in a broader (theoretical) context, to all businesses within the scope of the strategic entrepreneurship framework. The opportunity cost of selecting any homogenous group (such as individuals, public sector, or private sector organisations), is such that other groups are excluded. Although some exclusion is inevitable, the selection of SOEs provided valuable insight into strategic entrepreneurship as well as NPM, and uncovered a new dimension of activity within this area, referred to in this thesis as new public entrepreneurship. This term refers to a form of NPM which focuses specifically on entrepreneurial activity.

Thus, activity within SOEs was chosen as the focus of this study partly in response to the call for more entrepreneurship research within the public sector, and in part due to the “impartial” view of the preliminary framework. As such, the intention of this study was threefold - first, to focus on businesses undertaking strategic entrepreneurship with clear profit motives, second, to support the notion that strategic entrepreneurship is relevant to the public sector, and third, to explore the nuances of strategic entrepreneurship in a public sector context, which provided the opportunity to uncover a new dimension within new public management, being new public entrepreneurship.

The sector selected for this study exhibited both commonalities and differences among its SOE members. As New Zealand government organisations, the fundamental similarities include their categorisation as large public sector enterprises, each serving a national market, and operating
with capital funds invested by government. Further, as SOEs, they are all operating under express profit-making requirements, and looking for commercial opportunities to satisfy that requirement. In contrast, however, the organisations are significantly different in size, serve distinctly different markets, have not all employed strategic entrepreneurship, vary noticeably in financial performance, and are not all consistently reliant upon government funding to finance their operations. Another key difference is that some SOEs have been publicly recognised and applauded for activity referred to as entrepreneurial and/or strategic, while others have not, and have sometimes been viewed more critically.

Through the selection of this sector, valuable insight is obtained into the individual organisations, and the group as a whole. Arguably, however, similar activities and organisations (both public or private) exist in international markets. Hence, findings are not considered specific to New Zealand’s SOEs, but rather can be extended to international and global contexts. This extended perspective is particularly relevant, given the increasing focus on NPM in numerous countries (Shirley, 1999), and the underlying principles of NPM which are intended to align management of the public sector with that of the private sector.

Similarly, while the activities examined exist within the context of New Zealand’s business environment, they are not considered necessarily specific to or solely representative of that environment. Rather, they are viewed as being representative of activities and opportunities in a changing competitive landscape. As such, findings from the study of these activities may be in part reflective of the surrounding environment, but are not considered relevant solely or specifically to SOEs or New Zealand. Rather, they are viewed as generalisable to a range of changing competitive landscapes. From a public sector perspective, similar examples include changes in Chile and the United Kingdom which adopted SOE reforms in the 1970s, Korea, Philippines, and Mexico which experienced substantial SOE reforms in the 1980s, and countries such as China and the Czech Republic which are recognised as transitional economies, referring to ongoing changes as a result of SOE reforms employed in the 1990s (Shirley, 1999). These reforms represent one of many economic changes, with implications for both public and private sector organisations. Thus, two levels of theoretical generalisations are relevant to this study (Yin, 1993) - directed generalisations relating specifically to New Zealand SOEs, and extended generalisations relating to business activity in general, within the context of a changing competitive landscape.
5.3.2 Participant selection

In 2006 there were 19 organisations registered as SOEs in New Zealand, two of which (Electricity Corporation of New Zealand Limited and Terralink New Zealand Limited) were not actively trading and had been scheduled for liquidation by the Government. As such, these organisations were automatically excluded from the study. Each of the remaining 17 SOEs was contacted by phone and invited to participate in the study. Executives from 12 SOEs agreed to participate (representing 71 per cent of the SOE sector). Initial contact was made via the corporate affairs department, outlining the focus of the study as “entrepreneurial and/or strategic activity” to ensure an inclusive approach, and determine the most appropriate person in the organisation with whom to discuss participation in this study. The relevant individual (being a senior executive from each SOE who was directly involved with any entrepreneurial and/or strategic activities identified within a SOE) was then contacted directly, provided with a more detailed overview of the study, and invited to participate.

The inclusion of all SOEs in the initial invitation to participate, and the deliberate reference to “entrepreneurial and/or strategic activity” were two important aspects of the design for several reasons. As a homogenous group, SOEs represent an interesting and valuable sector of the business community (as discussed previously). Yet diversity within that group with respect to industry, activity, age, and company profile, indicated the differences and potential depth of analysis available within the group. Further, reports from secondary data of potentially entrepreneurial and strategic activity within a number of SOEs, suggested SOEs were an interesting and highly relevant group for the study. Such reports were however, difficult to verify without examining the activities in further detail. Preliminary research in this area (Luke & Verreynne, 2006a) provided insight into three SOEs. Yet, as a result of that study, an extended range of research questions were identified as being relevant to the SOE sector in general, thereby shaping this study.

On initial contact, many of the executives were unsure whether their SOE’s activity should be classified as entrepreneurial and strategic without further investigation. Accordingly, the initial invitation to participate deliberately referred to entrepreneurial and/or strategic activity, so that the researcher could examine such activity in detail, and make an independent assessment of the nature of the activity in each SOE, based on the conceptual framework developed and presented in Chapter 2. Further, cases where activity was not entrepreneurial and strategic provided an important contrast and basis for comparison to identify elements which may enable or inhibit such
activity. Thus, the selection strategy was theoretically directed (Burgess, 1984; Eisenhardt, 1989) allowing a range of activity to be examined, and the opportunity for both replication logic and replication contrast (Stake, 2004). Such activity can be broadly classified as:

- entrepreneurial;
- strategic;
- entrepreneurial and strategic; or
- neither entrepreneurial nor strategic.

Similarly, the financial implications and outcomes of the activities examined were also diverse, ranging from financially independent and profitable, to financially dependent on the New Zealand Government. Variation was also noted in the development stage and maturity of different projects undertaken by participating SOEs, such that outcomes (both financial and operational) within some projects were not determinable at the time the relevant activities were reviewed. Importantly, the variation within these aspects reflected the contemporary nature of the activities examined, and provided the opportunity to consider not only the elements and implications of strategic entrepreneurship, but also to contrast those elements and implications in situations where strategic entrepreneurship did not exist. Thus, the study provided the opportunity to consider the issues unique to strategic entrepreneurship, lending itself to both literal and theoretical replication (Yin, 1993).

As noted previously, a review of activity undertaken by each SOE based on examination of secondary data (e.g. newspaper articles, annual reports, and SOE and government websites), provided background information on each organisation and helped to identify a recently completed or current and ongoing activity within each SOE, suitable for inclusion in this study. In some cases, secondary data and discussions with executives indicated more than one activity was suitable for inclusion in this study. However, to ensure consistency and keep the scope of the study manageable, only one activity per SOE was examined, being that which seemed, prima facie, to be most entrepreneurial and/or strategic in nature. This activity was discussed with senior executives within the participating organisations, and a decision was made on whether the activity identified by the researcher, or an alternative activity at the suggestion of the participants, was most appropriate for inclusion in this study. Essentially this decision was made by the researcher, based on information from participants relating to the nature of such activities, and the extent to which they represented elements characteristic of entrepreneurial activity, as discussed in Chapter 2 (e.g. innovation, opportunity identification, acceptance of risk).
Reasons given by executives from the five SOEs requesting exclusion from the study related to commercial and political sensitivity concerns, a preference to remain out of the “spotlight” or public domain as much as possible, and self-assessment as not conducting entrepreneurial and strategic activity. While attempts were made to address these concerns (e.g. reassurance of confidentiality, explanation of the study encompassing activity which was not necessarily entrepreneurial and strategic), the individuals within the respective organisations declined to participate. A total of 12 cases represents a relatively high number for a single study (Eisenhardt, 1989), but provided a valuable opportunity to examine findings from individual, group, and sub-group levels of analysis, though within case analysis and cross-case comparison. Further, the opportunity to both compare and build on previous findings from the individual cases as part of multiple case analyses, effectively strengthened theory development (Eisenhardt & Graebner, 2007). A total of 12 cases also provided the opportunity to compare findings from different perspectives including business activity, industry (as detailed in Section 4.5.2, Table 4.2), age, and size of SOEs, adding further depth and dimensions to the analysis process. A summary of New Zealand’s 17 SOEs, including the 12 which agreed to participate in this study (denoted with an asterisk), is presented in Table 5.1.

**Table 5.1**  
**New Zealand’s SOEs as at 2006**

<table>
<thead>
<tr>
<th>Company name</th>
<th>Date established as a SOE</th>
<th>Approximate no. of employees^</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgriQuality Ltd*</td>
<td>1998</td>
<td>850</td>
</tr>
<tr>
<td>Airways Corporation of New Zealand Ltd*</td>
<td>1987</td>
<td>600</td>
</tr>
<tr>
<td>Animal Control Products Ltd</td>
<td>2005</td>
<td>15</td>
</tr>
<tr>
<td>Asure New Zealand Ltd*</td>
<td>1998</td>
<td>900</td>
</tr>
<tr>
<td>Genesis Power Ltd*</td>
<td>1999</td>
<td>450</td>
</tr>
<tr>
<td>Landcorp Farming Ltd*</td>
<td>1987</td>
<td>500</td>
</tr>
<tr>
<td>Learning Media Ltd</td>
<td>2005</td>
<td>100</td>
</tr>
<tr>
<td>Meridian Energy Ltd*</td>
<td>1999</td>
<td>400</td>
</tr>
<tr>
<td>Meteorological Service of New Zealand Ltd*</td>
<td>1992</td>
<td>200</td>
</tr>
<tr>
<td>Mighty River Power Ltd*</td>
<td>1999</td>
<td>700</td>
</tr>
<tr>
<td>New Zealand Post Ltd14</td>
<td>1987</td>
<td>10,000</td>
</tr>
<tr>
<td>New Zealand Railways Corporation Ltd*</td>
<td>2004</td>
<td>800</td>
</tr>
<tr>
<td>Quotable Value Ltd*</td>
<td>2005</td>
<td>250</td>
</tr>
<tr>
<td>Solid Energy New Zealand Ltd</td>
<td>1987</td>
<td>650</td>
</tr>
<tr>
<td>Timberlands West Coast Ltd</td>
<td>1990</td>
<td>30</td>
</tr>
<tr>
<td>Transmission Holdings Ltd*</td>
<td>2004</td>
<td>900</td>
</tr>
<tr>
<td>Transpower New Zealand Ltd*</td>
<td>1994</td>
<td>500</td>
</tr>
</tbody>
</table>

* denotes SOEs which participated in this study
^ as at 2006

14 NZ Post agreed to be interviewed for this study one year after it commenced, however due to the inconsistent timeframe, it was not included in this research.
5.3.3 Case study design

In the context of entrepreneurship and strategy research, Miller and Friesen (1978) note that case studies provide a vivid and detailed account of the phenomena being examined, often unveiling “objective” information. “It is difficult to hide the real situation from a case writer; a professional who studies a firm in detail, than a remote researcher who asks a busy executive to rate a number of quantified scales” (p. 923). Yet case study research has also been criticised for reliance on data which may be distorted by impression management (e.g. interviews with business executives) and retrospective sense-making (Eisenhardt & Graebner, 2007). The steps taken to address such issues are considered further in Sections 5.4 and 5.5. However, an important feature of the case study design was that it involved recent or more commonly ongoing activity, such that the data collected were often contemporary (Davidsson, 2006; Eisenhardt & Graebner, 2007) and triangulated, minimising the scope for distortion. This issue is perhaps highlighted by discussions with an executive from one SOE who provided an “unofficial” or confidential answer to a question raised during the initial interview, and then indicated that the researcher should check the following day’s newspaper to obtain the publicly available (and therefore no longer confidential) answer through official public channels (a press release by the SOE’s Chief Executive).

Low and MacMillan (1988) identify the need for longitudinal case analyses to accommodate both context and process focused studies, tracing developments over time. As such, data collection involved a preliminary phase, followed by formal data collection for each case study, encompassing three main phases. The preliminary phase of data collection involved the SOE sector as a whole, to confirm the appropriateness and suitability of SOEs for a study of strategic entrepreneurship. Once this suitability was confirmed prima facie from a review of publicly available documents such as websites, newspaper reports, and texts, formal data collection then focused on individual SOEs.

The initial phase of formal data collection for individual SOEs involved sourcing background data regarding historical and contextual details relating to SOEs in general, and individual SOEs in particular. An examination of publicly available data (again, from websites, newspapers, and texts such as annual reports) provided the opportunity to identify activities within individual SOEs which may be suitable for inclusion in this study. Further, financial data collected for the five year period from 2001 to 2005 (being the five years preceding the commencement of this study) provided insight into the financial performance of each SOE. Financial data were sourced mainly
from SOE websites, as well as New Zealand Government websites, and were used as a basis for elementary quantitative analysis. Financial data for the five year period from 2002 to 2006 was subsequently analysed to consider developments and changes one year later. This analysis provided the opportunity to consider developments in SOEs’ activities from a financial perspective over a number of years providing a valuable longitudinal perspective (Low & MacMillan, 1988; Villalonga, 2000; White, 2005).

The second phase of formal data collection involved conducting interviews (primary data collection from June to September 2006), coupled with ongoing collection of secondary (publicly available textual) data relating to the activity recognised as entrepreneurial and/or strategic. While participation was requested from one senior executive per SOE, some SOEs requested that two executives be involved at different stages of the study. Given that interviews took place at the offices of individual SOEs, data were also obtained from company documents provided by interviewees (e.g. annual reports, presentations to Boards, internal review documents) or made available within SOEs’ offices (e.g. brochures and publications placed in reception areas). While some of this data could be classified as “publicly available”, internal documents were clearly private in nature. Both types of documents, however, provided interesting insight into what each SOE viewed as important, and which aspects of the company were being promoted. The third phase of data collection involved conducting a second interview with executives from each of the participating SOEs approximately one year later (July 2007), together with ongoing collection of secondary data during the 12 month period. This phase of data collection focused on changes and developments over time relevant to the activity examined. Where possible, this phase also included collection of financial data specific to the activities being examined, to gain insight into the financial implications of such activity.

The second series of interviews were generally conducted with the same executives who participated in the first interview. However, some SOEs had two executives partake in the first interview, and one in the second (or vice versa). This was mainly due to work commitments and/or increased familiarity with the study. Some interviewees seemed uncertain and cautious about the direction of the study and information required in the first instance and preferred to have two participants. During the second phase of interviews, however, participants were noticeably more relaxed and familiar with the focus of the study (and information requested), and

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15 Given that interviews took place within SOEs’ normal business activities, involving mergers, acquisitions, divestments, and labour strikes, which various SOEs experienced during the interview periods.
thus felt comfortable that one participant would be able to answer the questions raised. In one SOE, a second participant was involved in the second phase of interviews as he was particularly interested in the project. In another SOE, the Chief Executive had changed during the period.

Consistent with the notion that case study research usually involves more than one method of data collection (Bush, 2002; Yin, 1993), each case study within this research encompasses three central methods: review and analysis of documents relating to the entrepreneurial and strategic activities within each of the participating SOEs, interviews with senior executives from each organisation, and observations (recorded by way of field notes) inherent to the interview process. Thus, triangulation was facilitated through a comparison of different forms of data to evaluate the consistency of findings, and add to the depth of analysis by uncovering further details relevant to the activity examined (Denzin, 1970; Denzin & Lincoln, 1998).

As noted by Cohen et al. (2000), triangulation is particularly appropriate to the study of complex phenomena, and to case study research in particular. Essentially, triangulation enhances the findings of a study (Yin, 1993) through the analysis of a range of both primary and secondary data to examine and evaluate previous findings on the research topic, and build on these findings. This issue was particularly relevant to inconsistent and unclear data on several SOEs (e.g. based on media reports or company documents) which was subsequently clarified during the interview process, and later verified through subsequent research. To the extent that data remained unclear or accounts were conflicting (which occurred on one occasion in particular), this observation is noted, but the data was not relied upon during the analysis process.

Arguably, the nature of each case study includes descriptive, exploratory, and explanatory elements (Yin, 1993). Within each organisation, events are described and analysed to identify characteristics and determinants of strategic entrepreneurship and its financial implications. Given that limited research has previously been conducted on this topic, the case studies may also be viewed as exploratory in the sense that preliminary findings drawn from the literature review are explored in a practical business context, and practice-based data are explored to identify strategic aspects of the activity. To the extent that support for the conceptual framework is obtained (with respect to elements central to strategic entrepreneurship), the case studies also assume an explanatory nature.

The design of the case studies is essentially holistic, as strategic entrepreneurship within each
organisation becomes the focus of the research. In order to gain insight and ensure familiarity with the details of each case (Gersick, 1988; Pettigrew, 1988), cases were written up in summarised form (each approximately five pages in length). Further, to ensure ongoing familiarity with the details and intricacies of each case, individual case studies were gradually prepared in detail for completeness and publication (e.g. Luke et al., 2008a; Luke, Verreynne, & Kearins, 2006). Thus, specific steps were taken to facilitate an appropriate depth of analysis on activity within each of the 12 organisations.

With respect to a comparison of theory and practice, the preliminary framework and rival theories were considered in the context of the case studies for the purposes of determining the level of support for both the preliminary framework and alternative theories. This approach is what Yin (1993) refers to as level two inference: obtaining support for a proposed framework, while at the same time confirming lack of support for rival theories. This process provided the opportunity not only to examine support for the preliminary framework, but also to re-examine concepts presented within alternative theories, for the purposes of clarifying and at times reclassifying these concepts (Strauss & Corbin, 1998). Such analysis is referred to by Rose (1991) as a process of discovery, criticism, and evaluation, indicating reflection on and refinement of analysis and findings, whereby findings and theory are gradually developed and refined by the researcher. In order to undertake this process, data from various sources were incorporated in each of the case studies. The nature of this data, and the related research procedures are discussed in the following section.

5.4 Data sources and analysis

Consistent with case study research, a number of data sources were incorporated in each case study in an effort to conduct a thorough examination of strategic entrepreneurship, and obtain a more complete understanding of this construct (Bryman, 1989; Hakim, 1987; Nisbet & Watt, 1984). The three data sources included documents, focused interviews, and observation. Individually, data from each of these sources provided a partial representation of the activity examined (Gephart & Pitter, 1995). Collectively, analysis and comparison of the data provided

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16 Due to size limitations and confidentiality requirements, summarised details and excerpts rather than full case studies have been included in this thesis.

17 This process is ongoing. For cases which have been prepared, these cases were subsequently classroom tested, providing the opportunity to bring attention to areas not sufficiently emphasised or taken for granted by the researcher in presenting the initial case study.
valuable insight into the phenomena of strategic entrepreneurship. Each of the sources and related modes of analysis are considered separately in the following sections.

5.4.1 Analysis of Documents
Cortazzi (2002) refers to analysis of documents as an examination of texts which exist independently of the researcher, allowing individual researchers to construct reality and contribute to subsequent views of it. In the context of this study, documents can be classified within two main categories – those relating to qualitative data to explore the underlying elements of strategic entrepreneurship, and those concerning quantitative data to explore the associated financial implications.

Qualitative data
With respect to qualitative data, documentary analysis was based primarily on publicly available texts such as newspaper and magazine articles, annual reports, Statements of Corporate Intent [SCIs]18, and websites of SOEs, Treasury, and CCMAU. The period to which the texts related varied, depending on the nature of the data. In relation to New Zealand’s public sector reforms, documents reviewed dated back to the mid 1980s when the reforms were introduced. In most cases, media reports and publicly available data on SOEs from 1990 up to March 2009 (being the time of thesis submission) were reviewed, in order to gain an understanding of the historical and contemporary issues faced by individual SOEs. In some cases, however, SOEs’ histories were relatively short (e.g. Quotable Value became a SOE in 2005), resulting in limited availability of data on that particular SOE, but sometimes replaced with useful comparative data on the organisation before it became a SOE. Financial data in the first instance focused specifically on the five years from 2001-2005, but also extended beyond this timeframe where financial data on the activity under review was outside the scope of this period. Financial data in the second phase of data collection (one year later) focused on the five year period from 2002-2006.

Within the context of the case studies, documentary analysis provided a useful starting point to gain an understanding of each organisation’s business operations, media and reported public perceptions, and activities which may be recognised as entrepreneurial and strategic in nature. Analysis of the documents initially involved axial coding, examining content (Cortazzi, 2002) and

18 While SCIs were reviewed, they did not have a strong influence on the activities being examined, given many of the activities did not require formal advance approval, and were not expressly detailed in the SCI due at times, to the relatively modest expenditure involved.
recurring themes and patterns (Birely & Moreland, 1998). This analysis was followed by a process of selective coding (Strauss & Corbin, 1998), to determine the central concepts from the themes and patterns identified. Table 5.2 summarises the entrepreneurial and strategic perspectives of the data analysis, detailing the codes initially developed within each perspective (axial), and the codes which emerged as central to the underlying concepts within each perspective (selective). These codes were derived from the data, resulting from the recurring themes and patterns identified. Thus, coding assisted with the process of data reduction (Miles & Huberman, 1994), highlighting the rigour within the study, while ensuring the depth and detail of the data were preserved in the individual case studies (Eisenhardt, 1989).

**TABLE 5.2 CODING OF DATA: ENTREPRENEURIAL AND STRATEGIC PERSPECTIVES**

<table>
<thead>
<tr>
<th>Axial codes</th>
<th>Selective codes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entrepreneurial perspective</strong></td>
<td></td>
</tr>
<tr>
<td>1. Opportunity identification</td>
<td>Opportunity identification</td>
</tr>
<tr>
<td>2. Innovation</td>
<td>Innovation</td>
</tr>
<tr>
<td>3. Acceptance of risk</td>
<td>Acceptance of risk</td>
</tr>
<tr>
<td>4. Flexibility</td>
<td>Flexibility</td>
</tr>
<tr>
<td>5. Vision</td>
<td>Vision</td>
</tr>
<tr>
<td>6. Growth</td>
<td>Growth</td>
</tr>
<tr>
<td><strong>Strategic perspective</strong></td>
<td></td>
</tr>
<tr>
<td>1. Strategy</td>
<td></td>
</tr>
<tr>
<td>2. Culture</td>
<td>Open, progressive, and flexible culture</td>
</tr>
<tr>
<td>3. Branding</td>
<td></td>
</tr>
<tr>
<td>4. Operational excellence</td>
<td>A level of expertise in the organisation’s core business, together with confidence in the organisation’s core capabilities</td>
</tr>
<tr>
<td>5. Cost efficiency</td>
<td>Cost minimisation</td>
</tr>
<tr>
<td>6. Transfer and application of knowledge</td>
<td>Leveraging from strategic resources or key competencies</td>
</tr>
</tbody>
</table>

Similarly, Table 5.3 summarises some of many public sector perspectives of the data analysis, also presenting the axial and selective codes. Given the diverse range of documents reviewed, consideration of both the information communicated within these documents, as well as the characteristics of the documents was essential (Birley & Moreland, 1998). In particular, origin and credibility, objectivity and representational nature of the documents were reviewed to consider both the message within the texts, but also the context of that message. These issues were particularly relevant to media releases by the New Zealand Government, opposing political parties, individual SOEs, and various stakeholders, which often revealed underlying agendas. Given the nature of the participant organisations, and some of the relatively controversial activities undertaken, the purpose, content, and intention of documents relating to each activity were examined accordingly. As noted by Scott (1990), while characteristics such as authenticity, credibility, representativeness, and meaning, are collectively important in assessing documents,
both financial and non-financial; there is often a trade-off between these characteristics.

### TABLE 5.3  CODING OF DATA: PUBLIC SECTOR CONTEXT

<table>
<thead>
<tr>
<th>Axial codes</th>
<th>Selective codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Effectiveness of the SOE reforms</td>
<td>Effectiveness of the SOE reforms v. operating influences and limitations</td>
</tr>
<tr>
<td></td>
<td>• Industry regulations and restrictions</td>
</tr>
<tr>
<td>2. Freedom of commercial choice</td>
<td>Commercial freedom and restrictions</td>
</tr>
<tr>
<td>3. Freedom from political influence / interference</td>
<td>Political support, influence, and interference</td>
</tr>
<tr>
<td>4. SOE working effectively under the reforms</td>
<td>SOE working effectively under the reforms</td>
</tr>
<tr>
<td></td>
<td>• emphasis on success; exceptions noted in isolated cases</td>
</tr>
<tr>
<td></td>
<td>• tension between financial, social, and environmental issues</td>
</tr>
<tr>
<td></td>
<td>• public identity and ownership</td>
</tr>
<tr>
<td></td>
<td>• accountability implications</td>
</tr>
<tr>
<td>5. Revenue from government versus non-government sources</td>
<td>Emphasis on non-government revenue</td>
</tr>
<tr>
<td></td>
<td>• Complexities of outsourcing large-scale essential service contracts to the</td>
</tr>
<tr>
<td></td>
<td>private sector (e.g. security of supply, preservation of national asset)</td>
</tr>
<tr>
<td>6. Financial independence (or dependence)</td>
<td>Financial resources and limitations</td>
</tr>
<tr>
<td>• capital requirements (or surplus)</td>
<td>• independence of operations</td>
</tr>
<tr>
<td>• repayment of capital (pressures or opportunities)</td>
<td>• tension between “surplus” cash for payment of dividends and profit</td>
</tr>
<tr>
<td>• payment of dividends (pressures of opportunities)</td>
<td>required for reinvestment</td>
</tr>
<tr>
<td></td>
<td>• anomaly of independence and requirements / expectations re dividend payments and debt</td>
</tr>
<tr>
<td>7. Risks versus returns</td>
<td>Risk and risk perceptions</td>
</tr>
<tr>
<td></td>
<td>• commercial and competitor risk</td>
</tr>
<tr>
<td></td>
<td>• financial risk</td>
</tr>
<tr>
<td></td>
<td>• political risk</td>
</tr>
<tr>
<td></td>
<td>• reputational risk</td>
</tr>
<tr>
<td></td>
<td>• accountability implications</td>
</tr>
<tr>
<td></td>
<td>• seasonality of politics</td>
</tr>
<tr>
<td></td>
<td>• risk of regulation (e.g. losing SOE status)</td>
</tr>
<tr>
<td></td>
<td>Priority of operational performance over returns</td>
</tr>
<tr>
<td>8. Impact of Government announcement</td>
<td>Government policy as support for existing operations</td>
</tr>
<tr>
<td></td>
<td>Internal governance and external support</td>
</tr>
<tr>
<td></td>
<td>• communication within SOE network</td>
</tr>
<tr>
<td></td>
<td>• board of Directors – both valuable and political</td>
</tr>
<tr>
<td></td>
<td>• formal support of Government departments</td>
</tr>
<tr>
<td></td>
<td>• governance restrictions</td>
</tr>
<tr>
<td></td>
<td>• informal support within the SOE network</td>
</tr>
<tr>
<td></td>
<td>• lack of communication networks within the SOE sector</td>
</tr>
</tbody>
</table>

Interview transcripts (based on discussions with senior executives of SOEs) also provided the opportunity to identify themes reflected in the comments of interviewees, and more importantly, the concepts underlying those themes. This process was particularly valuable as interviewees at times seemed to openly discuss activities and the associated factors they considered important, but also acknowledged that they did not have a full or complete understanding of aspects related to the activities (e.g. the nature of such activities, the extent to which they were politically motivated or influenced). Thus, documentary analysis was particularly useful in obtaining background data on activity previously undertaken by the SOEs.
Quantitative data

Analysis of quantitative data was based primarily on publicly available financial data included in SOEs’ annual reports and Government websites. In most cases, SOEs’ annual reports had been independently audited by two organisations – the Auditor General (as required by law), and a top-tier accountancy firm. In some instances, financial data classified as “publicly available” (such as annual reports) was not easily accessible, as some SOEs preferred to minimise distribution of the information. These data were, however, able to be sourced from the respective SOEs on request, indicating the commercial sensitivities particularly relevant to some SOEs, such as those dealing with heightened political and competitive pressures. By way of example, one SOE had reportedly published a total of 10 copies of its annual report for a particular year, and was called before a parliamentary select committee to explain this and other “inexcusable” behaviour19.

As noted in Chapter 3, much of the literature on entrepreneurship examines financial benefits for individual organisations in terms of primary (non-financial) data such as executives’ views of relative importance and relative satisfaction with financial outcomes, as a proxy for financial measures. Thus, the lack of secondary (financial) data in this area of research represents a gap attributable mainly to the complexities in accessing and (to a lesser extent) processing financial data (Murphy et al., 1996). As such, this investigation of entrepreneurial and strategic activity sought to include an assessment of financial and economic outcomes from various perspectives including operating revenue and growth in revenue (Norburn & Birley, 1988) as a reflection of commercial success, and net profit after tax (Ansoff, 1965; Kudla, 1980) as a reflection of profitability, efficiency, and commercial viability. ROE (Rumelt, 1974) and two variations thereof, being ROCI (Brown & Laverick, 1994) and cash flow return on investment (ROI*), were also used as a reflection of both profitability and viability of SOEs as government investments. (See Chapter 3 (Section 3.5, Table 3.2) for detail on these financial measures, their calculation, and rationale.) Collectively these calculations are considered to represent a balance between measures both useful and understandable for an intended audience of management researchers and practitioners. Further, such measures attempt to bring a fresh and clearer perspective of financial and economic performance within entrepreneurship research.

Financial data taken primarily from each of the SOEs’ financial statements for the five years from 2001 to 2005, were initially used as a basis to evaluate the financial implications of the individual

19 This reference has been deliberately omitted to preserve anonymity of the SOE.
SOEs, and consider the financial and economic implications specifically attributable to NPM. This period was chosen to provide contemporary insight into SOEs’ financial performance, and coincides with a period of steady economic growth within New Zealand (New Zealand Treasury, 2006). Further, it represents the period prior to the adoption of International Financial Reporting Standards in New Zealand, effectively allowing enhanced comparability of the financial statements across SOEs and among individual SOEs for the five year period.\(^{20}\)

With respect to the financial and economic returns specifically attributable to the entrepreneurial and/or strategic activity under review, to the extent possible, such data were obtained from interviewees regarding the extent to which the activity under review had contributed to the organisation’s overall results, and was analysed accordingly. Given the commercial sensitivity and requests for confidentiality made by some SOE executives, as well as the need for comparability of financial data across the SOE sector, financial returns from individual activities undertaken by SOEs are examined in terms of profit, and expressed as a percentage of profits for each organisation for the 2006 financial year. Thus an indication of the extent of each activity’s returns relative to the size of the organisation’s financial returns is presented, together with consideration of other factors such as the maturity, age, and development stage of the activity. This approach provided the opportunity to explore the relationship between strategic entrepreneurship and financial returns within individual activities and organisations in the context of profit and profitability. Similarly, the relationship between strategic entrepreneurship and economic benefit was initially considered by comparing the investment by Government in SOEs which have conducted entrepreneurial and strategic activity, and the return on that investment, through payments such as dividends and taxes by SOEs to Government. Where possible, other economic returns arising from these activities were also discussed with interviewees to consider the broader economic implications of strategic entrepreneurship.

While relative rather than absolute measures used to examine the financial and economic implications of strategic entrepreneurship may be viewed as a limitation of the study, they do allow a relationship to be drawn between entrepreneurial activity and financial and economic benefits. Further, they reflect the difficulties noted in prior research dealing with financial data

\(^{20}\) The New Zealand equivalents to International Financial Reporting Standards were available for early adoption for financial periods beginning on or after 1 January 2005. As at 30 June 2005, none of the 17 SOEs had adopted the new international standards, however several SOEs noted the significant impact the new standards would have on their financial reports in the future. Mandatory adoption of the new standards in New Zealand applies to financial periods beginning on or after 1 January 2007.
which is not publicly available, and the economic reality that single organisations or economies are not based solely on entrepreneurial activity.

Although documentary analysis is an important component within the case studies, its limitation is that documents cannot provide detail beyond the data presented in the text. As noted by Gephart and Pitter (1995), documents are essentially a partial or incomplete representation of a construct or event. Accordingly, to address this limitation, data from documentary analysis was complemented by data from interviews and personal observation. The design and conduct of the interviews which took place within this study, are considered below.

5.4.2 INTERVIEWS

Patton (1990) suggests the value of interviews lies in gaining an understanding of, and potentially entering into, the experience of others. Thus, the opportunity to access the perspective of the interviewees through direct interaction and inquiry was a fundamental benefit of the interviews conducted with SOE executives.

Subsequent to obtaining verbal interest or confirmation from each of the relevant executives within the participating SOEs, a participant information sheet and participant consent form were sent to the respective individuals. Once written confirmation of participation was obtained, interviews were arranged in two separate phases. The initial phase of interviews was scheduled over a three month period at the convenience of the interviewees, and involved visiting participating SOEs located in Auckland, Wellington, and Christchurch. On-site interviews assisted the researcher in gaining an understanding of the organisations’ entrepreneurial and strategic activities from an insider’s perspective, and the elements central to and supportive of those activities. The second phase of interviews was conducted approximately 12 months later, to examine changes and developments over time, with respect to the activities examined. Where appropriate, a third phase of data collection involved confirmation or clarification of any outstanding issues, and was done through contact with interviewees by phone or e-mail. A copy of the interview protocols is attached as Appendix A.

Table 5.4 summarises the number of interview participants per SOE, and their roles within the respective organisations. As noted previously, the interviewees were senior executives, with significant experience in the public sector, and were all males aged mostly in their 40s and 50s. Given that three of the participating SOEs requested anonymity, and that the total number of
SOEs operating in New Zealand is limited to 17, none of the individuals or organisations are identified below. Similarly, in the remainder of this thesis, SOEs are generally not identified by name, although some (with prior permission) have been expressly identified where the context of the discussion is effectively self-identifying for the SOEs, given their unique nature and operating context (e.g. those SOEs effectively operating as monopolies).

**Table 5.4 Summary Details of Interviews**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Number of Interviewees in first and second interview</th>
<th>Organisational role of interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOE A</td>
<td>1, 2</td>
<td>General Manager, Chief Executive</td>
</tr>
<tr>
<td>SOE B</td>
<td>1, 1</td>
<td>General Manager</td>
</tr>
<tr>
<td>SOE C</td>
<td>2, 1</td>
<td>Chief Executive, Business Development Manager</td>
</tr>
<tr>
<td>SOE D</td>
<td>2, 1</td>
<td>Strategy and Planning Manager, Communications Manager</td>
</tr>
<tr>
<td>SOE E</td>
<td>1, 1</td>
<td>Chief Executive</td>
</tr>
<tr>
<td>SOE F</td>
<td>1, 1</td>
<td>Executive Advisor to Chief Executive, Senior Analyst</td>
</tr>
<tr>
<td>SOE G</td>
<td>1, 1</td>
<td>Chief Executive</td>
</tr>
<tr>
<td>SOE H</td>
<td>1, 1</td>
<td>General Manager</td>
</tr>
<tr>
<td>SOE I</td>
<td>1, 1</td>
<td>Policy Advisor</td>
</tr>
<tr>
<td>SOE J</td>
<td>1, 1</td>
<td>General Manager</td>
</tr>
<tr>
<td>SOE K</td>
<td>1, 1</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>SOE L</td>
<td>1, 1</td>
<td>Communications Manager</td>
</tr>
<tr>
<td>NZ Treasury</td>
<td>1</td>
<td>Senior Analyst</td>
</tr>
</tbody>
</table>

In addition to the interviews conducted with senior executives of the participating SOEs, Jean-Pierre Andre, a senior employee of the New Zealand Treasury was also interviewed for clarification on certain issues, and to provide insight from a government perspective on various policy and regulatory issues. Andre’s participation in the study was offered as an experienced Treasury advisor, rather than an official Treasury spokesperson, and comments from Andre are presented as such in the following chapter. For each interview, discussions were recorded (with approval) and transcribed, so that individual transcripts could be reviewed and approved by interviewees, and then analysed through an iterative process for both content and themes.

The interviews were semi-structured, providing a balance between consistency across each of the interviews, and flexibility within each interview (Patton, 1990). Interview protocols served as a framework, and in most cases served that purpose well, such that questions could be tailored to individual participants, background research could be incorporated and verified, and interviewees had the opportunity to raise additional points which they considered relevant (Wragg, 2002). In two cases, however, protocols were requested in advance by the individual interviewees, and consequently became a significantly stronger force in shaping the interviews. In the first of these two cases, the protocol had been used to research and prepare detailed answers including detailed financial data. This detail was particularly helpful and did not alter the semi-structured
nature of the interview. In contrast, in the second of these two cases, the interview became structured and rigid in nature, as the interviewee preferred to read from prepared answers, disregarded questions he did not wish to address, and chose to engage only in very limited discussion on questions or issues which were not specifically detailed in the interview protocol. This response was not common within the interviews conducted, but is perhaps a reflection of the sensitivities felt within the public sector context. In contrast, most other interviewees addressed their sensitivity concerns in one of two ways. In several cases, interviewees adopted a pragmatic approach, commenting that they didn’t have any strong views on specific issues (e.g. effectiveness of regulatory frameworks), and felt a responsibility to work within them, rather than question or try to change them. More commonly, however, interviewees openly expressed views and opinions, and occasionally requested specific comments remain anonymous.

Techniques commonly noted in the interview literature were incorporated in both phases of the interview process. These techniques included providing brief prefatory statements and explanations as to why specific questions were being raised (Patton, 1990), structuring questions as neutral and open-ended, mirroring in questions and answers, and reminding interviewees of the confidentiality option at both the individual and organisational level. In addition, feedback (both verbal and non-verbal) was given during the course of the interview, to assure interviewees that their responses were both relevant and useful to the research, where appropriate. The use of these interview techniques aimed to assist in establishing a relaxed and open environment, such that interviewees seemed comfortable to openly respond to the questions raised (Tuckman, 1972). Essentially this environment was achieved, and is reflected in both the content and nature of the responses, evidenced by interviewees’ informal language, disclosure of confidential details, at times blunt accounts of difficulties faced by the respective organisations, and seemingly honest and open responses regarding aspects within the respective organisations which interviewees acknowledged they could not personally answer or did not fully understand. Referring to the cultural changes within one of the SOEs as a result of the reforms, one executive responded “I can’t answer that, as I wasn’t working here at the time to know what actually happened. But from what I’ve heard, it was a difficult time, and there were a number of staff who left, not by choice.” Similarly, commenting on repeated incidences of innovative activity, another SOE executive noted “It just happens. We’re not completely sure how, but it does.”

Despite the techniques aimed at creating a comfortable and open environment, Myers and Newman (2007) note that interviews remain an artificial situation or “drama”, involving actors who
are essentially strangers, each wanting to project a certain image. This view is shared by Webb, Campbell, Schwartz, and Sechrest (1966), who note interviews intrude into the social setting they describe, create as well as measure attitudes, elicit atypical roles and responses, and are limited to those who are accessible and will co-operate. Among the problems of qualitative interviews identified by Myers and Newman (2007), are the artificiality of interrogating a complete stranger within time constraints, lack of trust between the interviewer and interviewee, and knowledge construction, such that interviewees often want to appear knowledgeable, and may construct stories which seem logical and consistent if they do not know the answer to a question. However, based on the interviews conducted within this research and the comments made above, these issues did not seem to emerge as a strong or obvious negative force. Interviews remained conversational rather than structured, questioning was phrased as inquiries rather than interrogation, a level of trust was established through reassurance of confidentiality, and interviewees were consistently cautious in not providing details outside their area of knowledge, readily acknowledging things they did not know, or preferred to confirm with others who were more knowledgeable in the relevant matters. As noted above, in most cases, interview protocols were not provided in advance, such that participants gave personal accounts rather than official responses. In one particular case, the executive interviewed had very minimal time for preparation, as the intended participant was called away to address sensitive and escalating employment relations issues. Hence, the second executive was briefed internally on the study, and agreed to participate, but without unduly preconceived views “I'm not sure exactly what you need, but I'm happy to tell you what I know, and see if we can find someone else to help us if there's things I don't [know].”

Interviews were conducted on the basis that the perspectives of the SOE executives were meaningful, and could be made explicit (Patton, 1990). As such, quotes directly from interviews were considered to be extremely valuable, and are used extensively throughout this thesis. This view was particularly relevant to two interviews, where the interviewees had worked in a number of SOEs and were able to highlight the similarities and differences identified within their experiences in those SOEs. As noted by Allan (1991), however, this process is also relevant where interviewees have not specifically analysed a situation.

Often those involved are not in a position to recognise easily the factors that influence their behaviour [or that of a particular phenomenon]. In such cases observation and detailed questioning over time is the appropriate way in which data can be collected (Allan, 1991, p. 179).
Thus, to explore interviewees’ perspectives, a range of questions was included in each interview protocol, direct and indirect, general and specific, both factual and opinion-orientated (Tuckman, 1972). With respect to the first interview protocol, these questions were structured into eight main categories, including contextual details of the SOE’s activities in general, and examination of specific issues such as the entrepreneurial aspects, strategic aspects, and financial implications of the potentially entrepreneurial and/or strategic activity under review. Interview questions in the second protocol were sufficiently broad to accommodate the different situations relevant to each activity being examined, but also appropriately specific to establish consistency and cross-case comparison. These questions were classified into five categories, being general developments in the activity or project over the past 12 months, financial developments with respect to the activity, changes in competitive advantage for the business as a result of the project, further examination of the public sector context with respect to risk and accountability, and discussion of any other matters considered relevant by the interviewees.

Interviews were recorded to ensure the volume and richness of the interview data were captured in full. Thus, details expressly discussed were transcribed and analysed. The recording of each interview provided the opportunity for transcripts to be prepared (each approximately 20 pages in length), reviewed, and approved by the individual interviewees. This process provided interviewees with the opportunity to confirm the accuracy of the transcript, request minor amendments, and highlight aspects they wished to remain confidential. All requested amendments were incorporated (bar one which requested changes to what the researcher had said), and approved transcripts were then examined as part of the documentary analysis noted in the previous section. As noted by Patton (1990), full transcriptions are particularly useful for both analysis and replication. Thus, on completion of each interview, data were analysed through an iterative process (refer to Section 5.5) and compared to identify any similarities, recurring themes, and patterns.

On the basis that interviews were conducted with a variety of individuals in different organisational environments, observations made during the course of the interviews were recorded by way of note-taking during and directly after the interview process. Thus, field notes constitute the third source of data within the case studies. The use of observation and interpretation inherent to those observations is outlined below.
Observation is referred to by Moyles (2002) as a powerful, flexible and real means of data collection, a method of contextualising data from other sources. The process of observing the environment and context in which the interview occurred provided the opportunity to consider the unspoken aspects of the interview. Such observation facilitated a more complete picture of the interviews, allowing the interview data to be more effectively evaluated (Hycner, 1985). For this reason (and for the convenience of participants), initial interviews were arranged at each participant’s office.

The scope of observations made within this research was limited, and related primarily to the individual interviews and brief communication with interviewees in the lead up to those interviews. Yet despite the limited opportunity for data collection of this nature, the observations made provided a further dimension and valuable insight into the understanding of the organisational context of each SOE (Waddington, 1994). Interviews were scheduled within and around the dynamic and sometimes hectic environments faced by each SOE dealing with both planned and unexpected issues. Such issues ranged from cultural subtleties such as SOE executives who maintained “open door” policies (such that other staff entered the room briefly), to more pressing issues such as power cuts to thousands of homes across Auckland due to extreme winter storms, labour disputes, finalisation of negotiations to divest of a subsidiary, and public relations issues arising from the death of a customer. Thus, observing the environment in which those incidents were addressed provided further insight into the individual SOEs. Within one SOE, for example, the interview was rescheduled for a slightly earlier time, as all staff members (from receptionists to senior executives) were attending the opening reception of a Constable art exhibition sponsored by the SOE, and there was a noticeable atmosphere of excitement within the office. “We don’t do this too often, but it is something we are trying to focus on more – rewarding the staff and doing things together outside the office.” Other interviews were delayed slightly or rescheduled due to divestment negotiations, and threats of labour strikes, resulting in distinctly different atmospheres. As such, observations regarding the reactions and responses of interviewees operating within these changing contexts were noted and evaluated to consider the reflection on the individual interviewees, the respective organisations, and the activities under review within each organisation.

The importance of observation in the context of case studies is noted by Cohen et al. (2000, p.185): “at the heart of every case study lies a method of observation”. In the context of this
study, behavioural observations made ranged primarily from enthusiasm towards the study, to cautious participation. One of the more challenging interviews involved guarded behaviour and responses, highlighting the political sensitivities felt by one participant. However, once the tape recording ended, behaviour within the setting changed significantly to relaxed and conversational. Consistent with Myers and Newman’s (2007) reference to the interview as a drama, the researcher attempted to counter balance the observed responses, intermittently diverting conversation away from topics responded to abrasively, and provided reassurance of confidentiality where a participant seemed cautious or hesitant.

While observation data are recognised as rich and valuable (Cohen et al., 2000), there are also recognised limitations. Pettigrew (1979) notes the act of observation affects the very behaviour being observed. Waddington (1994) raises the issue of bias in what researchers see, and how they interpret such observations. For these reasons, observation data were not considered in isolation, but rather in conjunction with data from interviews and documentary analysis. Thus, individually, each of the three data sources provided different benefits and addressed specific purposes. Collectively, however, the three data sources complemented each other such that the strengths and limitations of each research method were offset to the extent possible, and synergy achieved from combining multiple sources and methods.

5.5 DATA ANALYSIS AND PRESENTATION

As noted by Allan (1991), data collected reflects individual knowledge and consciousness from a range of sources. Collective analysis of such data by the researcher, however, often allows relationships to be identified, conclusions drawn, and phenomenon to be more clearly understood. Such was the process undertaken in this study, to gain an understanding of strategic entrepreneurship. In an effort to maintain a systematic approach, the data analysis was essentially an iterative process involving repeated review of data, together with an ongoing review of related literature, and refinement of findings over an extensive period.

With respect to interview data, the initial phase of interviews was conducted six months after the commencement of this study, allowing approximately two and a half years for analysis and reflection on findings. The second phase of interviews scheduled one year after the initial interviews, allowed appropriate time for reflection on the initial interview data and findings, while still ensuring a suitable timeframe (a further one and a half years) for analysis, findings, and reflection on collective data findings prior to the completion of this study. This analysis was
assisted through the use of a number of research techniques and resources, such as tape recording of interviews and use of software to assist with qualitative and quantitative analysis. Each of these techniques is discussed below.

As part of the interview process, participants’ permission was requested to tape-record the discussion. Transcriptions were then prepared by a professional transcriber, and subsequently reviewed by the researcher, involving preliminary analysis, as well as reformatting and amendments for minor errors and omissions (based on comparisons with the audio recordings). One transcript however, was prepared by the researcher, to ensure familiarity with each step of the research process. While transcriptions provided the opportunity for data to be reviewed and confirmed by individual interviewees thereby enhancing validity (Stake, 2004), they also ensured completeness of data collection from the interview. Thus, the review of transcripts facilitated systematic analysis and interpretation of details obtained during each interview process, from both a micro (line by line) and macro (overriding themes) perspective. In each case, the review of transcripts revealed significant additional data and depth of information which had not been noted by the researcher during the actual interviews. Review of transcripts thus became an iterative process, allowing detailed and thorough data analysis from different perspectives (e.g. nature of activity conducted, operating context of each SOE’s operations, age, industry, and development stage of the SOE). Further, it allowed analysis to focus on data in part or in full, while ultimately preserving the completeness and accuracy of the interview data. The recording of interviews was used to complement rather than substitute note-taking during the discussion (Burgess, 1984). Thus, analysis of transcripts immediately after the relevant interviews focused on verbal communication during the interview, while analysis of non-verbal interview data together with issues making strong initial impressions during the interview, were recorded via notes taken during and directly after each interview.

Both Microsoft Word and qualitative analysis software NVivo 7 were used to categorise, analyse, compare and reformat excerpts from the transcripts, to assist in identifying themes and patterns within each interview, expand on key elements, and identify similarities and divergences between each case. Thus, the software provided systematic support and verification for coding and cross-case comparisons, initially undertaken manually on printouts of the relevant transcripts. Analysis and findings then provided a basis from which generalisations could be drawn, as well as highlighting additional themes which emerged from the cases.
Data from documentary sources, interviews, and observations, were entered into NVivo 7 for the purposes of organising and reviewing the data (Grbich, 1999). Entry involved data reduction, coding (translation and categorisation), and expansion, in order to determine axial and selective codes from three perspectives: entrepreneurship, strategy, and the public sector context (refer to Tables 5.2 and 5.3). While codes for the core (entrepreneurial) elements within the preliminary framework were determined in advance, much of the data analysis pertaining to the strategic aspects of the activity being examined (e.g. leveraging from key strategic resources or competencies), and environmental aspects of the public sector context (e.g. multiple risk profiles) was identified inductively. As such, many of the codes and underlying themes were identified from the data, or refined based on an analysis of the data. With respect to the financial data collected for SOEs, analysis was done using Microsoft Excel for both individual SOEs and the SOE sector as a whole. Hence, the use of techniques and resources such as a tape-recorder, and computer software for both qualitative and quantitative analysis, aimed to promote a more complete, systematic, and objective approach to the data analysis process.

Once initial interviews had been conducted, case summaries were prepared in consistent format, and brief details were added regarding the activity under review. Headings used to present case summaries were a useful tool for sorting, ordering, and prioritising data, and are shown in the first section of Table 5.5 below from an internal (researcher) and external (reader) perspective. This approach to data analysis assisted in identifying common and underlying themes, as well as establishing a systematic basis for comparability which highlighted both similarities and differences among the cases. Similarly, with respect to quantitative data, the categorisation and presentation of data for internal (researcher) and external (reader) analysis also varied slightly, with extended analysis undertaken internally, before selecting and presenting the most pertinent data externally. These differences are indicated in the second column of Table 5.5, identifying data presented and discussed in detail for readers’ own analyses, in subsequent chapters of this thesis.
### Table 5.5 Categorisation and Presentation of Case Summaries and Financial Data

<table>
<thead>
<tr>
<th>Data presentation for internal analysis</th>
<th>Data presentation for external analysis</th>
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<td><strong>1. Case summary categories</strong></td>
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<td>Overview</td>
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<td>Scope of operations</td>
<td>Core business</td>
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<td>Activities</td>
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<td>Strategy</td>
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<td>Vision</td>
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<td>Revenue</td>
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<td>Reputation</td>
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<td>Criticisms</td>
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<td>Returns to Government</td>
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<td>Challenges</td>
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<td>Opportunities</td>
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<td><strong>2. Financial summary categories</strong></td>
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<td>Revenue</td>
<td>Revenue</td>
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<td>Net profit after tax (NPAT)</td>
<td>Net profit after tax (NPAT)</td>
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<tr>
<td>Total assets</td>
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<td>Contributed capital</td>
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<tr>
<td>Equity</td>
<td>Equity</td>
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<tr>
<td>Total liabilities</td>
<td>Total liabilities*</td>
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<tr>
<td>Borrowings</td>
<td>Borrowings*</td>
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<tr>
<td>Dividends as a percentage of NPAT</td>
<td>Dividends as a percentage of NPAT</td>
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<td>Dividends paid</td>
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<td>Tax paid</td>
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<td>Payments to Government in the form of dividends and taxes</td>
<td>Payments to Government in the form of dividends and taxes</td>
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<td>Return on assets</td>
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<td>Return on equity (ROE)</td>
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<td>Return on capital invested (ROCI)</td>
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<td>Cash flow return on investment (ROI)</td>
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<td>Earnings per share (notional calculation)</td>
<td>Earnings per share (notional calculation)</td>
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* denotes data used selectively for external analysis

^ figures analysed on a per annum basis initially over the five year period from 2001-2005, and later for the five year period from 2002 - 2006

### 5.6 Reliability and validity

The quality of research methods and findings is influenced by the processes and procedures employed, and commonly assessed by reference to the elements of reliability and validity reflected in these processes and procedures (Bush, 2002). Accordingly, this section identifies aspects of the research design which are relevant to each of these concepts. While the concepts of reliability and validity were originally developed for use in positivist, quantitative research, there is a general acceptance such concepts apply to both positivist and interpretivist approaches (Bush, 2002).

Reliability is referred to as a level of assurance regarding the consistency of results when using a particular measure in research (Yin, 1993). Thus, to demonstrate that the procedures within this study (e.g. data collection and analysis) could produce reliable results, a number of elements were incorporated into the research design. These elements include structured instruments (Bush, 2002) such as an interview protocol and case study protocol to establish an element of
consistency in the collection of data (Tuckman, 1972), writing up cases in a consistent format (Eisenhardt, 1989), triangulation of data (Yin, 1993), and a structured approach to presentation, and analysis through tabulation (Miles & Huberman, 1994) of both quantitative and qualitative data, each of which enhanced reliability and rigour within the study. Further, the number of cases provided the opportunity for overlapped collection, coding, and analysis of data (Glaser & Strauss, 1967), thereby facilitating flexibility within the systematic data collection and analysis process. While interviews were semi-structured to ensure that they remained conversational, a conscious effort was also made to ensure consistency in the format and content of questions through the use of protocols in every interview.

Validity is referred to in a number of contexts to reflect the appropriateness of the research measures and findings. Internal validity is referred to as the extent to which an indicator appropriately measures the intended construct (Sapsford & Evans, 1984). Thus, if an indicator or measure is not reliable, it cannot be valid (Bell, Bush, Fox, Goodey, & Goulding, 1984). Within qualitative research there is a tension between the notions of reliability and validity, such that enhancing one of these constructs requires a reduction in the other. In the context of interviews, for example, a more flexible approach will enhance validity, but simultaneously reduce reliability or consistency of approach. For this reason, researchers such as Cohen et al. (2000), and Denzin and Lincoln (1998), consider validity as inappropriate to qualitative research. Bassey (2002) supports this view, suggesting an alternative concept of trustworthiness for qualitative research. Accordingly, trustworthiness and reliability were balanced with validity through a number of measures. Extending the invitation to participate in this study to all 17 SOEs effectively constrained variation with respect to case study subjects, and sharpened external validity (Eisenhardt, 1989). Similarly, triangulation of data and replication of findings enhanced confidence in the validity of the findings (Eisenhardt, 1989). The qualitative aspect of the study assisted in establishing internal validity through examining the “how” and “why” (Yin, 1993). Lastly, tying emergent findings and theory to literature both consistent and conflicting with those findings served to enhance and strengthen internal validity (Eisenhardt, 1989).

With respect to interviews, the main issue relating to internal validity is bias (Bush, 2002) from both the researcher and interviewee. As noted previously, a conscious effort was made to limit personal researcher bias, and make appropriate allowances for interviewee bias, when analysing the data. Similar principles were applied to data obtained from personal observation. To some extent, minimisation of bias was effectively aided by interviewees openly acknowledging issues
within their own organisation which they did not fully understand, and through the researcher exploring data with an inductive approach, in areas where no preconceived ideas had been formed. As noted by Eisenhardt (1989), the very nature of a case study design also assists in reducing bias through the juxtaposition of similarities and differences within the various cases. Thus, divergent and at times contradictory data among the 12 cases required an open mind to uncover findings and rationalise common themes.

In relation to the quantitative data, numbers were taken from audited annual reports, and calculations were prepared based on those numbers. Thus, reliability rests on the external audit process. With respect to the validity of the measures selected and used to evaluate financial performance, these issues are addressed in Section 5.4 (and discussed in Chapter 3). Collectively, these measures provide a rounded view of SOEs' financial performance. In addition, quantitative data sourced from interviewees provided further detail regarding the financial implications of the specific activity under review, and was compared for consistency (where possible), with publicly available data.

External validity is referred to as the degree to which findings can be generalised to other settings (Denzin & Lincoln, 1998). As detailed in Section 5.3, participants of this study were deliberately selected for their commonalities and differences, allowing strategic entrepreneurship to be explored within a range of SOEs. Yet, while the specific findings are representative of the activities and organisations examined, the broader findings and conclusions drawn from this study are viewed as being relevant not only to SOEs in New Zealand, but all government organisations, given the wide range in scope for NPM (Osborne & Gaebler, 1992). Further, insights into the process of strategic entrepreneurship, irrespective of the SOE context of this study, are considered potentially relevant to business activity in general (i.e. activity undertaken in both the public and private sector, by individuals and organisations), operating in the context of a changing competitive landscape. Hence, the selection of organisations with a core commonality, and the opportunity for replication, aimed to enhance the findings and generalisability of those findings, thereby addressing external validity.

5.7 Ethical issues
Ethics is referred as the attendant moral issues implicit within research (Cohen et al., 2000), an often informal contract or obligation between the researcher and the researched (Stake, 2004). In studying the phenomena of strategic entrepreneurship, the involvement of organisations and
individuals with the study, gives rise to social obligations in relation to those both involved in, and affected by the research. As such, various steps were incorporated in the research to address these obligations and ensure the study promoted openness and voluntarism (Rees, 1991), professionalism and privacy, and the option of confidentiality (Burgess, 1984).

An ethics application was submitted to Auckland University of Technology Ethics Committee in order to obtain approval for the proposed study. Once the application was approved (AUTEC 06/41 dated 10 May 2006), each SOE was approached and informed of the study, and executives’ participation was requested. Individuals were presented with a verbal overview of the project, as well as written information, such that they could review the relevant details and seek clarification on any issues before making a decision. Information was provided openly, participation was emphasised as voluntary, and participants were offered the option of remaining anonymous at both the individual and organisational level.

Written consent to participate was obtained from each participant before arranging interviews, permission was obtained to record discussions, and transcripts were forwarded to participants shortly after the interview for their review and approval, prior to formal data analysis. Throughout the research process, a conscious effort was made to maintain open and professional communication. Participants were updated on various developments where appropriate, advised once the study had been completed, and offered a copy of the final thesis. Essentially the findings and conclusions drawn from this study are based on the collective output of the participants who agreed to share their knowledge and experience, as analysed by the researcher, and compared with relevant academic literature. Ultimately, these findings aim to assist in developing the understanding of strategic entrepreneurship from both a theoretical and practical viewpoint, and are not considered to have adverse implications on those involved directly or indirectly in the research.

5.8 SUMMARY
This chapter has presented the methods of research considered most appropriate to the examination of strategic entrepreneurship in practice, together with the benefits and limitations of these methods. A combination of qualitative and quantitative data within a case study design is viewed as the most appropriate method of research, given the limited understanding of strategic entrepreneurship to date, and the absence of research verifying its financial benefits. The nature of SOEs, depth of analysis afforded by examining 12 organisations representative of a
homogenous group (yet diverse in nature), the opportunity for both individual case analysis and multiple case comparison, and scope for replication of findings, are central features of this study. Further, evaluation of findings both cumulatively and collectively, provides the opportunity to examine and extend themes in the context of subsequent case analyses, representing a foundation for further theory building.

The following chapters present the data and findings obtained by employing the methods and techniques detailed above on the activities examined within the 12 SOEs. Analysis and comparison of these data and findings provides the opportunity to examine the notion of strategic entrepreneurship in practice, consider whether support for the preliminary or rival frameworks exists, and review, refine, and extend the preliminary framework presented in Chapter 2.
CHAPTER 6
FINDINGS: NEW ZEALAND’S SOE SECTOR

6.1 INTRODUCTION
As noted in Chapter 4, much debate exists regarding the potential success of new public management [NPM] in practice, and the viability of NPM’s financial returns in particular. While these issues were examined as part of this study, a number of emergent findings were also uncovered specific to the SOE context. Accordingly, this chapter considers these findings by reviewing the success of New Zealand’s SOE sector, examining the extent to which the reforms are working effectively (Section 6.2), governance and accountability mechanisms in practice (Section 6.3), and the performance and financial returns of SOEs (Section 6.4). Issues of SOEs’ public identity and ownership then are explored (Section 6.5), followed by an examination of the risks and limitations relevant to the SOE sector’s profile (Section 6.6). Consideration is then given to SOEs’ activities in view of Government announcements and policies (Section 6.7). Last, a summary the key findings from this chapter are presented (Section 6.8), highlighting areas in which the SOE reforms are working effectively, and areas for improvement.

6.2 NEW ZEALAND’S SOE REFORMS IN PRACTICE
From the literature examined in Chapter 4, it is evident that NPM has both supporters and opponents. Further, of those in support of NPM, many have recognised New Zealand as a prime example. Accordingly this section examines the success of New Zealand’s SOE reforms in practice, presenting an overview of how effectively the reforms are working based on examination from the outside (i.e. based on secondary data analysis), and inquiry from the inside (i.e. analysis of interviews with SOE executives).

6.2.1 THE EFFECTIVENESS OF NEW ZEALAND’S SOE REFORMS
From an internal perspective, SOE executives consider New Zealand’s public sector reforms are operating effectively. Senior executives’ comments indicate SOEs are essentially operating in deregulated markets, and competing openly against private sector firms21.

The SOE Act is quite a unique piece of legislation. It seemed to be well timed and well thought out legislation. I haven’t really [seen a similar model elsewhere]. It’s the model of getting separated from Government, putting in a commercial Board, and holding them

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21 Minor exceptions to this statement were noted previously in Section 4.4.1 due to three SOEs operating to some extent as monopolies (i.e. Asure, NZ Railways, and Transpower) and are discussed further in Section 6.2.2.
accountable, that has worked very well. It’s survived several governments and obviously change of governments and ministers. And to be honest, we, and a lot of our clients, when we talk to them, we talk about commercialisation. That’s what we point to: ‘Here’s the model, here’s the Minister, two ministers holding the shares through a Board’ (Senior executive, SOE B, 2006).

It seems to work quite well in terms of the Government letting you know what their view is on matters, and your Board at times being able to push back and say ‘well we hear what you’re saying, but this is what we as a Board, as an independent SOE Board, believe we need to do’. So I think while it’s a funny sort of model, it does seem to work (Senior executive, SOE L).

Comments from other SOE executives indicate the sense of responsibility to the SOE Act, and acknowledgement of their role and obligations.

We don’t have any issues with the model, and if we did, it wouldn’t be for us to change it (SOE H, 2006).

6.2.2 Government revenue

In most cases, revenue from Government is minimal, and services provided to Government are won (and lost) through commercial tender.

We have no Government revenue at all (SOE E, 2006).

90 per cent yes, [is non-government revenue]. And the Government contracts are effectively won by open tender (SOE B, 2006).

Two exceptions were noted, however, within NZ Railways and MetService. NZ Railways expressly relies on continued Government funding to finance its operations. MetService has a long-term contract awarded to it without any tender process. Each of these situations is considered in further detail below.

New Zealand Railways

NZ Railways was privatised in 1993, purchased by Toll New Zealand Limited [Toll], and subsequently rebranded. In 2004, NZ Railways repurchased New Zealand’s railway infrastructure from Toll, noting the infrastructure had not been maintained, and that significant funding (in the range of $200 million) would be required for its restoration and upgrade (NZ

22 As noted previously, individual executives and SOEs have generally not been identified with respect to interview data, due to requests for confidentiality from executives in three SOEs. However, where comments are effectively self-identifying, individual SOEs are expressly acknowledged (with permission). For the few comments which may be considered sensitive or controversial, the identity of the SOE is simply referred to as “SOE **”.

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Railways, 2005). Toll continued to use the railways under an access agreement, however a dispute relating to the amount payable under this agreement resulted in the Government compensating NZ Railways for the amount Toll refused to pay in 2005. While revenue is generated from a range of activities including consultancy services, and the lease and sale of property along the rail corridor, NZ Railways remains largely dependent on the Government for financing significant operating and capital maintenance expenditure. In 2005, NZ Railways received $61.6 million in Government grants. In 2006, the SOE received additional funding of more than $200 million from the Government, for ongoing capital investment.

It was set up as a sort of semi-commercial crown entity basically and seemed to be making some quite good inroads but then it was sold (Senior executive, NZ Railways, 2006).

Given the task faced by NZ Railways to restore and upgrade the rail network, an agreement was made between the Government and the SOE, such that it was not required to make a profit. This arrangement directly opposes the intention of the SOE reforms, and is the only agreement of this kind which has been made with a New Zealand SOE.

We’re not a typical SOE. We’re probably a bit of a funny SOE. Our aim is not to make a profit. We’ve got a letter of recommendation from the Minister [of SOEs] which instructs us to cover our costs. We are actually sort of a semi-commercial enterprise. This happens to most railways in the world, there’s quite a strong underlying government support. In fact in Europe most of the infrastructure costs are actually paid for by the government. We’re not saying we’re a commercial operator. Our aim up until now has been to cover our costs.

The privatisation experience turned out to be quite disastrous [for us]. They [Toll] took hundreds of millions of dollars out of rail and left a wreck. I suppose the private sector doesn’t really have a long-term vision [regarding profit]; they [weren’t] making enough profit (Senior executive, NZ Railways, 2006).

Regarding the future of NZ Railways, comments indicate the SOE is unlikely to operate as a fully commercial organisation.

The position for rail in the future - a semi-commercial entity, yes. To make sure that it’s acceptable to the private sector organisation, the Government has to kick in money to keep it operating. So we’re in that situation here – ‘post franchise opportunism’. I like that phrase. You come in and promise the earth, and then… (Senior executive, NZ Railways, 2006).

MetService

In the case of MetService, a long-term contract between the Government and MetService has been questioned and criticised in the public domain (Gorman, 2002, 2007a, 2007b) due to the absence of any tender process. The contract was initially signed in 1992 for $14 million per
annum, however it was not available for tender (Gorman, 2002). While a review of the contract by Deloitte concluded the consideration paid by the Government was commercially appropriate for the services provided (Gorman, 2007a), allegations have been made that the arrangement is unfair and anti-competitive.

When questioned about whether MetService is operating well within the scope of the SOE reforms, MetService’s senior executive expressed reservation, acknowledging that MetService does not operate as an entirely independent organisation, given the Government contract represents approximately 50 per cent of the organisation’s business. With respect to whether the services are provided at commercial rates, cost were referred to as “cheaper” than commercial rates, indicating that based on the risk involved, and the capital investment required, the rate of return was quite modest.

So is it perhaps a trade-off of lower returns because of the lower risk, if you’ve got a long-term customer who is someone as secure as the Government?

Well, the issue is, if you put that contract out on the market, yes, somebody could provide 10 per cent of that contract at a lower price. No one could provide all of those services. So what you’d end up doing is you’d have to break the contract down and let it out to 10 different parties and you’d get an erosion of the quality of services, it’s absolutely guaranteed. And the infrastructure would get eroded, the services would be eroded. And if you drew a diagram and put MetService in the middle, who depends on us for critical services? Airlines can’t fly without us. The whole [community] in a national emergency and civil defence, we’re a critical component in any natural disaster. You wouldn’t want to give that to the hands of a whole bunch of private players out there. Because when a tsunami hits, they’re going to be worried about their own butts; they’re not going to be worried about forecasting for the national good, the public good (Senior executive, MetService, 2007).

These issues reveal anomalies within the SOE framework do exist in practice, however such anomalies seem to be isolated cases. Further, analysis of these cases highlights a number of other important factors in the context of the SOE framework, including the potential problems of privatisation, and the importance of SOEs from a societal and long-term infrastructure perspective (i.e. NZ Railways). Similarly, security of supply and the difficulties and risks of private sector supply for large-scale, essential services is also highlighted in the case of MetService. Each of these issues is worthy of consideration, and is discussed further in Chapter 9.

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23 One of the “Big 4” accounting firms.

24 Quotes in italics represent questions and comments by the researcher during the interviews with SOE executives.
6.2.3 Freedom of Commercial Choice

Interview comments show a large majority of executives believe there is freedom of commercial choice, and a high awareness of responsibility for commercial results.

I think generally yes, [we do have freedom of commercial choice]. Any company has to go through the rigour of a shareholder test (Senior executive, SOE E, 2006).

It's no different to any other commercial organisation; you have to convince your shareholder [that what you're doing] is in their best interests. You have to understand [their] risk profile (Senior executive, SOE F, 2006).

My experience in [two different] SOEs is that when you've gone to the Minister with a reasoned argument, you certainly get a hearing.

I think if we went and started to grow tomatoes, the Minister would be a little bit interested in that (laughter). But I think we find ourselves rooted in a domain expertise. We self-limit more than by edict. I think the Minister would probably have an eyebrow raised [if we wanted to do something quite different from our core business], but if we thought it was a really good thing to do, you'd have the discussion.

So does the Government limit us? Probably a little bit, but not probably as much as our own self-limiting (Senior executive, SOE A, 2006).

Such comments highlight a number of issues including the freedom SOEs do have, the nature of SOEs as generally risk averse organisations, and the tendency to focus on the core competencies of the organisation, each of which were recurring themes. Also evident is the pressure felt by SOEs to perform well, which is considered further in Sections 6.5 and 6.6, in the context of public profile and risk.

6.2.4 Competition versus Monopolies

Comments by executives indicate SOEs do operate in competitive markets. Further, SOEs in monopoly positions show an awareness of the need to perform such that they are prepared for future changes in the industry (i.e. deregulation), and so that existing contracts are renewed.

Most of the work that we are winning is competitive in some form. Either literally, a RFP [request for proposal] to compete, or the customer has some choice to either do it themselves or go and get a price from somewhere else. So it's relatively unusual to not have competitors in some form lurking behind (Senior executive, SOE A, 2006).

We also have as part of our business a contract which is currently under review, and [a government organisation] currently pays us to run that. We will need to have that substantially increased to be able to go forward, because we're having to buy and put in an entire new computer system, a very complex computer system. So that's going to be
an awkward negotiation because the outcome of it is, if we’re going to continue doing the job, we’re going to have to charge [significantly] more. There’s always the potential we might lose that contract. That’s how many people...60 or 70 people [involved] (Senior executive, SOE L, 2007).

In 2006, two SOEs, AgriQuality and Asure, were in the unusual position of competing against each other for various services, as each organisation gradually expanded the scope of its operations. Such competition raised a number of issues including the potential benefits of competition and reduced costs to the market, versus the tensions, conflict, and decreasing margins and profits for both the industry and the Government as shareholder.

Getting into our area of [business] is stupid because we’ve got the same shareholder. So what they’ve done is gone ahead and built the business by reducing their prices. Their strategy has been quite different; their strategy has been low cost, low margins, high efficiency. Whereas we’ve got a different strategy. We’ve wanted to maintain margins. So what that’s done is we’ve had to lay people off and we’ve had to reduce some of our activities and they’ve increased their activities but at a lower price. So what they’ve effectively done is reduced shareholder value.

Our argument is that [both organisations are] about government [quality and assurance], so if you put them together, you get that. And that actually adds more value and also it allows us to spread our corporate cost on a larger base of revenue. And government is yet to make a decision on this issue; we’ve been trying to do this for the last three years. We did put a bid in to buy them; this would have been the first case of a SOE trying to acquire another SOE (laughter). But you know, there’s a lot of political issues (Senior executive, AgriQuality, 2006).

As competition gradually escalated between the two SOEs, AgriQuality tried to expand into the business of meat inspection (Asure’s main business), and the Government subsequently reviewed the situation and prohibited AgriQuality from undertaking such activity (Barber, 2007).

In 2007, a similar conflict arose involving MetService and the National Institute of Water and Atmospheric Research (NIWA), both former divisions of New Zealand’s Meteorological Service (New Zealand Herald, 2007). A lack of co-operation and emerging competition between MetService as a SOE, and NIWA as a crown research institute (which is also expected to pay dividends to the Government), resulted in public questioning as to whether the two organisations should be merged and return to one.

The potential conflict between government organisations with a commercial focus raises a number

25 Prior to corporatisation in 1998, both AgriQuality and Asure were divisions of the same Government department, the Ministry of Agriculture and Finance. AgriQuality’s core business was quality assurance and bio-security services for the food and agricultural industries. Asure’s core business was meat inspection (CCMAU, 2005).
Certainly there is competition between SOEs operating in the energy sector. However, competition within industries where very few organisations operate, and where such organisations are government-owned, raises the question of what is the most effective form of organisation for such industries, and whether there can be healthy competition without unhealthy conflict. A further issue for consideration is whether governments should encourage such competition, or introduce mechanisms or regulations to avoid it. These issues are discussed in Chapter 9.

6.2.5 SOEs as Public Sector versus Private Sector Organisations

As noted previously (refer to Section 4.5.2), the SOE framework was designed such that SOEs could operate similar to private sector organisations, albeit under Government ownership. While comments by SOE executives indicate a general consensus that SOEs do operate similar to private sector firms, a number of important issues and distinctions were raised.

‘Is there anything [we] would do differently if [we were] a private sector organisation?’ We might be more diversification orientated, more lateral in our administration, but we’re only just starting. It’s not holding us back (Senior executive, SOE A, 2006).

Well I think we would have to be focused more on profit if we were privately owned. We do take positions from time to time, which are seen as being in the wider interest of the country rather than purely in the business interest of the company. So we are less focused on profit than we would be if we were privately owned (Senior executive, SOE L, 2006).

It’s fair to say, and I wouldn’t want to overstate this, that [private sector organisations in the industry] can act a little bit more commercially than we can. We have to keep an eye on the bigger picture, but essentially we operate in a commercial sense (Senior executive, SOE D, 2006).

We wouldn’t be spending so much time up-skilling the officials who critique us. In our case, the shareholders are represented, as you know, by CCMAU and the Treasury and I guess the one constraint or, if you like, criticism I would have, is that often the officials in those departments aren’t necessarily familiar with the business, so to ask them to critique a business case is a bit of a challenge. So that’s one issue that comes up from time to time (Senior executive, SOE E, 2006).

Also noted, was the nature of the political environment, in which SOEs inevitably operate.

The political climate changes obviously, and is of a shorter term nature than a lot of publicly-held companies. [Normally] shareholders are in there for a long time, so that’s the difference that SOEs have; the education process is probably more frequent than what a publicly listed entity would go through. And that influences the direction of the business (Senior executive, SOE, G, 2006).
I don’t think we [are restricted]. We’re certainly not as free as a completely private company, but that’s more to do with public expectation of how a government owned body should operate, so there are no real restrictions on our commercial behaviour other than the expectation which is in our Statement of Corporate Intent (SCI) that we show some sort of social responsibility, although there’s no real definition of what that is supposed to mean (Senior executive, SOE L, 2006).

Such comments highlight that while SOE executives believe that SOEs operate similar to private sector organisations, a number of tensions and challenges are relevant specifically to SOEs. These include gaining shareholder approval for diversification outside the scope of SOEs’ core business activities, the tension between financial and social objectives (and the lack of clarity surrounding these objectives), changes in Government over time and the associated re-education process, and the public identity and perceived “ownership” of SOEs by various stakeholders. Each of these issues highlights the complexities unique to SOEs, which are examined further in Section 6.5.

6.2.6 DEVELOPMENTS ONE YEAR LATER

Based on discussions one year later, there is little change in the views of SOE executives, with interviewees openly confirming they still believe the reforms are working well, and freedom of commercial choice continues to exist within the bounds of the SOE framework.

We have a lot of commercial freedom. If you take the example of this [recent overseas investment], we have some freedom to invest offshore without going to the Minister; so we don’t need permission (Senior executive, SOE A, 2007).

Government revenue continues to be minimal based on commercial contracts, with the exception of the two SOEs noted previously. One year later, a key change within the sector is the announcement that a merger has been approved between AgriQuality and Asure, effectively resolving the issue of competition between the two SOEs. Last, a heightened awareness of the unique nature of SOEs as commercial organisations owned by Government, also emerges as a key difference in the second phase of interviews, as New Zealand approached an election year. This latter issue is explored further in Section 6.7 in the context of changes in Government policy and the political climate.

6.3 GOVERNANCE AND ACCOUNTABILITY

As noted in Chapter 4, the governance and accountability mechanisms set out in the SOE Act are such that SOEs are governed by the Board of Directors, and accountable to two shareholding ministers, who are in turn accountable to Parliament. There is an intention that SOEs operate
free from political influence, but maintain open communication channels. There is also an expectation that SOEs are funded with a mix of debt and equity, and are able to pay dividends on a regular basis. An examination of these issues in practice, however, reveals a number of complexities, which are reviewed under the relevant headings below.

6.3.1 Governance

Discussions with Jean-Pierre Andre, Senior Analyst of Treasury (personal communication, June 30, 2006), reveal SOEs are answerable to a number of different authorities, including the Ministers as shareholders, central Government, CCMAU, Treasury, and the Board of Directors. Further, a number of other government authorities also interact with SOEs including the Auditor General and Parliamentary select committees. Despite these multiple lines of accountability, SOEs are intended to be managed similar to private sector organisations, governed by commercial Boards, and answerable to shareholders.

SOEs are subject to the SOE Act and that specifies the generic objectives for SOEs and the duties and obligations of directors and shareholders, and provides legal authority for the establishment of SOEs. But SOEs are also companies registered under the Companies Act, and those two Acts run side by side. The SOE Act is all about transparency in the operations of SOEs; separating duties between managers and owners and accountability of the various roles.

The Companies Act does provide shareholders with certain powers to intervene in company decision making, for example, if the company is doing a major transaction, which is defined as exceeding 50 per cent of its assets or thereabouts, a company has to come to the Ministers to seek approval. And this would be the same for a private company as well.

Ministers have independent advisors, the Treasury for the Minister of Finance, and the CCMAU for the Minister of SOEs. We [Treasury] advise on commercial and financial performance issues, fiscal issues, economic issues, balance sheet issues, strategic issues. With the two agencies there’s an issue of overlap; who takes the lead, so Treasury tends to take the lead on balance sheet and economic issues, CCMAU takes the lead on commercial and performance matters. Ministers and their advisors have to be careful when getting involved with SOEs, that we don’t take away from the accountability of the Boards to do their roles. So we’ve got to maintain an arms-length relationship. For example, advisors don’t have a seat at the Board, we don’t get Board papers (Andre, personal communication, June 30, 2006).

Thus, SOEs operate within a framework where Government’s role is to advise but not interfere. An examination of the SOE sector in practice reveals both support for this framework, as well as variations, and is considered below.
6.3.2 Freedom from Political Influence

As noted above, the intention of the SOE framework is such that SOEs are answerable to Government ministers as shareholders, but intended to operate free from political influence in their day-to-day operations. Comments on this issue in practice by executives from almost all of the participating SOEs, suggest this process is generally followed.

In general yes, [we have freedom from political influence] (Senior executive, SOE E, 2006).

Yes, we have rules. We have to work within them, but in general they don't restrict you (Senior executive, SOE K, 2006).

However, a number of exceptions and complications were noted.

There’s a great deal of interest in [our] day-to-day operations and whether or not that becomes political influence or interference is probably a matter of interpretation (Senior executive, SOE L, 2006).

I wouldn’t say [we're] completely free of political influence or interference. The Labour Party has been far more hands-on than the National Party ever was. They’d express their view, but [you were left to make your own decision]. The Labour Party is far more inclined to express disapproval of something that goes against their policy and there's an inference that you may want to change your behaviour (Senior executive, SOE *, 2006).

It's difficult to see the line of influence because [Government has] a commercial mask and a political mask. We've been going through long-term hold, and I guess that's a commercial process. At one point [Meridian] pulled back from Australia or offshore investments, and I sense there was a political undertone to that (Senior executive, SOE D, 2006).

Such comments are indicative of a number of issues, including cases of government influence or interference do exist, often with a blurred distinction between commercial and political interests. Further, incidences of interpretation and “second-guessing” within the SOE sector occasionally emerge from various SOEs’ actions. By way of example, Meridian’s senior executive (personal communication, 2006) advised the organisation was not acting under the influence of Government in selling its Australian investment. However, then Minister for SOEs Trevor Mallard (2006c) subsequently used Meridian’s Australian divestment as an example of good policy (consistent with Government policy), such that SOEs focus on entrepreneurial opportunities within the scope of their core business, rather than non-core areas. This incident raises the issue of communication within the SOE sector, and communication between the SOE sector and Government. In both cases there seems to be opportunities for improvement. Overall, however,
comments suggest SOEs do operate with freedom from political interference, and plan their strategies and operations accordingly. The issue of Government support and communication is considered further below.

6.3.3 Government Support and Communication

In general, comments by SOE executives indicate Government is supportive, with open and regular communication.

“We’re seeking to invest and grow and that’s supported by our shareholder. I think the issue may be, if we were seeking to grow in a direction that [they were uncomfortable with]; that they felt was beyond our capabilities or pushed the boundary, then we may have an issue. But we’ve been seeking to grow in areas of our business that are reasonably close to our core or strategic capabilities, so at this stage that hasn’t [been] an issue (Senior executive, SOE J, 2006).

With respect to the support and influence of Government on SOEs, one executive noted the close relationship between the Government as owners and SOE executive management in the context of the Board of Directors. Thus, while few comments were made identifying specific restrictions, the importance of relational context was highlighted.

“There’s a question of whether a government owner would be more conservative than a private owner. We haven’t hit any hurdles but that may also be [because] we have a Board appointed by the shareholder. So there may be a self-balancing mechanism, whereby perhaps there’s influence at the Board level. But we haven’t struck any issues (Senior executive, SOE J, 2006).

One isolated but notable exception, however, was SOE B, whose senior executive’s comments highlighted unwelcome Government restrictions.

“We’re at the cusp now of taking the next step [to expand and float on the stock exchange], and I think we’ve got some constraints, responsibility and financing constraints (Senior executive, SOE B, 2006).

Thus, isolated cases of restriction are rare, but do exist. This issue is explored further in Section 6.3.4, in the context of Government funding and financing. The comments above also highlight the importance of regular communication between SOEs and Government, which was a recurring theme in discussions with SOE executives, together with references to the “no surprises” policy.

“We spend a lot of time with CCMAU and I think they appreciate that so we keep them involved all the time with things coming up and what things we’re doing so, no surprises. So that’s our mantra and yes, we have their support (Senior executive, SOE K, 2006).

There’s a lot of informal contact with the Government. The direct powers that the Government has under the SOE Act, and others, to interact with us, are rarely if ever
It's much more informal contact and suggestions and indications of Government views that are the way it seems to work rather than any formal [methods]. The Government is an important stakeholder along with many other stakeholders so we obviously take note of what their view is. That doesn't mean we are always aligned with what their view is but we do obviously give their view a lot of weight (Senior executive, SOE L, 2006).

Hence, open and regular channels of communication, particularly in an informal sense, have established open and effective relationships between Government and SOEs. Further, the notion of SOEs looking to grow in areas central to their core competencies resurfaces.

### 6.3.4 Government Funding and Financing

As noted previously (Section 4.5.2), SOEs are expected to pay regular dividends to the Crown, based on the surplus cash balance available within each SOE. This payment is negotiated regularly between individual SOEs and the Government. Funding requirements, in addition to the amount of capital contributed by Government, are the responsibility of individual SOEs, and are typically represented by debt financing sourced from private sector institutions on commercial terms. The Government expects SOEs to have a balance of debt and equity funding, and SOEs’ debt to equity ratios are reviewed regularly by the Government. These aspects of the SOE framework are reiterated by Jean-Pierre Andre (personal communication, June 30, 2006).

SOEs borrow from the private sector in their own name and the financing decisions are for the SOE Boards to decide. And it depends on the nature of their business and the risks they face, to determine at the time the debt they take on. And you know, the Crown does not guarantee those debts in any shape, matter, or form. If they were to become insolvent, obviously the standard insolvency laws apply and there’s only one example I know of (that’s Terralink), where a former SOE went bankrupt. Having said that, Ministers expect SOE borrowings and balance sheets to have a composition which is comparable to their private sector counterparts.

Within four SOEs, management and the Board have been able to justify that they do not have a need for debt, however the issue continues to be raised and reviewed by Government on a regular basis.

We have no borrowings in the form of loans.

*Is that an area of contention?*

We have to keep telling [the Government] that they can’t rip all our cash out of the business, because it’s there for a reason. It’s not actually our cash; our customers have paid in advance for much of it. Because what they’re doing with some SOEs is looking at the balance sheet and saying ‘they could free up some of that money, we could take it into the Government coffers and you can finance lots of debt.’ We can’t really do that, [it’s not that simple] (Senior executive, SOE C, 2006).
For the most part, however, SOEs are very aware of the expectation to be funded by a mix of debt and equity, and operate accordingly.

We probably couldn't go back to our shareholder and say we want more money because of the leverage of the debt to equity ratio (Senior executive, SOE B, 2006).

In a lot of the activity we look for, we look to be self-funding. We're not going back to the Government seeking funds to grow and develop in different areas. And so I guess the decision is an easier one for them as well (Senior executive, SOE K, 2006).

Such comments indicate the SOE framework does operate as planned, but also raise the complex issue of whether SOEs should be expected to have debt, if management is able and prefers to operate without it. Thus, the issue becomes one of effective capital structuring for SOEs as Government organisations and investments, versus freedom of choice for SOE management. This issue is reflected on somewhat philosophically by the senior executive of SOE K (2007):

I guess the Government has assets and it wants to work them a certain amount I would assume, reading between the lines.

With respect to dividends, comments by SOE executives confirm an awareness of Government's expectations. Each SOE has negotiated varying percentages of dividend payments, ranging from 0 per cent to 70 per cent of profits. In practice, however, dividend payments range from 0 per cent to 100 per cent of profits, as well as special dividends from capital profits, depending on each SOE's surplus cash balances and capital expenditure requirements.

Last year we paid 100 per cent. I think again this year we'll be looking at 100 per cent (Senior executive, SOE C, 2006).

The company, when it was initially formed, had quite high levels of debt and we basically didn't pay dividends for a number of years while we sorted out the capital structure. That was not an issue for our shareholder, and we haven't had a requirement for any capital injections. Clearly through waiving any dividends initially, they've been supportive of the company and its goals (Senior executive, SOE H, 2006).

Also evident is the expectation upon SOEs to pay dividends, contrasted with the relative importance placed upon dividends within the scope of an SOE's operations.

That's been a subject of quite extensive debate in recent years. We now have an agreement, or we have informed the Government and they have agreed that we will not be paying dividends for the next five years. And that's because of the need to undertake massive capital investment (Senior executive, SOE L, 2006).
I know we’ve certainly been paying some big dividends. And I think there’s a constant tension in that area (Senior executive, SOE F, 2007).

We pay a dividend, but ‘safety versus dividends’, no argument. We don’t play silly. We know where we want to be first (Senior executive, SOE A, 2006).

And in the scale of things, we pay $5 or $6 million dividends; well that doesn’t actually go a long way in terms of government spending. So it’s not like [other SOEs which are] paying $100 million; $6 million is not earth shattering in terms of the Government coffers. They’re not after us in terms of what money we’re putting back in. They’re using a dividend as a measure of are we operating commercially, and so far we are (Senior executive, SOE A, 2007).

We’re a rounding error down there at Treasury. A dividend could be $3 million, so what if it’s $4 million or $2 million. We care about it for personal pride reasons, but we’re not swinging the numbers any way (Senior executive, SOE G, 2007).

Thus, based on the comments above, it seems a long-term view of SOEs is supported by the Government in practice. However, not all SOEs have found the dividend negotiations with Government an easy task. Further, the relative importance and value placed on dividends paid by SOEs, compared to their operational performance and overall contribution, is also apparent.

6.3.5 ACCOUNTABILITY
Comments by SOE executives revealed a strong awareness of accountability consistent with the SOE regulatory framework.

There’s quite a regulatory oversight, particularly via the governance structure, and there’s also a requirement to provide a SCI (Statement of Corporate Intent), and to be consistent with that in the dealings that the SOE has. While it can be bureaucratic at times, it’s essentially a healthy control, particularly for a business like ours, which is extremely broad in scope. And as a consequence [there’s] an imperative to ensure that you stay consistent with that theme, and not become too scattergun in your approach (Senior executive, SOE B, 2007).

However, the burden of multiple lines of accountability specific to the SOE sector, was also highlighted.

The Board reports to the SOE Minister, who governs through a systematic monitoring authority, CCMAU. Unlike a private company, I would say CCMAU has quite an influence on what we do and how we do it.

We get audited and then there is a second audit from CCMAU, and they ask a lot of questions. Any of the select committees can review us. Our Executive has to go to the
Select Committee two or three times a year to answer questions like ‘how many trips did you have overseas?’, ‘what did they cost?’ etc. In a private company you wouldn’t have those things. Those are the differences. A lot more transparency required; [extra accountability] (Senior executive, SOE B, 2006).

While most of the executives simply acknowledged accountability frameworks have been implemented as intended, one SOE executive raised the issue of unnecessary levels of accountability specific to SOEs.

We’re one of the most highly regulated SOEs (Senior executive, Transpower, 2006)

Further questioning, however, revealed these accountabilities were specific to operating in that particular industry, rather than being a SOE. This issue leads to a further complexity, in that industry regulators (e.g. Electricity Commission, Commerce Commission) are essentially appointed by the Government. As such, SOE accountability to Government in this context is indirect rather than direct, but ultimately applies under a framework established by the Government. Thus, the issue arises as to who is ultimately accountable for situations involving high levels of regulation and at times overlapping and conflicting accountabilities. This issue is considered further in Chapter 9.

**6.3.6 Board support and appointments**

In the first phase of interviews, opinions were mixed as to the value of the Board of Directors, and the Board appointments made by SOEs’ shareholding Ministers. In general, however, comments indicated most SOEs viewed the Boards as very useful in guiding the organisation.

The Boards, despite the rhetoric in the public domain last month, are generally pretty smart. The diversity of the Boards is quite interesting, and in general, are liberating companies that are going to do some bold things (Senior executive, SOE A, 2006).

We have our own Board, a good mix of people to move the business forward. That was the catalyst really, the thinking, in terms of the latest strategic plan and strategic change (Senior executive, SOE K, 2006).

If it wasn’t for [our Chief Executive] and the Board’s determination, we wouldn’t [have the strategic direction and be making the progress] we are now (Senior executive, SOE D, 2006).

However, exceptions were also noted in the initial phase of interviews.

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26 In June 2006, findings published from a study undertaken by Richard Norman of Victoria University in Wellington, revealed many executives in the SOE sector believed members of the Board were political appointments (Victoria University of Wellington, 2006).
The demeanour and the nature of the Board [has been an issue in previous years]. Sometimes people on the Board are possibly [political appointments]. They come through because they’ve done their time in industry, [and don’t seem to] make a positive contribution to the Board (Senior executive, SOE B, 2006).

6.3.7 DEVELOPMENTS ONE YEAR LATER

A review of executives’ comments one year later reveals a number of changes. With respect to freedom from political influence, particularly noticeable are recurring references to the New Zealand Government elections (scheduled for 2008) which were effectively one year closer.

The Government has become more interfering, and I’m sure all other SOEs will say the same. We’re having an election next year which is changing the political environment hugely (Senior executive, SOE E, 2007).

Governments start going into election mode six months out, and SOEs like ours are told to keep our heads down and don’t say anything for six months (Senior executive, SOE D, 2007).

Close relations and communications between SOEs and Government have been maintained.

Like most SOEs we take a no surprises approach. So we probably, we don’t quite consult, but we probably come close to the line of consulting more often than a private business would, but it’s mostly just around making sure that CCMAU and the Minister are aware of us doing things. Sometimes we do it slightly more permission-based than perhaps is needed. But, we’ve got a good relationship with the Minster, and the Minister leaves us alone, so no, I think we get a pretty good run (Senior executive, SOE A, 2007).

However, executives from two SOEs noted at times, the changing nature of those communications.

We have daily conversations with them, and we operate with a no surprises policy. So the last thing we want is for [Minister of Finance] Dr Cullen to read something in the Dominion Post tomorrow morning, about [us] and not know about it. So that’s our policy, and we tell them everything. And all our press releases and all our announcements all go to them first, sometimes well in advance, so they can then make suggestions or sometimes make more suggestions, without….we don’t want to see any political interference, because there’s not meant to be any, but there is sometimes. Having said that there’s a lot of no surprises the other way, or support back the other way (Senior executive, SOE D, 2007).

Governments can’t supposedly direct SOEs, but they do it behind closed doors (Senior executive, SOE L, 2007).

Put into perspective, however, comments by SOE executives indicate Government influence does not dominate SOEs’ operations.

I think a lot of people perceive the Government as being much more controlling than they
actually are (Senior executive, SOE H, 2007).

While the general response to Government support and communication was still very positive during the second phase of interviews, a number of SOE executives questioned Government support, particularly in light of the then recent incident involving Mercury Energy, a subsidiary of Mighty River Power, disconnecting the electricity of an Auckland customer due to non-payment of invoices. The customer, who relied on medical equipment within her home, subsequently died (O’Sullivan, 2007).

At the moment the Prime Minister has been pretty dirty on the SOEs, because of the Mercury issue, because of the Solid Energy issues and infiltrators in an anti-mining group. So you know, they’re an interesting outfit politicians, they love you to bits when you’re supporting their policy, but when you’re not supporting their policy, you know, they show a lot of disinterest.

Like on the Mercury affair, did the Prime Minister stand up and say ‘I’m accountable for SOEs, SOEs report through to Dr Cullen and me’. And therefore did she treat Mercury Energy as part of the Government? No. It was arms length, Mercury is appalling, lots of criticism outright, direct criticism from her to Mercury, her shunning away or not showing any [association with Mercury], keeping it all very arm’s length. So when SOEs screw up….it’s like, ‘that’s the SOE, they’re a separate entity, a state-owned enterprise, and we’re going to knock them over the head and beat them around the chops with the regulations, and threats of regulation’. But if we announce a new [environmental project], she’ll be there tomorrow. It’s very political at the moment, very political (Senior executive, SOE *, 2007).

A slight increase in the awareness of tensions relevant to dividends payable by SOEs, and the balance between debt and equity, was also noted by executives from two SOEs.

I personally think that there is a slight inconsistency in our approach, in that we have a strong growth strategy, or have had, and have had a dividend strategy at the same time. And if you look at our growth since becoming a SOE, I think we’ve paid approximately [$1-$2 million of dividends per annum] back to the Crown, and we habitually carry up to $20 million of debt during the financial year. So arguably you could say that we have been eager to pay dividends and carry debt, and other business models may have focused more on reducing debt at a time of growth, or spending capital as a first priority (Senior executive, SOE B, 2007).

It is strange, especially with [a current government organisation] contract, I have a negative cash flow for [several] years, so I have to borrow money to fund that; short term borrowings to fund some major capital expenditure. Now, I wouldn’t necessarily have to do that if we didn’t pay such a large dividend.

And you don’t have the option to vary the dividend in the short term?

27 In 2007, Solid Energy was publicly criticised for contracting private investigators who hired “spies” to attend environmentalist group meetings (Hagar, 2007).
No. I know if it was my money what I’d do (Senior executive, SOE G, 2007).

Further, criticism and resentment also emerged in the second phase of interviews with respect to Board member appointments, which were increasingly viewed as political in nature.

I think in my observations over the last 20 years, the appointment of [Board] directors has become more political (Senior executive, SOE A, 2007).

I’d be lying if I said [Board members weren’t] political appointments. Of course they are (Senior executive, SOE G, 2007).

These guys are sometimes just idiots, they’re ex-politicians or mates or on the list or something like that, it’s just jobs for the boys. And so what that means is, the risk averseness at the Board level in SOEs has just heightened a bit, because we don’t want an embarrassment for the Government (Senior executive, SOE *, 2007).

We’ve got the President of the Labour Party on our Board (Senior executive, SOE *, 2007).

However, a clear majority of the executives interviewed felt that the Board did provide useful guidance and support. Thus, incidences of support and favourable comments continued to be noted in the second phase of interviews.

I think from my experience, having worked for a number of Boards over the years, the SOE Board is particularly close to management, compared to some others. And the Chair of the SOE structure is certainly closely aligned not just with management but CCMAU as well, and the Minister; so there is this level of common understanding that’s perhaps not as apparent in private companies (Senior executive, SOE B, 2007).

Two issues which did emerge with respect to Boards were the perceived decrease in quality of Board appointees over time, and the size of the SOE potentially being a factor in the quality of Board members appointed.

For people on our Board and others of our size, typically it’s their first Board that they’ve ever been on. They’re not going to be attracted here for the dollars. It’s sort of seen as a stepping stone.

_Having said that, do you still feel they add value to the organisation?_

They do. They’re each unique and they each add value in their own way (Senior executive, SOE G, 2007).

Thus, while criticisms of Board members exist, they are clearly balanced with views of Board directors being of value to SOEs.
6.4 SOEs’ OPERATING PERFORMANCE, FINANCIAL PERFORMANCE, AND FINANCIAL RETURNS

As noted previously, organisations designated as SOEs in New Zealand have been recognised for their strong trading function, with the potential for commercial operations. Accordingly this section presents an overview of how effectively SOEs are working under the reforms in terms of operating and financial performance.

6.4.1 OVERVIEW OF SOEs’ OPERATING PERFORMANCE

The model under which SOEs operate and the explicit accountability for profitable operations, provides a clear framework for all SOEs, requiring commercial and competitive conduct. A review of SOEs’ operating performance over the five year period from 2001 to 2005 reveals performance targets have generally been met. Further, within the prevailing regulatory framework several SOEs have developed a level of expertise which has established them in international markets.

Not every SOE has succeeded. One that crashed and burned is Terralink. But in general, most SOEs have done pretty well. It's interesting if you look at the SOEs in New Zealand. Quite a few of them are held up to be in the top three [to] five of their organisation and industry types around the world. I don't think that is a coincidence (Senior executive, SOE B, 2006).

By way of example, in 2003 Airways was voted the best air navigation services provider in the world based on value for money and quality of service, by the International Aviation Transport Association, representing 280 of the world’s airlines (Airways, 2006). In 2004, NZ Post was ranked third in the global postal industry (Hogg, personal communication, December 1, 2004), and previously won the New Zealand Business Excellence Award (Schouten, 2000). Also in 2004, MetService tendered for and won the world’s largest weather services contract with the BBC (MetService, 2004a; Scoop, 2004a).

Yet SOEs are not infallible, and have each, to varying degrees, been subject to criticism and controversy. For example, AgriQuality was accused of monopolistic profiteering (Stevenson, 2002). Solid Energy was heavily criticised for spending funds on private investigators who sent “spies” to environmentalist group meetings (Hagar, 2007). Mercury Energy, a subsidiary of Mighty River Power, was subject to extensive criticism due to disconnecting the electricity of an Auckland customer who subsequently died (O’Sullivan, 2007). A summary of SOEs’ performance “highs” and “lows”, together with an assessment of each SOE by CCMAU (2005) based on its “Briefing to the incoming Minister” for SOEs is detailed in Appendix B. A review of the details presented in Appendix B reveals that while SOEs have made mistakes, and shown signs of
inexperience or questionable judgement, they have also developed strengths and competencies, learnt from mistakes, and built on core competencies. Of particular note are the comments from CCMAU which are constructive, and generally quite positive.

6.4.2 Examining SOEs’ Financial and Economic Performance

Examination from the outside

A review of SOEs’ performance based on examination from the outside reveals strong and improving performance from the SOE sector as a whole. The industries in which SOEs operate can be broadly classified as energy (five SOEs), agriculture (four SOEs), forestry, transport (two SOEs), education, weather, post, property valuation, and transmission services. The range of industries covered by the SOE sector highlights the diversity of SOEs’ operations, and also raises the complexity of comparisons within the sector, given their differences. The commonality, however, within the sector, is that each SOE has been viewed as commercially viable, with a mandate to operate as a financially independent, profitable organisation under the Government’s long-term hold strategy. As detailed previously (refer to Section 4.5.2), this strategy formally confirmed the Government’s intention not to sell any of the SOEs, on the basis that they are valuable national assets providing core services with the potential for commercial operations.

A summary of SOEs’ financial and economic performance for the period 2001-2005, is shown in Table 6.1 below.

**Table 6.1 Financial Performance of SOE Sector from 2001-2005**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revenue</td>
<td>4,479.7</td>
<td>5,488.4</td>
<td>6,188.3</td>
<td>5,714.9</td>
<td>6,870.2</td>
<td>5,748.3</td>
</tr>
<tr>
<td>2. Net profit after tax</td>
<td>350.3</td>
<td>456.0</td>
<td>482.1</td>
<td>837.4</td>
<td>522.3</td>
<td></td>
</tr>
<tr>
<td>3. Total assets</td>
<td>10,602.8</td>
<td>10,289.2</td>
<td>12,222.3</td>
<td>12,160.0</td>
<td>16,152.6</td>
<td>12,285.4</td>
</tr>
<tr>
<td>4. Contributed capital</td>
<td>4,254.6</td>
<td>4,334.9</td>
<td>4,343.8</td>
<td>4,281.9</td>
<td>4,287.7</td>
<td>4,300.6</td>
</tr>
<tr>
<td>5. Equity</td>
<td>5,391.6</td>
<td>5,809.3</td>
<td>6,709.0</td>
<td>6,754.0</td>
<td>8,881.8</td>
<td>6,709.2</td>
</tr>
<tr>
<td>6. Total liabilities</td>
<td>5,211.2</td>
<td>5,479.9</td>
<td>5,813.3</td>
<td>5,406.0</td>
<td>7,210.7</td>
<td>5,376.2</td>
</tr>
<tr>
<td>7. Borrowings</td>
<td>3,104.1</td>
<td>3,058.2</td>
<td>3,515.0</td>
<td>3,865.1</td>
<td>4,120.4</td>
<td>3,540.5</td>
</tr>
<tr>
<td>8. Dividends %</td>
<td>87.0</td>
<td>87.0</td>
<td>87.0</td>
<td>87.0</td>
<td>87.0</td>
<td>87.0</td>
</tr>
<tr>
<td>9. Dividends paid</td>
<td>303.6</td>
<td>335.5</td>
<td>351.9</td>
<td>385.1</td>
<td>420.3</td>
<td>375.6</td>
</tr>
<tr>
<td>10. Tax paid</td>
<td>190.4</td>
<td>121.1</td>
<td>151.4</td>
<td>253.8</td>
<td>306.3</td>
<td>204.8</td>
</tr>
<tr>
<td>11. Total payments</td>
<td>494.0</td>
<td>455.7</td>
<td>348.8</td>
<td>414.3</td>
<td>691.9</td>
<td>480.9</td>
</tr>
<tr>
<td>12. ROE</td>
<td>6%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>13. ROCI</td>
<td>8%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>14. ROGI</td>
<td>12%</td>
<td>11%</td>
<td>8%</td>
<td>10%</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

1. Revenue - reflects income from commercial services provided to government and non-government organisations.
2. Net profit after tax - revenue less expenses (including tax)

28 Similarly, given the unique nature of SOEs and small size of New Zealand, it is difficult to conduct relevant or meaningful industry comparisons for individual SOEs.
A brief review of Table 6.1 reveals strong performance for the group as a whole, with a total asset base of $16.2 billion (as at 2005), average profits of $522.3 million per annum, and dividends paid to Government averaging $276.1 million per annum. A review of SOEs’ revenues over the five year period to consider sustainability and growth in income from commercial operations reveals steady growth\(^{29}\). An examination of profits over the same period to evaluate the commercial success and continuing viability of SOEs also reveals steady growth, with a substantial increase in 2005 (74 per cent). Contributed capital has remained relatively stable, with increases in owners’ equity primarily attributable to increases in retained earnings. Liabilities and debt financing have also generally shown gradual increases.

A review of the returns to Government in the form of dividends and tax payments shows consistent growth in returns from income tax since 2002, with some variation in dividend payments. Such variation is due to a number of reasons, including payment of one-off capital and special dividends, and regular negotiations between the Government and individual SOEs regarding the availability of excess cash and the need to reinvest profits. The returns generated are compared with the funds employed by Government in the SOEs through the calculation of three ratios: return on equity [ROE], return on capital invested [ROCI], and return on investment [ROI]. Collectively, these ratios present financial measures of SOE performance from three perspectives: a traditional measure, Government as owner, and Government as investor. ROE figures indicate the SOE sector has achieved reasonable and stable returns conducting commercial operations in deregulated markets with ROE in the range of 6-9 per cent. Calculation of ROCI (8-20 per cent) and ROI (8-16 per cent) further reinforce this notion, with increasingly strong returns in these ratios in 2005.

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\(^{29}\) The decrease in numbers from 2003 to 2004 is attributable to Television New Zealand Limited being reclassified from a SOE to a crown entity in 2004, based on its primarily social rather than commercial role, consistent with the ongoing review of the SOE sector.
Analysis of ROE components in terms of asset turnover (revenue ÷ total assets), profit margin (NPAT ÷ revenue), and leverage (total assets ÷ equity) reveals consistently strong asset turnover (five year average of 47 per cent for the SOE sector), modest profit margins (five year average of 9 per cent for the SOE sector), and very strong leverage for the relevant period (five year average of 184 per cent for the SOE sector), as shown in Table 6.2 below. Further, additional leverage calculations in terms of total liabilities ÷ equity and debt ÷ equity, show a clear mix of equity and debt financing. A review of these components, however, raises a number of issues and complexities. As noted previously, individual SOEs operate in a diverse range of industries, thus some variation would be expected within the ratios based on differing industry issues. Within the sector as a whole, however, profit margins are consistently modest across each SOE. With respect to leverage, consistently strong ratios across the sector raise the issue of asset valuation methods adopted by each SOE. However, a review of each SOE’s asset valuation methodology and asset revaluation reserve [ARR] movements over the relevant five year period reveals historical cost is the dominant valuation method used. Further, where ROE was recalculated to exclude any component of equity represented by ARR movements, very little difference resulted in the ROE calculations for the sector as a whole. Only one SOE’s return on equity calculation showed a material difference (7 per cent nominal increase for 2005), when equity was adjusted to exclude ARR increases, however the effect on the SOE’s average ROE calculation over the five year period was just 1 per cent.

<table>
<thead>
<tr>
<th>Table 6.2</th>
<th>ANALYSIS OF ROE COMPONENTS FOR THE SOE SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>1 Asset turnover</td>
<td>42%</td>
</tr>
<tr>
<td>2 Margin</td>
<td>8%</td>
</tr>
<tr>
<td>3 Average</td>
<td>197%</td>
</tr>
<tr>
<td>4 Liabilities/Equity</td>
<td>97%</td>
</tr>
<tr>
<td>5 Debt/Equity</td>
<td>59%</td>
</tr>
</tbody>
</table>

While the sector as a whole appears to be performing well (indicating solid financial performance), more detailed analysis based on an examination of the financial measures for individual SOEs provides an enhanced understanding of the similarities and differences among SOEs with respect to financial performance. These findings are presented in Table 6.3, summarising average figures over the five year period for each of the 17 SOEs operating in New Zealand as at 2006. Results have been coded under three categories by reference to the

30 Under historical cost accounting, asset values are based on the original cost of the asset (less depreciation, where appropriate). However, where a company revalues its assets (on the basis that they have increased in value over time), leverage ratios such as total assets ÷ equity may be inflated and misleading.
traditional measure of ROE. Examination of ROE results using a scatter chart to consider financial returns based on natural groupings or clusters, resulted in arbitrary cut-offs being imposed as follows: high performance was identified as ROE ≥ 15 per cent, medium performance for ROE of more than 5 per cent but less than 15 per cent, and low performance as ROE ≤ 5 per cent. The exception noted in Table 6.3 is the classification of NZ Railways in the low category, despite a ROE of 25 per cent, due to its dependency on Government funding and grants (as detailed in Section 6.2.2). The high-low variation noted within the findings shown in Table 6.3 is summarised in Table 6.4, highlighting the range of results for each measure within the 17 SOEs examined externally.

Inquiry from the inside
While an overview of individual SOEs’ financial performance highlights the similarities (Table 6.3) and differences (Table 6.4), inquiry from the inside provides the opportunity to understand some of the issues underlying the financial outcomes of the respective SOEs. These issues are considered below, based on data from interviews with senior executives from 12 of the 17 SOEs.

Of the six SOEs classified as having high returns, four have contributed capital of less than $20 million. Commonalities which emerge among SOEs in this category include a clear understanding of how to utilise the SOE’s core asset base in a commercial context, and a strategic direction founded on those assets, expertise developed in the SOE’s core business area, and opportunities identified in the market.

We have a strong technical base and one of the things we’ve done and we’ve done very well, is operationalised the [business]. We had a look at [potential changes] and found that we could increase our capacity, reduce our costs, and increase profits. And a lot of our industry is looking at us and saying ‘can we use your models?’ (Senior executive, SOE B, 2006).

We’ve got a capability for [providing services for] any particular spot on earth. There’s all sorts of other things we could do [e.g. marine-based services], but there’s a few other companies doing that service very well, so we’re not going there. We don’t want to try to catch up to people who are doing well; that’s quite hard strategically (Senior executive, SOE G, 2006).

Other commonalities among SOEs in the high performing category include recognition for expertise within their core business through requests for consultancy services in international markets; expanding into markets directly associated with the SOE’s core business, and maintaining a low cost structure.
## TABLE 6.3

### FINANCIAL PERFORMANCE OF INDIVIDUAL SOEs FROM 2001 - 2005

<table>
<thead>
<tr>
<th></th>
<th>AgriQuality</th>
<th>Airways</th>
<th>Animal Ctl</th>
<th>MetService</th>
<th>Quotable V</th>
<th>Solid Energy</th>
<th>Genesis</th>
<th>Learning M</th>
<th>Meridian</th>
<th>Mighty R Pw</th>
<th>NZ Post</th>
<th>Transmission</th>
<th>Transpower</th>
<th>Asure</th>
<th>Landcorp</th>
<th>NZ Railways</th>
<th>Timberlands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>77.1</td>
<td>116.2</td>
<td>6.5</td>
<td>25.9</td>
<td>33.8</td>
<td>307.1</td>
<td>1,177.7</td>
<td>24.0</td>
<td>1,246.7</td>
<td>634.3</td>
<td>1,030.9</td>
<td>127.3</td>
<td>548.2</td>
<td>44.1</td>
<td>116.7</td>
<td>34.0</td>
<td>22.4</td>
</tr>
<tr>
<td><strong>Net profit after tax</strong></td>
<td>3.0</td>
<td>7.3</td>
<td>1.2</td>
<td>3.3</td>
<td>1.2</td>
<td>28.0</td>
<td>63.9</td>
<td>0.4</td>
<td>133.9</td>
<td>88.1</td>
<td>48.4</td>
<td>13.8</td>
<td>77.8</td>
<td>0.4</td>
<td>22.7</td>
<td>19.4</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>30.4</td>
<td>114.8</td>
<td>5.4</td>
<td>14.0</td>
<td>14.6</td>
<td>217.2</td>
<td>1,317.4</td>
<td>11.8</td>
<td>3,559.5</td>
<td>1,755.9</td>
<td>1,439.8</td>
<td>182.7</td>
<td>2,258.7</td>
<td>15.2</td>
<td>786.2</td>
<td>43.5</td>
<td>78.1</td>
</tr>
<tr>
<td><strong>Contributed capital</strong></td>
<td>11.9</td>
<td>41.1</td>
<td>0.1</td>
<td>5.3</td>
<td>4.6</td>
<td>66.9</td>
<td>560.6</td>
<td>1.2</td>
<td>1,600.0</td>
<td>377.6</td>
<td>177.8</td>
<td>87.7</td>
<td>1,030.0</td>
<td>10.2</td>
<td>125.0</td>
<td>7.5</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>18.3</td>
<td>42.1</td>
<td>4.6</td>
<td>8.7</td>
<td>7.0</td>
<td>116.4</td>
<td>1,007.4</td>
<td>4.6</td>
<td>2,090.2</td>
<td>1,050.9</td>
<td>333.3</td>
<td>96.8</td>
<td>1,030.7</td>
<td>7.1</td>
<td>631.7</td>
<td>29.9</td>
<td>69.4</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>12.1</td>
<td>72.7</td>
<td>0.8</td>
<td>5.3</td>
<td>7.6</td>
<td>98.8</td>
<td>310.0</td>
<td>7.2</td>
<td>1,469.3</td>
<td>705.0</td>
<td>1,195.5</td>
<td>85.9</td>
<td>1,228.1</td>
<td>8.2</td>
<td>134.5</td>
<td>13.8</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Debt</strong></td>
<td>1.7</td>
<td>35.0</td>
<td>-</td>
<td>1.6</td>
<td>2.4</td>
<td>23.5</td>
<td>116.2</td>
<td>-</td>
<td>1,085.8</td>
<td>472.1</td>
<td>159.5</td>
<td>58.6</td>
<td>1,330.6</td>
<td>-</td>
<td>112.5</td>
<td>3.0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Dividends %</strong></td>
<td>57%</td>
<td>110%</td>
<td>58%</td>
<td>100%</td>
<td>39%</td>
<td>6%</td>
<td>34%</td>
<td>15%</td>
<td>83%</td>
<td>26%</td>
<td>41%</td>
<td>63%</td>
<td>137%</td>
<td>26%</td>
<td>91%</td>
<td>54%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>1.7</td>
<td>8.2</td>
<td>0.7</td>
<td>3.4</td>
<td>0.5</td>
<td>2.0</td>
<td>21.3</td>
<td>0.1</td>
<td>97.1</td>
<td>27.5</td>
<td>15.6</td>
<td>8.5</td>
<td>52.2</td>
<td>0.4</td>
<td>17.5</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Tax paid</strong></td>
<td>1.8</td>
<td>3.7</td>
<td>0.6</td>
<td>1.6</td>
<td>0.9</td>
<td>7.8</td>
<td>43.2</td>
<td>0.2</td>
<td>48.5</td>
<td>20.4</td>
<td>22.5</td>
<td>5.9</td>
<td>32.9</td>
<td>0.6</td>
<td>23.5</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>3.4</td>
<td>11.9</td>
<td>1.3</td>
<td>5.0</td>
<td>1.4</td>
<td>9.8</td>
<td>64.5</td>
<td>0.2</td>
<td>145.5</td>
<td>56.9</td>
<td>38.1</td>
<td>14.4</td>
<td>85.1</td>
<td>1.0</td>
<td>20.0</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>17%</td>
<td>17%</td>
<td>26%</td>
<td>38%</td>
<td>18%</td>
<td>25%</td>
<td>8%</td>
<td>8%</td>
<td>6%</td>
<td>9%</td>
<td>13%</td>
<td>14%</td>
<td>7%</td>
<td>2%</td>
<td>4%</td>
<td>25%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>ROCI</strong></td>
<td>25%</td>
<td>18%</td>
<td>1214%</td>
<td>66%</td>
<td>23%</td>
<td>46%</td>
<td>12%</td>
<td>33%</td>
<td>8%</td>
<td>23%</td>
<td>27%</td>
<td>16%</td>
<td>6%</td>
<td>3%</td>
<td>18%</td>
<td>247%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>ROI</strong></td>
<td>29%</td>
<td>29%</td>
<td>1302%</td>
<td>100%</td>
<td>30%</td>
<td>16%</td>
<td>12%</td>
<td>19%</td>
<td>9%</td>
<td>15%</td>
<td>22%</td>
<td>16%</td>
<td>7%</td>
<td>10%</td>
<td>16%</td>
<td>10%</td>
<td>6%</td>
</tr>
</tbody>
</table>

*based on average figures from 2001-2005

- High ROE ≥ 15%
- Medium 5% < ROE < 15%
- Low ROE ≤ 5%

## TABLE 6.4

### HIGH-LOW RANGE OF INDIVIDUAL SOE FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>6.5</td>
<td>1,246.7</td>
</tr>
<tr>
<td><strong>Net profit after tax</strong></td>
<td>0.4</td>
<td>133.9</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5.4</td>
<td>3,559.5</td>
</tr>
<tr>
<td><strong>Contributed capital</strong></td>
<td>0.1</td>
<td>1,600.0</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>4.6</td>
<td>2,090.2</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>0.8</td>
<td>1,469.3</td>
</tr>
<tr>
<td><strong>Debt</strong></td>
<td>-</td>
<td>1,330.6</td>
</tr>
<tr>
<td><strong>Dividends %</strong></td>
<td>6%</td>
<td>127%</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>0.1</td>
<td>97.1</td>
</tr>
<tr>
<td><strong>Tax paid</strong></td>
<td>-</td>
<td>48.5</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>0.2</td>
<td>145.5</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>2%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>ROCI</strong></td>
<td>3%</td>
<td>1214%</td>
</tr>
<tr>
<td><strong>ROI</strong></td>
<td>3%</td>
<td>1302%</td>
</tr>
</tbody>
</table>

* based on average figures from 2001-2005

^ Animal Control Products is one of four SOEs with nil debt
We’re able to solve a range of problems, not the least of which is cost (Senior executive, SOE G, 2006).

With profits of only a couple of million dollars a year, that’s not a lot of cash to drive marketing activity (Senior executive, SOE J, 2006).

In response, the SOE identified cost-effective promotional activities through voluntary involvement in high-profile newspaper features and television programmes directly related to its core business.

Of the seven SOEs in the medium ROE category, four are in the energy industry. While the inclusion of these firms in the medium category may be partly an industry issue, findings from interviews with executives of SOEs in this category indicate these SOEs have established a clear strategic direction, but remain at the stage of developing their asset base. By way of example, several of the SOEs in this category were focused on exploration and development, or were awaiting regulatory approval to proceed with development plans. Thus, several large scale projects had not yet been commissioned and required further investment before returns could be generated. Findings also reveal several of the SOEs in this category had developed small areas of expertise outside their core business, however revenue streams from these areas within each SOE remained small (less than 5 per cent of individual SOE turnover).

The international consultancy is not going to be significant [in terms of revenue]. We’re probably talking hundreds of thousands of dollars in revenue, rather than millions. Our revenue is [hundreds of millions] a year, so it’s never going to be a big part of the business. However our thinking is that our core business needs attention, and that it has to be our focus (Senior executive, SOE L, 2006).

We have a lot of projects, new projects, underway and planned. Investing in infrastructure and new generation are the big issues, so we are pushing ahead with a number of new projects in those areas (Senior executive, SOE D, 2006).

Four SOEs are included in the third category, with ROE ≤ 5 per cent. Similar to SOEs with a medium ROE, inclusion in the small ROE category may also be partly an industry issue. SOEs in this category represent a range of industries, including agriculture, forestry, and transport - each of which have relatively low profit expectations, based on comments from interviewees. As noted previously, despite a ROE of 25 per cent, NZ Railways has been included in this group on the basis that it remains largely reliant upon the Government for financial assistance. Thus, examination of NZ Railways provides valuable insight into a case of corporatisation which has not resulted in commercial success (see Section 6.2.2 for a brief overview, and Luke (2008b) for a
more detailed discussion). Based on these findings, significant variation in the financial independence and performance of SOEs is noted.

Analysis of both the similarities and differences within these findings raises a number of issues. While findings show a significant range of financial performance outcomes for the 17 SOEs examined (refer to Tables 6.3 and 6.4), cases of financial success are clearly evident. Six of the SOEs examined were classified as high performers based on ROE, yet results for ROCI and ROI mostly show significantly higher returns based on the amount of capital invested [ROCI] and the cash returns received [ROI]. The very high returns generated by SOEs which have developed strong businesses with relatively modest amounts of contributed capital, further indicates public sector organisations can be profitable without necessarily being capital intensive.

The review of financial performance for individual SOEs provides a basis from which to identify clear financial benefits for both the individual organisations and the Government as owner and investor. Thus, the notion that SOEs are not a viable form of public sector management is not supported. Importantly, however, an examination of New Zealand’s SOEs also reveals that not all SOEs have achieved financial independence or success. As noted previously, Terralink New Zealand Limited was unable to operate as a financially independent SOE, and the New Zealand Government refused requests for financial support, such that the company was placed into receivership. Similarly, NZ Railways is unable to operate as a financially independent SOE. Thus, the traditional view of public sector organisations as non-commercial, capital intensive, and costly “investments” to maintain, is also not without support.

6.4.3 DEVELOPMENTS ONE YEAR LATER

Examining SOEs’ operating and financial performance one year later reveals further positive developments. Table 6.5 presents an updated five year summary of the SOE sector for 2002-2006, showing substantial increases in revenue (totalling $8.4 billion in 2006), profit ($1.4 billion in 2006, representing a 67 per cent increase from 2005), assets ($19.4 billion in 2006), and equity ($11.5 billion in 2006). ROE, ROCI, and ROI also show substantial increases in 2006, with returns of 12 per cent, 32 per cent, and 32 per cent respectively.

An examination of individual SOEs (Table 6.6) shows a general consistency within the categories of high (ROE ≥ 15 per cent), medium (5 per cent < ROE < 15 per cent), and low (ROE ≤ 5 per cent), and a general improvement in the rates of return achieved by each SOE. Two changes in
### Table 6.5

**Financial Performance of SOE Sector from 2002-2006**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,486.4</td>
<td>6,185.3</td>
<td>5,714.9</td>
<td>6,870.2</td>
<td>8,491.5</td>
<td>6,532.6</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>456.0</td>
<td>456.7</td>
<td>482.1</td>
<td>837.4</td>
<td>1,402.2</td>
<td>732.7</td>
</tr>
<tr>
<td>Total assets</td>
<td>10,289.2</td>
<td>12,222.3</td>
<td>12,160.0</td>
<td>16,152.6</td>
<td>19,445.8</td>
<td>14,054.0</td>
</tr>
<tr>
<td>Contributed capital</td>
<td>4,334.8</td>
<td>4,334.8</td>
<td>4,281.9</td>
<td>4,287.7</td>
<td>4,397.5</td>
<td>4,329.2</td>
</tr>
<tr>
<td>Equity</td>
<td>5,954.5</td>
<td>7,887.5</td>
<td>7,878.1</td>
<td>11,864.9</td>
<td>14,948.3</td>
<td>9,725.8</td>
</tr>
<tr>
<td>Dividends %</td>
<td>73%</td>
<td>41%</td>
<td>33%</td>
<td>46%</td>
<td>73%</td>
<td>57%</td>
</tr>
<tr>
<td>Dividends</td>
<td>333.1</td>
<td>107.4</td>
<td>107.4</td>
<td>385.1</td>
<td>1,008.2</td>
<td>421.0</td>
</tr>
<tr>
<td>Tax expense</td>
<td>122.1</td>
<td>151.4</td>
<td>253.6</td>
<td>306.8</td>
<td>371.4</td>
<td>241.0</td>
</tr>
<tr>
<td>Total payments</td>
<td>455.7</td>
<td>348.6</td>
<td>414.3</td>
<td>691.9</td>
<td>1,399.6</td>
<td>551.7</td>
</tr>
<tr>
<td>ROE*</td>
<td>8%</td>
<td>7%</td>
<td>9%</td>
<td>12%</td>
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<tr>
<td>ROIC</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>20%</td>
<td>32%</td>
<td>17%</td>
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<tr>
<td>ROI</td>
<td>11%</td>
<td>8%</td>
<td>16%</td>
<td>32%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

### Table 6.6

**Financial Performance of Individual SOEs from 2002-2006**

|              | Airways | Animal Ctl | Asure | MetService | Quotable V | Solid Energy | NZ Post | AgriQuality | Genesis | Learning M | Meridian | Mighty R.P | Transmission | Transpower | Landcorp | NZ Railways | Timberlands |
|--------------|---------|------------|------|------------|------------|--------------|---------|-------------|---------|------------|----------|------------|------------|------------|-----------|-----------|------------|-------------|
| Revenue      | 12.14   | 6.7        | 46.8 | 27.1       | 35.9       | 377.2        | 1082.9  | 80.5        | 1468.0  | 23.8       | 1536.1   | 707.4      | 151.8      | 577.0      | 117.3     | 64.8       | 21.1       |
| Net profit after tax | 7.9     | 1.3        | 1.3  | 3.1        | 1.4        | 44.0         | 58.8    | 2.5         | 68.7    | 0.7        | 280.3    | 96.5       | 12.5       | 93.1       | 25.3      | 31.9       | -1.3       |
| Total assets | 119.1   | 5.2        | 16.6 | 14.8       | 14.6       | 279.1        | 2060.4  | 36.3        | 1504.8  | 13.4       | 4097.4   | 1974.9     | 190.3      | 2380.4     | 929.8     | 120.4      | 73.1       |
| Contributed capital | 41.1    | 0.1        | 10.2 | 5.0        | 4.6        | 60.9         | 192.2   | 11.9        | 540.6   | 1.2        | 1600.0   | 377.3      | 87.7       | 1200.0     | 125.0     | 33.7       | 15.0       |
| Equity       | 41.3    | 4.5        | 7.6  | 8.4        | 7.4        | 156.4        | 398.4   | 20.7        | 1128.6  | 5.1        | 2614.1   | 1327.9     | 98.1       | 1086.9     | 762.3     | 85.1       | 67.0       |
| Dividends %  | 110%    | 91%        | 54%  | 104%       | 40%        | 11%         | 41%     | 96%         | 29%     | 16%        | 92%      | 27%        | 84%        | 55%        | 70%       | 54%        | 3%         |
| Dividends    | 8.9     | 1.2        | 0.7  | 3.4        | 0.3        | 6.0          | 23.1    | 1.3         | 18.4    | 0.1        | 258.3    | 30.5       | 9.7        | 38.9       | 14.4      | 0.7        | 0.4        |
| Tax expense  | 4.0     | 0.7        | 0.9  | 1.7        | 0.9        | 17.1         | 21.8    | 1.8         | 46.4    | 0.1        | 61.1     | 41.4       | 6.6        | 34.1       | 1.3       | 0.6        | 0.6        |
| Total payments | 12.8   | 1.9        | 1.8  | 5.1        | 1.5        | 23.1         | 45.4    | 3.6         | 64.8    | 0.2        | 320.4    | 72.0       | 16.4       | 71.0       | 15.9      | 0.8        | 1.0        |
| ROE*         | 19%     | 29%        | 17%  | 37%        | 18%        | 28%          | 15%     | 12%         | 6%      | 13%        | 11%      | 7%         | 13%        | 9%         | 3%        | 37%        | -2%        |
| ROIC(1)      | 19%     | 1296%      | 12%  | 62%        | 30%        | 72%          | 30%     | 21%         | 13%     | 56%        | 18%      | 26%        | 14%        | 8%         | 20%       | 95%        | -9%        |
| ROIC(2)      | 31%     | 18633%     | 15%  | 102%       | 32%        | 38%          | 24%     | 30%         | 12%     | 16%        | 26%      | 19%        | 19%        | 6%         | 13%       | 2%         | 7%         |

*based on average figures from 2002-2006
AgriQuality has been reclassified from high to medium
Asure has been reclassified from low to high

- **High**: ROE ≥ 15%
- **Medium**: 5% < ROE < 15%
- **Low**: ROE ≤ 5%

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classification are noted. AgriQuality has been reclassified from high to medium, due to a slight decrease in its average ROE. Asure has been reclassified from low to high. In 2001, Asure recorded a $3 million loss due to restructuring. Since that time, it has consistently made profits from 2002-2006. NZ Railways continues to be classified as low, due to ongoing reliance upon the Government for financial support. Thus, based on these developments, it seems most SOEs are performing well and consistently improving as they develop core skills and competencies, refine their business operations, and look for opportunities to grow. The following section examines issues relevant to the development and growth of SOEs, in terms of their public identity, ownership, and profile.

6.5 PUBLIC IDENTITY, OWNERSHIP, AND PROFILE

While shares in SOEs are officially owned by the Minister for SOEs and the Minister of Finance on behalf of the Crown, discussions with SOE executives reveal the complexity of public identity, ownership, and profile, for public sector organisations such as SOEs. Accordingly, this section considers each of these issues under the relevant headings below.

6.5.1 PUBLIC IDENTITY

As noted previously (Section 6.2.3), SOEs are generally free from political influence in their operations, however exceptions were noted. In particular, discussions with executives reveal SOEs’ public sector identity, accountability, and ownership are often viewed broadly to encompass a public identity, accountability, and ownership.

Political influence comes from both sides. The Government as shareholder may not have had a problem with Meridian investing offshore, but there are other political influences and issues, pressure points from opposition parties or other stakeholder groups, lobbying groups, who may not believe [Meridian] is right to invest offshore.

Because we’re a state-owned company, people believe, rightly or wrongly, that they should have the ability to influence our policies and our business. And that goes from NGOs to the ‘Greenpeaces’ of the world, to the Minister of Finance (Senior executive, SOE D, 2006).

Thus, the identity of SOEs as “public” organisations has resulted in almost blurred lines distinguishing shareholders from stakeholders, as various groups feel they should have influence on SOEs’ operations. Such views extend to both operational and financial issues as noted below.

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31 As detailed in Appendix B, Meridian was criticised in 2003 for large overseas investments at a time when New Zealand’s electricity industry required substantial investment. In 2005, Meridian subsequently sold its overseas investment in Australia, resulting in a $600 million profit, and a number of accolades (Steeman, 2006).
Project failures are an easy target for the Opposition to say ‘this Government’s wasting taxpayers’ money’. We are aware of that and it probably does modify our thinking a little bit. And the general public still see us as taxpayer funded, which is bollocks but…”

It’s always easier for the ‘Rodney Hides’ to say ‘here, they burnt $2 million which would have been much better in the hands of somebody who’s unemployed in Otara’. But forget that $2 million was never going anywhere near that purpose; it was being paid as a dividend, or paid in tax, or we might have bought some [new equipment]. So it’s not a raffle (Senior executive, SOE A, 2006).

With a SOE, put simply, people see it as you’re using taxpayers’ money to buy something offshore, but you’re actually not because you’re generating a profit, and you’re just reinvesting your profits (Senior executive, SOE G, 2007).

There’s still quite a lot of criticism regarding the issue of how much money SOEs make. And I mean, for the media, well, it’s easier to write stories about huge profits that SOEs make. The fact is that most SOEs are using the money they make to invest back into their infrastructure. And that’s $100 million we don’t have to borrow from offshore; its $100 million we don’t have to ask the Government for.

I don’t think any governments have ever really explained why that’s necessary and how that works, and why it’s more efficient to have a profit-making organisation than having a government department doing it, but people still hark back to the [idea] that it should all just be owned by the Government (Senior executive, SOE L, 2007).

Referring to a controversial transaction, the senior executive of one SOE noted:

It delivered a net benefit of $35 million to the company so it was very worthwhile; it’s $35 million that didn’t have to be collected from consumers effectively, because it contributed to our income. And the fact that there was something of a lack of media or public understanding about that was unfortunate (Senior executive, SOE *, 2006).

Thus, viewpoints of SOEs and stakeholders are often from distinctly different perspectives, based on different understandings and values. These tensions are reflected in the comments below.

[With the] schizophrenic role of being on the one hand socially and environmentally responsible, and on the other hand being commercially savvy, and there’s always going to be a conflict in that area (Senior executive, SOE E, 2007).

### 6.5.2 Public ownership and profile

As noted above, blurred lines distinguishing shareholders from stakeholders create a sense of

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32 Leader of New Zealand’s ACT Parliamentary Party, which grew from the Association of Consumers and Taxpayers, and has been a vocal critic of various Government policies including SOEs.

33 Low socio-economic region of Auckland.
extended accountability and implied or informal ownership between the public as stakeholders and SOEs. This was noted based on comments from several SOE executives, as detailed below.

If you fail to deliver, then the public will express their dissatisfaction. So yes, there is public accountability. And then we’d get probably a lot of pressure from [business customers]. So it’s a high level of accountability (Senior executive, SOE I, 2007).

From a public relations perspective, if there’s a train accident, then it’s a bit like if there’s an aircraft accident; there’s a huge public outcry. Approximately 40 people a year get killed [in relation to railway incidents] and 400 get killed on the roads, but because it’s all diffused and scattered around, then there’s not quite as much [concern]; it’s just sort of accepted largely. Whereas if one person gets killed at a level crossing, if one child gets killed, then it becomes a very emotional public issue. So we are very aware it’s a very unforgiving environment in a sense (Senior executive, NZ Railways, 2006).

It’s hard to judge; [we are] a very risk averse organisation, because of what we do. It’s a bit hard to unravel whether it’s just because we’re risk averse because of the industry. But my sense is that there is an underlying worry in the Board’s mind that says ‘how would this read in the newspapers’ (Senior executive, SOE A, 2007).

Thus, based on comments from SOE executives, the implications of SOEs’ public identity and ownership are such that in general, SOEs prefer to keep a low public profile.

We are keeping our head right down because you hear the National Party and Rodney Hide are looking for crap to dump on the SOEs. The perception of that, or the reality of being whipped for failure; it’s hard to understand how you get over that, but in the political environment, literally, in the current state; we won’t make any kind of media comment about the entrepreneurial things that we’re doing because we don’t want to have the opposition MPs watching that portfolio (Senior executive, SOE A, 2006).

We’re a rounding error on Treasury’s books, let’s be blunt about it; we’re not on the radar. The only times we hit the spotlight is when there’s [operational issues or problems]. And I don’t believe that’s happened for quite some time. So, other than that we’re pretty much below the radar, and that’s how we like it (Senior executive, SOE G, 2007).

You were quite a difficult organisation to get information on actually. Ok, so everything’s going according to plan. No-one knows who we are (laughing).

Is that the strategy?
Yes (Senior executive, SOE C, 2006).

This preference for a low public profile is particularly relevant for large and established SOEs, but less so for new SOEs. One SOE in particular was noted as an exception, actively promoting itself
within the industry following a rebranding exercise, and subsequently monitoring its exposure in the media.

We’ve we measured how much we get mentioned in the press, both post-branding and pre-branding. And we’ve found that the public perception of [the organisation] is considerably higher than it was [previously] (Senior executive, SOE *, 2007).

Thus, it seems much of SOEs’ success may go unpublicised and unnoticed.

There’s no doubt, looking at the two SOEs that I know of, that they’ve [been successful]. But [criticism of SOEs] probably reflects frankly on New Zealand; the tall-poppy proverb that says ‘I told you so’. And so it reflects back on that, and the general public probably still haven’t quite worked out the SOE Act; it still has the television reporters talking about the Post Office or Railways which disappeared 20 years ago. So I think New Zealand Post34 did quite well to move people’s heads on, in many respects. But [we’re] different; [we’re] invisible, so people don’t know what [we do] (Senior executive, SOE A, 2006).

One year later, there is a heightened awareness by SOEs of their public profile. In the 12 months ended June 2007, incidents involving Mighty River Power and Solid Energy have both been subject to extensive public criticism (refer to Section 6.3.7 and Appendix B). The impact of these incidences, resulting in Government and public scrutiny, has affected the SOE sector as a whole.

I think just the interest and expectations on us as a SOE have become very much heightened, and the pressure is immense. And because of that, it’s something that I feel on a daily basis, because customers now feel that they can ring if they’re not happy with the service they’re getting from us, and be on the news that night saying that yet another power company is putting profits ahead of people (Senior Executive, SOE D, 2007).

Hence, based on the above, executives show an acute sense of awareness regarding the risk associated with SOEs’ public image and public sector ownership. This risk is one of several noted by SOE executives, which are considered further in the following section.

6.6 RISKS AND LIMITATIONS

During the course of the interviews, it was increasingly apparent that a number of risks, often viewed as limitations, were faced by SOEs. Such risks include financial, commercial, political, reputational, and regulatory, each of which are considered below.

6.6.1 FINANCIAL, COMMERCIAL, AND POLITICAL RISKS

When asked about the key risks faced by SOEs, the most common focus was that of financial, commercial, and political issues. The financial or commercial success of a project and the related

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34 A SOE considered to be a national icon, and well recognised for its commercial operations (Hogg, personal communication, December 1, 2004).
issue of political accountability were regularly identified as a key challenge and priority.

I think in the end it would come down to the bottom line really (Senior executive, SOE F, 2007).

I think the biggest risk is not being able to recoup your investment, and that flows on to the whole political risk, certainly when the investment is questioned. So that’s probably the biggest risk, particularly for us, when not only are we a commercial company, but we’re Government owned. So the SOE framework is about being able to justify the investment, so that’s probably the biggest risk for us, not to mention the fact that we need a return that’s above market.

Yes, [and] it’s commercial risk, it’s risk associated with new process and customers and consistency, and there’s a risk of retention of labour, all of which we’ve had to address because of either commissioning issues, or cultural change with the new structure (Senior executive, SOE B, 2007).

Such comments also indicate the close relationship between financial outcomes and political and public accountability risk.

[The Government has] now come out and made their statement about economic transformation35. And again there’s a political undercurrent to that, as well as a commercial [aspect] (Senior executive, SOE D, 2006).

If we have a failure with this product, what is the ramification for our reputation in our core business? And there’s also political aspects. I mean people say SOEs are commercial organisations, well, they are, but there’s also a political aspect of any public failure, and the impact on the Minister and the Government at the time, so those things have to be considered as well (Senior executive, SOE C, 2007).

Thus, the interrelatedness of various risks such as financial, political, and reputational, becomes a prominent issue for SOEs. The implications of extended dimensions of risk are also evident:

In a normal commercial organisation you take qualified risk, you understand the pain-gain equation, and you get over it. And SOEs, in theory, can do that. But it all depends on what the appetite [for risk] is.

If you’re a [private sector firm] and you back 10 opportunities and nine work and one fails, you might get a kick up the backside, but you get over it and you have a process. This is what we need to get [from] the SOE model. [One SOE] had some bad experiences and got whipped and picked up the pieces. But in the scheme of things it’s one project in an organisation of many successful projects (Senior executive, SOE A, 2006).

35 As noted previously in Section 4.6, in June 2006, the New Zealand Government announced a policy change for SOEs, encouraging them to expand the scope of their operations. This issue is considered in more detail in Section 6.7.
We note what’s happened with New Zealand Post in South Africa\textsuperscript{36}. That had severe connotations because in a lot of ways it increased the risk for SOEs in the minds of the Government (Senior executive, SOE B, 2006).

Hence, both the political and public ramifications of risk and unsuccessful projects - ramifications which are often beyond SOEs’ control, are noted. Further, a degree of acceptance or tolerance of risk is a potential area for improvement within the SOE framework. The reputational dimension inherent to this issue is considered in further detail below, together with the regulatory risks faced by SOEs.

6.6.2 Reputational and Regulatory Risks

While SOE executives commonly referred to financial and political risks as key challenges, comments by SOEs also indicate the close relationship between those forms of risk and the implications for SOEs’ reputations.

You look at financial risk as one thing, and then you look at the risk to your reputation, and that’s the other thing. So we are always assessing both those types of risk (Senior executive, SOE C, 2007).

If we had an accident in New Zealand that [we] were responsible for, our international business would stop probably. Why would you hire us? So that’s reasonably safe, but in the end it’s that fragile. So doing what we do in New Zealand really, really well is very important for our reputation (Senior executive, SOE A, 2006).

The reputation [risk] is always one you’re mindful of, because yes you’re a SOE, but you are owned by Government. So you are more concerned when you’re entering into joint ventures with offshore companies, or looking at acquisitions offshore. So if you’re buying a 50 per cent stake in an organisation, you’ve got to be careful that they are actually a reputable business themselves, and there’s nothing hiding in the closet that will come out. But it would come out, ‘why did you invest in this company, they’re a bunch of scallywags, and they did X, Y and Z in the past’ (Senior executive, SOE G, 2007).

Another dimension of risk reflected in the comments of SOE executives was that of changes in the regulatory environment. This issue extends to both regulations governing the legal status of SOEs, as well as industry regulations established by other government authorities. With respect to the regulations governing SOEs, executives generally agreed that the reforms are working well, and that they have freedom of commercial choice within the boundaries of the SOE

\textsuperscript{36} As detailed in Appendix B, in 2001 NZ Post was heavily criticised for unsuccessful ventures involving extravagant spending and costing millions of dollars in South Africa and later Spain. As a result, it was the first government organisation to be referred to the New Zealand Parliament’s Privileges Committee (Van den Bergh, 2004).
framework. However, the uncertainty posed by a change in SOEs’ legal status (either by being privatised or designated as some other form of government organisation), was viewed as a prominent issue.

Something that has exercised the Board’s mind in recent times, and I guess it’s a political risk, is the change to [our] ownership structure. There is from time to time, different political calls for [us] to no longer be a SOE, and to either be one step backwards, a crown entity, or right back to becoming a government department. And those calls would grow if we were to under-perform, or perform badly or have major controversy. That would be seen as quite restrictive on our ability to operate, if we were sort of dragged back more into the fold of Government (Senior executive, SOE L, 2007).

I think we have been the most talked about ‘for sale’ and ‘prepared-for-sale’ but ‘not sold’ than any other SOE. I guess mainly because successive Governments in the past just saw it as a no-brainer to sell us but when they tried to, it became too hard. Treaty [of Waitangi issues], overseas investment. We have some [assets] that are real New Zealand icons, and I think the public of New Zealand would just go absolutely ballistic if they knew it was going to be sold to private ownership. So, it’s easy to say but a lot harder to do. But the fact is that I know of at least half a dozen scoping studies that have been done for successive Governments, to prepare [us] for sale. So more than any other SOE I think, we’ve been subjected to that, but not in the last five years (Senior executive, SOE E, 2007).

And there’s been a little bit of discussion, that says ‘well, are these natural monopolies better off being crown entities rather than SOEs?’ And I think [we] get listed sort of either way sometimes. I think if we swoop down to the zero dividend level, then that might precipitate somebody saying ‘well actually are they a [SOE] at all, or are they really just there to provide a core infrastructure or something like that. So that’s a risk (Senior executive, SOE A, 2007).

Similar concerns were noted within NZ Railways, as comments indicated SOE status was useful for the organisation, despite the profit-making exception granted to it.

There was talk, and still is, in the [draft] Bill that would turn us into a crown entity, if it goes through. We’re very happy to be a SOE. With being a crown entity, ministries start having a much stronger monitoring role over performance. In our public policy role, we’re outside the public sector umbrella really. We’ve largely come inside the Government agency transport umbrella. We’re on the planning task force. Normally, as a SOE, you wouldn’t be there, but we are. So we’re acting like a crown entity in many ways.

If we were a crown entity, we’d report to the Treasury, CCMAU, and the Ministry of Transport, to which we’re saying ‘hold on, that’s too many people’ (Senior executive, NZ Railways, 2006).

Thus, SOE status is viewed as valuable, due to the freedoms and it formally offers, and the existence of a regulatory framework which supports such freedom.
6.6.3 Other risks

Other risks noted by SOE executives included commercial, operational, and financial risks in the form of project delivery and performance risk, foreign exchange risk, social responsibility and revenue risk, environmental risk, lack of experience (particularly as SOEs expand into new geographical regions and markets), and pricing and costing risk (particularly for long-term projects requiring advance pricing and costing estimates in the early stages).

I think at the moment, [a key risk] is being able to deliver our major projects, given that we don’t have many more staff than when we started (Senior executive, SOE I, 2007).

I can remember quoting things at 43 cents (US based on a New Zealand dollar exchange rate) four or five years ago, and now it’s nearly 80 cents (US based on one New Zealand dollar). In [our overseas contract] it’s a fixed price for five years hedged to the US dollar, so we’ve lost 20 per cent off that. In [other contracts] it’s the same (Senior executive, SOE A, 2007).

There’s enormous pressure on us now to act in a socially responsible manner when it comes to vulnerable customers. And if the Government starts regulating around the area of disconnections, then you can say ‘kiss goodbye to millions of dollars of revenue’, because if you know you’re never going to get disconnected, so long as you claim to be an ‘at risk’ customer, we’ll have half of our customers refusing to pay their bills (Senior executive, SOE D, 2007).

There’s a perception by the average punter that a government agency is being a negative drag on our carbon footprint in the country. If [it] weren’t for [us] doing this project, I think someone else would have done it, but we happen to be a SOE (Senior executive, SOE E, 2007).

We’d probably say financial risk is one of the highest. But that’s just because of the operational risk, because [if we haven’t operated in that area before, we’re] having to make assumptions all the time about information we have gleaned, about what we can really expect, so it’s….

Just that lack of experience.

Yes, until you’ve done it, even though you can hire people who have done it, the organisation just doesn’t know collectively at that level, I think [our Chief Executive] would probably say…a lot of what goes into things that you know is just intuitive, it’s just intuition. At its core, it’s an institutional knowledge, an organisational understanding, because you just don’t know what you don’t know (Senior executive, SOE H, 2007).

Also evident is the learning curve of SOEs as they expand into new markets, and learn from experiences in different political and social environments.

We trained eight people from Vanuatu last year. Initially we sent a guy over there to do the training, but he got kidnapped when he was there. There was a dispute and guys
burst in with machetes and tied them all up. He was held hostage for about six hours. We ended up bringing the eight Vanuatu guys here after that (Senior executive, SOE A, 2007).

In relation to specific projects, SOE executives also noted both risk and uncertainty regarding proposed changes to Government policy, and the implications on SOEs’ operations

There’s got to be an economic case. I mean, with the cost of carbon, pricing of carbon into the market as well, who knows sitting here now whether in two years time it’s going to be economic to build [a particular project] (Senior executive, SOE D, 2007).

Thus, a number of diverse and interrelated risks emerge as relevant to SOEs.

6.6.4 DEVELOPMENTS ONE YEAR LATER

One year later and there is little change. Similar perceived “threats” of uncertainty with respect to some SOEs’ industry regulations were noted by a number of executives. These were particularly evident for SOEs operating in the energy industry, given the Government’s policy announcement in December 2006 to significantly reduce carbon emissions, and indications of additional regulation if energy sector SOEs didn’t improve their performance regarding social responsibility.

There’s new guidelines coming out, there’s new stretched targets. If we don’t all behave ourselves in the next six months there could be regulation, so there’s more risk to our business (Senior executive, SOE D, 2007).

With respect to regulatory risks, Transpower, effectively operating as a monopoly answerable to two industry regulators, expressed frustration at the lack of progress made in streamlining industry regulations, resulting in delays with respect to Transpower’s own plans and progress.

There’s the threat that we’ll be so regulated that we’re essentially strangled; we just can’t move and it will just be inertia (Senior executive, Transpower, 2007).

There were also concerns that the Government may change its stance on encouraging SOEs to expand the scope of their operations, particularly in light of the difficulties experienced in balancing at times conflicting financial and social objectives, which have been brought to the fore of SOE executives’ minds, as a result of the recent incident involving Mighty River Power.

It gets very risky. On one hand we’re trying to act responsibly and socially and compassionately with customers who are having difficulties paying their bill; on the other hand we’ve got a business to run and we’ve got to make a profit because the law requires us to make a profit, because we’re a SOE (Senior executive, SOE D, 2007).

37 While the Government’s draft energy strategy released in December 2006 detailed emission targets and proposed changes, details of a carbon pricing regime had not yet been established.

38 See Luke et al. (2008a) for a more detailed analysis of Transpower’s operating and regulatory environment.
I wonder if there might be more regulation on the way in the next few years...and what the political appetite will be like (Senior executive, SOE F, 2007).

Also evident is a heightened awareness of political and public accountability risk, as New Zealand approaches an election year.

The political risks as we head into an election are always there. The propensity for politicians to do something stupid knows no bounds. And, so what we'll see is, if we have any kind of business failure or even potential failure, the likelihood that the Opposition will try and seize on it, and try and make mileage from it [is very high], even though they [may have initially supported it]. [Political risk and accountability] is always there, but we're into the silly season (Senior executive, SOE A, 2007).

These issues highlight the complexity of SOEs balancing multiple and at times inconsistent objectives, changes in Government policy which effectively change the playing field for SOEs, and the extended implications of those changes. This latter issue in particular, is considered in the following section.

6.7 GOVERNMENT ANNOUNCEMENTS AND CHANGES IN GOVERNMENT POLICY

Given the relative size, economic importance, and financial success of various SOEs, the Government viewed SOEs as an important sector to foster economic growth and expansion. As noted previously (Section 4.6), in June 2006 Trevor Mallard, New Zealand's then Minister for SOEs, announced a change in policy for SOEs, encouraging them to broaden the scope of their business operations into complementary markets and regions. Thus, the intention was for SOEs to expand the scope of their operations for the benefit of the New Zealand economy in general, thereby signalling heightened expectations in terms of financial returns, but also noting expectations of appropriate behaviour in terms of risk and accountability.

Most of the SOE executives interviewed considered the policy to be a positive step, interpreting it as a sign of approval for existing ventures, and an indication that future proposals for new ventures would be supported. Few executives however, felt the announcement had much impact on SOEs’ existing operations.

So, arguably you could say that we're already trying to move into those adjacent areas and expand. Some of that announcement has really legitimised what we're doing by our [own] methods (Senior executive, SOE C, 2006).

I don't think they'll actually change our behaviour. Other than we may feel, in terms of our risk management, and in terms of considering how the Government might react to any proposals we have, we would now rate it at as a lower risk of an adverse response (Senior executive, SOE L, 2006).
In essence, we have already been active in expansions; we’re already present [overseas] across two different businesses. And all the initiatives that [we’ve] undertaken offshore have effectively been self-funding. So, I guess our signal is, we still need to consult with our shareholder if we do want to expand. And I guess that also signals a greater likelihood that the shareholders may be receptive to those initiatives (Senior executive, SOE J, 2006).

We were a bit bemused by the Minister’s comments in some respects, because we felt that we are doing that; being entrepreneurial. It doesn’t change anything probably for us, at all (Senior executive, SOE A, 2006).

We didn’t think that speech, that policy announcement, really changed the playing field that much. [But] it certainly opens the door for us to think about more opportunities (Senior executive, SOE D, 2006).

We’ve done quite a few things around our core business and outside our core business in New Zealand and offshore; it’s just the way we’ve operated. We’ve always had that vision of leveraging the New Zealand expertise that we have (Senior executive, SOE H, 2006).

We’ve got overseas assets as well and overseas companies. And with the announcement a couple of weeks ago, we’re already down that track. So you don’t feel that has an impact? None at all (Senior executive, SOE K, 2006).

Of more significance for SOEs, perhaps, were the implications of the policy announcement, when undertaking such activity.

It’s all very well saying ‘economic transformation’ but we still have to be commercially successful. If [a project’s] a success, you’ll have plenty of politicians queuing up to say how well you’ve done, but if it’s a failure you’ll get kicked (Senior executive, SOE D, 2006).

Last year [the Government] were talking a lot about wanting SOEs to be more innovative, but on the other hand, they don’t want anyone to fail (Senior executive, SOE H, 2007).

The problem with being entrepreneurial is that you have to have failures as well as successes; that’s how it works. And there’s going to be very little tolerance for any failures (Senior executive, SOE L, 2007).

These sentiments were echoed by numerous SOE executives, with reactions ranging from cautious to sceptical.

Has the [opportunity for expansion] changed with the recent Government announcement?
I think it’s yet to be tested. I think the intent is there, but the question is [whether the Government will support that in practice] (Senior executive, SOE A, 2006).

Hence, the complications of SOEs’ operations emerge, as they operate in commercial, political, and public spheres. The complexities of the Government’s expansion policy also begins to surface, as SOEs try to balance different objectives and foster economic development in an environment where their public profile is high, and tolerance for failure is low.

6.7.1 DEVELOPMENTS ONE YEAR LATER

One year after the initial phase of interviews, there have been significant changes. The Government is now one year closer to an election, reflecting the seasonality of politics. Also of note is the Government’s draft energy strategy released in December 2006, setting challenging targets for reductions in greenhouse gas emissions, and proposing to ban SOEs from constructing new fossil fuel-burning power stations (Bradley, 2007). Each of these issues is considered below.

With respect to changes in Government policy in general, and the SOE growth policy in particular, executives noted a marked change in Government’s views.

It did occur to me when the Government announcement came out and said it was keen for SOEs to be entrepreneurial and to take advantage of opportunities, [that] prior to that, the Government had almost moved in the other direction. They’d felt the need to put out a direction to all SOEs saying essentially it didn’t want SOEs leading the way, it wanted them more to follow the pack, you know, and not be pushing essentially the boundaries (Senior executive, SOE L, 2007).

It’s amazing what a day in the life of polls can do (Senior executive, SOE E, 2007).

You know, there’s political uncertainty because the Labour Government at the moment is polling badly. If there’s an election held today on current polls, the National party would form a government by itself virtually. So there’s an election in 14 months time. And we know that six months prior to the elections all Government’s decisions get locked away. SOEs like ours are told to keep our heads down and don’t say anything for six months (Senior executive, SOE D, 2007).

In relation to key changes in Government policy, SOEs in the energy industry have also noted a significant change in Government support, due to the announcement of the draft energy strategy.

In December 2006 the Government issued a draft energy strategy, which really was a draft climate change and energy strategy, because it didn’t really address a lot of the energy issues around gas and oil and exploration for fossil fuels. It largely avoided fossil fuel development and talked all about reducing CO\textsuperscript{2} emissions from the energy sector,
developing more renewables, and the cost of carbon dioxide somehow into the stationary energy [sector], which is like power stations, and mobile energy transport sectors.

And so all of a sudden, the Government finds itself in an embarrassing situation because it’s got the brand new gas turbine that just opened two weeks ago, that they don’t want to know about. And [there’s] plans to build another one, and they don’t want to know about that, because it’s politically embarrassing. Two years ago we had support from the Government on launching our [project]. The Prime Minister came and opened it for us. Today, she won’t turn up. There is absolutely no politic appetite for [our project]. Well the Government has gone green (Senior executive, SOE D, 2007).

We’re in a lucky position at the moment, in that what we’re doing aligns with Government goals at the moment. But you can’t depend on politicians for things, and the Government might change next year. So, I think we’re in a good place at the moment, and we’re aligned with the wider environment, and what’s going on, but things can change I guess, is what I would say (Senior executive, SOE F, 2007).

Thus, the vulnerabilities of SOEs are highlighted, as Government policies and strategies change over time.

That’s interesting, because presumably Government’s policies are changing more regularly than your strategies?

Yes, exactly (Senior executive, SOE F, 2007).

6.8 SUMMARY

This chapter has provided extensive insight into the workings of New Zealand’s SOE sector in practice. Examining aspects such as freedom of commercial choice, governance, financial performance, public identity, and changes in policy; this chapter has highlighted both strengths and weaknesses of the SOE framework, and individual SOEs. While the reforms are generally considered to be working well, issues of conflict and internal competition were noted. Although governance and accountability mechanisms have been implemented effectively, there is scope for improvement with respect to communication within the SOE sector. The findings presented provide valuable contextual data for the SOE sector as a whole, and an important background for the examination of entrepreneurial and strategic projects undertaken by SOEs. Such projects are the focus of the following chapter.
CHAPTER 7
FINDINGS: EXAMINING STRATEGIC ENTREPRENEURSHIP IN PRACTICE

7.1 INTRODUCTION
As noted in Chapter 6, the New Zealand Government’s policy in 2006 encouraging SOEs to expand the scope of their operations brought little change to the way in which SOEs reportedly conducted their business. The policy did, however, signal a formal change in the Government’s stance on such activity, indicating support for new and innovative projects. Although various SOEs have been recognised for their successful, innovative, and at times, entrepreneurial activities, little systematic evaluation of these activities has been undertaken. Accordingly, this chapter systematically considers:

- the prevalence of entrepreneurial and strategic activity across the SOE sector,
- the underlying characteristics of such activity,
- variations in practice between activity classified as strategic entrepreneurship (being the integration of entrepreneurial and strategic activity), and other types of activities (e.g. entrepreneurial activity, strategic activity, activity neither entrepreneurial nor strategic), and
- underlying differences in the nature of activity examined, within each of these four classifications to distinguish strategic entrepreneurship from activity which is entrepreneurial, strategic, and neither entrepreneurial nor strategic.

Specifically, Section 7.2 examines the potentially entrepreneurial and/or strategic activity under review within each SOE, and considers those activities which may be classified as entrepreneurial. Sections 7.3 and 7.4 examine incidences of strategic activity and strategic entrepreneurship, respectively. Section 7.5 reviews activity which is considered to be neither entrepreneurial nor strategic. Last, a summary of the findings presented in this chapter is detailed in Section 7.6.

7.2 ENTREPRENEURIAL AND/OR STRATEGIC ACTIVITY
As noted previously, one activity likely to be entrepreneurial and/or strategic within each participating SOE was selected for detailed analysis. A summary of the activities examined is detailed in Table 7.1 below, ranging from automated laboratory services, to energy generators based in regional areas, and cost-effective and tax-effective financing arrangements. (A more detailed summary of the activities is also presented in Appendix C.) Consistent with previous
chapters, individual SOEs and executives are generally not identified by name. Accordingly, this section examines the various activities analysed within each SOE, and classifies them as either entrepreneurial, strategic, strategic entrepreneurship, or neither entrepreneurial nor strategic, based on an analysis of each activity's central characteristics.

**Table 7.1 Summary of SOEs' Activities Examined**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Project Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Automated laboratory services for testing of food samples, and online release of results</td>
</tr>
<tr>
<td>2</td>
<td>Training simulator software for air traffic controllers</td>
</tr>
<tr>
<td>3</td>
<td>Business management software for an organisation's policies, procedures, and controls</td>
</tr>
<tr>
<td>4</td>
<td>Energy generation plant located in a regional district of Auckland</td>
</tr>
<tr>
<td>5</td>
<td>Leasing and cultivating land for farming</td>
</tr>
<tr>
<td>6</td>
<td>A programme of operational and financial arrangements (i.e. equipment and supply) tailored to large-scale organisations based on their individual energy requirements</td>
</tr>
<tr>
<td>7</td>
<td>Innovative graphics software which presents three-dimensional images of landscapes and weather systems</td>
</tr>
<tr>
<td>8</td>
<td>Geothermal exploration and development</td>
</tr>
<tr>
<td>9</td>
<td>Repurchasing New Zealand's railway network (previously privatised)</td>
</tr>
<tr>
<td>10</td>
<td>An immediate, online valuation programme encompassing any property in New Zealand</td>
</tr>
<tr>
<td>11</td>
<td>Company restructure and plans to manage networks for various organisations</td>
</tr>
<tr>
<td>12</td>
<td>Entering into cost-effective and tax-effective financing arrangements (e.g. lease-in lease-out and structured loan arrangements)</td>
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</table>

The preliminary conceptual framework of strategic entrepreneurship derived in Chapter 2, was characterised by two central features:

- entrepreneurial activity (reflected in the combination of opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth), and
- activity applied in the strategic context of businesses which develop expertise within their core capabilities (skills and resources), and leverage from that by transferring and applying those skills and resources to create new products, services, or markets.

By way of distinction, entrepreneurial activity was viewed as a process or activity encompassing opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth (as detailed in Section 2.2.3). However, alignment with or leveraging from the organisation's core capabilities (skills and resources) was not necessarily relevant. In contrast, strategic activity was viewed as activity which is directly aligned with or leveraging from the organisation's core capabilities (refer to Section 2.4.1), but not necessarily entrepreneurial in nature. Activities which did not satisfy

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39 One of the key challenges within this study was preserving the anonymity of various SOEs, given that it is perhaps possible to identify SOEs based on the projects examined, which are often characteristic (and sometimes defining) in nature. In all cases, attempts have been made to preserve such anonymity, and where identification is expressly detailed, advance permission was obtained from the relevant SOE.
either definition were classified as neither entrepreneurial nor strategic (represented by the fourth quadrant in Figure 7.1 below). These dimensions were used as an initial reference to begin to categorise each of the activities examined in practice. Iterative analysis and comparison of such activities over a period of one-and-a-half to two-and-a-half years, revealed similarities, differences, and distinctions, providing feedback on the nature of such activities, explanation and further detail on the characteristics of activity within each of the four classifications (shown in Figure 7.1), and the opportunity to examine and re-assess the preliminary conceptual framework of strategic entrepreneurship, presented in Chapter 2.

![Figure 7.1 Strategic / Entrepreneurial Activity Matrix](image)

Interestingly, very few executives felt confident to clearly identify a particular activity as entrepreneurial and strategic, but rather questioned the criteria for “entrepreneurial”, and approached the topic cautiously. Such caution is perhaps reflective of the complexity of entrepreneurship as a topic, and the awareness of this complexity by SOE executives – an issue highlighted by Gartner (1990) in his article “What are we talking about when we talk about entrepreneurship?”, and still relevant almost two decades later. In the context of “strategy”, far less hesitation was evident, as each executive felt comfortable to talk about what was strategic in the context of their respective SOE, indicating a more general acceptance and understanding of this term. When asked if they could suggest an activity which may be entrepreneurial and/or strategic in nature, and therefore suitable for inclusion in this study, executives commonly responded as follows:

Is there any criteria by which you’re wanting to measure the projects, because maybe that will help us decide which would help you best? (Senior executive, Activity 4, 2006).

There’s probably quite a number, so maybe I can describe a few and then you could say which of those you’d like to explore a little further (Senior executive, Activity 6, 2006).

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40 One-and-a-half years for data collected in June 2007; two-and-a-half years for data collected in June 2006.
Well, I think we hope that everything we do is strategic. Not sure about entrepreneurial; I guess that's a sort of a relative concept (Senior executive, Activity 8, 2006).

For those executives who sought clarification on what constituted "entrepreneurial", reference was made to innovation, identifying opportunities, and an element of risk, but not necessarily a "high-risk" project or activity (as noted in Section 2.2.3).

Well, with the risk sharing agreement in the background, I think that probably erodes [the entrepreneurial nature] (Senior executive, Activity 4, 2006).

*I understand what you’re saying, but I don’t think that necessarily means the project is not entrepreneurial. It’s not that high-risk is a requirement, but more that risk was relevant to the project, identified, and perhaps managed.*

An examination of each activity from the outside, together with inquiry from the inside, provided extensive insight into each activity, revealing both similarities and differences between the activities with respect to their nature, stage of maturity, and outcomes (challenges and success) to date. This analysis provided the basis for classification of each activity's nature, as detailed in the following sections.

### 7.2.1 Entrepreneurial activity

A review of the literature examining entrepreneurial activity suggested it is characterised by opportunity identification, innovation, acceptance of risk, vision, flexibility, and growth. Iterative analysis of the 12 SOEs' activities, however, reveals an increasingly clear distinction between Activity 3 and the other SOEs’ activities. This activity is particularly interesting, because while it may be considered entrepreneurial in nature (i.e. identifying the opportunity to develop innovative process control (or business management) software initially for in-house use, and later seeing flexibility for broader commercial use, thereby facilitating growth opportunities), it is not particularly strategic in the sense of leveraging from the organisation's core capabilities (skills and resources). Each of these issues is considered further below.

With respect to the entrepreneurial nature of the project, elements of opportunity identification, risk (and risk management), vision, flexibility, and growth are clearly evident.

*I think when we took the business out of [the former government department], it was disorganised and unstructured, and so we’ve put a structure in place and got things consistent and organised. And with our operating system we developed this [software]. [It was] developed in-house, for our personal use. And then we realised it had some commercial potential and applicability to any business.*
And so we went to [an] industry and they had a specific need at the time for national risk management programmes, and we said ‘we can build you risk management programmes electronically using [this programme] as the entry port’. And so we did that at about 17 sites around the country as part of the test marketing of the product. Obviously then we went back and talked to them about what they thought of it and how it worked and all the risks and that sort of thing, and we rebuilt it completely after that and then went out and said ‘it’s got wider applicability than just [that] industry. Let’s look at some other sites where we can do deals with them and get it installed and use it for reference sites’. Because our primary business is [in a different area], and this isn’t really primary business for us. But what we want to be able to do is to take it to someone to resell it for us, so that we don’t have to build a sales team to sell it or anything else.

Ok. And so initially then, you just had a small sales force where you approached those individual companies, did you?

We really did it within the resources of our frontline managers and within the executive (Senior executive, Activity 3, 2006).

Innovative aspects of the project have been recognised both internally and externally. Externally, the activity has received an innovation award. Internally, it is recognised for a number of innovative features.

With the benchmark report writer [as part of the software], and the data we gathered through [our core business] statistical process controls system, we’ve commercialised that to the extent that a lot of our [industry] clients actually buy access to it. So they can see the data that we’re gathering for the [businesses] out there. So that’s become a commercial opportunity.

I mean, that’s quite innovative. That pulls in a [solid] contribution [each] year, and it costs [little] to maintain now that we’ve built it. Yes and we’ve developed similar report writers for a range of other areas (Senior executive, Activity 3, 2006).

An analysis of the activity from a strategic perspective, however, indicates the project is not related to and does not leverage from the SOE’s core skills and resources. As such, it is also not supported by the SOE’s core capabilities. By way of contrast, an analysis of other activities (such as 5, 7, and 8 – considered in detail in Sections 7.3 and 7.4), indicates they involve applying existing core skills and resources in new (Activity 7) or existing (Activity 8) areas and markets. As a result, there was a sense of confidence and familiarity with respect to those activities, in the respective SOEs. The importance of applying and leveraging from core skills is highlighted in the comments below.

I guess you play to where your existing competencies are. We saw that we had some capability but really if we wanted to take it seriously, geothermal is a reasonably specialist area and you know, you can only take things seriously if you’ve actually got the capability to do that. You know, to add a technology that you don’t currently deal with [is difficult]. You’ve got to get the expertise in. You’ve got to have a credible mass of capabilities.
The other part is... is it in an area where we have competency so we can have a high level of confidence about our ability to actually operate and manage the [activity]. You know, is it something new so we're not quite sure whether we fully understand the operating characteristics (Senior executive, Activity 8, 2006).

These sentiments were echoed by another SOE executive in terms of developing expertise within the core business, developing a sense of confidence in the SOE's ability with respect to the core business, and managing the associated risks by leveraging from those core skills and resources.

We realised we didn't have to be too frightened of things not working out right, because we had the skills in getting things to work once we analysed them. So, approximately 10 years ago we tried to confront our own internal conservatism. Clearly, getting into [new] projects involves a risk. You don't know what you don't know. But I think we're able to cope better with that now. One of the things which we have as a core competence is reliability and operational excellence (Senior executive, Activity 7, 2006).

In contrast, Activity 3, while entrepreneurial in nature (and reflecting a deliberately entrepreneurial vision focused on new opportunities for growth), is noticeably detached from the SOE's core skills and resources. The implications of this separation were such that the SOE experienced internal tensions with respect to the amount of resources which should be allocated to support the activity, an element of risk which was perceived by some as increasingly difficult to manage, and a continued challenge to promote and service the project, given the SOE's lack of established reputation in the area of software development and maintenance.

So was there a bit of a conflict there or a trade-off between where you're going to devote a limited amount of resources to; focusing on the core business or allocating resources to fringe areas?

Yes, that's right. And even as we develop our other business, we're still not really in the IT business, so we're trying to develop in other areas, and this didn't really fit there either. And so we had to do something with it, because otherwise it would just sit there and be an in-house system, and we wouldn't extract any value out of it. So we saw this as probably the best option to extract some value without exposing ourselves to risk and allowing us to concentrate on the other areas of business.

I mean there's risk in a number of factors. You look at financial risk as one thing, and then you look at the risk to your reputation, and that's the other thing. So we are always assessing both those types of risk, and we said that financially there was some risk that was involved with carrying on [with the project], and for us, to be able to find $1 million to develop the product further, we have to say well, what's it going to effectively cost us to get $1 million to develop that further, and what else could we do with $1 million? And yes, then there's a whole range of risks associated with the fact that it's an unfamiliar area of business for us, so therefore what's the likelihood of something going wrong that we can't control, just by making simple mistakes because it's not our core business and we're not experienced in that area. And you weigh that up against the cost of employing someone who...
Does have that expertise.

Yes. Over here we’ve got our core business that we’re really confident and comfortable with. It’s a field that’s not our core business, and so it becomes a lot harder to calculate the risk. As far as new business initiatives, it was a small initiative in amongst a whole lot of larger initiatives. The interesting thing about it was that it was completely non-core.

Which adds those extra risk elements to it?

Yes (Senior executive, Activity 3, 2007).

Thus, findings from an analysis of Activity 3 are extremely valuable in highlighting the difficulties faced by organisations which create entrepreneurial activity outside their core capabilities. This notion raises an interesting issue regarding the trade-offs between entrepreneurial activity - a novel, innovative project (that is not necessarily related to a business’s core capabilities), and strategic activity - focusing on core skills and resources. This issue was reinforced in the discussion which evolved during the second interview, and is considered further in Sections 7.3 and 7.4.

When we talk about our core, we say as an organisation we have a core competence in process control. And [the activity] is essentially a piece of software developed by us to use in-house for process control and process improvement. And so we’re really comfortable with it as a product, because one, we use it ourselves every day, and we have done since we developed it in 2001, 2002. So we’ve had five years of using this product as users, with 900 users in the organisation. So it fits with our core competence, but it’s in an area outside our expertise if you like.

And I guess it’s the difference between using something that which, as you say, overlaps nicely with your core skills, and then taking that into a commercial market, where you have to try to fit the needs of a broader range of users. And I guess even taking it to your [existing customer] sites, if people come back and say ‘we’d like this changed, or can we modify this’; then it becomes an ongoing project. Whereas you might not necessarily have had those needs in-house for the modifications requested; but as a commercial project, people want those different flexibilities included.

That’s right, and the question is, how far you’re prepared to go with that sort of work, and you’ve got to be careful with modifications that you’re adding value (Senior executive, Activity 3, 2007).

Such comments highlight two key issues: (1) the difficulty and risks of managing an entrepreneurial project which is not related to (and therefore not supported by) an organisation’s core skills and resources, and (2), the difference between a novel idea and an entrepreneurial (and commercially viable) activity. Each of these issues is reflected in Table 7.2 below, which summarises the key features of entrepreneurial activity in practice, and highlights the absence of a strategic aspect. Thus, while evidence of entrepreneurial elements emerge, a strategic aspect of this activity (i.e. an association with the SOE’s core skills and resources) is lacking.
### Table 7.2: A profile of entrepreneurial activity in practice

<table>
<thead>
<tr>
<th>Key themes</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity identification</td>
<td>- developed software in-house for own personal use due to the needs of the organisation, and realised it had commercial potential</td>
</tr>
<tr>
<td>Innovation</td>
<td>- innovative approach to process management</td>
</tr>
<tr>
<td>Acceptance of risk</td>
<td>- deliberate acceptance of risk, but also an acknowledgement that risk was increasingly difficult to manage due to the project being outside the SOE’s core capabilities, and therefore an area where the SOE did not have a high level of resources, familiarity, or confidence</td>
</tr>
<tr>
<td>Flexibility</td>
<td>- developed software and related services which could be tailored to any organisation</td>
</tr>
<tr>
<td>Vision</td>
<td>- saw commercial opportunity and use for software beyond the SOE’s own business</td>
</tr>
<tr>
<td></td>
<td>- identified specific industry as initial target market which was related to the SOE’s core business</td>
</tr>
<tr>
<td>Growth</td>
<td>- growth in revenue stream, product line, organisational learning</td>
</tr>
<tr>
<td>Strategic aspect</td>
<td>- lacking from this activity</td>
</tr>
<tr>
<td></td>
<td>- does not leverage from the SOE’s core capabilities</td>
</tr>
<tr>
<td></td>
<td>- is not an area where the SOE has a high level of resources, familiarity, or confidence</td>
</tr>
</tbody>
</table>

Overall, findings from this section provide insight into the specifics of entrepreneurial activity in practice, as well as a number of slightly broader issues. Essentially, Activity 3 highlights that entrepreneurial activity can exist in a public sector context. Thus, despite continued debate on the viability and future of NPM (Moore, 1992; O’Flynn, 2007), findings from Chapter 6 have highlighted NPM is viable, with solid financial returns realised. Further, findings from this chapter have shown entrepreneurial activity is also viable in a public sector context, supporting the concept and existence of *new public entrepreneurship* in practice. These issues are discussed further in Chapter 9.

#### 7.2.3 Developments one year later

An analysis of Activity 3 one year later reveals an interesting development. In the 12 months ended June 2007, it was decided that the business management software should be sold, with the sale agreement allowing the SOE to continue selling the software in New Zealand. Final arrangements were being made, and the sale transaction was to be completed only days after the second interview.41

> We’re actually working through a sale process at the moment, to sell the whole thing, and then become a licensed re-seller for it. And we’ve done a deal which will be closed, pending some patent investigations in the US. So we’re just waiting for those [to come through]…there’s about 10 days left to run before the deal finalises. So the rationale behind that I guess is what you’re interested in.

> Yes, and also because when I spoke to you around this time last year you were at the stage of saying the marketing was quite time consuming, and so you were looking at outsourcing that. So what was the reason for the shift in strategy?

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41 A summary of the developments in Activity 3 one year later, together with developments in each of the other activities, is detailed in Appendix D.
As we’ve moved through trying to put relationships in place to actually get the product to the market, we’ve found that there’s more and more concern I guess from the market about the support and particularly the development roadmap and how we’re going to develop the product into the future.

Oh, ok, so ongoing support.
Yes. And you know, that’s not our specialist area. So we considered quite a few options as to how we could put that in place, but at the end of the day, the Board decided that the best option for us would be to sell it and just be a licensed reseller, because of the amount of resource really, and time that would be needed to follow that right through. So we’ve actually done a deal with the IT company that did the initial development work for us. It’s a local (New Zealand) company. And they have quite a business based in the US, and they see potential in the US for it.

We had a variety of views, I mean, obviously we put a lot of time and energy into developing the products, so there’s a fair bit of ownership amongst the management team here. And the key thing was that everyone accepted that we had to do something with it, otherwise it was going to sit inside this organisation and go nowhere. And the debate I guess was around the vehicle for doing it, whether we should go into a joint venture or some other sort of arrangement. But we clearly weren’t making enough progress with licensing to get someone else to market it for us; it was raising more questions than answers. So we all accepted that we had to do something with it. We presented the Board with a variety of options and recommendations, and in the end they decided that the sale was the best option. Management has by and large accepted that and we’re moving on (Senior executive, Activity 3, 2007).

Such comments highlight a number of issues including the difficulties encountered with activities which are entrepreneurial but not strategic, the opportunity for joint venture arrangements, the “match” or “fit” between the Government’s expansion policy for SOEs in 2006 (promoting the involvement of local businesses) and Activity 3 which was developed with the assistance of a local (New Zealand) company, and subsequently sold to that company to pursue future export opportunities. Each of these issues is discussed further in Chapter 9.

7.3 STRATEGIC ACTIVITY

Of the remaining projects, an examination of Activities 1, 4, 6, 8, 9, and 11 in terms of their entrepreneurial and strategic nature, reveals distinct similarities. A key commonality is the strategic nature of each of the activities examined. In a strategic context, each of the activities is directly aligned with the respective SOE’s core skills and resources. Further, each project is aimed at facilitating growth within the business, by leveraging from or extending the scope of the respective SOE’s operations. By way of example, Activity 1 (automated laboratory) facilitated increased capacity, enhanced traceability, and allowed the SOE to easily reach an international market, though its services in New Zealand and Australia.
In terms of micro-biology, there’s never been any co-ordination of microbiology for the last 20 years; all around the world it’s a phenomenon. And one of the things we did, we grew our microbiology substantially over the last five years to distinguish our contracts and operational excellence. And what’s happened is we experienced an increasing need to have more people and more space so we were looking for automation to try and counter demand, and we found that in an [overseas] company. So we went [to Europe] and had a look at the laboratories they set up in the Netherlands and the UK. We came back and put a business case together, and we found that we could increase our capacity, reduce our costs and we could increase profits. So that laboratory when it started had eight staff; it is about 180 now (Senior executive, Activity 1, 2006).

In the case of Activity 6, the respective SOE leveraged its core business skills in energy generation with financing arrangements (for equipment and electricity supply) to extend its existing market and reach new customers who may not otherwise have been able to afford (or choose) large-scale energy investments.

That’s probably our oldest project, in terms of its development up inside the business. We’d observed a similar business model elsewhere, in the US, and we thought that might have some legs here, and it’s been growing over that period (Senior executive, Activity 6, 2006).

Similarly, Activities 8 and 11 involved the respective SOEs’ core skills and resources being applied in various contexts.

The company’s main focus is geothermal. Since the company was formed we’ve purchased one geothermal power station and we’ve acquired an equity interest in another geothermal power station. And as part of our development strategy over the last three years we’ve built a big geothermal team. There’s a lot of competencies required in geothermal, so we’ve gone from basically about eight or so operating people, and we’ve now got a team of about 30, headed up by an American guy who’s got about 30 years experience around the world in geothermal development and projects. And so as part of that, he’s built up a team of geo-technical people, scientists and the like. And we’ve spent, effectively on research, exploration and development really, close to $100 million in geothermal over the last couple of years. And as a result of that we have just consented one power station [in the North Island], which we hopefully will begin constructing at the beginning of next year, and we should have at least another one underway within the next two years at another site (Senior executive, Activity 8, 2006).

The entrepreneurial bit is here actually - the restructure of the group. And there are a lot of other things we’re doing to support this. We’re having a re-branding exercise to support our new focus, because people don’t know who we are. We started [with] about 400 towers around New Zealand as our base and that really delivered [to two key markets] and what’s been happening over the last, well quite a long time actually, is trying to leverage off those and not just to do [those markets]; but to go into other areas as well. We’re actually [planning on] running the business very differently in terms of structure as well. We’ve broken it down into profit centres - and now we [plan to break] it down even further, with managers managing their own units and profit and revenue, so
it’s a complete change. So last year was busy thinking about what we want to do, and [this year] people have been busy putting the plans in place [for change]. We’re using our same skill-base. It’s leveraging off our assets and our people. The thinking process is happening, [but] we haven’t launched it yet. We presented it to the Board a couple of days ago.

The main drive is actually creating this [group] concept so that we’re all running together and also pushing the day-to-day stuff further down into the operations. And that will drive performance. We’re trying to put one system across the three companies. Because at present, it’s actually [an obstacle]. So this [plan] has just started from May [2006], we’ve just done a strategic plan, which has sort of restructured ourselves. So I think this year has been getting the direction sorted out to see where are our opportunities - and we’re sort of about halfway through the process. It’s a long process and we’ve been at it a year and we won’t get it done for another year at least.

We’re moving [beyond] our [traditional business market]. So the plan’s all about that. Maintaining our current market, but also moving into other areas, so we’ve got very much a more outward looking focus. So let’s use our skills in other areas. We are going to face a bit more competition but there are opportunities out there. It’s a very different business model. More opportunities, [but also] a lot more risks (Senior executive, Activity 11, 2006).

Thus, the strategic focus of each activity clearly emerges, with key features such as leveraging from core skills and resources, to expand the scope of the SOE’s operations. Each activity involves identifying an opportunity, with an element of flexibility and business risk. The vision of each is essentially strategic (directly related to the SOE’s core business), and the opportunities for growth focus on leveraging from the SOE’s core skills and resources, as indicated by the comments below.

There was really only one other player, and we saw an opportunity to build a business; well expand our business, build a geothermal-based generation business. And we had to have the capability; we had to spend a lot of money to find out what the opportunity actually was. So your long-run success is a function of things like how good you are at [utilising and maintaining the] nature of the assets you’re using. It’s really a matter of how and when you can get them developed and bring them to market basically. And you’ve got to link that into your capabilities as well.

Because there’s actually quite a lot of learning that goes into understanding a project. We, not just the people here, but the company, has an inherent knowledge which goes back years. And it tends to be almost by osmosis passed through people and that’s an attribute that we look to try and develop and replicate in other [activities] that we’re adding. That’s why you end up having to start off with building a critical mass of people and then effectively taking operating experience from other people and then building it in. And at the end of the day, really what we’re looking for is that intuitive understanding of what things work rather than...

Testing.
Yes, rather than finding out [as we go], because learning from experience can be rather expensive, depending on what it is. Our first [project] we bought is relatively small. And then the plant that we've consented, that [is somewhat larger]. So we're [starting] from a small scale. It looks like that with hindsight. I'm not sure that it was deliberately planned that way; it was more a function of the opportunities that were there.

And I don't think the decision to go to geothermal was driven so much by a sort of differentiation objective; it was really more to do with probably two aspects. One being that we had some existing capability so we felt we could leverage off that, and the relationships we already had were with people; we needed access to their land. And the other one is that geothermal is the only base-load renewable, it's the only renewable that runs 24 hours a day. Wind just goes when the wind blows and hydro goes when the water falls and solar goes when the sun shines and geothermal just goes. And so in that respect, from a risk perspective it's actually a relatively high-value renewable.

And from the seventies 'til we started doing a lot more work, there hasn't been a lot of research gone into the geothermal sphere, so that's been our big thrust (Senior executive, Activity 8, 2006).

Such comments highlight a number of issues, including the notion that strategy may be deliberate or emergent, the advantage (and resulting risk minimisation or management) of leveraging from core capabilities, and the ongoing process of organisational learning. However, clearly, the strategic aspect of such activity involves developing and maintaining a level of understanding and expertise in relation to an activity (or area of business) such that it complements (fits with) and is supported by an organisation's core skills and resources.

[We had two subsidiaries], but they were two very different organisations, and they [the Board] felt that that's not the way they wanted to run it in the future. And there is now lots of synergy because [the two organisations] work closely together, whereas before we had plans which were quite independent. We'd never added them together and it didn't mean anything, so now we've got a lot of focus on that. It's hopefully sort of expanding the way we look at the world. We've got to get out of our traditional sort of mindset and actually develop products, customise them.

It's all about the culture and change. I think it's the whole change in structure and culture and ownership and accountability...the whole way we run the business, is the change. It is the big project. I mean, the core business still is really important. We have to do it, and efficiently. And that's why we've restructured to get [enhanced] performance out of the day-to-day stuff. But also, we have to grow, overall we're looking to grow the group. That's our intent and vision (Senior executive, Activity 11, 2006).

Hence, the strategic focus of the activities is reinforced, emphasising strategic change, mindset, intent, and vision. Further, with respect to executives' comments on Activities 4 and 11, it is interesting to note the change in language, or re-assessment of the respective activities, as each executive initially referred to their SOE's activity as "entrepreneurial", but later used the word "strategic" to describe the underlying nature of the activity.
The entrepreneurial bit is here actually - the restructure of the group... So this is a sort of a strategic change really (Senior executive, Activity 11, 2006).

Interestingly, however, an entrepreneurial focus is noticeably lacking in each of the six activities. None of these activities seem to be entrepreneurial or innovative, in terms of creating distinctly new products, services, or markets. By way of example, Activity 1 (automated laboratory) involved the adoption of existing technology (used in Europe) to enable an increase in the volume of the SOE’s operations in New Zealand and Australia. Activity 6, while creative and highly strategic in extending the scope of the SOE’s business, is not unique or novel. Similarly, Activities 8 and 11 involve the respective SOE’s core skills and resources being applied in various, but not specifically novel or innovative contexts. Thus, it is difficult to establish, based on the analysis of these activities, that any of the six are innovative (in the sense of creating and bringing something new to the market). These themes are detailed in Table 7.3 which summarises the key features of these strategic activities in practice, as well as highlighting the absence of entrepreneurial features.

<table>
<thead>
<tr>
<th>Key themes</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
</table>
| Leveraging from core skills and resources | • developing a level of expertise in the SOE’s core skills and resources, and leveraging from that to expand the business  
  • building on experience in a particular business or market, to develop tacit knowledge and an intuitive understanding |
| Organisational learning and growth | • understanding where the opportunities are, based on the SOE’s core capabilities  
  • moving into related markets, which assists in minimising and managing associated risks  
  • developing a sense of familiarity and confidence in the SOE’s skills and target market |
| Strategic direction             | • may be either deliberate or emergent  
  • based on the SOE’s core capabilities, and supported by a strategic intent and vision encompassing flexibility (in terms of service delivery) and growth |
| Entrepreneurial aspect          | • evidence of opportunity identification, acceptance of risk, flexibility, vision, and growth in a strategic context (i.e. leveraging from core capabilities to expand the business)  
  - but does not reflect any innovative features (new product, service, or market) |

A comparison of these activities with Activity 3 (examined in Section 7.2.1) highlights the contrast between entrepreneurial and strategic activity, and indicates perhaps that when a business can combine entrepreneurial and strategic activity, such that the product or service created is not only entrepreneurial in nature, but also aligns with the organisation’s core skills and resources, then the activity itself becomes noticeably easier to manage. Further, it is quite likely that the business or organisation will feel more confident in pursuing activity of that nature. This issue is examined further in Section 7.4.
7.3.1 DEVELOPMENTS ONE YEAR LATER

An examination of these projects one year later reveals a number of developments. Activity 1, the automated laboratory, has facilitated increased volumes of testing, resulting in increased revenue and profits.

In New Zealand it’s worked really well for us; it’s actually working exactly the way we had forecasted. In terms of Australia, one of the assumptions over in Australia was to build volume, and that’s something that hasn’t worked as well as we thought it would; in Australia we’ve got a bit more work to do (Senior executive, Activity 1, 2007).

Activity 4, the regionally located energy generation plant, was one year closer to being commissioned, but there has been a clear change in the level of Government support, following the Government’s draft energy strategy announced in December 2006.

There is absolutely no political appetite for [the project]; it’s politically embarrassing. Well, the Government has gone green. So in February [2007] after the Government announced their energy strategy, the Prime Minister then made a number of speeches, claiming that New Zealand could be carbon neutral, and that New Zealand should work towards sustainability, kind of starting with carbon neutrality for all government departments, and, sort of started talking up the Green vote basically. And so all of a sudden, the Government finds itself in an embarrassing situation because it’s got the brand new gas turbine that just opened two weeks ago, that they don’t want to know about. And [there’s] plans to build another one, and they don’t want to know about that, because it’s politically embarrassing.

We’re lodging our resource consent applications [for the project] tomorrow theoretically; I haven’t been told otherwise. So the plan at the moment is to continue on as quietly as we can, getting consents in place. If we do proceed and we get some investment decision to proceed as made by the Board, I think we’re looking at winter 2010 or 2011.

Ok, so it’s still quite a few years off.

Well, it could be 18 months to two years to get through the consenting process. We fully expect to go through the Environment Court, and even beyond. I mean, if we win in the Environment Court, we’ll still get appealed. We had a meeting with Greenpeace this morning. And at the same time, we’re still very aggressive in other renewable developments, in diverse renewable developments [such as geothermal].

And is that quite different from 12 months ago, geothermal?

Geothermal wasn’t even on the page for us 12 months ago; it was kind of at the bottom of the page (Senior executive, Activity 4, 2007).

Activity 6 continues to develop, being the programme of operational and financing arrangements for large-scale equipment and energy supply. Activity 8 has made significant progress with respect to the geothermal exploration and development.

‘[What’s happened] in the last 12 months?’ A lot actually. In August [2006] we got consents to build an almost 100 megawatt geothermal power station, which we’ve been
working on for...over three years probably. So that’s now in construction; that’s due to be finished at the end of [2008]. Also, since then we’ve completed negotiations with some of our other iwi [Maori tribal] partners, so we’ll file for consents for another geothermal power station, where we already have one power station, so we’ll build another power station there. As part of those negotiations we also clarified access to an adjacent geothermal field, which we’re due to start drilling on, exploratory drilling on in the next...before Christmas [2007] I think. We’ve basically finished most of the commercial negotiations on those now, so we’re really either into construction or soon, assuming we get consents, we’ll be moving into a construction phase on all those things. So we’ve actually made a lot of progress in the last 12 months.

In some respects, we’ve probably gone further on the geothermal side in a shorter period of time than we would have historically picked. And so in some respects that compensates for the fact that we’re a bit slower [in other areas], and it gives us the luxury of not having to worry about that quite so much (Senior executive, Activity 8, 2007).

Activity 9 has experienced a seachange in support, beyond the SOE’s expectations.

Well, there have been a number of developments. When [we were] set up in 2005, it was essentially intended that [we] would be the track maintainer for the [network], and [our main customer] would pay all the money for the maintenance of the track. But as time’s gone on it’s turned out that...well, [the customer] went back to the Government and said, despite the fact of what they’d signed up to in the beginning, they couldn’t afford to pay all these costs. There’s still ongoing negotiations with the Crown there. [We] and our main customer went to arbitration basically over how much [they] had to pay [us]. And [they are] still negotiating with the Crown, they’re still not paying us the full amount, and I think the Crown is topping it up.

But the main thing that’s probably different is that the Government has agreed to put a whole lot of money into the capital development of the network. So in Auckland they approved $600 million to upgrade the passenger track. But then in the latest budget they approved more money to electrify the Auckland network, you see. And that’s probably ‘round about the same amount. So the Crown’s basically putting $1 billion into Auckland.

And in Wellington there was a Crown approval for track investment for about $60 or $70 million, and now they’ve approved another $200 million. And previously they’d already approved quite a lot of money for Government contribution towards new rolling stock for Wellington as well. So they’re probably putting $700 or $800 million into the Wellington network as well. And for all of the track work, [we are] in charge of that. In fact my boss [is] suggesting that we move from being a maintenance operation to a huge construction operation. So that’s quite a dramatic change for [us].

So was that something that wasn’t particularly a strategy of the management here, but more a Government directive then?

Well, I don’t know if it was anyone’s strategy really, because, as I say in 2005 when it was all set up, [it was planned that our main customer] would [effectively] pay [in accordance with the agreement]. But no, I don’t think anyone had that long-term strategy. Well, basically there’s sort of a growing perception, a big focus going on sustainability and climate change issues. And whereas I think in the past Treasury always said ‘well, rail is a bit of a dog and not cost-effective’, that sort of thing, there’s
now been quite a change. There’s been a big report put out in Auckland by the central
government officials recently showing there’s no more space for roads, the population is
going to grow quite dramatically, you must upgrade the public passenger transport
network. And be it rail or be it road, the only debate is about the timing of the upgrade
bit, so everyone is agreed on that basically (Senior executive, Activity 9, 2007).

Such comments highlight that the strategic direction of SOEs may be either deliberate or
emergent, shaped by opportunities available; and reinforce earlier comments of the SOE
executive referring to Activity 8.

So we’re [starting] from a small scale. It looks like that with hindsight. I’m not sure that it
was deliberately planned that way; it was more a function of the opportunities that were
there (Senior executive, Activity 8, 2006).

One year later, the SOE involved in Activity 11 is in the final stages of the organisation’s
restructure. Announcements of proposed changes have been made both internally and
externally, and the new strategy has been launched. Further, following the SOE’s rebranding
exercise, it has acquired another organisation, as the SOE embarks on a growth strategy.

Well [we’ve rebranded]; that happened from October [2006]. So that’s now been
completed. We had presentations etc., and that was all rolled out over a couple of days,
so all staff have been involved in that. We’re all one [group] and one brand now. We still
have separate profit centres, and separate businesses, but it’s all been branded under
[one name]. So if you go to the website, you’ll see one brand.

We’ve split the business up into [three separate areas]. So what we’ve done is put words
around the kind of ideas we were speaking about last time. [One] is [our] more traditional
[market]. And [another is] a new area, and where the two come together is the [third
market], which is where the opportunities are. So before we were in one [market], and
now we’re in three [markets].

Ok. And has that meant a big shift in terms of the operations so far?
Well it has changed the way we look at the market.

Oh, so it’s still at the stage of looking at opportunities for the future, rather than an
immediate change to the operations.
Yes (Senior executive, Activity 11, 2007).

This discussion highlights an important point raised in Chapter 2 (refer to Section 2.2.3), such that
entrepreneurship and strategic entrepreneurship are essentially activities or processes. Thus,
while the plans referred to above may eventually result in strategic entrepreneurship, essentially
in 2007, there was no business activity as such which could be classified as entrepreneurial and
strategic, but rather a strategic restructure of the organisation, with strategic (and potentially
entrepreneurial) plans for the future.
7.4 ENTREPRENEURIAL AND STRATEGIC ACTIVITY

A review of Activities 2, 5, 7, and 10, reveals strong similarities in the nature of the activities with respect to both entrepreneurial and strategic elements. First, the activities may be considered strategic in the sense that each one involves the respective SOE applying and leveraging from its core capabilities (skills and resources). Second, each of these activities may be considered entrepreneurial in the sense that they are innovative in nature, implemented through the identification of opportunity, with elements of risk, vision, flexibility and growth. Each of these elements is considered separately below.

7.4.1 STRATEGIC NATURE

In each case, Activities 2, 5, 7, and 10 are clearly aligned with the respective SOE’s core capabilities. Further, each activity also leverages from those capabilities, extending into new areas and markets. By way of example, Activity 2 represents an activity already undertaken by the respective SOE (in-house training of staff); however by leveraging from that and developing a simulator with commercial potential, the SOE was able to apply its own core skills and resources to extend the scope of its operations into a new market. Similarly, Activity 5 leveraged from the respective SOE’s core skills in farming, and limitation on the amount of land it was authorised to own\(^{42}\), to develop land for others and then lease that land for the SOE’s own farming purposes. This arrangement was particularly opportunistic given the existence of New Zealand business-people with large-scale land investments, but part-time (or recreational) farming lifestyles. Hence, there was a need for land management services, such as those provided by the SOE. Similarly, Activities 7 and 10 involved leveraging from the respective SOE’s core capabilities by combining information technology with weather forecasting and property valuation (respectively), resulting in new, innovative products opening up distinctly new markets (and revenue streams) for each SOE. As such, comments from executives of SOEs undertaking this activity reflected a confidence to take on a project on the basis that it involved applying and leveraging from the SOE’s core skills, simply in a different context.

Interestingly, the activities classified as strategic entrepreneurship range from deliberate to emergent in their approach. By way of example, Activity 7 involved another organisation approaching the SOE with the respective opportunity. In contrast, Activities 2 and 10 were

\(^{42}\) Based on restrictions imposed on the SOE under the Treaty of Waitangi (1840).
deliberate strategic initiatives based on the SOEs’ business objectives and aims. A summary of the strategic aspects of these activities is presented in Table 7.4 below.

<table>
<thead>
<tr>
<th>TABLE 7.4</th>
<th>STRATEGIC ASPECTS AND ASSOCIATED ELEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key theme</td>
<td>Supporting themes, dimensions, and details</td>
</tr>
<tr>
<td>Strategic aspects</td>
<td>• leveraging from core capabilities (skills and resources)</td>
</tr>
<tr>
<td></td>
<td>• identifying commercial opportunities directly aligned with the SOE’s core capabilities</td>
</tr>
<tr>
<td></td>
<td>• managing and minimising risk by undertaking activity directly aligned with the SOE’s core capabilities</td>
</tr>
<tr>
<td></td>
<td>• sense of confidence and familiarity by transferring and applying core capabilities in new or related contexts</td>
</tr>
<tr>
<td></td>
<td>• both deliberate and emergent</td>
</tr>
</tbody>
</table>

7.4.2 ENTREPRENEURIAL NATURE

With respect to the entrepreneurial nature of each of these projects, discussions with interviewees indicate a number of recurring themes, each of which are considered below.

Opportunity identification

In each case, opportunity identification was central to the activity undertaken. Interestingly, however, the opportunity was not identified internally in all cases. For Activities 2, 5, and 10, the concept was developed in-house, as the respective SOEs deliberately searched for new opportunities. In the case of Activity 5, the concept was developed internally, however the final scope of the project evolved through discussions and negotiations between the SOE and third party (lessor).

The project started by an approach to one of these four businessmen from me, to look at them purchasing land for us to lease back and farm. That was the original intention and we looked at some really large properties. We were unsuccessful in purchasing those properties and then this came along and they came to us and said ‘well, instead of a straight lease, how would you like to do a development and then a lease on the farm’.

*Ok, so it was a combination of negotiations and discussions?*
Yes (Senior executive, Activity 5, 2006).

In relation to Activity 7 however, the SOE was initially approached by an external organisation and presented with the opportunity.

TV1 (TVNZ)43, approximately 10 years ago, wanted to upgrade their weather presentation. They came along and said ‘could you provide a meteorologist that could help us with the graphics design’. At that point we had done an exercise within the company to see how we could shore up our competitive position. The first place we started was graphics presentations in newspapers. So when TVNZ came along, we

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43 Television New Zealand Limited.
thought this might be the next phase, so we thought we’ll do this in partnership (Senior executive, Activity 7, 2006).

This approach was based on the SOE’s reputation, and recognition of its core capabilities. Thus, opportunity identification within these activities is noted as both internal and external. This concept is particularly important (with further consideration undertaken in Chapter 9), and is reflected in the comments of another senior executive who noted “in many respects, opportunities follow capability, rather than the other way around” (Senior executive, Activity 8, 2006).

In each case, the opportunity identified was also strategic in nature, such that it offered enduring benefits to both the individual SOE and external parties.

Clearly there was a financial opportunity for us to get that data out in a way which is useful to members of the public who had been willing to pay a fair price. So what we’re doing is seeing the opportunity in terms of this data and the development in the internet. Our opportunity here is to change the platform under which this data has been available; to better inform the public of New Zealand in their property decisions, while making a return on that information. And there’s potential for us to take that [programme] offshore. There’s a whole range of reasons why making that data more widely available is in essence, in everyone’s best interests (Senior executive, Activity 10, 2006).

Thus, opportunity identification is an important element within each project, and closely tied to innovation and growth. The key features of opportunity identification from the four activities are summarised in Table 7.5 below. Further, while opportunity identification emerges in an entrepreneurial context, there is also a strategic aspect inherent to these activities (denoted by an asterisk in Table 7.5).

<table>
<thead>
<tr>
<th>Key theme</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity identification</td>
<td>• may be identified internally or externally and presented to the organisation</td>
</tr>
<tr>
<td></td>
<td>• may be a function of (or associated with) organisation’s reputation and recognition for expertise with</td>
</tr>
<tr>
<td></td>
<td>respect to core capabilities*</td>
</tr>
<tr>
<td></td>
<td>• entrepreneurial and strategic aspect such that opportunities identified are both innovative and</td>
</tr>
<tr>
<td></td>
<td>directly leverage from an organisation’s core capabilities</td>
</tr>
<tr>
<td></td>
<td>• closely tied to innovation and growth (i.e. innovative opportunities with the potential for growth)</td>
</tr>
</tbody>
</table>

*I的战略方面

**Innovation**

Innovation relevant to each of the four projects is reflected in the novel idea; bringing something new to the market (Drucker, 1985). Such innovation is evidenced by the creativity of the concepts involved, reinforced by the lack of competition, and oftentimes recognition for such innovation though industry and business awards. By way of example, two activities in this
category have received innovation awards and accolades. Similarly, regarding the other two activities discussed here, innovation and newness were key features.

*And is this the first arrangement which you’ve entered into of that type?*

It’s the first arrangement of its type and it’s by far the biggest of its type and I think it’s unique in New Zealand. I don’t know any other organisation which has done something quite the way we’ve done it.

*And is this project something that you hope to expand in the future? Is this almost a test case?*

Yes it is (Senior executive, Activity 5, 2006).

We haven’t found anyone who offers a similar [service or programme] as comprehensively as we have. I expect given the success of [this project] that competition will come (Senior executive, Activity 10, 2006).

Interestingly however, such innovation is not necessarily radical or dependent upon research and development in a formal sense.

I think most of the things we do are some form of adaptation. We’ve got a standard range of services which we provide, and we know other things that we are able to do, but don’t do, because there isn’t commercial imperative to do it. When there’s an opportunity that’s identified, then we can put into place some sort of corporate thinking cap, and see if we can come up with a solution that inevitably involves working with some other organisation to find out what it is that they want, so we can give it. Working with the customer to take the relevant thinking from [our core capabilities] to [their needs], and then working backwards. I think that’s part of the trick – the cultural awareness [of understanding which ideas are feasible and commercially viable]. There’s no doubt we welcome innovation. And it just happens. So if it’s working, we would want to preserve it. And [we’ve found] that our innovative success seems to stem from the culture of the organisation. And I think culture is pretty hard to copy. We make sure that we do have people with time to spare, so that they can indulge in solving problems.

*And as far as the research and development activity, is that generally a first step for the identification of innovations or opportunities, or a secondary step in examining how commercially feasible an innovation or opportunity may be, once it has been identified either in-house or externally?*

Well, that’s a question about how to do innovation, is it market-driven or is it customer driven and we’re probably not very good at [knowing] which way it is. We’ve got enough freedom for people being able to [play around with innovations] but there seems to be other opportunities [which are brought to us and we spend time developing those].

*So that would be a combination of the two?*

Yes, it would be a combination, we don’t really mind who does it either. Everything shifts and every so often you’ll get a few days [spare to play around with ideas]. So we know that, just having a lot of cool stuff around, sometimes [fosters innovation]. One thing we have done to make sure innovation is encouraged is we’ve created an environment [which fosters this] (Senior executive, Activity 7, 2006).
Such comments reflect the incremental nature (to some extent), of these innovations, and the tendency for SOEs in this category to apply core skills and knowledge in an innovative context, such that innovation is supported by the organisation’s core capabilities. Analysis of the activities indicates innovation may be process (Activities 7 and 10) or product focused (Activities 2, 5, 7, and 10), however there is an emphasis on product based innovation. Further, such comments indicate that innovation can perhaps be embedded in or supported by an organisation’s culture, highlighting the importance of an open and flexible environment.

Interestingly, financial resources are relevant, but do not emerge as a key feature of SOEs' innovative activities. Rather, there is an emphasis on cost-effective spending and projects, such that SOEs encourage staff to experiment and explore opportunities.

By the time we’re spending serious money on something within this organisation we’re already pretty well convinced we can make it work. We are able to take emerging technology and solve a wide range of problems, not the least of which is cost (Senior executive, Activity 7, 2006).

Similar comments by the SOE executive in relation to Activity 10 highlight a strong awareness of cost, and a deliberate approach to cost minimisation in developing and promoting innovative projects. Each of these issues, summarised in Table 7.6 below, is worthy of further consideration, and is discussed further in Chapter 9.

**Table 7.6 Innovation and Associated Elements**

<table>
<thead>
<tr>
<th>Key theme</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
</table>
| Innovation | • may be process or product focused  
|            | • may be incremental (based on activities reviewed for this study) or radical in nature  
|            | • may be supported by an organisation’s culture  
|            | (i.e. through flexibility, experimentation, and creativity in the workplace)  
|            | • involves the transfer and application (or adaptation) of core skills and resources (e.g. industry knowledge) in an innovative way, such that innovation is supported by the organisation’s core capabilities*  
|            | • not necessarily reliant on formal research and development, but rather informal experimentation  
|            | • often supported by cost minimisation, such that experimentation can be encouraged without requiring significant financial resources |

*strategic aspect

**Acceptance of risk**

While none of the activities are considered to be high-risk, clearly there is an element of risk relevant to each, as well as a deliberate acceptance of such risk. Further, in each case the risks were viewed as manageable by the respective SOEs, with steps taken to actively manage, minimise, and mitigate those risks. Such risks included financial and commercial risk, managerial and political risk, as highlighted by the comments below.
Yes, we’ve had our share of disappointments. We do try to make sure that we recognise when it’s not going to work early on, and quite quickly.

Clearly, getting into big projects, such as [this] involves a risk. Not a risk that you won’t be able to deliver, but a risk that you might have priced it wrongly, and in order to deliver you have to do twice as much work, or it might take longer, for example. You don’t know what you don’t know. But I think we’re able to cope better with that now due to experience and expertise in our core business, and learning to have confidence in ourselves (Senior executive, Activity 7, 2006).

Further, by leveraging from existing core skills and resources, these SOEs have minimised and potentially avoided the liability of newness faced by organisations entering distinctly new markets without experience or familiarity with the necessary core capabilities.

In a lot of the activity [including this one], we look to be self-funding. We’re not going back to the Government seeking funds to grow and develop in different areas. And so I guess the decision is an easier one for them as well. I think the issue may be, if we were seeking to grow in a direction that…

They felt uncomfortable with?
Yes, that they felt was beyond our capabilities or pushed the boundary; then we may have an issue. But we’ve been seeking to grow in areas of our business that are reasonably close to our core or strategic capabilities. So at this stage, that hasn’t raised its head as an issue (Senior executive, Activity 10, 2006).

Thus, risk is acknowledged and often managed by the SOEs through staying within (and leveraging from) the scope of each SOE’s core capabilities. Table 7.7 summarises the elements supporting risk in the context of the activities examined.

<table>
<thead>
<tr>
<th>Table 7.7</th>
<th>ACCEPTANCE OF RISK AND ASSOCIATED ELEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key theme</strong></td>
<td><strong>Supporting themes, dimensions, and details</strong></td>
</tr>
</tbody>
</table>
| Risk | • deliberate acceptance of risk  
| | • directly supported by the SOE’s core skills and resources*  
| | • ongoing management of risk to minimise the overall risk associated with the activity  
| | (e.g. cost minimisation, open communication with Government, self-funding activity, staying within and leveraging from each SOE’s core capabilities*) |

*strategic aspect

**Flexibility**
Flexibility (or adaptability) is also evident in a number of areas, including the nature of the activity under review, the SOE’s approach to business, their organisational culture, and the organisation as a whole. As noted previously, in each case innovation was central to the four activities examined, such innovation often being reflected in the product or service (rather than process-based innovation). Further, an examination of each activity with respect to innovation reveals
flexibility is an important feature of that innovation. Comments from SOE executives relating to Activities 2, 7, and 10, highlight the flexibility inherent to each project. By way of example, Activity 10 reflects flexibility in a number of areas including the way in which the service can be accessed, and maintaining and releasing the data in various forms (e.g. text reports, visual mapping, historical records, real-time estimates and projections). Similarly, flexibility is central to Activity 7, as indicated below.

We gained the [initial] contract, I believe, because the system was developed with the users in mind. We know how a forecaster’s mind works; we know the sort of things they’re going to want to fiddle with and the sort of things they’ll leave alone. Other packages are either insufficiently flexible or try to provide for every possible variation and become too complex.

Ideas are key to our business. People bring ideas to work, and we encourage that. So once you’ve got people’s minds working on an issue, things happen. People come along with ideas and they can play with them, experiment; see whether you’ve got the makings of a project (Senior executive, Activity 7, 2006).

Thus, flexibility or an inherent adaptability within the organisation is perhaps an important support for flexibility in the resulting activities. This issue is detailed in Table 7.8 below, which summarises the elements supporting flexibility, and is considered further in Chapter 9.

<table>
<thead>
<tr>
<th>Key theme</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
</table>
| Flexibility | • adaptiveness to transfer and apply core skills and resources to new products, services, and markets*  
• flexibility reflected in the work environment, culture, and organisation as a whole  
• flexible approach to innovation and cost minimisation through experimentation |

* strategic aspect

**Vision**

Vision also emerges as a key element within each of these projects, in particular a vision to leverage from core capabilities, and transfer and apply core skills and resources to create new products, services, and markets (something which Morris and Kuratko (2002) refer to as an entrepreneurial vision).

The big breakthrough came when [we] installed some technology [developed by others]. We installed the software, developed the expertise around using the software, and then the vendor, [an overseas company] sold the software to the US. And as part of the [sale] contract, we got this contract to sell training services to the [purchaser]. And [since then] we’ve had, at any given time, somewhere between eight and 14 people in the US training their [staff], for about the last five or six years. So we billed [several] million dollars, over that period of time.
And so I think what that did, with the quantum of that contract, was galvanise the intention to say, ‘actually, there’s some money to be made here’. It’s more than just playing around the edges; a hobby type thing. It’s more than just occasionally having an interesting assignment for one of our management team to go along and teach others how to do something. We actually formalised the business to do that. So that was the lightning rod, or the catalyst, to say ‘ok, let’s get a bit more serious about it’. And so they did.

Going forward, we probably have some capacity constraints. So the [next] model [we’re looking at] is franchising; we’ll take the material and train others, sell the licences, and they provide the trainers and classrooms. So I quite like that model. Whether we can do that for [our industry], which is quite highly regulated, I’m still exploring. But I think that’s where we want to go.

And it helps you manage your investment I guess, in terms of exactly how much you’d have to invest?
Yes. It’s mostly around availability of capability. We’re small and so if I said I need 35 trainers next week to train 1,000 [people overseas], the company would just fall over laughing. It’s just impossible. So it’s really around that. I’d love to do that for [overseas customers] but I can’t do it by literally sending 35 people or by bringing 1,000 people here. It doesn’t stop me hankering to get that work, but it does make you look at different ways of doing it (Senior executive, Activity 2, 2006).

Hence vision involves seeing what is, but also what might be (Busenitz & Barney, 1997). The various elements relevant to vision, including an understanding of current and future opportunities within the market, and within the organisation, are summarised in Table 7.9 below. Similar to previous elements (i.e. opportunity identification, innovation, acceptance of risk, and flexibility), while vision essentially surfaces in an entrepreneurial context, there is also a strategic aspect inherent to each of the four activities (denoted by an asterisk in Table 7.9).

<table>
<thead>
<tr>
<th>Key theme</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>vision regarding how to leverage from core capabilities*</td>
</tr>
<tr>
<td></td>
<td>vision regarding how to transfer and apply core skills and resources to create new products, services, and markets; an “entrepreneurial vision” (Morris &amp; Kuratko, 2002)*</td>
</tr>
<tr>
<td></td>
<td>“seeing” or understanding viable opportunities within the market and within the organisation</td>
</tr>
</tbody>
</table>

* strategic aspect

**Growth**

In each of the four activities examined, growth also emerges as a central element. Examples of growth identified within these activities include growth in customers, products and services, diversification, market share (Activity 2 and 10), experience and confidence, reputation and recognition, competitive advantage (Activity 7), and business, markets, and oftentimes revenue and profits (Activity 5) (the latter two issues being discussed further in Chapter 8). While each of
the activities shows growth in different forms, certainly there is evidence of growth within each project.

Doing this work validates our position, in that we are a thought-leader, I think, in the industry. We have organisations reading, writing [about], and visiting [us], to see how we’re commercialised. It’s odd that New Zealand should be doing this [being a leader in international markets], but it’s the same in New Zealand Post, it was the same in New Zealand Railways in the early days. The deputy director from the Japanese air navigation services was here in March; they’ll be coming back here [later in the year] to study and talk to us and find out how does a commercial organisation run. And why would they come here [again]? They went to [a number of countries]. But we punch above our weight in that regard.

[To some extent] the ability to grow the domestic revenue is constrained\(^{44}\), so while there’s been growth, it has been constrained. So the company saw diversifying and selling our knowledge as one way of growing the business further and maybe softening the pressure around flat [revenue] volumes and growing costs.

[In terms of our operations], we’re pretty much saying [this is our core business area], and then [other] services are out there beyond that, and we’re playing in that [other market]. So that means that we’re not going to go [into a completely new area of business] probably. It’s been offered to us. But we are tiptoeing down a little bit in that direction, by owning, say, equipment on airports, which we’ll do in the Pacific. And in Fiji, we’ve been approached about funding a control tower, so will we own a building on the end of the runway? Well, maybe we’ll consider that (Senior executive, Activity 2, 2006).

Thus, while obstacles and constraints are evident, growth emerges as a deliberate strategic decision by looking for opportunities directly aligned with the SOE’s core business, where it has developed a level of expertise with respect to the organisation’s core skills and resources.

This [project] is on top of our standard [business activity].

And is it something you hope to do in more places?
Yes, it is. And as a result of the success of this project, we are starting a new division, we’re calling it the Services Division, whereby we will manage land on behalf of the absentee owner, so it might be a businessman in Auckland or an [overseas owner] or whatever, and we will manage that land and develop it for them on their behalf and then we’ll lease it and eventually give the land back to them.

I read in the annual report something about an increase of 200 staff expected. Is that in relation to this project then?
Yes, yes. It will mean additional employees, stock, and revenue. It’s a pretty big project.

And then potentially it’s a new market for you? For example, if this test case is successful…
Correct. And already you may have read in the press that [a large New Zealand

\(^{44}\) Referring to pricing agreements with customers in the SOE’s core business activity.
company] are thinking of selling their forests. We’re talking to interested people about that as well. So it will spill [over] to other things we think (Senior executive, Activity 5, 2006).

We’ve kept the development team going and we’ve installed [the programme] in [various overseas countries]. And in order to support [the developments overseas] we’ve added another person in Europe. We’ve actually established an office in [Europe] to market [this project] and our [other] services into continental Europe. We’ve hired a guy that’s got language skills, to see if we can get access to non-native English speakers (Senior executive, Activity 7, 2006).

I think [our programme is] becoming more entrenched in the market. We have significant growth, probably at around 100 per cent growth per annum. We’ve been driving much greater marketing activity over the past twelve months and our awareness levels have increased across unprompted awareness of the website. The other area of growth has been within financial lending institutions; we’ve got a number of banks who are now using it as part of their decision process. And we also have the IRD [Inland Revenue Department] accepting it for [valuations of certain transactions]. So I guess there’s a broader awareness of it for some of those professional uses (Senior executive, Activity 10, 2006).

Further, comments indicate growth in organisational learning, and the organisation as a whole (e.g. staff, sales turnover, market share), as SOEs develop an understanding of how to identify growth opportunities for the future, leveraging from their core capabilities.

So we’re looking at this sort of stuff, where the line is probably not too defined but we’d have to be able to articulate it near our core competencies (Senior executive, Activity 2, 2006).

We’re sort of coming to a degree of specialisation in the way that we [do] projects. Developing expertise and learning to have confidence in ourselves (Senior executive, Activity 7, 2006).

Thus, growth emerges as a central feature of these activities in a range of dimensions, as summarised in Table 7.10 below. Once again, a strategic aspect of growth is also evident within these activities, as indicated in the table.

<table>
<thead>
<tr>
<th>Key theme</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>• growth in customers, products, services, diversification</td>
</tr>
<tr>
<td></td>
<td>• growth in market share and competitive advantage</td>
</tr>
<tr>
<td></td>
<td>• growth in experience, confidence, reputation, and recognition</td>
</tr>
<tr>
<td></td>
<td>• growth in business, markets, and oftentimes revenue and profits</td>
</tr>
<tr>
<td></td>
<td>• growth through organisational learning, developing an understanding of how to identify opportunities and leverage from the organisation’s core capabilities*</td>
</tr>
</tbody>
</table>

* strategic aspect
7.4.3 A REVIEW OF STRATEGIC ENTREPRENEURSHIP IN PRACTICE

Based on the findings from the preceding sections, it is now possible to review and present a more holistic view of strategic entrepreneurship in practice. Thus, prior to examining activity which is classified as neither entrepreneurial nor strategic, this section presents a review of strategic entrepreneurship in practice. Table 7.11 summarises the entrepreneurial and strategic aspects relevant to strategic entrepreneurship, highlighting the interrelated nature of entrepreneurship and strategy. Further, the table illustrates the multiple dimensions of the six elements central to entrepreneurship, indicating the entrepreneurial and strategic contexts of these elements. Hence, Table 7.11 shows how entrepreneurial and strategic aspects may combine to form strategic entrepreneurship.

<table>
<thead>
<tr>
<th>Key theme</th>
<th>Entrepreneurial context</th>
<th>Strategic context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity identification</td>
<td>• identifying (either internally or externally) opportunities for innovative projects</td>
<td>• which allow a business to leverage from its core capabilities</td>
</tr>
<tr>
<td>Innovation</td>
<td>• novel, creative, and commercially viable idea</td>
<td>• which directly leverages from the business’s core capabilities</td>
</tr>
<tr>
<td>Acceptance of risk</td>
<td>• identification, acceptance, and ongoing management of risk</td>
<td>• supported by operating within or leveraging from a business’s core capabilities, where there is a sense of familiarity, confidence, and expertise</td>
</tr>
<tr>
<td>Flexibility</td>
<td>• reflected in a business’s flexible work environment and adaptive approach to innovation</td>
<td>• supported by transferring and applying core skills and resources in new and cost-effective ways</td>
</tr>
<tr>
<td>Vision</td>
<td>• seeing and understanding what are viable opportunities in the market and within the business</td>
<td>• vision regarding how to apply core skills and resources to opportunities identified</td>
</tr>
<tr>
<td>Growth</td>
<td>• growth through new markets, products, and services</td>
<td>• accompanied by growth in competitive advantage and organisational learning – understanding how to identify opportunities and leverage from the business’s core capabilities</td>
</tr>
</tbody>
</table>

While the distinction between entrepreneurship and strategic entrepreneurship may be viewed by some as academic or “splitting hairs”, essentially it is a distinction which is not clear within the literature on strategic entrepreneurship, and arguably one which should be made and clarified as strategic entrepreneurship evolves to become a more prominent area of research. This issue is considered further in Chapter 9. Overall, findings from this section reinforce the notion that entrepreneurial activity, in the form of strategic entrepreneurship, may exist in a public sector context. Further, strategic entrepreneurship provides the advantage of being more manageable or less risky - risk being a traditional association with entrepreneurial activity (Knight, 1921) – as a result of entrepreneurial activity being closely aligned with a business’s core capabilities. As such, this type of activity may be particularly well-suited to a public sector context and NPM in
particular, where management of risk represents an important dimension. This issue is considered further in Chapter 10, as part of the discussion of SOEs, NPM, and NPE.

7.4.4 Developments One Year Later

One year later there has been varying degrees of change within each of the four activities examined above. Activity 2 is being used within the SOE’s core business for training of its own staff, and as part of the SOE’s extended business as an external training services provider. However the product itself has not yet been sold to other organisations.

Regarding the simulator, we haven’t sold [it], which is always disappointing. It’s quite a crowded, competitive space. There’s quite a few people selling simulators. On one level I’m not that surprised, but we’ve got some quite good leads [in two countries]. And I think in the next three or four months, we’ll have a pretty good chance of selling [it]. Training is sort of steadily tripping along, pretty much as it’s been. It’s been quite steady. There’s a big worldwide shortage of air traffic controllers, and it’s getting worse, and so there’s quite a lot of activity going on to fill training needs (Senior executive, Activity 2, 2007).

Activity 5, being the respective SOE’s largest development project, has progressed to both development and farming, and is on target.

The pastoral [project] - that’s progressing well. That’s to budget on time, and it’s going really well. And we were rather lucky because we had some really good climatic conditions which meant we had a good production season. So we were on budget, both on production - the amount of milk, and also value. So the first year is going well.

And the development programme is still going well. That’s again on track, and we’ve cleared another, I think from memory about 800 hectares, so that’s going well (Senior executive, Activity 5, 2007).

Activity 7 has been allocated additional resources for the ongoing development and upgrade of the graphics software, with several related (or spin-off) projects emerging.

It’s really grown into two systems now, so there’s [the initial programme], which is your full blown version that a user would buy, and there’s a side product which is called Clip Media. So there’s two different markets as such. [The initial programme] is for your big commercial networks, who want to have quite an element of control over what they produce every day on the system, in terms of the look and feel, and they can change the camera angle and all those things on a daily basis, and where they want to zoom in etc. So there’s a lot more power to them as a user. Clip Media, we recognised as a secondary market where you’ve got smaller regional stations who basically just want to be e-mailed their [service] every day. So it’s a pre-rendered service that we provide from here, and we actually e-mail out to the customer. So every day they just get their link, they click on it and they play it.

There’s also Clip Mobile as well. So we have not only made our first Clip [Media] sales, we’ve actually now made our first mobile sales as well, with [organisations] in the UK, so you can download Clip [Mobile] to your mobile phone and watch [the service] for the day.
And we currently have it installed in all the Koru Club\textsuperscript{45} lounges at Air New Zealand. So in the premium lounges there’s a live screen where you can [see our programme services]. We are also working with a major international airline, not out of New Zealand; this is out of Europe, to actually have it in-flight, so [programme services] on demand. There is also a major bank at the moment considering it, putting it in all the banks for people standing in queues.

So that is driving...while revenues are increasing, the per licensing fees and the cost of the product is being driven down if you want to win business. And then that means, you really have to look at your costing model, because it’s a question for some bids of whether you want to bid or not. So I think a big change in the last year is the competition has increased significantly in the marketplace (Senior executive, Activity 7, 2007).

The SOE of Activity 10 has focused on promotion of the valuation programme, and has successfully entered into a number of new markets.

Growth has continued, in fact it has spiralled a little bit over the last 12 months. As we’ve discussed previously, there were two key markets for [this activity] - residential [customers], and then financial institutions. And we’ve undertaken further promotional activity, and one of our key promotions really drove volume and awareness quite significantly. That’s been a key driver. But then also some of the banks have changed their processes, their approval process, and [our programme] has been picked up by a couple of banks. And both of those activities have resulted in volume growth across the year, of I think 105 per cent in total, so more than doubling volume. So yes, very strong growth. I guess the other key change occurring in the market is we’re finally beginning to see competitors on the horizon for automated valuation models (Senior executive, Activity 10, 2007).

Thus, growth has been a key feature of development over the 12 month period, and emerges as a central element of strategic entrepreneurship in practice.

7.5 Activity neither entrepreneurial nor strategic

Returning to the activity not yet classified, Activity 12 (financing arrangements) does not seem to fit any of the previous three categories (entrepreneurial, strategic, or strategic entrepreneurship). With respect to financial efficiency, Activity 12, involving the lease-in lease-out and structured loan transactions, may be viewed as strategic in the sense that these transactions are aligned with the respective SOE’s objective of making profits and providing services to New Zealand on a cost-effective basis. The strategic nature of the transaction is also supported to some extent, by the limitations imposed on the SOE’s revenue by the Commerce Commission. Thus, given the SOE’s revenue restrictions, the two financing arrangements represent valuable cost savings (though lower interest expense for the structured loan arrangement), and revenue gains (through

\textsuperscript{45} Membership club for Air New Zealand passengers.
the receipt of a one-off payment of $34.6 million as part of the lease-in lease-out arrangement), for the SOE.

What the taxpayers fail to see is that [the receipt from the lease-in lease-out arrangement] was $34.6 million [the public] didn’t have to pay for (Senior executive, Activity 12, 2006).

Analysis from a broader perspective, however, which considers the risks and returns, as well as the financial and non-financial implications of the transactions, does raise the question as to whether the transactions were essentially strategic, at the organisational level of analysis. By way of example, examination of the returns from these transactions suggests they were limited to being purely financial in nature (although intrinsic reward was noted for the employees of the SOE’s treasury department, who had the opportunity to work on more interesting and complex transactions).

The benefits side is purely the financial savings I think. Probably the only other benefit is (a minor one really), but by having that sort of activity going on, you retain very skilled Treasury staff, because it’s interesting work and something to get their teeth into, and we do have very good Treasury staff (Senior executive, Activity 12, 2007).

Examination of the risks relevant to these transactions, however, reveals a noticeably broader range of risks.

Most apparent, perhaps, is the financial risk relevant to the structured loan arrangement - reportedly $100 million (Alexander in Gorman, 2005c) - if other parties to the loan were to default. Similarly, with respect to the lease-in lease-out transaction (involving a group of United States investors and entities in the Cayman Islands), there was a regulatory risk of the transaction being ruled a sham under the anti-avoidance provisions of United States tax law - a risk that was managed or mitigated by the SOE obtaining formal tax advice on the transaction before entering into the arrangement. Other risks which gradually emerged and crystallised, however, include reputational risks for both the SOE and the Government, as details of the transactions became public knowledge. Reports referred to the lease-in lease-out transaction as “gambling ownership” of national assets (Gorman, 2005c), and highlighted the risk associated with entering into
structured loan arrangements. Further, there was also criticism regarding the lack of publicly available detail, and inadequate responses from the relevant SOE, on questions raised in relation to the transactions.

Regarding the [loan arrangement], why is [the SOE] acting like a bank? That's not its job at all. There is a $100 million default payment if the loan conditions aren't met – where would [it] get $100 million if [other parties to the loan] default? (Gorman in Alexander, 2005, ¶p9).

There is also the question of who should front up on such crucial issues when the going gets tough. [The SOE] has failed in this regard. The company says its chairman never talks to the media; its chief executive leaves it to its public relations staff to weather the storm. As happened when [the SOE] admitted last [time] that there could be [problems, the chief executive] has again proved to be more elusive in a crisis than a torch in a blackout (The Press, 2005, ¶4).

Of some comfort, perhaps, was that the SOE had notified the Government of these transactions in advance. The implications of the notification, however, were such that the Government's actions in allowing the transactions was also questioned and criticised. Media commentary clearly highlighted that the risks taken were unwelcome, particularly given the involvement of "national assets" and the risk inherent to "taxpayer funds".

It's about whether [the SOE] was behaving appropriately with crucial assets. Should overseas companies 'own' such assets? [The SOE] seems to have ignored its social responsibility. The other issue is transparency. We should know what is happening with our assets. What did the Government know about this? Has the [SOE’s asset] been sold or leased? [The SOE] will not confirm details, but this kind of lease is usually up to 99 years. The assets are considered 'sold' under United States tax law, because the deal runs for longer than the useful life of the assets. [The SOE's] position was that at no time had it lost legal ownership of the assets. It also said commercial confidentiality had limited its ability to answer questions (Gorman in Alexander, 2005, ¶8).

A further issue which received somewhat less attention, but is arguably no less important, is the ethical issues surrounding tax avoidance (as opposed to tax planning).46

Strictly legal or not, is it ethical? Why would you put major assets at risk for $34 million?’ [Newberry in Gorman, 2005c, ¶28].

In the context of the lease-in lease-out transaction for example, there was no business case (or need) for the SOE to lease and lease-back core business assets, other than to obtain a cash benefit ($34.6 million) as consideration for the resulting tax benefit received by overseas parties

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46 In general terms, tax planning may be referred to as structuring business transactions in such a way that they are tax-effective (i.e. result in paying less rather than more tax). In contrast, tax avoidance may be referred to as entering into transactions solely (or primarily) to obtain a tax benefit, without any business substance (or need) for the transaction (Alley et al., 2005; Australian Taxation Office, 2005).
involved in the arrangement. Further, while the New Zealand Government noted that the lease-in lease-out transaction was tax positive for New Zealand (presumably on the basis that the $34.6 million payment to the SOE was subject to tax in New Zealand), there was little or no discussion (from the Government in particular) around the ethical issue of engaging in arrangements where the sole purpose is to assist other organisations in tax avoidance, and receive payment for such assistance. Hence, while the New Zealand tax authorities did not suffer any loss in tax revenue, it is clear that the United States tax authorities did (as is often the case with lease-in lease-out transactions involving tax havens such as the Cayman Islands). In view of the above, it seems a number of risks exist. Further, on balance, it is arguable that the potential risks may have outweighed the returns, such that the overall strategic nature of the arrangement is questionable. For this reason, Activity 12 has been classified as neither entrepreneurial nor strategic.

With respect to the financing arrangements being (potentially) entrepreneurial in nature, such activities are not new to the market, nor innovative. Rather, they are replications of established (but sometimes questionable, with respect to the lease-in lease-out) transactions, noted for their financial benefits, but also their respective risks. In the context of the lease-in lease-out arrangement, such transactions were subsequently deemed illegal (Alexander, 2005) in the respective jurisdictions (United States where Cayman Islands entities are involved) under United States tax law, on the basis of substance versus form\(^\text{47}\). With respect to the structured loan, risk was noted in the sense that the SOE was going outside its core business (and thus entering an area of business without the relevant core skills and resources). Table 7.12 below presents a profile of activity neither entrepreneurial nor strategic based on an examination of Activity 12.

<table>
<thead>
<tr>
<th>Key themes</th>
<th>Supporting themes, dimensions, and details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk versus return</td>
<td>• risks are numerous and varied, arguably outweighing the associated financial return from the activity</td>
</tr>
<tr>
<td>Core capabilities</td>
<td>• activities are outside the scope of the SOE’s core capabilities, resulting in decreased familiarity and</td>
</tr>
<tr>
<td></td>
<td>potentially increased risk</td>
</tr>
<tr>
<td>Strategic aspects</td>
<td>• consistent with SOE’s overall profit-making objective</td>
</tr>
<tr>
<td></td>
<td>- but does not leverage from SOE’s core capabilities</td>
</tr>
<tr>
<td>Entrepreneurial aspects</td>
<td>• opportunity identified for financial growth</td>
</tr>
<tr>
<td></td>
<td>- however activity is not innovative or novel</td>
</tr>
<tr>
<td></td>
<td>- resulting risk is increasingly difficult to manage</td>
</tr>
</tbody>
</table>

\(^{47}\text{Such transactions are often deemed illegal on the basis that there is no genuine business nature underlying the transaction, but rather that it has been entered into purely for the purposes of obtaining a tax benefit.}\)
7.5.1 DEVELOPMENTS ONE YEAR LATER

One year later, the arrangements are still effective, but no similar transactions have been undertaken.

Well I guess when the media was eschewing that last year, it was the Government coming under fire for having allowed us to do it, so if we’d proposed another such deal last year, in the middle of all that...I’m not sure they would have been too keen for us to go ahead. So, no, we haven’t [undertaken more of those transactions] and in fact there’s now been a Board decision not to pursue any more of those type of arrangements...

Ok. And that’s in the last 12 months?

Yes, that’s been in recent months, that Board decision. So the structured finance transaction, where we borrowed more than we needed and on-lent it, I think it might be next year that it comes to an end. It’s a five year term, and we will need to renew that debt, but we will be doing it in a more normal structure. The lease goes on for decades, so that will just continue. I’m not privy to why the Board made that decision, but I suspect there’s a lack of appetite for those...doing anything that might be politically questioned. And we’ve also adopted a slightly more conservative treasury approach altogether. The way we manage our debt is a little bit more conservative than it used to be. So rather than going more [creative], we’ve actually gone back the other way.

And 12 months ago, you were dealing with quite a few issues regarding the regulatory structure of the industry and revenue restrictions. So has that progressed, or been resolved to some extent?

No, unfortunately. I think we’ve got general acceptance at Government official level that [there’s an issue to be addressed]. And there’s a review of the Commerce Act at the moment, on the basis that things aren’t right at the moment. So there will be some changes, but they’ll be slow. We still haven’t got things settled with the Commerce Commission; it was supposed to have happened a year ago, but it doesn’t look like happening until November [2007].

So does that mean you’re in violation technically of the revenue restrictions?

Yes, we’re still in violation, we’re still under threat of price control. We’ve suggested a settlement that they weren’t quite happy with, so there’s now to’ing and fro’ing going back and forth. So we will get there eventually; we’ll have a settlement, and then we’ll try and move on and actually work towards a more sensible regulatory regime (Senior executive, Activity 12, 2007).

7.6 OVERVIEW OF FINDINGS

An examination of the potentially entrepreneurial and/or strategic activities undertaken by 12 of New Zealand’s SOEs over a two year period, reveals both a range of activities, and a number of different developments. Of the 12 activities selected for analysis, findings indicate four activities (2, 5, 7, and 10) may be classified as entrepreneurial and strategic. Six activities (1, 4, 6, 8, 9, and 11) may be classified as strategic. And one activity each (3 and 12 respectively) may be
classified as entrepreneurial, and neither entrepreneurial nor strategic. A summary of the activities examined, is presented by classification in Figure 7.2 below.

**Figure 7.2**  
**STRATEGIC / ENTREPRENEURIAL ACTIVITY MATRIX**

<table>
<thead>
<tr>
<th>Strategic</th>
<th>Entrepreneurial</th>
<th>Non-entrepreneurial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic activity</td>
<td>activities 2, 5, 7, 10</td>
<td>activities 1, 4, 6, 8, 9, 11</td>
</tr>
<tr>
<td>Entrepreneurial activity</td>
<td>activity 3</td>
<td>Neither entrepreneurial nor strategic activity</td>
</tr>
</tbody>
</table>

Further, a profile of each activity’s nature (entrepreneurial, strategic, strategic entrepreneurship, or neither entrepreneurial nor strategic) and underlying characteristics, is shown in Table 7.13 below.

**Table 7.13**  
**SUMMARY OF ACTIVITIES’ ENTREPRENEURIAL AND STRATEGIC NATURE**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Project details</th>
<th>Opp</th>
<th>Inn</th>
<th>Risk</th>
<th>Vis</th>
<th>Flex</th>
<th>Gro</th>
<th>E</th>
<th>CC</th>
<th>Exp</th>
<th>S</th>
<th>SE</th>
<th>Not E or S</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Entrepreneurial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Business management software</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>E</td>
</tr>
<tr>
<td>(b) Strategic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Automated laboratory</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>S</td>
</tr>
<tr>
<td>4</td>
<td>Energy generation plant</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>S</td>
</tr>
<tr>
<td>6</td>
<td>Tailored energy arrangements</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>S</td>
</tr>
<tr>
<td>8</td>
<td>Geothermal exploration and development</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>S</td>
</tr>
<tr>
<td>9</td>
<td>Repurchasing New Zealand’s railway network</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>S</td>
</tr>
<tr>
<td>11</td>
<td>Company restructure and plans to manage networks</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>S</td>
</tr>
<tr>
<td>(c) Strategic entrepreneurship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Training simulator software</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>SE</td>
</tr>
<tr>
<td>5</td>
<td>Leasing and cultivating land</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>SE</td>
</tr>
<tr>
<td>7</td>
<td>Weather graphics software</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>SE</td>
</tr>
<tr>
<td>10</td>
<td>Online valuation programme</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>SE</td>
</tr>
<tr>
<td>(d) Neither entrepreneurial nor strategic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Cost-effective and tax-effective financial arrangements</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>N</td>
</tr>
</tbody>
</table>

Total* | 1 | 6 | 4 | 1
Key
✓ Yes
* Vision is essentially strategic
E Entrepreneurial
S Strategic
SE Strategic entrepreneurship
N Neither entrepreneurial nor strategic
^ Total treats each category (E, S, SE, N) as mutually exclusive
CC utilise or leverage from core capabilities
Exp activities in an area where the organisation has developed a level of expertise, familiarity, and sense of confidence in its ability

Specifically, Table 7.13 considers the central elements of each activity with respect to entrepreneurship (opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth) and strategy (leveraging from a business’s core capabilities), to differentiate and distinguish both the underlying characteristics and overall nature or classification of each activity. Of particular note is that while six activities (1, 4, 6, 8, 9, 11) have been classified as strategic (but not entrepreneurial), each of these activities reflects some of the central characteristics associated with entrepreneurship (namely, opportunity identification, acceptance of risk, flexibility, vision, and growth). Essentially, however, these elements have a strategic focus in the context of those activities (i.e. strategic opportunity, strategic vision and growth), as they are directly linked to each organisation’s core business activities. Further, in each case, there is no innovative aspect. Thus, the central characteristic absent from each of these activities is innovation, indicating perhaps that innovation is at the heart of entrepreneurship – a notion promoted by Drucker (1985) more than 20 years ago.

The presence of all six entrepreneurial elements in activity classified as entrepreneurial and strategic entrepreneurship, suggests innovation may be central to entrepreneurship, however innovation alone does not constitute entrepreneurial activity.

Without innovation we wouldn’t have grown the business like we have. We’re now making money from things which didn’t exist a couple of years ago. [But] you’ve got to find out how to make the connection [between innovative ideas and commercially viable products]. You’ve got to be at the [industry] conference, or be listening to the person; be out there, aware and alert [of the problems potential customers want solved]. Innovation is fine, but we need this balance (Senior executive, Activity 7, 2006).

This finding is discussed further in Chapter 9.

7.7 SUMMARY

The findings presented in this chapter provide considerable insight into strategic entrepreneurship, highlighting the similarities, differences, and distinctions between the various activities examined. Thus, an understanding of the nature and underlying characteristics of strategic entrepreneurship has been developed and established. What has not been addressed,
however, is the financial and economic implications of strategic entrepreneurship (compared to entrepreneurial, strategic, and neither entrepreneurial nor strategic activity). These issues are the focus of the following chapter.
CHAPTER 8
FINDINGS: STRATEGIC ENTREPRENEURSHIP’S FINANCIAL AND ECONOMIC BENEFITS

8.1 INTRODUCTION
Based on a review of the findings presented in Chapter 7, it was determined that of the 12 activities examined, one was classified as entrepreneurial, six were classified as strategic, four were classified as strategic entrepreneurship, and one was classified as neither entrepreneurial nor strategic. Of particular interest, however, are the financial benefits of these projects, given the association between strategic entrepreneurship and wealth creation. Accordingly, this chapter examines the financial returns relevant to each project from a number of perspectives. Specifically, Section 8.2 examines the financial returns of each activity, and considers the similarities (if any) within the respective classifications (e.g. strategic entrepreneurship versus strategic activity). Section 8.3 considers the economic returns of the activities under review. And Section 8.4 examines the non-financial returns of each activity, to compare financial and non-financial implications (as at 2007). Issues relevant to the examination of financial and economic returns such as opportunity costs, indirect costs, unallocated costs, and the cost of capital (financing), are considered in Section 8.5. Last, Section 8.6 summarises the key findings from this chapter.

8.2 EXAMINING THE FINANCIAL RETURNS OF THE ACTIVITIES UNDER REVIEW
As detailed in Chapter 2 (refer to Section 2.5), an association between entrepreneurial activity and wealth creation is well established within the literature on both entrepreneurship and strategic entrepreneurship. An examination of the activities under review, in terms of their financial outcomes (based on discussions from the second phase of interviews in mid 2007), however, reveals somewhat different findings. These findings are summarised in Table 8.1 below. Specifically, Table 8.1 presents an overview of the financial returns of each activity in terms of (i) whether it has created wealth, (ii) the profit range of the activity in terms of the respective SOE’s total profit for the 2006 year\(^48\), (iii) the start date, being the date the activity was (or will be) launched as commercial, and (iv) the development stage of the activity in terms of whether it is in the preliminary stage (P = not yet complete), early stage (E = a relatively new activity with

\[^{48}\text{As at mid 2007, SOEs’ (which often have a 30 June year end) financial results for 2006 were the most recent finalised (and audited) numbers available. Examination of profits in percentage terms facilitates comparability across the various SOEs examined, and provides SOEs with a level of confidentiality requested by various SOE executives with respect to financial details. As a general indication of the values represented by the percentages shown in Table 8.1, profits in 2006 for SOEs participating in this study ranged from $0.7m to $856.8m.}\]
significant growth potential), mature stage (M = more modest potential for growth), or decline (D = negative growth expected). The findings summarised in Table 8.1 are discussed under the relevant headings (entrepreneurial, strategic, strategic entrepreneurship, and neither entrepreneurial nor strategic) below.

### TABLE 8.1  FINANCIAL RETURNS FROM THE ACTIVITIES UNDER REVIEW

<table>
<thead>
<tr>
<th>Activity</th>
<th>Wealth Created</th>
<th>Profit range</th>
<th>Start date</th>
<th>Development stage</th>
<th>Nature of the returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Entrepreneurial</td>
<td></td>
<td>&lt;5%*</td>
<td>2002</td>
<td>E</td>
<td>R</td>
</tr>
<tr>
<td>(b) Strategic</td>
<td></td>
<td>&gt;50%</td>
<td>2005</td>
<td>E</td>
<td>R</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>&lt;5%</td>
<td>2010</td>
<td>P</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>&lt;5%</td>
<td>1993</td>
<td>M</td>
<td>R</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>-</td>
<td>2009</td>
<td>P</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>-</td>
<td>2004</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>-</td>
<td>2006</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>(c) Strategic entrepreneurship</td>
<td></td>
<td>&lt;5%</td>
<td>2006</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>-</td>
<td>2006</td>
<td>E</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>&lt;5%</td>
<td>2006</td>
<td>E</td>
<td>R</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>5-10%</td>
<td>2004</td>
<td>E</td>
<td>R</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>nd</td>
<td>2002</td>
<td>M</td>
<td>R</td>
</tr>
<tr>
<td>(d) Neither entrepreneurial nor strategic</td>
<td></td>
<td>20-30%*</td>
<td>2003</td>
<td>D</td>
<td>O</td>
</tr>
</tbody>
</table>

**Key**

- Profit range: indicates profit attributable to the project in 2006, as a percentage of the SOE’s total profit for 2006
- Start date: refers to the time project was (or will be) first launched as commercial (where a specific project is identified)
- cir: indicates an element of one-off (as well as recurring) profits
- nd: not disclosed
- Development stage: indicates development of the project as P (preliminary), E (early growth), M (mature growth), D (in decline)
- Nature of returns: R (recurring), O (one-off)

### 8.2.1 ENTREPRENEURIAL ACTIVITY

As shown in Table 8.1, the one project classified as entrepreneurial in nature (Activity 3) did create wealth with modest returns (<5 per cent) through licensing revenue. Further, given the developments one year later (i.e. the subsequent sale of the project), Activity 3 had the potential to generate subsequent revenue for the SOE based on direct licensing revenue, as well as commission revenue under the sale agreement with the local information technology company.

### 8.2.2 STRATEGIC ACTIVITY

Of the six projects classified as strategic, two have created wealth; one with substantial returns (Activity 1 with >50 per cent), and the other with more modest returns (Activity 6 with <5 per cent). Notably, the returns are recurring in nature, and both activities have the potential for increased returns in the future; Activity 1 in particular.

Certainly there is a prediction to increase, and again, this is the function of volume and growth. In New Zealand we’re forecasting a 10 per cent volume increase, we’d certainly
like it to be more overseas. So 10 per cent to 25 per cent is where we want the volume increase to be. And that’s targeted around some new work in [two key industries] (Senior executive, Activity 1, 2007).

The remaining four projects in this category have not yet realised financial returns for various reasons, including the timeframe, development stage, and maturity of the project (Activities 4, 8, 9, and 11). While the potential for returns was noted by interviewees, uncertainty (and in one case unexpected support) was also acknowledged. In particular, the direction and progress of Activities 4 and 9 were significantly impacted by changes, both positive and negative, in the political environment, highlighting the vulnerability and sensitivity of financial returns to external forces.

It’s a long project; it takes 18 months to two years to get consents and then two years to build. There’s huge risks. The risks are, one, we don’t get consent and that’s a very big risk. I mean, I wouldn’t say it’s a 50/50 [chance]. It’s more balanced in our favour than that, but the risks of not getting consent from either [the local] District Council or Regional Council [are significant]. There are risks around public opposition to the project, Council opposition or indifference. The other risks are around securing [inputs] for the [project] and at this stage, right today, I’m not entirely sure whether we’ve got [input supply secured or not] (Senior executive, Activity 4, 2006).

One year later, some of those risks had crystallised, resulting in significant uncertainty regarding the potential for financial returns. The Government’s draft energy strategy, and the “embarrassing situation” resulting from a project inconsistent with that strategy have raised serious concerns for the SOE. In view of the future uncertainties, however, and the long-term nature of the project, the SOE’s response has been “to continue on as quietly as we can, getting consents in place” (Senior executive, Activity 4, 2007).

With respect to Activity 9, a seachange in support has resulted in substantial financial assistance, allowing the SOE to proceed immediately with what were previously long-term plans.

[So] the Government has agreed to put a whole lot of money into the capital development of the rail network; approximately $1 billion into Auckland and $700 or $800 million into the Wellington network as well (Senior executive, Activity 9, 2007).

However, while the Government had contributed substantial capital funding to the project enabling it to proceed faster than initially planned, the profitability implications had not changed.

So once the long-term capital costs are in place, or if Government keeps funding those capital projects, is there the potential then that rail would make a profit, once the infrastructure is in place?
No, not really I don’t think. I think there’ll be ongoing funding from the Government probably [for the operating costs], yes. Because we’re a long, thin country, with a small population, so we’ve got a diseconomy of scale. I don’t have the exact numbers, but I think in Queensland, [Australia], they’ve probably got a network about the same size as we have, and they carry about five times the amount of freight on that network. But there are these reasons of social and environmental sustainability, that provide an increasing belief that we need to keep rail going.

And there’s another related issue that under the new accounting regime, our assets are all being revalued. And they’ve been revalued from about $500 million to $10 billion. Half of that’s land, but the rest of it, our other assets, have been revalued to about $5 billion. And if you depreciate those as you normally would, well we don’t have the income long-term to cover that. So we would be a SOE that made a constant loss if that carried on (Senior executive, Activity 9, 2007).

This comment raises two interesting issues. First, that despite substantial financial assistance and capital funding from the Government, one SOE still struggles to operate profitably. And second, the potentially distorting effect or adverse impact of established accounting principles on a company’s reported profit figure. For example, revaluing existing assets (from their original cost to current market value), often has implications for expense calculations (being increased depreciation expense as a result of increased asset values), thereby decreasing reported profit. Such issues are considered further and illustrated in Section 8.5.

Other factors which emerge as an important influence on the financial returns of the activities examined are the management of changes in internal variables (e.g. organisational issues) and external variables (e.g. market forces) relevant to the project. With respect to Activity 11 for example, both factors were noted as important to the project’s financial development (and challenges) during the 12 month period from 2006 to 2007. In 2006, for example, the SOE planned a significant change in culture as part of its restructure to increase activity and profits.

The main drive is actually creating this [group] concept so that we’re all running together and also pushing the day-to-day stuff further down into the operations. And that will drive performance. The bloke at the top has all these people working for him, and it’s up to him, he’s responsible for his revenue, his costs, and his profit. So there’s a huge culture shock, from being here, just being someone who goes out and [does maintenance work], now they’ve suddenly got a little business. So there’s huge change-management involved.

Because we pushed [decision making and accountability] down and we’ve set people targets, the efficiencies will come out because we’ve now got focus on [profits] and an awareness of [costs] right the way down. An awareness and ownership, so they will

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49 A reference to the introduction of the New Zealand Equivalents to International Reporting Standards, which were required to be adopted by New Zealand organisations for financial years commencing on or after 1 January 2007.
drive performance from underneath. And if the individual bits are performing, they all improve because they’ve got that focus. It'll just wash up. We feel there’s quite a lot of performance to be had at the lower levels.

We’ve gone from solid, stodgy and conservative, and now we’re…our Chairman always says, ‘we want to be edgy’, so that’s what we’re trying to be. It’s the whole change in structure and culture and ownership and accountability…the whole way we run the business, is the change.

And are the staff comfortable with that?
Some are. Some are not. It’s all a culture thing. Some feel very nervous about it (Senior executive, Activity 11, 2006).

One year later, changes, both financial and non-financial, were noted.

We had a number of people who left the company, but then we also managed to attract a lot of new people…maybe younger, more dynamic people, since we’ve rebranded actually. So it’s really just in the last 12 months.
We had a really good year last year [financially]. So whether that’s a cause and effect relationship, I’m not sure. But we had a very good year.

And have increased returns been realised then as a result of the restructure, or is it too early for that to have happened yet?
Well it’s a bit too early to tell, but the [operations] in Australia have proved to be very successful. It had a very good year last year.

Ok, so you can recognise that there are financial benefits starting to accrue.
Yes. But the downside of that is there is increased risk, and there has recently been a downturn in that business’s operations, which is really just the nature of the business and the market that they operate in (Senior executive, Activity 11, 2007).

Thus, findings from a review of Activity 11 highlight issues underlying financial returns include ongoing management of changes in both the internal and external environment. Such changes include competition and branding from an external perspective, as well as organisational culture and employees from an internal perspective.

**8.2.3 STRATEGIC ENTREPRENEURSHIP**

With respect to the four activities classified as strategic entrepreneurship, three of the four had realised financial gain by mid 2006. The vulnerability or sensitivity of financial returns from these activities however, is also noted as important, with executives highlighting the dependency of future recurring gains on market forces (e.g. competition) and effective management of internal costs.

Ultimately [this] is very much a fixed cost product with very low variable cost, so additional volume converts quickly to the bottom line. However, as we’ve discussed, our
opportunity with it is around awareness, and so we’ve tracked our promotional spend against the variable cost of [the] product. It isn’t so much in the cost of selling each additional product, but it is at this stage around the promotional costs to drive volume. So yes, it’s got very significant profit margins and it is a very profitable product. But I guess competition and promotional costs will effectively eat into those profit margins (Senior executive, Activity 10, 2007).

SOE executives commenting on these activities also highlighted the complexity of determining financial gain, due to the difficulty of identifying and tracing revenues and expenses directly attributable to the activity.

[In the past two years] we did [several] million dollars [revenue in] training. We would have done, I think, all of that without [this activity], but I suspect [it] has increased the quality and the effectiveness of it, and maybe taken the cost out of it a little bit, in terms of instructor time. So we’ve probably had less people fail, and we’ve probably had less costs go in, but it’s a bit early to tell (Senior executive, Activity 2, 2007).

Similarly, complexity in determining financial gain was noted due to differences between established accounting principles (which underlie references to and calculations of profit), and basic financial principles.

It’s not profitable if you do a fully allocated cost model[^50], but no one ever does that. If you do a marginal cost model[^51], yes it is [profitable]. So what are the incremental costs that I add on to this business by actually having this product? If I put a portion of my time, a portion of the finance manager’s time, etcetera, etcetera, then yes, it does erode [profit] very quickly (Senior executive, Activity 7, 2007).

These accounting issues are considered further in Section 8.5. Despite these issues, however, modest recurring gains (in the range of 0 -10 per cent) from two of the four activities classified as strategic entrepreneurship are noted, with expectations of increased financial gains in the future. Further, financial gains from a third activity in this category (Activity 10) were confirmed by the respective SOE executive, but not expressly disclosed in terms of a dollar amount, or profits attributable to the activity as a percentage of the SOE’s total profits for 2006. However, while dollar or percentage amounts were not expressly disclosed for Activity 10, the respective SOE executive did indicate that profit attributable to the project (in terms of the SOE’s total profit) was substantial, recurring, and expected to increase in future years.

[^50]: Allocation of all costs related to the product or service including manufacturing costs (such as material and labour), as well as non-manufacturing costs (e.g. general business expenses such as management costs and other administration costs).

[^51]: Consistent with established accounting principles, which allocate only manufacturing costs incurred on a project, as opposed to including a portion of non-manufacturing costs (e.g. management and administration costs), unrealised, and unallocated costs (discussed further in Section 8.5).
Because of the competitive nature of the market we are going to face a lot more competition, and at this stage I won't divulge the financials, other than to say within my division, where three or four years ago it was a very small part of our revenue, it's now a major and significant contributor to our revenue. The revenues we achieve from [this project] have exceeded seven figures for quite a while and continue to grow strongly (Senior executive, Activity 10, 2007).

Thus, three of the four activities in this category have generated recurring financial returns with increased returns expected in the future.

### 8.2.4 Neither Entrepreneurial nor Strategic Activity
An examination of activity classified as neither entrepreneurial nor strategic also reveals significant financial gains, primarily non-recurring in nature, as they are based to a large extent on a one-off cash receipt as a result of the activity. Thus, while the magnitude of the gain is substantial in terms of the SOE's total profits (in the range of 20-30 per cent), essentially it is a non-recurring and therefore non-sustainable financial gain in terms of the SOE's ongoing business operations.

There was a one-off payment, so there's no active part of the [cash] arrangement. The lease conditions themselves continue but have no real impact or substance (Senior executive, Activity 12, 2006).

### 8.2.5 Reviewing the Returns Across the Four Categories of Activity
Based on a comparison across the four categories of activity, a number of findings can be noted. A review of the activities shows financial returns were identified for:

- the one activity classified as entrepreneurial,
- two of the six activities classified as strategic,
- three of the four activities classified as strategic entrepreneurship, and
- the one activity classified as neither entrepreneurial nor strategic.

While an initial review suggests entrepreneurial, strategic, and neither entrepreneurial nor strategic activity have a high success rate with respect to financial returns, obviously any classification with a population of one warrants cautious interpretation. Given the small number of activities examined, and (by definition) the even more limited number of cases within each classification, it is difficult to establish financial trends based solely on within-classification analysis, and thus make an association between each type of activity and financial gain. Two things, however, can be established. First, activity in each of the four categories, from strategic entrepreneurship to activity neither entrepreneurial nor strategic, offers the potential for financial
gain. Thus, it seems financial gain is not exclusive to any one of the four categories of activity (entrepreneurial, strategic, strategic entrepreneurship, neither entrepreneurial nor strategic). Further, a review of the limited number of activities within each the categories suggests financial gain is not consistently applicable within a particular category. By way of example, groupings of strategic activity and strategic entrepreneurship both show cases of financial gain as well as no gain (as at 2006). While activity classified as entrepreneurial and neither entrepreneurial nor strategic each show one case of financial gain, a population of one in each group suggests examination of further cases would be required before any conclusions (however preliminary) can be drawn.

Second, it seems the realisation of such benefits is not necessarily dependent on the nature (or classification) of an activity, but rather the development stage and maturity of an activity, together with ongoing management of such activity in response to changes in the internal and external (political and commercial) environment. Thus, it is not surprising that financial returns from two of the activities classified as strategic have not been realised, given the projects (as at 2006/2007) remained in the preliminary stages. These elements emerge as important factors contributing to the respective financial returns realised.

By way of example, Activity 4 (classified as strategic), not planned for commissioning until 2009, had obviously not realised financial returns by 2007. Similarly, Activity 2 (classified as strategic entrepreneurship), as a relatively new project, had not generated sales revenue by 2007, but was considered to have valuable future potential, with purchases being considered by two prospective customers, each transaction representing substantial (millions of dollars) revenue and profit.

I think 2007/2008 is the make or break [period]. We did a quiet launch of it [in 2006], presented it at industry expos and got quite a lot of interest. But it's a competitive market place. We still might sell it on a leasing arrangement [in view of requests to use the product short-term]. We're open to that. We're still finding our way [regarding sales terms and arrangements].

We've got [two potential customers in particular who are interested]. And I think in the next three or four months, we'll have a pretty good chance of selling [it] (Senior executive, Activity 2, 2007).

With respect to changes in the external environment, such changes are also noted as important influences on the financial outcomes on these four activities. Activities 4 and 9 (both classified as

52 Where more than one case exists within a particular category.
strategic) highlight substantial changes in the commercial and financial viability of these projects, as a result of changes (both favourable and adverse) in Government policy and support. Similarly, changes in the external (commercial) environment were also noted as important factors in influencing financial returns in the future (e.g. Activity 10, classified as strategic entrepreneurship), with references to “competition and promotional costs” effectively decreasing projected profit margins (Senior executive, Activity 10, 2007).

So where we’ve had the market effectively to ourselves for six years, and with the level of growth we’re now achieving, it’s obviously attracted some competition (Senior executive, Activity 10, 2007).

In relation to management of changes within the internal environment, this issue also seems to be an important influencing factor on the financial return realised (e.g. Activity 11, classified as strategic), with references to cultural and structural changes “driving performance” (Senior executive, Activity 11, 2006), and recruitment of new staff due to turnover obviously creating costs. Similarly, Activity 3 (classified as entrepreneurial) and Activity 12 (classified as neither entrepreneurial nor strategic), also highlight the importance of managing changes (e.g. lack of progress and public dissent) in the internal and external environment.

Obviously we put a lot of time and energy into developing the products. And the key thing was that everyone accepted that we had to do something with it, otherwise it was going to sit inside this organisation and go nowhere. And the debate I guess was around the vehicle for doing it. But we clearly weren’t making enough progress with licensing to get someone else to market it for us; it was raising more questions than answers. So we presented the Board with a variety of options and recommendations, and in the end they decided that the sale was the best option (Senior executive, Activity 3, 2007).

Well I guess when the media was eschewing that [activity] last year, it was the Government coming under fire for having allowed us to do it, so if we’d proposed another such deal last year, in the middle of all that… I’m not sure they would have been too keen for us to go ahead. So, no, we haven’t [undertaken more of those transactions] and in fact there’s now been a Board decision not to pursue any more of those type of arrangements (Senior executive, Activity 12, 2007).

Thus, findings indicate financial returns are not only a function of the underlying nature of an activity (i.e. entrepreneurial versus strategic), but also the development stage of the project, maturity, and management of changes in both the internal and external environment.

Interestingly, while the existence of financial returns (noted in activities across all four classifications) may not be dependent on the nature (or classification) of an activity, the nature of the returns may be. As noted previously, while a population of one activity within a classification
warrants cautious interpretation, findings show a key difference between the financial returns from Activity 12 (classified as neither entrepreneurial nor strategic) and financial returns identified from activities in other categories. In particular, benefits from Activity 12 are essentially temporary or short-lived in nature, compared to returns identified from the other three categories of activity, each of which was recurring in nature. While further examination is necessary to support this finding, the contrast between Activity 12 and the other projects is evident, based on the activities examined.

Thus far, this chapter has considered the financial returns of the activities under review. As noted by Osborne and Gaebler (1992) and Davidsson (2006), however, in the context of NPM and entrepreneurial activity, the potential for gain from entrepreneurial activity extends to both financial and economic returns. Accordingly, the following section considers the broader economic implications (both realised returns as at 2007, and potential gains for the future) of the 12 activities examined.

8.3 EXAMINING THE ECONOMIC RETURNS OF THE ACTIVITIES UNDER REVIEW

While estimates of the financial returns from each of the 12 activities examined are shown and discussed in Table 8.1 and Section 8.2 respectively, projections of economic returns from such activity are somewhat more difficult to establish. As noted in Chapter 3 (Sections 3.3.2 and 3.5), financial returns from SOE activity can result in economic returns in the context of increased dividends to the Government as shareholder, and increased tax payments as a result of higher taxable profits. Further, a number of economic benefits (both qualitative and quantitative in nature) may also be realised from such activity, including increases in employment resulting in decreased welfare costs, and a more efficient and productive economy resulting in increases in GDP and exports, thereby enhancing a country’s balance of payments (surplus or deficit)53.

An examination of the activities under review, however, in terms of their economic outcomes, suggests there is only limited opportunity to identify or estimate such benefits for each activity due to the relatively early stage of many of the projects examined. In particular, while financial gains have been noted for several of the activities examined, it does not seem that dividends paid by

53 Each of these measures was noted in Chapter 4 (Section 4.5.1) as important economic indicators.
SOEs have been attributable to profits specifically from these activities.\(^\text{54}\) Further, given the relatively early development stage of the projects, it is often difficult to establish if they have resulted in increased employment or noticeably higher productivity levels which may have impacted on the economy as a whole. It is, however, possible to identify realised and potential economic benefits (as at 2007) in specific cases. By way of example, an increase in exported services can be noted from Activities 1 and 7 (classified as strategic and strategic entrepreneurship respectively). Further, Activities 2 and 3 (classified as strategic entrepreneurship and entrepreneurial) involve working closely with local (New Zealand) businesses which helped developed the respective projects, and have the potential for international growth. Interestingly, these projects are directly aligned with the Government’s policy of “Growing an innovative New Zealand” (New Zealand Government, 2002), and involving and engaging local (New Zealand) firms in SOEs’ plans to expand into related markets (Mallard, 2006b). As these benefits are in the early stages (e.g. Activity 7) and not yet fully realised (e.g. Activities 2 and 3), it is difficult to begin to quantify the economic returns, other than to acknowledge that revenue and profits (in the range of 5-10 per cent) from Activity 7 largely represent sales to overseas companies.

Other economic benefits identified from the activities under review include increased employment within the SOE (e.g. Activities 1, 5, and 8).

[This project] will mean an additional 300,000 stock units; that’s a 20 per cent increase in stock units. It means an additional 150-odd staff, from currently about 500 staff. And it will be an additional, probably I would say, about $80-90 million in revenue [over a 15 year period] (Senior executive, Activity 5, 2006).

Similarly, increased sales (and sales volume) from the activities, indicating increased productivity yields, was also noted (e.g. Activities 1 and 10).

Those activities have resulted in volume growth across the year of I think 105 per cent in total, so more than doubling volume (Senior executive, Activity 10, 2007).

Quantifying such benefits from an economic perspective is however, difficult, given they occur in the context of a dynamic organisation which makes gains as well as losses (and thus, the net gain of the organisation may be modest). Further, such gains have not yet been fully realised (e.g. Activity 5), and are reported as part of the SOE’s total business operations (e.g. Activity 10). Other complexities in quantifying economic returns also arise due to the difficulty of measuring

\(^{54}\) It should be noted that various dividends previously paid by SOEs have been attributable to specific projects, such as the special dividend of $800m paid by Meridian in 2006, as a result of profits on the sale of an overseas investment (Steeman, 2006).
opportunity costs (or cost savings through the avoidance of job losses, for example), which are clearly valuable, but the value of which is somewhat subjective.

Deregulation of the market meant revenue [from our core business] halved over the space of a three year cycle. That was pretty much 90 per cent of [our total] revenue. [So] there needed to be some fairly innovative ways of replacing that lost revenue to ensure that we didn’t lose all our staff as well. Making sure we survived (Senior executive, Activity 10, 2006).

Interestingly, an examination of economic benefits in terms of the classification of these activities indicates activity from three categories (e.g. entrepreneurial, strategic, and strategic entrepreneurship) has generated economic benefits in some form. Arguably, however, the potential for economic returns exists for activity within each of the four categories, in the sense that dividends could be paid directly from current or future profits relevant to activity in each category. As mentioned previously, while the findings should be interpreted with caution, it is also interesting to note that only one category of activity (neither entrepreneurial nor strategic) has profits of a non-recurring nature. Thus, similar to the respective financial benefit which is temporary in nature, the resulting economic benefits (if any) would also be short-lived and perhaps less useful for governments such as that in New Zealand, aiming to create sustainable income streams. This issue is considered further in Chapter 9.

Hence, while economic returns from the SOE sector’s operations as a whole were noted in Chapter 6 (Section 6.4)\footnote{Based on returns (dividends and tax payments) to the Government, and performance of the SOE sector as a whole.}, only limited economic returns could be identified and quantified (as at 2007) from the activities under review. Specifically, various economic returns were identified from strategic entrepreneurship (Activities 2, 5, 7, and 10), but only very limited returns could be quantified. Similarly, economic returns from strategic activity (Activities 1 and 8) and entrepreneurial activity (Activity 3) were identified, but unable to be systematically quantified. A summary of the economic benefits from these activities is detailed in Table 8.2 below.

Thus, a range of economic benefits can be identified from three of the four categories of activity. Yet while financial and economic returns are important areas for consideration, Cooper (1979) among others notes these returns should not be considered in isolation. Further, for SOEs in particular, given their social role and responsibilities, non-financial returns and outcomes are also highly important. Accordingly, the following section examines the non-financial returns of each
activity, to present a broader context of analysis.

### Table 8.2 Economic Returns from the Activities Under Review

<table>
<thead>
<tr>
<th>Activity</th>
<th>Details of economic implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Entrepreneurial</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>• engaging a local company in an innovative project</td>
</tr>
<tr>
<td>(b) Strategic</td>
<td></td>
</tr>
</tbody>
</table>
| 1 | • increased staff  
   • increased sales volume (and revenue) indicating increased productivity |
| 8 | • increased staff  
   • increased sales revenue and exported services |
| (c) Strategic entrepreneurship |  |
| 2 | • engaging a local company in an innovative project  
   • increased staff |
| 5 | • increased staff |
| 7 | • increased sales revenue and profits (5-10%), largely from exported services |
| 10 | • increased sales volume (and revenue) indicating increased productivity yields  
   • growth in business ensuring former government department staff needed to be retained |

8.4 Examining the Non-Financial Returns of the Activities Under Review

While financial returns relevant to several of the activities examined have been identified, further review also reveals a number of non-financial returns. Thus, to present a more comprehensive analysis, this section examines the various non-financial implications arising from the 12 activities examined.

Specifically, Table 8.3 presents an overview of the non-financial returns identified, (compared to the respective financial returns identified earlier) which are considered further below. As shown in Table 8.3 a wide range of non-financial returns can be identified from the activities examined. Interestingly, such returns are distributed reasonably consistently across three of the four categories (e.g. entrepreneurial, strategic, and strategic entrepreneurship), rather than being specific to a particular category of activity. In contrast, however, non-financial returns from activity classified as neither entrepreneurial nor strategic seem rather limited in scope, being “a very minor one” of retaining skilled treasury staff, beyond “the financial savings” (Senior executive, Activity 12, 2007).

In particular, some of the recurring benefits reflected in interviewees’ comments across the three categories include competitive advantage resulting in increased exposure or recognition (i.e. industry, market, or public recognition), increased confidence in a SOE’s ability to take on new projects, and new revenue streams effectively diluting the operational risk central to a SOE’s business as the organisation diversifies into new (but often related) markets. Each of these
benefits is highlighted by the comments below, and considered further in Chapter 9.

**TABLE 8.3  **FINANCIAL AND NON-FINANCIAL RETURNS OF THE ACTIVITIES UNDER REVIEW

<table>
<thead>
<tr>
<th>Activity</th>
<th>Financial returns</th>
<th>Details of non-financial implications</th>
</tr>
</thead>
</table>
| (a) Entrepreneurial |                   | • exposure to a wider market (particularly valuable given promotion of the organisation had deliberately been restricted by the SOE)  
| 3                 | <5%               | • public recognition as innovative through an award for the activity                                   |
| (b) Strategic      |                   | • increased efficiency, accuracy, traceability, and timeliness                                        |
| 1                 | >50%              | • increased capacity and volume with the potential for further (additional 200%) growth               |
| 4                 | -                 | • enhanced supply of electricity                                                                        |
| 6                 | <5%               | • organisational learning 'and expertise built upon', encouraging a degree of flexibility             |
| 8                 | -                 | • organisational learning and expertise 'built upon'                                                    |
| 9                 | -                 | • environmental and social (lifestyle, urban planning) benefits from decreasing road traffic and       |
| 11                | -                 | • created focus within the organisation                                                                 |
| (c) Strategic entrepreneurship |                   | • organisational learning - enhancing management’s understanding of the business                    |
| 2                 | -                 | • reputational benefits                                                                                |
| 5                 | <5%               | • new revenue stream with the potential for a new business division                                    |
| 7                 | 5-10%             | • organisational learning and expertise - learning to adapt, encouraging flexibility                  |
| 10                | nd                | • significant growth, secure future for the organisation                                               |
| (d) Neither entrepreneurial nor strategic |                   | • interesting and rewarding projects for internal treasury staff to be involved with                 |
| 12                | 20-30%            |                                                                                                       |

Nd = not disclosed (but referred to as significant part of the SOE’s revenue and increasing)

Given that 80 per cent of our revenue comes from a captive client base\(^{56}\), it would be wrong to promote yourselves to that captive client base, where you’d be taking money off them to promote yourselves to them. So this activity has given us exposure to a wider market; it’s certainly exposed our brand to a wider market. And through things like the innovation [award] we’ve gained increased exposure (Senior executive, Activity 3, 2006).

\(^{56}\) Referring to a market which is deregulated in New Zealand, but which overseas customers require services to be provided by government organisations in foreign countries.
We’re increasingly now being drawn on and we do quite a lot of development in Asia and North America. So because of our reputation, we are getting calls from overseas; some of them are customers, some of them are new business initiatives. But certainly our customers provide quite a lot of advertising for us [through using and promoting our services].

[This activity is] quite a marked departure from previous practice in the southern hemisphere really. And as a consequence we’ve been seen as something of an innovator by many of our larger customers in particular. So it’s given them the confidence to grow offshore with us as well, to encourage us to continue developing with their business as it grows overseas (Senior executive, Activity 1, 2007).

We understand the business better, we understand it down to the almost micro level now whereas before it was pretty amorphous. We understand where our business is coming from a lot better and the profitability of those revenue streams. If you understand why you ‘are’, you’ve got the systems and everything in place to run the day-to-day performance, then at the end of it you have a much better organisation. For instance, in [areas where] we’ve got two main customers, it’s really diversifying outside that. So, diversification; if our customer base and our market base is a lot wider, then it’s less risky (Senior executive, Activity 11, 2006).

While some SOE executives highlighted non-financial benefits extending beyond the organisation to external stakeholders such as the Government as shareholder (e.g. Activity 7), and the general public as consumers (e.g. Activity 10), other SOEs also noted non-financial costs perceived by various stakeholders, relating to the activities under review. By way of example, the perception of Activity 5 as a “carbon sink” by some members of the public was openly noted (Senior executive, Activity 5, 2007). Similarly, comments from executives within other SOEs highlighted conflict with and dissent from labour unions (Activity 9), environmentalist lobby groups, and political parties (Activities 4 and 12) with respect to financial, environmental, and social costs relevant to the activities. Thus, two issues can be noted. First, a number of non-financial benefits are relevant to the activities under review across three of the four categories (entrepreneurial, strategic, and strategic entrepreneurship). And second, while such benefits can be quite easily identified, perceived costs, in non-financial terms, also emerge. While a comparison of the non-financial costs and benefits is outside the scope of this study, a brief review indicates non-financial benefits are evident for almost all of the activities examined. Further, several of these benefits (e.g. recognition, reputation, and confidence) are extremely valuable for the organisation to leverage from in terms of the SOEs’ future business operations. These issues are discussed further in Chapter 9.
8.5 QUALIFYING AND QUANTIFYING RETURNS: ISSUES AND IMPLICATIONS

With respect to the financial and economic returns of each activity, measurement of such returns poses several issues. Accordingly, this section highlights some of the issues inherent to the numbers presented, so that readers can understand (or be reminded of) various assumptions, complexities, and irregularities underlying the calculations, to make their own critical assessments of the findings presented from this research.

As noted previously (Section 8.2), this study considers the financial returns of the activities under review, based on financial numbers for the 2006 year. Thus, returns in prior and subsequent years may not always be reflected or taken into consideration (a potential limitation which is considered further in Chapter 11). However, of the returns considered, these numbers are based on established accounting principles (and audited financial reports), which provide an element of consistency among the SOEs examined, but also reflect various underlying accounting assumptions. By way of example, comments from interviewees (in Section 8.2) refer to the marginal cost model which compares revenues and costs attributable to a project, for the purposes of determining the difference (profit or loss). As noted by a number of SOE executives, however, while this approach reflects an established accounting principle, it overlooks non-manufacturing or unallocated costs (such as managerial time – and the associated costs) spent on the project. Such time and costs are often shown as general administration expenses attributable to the organisation as a whole, rather than allocated to specific projects, and are therefore not considered when calculating the profit attributable to a single project. Thus, as noted by the SOE executive in relation to Activity 7, while this approach may be technically correct with respect to accounting principles, it may also be viewed as misleading if significant managerial time has been spent on the project in some context.

A similar issue raised with respect to Activity 3 (but potentially relevant to each of the activities under review) is that of opportunity costs. Opportunity cost is referred to as the cost of not doing something (Hamilton, Black, & Tozer, 2005); giving up a benefit that may have been available if resources were allocated elsewhere. As noted and referred to previously (Chapter 7, Section 7.2.1) by the Senior executive of Activity 3 in the context of risk, the allocation of funds to a particular project raises the issue of whether those funds could have been more effectively (strategically) employed elsewhere within the organisation.

For us, to be able to find $1 million to develop the product further, we have to say well, what’s it going to effectively cost us to get $1 million to develop that further, and what
else could we do with $1 million? (Senior executive, Activity 3, 2007).

While the notion of opportunity costs is rooted in economics (rather than accounting or finance), and is not a realised cost (in the sense that it is not actually incurred or physically paid), it is both an important and relevant concept for organisations, and managerial decision-making. Thus, while it has not been factored into the calculations shown (and is a rather complex and subjective cost to quantify), it is an important point to note and a valid issue for consideration.

Another important issue referred to by the SOE executive regarding Activity 7, was that of the cost of capital. This term is rooted in finance and refers to the cost of an organisation having access to funds - essentially a combination of debt and equity (Hamilton et. al, 2005). While individual organisations invariably have a different mix (and value) of debt and equity, essentially there is a cost associated with each (i.e. interest paid in the case of debt, and dividends paid in the case of equity). Thus, while financial performance is generally considered in terms of profit (revenue less expenses, one of which is interest expense), another important consideration is profit of a project or organisation compared to the cost of the funds employed in the project or organisation. Again, from a finance and business perspective, this is a common and valid issue for consideration. Within financial accounting (e.g. annual reports and financial statements), however, this issue is not expressly addressed$^{57}$. Accordingly, a very high profit could be misleading, and interpreted as strong financial performance, where an organisation (or project) has a very high cost of capital. Two factors add to the complexity of this issue. First, calculation of cost of capital often requires some estimation, and changes over time. Second, cost of capital in the context of SOEs is also somewhat affected (or not fully controllable by management) as, despite the intention of the SOE Act that SOEs operate as commercial firms with freedom of commercial choice, there is a clear expectation of regular dividends from the Government, and also regular discussions on the amount of debt Government expects (or requires) SOEs to have, such that they are not funded solely by equity (e.g. contributed capital and retained earnings). This is perhaps one area where SOEs seemingly do not have freedom of commercial choice, and therefore managing a SOE’s cost of capital is (to some extent) not fully controllable by SOE management. Despite these issues, evaluating the financial returns against the cost of funds employed is a valid consideration, but one that is not addressed in financial accounting calculations such as the numbers used in this study which are based on financial statements.

$^{57}$ Other than recording interest as an expense subtracted prior to the calculation of profit, and dividends being recorded as an expense after the calculation of profit.
A further irregularity (or potential distortion) of accounting numbers was noted by the Senior executive in relation to Activity 9. This issue (which was also broached in Chapter 6, Section 6.4.2) involves the revaluation of assets, particularly those which are depreciable assets under established accounting principles. Table 8.4 presents a simplified example of the potential effect of asset revaluations on both the Balance Sheet and the Income Statement.

### Table 8.4 Examining the Effects of Asset Revaluations for Assets and Profit

<table>
<thead>
<tr>
<th></th>
<th>1. Initial situation</th>
<th>2. Revised situation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>500*</td>
<td>1,000*</td>
</tr>
<tr>
<td>Liabilities</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Owners' equity</td>
<td>250</td>
<td>750</td>
</tr>
<tr>
<td>*based on original cost</td>
<td></td>
<td>*revalued to market or 'fair' value, with a corresponding increase shown in owners' equity</td>
</tr>
<tr>
<td><strong>Income statement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Less: expenses*</td>
<td>100</td>
<td>(100)</td>
</tr>
<tr>
<td>Profit</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>*assume depreciation expense (500 x 10% depreciation)</td>
<td>*assume depreciation expense (1,000 x 10% depreciation)</td>
<td></td>
</tr>
<tr>
<td><strong>Return on equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Equity</td>
<td>250</td>
<td>750</td>
</tr>
<tr>
<td>ROE</td>
<td>20%</td>
<td>0%</td>
</tr>
</tbody>
</table>

As noted previously in Chapter 6, under established accounting principles, organisations have the choice of valuing assets based on their original cost, or revaluing them to current market or “fair” values. The effect of a higher asset value (where the asset is subject to depreciation – e.g. fixed tangible assets such as property, plant, and equipment) is increased depreciation expense, as the calculation of depreciation is directly referenced to the value of an asset. Thus, while a higher asset value will make the balance sheet look “good” in terms of a strong asset base, it will also make profit lower due to higher depreciation expense each year.

Specifically, column 1 of the table shows assets valued at $500 based on their original cost, and the associated depreciation expense in the Income Statement being $50 (assuming cost x 10 per cent depreciation rate). Column 2 shows the effect of those assets being revalued to $1,000 based on their fair value, with a related increase in depreciation expense ($1,000 x 10 per cent). This relatively basic example effectively shows profit going from $50 (in column 1) to nil (in column 2), simply due to the revaluation of assets.
This issue is particularly relevant to SOEs as they often have very high asset bases (sometimes in excess of $1 billion), and affects two calculations considered in this study. First, profit is affected, as outlined above. Second, ratios such as those considered in Chapter 6 (e.g. return on equity = profit ÷ owners’ equity) are also affected, as a revalued asset creates a corresponding increase in the value of owners’ equity (as indicated in column 2 of Table 8.5). Thus, calculation of ROE for two separate organisations with similar performance, other than one organisation revaluing its assets, will give rise to distinctly different results. This variation is highlighted in the last row of Table 8.5, which shows ROE going from 20 per cent (in column 1) to 0 per cent (in column 2). While asset revaluations were considered (and ratios recalculated where necessary to determine if there was any significant change or distortion) in Chapter 6, the issue of revaluations did not represent a significant issue during the period 2002-2006. In subsequent years, however, as New Zealand businesses adopt New Zealand equivalents to International Financial Reporting Standards, this will become more of an issue for New Zealand businesses in general, and is reflected in the comments noted previously and again below.

Under the new accounting regime, our assets are all being revalued. And they’ve been revalued from about $500 million to $10 billion. Half of that’s land\textsuperscript{58}, but the rest of it, our other assets, have been revalued to about $5 billion. And if you depreciate those as you normally would, well we don’t have the income long-term to cover that. So we would be a SOE that made a constant loss if that carried on (Senior executive, Activity 9, 2007).

8.6 Summary

As noted in Chapter 2 (Section 2.5), literature on strategic entrepreneurship emphasises wealth creation as an important and valued outcome. However, a review of literature in other areas such as entrepreneurship and strategy, suggests an association with wealth creation is by no means exclusive to strategic entrepreneurship, which is clearly supported by the findings presented in this chapter. The financial and (to a lesser extent) economic returns identified from the activities examined, suggest such returns are indeed possible from activity within SOEs. Further, such benefits can be associated with activity in each of the four categories (i.e. entrepreneurial, strategic, strategic entrepreneurship and activity neither entrepreneurial nor strategic). While the findings supported financial, economic, and non-financial returns in three of the four categories in particular, issues were noted with respect to returns from activity classified as neither entrepreneurial nor strategic. In reviewing the financial returns of each activity (as at 2006/2007), a number of features were identified as important, including the timeframe and development stage (or maturity) of the activity, as well as management of internal and external forces directly

\textsuperscript{58} A non-depreciable asset.
relevant to the activity. In considering the non-financial returns of each activity, a number of benefits were identified including competitive advantage, organisational learning, confidence, reputation, and recognition. However, in evaluating the financial (and to a lesser extent the non-financial) returns, it was noted a number of important finance and economic concepts should be considered (or at least acknowledged), such as cost of capital, opportunity costs, as well as accounting issues such as the effect of asset revaluations. The findings presented in this and the previous two chapters have provided a number of insights and issues for consideration. Accordingly, the following chapter draws on these findings to discuss some of the issues and implications arising from this study.
CHAPTER 9
DISCUSSION: STRATEGIC ENTREPRENEURSHIP’S FINANCIAL AND ECONOMIC BENEFITS

9.1 INTRODUCTION
Findings presented in Chapters 6, 7, and 8 provide insight into the contextual issues surrounding activity within New Zealand’s SOEs, strategic entrepreneurship in the SOE sector, and its financial benefits. This chapter discusses and considers findings on strategic entrepreneurship and its financial benefits, comparing specific and broader collective findings to establish a more refined understanding of strategic entrepreneurship and its potential benefits. Discussion on and insight into public sector management with respect to SOEs, NPM, and specifically NPE – regulatory issues, operational issues, and financial returns – is the focus of the following chapter. Collectively, these two chapters reflect upon findings of this study from three perspectives – strategic entrepreneurship, its financial benefits, and the SOE context, to provide a more nuanced understanding in each of these topical areas of research.

Specifically, this chapter re-examines strategic entrepreneurship from a practical perspective in Section 9.2, encompassing the core elements relevant to this construct. Section 9.3 considers the supporting elements and other key insights. The financial and economic benefits or implications of strategic entrepreneurship are then reviewed in Section 9.4. Thus, the purpose of this chapter is to address the how and why (Cohen et al., 2000) of strategic entrepreneurship, as well as findings which have emerged with respect to the outcomes of strategic entrepreneurship. Last, Section 9.5 summarises the issues addressed in this chapter.

9.2 STRATEGIC ENTREPRENEURSHIP’S CORE ELEMENTS
From the literature review detailed in Chapter 2, a preliminary conceptual framework was presented with respect to strategic entrepreneurship:

1a. Strategic entrepreneurship is a distinct process, founded on the combination of opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth.

1b. Strategic entrepreneurship is represented by entrepreneurial activity applied in the strategic context of businesses which develop expertise within their core skills and resources, and leverage from that by transferring and applying their knowledge of those skills and resources to new products, services, or markets.

2. The nature of strategic entrepreneurship may take various forms, ranging from incremental to radical innovations, with deliberate to emergent approaches.
3. Strategic entrepreneurship offers the potential for financial benefit, subject to managing changes in both internal and external forces (e.g. the external environment).

Together, concepts 1a and 1b were referred to as the foundations of strategic entrepreneurship (1a – the core entrepreneurial elements) and the foundations for strategic entrepreneurship (1b – the strategic context). Further, it was argued the integration of these two components constituted strategic entrepreneurship as a distinct construct, depicted in Figure 9.1 below (drawing from Figure 2.3 in Chapter 2).

**Figure 9.1 Strategic Entrepreneurship**

- Foundation of strategic entrepreneurship: core entrepreneurial elements
  - opportunity identification, innovation, acceptance of risk, vision, flexibility, growth
  
- Foundation for strategic entrepreneurship: strategic context
  - developing a level of expertise, leveraging from core skills and/or resources
        transfer and application of those skills/resources to create new products, services, & markets

With respect to concepts 2 and 3, it was argued that strategic entrepreneurship may take various forms, and offers the potential for financial benefits, subject to managing change. These concepts were subsequently considered in the practical context of activity examined within 12 of the 17 SOEs operating in New Zealand. This section re-examines these concepts drawing on the findings from this study, and comparisons with established theory from the literature.

### 9.2.1 The Construct of Strategic Entrepreneurship

As detailed in Chapter 2, six elements were considered central to entrepreneurial activity, and thus inherent to strategic entrepreneurship (being entrepreneurial activity in a strategic context). Specifically, these elements included opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth. Of the 12 activities examined and analysed, four were considered to be characteristic of strategic entrepreneurship on the basis that they satisfied two key criteria:

1) that the activity was entrepreneurial in nature, and

2) the activity was applied in the strategic context of a business which had developed expertise within its core skills and resources, and had leveraged from that to create new products, services, or markets.

Analysis of the central elements in the context of the activities examined (in Chapter 7), revealed
distinct commonalities and differences with respect to the nature of each activity. A summary of the
categorisations is shown in Table 9.1 below (drawing on Table 7.13 from Chapter 7).

**Table 9.1**  **SUMMARY OF EACH ACTIVITY’S ENTREPRENEURIAL AND STRATEGIC NATURE**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Project details</th>
<th>E</th>
<th>S</th>
<th>SE</th>
<th>Not E or S</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Entrepreneurial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Business management software for an organisation’s policies, procedures, and controls</td>
<td>E</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Strategic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Automated laboratory service for testing of food samples, and online release of results</td>
<td></td>
<td>S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Energy generation plant located in a regional district of Auckland</td>
<td></td>
<td>S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Programme of operational and financial arrangements tailored to organisations’ individual energy requirements</td>
<td></td>
<td>S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Geothermal exploration and development</td>
<td></td>
<td>S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Repurchasing New Zealand’s railway network (previously privatised)</td>
<td></td>
<td>S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Company restructure and plans to manage networks for various organisations</td>
<td></td>
<td>S</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Strategic entrepreneurship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Training simulator software for air traffic controllers</td>
<td></td>
<td></td>
<td>SE</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Leasing and cultivating land for farming</td>
<td></td>
<td></td>
<td>SE</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Innovative graphics software which presents three-dimensional images of landscapes and weather systems</td>
<td></td>
<td></td>
<td>SE</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>An immediate, online valuation programme encompassing any property in New Zealand</td>
<td></td>
<td></td>
<td>SE</td>
<td></td>
</tr>
<tr>
<td>(d) Neither entrepreneurial nor strategic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Cost-effective and tax-effective financial arrangements (e.g. lease-in lease-out and structured loan arrangements)</td>
<td></td>
<td></td>
<td></td>
<td>N</td>
</tr>
</tbody>
</table>

**Total**

|   | 1 | 6 | 4 | 1 |

**Key**

E = Entrepreneurial
S = Strategic
SE = Strategic entrepreneurship
N = Neither entrepreneurial nor strategic
^ = Total treats each category (E, S, SE, N) as mutually exclusive

As detailed in Chapter 7 (Section 7.6), each of the six elements considered central to
entrepreneurship and strategic entrepreneurship were evident within the activities classified within
those categories (Activity 3 being entrepreneurial and Activities 2, 5, 7, and 10 being classified as
strategic entrepreneurship). An important distinction, however, is the difference between Activity
3 and the other four Activities (2, 5, 7, and 10), on the basis that there is no strategic context (i.e.
leveraging from core skills and resources) to support Activity 3. This distinction represents
strategic entrepreneurship’s point of difference, and provides the opportunity to examine
variations in nature (considered below) and variations in outcomes (considered in Section 9.4)
between strategic entrepreneurship and activity in the other three categories. With respect to
variations in nature, all four strategic entrepreneurship activities reflected clear elements of
opportunity identification, innovation, acceptance of risk, flexibility, vision, growth, and leveraging
from core skills and resources. These elements are explored under the relevant headings below.
to reconsider the dimensions of each and any differences between findings from theory and practice.

9.2.2 Opportunity Identification

As detailed in Chapter 7, opportunity identification was a central aspect of activity classified as entrepreneurial and strategic entrepreneurship. Interestingly, the opportunities were identified both *internally* by SOEs and *externally* by third parties (e.g. potential customers). Further, in the context of strategic entrepreneurship, those opportunities involved leveraging from the business’s core skills and resources, such that there was a sense of strategic fit, confidence, and familiarity within the SOE to develop the opportunity identified.

We realised we didn’t need to be too frightened of things not working out, because we had the skills in getting things to work once we analysed them. Most things we do are some form of adaptation. Clearly getting into new projects involves a risk. But I think we’re able to cope better with that now. One of the things we have as a core competence is reliability and operational excellence (Senior executive, Activity 7, 2006).

The concept of strategic fit is underemphasised within the strategic entrepreneurship literature in general, and yet highlighted by specific studies examining the relationship between entrepreneurship and strategy. Venkataraman and Sarasvathy’s (2001) account of entrepreneurship without strategy being likened to Romeo without a balcony, highlights strategy as an important foundation for entrepreneurial activity rooted in a business’s domain of expertise, with the potential for enduring benefits (e.g. competitive advantage). The point of difference highlighted in this study (from an examination of Activity 3 in particular, when compared to and contrasted with findings from Activities 2, 5, 7, and 10), is the added challenge of entrepreneurial activity which represents a novel, innovative, creative idea, but is not supported by a business’s core skills and resources.

...there’s a whole range of risks associated with the fact that it’s an unfamiliar area of business for us, so therefore what’s the likelihood of something going wrong that we can’t control, just by making simple mistakes because it’s not our core business and we’re not experienced in that area. And then...over here we’ve got our core business that we’re really confident and comfortable with (Senior executive, Activity 3, 2007).

Thus, in the context of strategic entrepreneurship, opportunity identification is tied closely to a business’s core capabilities and subsequently assists in the management of risk. (This latter issue of risk management is discussed later in Section 9.2.4). Further, findings indicate businesses which can manage the core business activities, as well as extend into new areas, may perhaps be viewed as ambidextrous (He & Wong, 2004; O’Reilly & Tushman, 2004), in the
sense that they can skilfully manage multiple areas of business - both existing core business and new entrepreneurial ventures. Repeated investigation into opportunity identification also revealed three additional aspects or dimensions, each of which is considered below.

9.2.2.1 INTERNAL VERSUS EXTERNAL
The notion of opportunity identification being external (as well as internal) is another aspect of strategic entrepreneurship which is underemphasised within the literature, and captured in the comments of one senior executive who reflected on the importance “of just being out there” (Senior executive, Activity 2, 2007); having a strong presence or profile within the industry. Specifically, recognition of (and recognition for) expertise within a business’s core skills and resources provides an important channel for projects and opportunities to be presented to a business. Thus, while literature on entrepreneurship emphasises the importance of perception and seeing opportunity (Sarasvathy et al., 1998), arguably being seen as highly skilled within an area of business is also important for opportunity identification. Further, while literature on strategic entrepreneurship reinforces the notion of opportunity identification as central (Hitt et al., 2001) or relevant (Ireland et al., 2003) to strategic entrepreneurship, there is little practical guidance as to how opportunities may be identified. This finding is particularly important for businesses pursuing strategic entrepreneurship which rely solely on internal opportunity identification, as well as businesses which may not have strong capabilities to develop ideas internally. Thus, this pathway to opportunity identification represents a valuable alternative or addition to the traditional (internal) approach.

9.2.2.2 STRUCTURED VERSUS RANDOM
From a strategic perspective, it is interesting to note that several of the SOEs had tried to introduce a process where new ideas and concepts could be refined, formalised, and pursued, indicating a more planned or deliberately strategic approach to entrepreneurship. While this process may assist in organising and developing opportunities, essentially findings from this study show that none of the activities classified as entrepreneurial and strategic entrepreneurship arose as a result of opportunities identified from this kind of organised or structured process. Notably, however, other opportunities and projects undertaken by SOEs which were potentially suitable for inclusion in this study (based on a preliminary examination) did arise as a result of structured processes. Thus, both structured (deliberate) and random (emergent) processes are valuable with respect to opportunity identification.
9.2.2.3 Cumulative and Complementary Opportunities

Further examination of each of the activities characteristic of strategic entrepreneurship reveals that these activities led to subsequent and cumulative opportunities, resulting in additional products, services, and markets, beyond those initially relevant to the strategic entrepreneurship activity. Activity 5 led to the formation of a new division, with expectations that the project would “spill [over] to other things” (Senior executive, Activity 5, 2006). Similarly, Activity 7 led to complementary opportunities resulting in a series of related products and services, and ultimately overseas expansion. Activity 10 led to complementary opportunities in new industries and markets.

Thus, this study has shown opportunity identification in the context of strategic entrepreneurship is closely tied to growth, which is considered further in Section 9.2.7. Collectively, these findings highlight that opportunity identification may be internal or external, structured or otherwise, one-off or cumulative and recurring. Yet little detail of these features is presented in the literature on strategic entrepreneurship, other than opportunity leading to competitive advantage (Hitt et al., 2001; Meyer et al., 2002), and a brief reference to multiple opportunity identification (Eisenhardt et al., 2000). Hence, insights from this study examining strategic entrepreneurship in practice provide a valuable foundation for understanding strategic entrepreneurship from a theoretical and practical perspective.

9.2.3 Innovation

Based on a review of the activities classified as entrepreneurial and strategic entrepreneurship, innovation was a central theme in each case: creating new and unique products, services, and markets. Two points of distinction however, should be made. First, in comparing entrepreneurial activity and strategic entrepreneurship with activity classified as strategic and neither entrepreneurial nor strategic, innovation is clearly absent from activity within the later two categories. Second, with respect to strategic entrepreneurship (in contrast to entrepreneurial activity), an important feature is leveraging from the business’s core skills and resources, such that innovation is supported by the business’s core competencies. Each of these issues is considered below.

As noted in Chapter 7 (Section 7.6), findings from this study reinforce the notion that innovation is at the heart of entrepreneurship (as depicted in Figure 9.2) – a notion promoted by Drucker (1985) over two decades ago. Yet, innovation alone does not constitute entrepreneurial activity –
a concept reinforced by this study, and one which has gained increasing acceptance within the literature (Sharma & Chrisman, 1999). Thus, Figure 9.2(a) shows entrepreneurship as a combination of elements, with innovation as the central feature.

**Figure 9.2**

**Entrepreneurship versus Strategic Entrepreneurship**

The second point of distinction regarding leveraging from a business’s core skills and resources to effect innovation is an important finding, given that literature on entrepreneurship and strategy address innovation from specific and often narrow perspectives. Such perspectives sometimes distinguish or isolate innovation in the context of an innovative strategy or an entrepreneurial strategy, referring to a plan to be innovative or a plan to be entrepreneurial, rather than focus on applying existing skills and resources to undertake innovative activity. In contrast, Ireland et al. (2003) refer to bundling resources to achieve strategic entrepreneurship; however, there is little detail provided regarding the process and its application. Findings from this study, however, highlight the importance of developing innovations in areas which are directly related to and leverage from a business’s core capabilities. This finding may be viewed as an extension of Peters and Waterman’s (1982) suggestion that organisations stick to their knitting, such that a strategic approach to entrepreneurial activity involves leveraging from a business’s core capabilities. Specifically, this approach ensures the liability of newness with respect to innovation is minimised and somewhat mitigated by a sense of familiarity regarding the business’s expertise with respect to its core skills and resources, thereby decreasing risk.

In the context of strategic entrepreneurship, findings are illustrated in Figure 9.2(b) which depicts this construct as a combination of entrepreneurial elements, based on the strategic context of a business’s core skills and resources. Thus, core skills and resources are shown at the centre. This finding is particularly interesting, given that literature on strategic entrepreneurship provides very little guidance on the pragmatic aspects of innovation, and how it may be achieved within
businesses pursuing strategic entrepreneurship. As such, insights from this study provide useful examples and guidance on how existing core skills and resources can be transferred and applied in new contexts to effect innovation and more specifically strategic entrepreneurship. Other aspects of innovation which emerged from the findings are considered below.

9.2.3.1 APPLIED INNOVATION

An examination of the activities classified as strategic entrepreneurship reveals a strong theme of applied innovation, being innovation with a clear emphasis on customer orientation (Barwise & Meehan, 2004), rather than simply a unique or novel idea. Thus, innovation supported by a business’s core capabilities with a strong customer focus is an important concept within strategic entrepreneurship, based on these findings. While findings from an earlier study involving three cases of strategic entrepreneurship (Luke & Verreynne, 2006a) had indicated the importance of a strong customer focus in the context of innovation, findings from this study provide valuable reinforcement, replication, and contrast, given the range of activities examined. This concept is highlighted through a comparison of the comments by senior executives in relation to Activity 3 (entrepreneurial) and Activity 7 (strategic entrepreneurship), below.

…the system was developed with the users – the broadcast meteorologists - in mind. We know how a forecaster’s mind works; we know the sort of things they’re going to want to fiddle with and the sort of things they’ll leave alone (Senior executive, Activity 7, 2006).

So if people come back and say ‘we’d like this changed, or can we modify this’; then it becomes an ongoing project? Whereas you might not necessarily have had those needs in-house for the modifications requested; but as a commercial project, people want those different flexibilities included?

That’s right, and the question is, how far you’re prepared to go with that sort of work, and you’ve got to be careful with modifications that you’re adding value (Senior executive, Activity 3, 2007).

The importance of innovation linked to a business’s core skills and resources was also identified in previous research which had examined Kiwibank as an entrepreneurial and strategic venture of NZ Post, a SOE examined previously (but not included in this thesis) (Luke, 2008a).

At the Post Shop you can do a whole lot more than just post your mail. Up to 86 organisations have a payments service [through Post Shop]. We do a whole lot of financial services. These people are used to processing money, so what’s so different about processing bank transactions? So you’ve got the bricks and mortar, the customer satisfaction surveys saying people want more human contact, [NZ Post staff] up and down the country, our New Zealand-ness... that was some of the logic on which we said ‘let’s go and set up Kiwibank’ (Robyn Hogg, Organisational Development Leader of New Zealand Post, personal communication, December 1, 2004).
Hence, in contrast to prior studies (Ireland et al., 2003), it appears innovation in the context of strategic entrepreneurship need not be a "quantum leap" to new and unfamiliar areas of business, but a variation or application of existing skills and resources in different and novel contexts. This issue is considered further below.

9.2.3.2 Other dimensions of innovation

Other dimensions or aspects of innovation with respect to strategic entrepreneurship include the nature of innovation (e.g. incremental versus radical, process focused versus product focused), the role of research and development, the influence of organisational culture, and the benefit of cost minimisation. With respect to the nature of innovation, an examination of the activities classified as strategic entrepreneurship reveals they are both process focused (Activities 7 and 10) and product focused (Activities 2, 5, 7, and 10), however there is a clear emphasis on product based innovation. Yet, in contrast to Ireland et al.’s (2003) framework of strategic entrepreneurship which suggests there must be a balance between incremental and radical innovation, no such balance emerges from the findings of this study. In each case, innovation within activity classified as strategic entrepreneurship was incremental in nature. Although the case of Kiwibank suggests radical innovation is possible (i.e. establishing a retail banking network from Post Shops in response to a banking industry dominated by foreign ownership, which showed little interest in the personal banking market and customer service, as evidenced by branch closures throughout the country) (see Luke & Verreyne, 2005). Collectively, these findings suggest not that a balance of different types of innovation is required within an individual business, but rather that different businesses may prefer radical or incremental innovations, depending on for example, the culture of the organisation and the nature of the opportunities identified. Again, such findings indicate strategic entrepreneurship is perhaps more accessible to a broader range of businesses.

9.2.3.3 Supporting features of innovation

With respect to organisational culture, comments from one SOE executive that innovation can perhaps be embedded in or supported by a business’s culture raise an interesting issue, and one that is not conclusively addressed in this study given the intention to examine one activity in detail within each SOE, but not comprehensively analyse each SOE’s culture59. Notwithstanding this focus, in both the initial and second phase of interviews it was increasingly apparent that several

59 Although this was queried and examined to some extent during the course of the interviews.
SOEs which had undertaken activity characteristic of strategic entrepreneurship, also had a number of other projects which were potentially entrepreneurial and strategic in nature, and as such, suitable for inclusion in this study. Further, a number of SOEs were also actively trying to develop an innovative culture, and establish semi-formal procedures to examine and evaluate innovative ideas (e.g. introducing business development units to expressly and systematically evaluate innovative ideas). In contrast, other SOE executives emphasised the importance placed on fostering a flexible work environment where staff in general had time to “play with new ideas” and experiment (Senior executive, Activity 7, 2006). In each case, the respective SOEs had successfully developed strategic entrepreneurship; however their approaches were distinctly different. Such findings reveal different pathways can lead to the same outcome. Further, they highlight the importance of a flexible work environment to foster innovative activity which is not necessarily dependent on research and development in a formal sense, but rather staff having the opportunity to experiment.

This notion represents an interesting departure from strategy literature which traditionally supports an emphasis on planned, deliberate activity (Mintzberg, 1978), and innovation tied closely to research and development activity (Mairesse & Mohnen, 2005; Mansfield, 1980; Reinganum, 1989; Van Dyke, 2006). Further, such findings highlight the importance of cost minimisation, such that experimentation is not necessarily expensive or reliant upon substantial pre-determined funding allocations. This approach effectively enables an environment of experimentation to be more widely available to businesses in general, rather than businesses which have available financial resources specifically allocated to research and development activity. Further, this approach is particularly well-suited to a public sector environment such as SOEs where expenditure is often conservative, accountability (including managerial, political, and public accountability) is high (Luke, forthcoming - 2010; Ramamurti, 1986), and customers (as well as SOEs) are wary of costs. This latter issue was raised in the context of non-essential promotional costs, particularly where the SOE had a captive market.

Given that [a percentage] of our revenue comes from a captive client base, it would be wrong to promote yourselves where you’d be taking money off them to promote yourselves to them (Senior executive, SOE C, 2006).

### 9.2.4 Acceptance of Risk

Deliberate acceptance and management of risk also emerged as a central feature within each of the activities classified as strategic entrepreneurship. While literature on entrepreneurship has expressly considered the nature (Mintzberg, 1973; Shapero, 1975) and level of risk (Sonfield &
Lussier, 1997), few have emphasised the importance of risk perception (Smircich & Stubbart, 1985) and evaluation (Busentiz & Barney, 1997), particularly in the context of strategic entrepreneurship. Rather, an emphasis on risk-taking (Covin & Slevin, 1989) is evident within the literature, based on the perception of those outside the business. Findings from this study however, repeatedly highlight the importance of developing a level of expertise within the business's core skills and resources as a means of managing and mitigating risk. Thus, a sense of confidence was established to evaluate the related risk as manageable. By way of contrast, a review of Activity 3 (classified as entrepreneurial), when compared to Activities 2, 5, 7, and 10, highlights the lack of confidence, familiarity, and questioning. Hence, findings with respect to strategic entrepreneurship highlight a deliberate evaluation and acceptance of risk, and the perception of risk as manageable given the confidence SOEs had in their core competencies.

While confidence is not specifically addressed within the literature on strategic entrepreneurship, it is broached in the context of entrepreneurship in general (Hayward, Shepherd, & Griffin, 2006) and public entrepreneurs in particular (Ramamurti, 1986). Specifically, Hayward et al. (2006) note the risks associated with being over-confident in the context of entrepreneurial activity, and the importance of awareness and caution with respect to financial risk. In the context of the public sector, Ramamurti (1986) highlights the need for increased confidence with respect to entrepreneurial ventures. Thus, the notion is perhaps highlighted in this study due to the public sector context of the organisations and activities examined. Arguably, however, this concept applies to both public and private sector businesses which extend the scope of their operations to include new products, services, or markets.

9.2.5 Flexibility

Flexibility has been considered within the entrepreneurship literature in terms of improvising and responding to change, and a flexible work environment (Eisenhardt et al., 2000). Literature on strategic entrepreneurship considers flexibility in terms of freedom to access and use the appropriate resources (Ireland et al., 2003). In this study, however, flexibility emerged as a central theme in a number of other contexts. Such contexts include flexibility with respect to transferring and applying core skills and resources, flexibility within the work environment such that innovation and experimentation were encouraged, and showing the flexibility to identify multiple and diverse opportunities within the scope of a single vision for the organisation. Hence, it is a broader awareness or perception to recognise viable opportunities, which emerges from the findings. This notion is perhaps similar to knowledge brokering (Bissell, 1997) – being able to
apply existing knowledge in new ways. Yet the concept is also quite different to Drucker’s (1985) emphasis of a clear vision, and Mintzberg and Water’s (1985) promotion of having the flexibility to allow that vision to change. Arguably, findings from this study lie somewhere between these two concepts, promoting a clear vision, but also flexibility or breadth within that vision.

Other aspects of flexibility which emerged from the findings include a flexible attitude and “can-do” approach, which some executives attributed to the culture of the organisation (supported by a sense of confidence in the business’s core capabilities) and the culture of New Zealand.

[Overseas organisations] love New Zealanders; they just do a good job; it’s a huge endorsement to New Zealanders. I think in everything we do, we’re very practical people and so we get in there and there’s not too much tension; people just do the job. We don’t stand on too much ceremony, and people are pretty relaxed about talking to the Board in the afternoon and then in the following morning, going out and fixing [things]. Whereas if you get people from [other countries], they [can be] very narrow focused people, they can turn the screwdriver to the right but it’s somebody else’s job to change the light bulb; very demarcated. Whereas New Zealanders say ‘how hard can it be; I can do that’. And they can, within their range of competency; so we get really good rave reviews (Senior executive, Activity 2, 2006).

While this notion of a flexible attitude is also touched upon by Ramamurti (1986) in the context of public entrepreneurs, it remains underexplored within the literature, and represents an important aspect of flexibility within strategic entrepreneurship.

9.2.6 Vision

Vision has been presented a central element of entrepreneurship literature (Drucker, 1985; Mintzberg & Waters, 1985), a sense of what entrepreneurs are and want to become (Morris & Kuratko, 2002), representing their core purpose and values (Collins & Porras, 1994). This notion is consistent with findings from this study in the context of activity classified as entrepreneurial, strategic, and strategic entrepreneurship, as the respective SOE executives indicated a strong sense of vision.

Our vision is to be the best partner for food safety and biosecurity. And you see that in everything we do; we’re very clear about that (Senior executive, Activity 1, 2006).

In this study, however, vision relating to strategic entrepreneurship is also emphasised in terms of a breadth of vision (Feeser & Willard, 1999), as well as a shared vision (Collins & Porras, 1994), each of which is considered below.

Based on the findings, a breadth of vision within strategic entrepreneurship is evident throughout
the SOEs studied. Thus, seeing opportunities, understanding how to leverage from core capabilities, and transfer and apply core skills and resources to create new products, services, and markets, is an important aspect of vision. While reinforcement of vision (Bennis & Nanus, 1985) is often considered in terms of communication (verbal reinforcement), and is evident in this study through the support of management, the Board of Directors, Government, and within the relevant SOEs, reinforcement also emerges in the context of successful management of strategic entrepreneurship activities. By way of example, several of the SOEs noted the success of their projects (classified as strategic entrepreneurship) had led to other projects of a similar nature, thereby reinforcing the vision reflected in the initial project. In contrast, Activity 3 (classified as entrepreneurial but not strategic), reflected a vision which was innovative, but not able to be reinforced in the sense that the project was viewed as difficult to manage, resulting in increased risk, and was subsequently sold.

With respect to a shared vision (Collins & Porras, 1994), findings indicate support for strategic entrepreneurship was not attributable solely to top management (Ireland et al., 2001), or a strong leader (Mintzberg, 1973), but rather shared throughout the organisation. This common vision is perhaps reinforced by flexibility within the work environment allowing the intended vision to be implemented and considered from different perspectives. Further, cumulative successes and learning experienced by staff in those SOEs which undertake innovative and entrepreneurial projects also supports a shared vision. Such findings are reinforced by extensions of existing projects classified as strategic entrepreneurship, and other potentially entrepreneurial and strategic concepts and ideas being generated and pursued by those organisations. In contrast, one SOE which had undertaken activity not classified as strategic entrepreneurship noted the challenging task ahead of ensuring staff understood and shared the organisation’s vision focused on innovation and growth. The differences noted are perhaps reflective of the different development stages of the SOEs, some of which have had entrepreneurial and/or strategic approaches longer than others. Thus, ultimately vision is supported by and reflected in the culture of the organisation, as indicated by the comments below.

So there’s [been] a huge culture shock [with the new strategic direction]…and obviously [we’re] managing the people through the processes (Senior executive, SOE K, 2006).

9.2.7 Growth

A review of the findings with respect to strategic entrepreneurship reveals growth as a central element from a number of perspectives. Such perspectives included growth in customers,
products, services, markets and market share, experience and confidence, reputation, recognition, competitive advantage, revenue and profits. While growth is also prominent in the literature on strategy from various perspectives (Hitt et al., 2001; Hussey, 2000), literature on entrepreneurship has traditionally considered growth in terms of financial and non-financial reward (Hawley, 1901; McClelland, 1962; Smith, 1776). Literature on strategic entrepreneurship however, emphasises competitive advantage, but does not explore the dimensions of growth to the extent highlighted by the findings from this study.

In particular, the non-financial aspects of growth such as growth in the scope of business, and growth in confidence to take on new projects, are areas which seem underexplored within the literature. Again, a comparison between entrepreneurial activity and activity classified as strategic entrepreneurship highlights the differences in outcome, as Activity 3 (being entrepreneurial) had the potential to expand the scope of the SOE’s business operations, but was sold off given the SOE’s lack of resources and expertise to pursue and support the growth of the project. As a consequence, executives reflected on the experience, challenges, and learning outcomes as a situation they would not want to repeat or pursue in a similar context. In contrast, learning outcomes and experiences from activity classified as strategic entrepreneurship gave executives in the respective SOEs a confidence and an interest to expand the scope of the initial activity and pursue projects of a similar nature in the future.

9.2.8 INTEGRATING ENTREPRENEURSHIP IN A STRATEGIC CONTEXT

Based on the findings and the above discussion, strong support exists for each of the six core elements of entrepreneurship. Further, a comparison between activity classified as strategic entrepreneurship, and activity in the other three categories highlights the differences specific to strategic entrepreneurship. In particular, the strategic context of developing a level of expertise with respect to a business’s core skills and resources, and leveraging from that, is what distinguishes entrepreneurial activity in a strategic context; or “strategic entrepreneurship”. Table 9.2 summarises the entrepreneurial and strategic elements relevant to strategic entrepreneurship, highlighting their interrelated nature.

The details presented in the table highlight the close relationship between individual elements (e.g. opportunity identification and vision), as well as the integration of entrepreneurship and strategy; how they can combine to form strategic entrepreneurship as the underlying elements.
While the distinction between entrepreneurship and strategic entrepreneurship may be viewed by some as “splitting hairs” or academic, essentially it is a distinction which is not clear within the literature on strategic entrepreneurship, and arguably one which should be made and clarified as strategic entrepreneurship evolves to become a more prominent and developed area of research. As noted by Sharma and Chrisman (1999) in the context of corporate entrepreneurship research, such distinctions are important as ambiguity, inconsistencies, and a lack of clarity, effectively constrain the development of cohesive, explanatory, and predictive theory. Thus, to promote an enhanced understanding of strategic entrepreneurship for both theory and practice, such distinctions (where appropriate) should be made based on theoretical and practical research findings. Ultimately, these distinctions clarify our existing understanding and guide further research in a direction that will enhance future understanding. Importantly, while findings reveal extensive support for the core elements of strategic entrepreneurship, further investigation also
revealed a number of other insights, such as supporting elements which are conducive to but necessarily essential for strategic entrepreneurship. These findings are considered briefly in the following section.

9.3 SUPPORTING ELEMENTS AND KEY INSIGHTS RELEVANT TO STRATEGIC ENTREPRENEURSHIP

Findings in relation to entrepreneurship and strategic entrepreneurship also reveal a number of other issues for discussion, consideration, and reflection. Such issues include the importance of elements supporting strategic entrepreneurship, the nature of strategic entrepreneurship, the lack of clarity surrounding the term “entrepreneurship”, and the implications for strategic entrepreneurship. These issues are considered under the relevant headings below.

9.3.1 STRATEGIC ENTREPRENEURSHIP’S SUPPORTING ELEMENTS

Based on a review of the findings, there are a number of elements which, while not considered central to strategic entrepreneurship, may be viewed as supportive of this construct. These elements, which have been raised during the discussion section on the core elements, include operational excellence, culture, and cost minimisation. With respect to operational excellence (or establishing a level of expertise within the core business), an important feature of opportunity identification and flexibility in leveraging from core skills and resources was SOEs having a sense of confidence in their core capabilities. Thus, operational excellence provided an important technical and psychological platform for SOEs to explore new opportunities. Further, a SOE’s expertise and capabilities add value through other organisations presenting opportunities to those SOEs, based on an external recognition of the SOE’s abilities.

Another supporting feature noted within several SOEs undertaking strategic entrepreneurship was that of organisational culture. Specifically, culture emerges as a valuable element to support strategic entrepreneurship, where innovation and flexibility (for example) were encouraged and widely accepted as the norm (Lumpkin & Dess, 1996; Miller, 1983). In such cases, SOEs often had a number of potentially entrepreneurial and strategic projects being undertaken or considered as such concepts were openly fostered within that environment. Thus, organisational cultures which are open to new ideas, flexible in approach, and progressive in outlook, will foster an environment conducive to strategic entrepreneurship. In particular, an environment which is open to new ideas and innovation, accepting of experimentation and risk (where it is identified, monitored, and managed), will assist in the creation of strategic entrepreneurship. Perhaps an inevitable question arising from this discussion, then, is whether the culture referred to is
essentially an entrepreneurial one. While an entrepreneurial culture may have benefits for businesses pursuing strategic entrepreneurship, the view taken in this study is that it is not essential, primarily because an open, flexible culture will welcome entrepreneurial ideas, while still focusing on core capabilities. Thus, a priority on flexibility and an outward-looking vision within the organisation is considered particularly valuable and conducive to strategic entrepreneurship. Specifically, an open and inquisitive nature with respect to core skills and resources (i.e. a strategic emphasis or focus) may potentially be more valuable in the context of strategic entrepreneurship than a deliberately entrepreneurial culture.

The third supporting element, cost minimisation, emerged in the context of innovation and flexibility, as SOEs which undertook strategic entrepreneurship noted such activity was not dependent on substantial (if any) investment in research and development. Thus, consistent with Bhide (1994), but contrary to various other studies (Dess et al., 1997; Mintzberg, 1991; Venkataraman & Sarasvathy, 2001) entrepreneurial activity is not dependent on high cost innovations. Further, where an environment of low cost experimentation can be encouraged and regularly undertaken within a business, that environment will be further supportive of strategic entrepreneurship.

Table 9.3 summarises the association between the core elements of strategic entrepreneurship, and each of the supporting elements relevant to strategic entrepreneurship. Based on the associations between the core entrepreneurial and strategic elements (shown in the first column), and the three supporting elements (operational excellence, culture, and cost minimisation) shown in the first row, it becomes clear that while the three supporting elements are not essential for strategic entrepreneurship, certainly they provide substantial assistance in the way a business engages in strategic entrepreneurship through its abilities (operational excellence), outlook (culture), and approach (cost minimisation). Thus, supporting elements may assist in the frequency with which a business undertakes strategic entrepreneurship, and the resulting success (financial or non-financial) realised. The latter of these two issues is considered further in Section 9.4.
Table 9.3 The Association between Core Elements and Supporting Elements of Strategic Entrepreneurship

<table>
<thead>
<tr>
<th>Core elements</th>
<th>Operational excellence</th>
<th>Supporting elements</th>
<th>Cost minimisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity identification</td>
<td>Allows the business to understand which opportunities are viable, and helps establish outside recognition (and for some a reputation) of a business’s strengths, such that opportunities may be identified internally as well as externally and presented to the business (e.g. in the form of a request for services)</td>
<td>Encourages opportunities to be sought and explored throughout the organisation. An increased number of people being alert to opportunity on a regular basis, increases the likelihood and frequency of opportunities being identified. Environment supportive of pursuing opportunities will further reinforce the search for opportunity</td>
<td>Supports and encourages opportunity identification, as pursuit or subsequent examination of opportunities is not a high cost activity, and can be done for multiple projects concurrently</td>
</tr>
<tr>
<td>Innovation</td>
<td>Allows the business to have confidence in its ability to pursue innovations</td>
<td>Encourages all staff to experiment on a regular basis, increase the likelihood and frequency of innovations. Also allows innovations to be considered in a supportive environment</td>
<td>Encourages innovation and experimentation as a regular part of business, given that substantial funding and specific advance funding (e.g. R&amp;D budgetary allocation) is not required</td>
</tr>
<tr>
<td>Acceptance of risk</td>
<td>Minimises risk, such that a business is aware of its strengths</td>
<td>Encourages staff to deliberately undertake activity with an element of risk, and ensures a supportive environment where staff are conscious of the relevant risks and deliberately try to minimise/manage them</td>
<td>Minimises financial risk due to low financial investment in innovative or experimental pursuits</td>
</tr>
<tr>
<td>Vision</td>
<td>Supports a breadth of vision, given that the business has developed strong capabilities with respect to its core skills and resources, providing a sense of confidence to look at expanding the scope of operations</td>
<td>Encourages staff to think beyond the immediate scope of a business’s operations; supports having a breadth of vision as the cultural norm for a business and its staff</td>
<td>Supports a sustainable vision from a financial perspective due to minimal/modest funding requirements</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Enables an understanding of different possibilities within the scope of a business’s core skills and resources</td>
<td>Encourages staff to think laterally, approach concepts and challenges with an open mind, rather than emphasising routine and historical performance and behaviour</td>
<td>Reinforces flexibility in experimenting and pursuing opportunities through minimal/modest funding requirements</td>
</tr>
<tr>
<td>Growth</td>
<td>Provides a strong foundation for growth as a business expands using its core capabilities</td>
<td>Encourages staff to deliberately look for and pursue growth opportunities in a supportive environment</td>
<td>Supports growth of the business through minimal/modest funding requirements, effectively encouraging staff to pursue growth opportunities on a regular basis</td>
</tr>
<tr>
<td>Leveraging from core skills and resources</td>
<td>Provides a sense of confidence (thereby decreasing any liability of newness) where a business extends its operations into new areas, based on its core skills and resources</td>
<td>Encourages staff to look for opportunities by applying a business’s core skills and resources in new contexts</td>
<td>Creates a financially viable and sustainable environment in which to leverage from core skills and resources</td>
</tr>
</tbody>
</table>

9.3.2 The Nature of Strategic Entrepreneurship

As detailed in Chapter 2 (concept 2 in particular), the nature of strategic entrepreneurship may take various forms ranging from incremental to radical, with deliberate to emergent approaches. Based on the findings in Chapter 7 (Section 7.4), and the discussion thus far, variations in the nature of the four activities characteristic of strategic entrepreneurship were noted. Figure 9.3 (drawing from Figure 2.4 in Chapter 2) illustrates these variations in terms of the type of
innovation (ranging from incremental to radical), and strategic approach (ranging from deliberate to emergent).

**Figure 9.3** Nature of Strategic Entrepreneurship

![Diagram showing the nature of strategic entrepreneurship with activities 5*, 10*, 2*, and 7* classified as incremental or radical]

* can be viewed as predominantly incremental, but also radical in part
E.g. Activity 5 was predominantly incremental in developing and farming leased land, but also radical to some extent, in changing the respective SOE’s operations, as well as the perception of others on how farming may be undertaken (e.g. not necessarily a capital intensive activity requiring resources to purchase large areas of land).

Thus, while it is argued that strategic entrepreneurship may be radical in nature (such as the establishment of Kiwibank by NZ Post), of the four strategic entrepreneurship activities in this study, two are considered to be incremental and deliberate; two being incremental and emergent. It should be noted however, that despite distinctions made between terms such as incremental and radical (Ireland et al., 2003), there remains some subjectivity and variations in interpretation, with different perspectives leading perhaps to different assessments. For this reason, Figure 9.3 notes activities which may perhaps be classified as partly incremental and partly radical, and classifies the activities based on their core or dominant attributes. Similarly, variation relevant to the term “entrepreneurship” (and thus strategic entrepreneurship) was also noted as part of this study, and is a point worthy of discussion. This issue is considered in the following section.

**9.3.3 The Lack of Clarity Surrounding Entrepreneurship**

From the findings of this study, it is interesting to note entrepreneurial activity is still an unclear term in the context of commercial business. Thus, despite the efforts of researchers to clarify and define entrepreneurship, variations in findings, definitions, and interpretation have perhaps given businesspeople a greater awareness of entrepreneurship, but also an understanding of the complexities and differences in entrepreneurship’s multiple interpretations and meanings. By extension, then, it seems feasible the concept of strategic entrepreneurship is even less clear and familiar in a business context, and for this reason, the term was deliberately excluded from interview questions.

Thus, the question arises as to when and how businesses should be expressly informed about
strategic entrepreneurship as a concept. Specifically, should practice lead and inform theory, or should theory lead and potentially inform practice? Is it appropriate for strategic entrepreneurship to be introduced as a variation of entrepreneurship; a more structured approach to entrepreneurial activity, based on what is currently understood so that a wider business audience can begin to understand and appreciate the potential application and value of such activity to their own business activities and objectives? Or should further research be undertaken before presenting information on a concept which is essentially still unfolding? Certainly, strategic entrepreneurship requires further research and understanding within the academic community, as studies on this topic remain in the very early stages. Yet, arguably it is also viable for businesses to want to undertake strategic entrepreneurship, and therefore contribute to this process of understanding as we learn from trial and (potentially) error, as reflected in the comments below.

The job of a corporate is to increase the wealth of the shareholders. We are trying to understand [this process] so that we can make sure we replicate it. It's a route; a powerful route for us...to increase the wealth of the shareholders (Senior executive, Activity 7, 2006).

9.3.4 What strategic entrepreneurship is not: Distinguishing strategic entrepreneurship

While further details with respect to strategic entrepreneurship are yet to be uncovered, perhaps some clarity is available by considering what strategic entrepreneurship is not, based on the findings from this study. In particular, strategic entrepreneurship is not considered exclusive, but rather inclusive, available to businesses in general pursuing commercial objectives. Strategic entrepreneurship does not involve abandoning existing skills and resources to pursue random market gaps and opportunities. Nor does it involve investing heavily in research development, or necessarily developing an innovative culture. Rather, it is about fostering innovation through a flexible work environment, and looking for opportunities where existing core skills and resources can be transferred and applied to create new products, services, and markets. It is about thinking and seeing laterally, to enable a further dimension of growth. Thus, strategic entrepreneurship is not so much about renewal (cf. Kantor’s (1983, 1989) view on corporate entrepreneurship), as it is about application and extension of (leveraging from) core capabilities to effect innovative, entrepreneurial activity. This distinction is an important one, highlighted from the findings, and summarised in Table 9.4 below, by considering entrepreneurship in different contexts.

In particular, Table 9.4 distinguishes three discrete forms of entrepreneurial activity, being intrapreneurship, corporate entrepreneurship, and strategic entrepreneurship. Intrapreneurship, for example, involves entrepreneurial activity initiated by one or more individuals within a SBU, but
TABLE 9.4 A COMPARISON OF INTRAPRENEURSHIP, CORPORATE ENTREPRENEURSHIP, AND STRATEGIC ENTREPRENEURSHIP

<table>
<thead>
<tr>
<th>Entrepreneurial activity</th>
<th>Intrapreneurship</th>
<th>Corporate entrepreneurship</th>
<th>Strategic entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of new products, services, and markets</td>
<td>Creation of new products, services, and markets</td>
<td>Creation of new products, processes, services, or markets</td>
<td></td>
</tr>
</tbody>
</table>

Strategic aspect
- Activity initiated within a SBU and not necessarily supported by the overall strategy of the organisation
- Typically bottom-up or emergent
- Organisations which undertake a significant departure from previous strategy (i.e. renewal or rebirth), or activity unrelated to prior strategy
- Businesses which leverage from existing core capabilities (skills and resources)

Context
- Individual(s) within a department, division, SBU
- Large organisations, "giants" (Kanter, 1989), often in turbulent and hostile environments
- All businesses

Key issues
- New/unrelated activity results in a high liability of newness (but is isolated to one SBU and therefore relatively low risk for the organisation as a whole)
- New/unrelated activity and strategy results in a high liability of newness (and therefore relatively high risk)
- Activity which leverages from core skills and resources results in a low liability of newness (and therefore relatively low risk)

Key sources/references
- Pinchot, 1985
- Morris & Kuratko, 2002
- Nilson, Peters, & Hisrich, 1985
- Burgelman, 1983
- Covin & Sievin, 1991
- Guth & Ginsberg, 1990
- Morris & Kuratko, 2002
- Sharma & Chrisman, 1999
- Vesper, 1984; Zahra, 1993, 1995
- Hitt et al., 2001
- Ireland et al., 2001
- Ireland et al., 2003
- Ireland & Webb, 2007
- Ketchen et al., 2007

not necessarily supported by the overall strategy of the organisation, such that it may be emergent in nature (Nielsen, Peters, & Hisrich, 1985; Pinchot, 1985). Corporate entrepreneurship involves renewal and rebuilding; undertaking entrepreneurial change or activity which is distinctly different from the organisation’s previous strategy (Guth & Ginsberg, 1990; Morris & Kuratko, 2002; Sharma & Chrisman, 1999). And strategic entrepreneurship refers to entrepreneurial activity in the context of leveraging from existing core capabilities (skills and resources). Each of these forms of entrepreneurship has been considered separately within the literature, and each involves a distinctly different context with related (context-specific) issues.

While the discussion thus far has explored the “how” of strategic entrepreneurship, consideration of the financial and economic benefits is required to assess the “why”. Such is the focus of the following section.

9.4 Financial and Economic Implications of Strategic Entrepreneurship
As noted in Chapter 2 (Section 2.5), literature on strategic entrepreneurship presents a strong association between strategic entrepreneurship and wealth creation (Hitt et al., 2001; Ireland et al., 2001; Ireland et al., 2003; Ireland & Webb, 2007; Ketchen et al., 2007). Accordingly, the purpose of this section is to evaluate the financial and economic implications of strategic
entrepreneurship in light of the findings from this study. Further, this section considers the non-financial implications of strategic entrepreneurship with reference to the findings presented in Chapter 8. As such, the emphasis in this section is on both testing and building theory. As noted previously, given the small number of cases examined and by definition the even more limited number of cases within each classification, caution must be emphasised when analysing findings and identifying trends based solely on within classification analysis. Notwithstanding this limitation, findings provide a number of insights into the financial and economic benefits of strategic entrepreneurship, as detailed below.

9.4.1 Financial returns from strategic entrepreneurship

The preliminary framework of strategic entrepreneurship presented in Chapter 2 (Section 2.5) is somewhat inconsistent with the literature which associates strategic entrepreneurship with wealth creation, given the framework’s emphasis on the potential for wealth creation (or financial gain) being dependent on continually managing changes in both the internal and external environment. Thus, the importance of managing and responding to ongoing changes is highlighted. This issue, however, is not addressed within strategic entrepreneurship models within the literature. An examination of findings from this study largely supports the preliminary framework, revealing a range of financial outcomes for the activities classified as strategic entrepreneurship, due to a number of factors. Such factors include both contextual variables and management of changes in the internal and external environment, each of which are considered below.

9.4.1.1 Contextual variables

As noted in Chapter 8 (Section 8.2), a number of contextual variables were relevant to the examination of financial returns. Such variables include the extent of the returns realised (profit range), the timeframe (date the activity was launched as commercial), and development stage of the project (preliminary, early, mature, or in decline); each of which were summarised in Chapter 8 (Section 8.2, Table 8.1). Further, the longitudinal perspective of this study emphasises the importance of timeframes to the examination of financial returns, given the changes noted with respect to financial returns between 2005 and 2006, and also that projects in the early stages had often not yet realised returns, but expected to do so in the near future.

I think 2006/2007 is the make or break [period]. We’ve got [two potential customers in particular who are interested]. And I think in the next three or four months, we’ll have a pretty good chance of selling [it] (Senior executive, Activity 2, 2007).

In addition, the nature of the returns (i.e. recurring versus one-off), and the extended financial
implications (additional returns attributable to related projects), also emerged as important aspects, particularly in the context of strategic entrepreneurship. These factors reflect the financial sustainability and financial significance (extended financial implications) of the activities examined, with respect to the organisation as a whole. Hence, a number of factors were identified as both relevant and important when examining financial returns.

With respect to the financial returns from strategic entrepreneurship, such returns were identified for three of the four activities in this category. These returns (where disclosed by SOE executives) were modest (in the range of 0-10 per cent), recurring in nature, and had been realised even in the early development stages. Of particular note, however, is that while financial returns were realised for strategic entrepreneurship, the association between the two concepts is by no means exclusive. Specifically, financial returns were also identified for activity in each of the four categories (entrepreneurial, strategic, strategic entrepreneurship, and neither entrepreneurial nor strategic). Yet interestingly, financial returns with respect to strategic entrepreneurship were recurring in nature (in contrast to financial returns from activity classified as neither entrepreneurial nor strategic). Further, financial returns from strategic entrepreneurship resulted in related spin-off activities generating additional/extended financial returns for two of the four activities in that category (in contrast to financial returns from activity classified as entrepreneurial, strategic, and neither entrepreneurial nor strategic).

As a result of the success of this project, we are starting a new division. So it will spill [over] to other things we think (Senior executive, Activity 5, 2006).

It's really grown into two systems now. So there's two different markets as such (Senior executive, Activity 7, 2007).

While such findings are not necessarily considered to be an essential feature of strategic entrepreneurship, they do highlight the potential for recurring returns, and opportunities for additional returns (not noted in other types of activity examined in this study), reinforcing the potential benefits of strategic entrepreneurship. Thus, findings highlight returns are a function not only of the nature of an activity (i.e. strategic entrepreneurship or otherwise), but also the development stage and maturity of the project. Further, to suggest an association between strategic entrepreneurship and wealth creation without considering these factors seems a somewhat overly-simplistic approach. Importantly, these contextual variables are relevant not only to strategic entrepreneurship, but also to activities in other categories. Similarly, management of change in both the internal and external environment was also relevant to the
financial outcomes of activity in each category, and is considered below.

9.4.1.2 MANAGEMENT OF CHANGES IN THE INTERNAL AND EXTERNAL ENVIRONMENT

Examination of the findings reveals management of changes in both the internal and external environment are also relevant to the financial returns from strategic entrepreneurship, as well as to activities in the other three categories. Specifically, Table 9.5 below presents a summary of the changes noted with respect to activities in each classification, impacting upon the financial position of the projects and the resulting returns realised. While such changes were not systematically identified for all of the activities examined over the relevant two year period, changes which were evident are noted in the table.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Changes</th>
<th>Internal and/or external</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial</td>
<td>3 • difficulty experienced in making progress and managing the commercialisation of the project internally, given it was not directly related to the SOE’s core business and capabilities</td>
<td>I</td>
</tr>
<tr>
<td>Strategic</td>
<td>1 • competitive market forces</td>
<td>E</td>
</tr>
<tr>
<td></td>
<td>4 • changes in the political environment (i.e. environmental policies)</td>
<td>E</td>
</tr>
<tr>
<td></td>
<td>9 • changes in the political environment (i.e. environmental policies which assisted with the cash resources available, but did not impact upon the profitability of the activity)</td>
<td>E</td>
</tr>
<tr>
<td></td>
<td>11 • changes in the organisational culture, staff, branding and profile of the organisation</td>
<td>I, E</td>
</tr>
<tr>
<td>Strategic entrepreneurship</td>
<td>7 • changes both internally (new product developments) and in market forces</td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>10 • changes in market forces</td>
<td>E</td>
</tr>
<tr>
<td>Neither entrepreneurial nor strategic</td>
<td>12 • changes in the political environment, public dissention</td>
<td>E</td>
</tr>
</tbody>
</table>

With respect to strategic entrepreneurship, management of change noted in the internal environment included managing growth, expansion, and the development of new products directly related to the activity under review (e.g. Activity 7). Management of change with respect to the external environment included changes in competition and market forces (e.g. Activity 10 being adopted by various industries and organisations, and also facing competition through other organisations entering the market). Such findings highlight the importance of managing and responding to change, and its impact on financial returns. By way of example, in response to increased competition, promotional costs incurred for Activity 10 were considered to be a necessary strategic response, but were also noted as “effectively eat[ing] into those profit margins” (Senior executive, Activity 10, 2007).

Arguably, changes both internal and external, can result in financial opportunities and challenges
(gains and losses), for activity in all four categories. By way of example, such changes were also noted as relevant to entrepreneurial, strategic, and neither entrepreneurial nor strategic activity, as each SOE was faced with various organisational, political, and competitive changes. Thus, changes in the internal and external environment are not unique to strategic entrepreneurship, but rather apply to business activity in general (e.g. changes in the organisation and competitive environment), and SOEs in particular (e.g. changes in the political environment), consistent with literature on entrepreneurship (Eisenhardt et al., 2000), strategy (Bettis & Hitt, 2000), and NPM (Mulgan, 2000). Such findings do, however, highlight the importance of managing internal and external changes to preserve and enhance the financial returns realised, particularly in the context of strategic entrepreneurship, where potentially more is at stake financially (i.e. recurring and additional returns). Further, findings reveal the vulnerability and sensitivity of financial returns from these activities.

9.4.1.3 **Nature of Strategic Entrepreneurship and Financial Returns**

A further point to consider in the context of strategic entrepreneurship’s financial returns is the association (if any) between the nature of strategic entrepreneurship activity (e.g. incremental versus radical; deliberate versus emergent) and the financial returns realised. As noted in Section 9.3.2, the four activities characteristic of strategic entrepreneurship were classified as predominantly incremental (but also partly radical from different perspectives), as well as both deliberate and emergent. Examination of the nature of these activities, however, in terms of the financial returns realised, does not reveal any clear association. In particular, Table 9.6 (drawing on the information presented in Figure 9.3 and discussion in Section 9.4.1.1) shows the nature of each of the strategic entrepreneurship activities, together with the financial returns realised. While there is no basis to compare returns from strategic entrepreneurship which involves incremental versus radical innovation, a comparison of returns from strategic entrepreneurship involving both deliberate and emergent approaches shows clear similarities. Thus, both approaches seem valuable in achieving the desired financial outcomes.

<table>
<thead>
<tr>
<th>SE Activity</th>
<th>Incremental</th>
<th>Radical</th>
<th>Deliberate</th>
<th>Emergent</th>
<th>Returns / additional returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>✔️</td>
<td></td>
<td>✔️</td>
<td></td>
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<td></td>
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<td></td>
<td>R</td>
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</tbody>
</table>

* predominantly incremental, but also partly radical in nature
R returns are recurring in nature
Although researchers have argued that innovation within strategic entrepreneurship must be both incremental and radical (Ireland et al., 2003), and degree (rather than frequency of entrepreneurship) is the more important determinant of financial returns (Morris & Kuratko, 2002); findings from this study do not lend support or extend to these areas. First, each of the four strategic entrepreneurship activities examined were predominantly incremental in nature, indicating incremental innovation is a viable pathway for strategic entrepreneurship. Second, as one activity per SOE was examined, frequency was not expressly evaluated. What can be established from this study however, is the importance of recurring and additional returns from strategic entrepreneurship activity, both deliberate and emergent, as well as incremental innovation. Thus, radical innovation is not essential. Further, even where activities begin as incremental (e.g. Activity 5, 7) and emergent (e.g. Activity 7), they may subsequently develop into larger, more innovative (potentially frame-breaking) projects which change the way businesses or industries operate. Thus, the nature of strategic entrepreneurship activity is not bound by its roots, and can change from incremental to radical, emergent to deliberate. Such developments reinforce the value of the associated financial returns in both the initial and later (or spin-off) stages of strategic entrepreneurship activity.

A final point worthy of discussion in this section before reviewing the economic returns associated with strategic entrepreneurship is the complexity of determining financial gain, given variations in accounting policies and methodologies common to accounting, finance, and economics.

It’s not profitable if you do a fully allocated cost model, but nobody ever does that (Senior executive, Activity 7, 2006).

Thus, the variation and subjectivity, even in a structured discipline such as accounting is clearly relevant to the findings from this study, and should not be overlooked.

9.4.2 Economic returns from strategic entrepreneurship
As detailed in Chapter 8, a strong association between economic gain and entrepreneurial activity (as well as strategic entrepreneurship), has also been presented in the literature (Davidsson, 2006; Reynolds et al., 2004). Yet, empirical evidence on this issue is conflicting (Dess & Lumpkin, 1996; Storey, 1994; 2006). Findings from this study with respect to economic returns from strategic entrepreneurship provide some insight on this issue, but are limited given the early development stage of the activities examined. Specifically, it was difficult to establish that any of the four activities classified as strategic entrepreneurship had resulted in economic returns in the form of dividend payments. However, economic returns were noted in other forms such as
increased productivity, export revenue, and engagement of local (New Zealand) organisations. Further, a number of other economic returns were expected in the future (e.g. increased employment).

With respect to activity in other categories (i.e. entrepreneurial, strategic, and neither entrepreneurial nor strategic), a number of similar economic returns were also noted (e.g. working with local organisations, export revenue), albeit to a lesser extent. However, the issue of one-off financial returns from neither entrepreneurial nor strategic activity suggests any related economic returns (if realised) would also be short-lived. This limitation is particularly important given the nature and role of SOEs in general, and particularly in New Zealand. From a general viewpoint, SOEs are often considered a valuable sector of the economy, providing an element of security with respect to the supply of essential services, as well as the potential for profit (Osborne & Gaebler, 1992). From a New Zealand viewpoint, the Government’s policy announcement in 2006 in relation to SOEs, referring specifically to “economic transformation” and the involvement of local (New Zealand) organisations (Mallard, 2006b), indicates the increased expectations on the SOE sector to help boost the economy of the nation as a whole. Thus, for governments employing a SOE sector/framework for the purposes of economic gain, findings from this study suggest strategic entrepreneurship is a particularly viable approach (with recurring and extended returns), whereas activity classified as neither entrepreneurial nor strategic appears to be the least viable approach. While these findings are perhaps not surprising, they reinforce the notion that strategic entrepreneurship is a valuable tool for organisations pursuing financial returns with minimal or manageable risk. Further, strategic entrepreneurship seems particularly well-suited to a SOE environment, where financial returns are expected, but the preference or tolerance for risk (financial risk in particular), is typically low (Mulgan, 1997b).

On reflection, the difficulty experienced in identifying economic returns suggests the need for a longer timeframe of study, or deliberately selecting projects in the mature or decline stage of development; as has been noted in studies on privatisation (Villalonga, 2000). Again, this applies not only to strategic entrepreneurship, but activity across all four categories to facilitate appropriate comparison. However, the downside to this approach is studying historical rather than contemporary activity, with potentially less currency and relevance (Davidsson, 2006). Further, Villalonga (2000) highlights the complexities of examining activities with different contextual factors (e.g. differences in the economic and political environment for activity occurring at different times) due to comparability limitations. This approach (examining and comparing
activities from distinctly different time periods) is also inconsistent with the emphasis on learning from current, unfolding activity in the sphere of entrepreneurship – a theme which has consistently been emphasised within entrepreneurship literature (Davidsson, 2006; Low & MacMillan, 1988; Shane, 2003; Venkataraman & Sarasvathy, 2001).

9.4.3 Non-financial Returns of Strategic Entrepreneurship

As noted in Chapter 8, an examination of non-financial returns was also undertaken to provide a broader context of analysis. Findings with respect to strategic entrepreneurship revealed a range of non-financial returns including enhanced reputation, confidence to compete in international markets, and industry and public recognition for successful and innovative activity thereby enhancing a SOE’s profile. Similarly, growth, competitive advantage, organisational learning and development, new revenue streams, and new business divisions (e.g. Activities 5 and 10), also provided a sense of security for several SOEs undertaking strategic entrepreneurship.

While a range of non-financial returns was also identified in activities in the other three categories (entrepreneurial, strategic, and neither entrepreneurial nor strategic), two distinctions can be made. First, very limited non-financial benefits were identified with respect to activity classified as neither entrepreneurial nor strategic.

The benefits side is purely financial savings I think (Senior executive, Activity 12, 2007).

Second, confidence and competitive advantage are prominent and recurring themes within strategic entrepreneurship compared to activity in the other three categories. In particular, Activity 3 (being entrepreneurial) and 12 (being neither entrepreneurial nor strategic) created a sense of internal awareness that the respective SOEs were not comfortably able or confident to pursue such activity in the future, given the operational difficulties and political challenges they experienced in relation to those projects. Similarly, findings indicate activity classified as strategic was not necessarily a source of confidence for the respective SOEs, given such activity was already central to the SOEs’ core business activities. Thus, confidence found from strategic entrepreneurship may be directly attributable to expanding the scope of a SOE’s business operations by transferring and applying core capabilities in new areas. Arguably, such confidence is valuable to any organisation pursuing new growth opportunities, and particularly valuable to SOEs given their historical context (public sector organisations typically associated with non-commercial activity), and contemporary mandate (to be competitive, commercial organisations, with expectations of profit, expansion, and further growth). Two other important
issues which emerged from the findings on non-financial returns were competitive advantage, and non-financial costs specific to a SOE context. These issues are considered in the following sections.

9.4.3.1 Competitive advantage

While competitive advantage may be considered in financial terms (Dierickx & Cool, 1989) as a reflection, for example, of increased market share, such calculations are somewhat subjective given they occur in the context of a dynamic business and environment, where numerous changes take place concurrently. Accordingly, the notion of competitive advantage is referred to in a non-financial context in this study; however its financial implications are acknowledged. Findings from this study suggest strategic entrepreneurship is a particularly viable pathway to achieve competitive advantage, consistent with established literature (Hitt et al., 2001; Ireland et al., 2001; Ireland et al., 2003; Ireland & Webb, 2007; Ketchen et al., 2007). In particular, specific sources of competitive advantage directly related to SOEs’ strategic entrepreneurship activity included innovation, leveraging from expertise within a SOE’s core capabilities, and cost minimisation (i.e. cost refinement within the organisation). Thus, in the context of businesses in general, and SOEs in particular, strategic entrepreneurship seems a valuable mechanism for providing benefits beyond those purely financial in nature (e.g. reputation, recognition, competitive advantage). Arguably, such benefits are valuable to any commercial organisation, but also particularly useful in a SOE context, given stakeholders’ interests and expectations extending beyond financial performance. Again, it should be noted that activity classified as strategic entrepreneurship was not the only type of activity which gave rise to competitive advantage. However, competitive advantage was a recurring feature within activity classified as strategic entrepreneurship (in contrast to entrepreneurial and neither entrepreneurial nor strategic activity).

As noted previously, however (Section 8.4), with respect to the non-financial implications of the activities under review, benefits as well as costs (e.g. adverse environmental consequences, questionable ethical and moral conduct) were identified for activities in various categories. While a detailed comparison of the non-financial benefits and costs was noted as being outside the scope of this study, a brief comparison suggests the benefits (both financial and non-financial) associated with strategic entrepreneurship activity outweighed the costs. Thus, it appears the overall returns are largely positive in the context of strategic entrepreneurship. Further, this outcome is noticeably different to the assessment of overall returns from activity classified as
neither entrepreneurial nor strategic, where it was considered the costs potentially outweighed the respective benefits (refer to Section 7.5).

9.4.3.2 SOE STATUS AND NON-FINANCIAL COSTS
With respect to SOEs’ public sector status, the issue of non-financial costs is somewhat contentious, given SOEs’ financial and social objectives.

[The] schizophrenic role of being on the one hand socially and environmentally responsible, and on the other hand being commercially savvy (Senior executive, SOE E, 2007).

On one hand we’re trying to act responsibly and socially and compassionately with customers who are having difficulties paying their bill; on the other hand we’ve got a business to run and we’ve got to make a profit because the law requires us to make a profit, because we’re a SOE (Senior executive, SOE D, 2007).

Such findings highlight the commercial reality of strategic entrepreneurship in these organisations, such that it has associated costs and benefits, as well as the difficulties faced by SOEs in balancing objectives, reflected in the comments below (and considered further in Chapter 10).

If [it] weren’t for [us] doing this project, I think someone else would have done it, but we happen to be a SOE (Senior executive, SOE E, 2007).

Hence, strategic entrepreneurship as a commercially-orientated activity is not without costs, and for SOEs in particular, it is not without controversy. On balance however, strategic entrepreneurship is consistent with SOEs’ commercial focus, and represents innovative, strategic activity with the potential for a range of benefits, both financial and non-financial.

9.4.4 Refining the construct of strategic entrepreneurship
Based on the discussion in this chapter, there is substantial support for the preliminary conceptual framework of strategic entrepreneurship presented in Chapter 2. However, findings from this study and the discussion from this chapter also reveal further insights providing the basis for a more refined understanding of strategic entrepreneurship. Key concepts within the revised conceptual framework of strategic entrepreneurship are presented in Figure 9.4 below.

The revised framework, while deliberately broad, is largely consistent with the concepts presented in Chapter 2. This framework provides valuable early guidance and structure on an emerging and increasingly prominent topic, and represents a step towards a theory of strategic entrepreneurship. Further, as a broad framework, it provides the advantage of guiding further
research without inadvertently excluding as yet unidentified issues and problems (Dubin, 1978; Sharma & Chrisman, 1999). Thus, it represents a resilient theoretical foundation, accommodating of emergent theory and new knowledge, and does not delineate issues resulting in the need for significant revision.

**Figure 9.4 Strategic Entrepreneurship: A Revised Conceptual Framework**

<table>
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<tr>
<th>Number</th>
<th>Description</th>
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<tbody>
<tr>
<td>1.</td>
<td>Strategic entrepreneurship refers to entrepreneurial activity applied in a strategic context.</td>
</tr>
<tr>
<td>2.</td>
<td>Entrepreneurial activity is represented by the combination of opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth, to create new products, services, or markets. These elements represent the entrepreneurial inputs into (foundations of) the strategic entrepreneurship process.</td>
</tr>
<tr>
<td>3.</td>
<td>The strategic context involves leveraging from a business’s core skills and resources such that knowledge is transferred and applied to create new products, services, or markets. As such, the creation of new products, services, or markets is supported by a business’s existing knowledge and skills, thereby decreasing the liability of newness. This context of leveraging from a business’s core skills and resources represents the foundation for strategic entrepreneurship.</td>
</tr>
<tr>
<td>4.</td>
<td>Elements supportive of, but not essential for strategic entrepreneurship include operational excellence (or a level of expertise with respect to the core business activity), an organisational culture which is open, flexible, and progressive, and cost minimisation.</td>
</tr>
<tr>
<td>5.</td>
<td>The nature of strategic entrepreneurship may take various forms, ranging from incremental to radical innovations, with deliberate to emergent approaches.</td>
</tr>
<tr>
<td>6.</td>
<td>Strategic entrepreneurship offers the potential for financial and non-financial benefit, subject to managing changes in both the internal and external environment.</td>
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</table>

As noted by Sharma and Chrisman (1999), new frameworks should consider prior research in an attempt to reconcile theory development and avoid unexplained inconsistencies and confusion. Hence, returning to prior research specifically on strategic entrepreneurship as a basis for comparison, findings from this study suggest strategic entrepreneurship is not dependent on internationalisation (Feeser & Willard, 1990), nor alliances or partnerships (Hitt et al., 2001; Ireland et al., 2001), but rather looking for commercial opportunities to expand (in terms of new products, services, or markets), and working with customers to ensure outputs are tailored to meet specific needs. It is also about having developed a level of expertise with respect to a business’s core skills and resources, so that opportunities for entrepreneurial activity (identified either by those inside or outside the organisation) can be explored with a level of confidence and familiarity, so that the business can successfully undertake such activity. Further, given the context of this study, it may be argued that strategic entrepreneurship is not inconsistent with a public sector context, and is potentially relevant to both the public and private sector, where a commercial focus exists. Specifically, it appears that some SOEs in the New Zealand context have been recognised as highly competent and at times entrepreneurial, a recognition (and for some a reputation) which has served them well. This concept is considered further in the...
following chapter.

9.4.5 Quantifying returns

A final point worthy of discussion in this section is the complexities and irregularities of quantifying returns (as noted in Chapter 8, Section 8.5). Thus, while a systematic approach has been undertaken, different perspectives and views within accounting, finance, and economics promote different methods of analysis. Hence, while the findings from this study (based on accounting data) are considered informative and insightful, they are not presented as an ideal nor universal approach from a methodological viewpoint.

9.5 Summary

This chapter has discussed the insights gained from this study with respect to strategic entrepreneurship and its financial benefits, considering both findings from this study together with prior research. Further, a revised conceptual framework provided a more nuanced understanding of these topics. Also of significance, however, is the public sector context of this study. Accordingly, the following chapter discusses insights gained in this context, re-examining SOEs, NPM, and NPE.
CHAPTER 10
DISCUSSION: SOES, NPM, AND NPE

10.1 INTRODUCTION
The public sector context of this study provides a number of interesting and important insights with respect to NPM in general, and NPE in particular. As noted previously, NPM gained prominence in both theory and practice during the 1980s, referring to a more commercial and innovative approach to operations conducted by the public sector. In contrast, NPE has emerged as a new concept from this study, and is perhaps a natural evolution from NPM. Thus, as public sector organisations develop a level of expertise and familiarity with respect to commercialisation and innovation within the scope of their core business, their operations may take an increasing focus (either deliberate or emergent) on entrepreneurial activity. These insights and issues are considered in this chapter. Specifically, Section 10.2 reviews the support for NPM in practice, from a regulatory, operational, and financial perspective. Section 10.3 considers issues regarding NPM in practice. Section 10.4 reviews the support for NPE in practice, and Section 10.5 summarises the issues discussed in this chapter.

10.2 SUPPORT FOR NPM IN PRACTICE
Findings from this study reveal New Zealand’s SOE reforms are working effectively (i.e. as intended). Features of NPM such as separation of management and state, freedom of commercial choice, responsibility and accountability for commercial results, efficient and competitive operations, financial independence, and payment of regular dividends, clearly exist in practice within New Zealand’s SOE framework. Further, the reforms implemented in New Zealand continue to be viewed as “not only seminal but also iconic” (Rainnie & Fairbrother, 2002, p. 3), with tours of New Zealand and its reform system organised by the World Bank Learning Leadership Centre for government officials, journalists, politicians, and World Bank staff from various countries and continents (Kelsey, 1999).

Interestingly, while New Zealand and the UK continue to be viewed as leaders of NPM reform, their approaches have been markedly different. The UK’s promotion of wide-spread privatisation, to some extent contrasts New Zealand’s dual approach of privatisation and corporatisation; an approach which has subsequently been promoted by the World Bank (Shirley, 1999). However, researchers and commentators have noted that the administrative changes in both countries were implemented with relative ease (Pollitt, 2002), in contrast to various other countries.
European nations such as France, the Netherlands, Germany, and Sweden, have debated, hesitated, or adopted only selective features of NPM (e.g. modernisation and a deliberate customer focus), rather than comprehensively embracing the full scope and principles of NPM (Pollitt & Bouckaert, 2000). Similarly, the United States and Canada have deliberately chosen to employ only specific NPM techniques such as an emphasis on quality service and performance measurement (Borins, 2002). Australia is considered to have taken a rather comprehensive approach to NPM (Hood, 1991), but generally not to the same extent as in New Zealand and the UK. Further, the success of the SOE reforms in New Zealand contrasts the challenges and pitfalls experienced by countries in other regions such as Eastern Europe, South America, and Africa. Specifically, the absence of solid regulatory frameworks to support effective and equitable privatisation and corporatisation programmes has resulted in a lack of due process, political integrity, and commercial focus, impeding reforms in countries such as Russia, Chile, Egypt, India, and Ghana (Polidano, 1999; Shirley, 1999; Zahra & Hansen, 2000).

Despite the lack of empirical research on the economic implications of NPM reforms, as well as the difficulties and methodological limitations of research which has been conducted, the economic performance of both New Zealand and the UK has improved since the implementation of the reforms (Pollitt, 2002). Thus, two issues arise. First, the potential for financial and economic gain from NPM. And second, the increasing acceptance of NPM as a concept with various interpretations and applications, given the very different approaches taken by New Zealand and the UK, for example.

Of the economic indicators referred to in Chapter 4 (GDP per capita, unemployment, government expenditure, and net debt), a comparison between these figures before and after the impact of the SOE reforms, shows clear differences and improvements with respect to New Zealand. Specifically, Table 10.1 presents economic indicators in these four select areas pre 2000 and post 2000. While the reforms were officially implemented in 1986, a cut-off of 2000 was chosen on the basis that the last of the major reorganisations to the SOE sector (involving New Zealand’s electricity industry, and resulting in the creation of five SOEs) was undertaken in 1999. A comparison of the four indicators for the relevant periods shows clear changes, with significant improvement in each area.

Yet while clear differences are evident in the table, it is important to note these figures are essentially a reflection of numerous contextual variables (political, economic, and other), and thus
cannot be viewed in isolation. By way of example, proceeds from New Zealand’s privatisation programme provided substantial funds to repay and effectively decrease the Government’s net debt. Hence, this reduction cannot be attributed specifically to the SOE sector.

**Table 10.1 Economic Indicators before and after the Impact of New Zealand’s SOE Reforms**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Pre SOE reforms</th>
<th>Post SOE reforms</th>
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<tr>
<td>GDP per capita</td>
<td>1982: lowest ranking country based on per capita GDP of developed nations</td>
<td>2005: ranked 20th out of 30 countries in the OECD</td>
</tr>
<tr>
<td>Unemployment</td>
<td>early 1990s: unemployment reached 10%</td>
<td>2004: 2nd lowest among the 27 OECD countries, at 3.9%</td>
</tr>
<tr>
<td>Government expenditure</td>
<td>mid 1990s: government expenditure represented more than 40% of GDP</td>
<td>2004: core government expenditure represented 29% of GDP</td>
</tr>
<tr>
<td>Net debt</td>
<td>1993: New Zealand’s net debt was 49% of GDP</td>
<td>2006: net debt of 4.9% of GDP</td>
</tr>
</tbody>
</table>

**Notes**
1. Numbers in the “Post SOE reforms” column are based on information from the New Zealand Government 2007 Financial Statements.
2. Supporting figures and calculations are shown in Appendix E

As highlighted by Pollitt (2002), even the most sophisticated evaluations cannot reliably isolate variables or determine costs, savings, or effects, attributable to specific public sector reforms. Further, these indicators are reflections of specific points in time, but not unequivocally a reflection of periods where the effects of NPM policies were either completely absent or absolutely complete, as these policies (and their effects) remain ongoing, dynamic, and subject to amendment and revision. Thus, interpretive pitfalls in relation to any correlations drawn suggests further analysis of this kind is not appropriate or warranted in the context of this study. This limitation is particularly important, given that if any correlations were identified, the direction of causation would be both unclear and unsubstantiated (Pollitt, 2002). On this basis, perhaps, studies often turn to case-based evidence of individual public sector organisations, looking for examples or evidence of decreases in costs, reductions in staff, improved processes, enhanced efficiency, and improved service delivery. Notably, case-based evidence from this study reveals numerous examples in each of these areas based on an examination of New Zealand’s SOEs (see Appendix B). Accordingly, to consider the issues both characteristic of and emergent from New Zealand’s SOE reforms, the regulatory, operational, and financial perspectives of New Zealand’s SOE sector in practice are detailed below.

**10.2.1 SOEs’ Regulatory Environment**

SOEs are essentially operating and competing in deregulated markets. SOE revenue from services to Government is minimal, and such transactions provide an element of security regarding the supply of essential (and other) services, with a sense of reliability in a commercial
and competitive context. While exceptions were noted, they remain irregular and isolated cases. Freedom of commercial choice and a high awareness of responsibility for commercial results were also evident.

If [a project's] a success you'll have plenty of politicians queuing up to say how well you’ve done, but if it's a failure you'll get kicked (Senior executive, SOE D, 2006).

Yet, exceptions in this area included the requirement on SOEs to return excess cash to Government in the form of dividends, and the expectation on SOEs to balance debt and equity. As deliberate features of the reforms, these issues give rise to regular negotiation and contention, suggesting there is limited freedom for SOEs in specific situations.

I know what I would do if it was my money… (Senior executive, SOE G, 2007).

However, as deliberate features, these aspects of the New Zealand regulatory framework raise the question of whether they detract from or support NPM, representing a downfall or effective design. Certainly they are a source of healthy debate, and reflect the expectations of discerning shareholders with a commercial focus. Thus, provided these issues remain open to debate (rather than mandate), and are driven by a commercial (rather than political) focus, they may have a positive influence.

A general consensus from executives that SOEs operate similar to private sector organisations was noted. However, issues and distinctions were identified with respect to occasionally balancing operations (e.g. diversification) and commercial decisions with non-commercial factors “in the wider interest of the country” (Senior executive, SOE L, 2006).

We have to keep our eye on the bigger picture, but essentially we operate in a commercial sense (Senior executive, SOE D, 2006).

Challenges were also noted regarding public expectations and lack of regulatory guidance, referring to the expectation that SOEs are socially responsible, “although there’s no real definition of what that’s supposed to mean” (Senior executive, SOE L, 2006). References were also made to “up-skilling the officials who critique us” (Senior executive, SOE E, 2006), due to lack of industry knowledge by political appointments, and changes in political appointments over time. Thus, while the reforms are considered to be working effectively, certainly they are not without issue or tensions. In particular, areas requiring further attention by Government include enhanced education programs for incoming ministers and other Government officials, and additional detail surrounding social responsibilities for SOEs.
10.2.2 SOEs’ OPERATING AND FINANCIAL PERFORMANCE

As noted in Chapter 6 (Section 6.4.2), SOEs have largely developed as commercially successful organisations. Further, findings show consistently improving financial returns over time, as SOEs mature, develop their core business markets, and look at related opportunities for expansion. Certainly there are incidences where SOEs have made mistakes, and at times shown signs of inexperience or questionable judgment (refer to Appendix B). Essentially, however, the sector as a whole has shown that SOEs have learnt from experience, and such errors seem largely historical and isolated incidents, rather than contemporary and recurring.

With respect to NPM, findings support the view that NPM is more than just rhetoric (Lapsley, 1999), and that profits are indeed possible in the context of SOEs. The sector as a whole is performing well, with solid returns (e.g. average ROE of 9 per cent for the five years from 2002 to 2006). Further, with respect to individual SOEs, some have achieved very strong financial returns, and established themselves as leaders in international markets (for example MetService’s average ROE of 39 per cent for the five years from 2001 to 2005; Airways being awarded the best air navigation services provider in the world in 2003 and again in 2008) (Airways, 2008).

From an economic viewpoint, returns from the SOE sector as a whole have provided the New Zealand Government with steady and growing dividends and tax receipts (averaging approximately $552 million per annum from 2002 to 2006). Further, on the whole, SOEs represent a reliable and secure supply of essential services, many of which have been delivered at consistently decreasing costs.

In real terms the prices have gone down. And we also have, since the mid-nineties, what they call a partnership plan, so if we have a profit over a certain amount…we share the profits with the [customers in our core business] (Senior executive, SOE B, 2006).

The cost of [services] between ’98 and 2006 or even earlier than that are close to half [what they were previously]. So there are significant benefits to [customers] in terms of the deregulation of the market, the introduction of competitors and choice. So yes, aside from just looking at the increased returns back to Government, there’s also a significant benefit to the market (Senior executive, SOE J, 2006).

While the percentage contribution of dividends and taxes paid to the Government by the SOE sector in terms of total Government revenue is modest ($552 million representing slightly less than 1 per cent of average Government revenue per annum from 2002 to 2006), it is important to
note that the overall contribution is positive. Thus, SOEs are largely operating independently and returning surplus funds to Government, rather than representing an ongoing drain on Government funds. This outcome is a significant improvement on New Zealand’s position in the mid 1980s when substantial government funding was allocated to government departments each year (resulting in Government expenditure being a high proportion of GDP). Further, annual cash returns in the range of $552 million represent funds which the Government is not forced to find elsewhere, such as through increased taxes or overseas borrowings (Edlin, 2008).

With respect to revenue from the SOE sector in terms of total Government revenue, the percentage contribution is significantly higher (consistently in the range of 10 per cent per annum from 2002 to 2006). Further, profits from the SOE sector in terms of total Government profit (operating balance) are also substantial averaging 12 per cent per annum for the same period, indicating the importance of the sector as a whole. Yet, while the SOE sector’s contribution to the economy is clear, its profits are solid (average ROE of 9 per cent per annum from 2002 to 2006) but not excessive. Such findings may perhaps be viewed as appropriate given the role of SOEs (traditionally providing core services to the New Zealand public). Specifically, high profits from this sector, particularly where services are primarily provided to domestic customers, would likely be cause for both concern and controversy.

While the factors underlying SOE profits are many and varied, arguably one contributing factor is increased efficiencies being passed on to consumers through decreased costs. Also of importance, however, is the increased revenue and profits from SOEs which have expanded the scope of operations beyond their traditional core business, and are generating additional revenue streams and profits from new products, services, and (often overseas) markets. Hence, as SOEs continue to grow beyond their traditional markets and new business activities become an increasingly larger contribution to SOEs’ overall operations, it is likely higher profits will be both realised and welcomed (e.g. Meridian’s $600 million profit from the sale of its Australian investment).

Thus, insight has been gained into how effective NPM operates in practice, and an appreciation of the foundations for this success (e.g. market deregulation, profit-making requirements, regular and open communication). Within New Zealand’s SOE sector there are clear examples of both operational and financial success. Yet findings also reveal various issues and anomalies,
indicating the need for reflection and the opportunity for further insight. These issues are considered in the next section.

10.3 ISSUES REGARDING NPM IN PRACTICE
While a review of the results of New Zealand's SOE reforms suggests they are working effectively (i.e. as intended), various issues and exceptions were noted. In addition to isolated cases where SOEs were not operating as financially independent, tensions were also noted regarding the operation of the reforms in practice (e.g. separation of management and state), governance and accountability, public identity, profile and ownership, risks, government announcements, and policy changes. These and other issues are considered under the relevant headings below.

10.3.1 PERFORMANCE FAILURES AND CHALLENGES
As noted previously (Section 4.4.1, Section 6.3.4), not all SOEs have established successful, commercial, and financially independent operations (e.g. former SOE Terralink being placed into receivership in the late 1990s). Overall, however, it seems the reference to New Zealand's SOE sector as a comprehensive (Bale & Dale, 1998), systematic (Polidano, 1999) example of NPM is justified. Such findings highlight two key issues. First, the New Zealand Government has on occasion, chosen to preserve the NPM model rather than rescue struggling SOEs. And second, NPM is not a "management for all seasons" (Hood, 1991, p. 3), economies, or organisations. Specifically, countries without clear and reliable regulatory frameworks such as those in New Zealand have been cautioned against the adoption of similar reforms (Schick, 1998). Further, some businesses and industries clearly struggle to operate commercially (e.g. rail), which indicates this approach to public sector management is not without limitations. Thus, while efficient, commercial operations are encouraged under NPM, they cannot be ensured.

The notion of SOEs which are unable to operate as commercial and financially independent organisations, raises the issue within public sector management and policy of how best to structure and manage such industries or organisations. This issue is particularly relevant to the rail industry, for example, where governments in various countries have experimented with different approaches which encourage commercial operations (Dodgson, 1994; Hughes, 1997), but acknowledge the difficulties, and often the need for financial assistance from Government in some form. Re-organisation of British Rail, for example encouraged competition through privatisation to over 30 different rail companies in order to deliberately avoid a single monopoly provider. However, a number of interesting outcomes emerged from the re-organisation. These
outcomes included the acknowledgement that economies of scale were lost through partial sales to multiple service providers. Further, while the purpose of the re-organisation was for increased efficiency, it was later noted competition rather than private ownership may have been the more important variable to achieve this (Dodgson, 1994). This view is to some extent supported through British Rail subsequently being able to bid for competitive contracts against private sector organisations. And while some services were confirmed as loss-making under both public and private sector management (e.g. in regional areas) it was acknowledged it would be politically unacceptable to cancel those services. Thus, it was considered necessary for the Government to continue providing financial support (subsidies) in these cases. The related issue of legal status for public sector organisations struggling to operate on an independent and profitable basis is considered further in the next section.

10.3.2 SOE STATUS

The struggle for financial independence faced by some SOEs raise the question of whether SOEs which cannot operate independently are misplaced in the SOE sector, and would be better classified elsewhere (e.g. crown entity where the primary focus is not commercial) within New Zealand’s public sector. While such mechanisms are available within the structure of New Zealand’s public sector, SOE executives contemplating this alternative expressed a clear preference to maintain their SOE status, primarily due to the commercial freedom afforded to SOEs.

A slightly interesting question to ask. I think if we swoop down to the sort of zero dividend level, then that might precipitate somebody saying ‘well actually are they a [commercial] company at all?’ (Senior executive, SOE B, 2007).

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We’re very happy to be a SOE. With being a crown entity, the Ministries start having a much stronger monitoring role over performance. [Being a SOE gives you more flexibility in your operations] and reflects the reality that we are actually sort of a semi-commercial enterprise (Senior executive, NZ Railways, 2006).

While a detailed comparison of the two classifications (SOEs versus crown entities) was not within the scope of this study, certainly a review of the 12 SOEs participating in this study highlights a strong awareness of the need for efficient and commercial operations within the SOE sector. Thus, if the effect of SOE status is to encourage commercial operations (even where profits are not achieved), arguably the outcome is beneficial, irrespective of the financial results being less than ideal. This is particularly so if being brought back into the “folds of government”
results in lower productivity, less effective operations, and modified expectations and behaviour (consciously or otherwise) from within the organisation, as indicated by various SOE executives.

Having a profit motive helps drive efficiency and make sure that you have an efficient business. We’re not paying dividends for the next five years so there’s no loss of dividend [revenue by designating us as some other form of government organisation]. And to go to the full extent of making us a government department just makes us open to too much political interference. As a government department, it’s a three year political cycle and you’re going to be subject to change. We’re trying to do a [long-term] plan… It probably attracts a different sort of management and staff as well (Senior executive, SOE L, 2006).

Further, given SOEs which are not financially independent are clearly the exception rather than the norm, the inclusion of such organisations in New Zealand’s SOE sector does not seem to have adversely affected the attitude and performance of the sector as a whole.

Arguably, the alternative is to introduce another organisational level similar to crown entities within the public sector, which are made aware of the commercial expectations placed upon them, but also have an acceptance and understanding that profits and financial independence may not be possible. Essentially, however, given the strong sense of commercial awareness developed within the SOE sector, and the designation of organisations as such due to their principal trading function, there seems to be clear benefits and little downside to immersing struggling SOEs in this environment, and giving assistance on an “exceptions” basis, provided such cases remain an exception.

10.3.3 PRIVATISATION VERSUS CORPORATISATION
A review of this study’s findings in the context of the privatisation versus corporatisation debate both confirms and highlights privatisation is not without risk (financial and other), and can be a costly exercise. Thus, findings reinforce the notion privatisation is an option rather than an all-encompassing solution (Easton, 1999). As noted previously (Section 4.5.2), costs identified within New Zealand with respect to privatisation include significant financial rescue packages given to large New Zealand privatised organisations (e.g. Air New Zealand, Bank of New Zealand), as well as the repurchase of NZ Railways on the basis that it was not preserved or maintained under private sector ownership.

I guess the private sector doesn’t have a long-term view of profit (Senior executive, NZ Railways, 2006).
Further, while these cases represent New Zealand’s experience with privatisation, they are not uncommon elsewhere (Roland, 2008). Britain, France, and various other countries both in and out of Europe have each experimented and struggled with structuring ownership and financial assistance in the rail industry to make it semi-commercial (Hughes, 1997). Similarly, challenges in privatising other services such as water supply and health have been experienced in Europe, South America, and Africa (Khaleghian & Das Gupta, 2005; Stiglitz, 2008). More recently, corporate collapses during the past 12 months in key industries such as banking, finance, insurance, and manufacturing, as many countries face challenging economic times, have forced governments around the world to rethink the public versus private sector divide. In particular, governments in some of the world’s largest countries and economies are considering financial assistance and/or nationalisation of large corporations in key industries. Hence the value of corporatisation from both a financial perspective and a security of supply perspective (i.e. security of essential services, preservation of “national assets”, and economic stability) are highlighted.

10.3.4 COMPETITION

Another complex and potentially controversial issue is that of competition between government organisations (i.e. either between individual SOEs, or between SOEs and crown entities, for example). This issue of competition was noted in several cases, highlighting the difficulties and potentially destructive implications where the situation changes from one of healthy competition to unhealthy conflict. The question of whether government regulations should be introduced to avoid such competition is a difficult one, given individual SOEs have a traditional domain of business activity, but were then encouraged to expand, some SOEs seeing other SOE markets as natural areas for expansion (e.g. AgriQuality and Asure).60 This outcome is perhaps not surprising; given the two SOEs were previously part of the same government department, being the Ministry of Agriculture and Forestry. This particular issue was initially addressed by the New Zealand Government ruling AgriQuality could not expand into Asure’s core business market, and later by approving the merger of AgriQuality and Asure in late 2007.

Such competition noted internally highlights a broader level of potential conflict within public sector management and policy, such that NPM encourages efficient and commercial operations, but also represents an investment by Government. Thus, the issue arises as to whether the

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60 Interestingly, while four of the 16 SOEs operating in New Zealand’s SOE sector in 2008 were energy generators and retailers, no such conflict between them had been noted, as each organisation had traditionally focused on different markets and regions, in a growing industry struggling to satisfy demand.
overriding goal should be to encourage competition, even where it results in lower financial returns to Government. Principles underlying NPM suggest the answer is yes, however the implications could extend not only to immediate loss of financial returns, but also unemployment if a SOE was effectively forced out of the market. This is a particularly interesting issue given the different strategies of various SOEs and the financial implications.

Their strategy has been low cost, low margins, high efficiency. Whereas we've got a different strategy. We've wanted to maintain margins. It [competing with them] has cost us [several] million dollars [in lost contracts] (Senior executive, SOE A, 2006).

Hence, the nuances within NPM become increasingly complex, highlighting the fundamental principles of NPM deserve recognition, but the finer points still require attention to resolve unintended complexities and anomalies. This issue is particularly relevant if NPM is to remain and succeed in the longer term (Luke, Kearins, & Verreynne, 2008b).

10.3.5 Monopolies
An interesting issue related to competitive conflict is that of monopoly service providers. If NPM is designed to achieve efficient and competitive services, arguably establishing monopolies and combining SOEs to potentially create monopolies presents a risk. This is not the intention of New Zealand's SOE framework given monopoly roles (e.g. NZ Railways, Transpower) are reviewed on a regular basis, and projects are routinely made available for tender. However the situation does exist, and effective monopolies have also arisen due to foreign governments requiring various services (e.g. inspection and certification of imported meat), to be undertaken by foreign government organisations (i.e. Asure). Yet interestingly, the existence and potential problems associated with monopolies are neither compounded nor resolved purely by ownership issues. By way of example, SOEs effectively operating as monopolies were extremely conscious of their position in the industry, and worked hard to ensure they operated as efficiently as they would have, if faced with direct competition.

We've managed the business on that basis (Senior executive, Asure, 2006).

Similarly, privatisation of NZ Railways highlighted the risks associated with private sector ownership of monopolies, and the potential costs.

Privatisation turned out to be quite disastrous [for us]. They [Toll] took hundreds of millions of dollars out of rail and left a wreck (Senior executive, NZ Railways, 2006).

Further, the management of Transpower highlights the importance of effective industry regulation over monopolies, be they in the public or private sector. This issue is considered further in Sections 10.3.8 and 10.3.9 below.
10.3.6 Governance

With respect to governance, findings indicate clear lines of accountability exist in principle and in practice. Freedom from political influence was found to be generally applicable in a SOE context, however, exceptions were noted particularly with respect to Government opinions on specific transactions (e.g. Meridian's overseas investment, Activities 4 and 12), often with a blurred distinction between commercial and political interests. Thus, the complexities of NPM in practice emerge, indicating a need for this issue to be acknowledged, monitored, and (to the extent possible) managed. While there was a general acceptance that Government were supportive of SOEs with open channels of communication between SOEs and Government, an interesting issue was that of less open or established channels of communication between SOEs. This issue was particularly evident through SOE executives' comments reflecting “second-guessing” with respect to other SOEs' activities, and suggests the need for enhanced communication channels between SOEs. The lack of communication, when specifically questioned, initially seemed unnecessary to some SOE executives, who noted

I guess we're all operating in different businesses and different sectors (Senior executive, SOE C, 2007).

Increasingly, however, executives' comments also acknowledged the value of establishing these communication channels (even informally), given SOEs share a common operating context and often confront similar issues.

...it could potentially add value; I just don’t know whether anybody’s thought of it (Senior executive, SOE C, 2007).

We have a lot of contact with [SOEs in] the industry, but no, there’s no real structure for SOEs [to network or communicate]. There probably should be, because there’s a lot of common [issues we face]. Somebody probably at CCMAU should investigate it (Senior executive, SOE L, 2007).

Thus, as commercial but government-owned organisations, there is significant scope for individual SOEs to learn from each others' experiences. This issue is particularly relevant to SOEs dealing with public accountability, political and media scrutiny, as well as various financial issues. In several cases, casual comments from various SOE executives indicated a lack of awareness or experience in each of these areas. Thus, mechanisms, formal or informal, for more comprehensive knowledge-sharing within the sector would assist SOE executives in being more informed about the environment in which they operate, and perhaps better prepared if they have to personally deal with such issues in the future. While little attention has been given to knowledge-sharing in a public sector environment in both theory and practice, studies which have
been done emphasise the value from both a financial (Williamson, 1979) and operational perspective (Taylor & Wright, 2004).

Arguably, enhanced communication channels within the SOE sector would provide an increased understanding of how to work effectively within the SOE framework, with the potential for enhanced performance (both actual and perceived) of individual SOEs. Such communication networks would be particularly useful for new or relatively young SOEs, as well as SOEs pursuing new areas and activities (e.g. branding and rebranding, overseas expansion, joint ventures); paths other SOEs have already been down and learnt from experience, both positive and negative. Sharing of such learning experiences could also assist in maintaining and enhancing the reputation of the sector as a whole, rather than having negative experiences of one SOE impact more broadly across the SOE sector, as has happened previously.

So why were you immediately affected by that incident when it didn’t directly involve you? I guess in any situation where you know...if there was a food safety issue with the number two provider of milk in New Zealand, then the number one provider of milk is going to be asked the same questions, even though it wasn’t their issue. The day [that incident] happened I was on television news that night explaining our procedures and policies (Senior executive, SOE *, 2007).

10.3.7 BOARD SUPPORT
With respect to support from SOEs’ Boards of Directors, executives generally acknowledged their Boards were helpful and supportive. However, the concept of a "self-balancing mechanism" was raised (Senior executive, SOE J, 2006), such that Directors appointed by the Government (while based on commercial skills and experience), may also share the more conservative commercial views held by Government. Again, minor exceptions were noted regarding the value of Board members, with references to political appointments as “jobs for the boys” (Senior executive, SOE *, 2007), and another executive noting their SOE was restricted by the Board. Further, smaller SOEs raised the issue of sometimes having less experienced directors appointed to their Boards – an issue that should perhaps be reconsidered by Government given their plans of “economic transformation” through the SOE sector. Further, that the SOEs in question were referred to as some of the best performers in the sector (CCMAU, 2005), raises the issue of their untapped potential under the guidance of a more experienced Board.

10.3.8 ACCOUNTABILITY OF SOEs
While the intended accountability mechanisms seem to be working effectively within New Zealand’s SOE sector, the complexity and burden of multiple lines of accountability was noted.
Such findings are consistent with literature on public sector accountability in general (Mulgan, 1997b, 2000; Sinclair, 1995), and studies specifically on New Zealand’s SOE framework (OECD, 2006). Thus, an increased awareness of this issue within Government is necessary, and resolution, where possible should be considered to ensure the effectiveness of New Zealand’s SOE framework does not unfold due to the inefficiencies of over-reporting to multiple (and sometimes conflicting) regulatory authorities. Overall, however, findings highlight Government influence and lines of accountability do not dominate SOEs’ operations. (One exception, however, is Transpower, which was clearly struggling to operate freely in its regulatory environment, and represents an industry requiring regulatory review and Government attention.)

Thus, rather than resolving any major flaws, findings largely indicate the need to be aware of and address minor regulatory issues, so that they are not compounded over time.

10.3.9 Accountability for Effective Regulation

While the issues of SOE principles, frameworks, regulations, and practice were considered in some detail in Chapters 4 and 6, the issue of Government’s role with respect to effective industry and commercial regulation was also broached in the context of Transpower. While the issues surrounding Transpower’s operating environment are both complex and detailed (see Luke et al., 2008a), an important contributing factor to Transpower’s problems was the commercial and industry regulations referred to as “dysfunctional” (Sexton in Rural News, 2006), faced by the organisation. This situation raises the issue of Government’s accountability to establish regulatory frameworks not only for SOEs, but for all organisations, in both the public and private sector, so that they can operate effectively. This reciprocal accountability is an interesting issue, and one that has received little attention in the context of NPM in general and SOEs in particular.

10.3.10 Funding and Financing

Much of the expectations noted around funding and financing of SOEs were effectively addressed by SOEs being self-funding in their operations. As noted previously, however, Government expectations of dividends and debt are two areas which are perhaps inconsistent with SOEs’ freedom of commercial choice. Yet the priority of SOEs’ operational performance was neither compromised by nor confused with these expectations.

61 Something which has been publicly acknowledged by both Transpower’s senior management and the Government, with a Government review of the industry subsequently being undertaken (Senior executive, Transpower, personal communication, July 10 2007).
‘Safety versus dividends’, no argument. We don’t play silly (Senior executive, SOE B, 2006).

10.3.11 ENVIRONMENTAL CHANGE AND UNCERTAINTY

Changes in attitudes towards support from Government during the second phase of interviews highlights the sensitivity of the SOE sector in response to changes in SOEs’ public profiles (e.g. the issue involving Mercury Energy), the seasonality of politics (as New Zealand approached an election year), and changes in government policies (e.g. the announcement of New Zealand’s new environmental policy in late 2006). In particular, frustrations emerged as various SOEs indicated inconsistent and wavering support from Government.

Like on the Mercury affair, did the Prime Minister stand up and say ‘I’m accountable for SOEs, SOEs report through to Dr Cullen and me’? And therefore did she treat Mercury Energy as part of the Government? No (Senior executive, SOE *, 2007).

This sense of uncertainty and questioning with respect to Government support, perhaps highlights not only the isolation felt by some SOEs, but also an almost implicit reliance by SOEs on Government support and approval, similar to what management of a small, closely-held company may experience as they report to shareholders on their achievements and aim to secure their ongoing support. Awareness of these issues shown by SOE executives also highlights an acute sense of responsibility by SOEs to the Government as shareholder, not to be in the public domain for the wrong reasons (i.e. operational problems and issues creating adverse political consequences). Thus, while literature on uncertainty acknowledges both its multiple dimensions and implications on firm performance (Duncan, 1972; Milliken, 1987; Thompson, 1967), findings from this study provide an up-close and somewhat unique account of uncertainty in the context of SOEs.

10.3.12 PUBLIC IDENTITY AND PROFILE

As noted previously, the public sector identity of SOEs is often viewed broadly, to encompass a public identity, accountability, and ownership.

Because we’re a state-owned company people believe, rightly or wrongly, that they should have the ability to influence our policies and our business…from NGOs to the ‘Greenpeaces’ of the world, to the Minister of Finance (Senior executive, SOE D, 2006).

Further, conflicting views were noted (even within the SOE sector) with respect to SOEs being taxpayer funded or otherwise. While contention surrounds both of these issues, essentially SOE executives noted they were in control of their actions, and were acutely aware of the need to
manage their public profile and their finances, which increasingly represented a reinvestment of profits.

Difficulties in managing and balancing competing objectives (e.g. financial versus social objectives) emerged as an increasingly challenging task, given the public arena in which SOEs operate. Similarly, challenges were also noted regarding the extended accountabilities faced by SOEs through formal and informal obligations to shareholders and the public. The implications of such were a strong preference expressed by executives to keep a low public profile, particularly at sensitive times such as election years. Yet, arguably, this approach presents both costs and benefits. Specifically, SOEs felt they could minimise the chance of criticism particularly from opposition parties through maintaining a low public profile. However, there was also acknowledgement that a sector which has performed well and could be a source of pride for New Zealand was overlooked due to the risk of the “tall poppy” syndrome\(^{62}\) (Senior executive, SOE B, 2006).

Interestingly, Rainnie and Fairbrother (2002, p. 6) note the success of New Zealand’s reforms acknowledged by “policy elites” and overseas commentators, was not shared by the New Zealand public due to poor communication. Yet, findings from this study show a far more deliberate approach to minimise communication on SOEs and the promotion of their successful exploits. This represents an interesting issue, and one that the New Zealand Government and public should perhaps consider more deliberately, given the recognition for accomplishments openly bestowed on New Zealand’s SOE sector from abroad (Eggers, 1999; Hood, 1995; Khaleghian & Das Gupta, 2005; Polidano, 1999). Specifically, consideration should be given as to whether this “low-key” approach represents a publicity opportunity overlooked or a reputation preserved. Flynn’s (2002) emphasis on the significance and perennial nature of national culture suggests New Zealand’s SOEs may have taken an appropriate approach. Further, if this situation is viewed as an opportunity in the future, careful consideration should also be given to other aspects, such as management of key stakeholders’ (e.g. the Government and general public) roles, responsibilities, and expectations.

Ultimately, as commercial organisations, SOEs need to establish a presence and reputation within their respective industries, and the wider business community in general. Recognition

\(^{62}\) Referring to a tendency to publicly criticise rather than commend success; a cultural trait often associated with New Zealand.
within the business community as highly competent, commercial, and innovative businesses is particularly important as SOEs branch out and extend their business operations beyond their traditional markets. Further, such recognition may be a valuable aid in opportunity identification, where such opportunities are identified and presented by external parties. Hence, there is potential for increased awareness of SOEs within the business community, and in particular, potential for increased awareness within the SOE sector, as SOE executives’ comments often revealed a lack of awareness with respect to other SOE’s names, business operations, and scope of business activities. While unwarranted cross-selling is unlikely to serve the SOE sector well as a long-term strategy, it is also important that opportunities to provide assistance and support to other SOEs, where genuinely warranted and useful from a customer’s perspective, are not overlooked. This issue is particularly relevant given that several SOEs have shown they are able to forge solid commercial alliances with customers and suppliers, but do not seem to have considered broader or extended opportunities for co-operation with other SOEs.

10.3.13 RISKS AND LIMITATIONS
Exploring the issue of risk with respect to SOEs revealed a number of dimensions including financial and commercial risk, political risk, reputational risk, regulatory risk, and public accountability risk. While much of this risk was effectively managed by developing expertise within a SOE’s core business, one of the key challenges noted by SOEs was the interrelated nature of the various risks posed, and increased emphasis on risk due to changes in Government policy over time, and New Zealand approaching an election year. Hence the seasonality of politics adds to the vulnerability of SOEs and impact on their operations (albeit seemingly less so than for crown entities based on the discussion in Section 10.3.2).

Thus, New Zealand’s SOE sector has not been without issues, both operating and financial. Findings have provided an enhanced understanding of some of the practical challenges, difficulties, and tensions faced by SOEs, the Government, and stakeholders. In particular, these challenges provide important lessons for theory and practice; areas for discussion, debate, and express consideration (or reconsideration) within Government policy and administration. Hence,

63 This was particularly evident when a case study prepared on an individual SOE was sent to the Senior executive for approval. While the executive advised he did not have concerns with the case study itself, he requested that it not be released for publication at that time, given it was an election year.
uncovering issues in need of further research is an important outcome of this research, and something which is considered further in Chapter 11.

10.4 Support for NPE in Practice

While findings reveal much with respect to NPM in the context of New Zealand’s SOEs, examination of activity which reflects an entrepreneurial nature (i.e. Activity 3 being entrepreneurial and Activities 2, 5, 7, and 10 being strategic entrepreneurship), reveal the public sector can be both commercially focused and entrepreneurial. Thus, while extensive support is found for NPM, clear support is also uncovered for entrepreneurship within the public sector, or what is termed in this thesis as new public entrepreneurship. A review of entrepreneurial activity and strategic entrepreneurship in the context of New Zealand’s SOEs shows entrepreneurial activity is both possible and profitable, adding weight to the very strong positions taken on this issue within the literature, both for and against (Bellone & Goerl, 1992; Borins, 2000; Moore, 1992; Osborne & Gaebler, 1992; Terry, 1993). Further, as noted previously, a strategic dimension to entrepreneurial activity offers a number of benefits and is particularly well-suited to a public sector context, with the potential for enhanced outcomes, both financial and non-financial. Inevitably, however, the concept of NPE raises a number of questions surrounding the how and why. These questions are considered below.

The issue of how entrepreneurship can be undertaken within the public sector is one on which SOEs in this study have provided significant guidance. An innovative concept combined with opportunity identification, deliberate acceptance and management of risk, vision, flexibility, and growth, were shown to be core elements of entrepreneurial activity (e.g. Activity 3). Further, where such activity is undertaken in the strategic context of businesses which leverage from their core skills and resources, a more structured approach to entrepreneurship is enabled, increasing the potential for financial returns and recurring returns.

Why then, would the public sector promote NPE? The promotion of entrepreneurial activity within the public sector can be rationalised and advocated from a number of perspectives. First, the association between entrepreneurship and wealth creation makes entrepreneurial activity viable for any organisation pursuing commercial objectives and increased profits, and therefore sits comfortably within the principles of NPM. As noted previously however, the strategic foundation of strategic entrepreneurship, combining entrepreneurial and strategic activity, suggests strategic entrepreneurship is a particularly viable approach to entrepreneurial activity, given the added
benefits (certainty, structure) of leveraging from a business’s core skills and resources, thereby increasing the level of familiarity within an activity and decreasing the liability of newness and level of risk. Further, strategic entrepreneurship may be considered more realistic or feasible for commercial organisations which have already focused on developing a level of expertise within their core business operations, and incorporates a valuable focus on innovation, increasingly regarded as a key economic driver (Hindle & O’Connor, 2005; New Zealand Government, 2002). Thus, provided conditions such as a commercial focus, an emphasis on low risk, and a level of expertise developed within an organisation’s core business are applicable, NPE seems a viable pathway for public sector organisations such as SOEs, to achieve their objectives.

Then why hasn’t it been promoted previously? Essentially, the lack of previous promotion can be attributed to a public sector which is still coming to terms and experimenting with NPM (O’Flynn, 2007). Thus, while entrepreneurship has been suggested and conceptualised within a public sector context (Osborne & Gaebler, 1992; Ramamurti, 1986), there has been little practical foundation or systematic application to date to provide a basis for the emergence and investigation (however preliminary) of NPE as a distinct area of research. Insights and implications of NPE obtained from this research suggest NPE is both possible and an extremely valuable approach to business within the public sector, as shown through the findings from this study. Where SOEs had undertaken entrepreneurial activity (particularly in the context of strategic entrepreneurship), a number of benefits both financial and non-financial were easily identified. Further, as SOEs employed such activity, they learnt from experience, refined their understanding of what contributed to financial success, and mitigated risk, assisting them in similar undertakings in the future.

Although staff in New Zealand’s SOEs may historically have been somewhat conservative in nature (a comment often made by SOE executives during the interviews conducted), the ongoing influence of SOE executives (deliberately recruited from the private sector at the onset of New Zealand’s SOE reforms), a strong commercial emphasis, and an increasingly shared innovative vision, have perhaps changed the nature of many of New Zealand’s SOEs. In particular, those SOEs which have experimented with innovation and entrepreneurial activity, learnt from experience, and built on cumulative success over time, are perhaps more comfortable to embrace commercial and entrepreneurial freedom as they grow. Thus, the Government’s policy in 2006 encouraging SOEs to expand the scope of their businesses, may have been an endorsement of what some SOEs were already doing, an announcement of formal support, and an invitation for
other SOEs to follow. As such, this policy may be viewed to some extent as endorsing change rather than heralding or instigating it, in recognition of NPE as a natural progression from NPM once a SOE has established itself as a competent, efficient, commercial organisation, with the capability for undertaking innovative and entrepreneurial activity.

Interestingly, while this study has used New Zealand’s SOE sector as a context to explore, understand, and appreciate SOEs’ successes and challenges, changes in New Zealand’s political environment raise questions with respect to the future of these organisations. As noted previously, the National Party’s victory in the November 2008 elections has not only meant a new government, but also potentially new government policy with respect to SOEs\(^{64}\), making the findings from this study and the future of New Zealand’s SOE sector all the more interesting.

10.4.1 ISSUES REGARDING NPE IN PRACTICE
With respect to issues regarding NPE in practice, perhaps the central question is *when wouldn’t the public sector promote NPE?* Ultimately, similar to NPM, NPE is unlikely to be appropriate when the risks are perceived as unacceptably high. A review of the findings from this study reveals incidences of NPE leading to positive financial outcomes for New Zealand’s SOEs were clearly supported by a number of important contextual and organisational elements. Such elements include an established and well-developed regulatory environment (Schick, 1998), regular and open communication between SOEs and the Government, and endorsement of entrepreneurial activity by executives and Directors at Board level with strong commercial experience. Further, within the respective SOEs, a number of important characteristics were evident at the organisational level including a level of expertise developed with respect to each organisation’s core skills and resources, an ability to leverage from and apply those skills and resources to create new products, services, and markets, a strong awareness of commercial responsibilities, an understanding of how to manage and minimise risk (Activities 2, 5, 7, and 10), as well as an appreciation of when the risks became too difficult to manage (Activity 3). Thus, understanding the issues and implications is an important foundation for public sector organisations and administrations intending to pursue and promote such activity. Further, these issues provide a platform for further work on NPE and more specifically on strategic entrepreneurship in the public sector, in both theory and practice.

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\(^{64}\) As detailed previously, despite the National Party’s history of favouring privatisation, in 2008 Leader of the National Party and incoming Prime Minister John Key advised that he would not sell any SOEs during his first term in office (New Zealand Herald, 2008b).
10.5 SUMMARY

A review of the findings from this study presents a number of insights into strategic entrepreneurship, its financial, economic, and non-financial benefits (discussed in Chapter 9), as well as NPM, and NPE (discussed in this chapter). While extensive support was found for many of these concepts, ultimately many more findings and issues emerged for discussion, further consideration, and research. Although not insignificant, length requirements applicable to this thesis prevent further issues being addressed and explored in the discussion chapters. They are however, briefly identified in the following chapter, which concludes this study by considering implications, limitations, and areas for further research.
CHAPTER 11
CONCLUSION

11.1 OVERVIEW OF THE STUDY
This study has examined strategic entrepreneurship, its financial benefits, and issues surrounding this type of activity in a public sector context. While the concept of strategic entrepreneurship has received increasing attention in recent years, few studies have focused on strategic entrepreneurship as a distinct concept. Further, of those studies which have taken this view, findings and conclusions are inconsistent and evolving. The objective of this research was to address the question of “What are the underlying elements and financial implications of strategic entrepreneurship in the context of New Zealand’s SOEs?” through an examination of theory and practice. In order to address this question, a review of the literature on entrepreneurship was undertaken, and subsequently examined in the context of the literature on strategy, in particular the resource-based view. The purpose of this process was to identify the development and emergence of strategic entrepreneurship, and how the intersection of these fields – both entrepreneurship and strategy as strategic entrepreneurship’s foundations – can be better understood in terms of its central elements and financial implications.

An examination of the extant literature led to the development of a preliminary framework of strategic entrepreneurship, grounded in theory. This framework was then examined by conducting case study analysis of activities recognised as entrepreneurial and/or strategic in New Zealand’s SOEs, together with an examination of the related financial and economic returns from a longitudinal perspective. SOEs were considered appropriate case study subjects for several reasons. Due to the increasing focus on governments to foster innovation and entrepreneurship through policy (New Zealand Government, 2002; Reynolds et al., 2004), the question emerged as to why governments should not also foster entrepreneurial activity (or indeed strategic entrepreneurship as a more structured approach to entrepreneurial activity) through their own practice. This issue has become increasingly prominent over the past 12 months as challenging economic conditions and large corporate collapses have forced governments to consider their involvement and perhaps reconsider the public versus private sector divide. The provision of financial support and nationalisation of large corporations is currently on the agenda of governments in various countries.

The notion of governments fostering entrepreneurial activity has been promoted as both an
effective approach to public sector management (Osborne & Gaebler, 1992), and an important driver of economic development (Reynolds et al., 2004). This concept is particularly relevant to New Zealand’s SOE sector, given that New Zealand’s SOE reforms are considered a systematic and comprehensive approach to NPM (Hood, 1995; Khaleghian & Das Gupta, 2005; Polidano, 1999). Further, the SOE sector, comprising some of New Zealand’s largest companies, is viewed as an important contributor to the country’s economy (Mallard, 2006a), representing a valuable source for economic growth. In 2005, for example, revenue from New Zealand’s SOE sector represented approximately 5 per cent of the country’s GDP (New Zealand Government, 2007; see Appendix E). And in 2006 the New Zealand Government announced a new policy encouraging SOEs to expand the scope of their business operations for the purposes of economic transformation (Mallard, 2006b), thereby highlighting the significance of SOE activity to New Zealand’s economy as a whole, and its economic growth for the future.

With respect to the financial and economic returns from strategic entrepreneurship, a deliberate focus on both of these fiscal objectives by New Zealand’s SOEs (in accordance with their obligations under the SOE Act, 1986) suggests the sector as a whole provides a valuable subject to explore the financial and economic benefits of strategic entrepreneurship, compared to other such activity (i.e. entrepreneurial, strategic, neither entrepreneurial nor strategic). Prior to examining strategic entrepreneurship in practice, a review of New Zealand’s SOE sector and its operating environment was undertaken to explore and understand the contextual issues relevant to an examination of activity in the SOE sector. This review also provided a useful foundation for an evaluation of NPM in practice and the uncovering of NPE.

The research approach was applied to 12 of the (then) 17 SOEs operating in New Zealand65. Specifically, activity classified as entrepreneurial, strategic, strategic entrepreneurship, and neither entrepreneurial nor strategic, was examined and analysed to identify the characteristics and underlying elements of strategic entrepreneurship, compared to activity in the other three categories. This examination facilitated both within-case analysis and cross-case comparisons (Eisenhardt, 1989; Yin, 1993). Findings were considered based on primary (interview) data initially collected in mid 2006, and re-assessed for changes and developments based on primary (follow-up interview) data subsequently collected in mid 2007. Further, various secondary data (e.g. historical and contemporary textual data from websites of public and private sector

65 As noted previously, during 2007 the merger between two SOEs resulted in 16 SOEs operating in New Zealand at the time this study concluded in 2009.
organisations and institutions, annual reports, media reports, and financial data from 2001 to 2006) were collected and analysed throughout the course of this research.

The financial and economic returns from the activity examined in each SOE were then analysed to consider the extent of practical support for the association between strategic entrepreneurship and wealth creation (in terms of both financial and economic benefits). Further analysis considered other contextual variables and differences (e.g. management of environmental change) relevant to the activities examined. Returns were also considered from a non-financial perspective to provide a broader context of analysis.

Discussion of the findings involved reflecting on insights gained from this study, and considering these insights in the context of prior research – identifying similarities and reconciling differences. This chapter concludes the study of strategic entrepreneurship - its *underlying elements and financial implications* – in the context of New Zealand's SOEs, by highlighting significant findings, outlining the contributions made (in terms of the implications for theory and practice), acknowledging limitations inherent to this study, and identifying areas for future research to further develop the understanding of strategic entrepreneurship, its financial returns, and commercial and entrepreneurial activity in the public sector. Each of these issues is addressed in the following sections.

### 11.2 Significant findings

Throughout this thesis a number of findings have been noted with respect to strategic entrepreneurship and its financial benefits. Further, a number of interesting insights have emerged specific to the public sector context of this study, including issues relating to new public management, and the emergence of NPE. This section presents an overview of some of the more significant findings from each of these perspectives, ranging from refinement of existing theory (with respect to strategic entrepreneurship and NPM), to new knowledge as a foundation for new theory (in the context of NPE). Findings are presented under the relevant headings below.

#### 11.2.1 Strategic entrepreneurship

As noted above, the initial and central focus of this study was examining strategic entrepreneurship. From this examination, and the comparison of activity in four distinct categories (entrepreneurial, strategic, strategic entrepreneurship, and neither entrepreneurial nor
strategic), a number of significant findings emerged. Such findings include practical support for the preliminary framework and refinement of existing theory particularly with respect to supporting elements. These findings are reviewed briefly below.

11.2.1.1 Defining Strategic Entrepreneurship: Practical Support for the Preliminary Framework

At the onset of this study, it was noted that both strategic entrepreneurship research and the understanding of this topic in general, are limited. Since strategic entrepreneurship’s emergence in 2001 until the end of 2008, fewer than 10 studies appear to have specifically focused on this topic as a distinct concept. Yet these studies are essentially theoretical and inconsistent in nature, with a distinct lack of practical support or validation, indicating the early stage and evolving nature of strategic entrepreneurship. Thus, the recent emergence and very small body of literature on this topic indicates much is yet to be explored, investigated, and understood.

Increasing attention given to this area of research since 2001 is evidenced by additional studies which have broached (often contextual) issues surrounding strategic entrepreneurship, but not specifically examined the construct of strategic entrepreneurship (Messeghem, 2003; Meyer et al., 2002; Michael et al., 2002), and the introduction of the Strategic Entrepreneurship Journal in 2006. These developments indicate strategic entrepreneurship is an important area of research, deserving of attention, with a promising future.

During the course of this research, a number of findings have been made through an examination of individual cases and subsequent cross-case comparison. The conceptual framework derived in the initial stages of this study identified underlying elements and potential outcomes of strategic entrepreneurship. The subsequent examination of this framework in a practical context revealed extensive support for the framework does exist. Thus, comparing and contrasting individual case findings has reinforced the notion of entrepreneurial activity as the foundation of strategic entrepreneurship, and strategy (from the perspective of the resource-based view) as a foundation for strategic entrepreneurship. Further, support for the core entrepreneurial elements (opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth) and strategic context (developing a level of expertise and leveraging from core skills and resources), has contributed to the understanding and development of a theory of strategic entrepreneurship. This development is perhaps one of the most significant findings arising from this study.

The significant practical support found to exist for each of the concepts (1a and 1b on the
fundamental elements of strategic entrepreneurship, 2 on the nature of strategic entrepreneurship, and 3 on the potential for financial returns), is an important distinction between this study and extant research on strategic entrepreneurship, which has not yet been examined in a practical context to compare and contrast strategic entrepreneurship with other types of activity (e.g. entrepreneurial, strategic, neither entrepreneurial nor strategic). While Ireland et al.'s 2001 study of strategic entrepreneurship includes references to and examples of organisations and activities relevant to the arguments presented, the framework was subsequently revised (Hitt et al., 2001) and later remodelled (Ireland et al., 2003). Similarly, studies by Ireland and Webb (2007) and Ketchen et al. (2007) provide only brief examples without comprehensive analysis or empirical data. Thus, prevailing frameworks within the literature remain rooted in theory and lack empirical verification. This study however, progresses the understanding of strategic entrepreneurship with practical support, replication of findings, theoretical replication, and level two inference\(^6\) (Yin, 1993); moving towards an initial theory of strategic entrepreneurship. Other important findings from this study include the emergent detail with respect to dimensions of individual core elements, and the identification of a number of supporting elements, providing the opportunity for further refinement of the preliminary conceptual framework presented in Chapter 2. These findings are considered below.

11.2.1.2 Refinement of the Preliminary Framework: Core and Supporting Elements

As noted previously, three concepts were initially derived from theory. Of particular significance from a conceptual perspective, is the refinement of the preliminary framework for both core and supporting elements, uncovered through an inductive approach. With respect to the core elements, a number of interesting findings emerge, encompassing opportunity identification, innovation, and acceptance of risk, each of which are considered below.

The notion that opportunity identification may be both internal and external is an interesting distinction between established theory and existing practice. Thus, the development of core capabilities and establishing a public profile such that a business gains external recognition for its capabilities can lead to potential customers presenting opportunities to a business in the form of requests for services. In relation to innovation, the notion that it is not dependent on planned, formal, and capital intensive research and development, but rather a more informal approach such as experimentation within a flexible work environment is also an important finding, and

\(^6\) Contrasting support for the proposed framework, with a lack of practical support for alternative strategic entrepreneurship frameworks.
departure from literature on research and innovation (Mansfield, 1980). This informal and economical approach to research and development potentially removes financial barriers some may have associated with innovation as part of strategic entrepreneurship. Further, an environment of experimentation is arguably more practical and achievable for businesses than the promotion of continuous (Ireland & Webb, 2007) and collaborative (Ketchen et al., 2007) innovation. Last, the distinction between risk-taking, and accepting, managing, and minimising risk is also an important finding, given that for more than a century, literature on entrepreneurship has emphasised high-risk and entrepreneurs as risk-takers. Re-evaluation of this traditional association further removes a barrier for those pursuing entrepreneurial ventures and returns, but with a preference for moderate or low-risk activity.

Three supporting elements, being operational excellence, culture, and cost minimisation, were identified as important internal contextual variables, effectively aiding the creation of strategic entrepreneurship. While these elements are not considered essential for the creation of strategic entrepreneurship, it is argued that strength in each of these areas assists organisations or businesses pursuing strategic entrepreneurship. Specifically, operational excellence, culture, and cost minimisation aid in making strategic entrepreneurship more accessible by enhancing a business’s capabilities, outlook, and approach to experimentation, innovation, and entrepreneurial and strategic activity. Thus, heightened ability and alertness, together with modest financial investment, allows opportunities to be identified, explored, and assessed more effectively and more frequently. This environment effectively supports the strategic entrepreneurship process, with the chances of success potentially increased. Further, where potential projects are not successful (due to changes in either the internal or external environment), it is quite likely that a business will learn from experience, and build on that for future entrepreneurial and strategic pursuits (something which was reflected in the comments of several SOE executives).

As detailed in the previous chapter, these supporting elements were subsequently rationalised from a theoretical standpoint by exploring literature beyond the immediate scope of entrepreneurship and strategy to consider other domains (e.g. public sector management and marketing) within the broader disciplines of strategy and business. Table 11.1 presents a summary and rationale of the elements initially identified as supporting at the commencement of this study (Chapter 2, Section 2.3.1.2), and the elements subsequently identified as supporting based on an examination of strategic entrepreneurship in practice.
The review and identification of supporting elements adds both depth and detail to the understanding of strategic entrepreneurship, allowing refinement of the preliminary framework, and representing important detail for the foundation of a theory of strategic entrepreneurship.

**Table 11.1 Supporting Elements: Initial and Revised**

|--------------------------------------------------|-------------------|----------------------------|-----------|
| Strategy                                         | • closely aligned with vision  
• encompasses flexibility, innovation, and a deliberate acceptance of risk | • not clearly supported by the findings from this study  
• potentially too broad in nature | |
| Culture                                          | • confidence to take on new projects, experiment with innovation  
• genuine concern for people (staff and customers), evidenced through flexibility in the work environment | Culture  
• clearly supported by the findings from this study  
• flexible and progressive culture provides a valuable environment for staff to identify and pursue opportunities and innovative ideas | |
| Branding                                         | • disassociation with the traditional view of a bureaucratic public sector | • not clearly supported by the findings from this study  
• potentially more pertinent to the public sector context of the study | |
| Operational excellence                           | • promoted a positive reputation within and outside the organisation  
• solid platform for experimentation with innovation | Operational excellence  
• clearly supported by the findings from this study  
• assists in opportunity identification and innovation, promoting confidence within the business | |
| Cost minimisation                                | • supports experimentation and innovation  
• particularly useful in a public sector context where resources are limited and accountability is high | Cost minimisation  
• clearly supported in the findings from this study  
• supports an environment where is experimentation is encouraged | |
| Transfer and application of knowledge            | • provides an element of familiarity to businesses undertaking new ventures  
• decreases the liability of newness | • considered fundamental to strategic entrepreneurship, and therefore reflected in the foundation for strategic entrepreneurship (1b), rather than a supporting element | |

The revised framework, together with concepts from the preliminary framework proposed in Chapter 2, is presented in Table 11.2 below. Useful as both a foundation for a theory of strategic entrepreneurship, and a starting point for future research, this revised framework represents an important development in the understanding of strategic entrepreneurship. Further, it provides the opportunity to evaluate past understandings and guide new knowledge.

**11.2.2 Financial and Economic Implications of Strategic Entrepreneurship**

Interestingly, while literature on strategic entrepreneurship emphasises its association with wealth creation, this study differs to some extent, acknowledging the potential benefits, both financial and non-financial, are dependent on a number of contextual variables. Specifically, development stage, maturity of the project, and management of changes in the internal and external environment, each affect the financial returns realised. Thus, to present an association between
**TABLE 11.2  TOWARDS A THEORY OF STRATEGIC ENTREPRENEURSHIP: REVISED CONCEPTUAL FRAMEWORK**

<table>
<thead>
<tr>
<th>Revised conceptual framework</th>
<th>Associated concept from preliminary framework</th>
<th>Supported (S), Modified (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategic entrepreneurship refers to entrepreneurial activity applied in a strategic context</td>
<td>1a &amp; 1b</td>
<td>S, M</td>
</tr>
<tr>
<td>2. Entrepreneurial activity is represented by the combination of opportunity identification, innovation, acceptance of risk, flexibility, vision, and growth, to create new products, services, or markets. These elements represent the entrepreneurial inputs into (foundations of) the strategic entrepreneurship process.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. The strategic context involves leveraging from a business’s core skills and resources such that knowledge is transferred and applied to create new products, services, or markets. As such, the creation of new products, services, or markets is supported by a business’s existing knowledge and skills, thereby decreasing the liability of newness. This context of leveraging from a business’s core skills and resources represents the foundation for strategic entrepreneurship.</td>
<td>2</td>
<td>S</td>
</tr>
<tr>
<td>4. Elements supportive of, but not essential for strategic entrepreneurship include operational excellence (or a level of expertise with respect to the core business activity), an organisational culture which is open, flexible, and progressive; and cost minimisation.</td>
<td>3</td>
<td>S</td>
</tr>
<tr>
<td>5. The nature of strategic entrepreneurship may take various forms, ranging from incremental to radical innovations, with deliberate to emergent approaches.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. Strategic entrepreneurship offers the potential for financial and non-financial benefit, subject to managing changes in both the internal and external environment.</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Strategic entrepreneurship and financial returns without considering these variables seems over-simplified.

A further significant finding in relation to strategic entrepreneurship’s financial returns is that such returns have the potential to be recurring, and strategic entrepreneurship activity has the potential to create additional returns. Thus, financial benefits are likely to be enduring in nature, with the extended scope of returns enhancing the value of strategic entrepreneurship. And a final point to note in this section, is that while economic returns from strategic entrepreneurship were not quantified, they were indeed identified in the form of increased export revenue, profits, and employment, and thus appositely supported the New Zealand Government’s policy of economic development through innovative and entrepreneurial activity for New Zealand businesses in general (New Zealand Government, 2002), and SOEs in particular (Mallard, 2006a). Significant findings specific to the public sector context of this study are considered further below.

**11.2.3 RE-EXAMINING THE PUBLIC SECTOR CONTEXT:**

**A CASE FOR RE-THINKING THE SCOPE AND POTENTIAL OF THE PUBLIC SECTOR**

Based on a review of the public sector context of this study, a number of significant findings were identified. Specifically, these findings include issues pertaining to NPM in general, and the uncovering of NPE in particular; perhaps the most important finding within the public sector context of this study, and one of the most unexpected. These issues are considered below.
Significant findings from this study in the context of the public sector include support for both NPM in practice, and the associated financial returns. Thus, while debate continues to emerge regarding policies of corporatisation versus privatisation (Moe, 1994; Moore, 1992), this study shows clear support for corporatisation working as intended, and yielding solid financial returns. Hence the notion that “SOEs will always fail due to a lack of self-interest, competition, and customer focus” (Moore, 1992, p. 116) is not supported by this study, and the importance of competition rather than ownership (Luke, 2008b; Stiglitz, 2008; Villalonga, 2000) is further validated.

Clearly there is evidence of SOEs largely operating as independent, commercial organisations. Further, there are very distinct examples of SOEs which have achieved operational and financial success from commercial and often innovative activity. Within New Zealand’s SOE sector, individual SOEs have at times been recognised as market leaders, successful innovators, and established competitors in global markets. Notably, however, there are also areas where financial independence and success has not been achieved, indicating NPM is not an all encompassing solution. Further, there are areas for improvement with respect to NPM, and these too, are significant findings. The difficulty of segregating government’s function as policy-maker and shareholder, the complexities surrounding competition between individual SOEs, and over-regulation within specific industries causing operational restrictions, are all significant findings and areas requiring attention. Importantly, however, the success of New Zealand’s SOE sector is not overshadowed by these issues, and the overall impression made by the sector as a whole is distinctly positive.

As an extension perhaps of successful NPM within New Zealand’s SOE sector, and its developments over the past two decades, various SOEs have progressed from commercial to innovative and entrepreneurial activity. Thus, entrepreneurial activity, and more specifically strategic entrepreneurship, is not inconsistent with a public sector context. Further, as a more structured approach to entrepreneurial activity, strategic entrepreneurship may be particularly appropriate for risk averse and highly accountable businesses such as those in the public sector (Mulgan, 1997b).

As a result of the developments surrounding the implementation of entrepreneurial activity in the public sector, this thesis has identified the emergence of a new dimension of public sector management, specifically new public entrepreneurship. This form of activity represents a new
approach to public sector management for organisations which have established strong commercial capabilities and are able to extend the scope of their operations into entrepreneurial activities. While the potential for entrepreneurial activity within the public sector has been raised in the extant literature, this study is one of the few which presents a systematic approach to such activity from a theoretical and practical perspective. This finding not only changes our understanding of how the public sector can operate, but may also potentially change the way public sector management is viewed in the future. Further, it provides a platform for a new area of research. Such findings give rise to a number of implications from both a theoretical and practical perspective, and are considered in the following section.

11.3 CONTRIBUTIONS FROM THIS STUDY
This study makes contributions to both theory and practice in the areas of strategic entrepreneurship, its financial returns, and public sector management. At the core of this study, findings reflect the process of strategic entrepreneurship as a distinct construct with support for the related financial benefits. Findings from a public sector context reinforce the potential for financial and economic returns under NPM, highlighting fiscal implications. Further, a number of practical, regulatory, and policy-related issues, together with inconsistencies, complexities, and challenges were uncovered with respect to NPM. And a further dimension to this study was the examination of entrepreneurial activity specific to public sector organisations, referred to as NPE. Each of these findings is considered below in terms of theoretical and practical contributions.

11.3.1 IMPLICATIONS FOR THEORY
Based on the findings from the individual cases and the discussion in Chapters 9 and 10 presenting cross-case comparisons in the context of strategic entrepreneurship, NPM, and NPE, a number of theoretical implications can be identified in each of these three conceptual areas. A selection of some of the more salient theoretical implications is considered briefly below.

11.3.1.1 REFINEMENT AND EXTENSION OF STRATEGIC ENTREPRENEURSHIP THEORY
Perhaps the most significant theoretical implication from this study with respect to strategic entrepreneurship is that two conceptual groups are identified within the process of strategic entrepreneurship: core elements and supporting elements. Core elements are those which represent the foundations of and foundations for strategic entrepreneurship; each of which are central to literature on entrepreneurship and strategy. Supporting elements are those which assist businesses in undertaking strategic entrepreneurship through enhanced operational
capabilities, outlook, and approach (e.g. management of financial risk). Thus, supporting elements facilitate the likelihood of opportunities being identified and pursued more frequently, in a supportive environment, with minimal or modest financial inputs.

Distinctions within the core elements such as deliberate assessment and acceptance of risk, rather than risk-taking (Covin & Slevin, 1989), serve to refine the understanding of strategic entrepreneurship. Thus, the implications for theory are such that a clearer, more detailed picture of strategic entrepreneurship emerges. While strategic entrepreneurship has been referred to as the intersection of entrepreneurship and strategy, essentially both founding concepts are broad in scope, such that the elements which precisely define this point of intersection remained unclear. Through case study analysis, this research has effectively identified that point of intersection for activity within four of the 12 SOEs examined. Further, given that early studies of strategic entrepreneurship had shown a distinct and perhaps undue emphasis on strategy within strategic entrepreneurship, this study deliberately began with an entrepreneurial focus, to consider the point of intersection from a different perspective.

The development of strategic entrepreneurship research beginning with an entrepreneurial focus and encompassing an examination of practice through detailed case-based analysis, provides the opportunity for research on strategic entrepreneurship to progress beyond the general notion of being the intersection of entrepreneurship and strategy (Hitt et al., 2001; Ireland et al., 2001; Ireland et al., 2003); a balance of opportunity-seeking and advantage-seeking behaviour (Ireland et al., 2003; Ireland & Webb, 2007; Ketchen et al., 2007). In particular, this research identifies specific, empirically validated elements, which comprise strategic entrepreneurship. Further, this study progresses the understanding of strategic entrepreneurship by moving towards a theory on this construct. Thus, the progression towards a theory based on detailed case study data is an important step forward and valuable theoretical contribution.

11.3.1.2 FINANCIAL AND ECONOMIC RETURNS FROM STRATEGIC ENTREPRENEURSHIP

Key theoretical contributions in this area are twofold. First, the research method adopted in this study deliberately encompassed a range of financial measures (e.g. revenue, profits, and cash payments by SOEs to government in the form of dividends and taxes) and ratios (e.g. ROE, ROCI, and ROI) to examine the financial and economic returns beyond that which has previously been considered in the context of entrepreneurship research. The selection and discussion of these measures and ratios (Chapter 5, Section 5.4.1) which borrows from accounting literature,
adds much support to the findings in this study on the financial and economic returns, and largely extends the scope of entrepreneurship research. Thus, the deliberate assessment of financial performance in clear financial terms, the rounded view of performance encompassing profitability, efficiency, and commercial viability; and strong theoretical support for the selection of these measures is an important development in entrepreneurship literature. Further, the use of such measures has brought a fresh and clearer perspective to the study of entrepreneurship’s financial implications, maintaining a balance between measures which are both useful and understandable, while also acknowledging their limitations.

Second, the detail within the findings on strategic entrepreneurship’s financial and economic returns, particularly with respect to the identification of contextual variables (e.g. development stage, maturity of a project), and the prospect of recurring and additional returns, is an important development within strategic entrepreneurship literature. As noted previously, entrepreneurship literature has repeatedly presented an association between entrepreneurial activity in general (and strategic entrepreneurship in particular) and wealth creation, but has limited empirical data and a distinct lack of specific contextual variables which may influence the financial returns realised. In addition, limited and oftentimes inconsistent support for the economic benefits of entrepreneurial activity, further confuse and blur this association (Storey, 1994, 2006). Thus, clear support for both financial and economic returns from this study of strategic entrepreneurship, together with an enhanced understanding of the nature of financial returns, provides valuable support and clarification on this issue, a more refined understanding of strategic entrepreneurship’s implications, and a platform for further research and investigation.

11.3.1.3 Public sector context
Support for NPM and its associated financial returns in the public sector context are clear. And an enhanced understanding of practical, regulatory, and policy-related issues within public sector management frameworks has been obtained. In particular, while the importance of competition between SOEs and the private sector has been highlighted, more deliberate consideration of competition within the public sector is necessary. Importantly, inconsistencies, challenges, and complexities such as endorsing commercial freedom and financial independence but requiring payment of dividends from “surplus” cash funds, understanding where the boundaries lie with respect to commercial freedom and social objectives, and balancing commercial versus social objectives, have also been highlighted. The implications are such that feedback has been provided on the theoretical issues of NPM and areas for consideration raised with respect to
future theoretical frameworks on public sector management. In particular, is “two decades of experimentation” (O’Flynn, 2007) with respect to NPM a basis for refinement or replacement, as researchers look towards alternative models such as “public value” (Stoker, 2006)? Findings from this study suggest NPM principles are effective, refinement is ongoing, and performance outcomes to date with respect to New Zealand’s SOEs, do not warrant a replacement approach. Yet consideration and refinement of the issues referred to above is necessary.

Further, findings from this study provide insight not only into strategic entrepreneurship as a distinct concept, but also very specific insight into strategic entrepreneurship in the context of SOEs. Thus, strategic entrepreneurship does have a place within the public sector, the role of government can go beyond policy-making, and the specific elements required to achieve a more structured approach to entrepreneurial activity have been identified. Such findings highlight not only the breadth of strategic entrepreneurship as a concept, but also an extension to public sector management theory which has promoted the adoption of commercial and innovative activity in practice, within public sector organisations (Osborne & Gaebler, 1992). Specifically, when activity within NPM extends beyond commercial and innovative to being entrepreneurial in nature (i.e. entrepreneurial activity or strategic entrepreneurship), a new dimension of activity emerges within the public sector, being NPE. The theoretical implications are such that this concept deserves promotion and attention within research and practice communities. Acknowledging and understanding that NPE currently exists, as well as exploring more about how, when, and where strategic entrepreneurship can be employed within the public (and private) sector, is an important issue for academics, practitioners, and policy-makers.

11.3.2 IMPLICATIONS FOR PRACTICE

With respect to the practical aspects of the findings from this study, a number of implications can be identified with respect to strategic entrepreneurship, its financial returns, and the public sector context of this study. Some of the more pronounced issues within each of these areas are considered below.

11.3.2.1 STRATEGIC ENTREPRENEURSHIP

Perhaps one of the most important implications at the core of this study is acknowledging and understanding the importance of the core elements in order to create strategic entrepreneurship. As such, the entrepreneurial elements (opportunity identification, innovation, acceptance of risk, flexibility, vision, growth) and strategic context (leveraging from core skills and resources such
that knowledge is transferred and applied to create new products, services, or markets), are essential for the creation of strategic entrepreneurship. Thus, businesses cannot rely on innovation alone, or focus solely on new opportunities, but rather ensure these elements are adopted collectively to facilitate strategic entrepreneurship. As core elements, these concepts are essential, both individually and collectively, for the creation of strategic entrepreneurship. Once established, strategic entrepreneurship then presents the potential for competitive advantage and various other benefits, both financial and non-financial.

While the benefits of entrepreneurship and strategy are well established within the literature, the synergy from combining these benefits is important to all businesses. Specifically, entrepreneurial activity has been presented as opportunistic, impromptu, and dynamic. Yet it is also associated with risk, uncertainty, and irregularity. Similarly, the benefits of strategy such as a planned, deliberate, and focused approach to business are often countered by its potentially restrictive, constrained, and inflexible nature. The balance of entrepreneurship and strategy, however, offers the benefits of entrepreneurial activity within a systematic, calculated, and potentially recurring context. The implications for managers are such that risk is not something they need to assume at notably higher levels, nor something they need to avoid at all costs. Rather, as part of undertaking strategic entrepreneurship, managers should understand an element of risk exists, be aware of the specific types of risk involved, and take active steps to minimise and mitigate such risks.

Importantly, this study has identified and explored the strategic context of leveraging from core skills and resources; borrowing from the resource-based view. It should be noted however, that while the resource-based view is considered a valuable strategic context in which to create strategic entrepreneurship, it is not considered the only strategic context available. Thus, businesses (and academics) can focus on the strategic context of leveraging from core skills and resources, or explore other strategic contexts in which strategic entrepreneurship may take place (e.g. using other theoretical lenses such as learning theory and real options theory). Ultimately, however, it is the intersection of entrepreneurial activity in a strategic context which is essential for strategic entrepreneurship.

Further, individual dimensions within core elements provide valuable insight for businesses with respect to the pragmatic details of fostering strategic entrepreneurship. In particular, the importance of opportunity identification, and the practical means by which this can be achieved, is
an important finding for business. Specifically, the dimensions of opportunity identification being internal as well as external provide a clear, utilitarian approach for businesses managers to address this concept. Further, the possibility of opportunity identification being external offers a valuable alternative for businesses which are not proficient in identifying opportunities independently. Thus, specific developments of this nature represent an important implication for business practice. Similarly, the notion that innovation can be (and indeed should be, within the resource-based view) directly related to a business’s core skills and resources, provides useful guidance and direction to those pursuing entrepreneurial activity, but not wanting to search for random market gaps where a business’s experience may be limited, and its liability of newness is high. Further, the notion that innovation need not be continuous or collaborative, but rather can arise from informal experimentation provides important and very practical guidance to businesses.

11.3.2.2 Strategic Entrepreneurship’s Financial and Economic Benefits

An important practical implication of strategic entrepreneurship is that financial and economic benefits are likely from this type of activity. Further, the recurring nature of these returns and potential for additional returns reinforces the value of strategic entrepreneurship, and the importance of pursuing such activity. As noted above, given that the strategic context involves businesses directly leveraging from their core skills and resources, the liability of newness is limited, resulting in lower financial risk. Hence, an important implication for businesses wanting to pursue entrepreneurial activity with not only the prospect of financial returns, but also limited financial risk, is that strategic entrepreneurship represents a valuable pathway to achieve this objective. Further, efforts directed toward this objective are likely to yield long-term (recurring and additional) financial returns. This is particularly relevant for businesses which are typically risk averse, have not previously undertaken entrepreneurial activity, but are interested and potentially capable of expanding the scope of the business to encompass activity of an entrepreneurial nature.

11.3.2.3 Public Sector Context

With regards to NPM, one of the key contributions from this study is the confirmation of financial and economic returns from NPM in the context of New Zealand’s SOE sector. Thus, while governments continue to review and restructure the public sector in pursuit of enhanced operational efficiency and financial effectiveness, this study lends clear support to the option of corporatisation. The implications are such that the New Zealand Government, SOEs, and the
New Zealand public can perhaps better understand the progress made to date within the SOE sector. This insight is particularly important given that prior comments on the progress of and returns from New Zealand’s reforms are unclear (Easton, 2004; New Zealand Treasury, 2000). Further, reflections on contemporary operations and performance can also provide guidance on how to improve the current system. In particular, regular and perhaps more formal communication channels between SOE executives would ensure existing knowledge is passed down from more experienced to relatively younger SOEs (and their respective management teams). Enhanced communication between Government and the SOE sector as a whole would remove uncertainty and make expectations more explicit. While this latter issue is generally working effectively, room for improvement was noted. In particular, isolated cases of SOE executives being uncertain of Government’s views or the underlying rationale for prior decisions, made a significant impact on SOE executives, and gave rise to second-guessing.

Finally, in the context of NPM, public sector administrations in other countries can learn what has worked in New Zealand, and why (i.e. the importance of contextual variables such as a strong regulatory framework). Thus, emulating New Zealand’s success involves understanding the underlying variables which have provided an environment conducive to successful operations. As noted by Angel Gurria, Secretary-General of the OECD (2008, ¶10), “understanding causality is a pre-condition to correct policy-making”. In particular, New Zealand’s SOE sector shows public assets can remain in state hands, SOEs can provide an element of security with respect to the provision of core services while also operating commercially, and returning a profit to the government as shareholders. Thus, NPM represents both a valuable source of government funds, and a valued alternative to increased funding through higher taxes, for example. Importantly, New Zealand’s SOEs are a clear example that various functions and services traditionally provided by government organisations are not necessarily reliant on ongoing government funding.

With respect to the topic of NPE, this study has introduced the concept of an entrepreneurial approach within new public management; an approach which SOEs in particular seem well-suited to given their commercial focus and the openly competitive environment in which they operate. Other contextual factors of importance include government as purchaser of outputs rather than provider of inputs, performance based contracts for SOE executives (many of whom have worked at senior levels in private sector organisations), regular and open communication between government and SOEs, and developing a level of expertise with respect to a business’s core
skills and resources before extending the scope of operations into entrepreneurial activity. The implications are such that entrepreneurship is not inconsistent with the public sector, and New Zealand’s SOEs have provided both insights (and perhaps challenges) for other countries to take on. In the short to medium term, NPE may change the way the public sector is viewed, and indeed how the public sector sees itself. In the longer term, NPE may change the way government functions and is funded, as well as redefining who private sector organisations see as their competitors.

11.4 Limitations of the Study
This study has examined strategic entrepreneurship through an examination of one activity each within 12 of New Zealand’s SOEs, using primary data over a two year period, and a range of secondary data over a 10 year period. Importantly, however, five SOEs did not participate in this study. Further, while the analysis of activity within participating SOEs focused on one of many projects undertaken, several activities may have been suitable for inclusion in this study. And as dynamic organisations, New Zealand’s SOEs continue to undertake new projects, activities, and ventures on a regular basis, which have also not been considered as part of this research. Thus, the analysis presented within this thesis focuses only on one topic, at one particular phase in time, and does not include all of the 17 (now 16) SOEs operating in New Zealand at the time this study began.

While this study provides a detailed account of activity undertaken by SOEs in New Zealand, SOEs (and variations thereof) in other countries and regions (e.g. Australia’s government-owned corporations) were beyond the scope of this research. Similarly, strategic entrepreneurship activity undertaken by private sector organisations in New Zealand and abroad was also outside the scope of this research. Thus, implications and generalisations extended to private sector businesses can only be considered indirectly.

Regarding the financial and economic returns identified in this study, a number of limitations should also be noted. First, a range of measures were used as part of the financial analysis, yet ultimately additional measures could have been considered and more detail included. By way of example, cash payments to government by SOEs were considered in terms of dividends and taxes (being the most prominent and regular type of payments disclosed in SOEs’ audited annual reports). However, other types of payments to government, not separately disclosed in SOEs’ annual reports, were excluded. Secondly, the benefit of studying contemporary activity gives rise
to the cost of being able to trace returns for only a limited number of years. Thus, it was not possible to establish the full extent of strategic entrepreneurship's financial and economic benefits for the individual activities examined. Only future developments over time will reveal the long-term implications of these activities.

In relation to the research approach, case study research while viewed as appropriate for this study continues to be criticised in the context of research on entrepreneurship within government. Specifically, Moe (1994; p. 112) refers to research of this nature as “snapshots of successful entrepreneurial projects which political leaders and public sector managers can refashion to work in their favour”. While the approach to data analysis incorporated techniques to address “refashioning” (e.g. triangulation), and included cases of both success and failure, the view expressed by Moe and the need for strategic entrepreneurship research which incorporates a stronger empirical emphasis, is acknowledged.

**11.5 Areas for further research**

This research has both addressed the questions raised at the outset of this study, but also uncovered additional issues to be addressed and explored in the future. Investigation of strategic entrepreneurship in a broader range of contexts involving both public and private sector businesses, as well as businesses in both New Zealand and abroad, will provide an enhanced understanding of this construct. Analysis and comparison of strategic entrepreneurship in other regions and forms of public sector organisations (e.g. crown entities, government departments) will provide further insight into strategic entrepreneurship in the public sector. Exploring strategic entrepreneurship in other business and industry sectors, public and private, would also be extremely useful to confirm its existence, prevalence, and compare similarities and differences.

Consideration of strategic contexts other than the resource-based view is also an important area for research, to examine the scope of strategic entrepreneurship (e.g. learning theory, real options theory). Similarly, examination of supporting elements in a wider range of businesses may provide further insight into what elements support strategic entrepreneurship, and which supporting elements are potentially most important in a public versus private sector context. Tracing the financial and economic benefits of strategic entrepreneurship over a longer time period will also provide more complete and accurate insight into the fiscal implications of such activity. And the examination of strategic entrepreneurship in a larger and more diverse range of businesses involving a sample size of statistical significance, will allow research in this area to
take more of a quantitative and empirical approach with the opportunity to compare and further verify findings from this study.

In the context of the public sector, many issues emerge as areas for future research. International comparisons of operating and financial performance particularly as NPM is refined, identification of underlying variables which both support and impede further development of NPM, long-term financial implications, and analysis of financial returns from privatisation versus corporatisation as NPM progresses; are but a few issues which surface from this study. Another area of interest is how strategic entrepreneurship is understood and may be utilised across different stakeholders and levels within SOEs. Specifically, how does strategic entrepreneurship filter through the organisation and influence organisational outcomes? Further, a number of very interesting issues emerge at the periphery of this study, including the use of branding within the public sector, and in SOEs in particular; the limits of NPM and NPE – specifically where the boundaries should lie; and issues relating to joint venture arrangements. In the case of branding, several SOEs identified benefits of having brands for reasons such as separating parts of the business, and separating the business as a whole from the traditional association of government organisations as bureaucratic, inefficient, and non-commercial. Interestingly, however, in the face of adversity, when a subsidiary of Mighty River Power was involved in the disconnection of a customer's power, and the customer subsequently died due to reliance on medical equipment in the home, branding became almost invisible and accountability was very quickly directed to Mighty River Power as the parent company. Hence, this incident and other findings in relation to branding, raise the issue of precisely what role branding plays for public sector organisations such as SOEs. What are the benefits and risks?

With respect to the boundaries of NPM, findings from this study in relation to tax planning arrangements and other controversial transactions raise the issue as to where the boundaries do and should lie. Similarly, in relation to joint venture arrangements involving SOEs, an examination of the issues, awareness and understanding, risks and returns is also an area for further attention. While public-private partnerships have been well promoted in theory and practice (Savas, 2005), various comments from SOE executives provided interesting insights and alternative views. In particular, use of the term “joint venture” perhaps informally by interviewees, was questioned on several occasions by the researcher to clarify and confirm that the arrangement was not technically a joint venture (in terms of the parties having joint and equal interests). Further, the lack of control (often as a result of having only a minority interest) led to a
lack of decision-making ability, dissatisfaction, and in some cases divestiture following financial loss. Thus, an interesting and important area of research would be clarifying SOE executives' understanding of joint venture arrangements, uncovering the prevalence of operational and financial success (or otherwise) from joint venture arrangements, and perhaps reviewing this issue from a policy perspective. Finally, in relation to NPE, questions for future research include where else is this being achieved, what are the implications, regulations, benefits and risks which have been experienced to date? Which regions and public sector administrations could potentially adopt such activity for the future?

Thus, it can be concluded that while much has been uncovered from this study in three distinct areas - strategic entrepreneurship, its financial benefits, public sector management - there is still much to learn (Kuratko & Audretsch, 2009). Such learning is essentially driven by the desire for continued discovery and new knowledge from an academic perspective; and the pursuit of success, advantage and advancement in a changing and challenging competitive landscape from a practitioner perspective. The implications of such understanding are extensive, from micro-economic benefits for individual businesses, to macro-economic benefits for governments and the economies which they seek to manage in a global marketplace.
REFERENCES


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APPENDICES

APPENDIX A

INTERVIEW PROTOCOLS

Interview protocol: first interview

SOE: _________________________________

Activity / project being reviewed: ____________

1. Introduction
   1. Brief introduction of myself and the research study
   2. Brief overview of the context/issues within the organisation I am interested in examining further
   3. Agree to be identified in the report:
      a. SOE
      b. individual(s)

2. Background on SOE’s activities and operations
   1. As a SOE operating under New Zealand’s public sector reforms, do you feel the reforms are working effectively for the company?
   2. Is there freedom of commercial choice?
   3. Is there freedom from political influence?
   4. Is the organisation working effectively under the reforms? (e.g. sustainable profits)
   5a. In terms of revenue, how much of the company’s revenue is from services provided to Government?
   5b. Can you give an indication of the difference between funding previously received as a government department, and revenue currently earned from Government as a SOE?
   5. Are there any issues regarding the amount of contributed capital (Government funding)?
      Requirement for additional capital (from Government)?
      Pressure to repay capital contributed?
      Pressure to pay increasing dividends?

3. Details of the activity/opportunity recognised as entrepreneurial
   1. Is there activity which you consider to be entrepreneurial?
   2. Ask participant to provide an overview/background details of the entrepreneurial activity.
   3. Enquire about the strategic aspect of the activity/opportunity
      e.g. deliberate strategic objective determined in advance, or an opportunity identified at a particular time?
   4. Extract additional background details relating to the situation
      Who / What / When / Why / How

4. Details of elements characteristic of entrepreneurship
   1. When/how was the opportunity identified?
   2. Is/was there an element of innovation?
   3. Identification of risk?
   4. Identified before/during/after the project?
      Level of risk? E.g. low/moderate/high/calculated
      Deliberate decision to accept risk?
   5. Flexibility within the project?
   6. Element of vision?
      (e.g. to identify the project, potential obstacles, and viable solutions to address these obstacles)
   7. Is/was there an element of growth?
      In what context?
      Financial and/or non-financial
      Regional / domestic / international
   8. Were (any or all of) these elements integrated/related?
      Was there a dominant element, or a specific focus on 1 particular element? (e.g. innovation)
      Did that dominant element or focus change over time?
9. Do you consider the activity/opportunity created any specific advantage for the organisation? Competitive advantage?
   Does the benefit/advantage continue to exist?
   Why/why not?
10. What (additional) elements do you consider fundamental in order to ensure this activity/opportunity is a success?

5. **Wealth creation**
   1. Has the entrepreneurial project(s) created wealth for the organisation?
   2. Significant profits?
      - One-off or recurring profits?

6. **Details of elements previously identified as a strategic context for entrepreneurship**
   1. Is there a particular approach to strategy within the organisation?
   2. How would you describe the culture of the organisation?
      - Is there an emphasis on people?
      - Is there an emphasis on customers?
   3. Does the organisation make use of branding?
   4. Is there a particular focus on operational excellence?
   5. Is there a particular focus on transfer and application of knowledge?
   6. Is there a particular focus on cost minimisation?

7. **Examination of the activity/opportunity in another business context**
   1. On the basis that strategic entrepreneurship may be applied to all forms of business, would (in your opinion) this activity/opportunity be possible if the organisation was of a different form?
      - E.g. small rather than large
      - Private sector rather than public sector?
   2. Was the opportunity available to other organisations/competitors in the industry?
   3. Why/why not?

8. **Other details and conclusion**
   1. Are there any other issues the participant would like to raise / matters which are relevant to the discussion?
   2a. Are there any documents/publications which are available and relevant to the study?
   2b. Is there anyone else within the organisation who you suggest I contact to gain additional information, or further insight into the issues discussed?
   3. Challenge for the future?
   4. Thank you for your time
Interview protocol: second interview

This document details the protocol to be followed for participants being interviewed for a second time. It provides an outline of the topics to be explored in further detail, and aims to ensure a consistent approach is adopted when interviewing individual participants.

SOE: _________________________________

Activity / project being reviewed: ___________

1. Introduction and overview of issues raised in initial interview
   1. Thanks for your time
      Identify any issues from primary or secondary data which I would like to confirm
      Identify issues referred to in previous interview(s) which I would like to explore in more detail

2. Update on the entrepreneurial and/or strategic activity
   1. Progress / developments in project x over the past year?
   2. What developments have not yet been made / are planned for the future?

3. Financial returns:
   1. Approximate revenue in 2005 from the project (in $ or as a % of total revenue for 2005) _____
      Approximate profit in 2005 from the project (in $ or as a % of total profit for 2005) _____
   2. Approximate revenue in 2006 from the project (in $ or as a % of total revenue for 2006) _____
      Approximate profit in 2006 from the project (in $ or as a % of total profit for 2006) _____

      Year the project commenced ________
      Duration of the project ________ yrs, or ________ no fixed period

      Nb. If 2005/6 are not relevant to the project, please indicate figures for 2 consecutive years which are relevant to the project

3. Are revenue and profits continuing to increase from the project?
4. Related projects / spin offs?
5. Additional strategic/entrepreneurial projects undertaken?
   - similar in nature to activity under review
   - different in nature to activity under review
   - why/why not undertaken?

4. Aspects of risk relevant to entrepreneurial activity
   1. In previous discussions with SOEs, a variety of forms of risk were identified as relevant to undertaking entrepreneurial activity. Which of the risks below are considered relevant to strategic /entrepreneurial projects such as _____?
      ____ financial (ie that the costs or returns may be higher/lower than expected)
      ____ commercial (ie that the project may not be commercially successful or viable)
      ____ competitor (ie that competitors may be dissatisfied with the activity undertaken)
      ____ political (NZ) (ie that the activity may give rise to political issues in New Zealand)
      ____ political (Int’l) (ie that the activity may give rise to political issues abroad)
      ____ public accountability (ie that the NZ public may be dissatisfied with the activity undertaken)
      ____ reputational risk (ie that the activity may have a negative influence on the company’s reputation in general)

   2. Are there any other risks relevant to the project or the SOE’s entrepreneurial activity in general?
3. Of the risks identified above, which is considered the biggest risk relating to entrepreneurial projects such as _____?
4. Were these risks anticipated in advance, or were they identified as the project progressed?
5. Was it possible to quantify these risks in advance?

5. Risks versus returns
1. What, if any, returns or benefits are relevant to projects such as ______, in addition to financial returns?

6. Updated information on SOE context
6. Do you (still) feel the reforms are working effectively for the company?
7. Is there (still) freedom of commercial choice?
8. Is there (still) freedom from political influence?
9. Is the organisation (still) working effectively under the reforms?
10. Do you (still) feel the Government's announcements re SOEs have had little impact on the way you are operating?
11. Are there any issues regarding the amount of contributed capital (Government funding)?
   Requirement for additional capital (from Government)?
   Pressure to repay capital contributed?

7. Updated information on the strategic context
1. Has there been any change to strategy within the organisation since we last spoke?
2. Has there been any changes within the culture of the organisation?
   - people?
   - customers?
3. Is branding (still/now) important to the organisation?

8. Governance and support
1. Are there any formal meetings held between SOEs during the year?
2. Are the Minister for SOEs and CCMAU considered supportive?
3. During the 2006 there have been a number of changes in SOEs' board of directors. Do SOEs have any input into the changes made to the board of directors?
4. What support do you look for from the BOD?
5. Do you feel that the BOD provide the necessary support?

9. Other issues and conclusion
1. Discuss any other matters the participant considers significant within the scope of the study
2. Thank you for your time
## APPENDIX B  HIGHS, LOWS, AND CCMAU’S VIEW ON SOE PERFORMANCE

<table>
<thead>
<tr>
<th>Company name</th>
<th>Achievements / recognition</th>
<th>Criticisms</th>
<th>CCMAU’s views</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgriQuality</td>
<td>• In 2005, AgriQuality was the most accredited provider in the southern hemisphere of independent auditing, inspection, and testing services in the food and agricultural sectors (AgriQuality, 2005).</td>
<td>• In 2002, allegations of unfair pricing were made in relation to AgriQuality’s then monopolistic position. Subsequent tenders for the relevant contracts resulted in a decrease in price of 33% (Stevenson, 2002). • In 2002, AgriQuality was subject to significant criticism for refusing to answer questions before a Parliamentary Select Committee (Carnachan, 2004).</td>
<td>• AgriQuality has traded profitably and has consistently performed well in terms of revenue growth, ROA, and ROE (CCMAU, 2005).</td>
</tr>
<tr>
<td>Airways</td>
<td>• In 2003, Airways was voted the best air navigation services provider in the world, based on value for money and quality of service by the International Aviation Transport Association, representing 280 of the world’s airlines. • In 2006 Airways received three high profile information technology awards including the Overall Excellence in IT award from Computer World magazine for its development of an air traffic control simulator (Airways, 2006).</td>
<td>• In 2005, Airways was subject to significant criticism regarding a financing arrangement it had entered into involving a number of overseas investors (including those located in the US and Cayman Islands). The lease-in lease-out arrangement created tax benefits for the overseas investors, and resulted in a one-off payment of $29.5 million to Airways as consideration for the benefit received under the arrangement (Gorman, 2005a, 2005b). Of particular criticism, was the secrecy surrounding the arrangement, and the lack of disclosure in Airways’ financial statements.</td>
<td>• Since the late 1990s, Airways’ performance has been “consistently excellent”, with strong growth, an efficient capital structure, and strong ROE (CCMAU, 2005, p. 43).</td>
</tr>
<tr>
<td>Animal Control Products (ACP)</td>
<td>• Animal Control Products (ACP) has gained worldwide recognition in the pesticide industry (Rural Press, 1997).</td>
<td>The Government has received ongoing criticism over Animal Control Products’ poisonous pesticide 1080 (sodium fluoroacetate), due to its environmental and ecological effects (Murdoch, 2001). The compound, which represents a significant portion of ACP’s revenue, is effective in managing the country’s problem with imported possums (over 70 million), ferrets, stoats, and rats, some of which are carriers of tuberculosis. However, its environmental impact has been challenged.</td>
<td>Animal Control Products achieved an impressive result in 2005, with diversification resulting in less reliance on the sale of 1080 (CCMAU, 2005).</td>
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<td>Asure</td>
<td>• In 2004, Asure received the BearingPoint Award in Management of Information for its development of Pi3, a management information tool which provides a “3 dimensional visual picture of a business to indicate where the processes can be improved” (Scoop, 2004b).</td>
<td>• Asure was subject to public criticism over the preparation of a “Goneburger list”, which identified individual staff and their performance issues in terms of “bitter and twisted”, “cunning”, and “uncontrollable”. The list was prepared by a group of Asure’s account managers in response to the then Chief Executive’s request for performance problems to be identified (Martin, 2000).</td>
<td>• Since restructuring, Asure has built up a solid profit record, and has been successful in balancing tensions of tight cost controls for its meat inspection services, and the demands of its highly unionised workforce (CCMAU, 2005).</td>
</tr>
<tr>
<td>Genesis</td>
<td>• In 2006, Genesis won the Australasian Reporting Award for its 2005 annual report (Genesis, 2005).</td>
<td>Genesis has been criticised (as has much of the energy industry) in relation to reliability of supply, increasing costs, and lack of due regard for customers in times of increasing prices (Grey Power New Zealand, 2005; West, 2004).</td>
<td>Genesis’ performance has been steadily improving since corporatisation in 1998. A low gearing ratio (long-term debt / (long-term debt + equity) has been maintained due to continued capital expenditure commitments (CCMAU, 2005).</td>
</tr>
<tr>
<td>Landcorp</td>
<td>• Landcorp has received a number of environmental awards including two from the Deer Industry Association and Environmental New Zealand in</td>
<td>Of the criticism directed at Landcorp, much of it relates to the significant debate over whether the organisation should be Government-owned or Landcorp’s financial performance is dependent on exchange rates and</td>
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<td><strong>2004, and a further two awards from the Department of Conservation and Environment New Zealand in 2005.</strong></td>
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<td><strong>The SOE has outperformed competitors nationally and internationally in the meat and wool industry, as well as in lambing percentages (Leggett, 2004, 2005).</strong></td>
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<td><strong>privatised (Leggett, 2004). In 2005 the National Party confirmed its policy would be to sell Landcorp, given the opportunity.</strong></td>
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<td><strong>Landcorp has also been criticised for the effect of its operations, referred to as a Government embarrassment, converting “carbon-sink forestry land into dairy farms” (Stride, 2007).</strong></td>
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<td><strong>commodity prices. While shareholder value has increased dramatically, most of this is non-cash (e.g. increases in asset revaluation reserves) and therefore difficult to return to shareholders via dividends (CCMAU, 2005).</strong></td>
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</table>

| **Learning Media** |
| **Prior to becoming an SOE in 2005, Learning Media was a finalist in the 2003 Distinguished Achievement Awards run by the United States Association of Educational Publishers, for innovative teaching materials (NZ Government, 2003).** |
| **The Government and Learning Media were criticised for poor controls when then Chairman and acting Executive Chairman, Don Sollitt, claimed and received excessive remuneration payments. An inquiry into the payments coincided with Sollitt’s resignation, but no legal action was taken (Donoghue, 2003; Donoghue, 2004; Haines, 2004).** |
| **Since 2002, Learning Media’s revenue and profits have decreased due to internal issues and changes in the company’s operating environment. The company has undertaken restructuring to address these issues (CCMAU, 2005).** |

| **Meridian** |
| **Meridian was awarded the Institute of Chartered Accountants New Zealand Supreme Award for the SOE’s 2004 annual report (Meridian, 2005).** |
| **In 2005 Meridian sold its Australian subsidiary, Southern Hydro, earning $600 million in profit from the sale (Steeman, 2006), and numerous accolades from the New Zealand Government.** |
| **Since 2003, near record inflows into the Waikato River have resulted in strong profitability (CCMAU, 2005).** |

| **MetService** |
| **MetService has received a number of awards including Business to consumer TUANZ (e)-vision award in 2003 and 2004 (MetService, 2004b). Safety innovation in 2005 (MetService, 2005), Excellence for the use of IT in customer service and Wellington’s Exporter of the Year in 2006 (MetService, 2006).** |
| **MetService has been criticised for anti-competitive behaviour in Australia and New Zealand (Hunt, 1996a, 1996b), as well as for incidences where weather forecasts have failed to provide adequate advance warning of severe weather patterns (New Zealand Herald, 2007).** |
| **MetService has successfully won the world’s largest weather services contract in 2004 with the British Broadcasting Corporation (MetService, 2005).** |

| **Mighty River Power** |
| **Chief Executive Doug Heffernan was a finalist for the Executive of the Year award in 2005 (Management, 2005).** |
| **Chair Mike Challinor was a finalist for the Chairperson of the Year award in 2004 (Deloitte, 2004).** |
| **In 2007 Mercury Energy, Mighty River Power’s subsidiary, disconnected the power of a residential customer due to non-payment of invoices. The woman, who relied on medical equipment within her home, subsequently died (O’Sullivan, 2007).** |
| **Mighty River Power relies heavily on hydro generation. Since 2003, near record inflows into the Waikato River have resulted in strong profitability (CCMAU, 2005).** |

<p>| <strong>New Zealand Post</strong> |
| <strong>In 2004, NZ Post was ranked third in the global postal industry (Hogg, personal communication, December 1, 2004).</strong> |
| <strong>In 2000 NZ Post won New Zealand’s Business Excellence Award (Schouten, 2000).</strong> |
| <strong>NZ Post has been very publicly criticised for unsuccessful overseas ventures costing millions of dollars, including projects in South Africa and Spain (Van den Bergh, 2004). As a result, it was the first government organisation to be referred to the New Zealand Parliament’s Privileges Committee. Investigations revealed extravagant and unnecessary spending, expansion without any formal business plan, and locating staff</strong> |
| <strong>Since 1999, NZ Post’s performance has been steadily improving with a respectable ROE. In 2001, NZ Post established Kiwibank, which has shown rapid growth and exceeded business forecasts (CCMAU, 2005).</strong> |</p>
<table>
<thead>
<tr>
<th>Company</th>
<th>Event</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Railways Corporation (Ontrack)</td>
<td>• NZ Railways was a finalist in the 2007 Engineering Excellence Awards (Scoop, 2007).</td>
<td>• NZ Railways was criticised for closing regional railway lines due to safety concerns resulting from lack of maintenance (West, 2007).</td>
</tr>
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<td></td>
<td>• NZ Railways was criticised for closing regional railway lines due to safety concerns resulting from lack of maintenance (West, 2007).</td>
<td>• Prior to 1994, NZ Railways’ profitability was considered moderate. The size of the company and tasks it has undertaken since 2004 are now substantially larger (CCMAU, 2005).</td>
</tr>
<tr>
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<td>• NZ Railways was a finalist in the 2007 Engineering Excellence Awards (Scoop, 2007).</td>
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<tr>
<td>Quotable Value</td>
<td>• Quotable Value won the best use of television category in the Advertising Association of New Zealand awards in 2006 “which was quite a coup because we only spent $80,000 on television media for that campaign, and I guess there was over $800 million spent on television advertising in the year” (Senior Executive, personal communication, 2007).</td>
<td>• In 1998, prior to being corporatised as a SOE, Quotable Value was criticised for selling information about people and their houses to direct-marketing companies (Bell, 1999).</td>
</tr>
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<td></td>
<td>• Quotable Value won the best use of television category in the Advertising Association of New Zealand awards in 2006 “which was quite a coup because we only spent $80,000 on television media for that campaign, and I guess there was over $800 million spent on television advertising in the year” (Senior Executive, personal communication, 2007).</td>
<td>• Quotable Value continues to outperform its targets, due to good cost control and successful performance in its more profitable areas (CCMAU, 2005).</td>
</tr>
<tr>
<td>Solid Energy</td>
<td>• Solid Energy was given a New Zealand Trade Export Commendation in 2000 and Award in 2001 for winning a $60 million contract with Nippon Steel over two years, and increasing subsequently steel exports to record levels (Trade New Zealand, 2000, 2002).</td>
<td>• In 1999, unfavourable currency hedging resulted in a loss of $86 million, and led to the appointment of a new board (CCMAU, 2005).</td>
</tr>
<tr>
<td></td>
<td>• Solid Energy was given a New Zealand Trade Export Commendation in 2000 and Award in 2001 for winning a $60 million contract with Nippon Steel over two years, and increasing subsequently steel exports to record levels (Trade New Zealand, 2000, 2002).</td>
<td>• In 2007, Solid Energy was criticised by the Prime Minister for contracting private investigators who hired spies to attend environmental activist meetings (Hagar, 2007).</td>
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<td></td>
<td>• In 2007, Solid Energy was criticised by the Prime Minister for contracting private investigators who hired spies to attend environmental activist meetings (Hagar, 2007).</td>
<td>• After some challenging years, Solid Energy has produced strong earnings since 2000 (CCMAU, 2005).</td>
</tr>
<tr>
<td>Timberlands</td>
<td>• In 2000, Timberlands was controversially given an environmental award for sustainable logging (Evening Post, 2000).</td>
<td>• Timberlands has been criticised for over-logging of New Zealand’s native forests and hiring a public relations company to promote acceptance of its operations (Hubbard, 1999).</td>
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<tr>
<td></td>
<td>• In 2000, Timberlands was controversially given an environmental award for sustainable logging (Evening Post, 2000).</td>
<td>• Historically Timberlands has struggled to achieve a &quot;fair return&quot; on its estimated cost of capital (being 8%) (CCMAU, 2005).</td>
</tr>
<tr>
<td>Transmission Holdings (now Kordia)</td>
<td>• Transmission Holdings’ subsidiary, Orcon, won the TUANZ Innovation Award in 2007 (Waikato Times, 2007).</td>
<td>• In 2007, Kordia was criticised for contracting with the government-owned Myanmar Post and Telecommunications, due to the country’s poor human rights reputation (The Press, 2008).</td>
</tr>
<tr>
<td>Transpower</td>
<td>• In 2006, Transpower won a silver merit award from the Association of Consulting Engineers New Zealand for their repair of equipment linking the electricity grid between the north and south islands of New Zealand (Gorman, 2006).</td>
<td>• Transmission Holdings performance improved in 2004 due to a buoyant market. Performance in 2005 was ahead of budget (CCMAU, 2005).</td>
</tr>
<tr>
<td></td>
<td>• In 2006, Transpower won a silver merit award from the Association of Consulting Engineers New Zealand for their repair of equipment linking the electricity grid between the north and south islands of New Zealand (Gorman, 2006).</td>
<td>• Ongoing power concerns throughout New Zealand over the past ten years (New Zealand Herald, 2006) have caused significant adverse publicity for Transpower.</td>
</tr>
<tr>
<td></td>
<td>• Ongoing power concerns throughout New Zealand over the past ten years (New Zealand Herald, 2006) have caused significant adverse publicity for Transpower.</td>
<td>• Transpower has been publicly criticised for poor service, poor relations and progress made with industry regulators, together with a lack of genuine concern and poor communication with stakeholders.</td>
</tr>
<tr>
<td></td>
<td>• Transpower has been publicly criticised for poor service, poor relations and progress made with industry regulators, together with a lack of genuine concern and poor communication with stakeholders.</td>
<td>• The company was also criticised for two financing arrangements - a lease-in lease-out arrangement (similar to that entered into by Airways) which resulted in tax benefits for overseas parties, and a one-off payment of $34.5 million for Transpower, and a structured loan arrangement whereby Transpower borrowed $700m at a lower interest rate and on-lent $500m to other companies (Senior Executive, personal communication, 2006).</td>
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<td>• The company was also criticised for two financing arrangements - a lease-in lease-out arrangement (similar to that entered into by Airways) which resulted in tax benefits for overseas parties, and a one-off payment of $34.5 million for Transpower, and a structured loan arrangement whereby Transpower borrowed $700m at a lower interest rate and on-lent $500m to other companies (Senior Executive, personal communication, 2006).</td>
<td>• CCMAU (2005) refers to Transpower’s performance as “steady” (CCMAU, 2005, p. 79).</td>
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APPENDIX C

SUMMARY OF ACTIVITIES UNDER REVIEW

<table>
<thead>
<tr>
<th>Activity</th>
<th>Project details</th>
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<tr>
<td>1</td>
<td>Automated laboratory services for testing of food samples, and online release of results. We grew our microbiology substantially over the last five years to distinguish our contracts and operational excellence. And what’s happened is we experienced an increasing need to have more people and more space so we were looking for automation to try and counter demand, and we found that in an [overseas] company. So we went to [Europe] and had a look at the laboratories they set up in the Netherlands and the UK. We came back and put a business case together, and we found that we could increase our capacity, reduce our costs and we could increase profits. The first laboratory in New Zealand, we did in 2005. And the one in Australia was in 2006. So that [first] laboratory when it started had eight staff, it is about 180 now. And then also the competitive advantage for us is the ability to provide more accuracy, traceability; because every action is actually documented and followed through. And also, we can see the plates photographed and the customers can actually view that over the web. One of the things that we have is that we’re very interactive with our customers. Using our high-tech platforms, customers anywhere in the world can actually dial in to our database and get results. So because quite a lot of our customers export product, it could be to Singapore or to Australia, and because of the time zone differences, it was always an issue, “Why would you send stuff to New Zealand and test it?” And a lot of warehouses operate overnight. So with each finished product we can look at the test results, grade products, and they can dial in to our database any time and get the results. So that’s stood us in good stead in terms of services and testing. And we can give our clients’ access [to the database if requested]. We call it our customers’ customers’ acumen, and they use us in a lot of cases to showcase their products (Senior executive, Activity 1, 2006).</td>
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<td>2</td>
<td>Training simulator software for air traffic controllers We’ve developed tower simulator software which we’re just using for the first time ourselves, and we’re also starting to market that. It’s like an aircraft simulator but it simulates sitting in the control tower. So it’s quite freaky; it looks like you’re looking out the control tower. It’s got eight data-show projectors with 180 or 360 degree views, six screens, and you can simulate whatever runway [you like]. So it takes a real digital photo of the airport, and then simulates planes landing and taking off, and you can paint whatever kinds of scenarios you want. It’s running in our training school. We’re using it for the first time; we’re just coming to the end of the first six month course on it. And then we are starting to market that, so that’s another product we sell, as well as just small computer-based training (Senior executive, Activity 2, 2006).</td>
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<td>3</td>
<td>Business management software for an organisation’s policies, procedures, and controls It is about improving operations and improving structure and improving accountability for what we’ve done. And really, it’s an electronic framework that depicts a business, but you click on various bits of the business and you drop down into lower levels, right down to the base operating documents. So it’s really an electronic structure that everybody in the business is connected to. And what it does is provide a context for the framing of the business operations and brings a discipline to the organisation. And the direction behind that really was that if you’re going to prove the results of your business, you’ve got to measure what the results are; you’ve got to measure what’s going on in the business. And a lot of stuff that happens in a lot of businesses isn’t measured effectively. You know, you can measure the financials and things like that, but the day-to-day bits that make up the financials [are often not measured]. [Companies] don’t really measure the inputs. [It was] developed in-house, for our personal use. And then we realised it had some commercial potential and applicability to any business (Senior executive, Activity 3, 2006).</td>
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<td>4</td>
<td>Energy generation plant located in a regional district of Auckland This power station is quite entrepreneurial. Basically, all of the electricity that gets to people in Auckland and Northland is morphed [from South Auckland]. It all comes from power stations [in South Auckland and] further south, and there are transmission constraints through Auckland and so the security of supply for electricity in the [regions north of Auckland] is becoming less and less reliable each year as demand grows. And demand, for example, in the [project] area has about 5% growth per year. So there’s huge demand for electricity, constraints through West Auckland on the grid, and so we decided that it would be a good idea to build a power station north of the constraint. So we identified a site, a green-field site, just north of [Auckland] and we are very close to lodging resource consent applications with the councils to build a gas-fired power station. It will be about a $420 million project. So what we’re going to plan to build is a 240 megawatt gas-fired power station to start with, and then upscate it to 360 [megawatt] a few years after that, which is when demand requires it. In terms of strategic and entrepreneurial, [it is a] very strategic investment in terms of providing energy and energy products within electricity, because within electricity there’s energy and there’s also a range of other things. But basically, it’s providing security of electricity supply north of Auckland. [It’s also] entrepreneurial in the sense that we’ve pushed the boat out [in terms of using a green-field site] (Senior executive, Activity 4, 2006).</td>
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| 5 | Leasing and cultivating land for farming I think the big [project] that we have been doing for two years now, is the one where we are both the development partner and the lessee of an eventual farming business with 25,000 hectares of land in the middle of the North Island. Four Auckland businessmen bought the forests, they own the land and they’ve contracted [us] to both develop the land from forestry to farmland, and then farm the land for the ensuing 45 years. It’s a 45 year lease. There’s two parts to it. One is a
| 6 | Programme of operational and financial arrangements (i.e. energy equipment and supply) tailored to large-scale organisations based on their individual energy requirements  
We have set up a company, which is still a business unit in [the SOE, and] essentially its value proposition is going to customers and identifying their total energy needs. It’s targeted at commercial customers and those customers that have a large heat requirement or a large electricity requirement, perhaps water [requirements] as well. We invest in the infrastructure, which will deliver that to the customer very efficiently.  
For a lot of customers, large customers in particular, energy management isn’t really their core business and they’re typically capital constrained. What we can offer is, we’re willing to invest in the capital, to say replace their energy equipment; they might have a very old inefficient boiler because they need processed heat. So for a dairy process or a mill, we invest in that capital, put in efficient technology; in this case it might be coal technology, it could be gas technology, it could be whatever; but it’s highly efficient, with lower emissions. And then we’ll offer the output of that, so the heat-load, the electricity-load, water management, whatever it is; to the customer over a long-term contract, a 10-15 year supply contract. So the customer’s not having to invest in the capital [asset]. But they get the benefit of the efficient infrastructure (Senior executive, Activity 6, 2006). |

| 7 | Innovative graphics software which presents 3-dimensional images of landscapes and weather systems  
It was very clear, that as well as [our core business], we should start to get better at disseminating the [information]. And the first place we started was graphics presentations [of information] in newspapers. Then TV1 [Television New Zealand Limited], approximately 10 years ago, wanted to upgrade the weather presentation. They came along and said could you provide a meteorologist that could help us with the graphics design. So we jointly developed some software.  
It was a reasonably basic programme we put together. TVNZ later decided that their core business wasn’t software development, so we took [it] over, and we invested quite a bit in a second development of it which would make it possible for television stations which had their own meteorologists, to actually manipulate the graphics themselves. And so we made our user-friendly version. And it’s the one which has been taken up by [customers] in Australia, New Zealand, the Middle East, and the British Broadcasting Corporation (Senior executive, Activity 7, 2006). |

| 8 | Geothermal exploration and development  
The company’s main focus is geothermal. Since the company was formed we’ve purchased one geothermal power station and we’ve acquired an equity interest in another geothermal power station. And as part of our development strategy over the last three years we’ve built a big geothermal team; geo-technical people, scientists and the like. And we’ve spent, effectively on research, exploration and development really, close to $100 million in geothermal over the last couple of years. And as a result of that we have just consented one power station [in the North Island], which we hopefully will begin constructing at the beginning of next year (2007), and we should have at least another one underway within the next two years at another site.  
Really from the seventies ’til we started doing a lot more work, there hasn’t been a lot of research gone into the geothermal sphere, so that’s been our big thrust. That’s our main development focus. There was really only one other player, and we saw an opportunity to build a business; well expand our business, build a geothermal-based generation business. And I don’t think the decision to go to geothermal was driven so much by a sort of differentiation objective; it was really more to do with probably two aspects. One being that we had some existing capability so we felt we could leverage off that, and the relationships we already had were with people; we needed access to their land. And the other one is that geothermal is the only base-load renewable, it’s the only renewable that runs 24 hours a day. Wind just goes when the wind blows and hydro goes when the water falls and solar goes when the sun shines and geothermal just goes. And so in that respect, from a risk perspective it’s actually a relatively high-value renewable (Senior executive, Activity 8, 2006). |

| 9 | Repurchasing New Zealand’s railway network (previously privatised)  
So since September 2004, [we] inherited the rail track. The Government bought the rail track for $1 (one dollar) and gave it to [us]. And due to the private ownership, it was very run down. The privatisation experience turned out to be quite disastrous [for rail]. So the main strategic focus for [us] is trying to bring that rail infrastructure back up to a sort of ‘fit for purpose’ standard. And that really reflects the Government’s national railway strategy. We’re all interested in upgrading rail as an environmentally friendly, alternative form of transport. So that’s our main strategic focus.  
But in terms of entrepreneurial activity… I don’t think we’re really in an entrepreneurial phase. We’re just there trying to get the basic infrastructure up to scratch and we certainly wouldn’t be looking to provide advice to overseas rail lines. (NZ Post does that sort of thing – overseas consulting), because we sort of work pretty hard to just get enough staff and enough expertise to do the basic stuff really. So it’s very much more of a strategic focus there. And the main elements of that are really renewing and upgrading the rail network [due to] lack of maintenance and an enormous amount of renewals, which are actually just replacing stuff which periodically wears out. We’ve got an ongoing programme of renewals and basically our engineers say that it will be another two years before we get the network back into a reasonable shape. The sort of work that we do includes enabling the tracks to carry heavier loads, putting in passing loops so that more trains can operate on the lines (Senior executive, activity 9, 2006). |
An immediate, online valuation programme encompassing any property in New Zealand
Access to the property information has historically been available to customers through a computer system whereby you needed effectively to be a large organisation who could afford to buy some pretty extensive computer equipment and a dedicated line, to have online access. At the time we took over we made the decision to move that information across to the internet, and basically open up that data to any individual in the country. [Previously] you had to go into the council and see it. But now you can jump onto the website and see it. [So] we’ve created it as an opportunity for the public of New Zealand to gain access on property information for any house, property, they’re buying or selling: what’s its value, what’s its land-size, who owns it, when was it last bought and sold, how much was paid for it etc. So at general level we’ve extended that information beyond its traditional market, to a much broader market.

Within the data, there’s one element, quite a good little project (because there’s a couple of different elements), which is a bit more detailed, and that is rather than just selling data (e.g. the rates valuation on a property) we have developed a tool which replicates the activity that a valuer does; but it does it online instantly. So you can jump onto our website, you can run the (programme) and in three seconds you can have an estimated market value of your property. It doesn’t have some of the output that a full registered market valuation does, but it introduces a whole new product line which, for a relatively small amount of money, provides an instant estimate of a property’s market value. Essentially for any property in New Zealand. So it’s taking what has traditionally been a profession selling a service, and delivering a completely new product with a completely new market (Senior executive, Activity 10, 2006).

10

Company restructure and plans to manage networks for various organisations
The entrepreneurial bit is here actually, the restructure of the group. And there are a lot of other things we’re doing to support this. We’re having a re-branding exercise to support [the group] and our new focus, because people don’t know who we are. The main drive is actually creating this [group] concept so that we’re all running together and also pushing the day-to-day stuff further down into the operations. And that will drive performance. We’re trying to put one system across the three companies; one branding exercise. We’ve got three financial [systems], works management [systems], although some of them are pretty clunky to say the least and can’t actually deliver that performance. So [we’re] actually putting quite a big investment in the budget, to put things in place that can actually enable us to do this. Because at present, it’s actually [an obstacle].

We’re moving [beyond] our [traditional business market]. So the plan’s all about that. Maintaining our current market, but also moving into other areas, so we’ve got very much a more outward looking focus. So let’s use our skills in other areas. We are going to face a bit more competition but there are opportunities out there. It’s a very different business model. More opportunities, [but also] a lot more risks (Senior executive, Activity 11, 2006).

11

Cost-effective and tax-effective financing arrangements (e.g. lease-in lease-out and structured loan arrangements)
[We have been] entrepreneurial in the past in terms of the way we’ve sought out financing arrangements so we have had two in particular which have drawn media attention: one, a cross-border lease arrangement and one, a structured finance transaction. Both of which came in for some criticism through the media but continue to have full support of the Board and of management in terms of being the right decision and actually, they did deliver significant benefits to the shareholder, and in the end to the people of New Zealand.

It involved taking advantage of provisions in the United States tax laws that delivered benefits both to the US parties [with entities in the Cayman Islands] who were involved in leasing some of our assets and then [payment to us in return for the tax advantages received by the US parties]. They paid us a fee and there were no disadvantages to us, so we received a fee for allowing this leasing opportunity to the American participants. They got tax breaks essentially for participating and we got a payment for giving, providing the opportunity. There’s a whole industry in the US of people who basically look for essentially loopholes in the law. So there’s nothing illegal, it’s just taking advantage of the law as it’s provided.

[Regarding] the structured finance arrangement, that was where we needed to raise some debt and we borrowed $700 million, on-vent $500 million of that to other parties and retained $200 million of debt ourselves. Essentially what that meant was that we got a better rate for borrowing more money and we passed on a big chunk of it to other parties. Obviously it was all arranged with banking institutions so that was done to save us on the $200 million loan. We borrowed $200 million at a lower interest rate than we otherwise would have got.

Those transactions were in 2002/2003 and the media criticism came in 2005. It hasn’t put us off them at all and we may enter similar transactions again in the future if they make financial sense, so there’s still an appetite for entrepreneurial type schemes. I think anyone from the financial sector who has looked at it, has accepted that it was a very good arrangement, a very astute decision by the company (Senior executive, Activity 12, 2006).

12
### APPENDIX D  SUMMARY OF ACTIVITIES UNDER REVIEW: DEVELOPMENTS ONE YEAR LATER

<table>
<thead>
<tr>
<th>Activity</th>
<th>Project developments 1 year later</th>
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| 1        | Automated laboratory services for testing of food samples, and online release of results  
In New Zealand it’s worked really well for us. In terms of Australia, one of the assumptions over in Australia was to build volume, and that’s something that hasn’t worked as well as we thought it would, and that’s again, a function of business development. In New Zealand it’s actually working exactly the way we had forecasted; in Australia we’ve got a bit more work to do (Senior executive, Activity 1, 2007). |
| 2        | Training simulator software for air traffic controllers  
We haven’t sold the simulator, which is always disappointing. It’s quite a crowded, competitive space. There’s quite a few people selling simulators. On one level I’m not that surprised, but we’ve got some quite good leads. Malaysia is one and Brazil’s another. And I think in the next three or four months, we’ll have a pretty good chance of selling that as well.  
Training is sort of steadily tripping along, pretty much as it’s been. It’s been quite steady. There’s a big worldwide shortage of air traffic controllers, and it’s getting worse, and so there’s quite a lot of activity going on to fill training needs (Senior executive, Activity 2, 2007). |
| 3        | Business management software for an organisation’s policies, procedures, and controls  
We’re actually working through a sale process at the moment, so we’re actually looking to sell the whole thing, and then become a licensed re-seller for it. And we’ve done a deal which will be closed, pending some patent investigations in the US. So we’re just waiting for those [to come through]…there’s about 10 days left to run before the deal finalises. So we’ve actually done a deal with the IT company that did the initial development work for us. [So they are the purchaser.]  
And that’s a local company?  
Yes, that’s a local company; they’re just down the road here. And they have quite a business based in the US, and they see potential in the US for it (Senior executive, Activity 3, 2007). |
| 4        | Energy generation plant located in a regional district of Auckland  
Well, from a strategic point of view quite a lot has changed in the last year. And the reasons driving that are largely climate change and global warming. And you’d be aware that there’s been a lot of international reports, and a lot of drivers for change coming internationally from the inter-governmental panel on climate change, and from the Stern report from the UK.  
And in December last year [2006]…the Government of New Zealand issued a draft energy strategy.  
And associated with that, they had two other papers. The government had put out a paper on pre 2012 transition, because we’re a Kyoto signatory - different for Australia. So we’ve got obligations to meet by 2012 on CO₂ emissions or greenhouse gas emissions. And then there’s a post 2012 period. So we prepared a very substantial submission on those papers, and put it together. It didn’t expressly say that [we had to shut down some of our power stations] in the report in words, but there was one graph in the report that showed a greenhouse gas emissions profile…[going from] here at 10 million tonnes per annum, to [dramatically downwards]. And of that 10 million tonnes (it might only be eight million in total, something like that), for the total energy sector of New Zealand, much is [our power station], and the rest is Contact [Energy].  
So, the only way to get from there [high] to there [low], is to take [our power station] out over a one year period.  
And so what we did is we said ‘ok, that’s all well and good, but if you did that, there’s a huge risk to the country and the economy from a security of supply point of view, because that’s taking out New Zealand’s largest power station, with nothing to back it up, if you take it out. And there’s huge cost implications because if you start doing that, the way that the electricity market in New Zealand is structured is that the wholesale price of electricity will just go through the roof, and no one will be able to afford to buy it. And then you’ll have energy and fuel poverty issues. We’ve already got fuel poverty issues in New Zealand. So that was just basically a nightmare for us, when we saw that. And so we came back in our submission with those arguments, that it’s a huge risk to security of supply, massive cost implications for consumers, far too aggressive, unbelievably aggressive, and just not achievable.  
With developing [our current] project, there is absolutely no political appetite for [it]. Well, the Government has gone green. So in February after the Government announced their energy strategy, the Prime Minister then made a number of speeches, claiming that New Zealand could be carbon neutral, and that New Zealand should work towards sustainability, kind of starting with carbon neutrality for all government departments, and, sort of started talking up the Green vote basically. And so all of a sudden, the Government finds itself in an embarrassing situation.  
And when you say plans, are those plans approved?  
No, the plan is [at the stage where] we’re lodging our resource consent applications theoretically; I haven’t been told otherwise. Theoretically, tomorrow we will lodge our applications for Rodney with the district council for a plan change, and for resource consents for water and air discharges. I don’t know if we’ll meet that deadline, but that was the plan. So the plan at the moment is to continue on as quietly as we can, getting consents in place, which we’ll be working on. And at the same time, we’re still very aggressive in other renewable developments, and in diverse renewable developments.  
If we do proceed and we get some investment decision to proceed as made by the Board, I think we’re looking at winter 2010 or 2011. It could be 18 months to two years to get through the consenting process. We fully expect to go through the...67  
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67 A private sector energy company (formerly owned by the Government).
Leasing and cultivating land for farming

[The pastoral [project]-] that’s progressing well. Since I last spoke to you we are now milking 2,000 cows which we have milked through this last season. There’s an additional 5,000 being milked this coming season. That’s to budget on time, and it’s going really well. And we were rather lucky because we had some really good climatic conditions which meant we had a good production season. So we were on budget, both on production - the amount of milk, and also value. So the first year is going well.

And the development programme is still going well. That’s again on track, and we’ve cleared another, I think from memory about 800 hectares, so that’s going well (Senior executive, Activity 5, 2007).

Programme of operational and financial arrangements (i.e. energy equipment and supply) tailored to large-scale organisations based on their individual energy requirements

Well, [the project] was something that we [did quite early on], and then obviously we’ve added additional projects in the last few years. [It’s one] of our oldest subsidiaries and it continues to operate well (Senior executive, Activity 6, 2007).

Innovative graphics software which presents 3-dimensional images of landscapes and weather systems

It’s really grown into two systems now, so there’s [the initial programme-] which is your full blown version that a user would buy, and there’s a side product which is called Clip. So there’s two different markets as such. [The initial programme] is for your big commercial television networks, who want a full blown weather system, who want to have quite an element of control over what they produce every day on the system, in terms of the look and feel, and they can change the camera angle and all those things on a daily basis, and where they want to zoom in etc. So there’s a lot more power to them as a user. Clip, we recognised as a secondary market where you’ve got smaller regional stations who basically just want to be e-mailed their [service] every day. So it’s a pre-rendered service that we provide from here, and we actually e-mail out to the customer. So every day they just get their link, they click on it and they play it. And they typically don’t have a presenter, so quite a few of the regional stations, they just want to show the [service]. So that’s Clip Media.

But there’s also Clip Mobile as well. So we have not only made our first Clip [Media] sales, we’ve actually now made our first mobile sales as well, with [organisations] in the UK, so you can download Clip [Mobile] to your mobile phone and watch the [service] for the day. So, [the initial project] is still very important to us and we’re still growing that, and we have been reasonably successful, we just see an emerging market now in this other market, in the Clip market, which sort of hasn’t been penetrated at all. So it’s your low cost production facilities and those regional stations, who just aren’t set up to handle [the initial project]; they don’t have the personnel, they don’t typically have presenters, and they just want the [output]. And to them it’s more of a must do than an actual value-add type of service. There is still [other markets], and we currently have it installed in all the Koru Club68 lounges at Air New Zealand. So in the premium lounges there’s a live screen where you can get the [programme] details for where you’re going to. We are also working with a major international airline, not out of New Zealand; this is out of Europe, to actually have it in-flight, so [programme service] on demand. There is a major bank at the moment considering it, putting it in all the banks for people standing in queues.

So that is driving...while revenues are increasing, the per licensing fees and the cost of the product is being driven down if you want to win business. And then that means, you really have to look at your costing model, because it means it’s a question for some bids of whether you want to bid or not. So I think a big change in the last year is the competition has increased significantly in the marketplace (Senior executive, Activity 7, 2007).

Geothermal exploration and development

‘What’s happened in the last 12 months?’ A lot actually. In August last year (2006), which is just under 12 months ago, we got consents to build an almost 100 megawatt geothermal power station [in the North Island], which we’ve been working on for...I don’t know, over three years probably. So that’s now in construction; that’s due to be finished at the end of next year. Also, since then we’ve completed negotiations with some of our other iwi [Maori tribal] partners, so we’ll file for consents for another geothermal power station, where we already have one power station, so we’ll build another power station there. As part of those negotiations we also clarified access to an adjacent geothermal field, which we’re due to start drilling on, exploratory drilling on in the next...before Christmas (2007) I think. We’ve basically finished most of the commercial negotiations on those now, so we’re really either into construction or soon, assuming we get consents, we’ll be moving into a construction phase on all those things. So we’ve actually made a lot of progress in the last 12 months.

Oh, the other thing we’ve done in the last 12 months is we’ve finished the expansion of our gas power station we’ve got in Auckland. And so some of the other things we’ve looked at were probably a bit further back in the development chain. Wind, I think we now have access to more than 10 potential wind sites, but really we’re at the equivalent of the exploration phase for wind. So, we’ve got wind masts up to do wind testing.

And has that changed much in the last 12 months, the development of that use of technology in general? Because I think when we were speaking about it you were saying the economics of it...

Yes, the economics of it still aren’t [great]. From our perspective, geothermal is still best and wind comes after that. That hasn’t really changed. We’re probably still a little way away from consenting our first wind farm, probably further away than I would have thought last time I spoke to you. But in some respects, we’ve probably gone further on the geothermal side in a...
Repurchasing New Zealand’s railway network (previously privatised)

Well, there have been a number of developments. When [the SOE] was set up in 2005, it was essentially intended that it would be the track maintainer for the railway, and [our main customer] would pay all the money for the maintenance of the track. And so that was how it was set up. But as time’s gone on it’s turned out that...well, [the customer] went back to the Government and said, despite the fact of what they’d signed up to in the beginning, they couldn’t afford to pay all these costs. There’s still ongoing negotiations with the Crown there. [The SOE] and its main customer went to arbitration basically over how much they had to pay [us]. And [they] are still negotiating with the Crown, they’re still not paying us the full amount, and I think the Crown is topping it up.

But the main thing that’s probably different is that the Government has agreed to put a whole lot of money into the capital development of the rail network. So in Auckland they approved $600 million to upgrade the passenger track, the track part of it, and the Auckland councils have to pay for the carriages etc. But then in the latest budget they approved more money to electrify the Auckland rail network, you see. And that’s probably round about the same amount. So the Crown’s basically putting $1 billion into Auckland. And in Wellington there was a Crown approval for track maintenance for about $60 or $70 million, and now they’ve approved another $200 million. So the Government is putting more than $250 million into the Wellington network. And previously they’d already approved quite a lot of money for Government contribution towards new rolling stock for Wellington as well. So they’re probably putting $700 or $800 million into the Wellington network as well. And for all of the track work, [we are] in charge of that. In fact my boss, he’s suggesting that we move from being a maintenance operation to a huge construction operation. So that’s quite a dramatic change for [us].

I don’t know if it was anyone’s strategy really. No, I don’t think anyone had that long term strategy. Well, basically there’s sort of a growing perception, a big focus going on sustainability and climate change issues. And on the freight network there’s a big focus, again because of sustainability, among government officials now saying well, the volume of freight is probably going to double over 15 or 20 years, and a lot of that will have to go on the road, but we should try to keep as much of it off the road as possible. And the Government chipped in [more funds], about $50 million a year for two years. They either chipped in $50 million or $100 million just for general fixing up of the freight network (Senior executive, Activity 9, 2007).

An immediate, online valuation programme encompassing any property in New Zealand

Growth has continued, in fact it has spiralled a little bit over the last 12 months. As we’ve discussed previously, there were two key markets for [our programme] - residential home buyers and sellers, and then financial institutions. And we also have theIRD [Inland Revenue Department] accepting it for [valuations of various transactions]. And we’ve undertaken further promotional activity, and one of our key promotions really drove volume and awareness quite significantly. And so that’s been a key driver. But then also some of the banks have changed their processes, their mortgage approval process, and [our programme] has been picked up by a couple of banks. And both of those activities have resulted in volume growth across the year, of I think 105% per cent in total, so more than doubling volume. So yes, very strong growth. I guess the other key change occurring in the market is we’re finally beginning to see competitors on the horizon for automated valuation models.

It was quite interesting to watch the campaign, because all we could see was an e-mail address coming in and out. And you could see it mushroom through organisations. So it was very much a water cooler effect going on. In fact our head of IT was at a session with a lot of the IT managers across the public sector in Wellington, all of whom were aware the campaign was going on just by identifying the traffic running through their e-mail portals, and the traffic running through their printers unfortunately. Because it was about a 17 or 18 page report and could be printed in colour, and probably drained a little bit more resources. So it was hugely successful. We were initially behind budget through the first quarter of the year, but we’ve exceeded budget ended the second half of the year, all of it pretty much driven by our TV campaign. We ended up winning best use of TV in the Advertising Association of New Zealand awards, which was quite a coup because we actually only spent $80,000 on television media for that campaign. And I guess there was over $800 million spent on TV advertising in a year, and so a campaign which only spent $80,000 won best use of television, ahead of the Vodafone’s and the Tui breweries - against some rather major advertisers, so that was a major coup; a good result.

The other major change that happened in the year is there’s been a big switch from some of the financial institutions in terms of their use of [the programme]. And so back in about 2002, we were talking to a number of the trading banks around where [our programme] might sit in their lending process. And back at that stage, they pretty much said their hands were tied, in that the requirements of what was needed to support a mortgage or a loan were determined by the reinsurers pretty much across the banking network. And so at that stage we didn’t pick up a lot of traction with the major trading banks. Last year, we were beginning to get success with some of the smaller lenders, who were looking for ways to add value to their clients in terms of providing them with some more supportive information as they were going through a house buying process. But also looking at ways to potentially cut costs within the lending process. Also, pretty much over the last couple of years, it’s been a very competitive lending environment in New Zealand, and the major trading banks have been seeking to find ways to win business, not surprisingly. And so one of the elements that’s come into play is not just cost saving but also efficiency and turnaround time for lending institutions, how quickly can they pre-approve a loan, or can they turn around a mortgage application as fast as possible. So one of the major trading banks [almost] overnight decided that it was going to change its requirements around lending processes, and made a policy decision to accept [our programme’s] support within a lending process for a range, an extended range, of loans. So all of a sudden [they] became a much bigger customer for [us] than they had been previously, and [our programme] became a much bigger within the financial institutions. And we’ve seen [that] across the board. So yes, a real change, initially driven by [one customer]. They disbanded their panel of valuers and
effectively started accepting our programme for a range of mortgage and lending decisions. And that’s resulted in some of the other trading banks looking at their requirements and introducing some more flexibility around what they’ll accept (Senior executive, Activity 10, 2007).

**Company restructure and plans to manage networks for various organisations**
You’re aware that we’ve rebranded. Well that happened from October (2006). So that’s now been completed. We had presentations etc., and that was all rolled out over a couple of days, so all staff have been involved in that. We’re all one group and one brand now. We still have separate profit centres, and separate businesses, but it’s all been branded under one name. So if you go to the website, you’ll see one brand.

We’ve split the business up into [three separate areas]. So what we’ve done is put words around the kind of ideas we were speaking about last time. [One] is [our] more traditional [market]. And [another is] a new area, and where the two come together is the [third market], which is where the opportunities are. So before we were in one [market], and now we’re in three [markets].

Ok. And has that meant a big shift in terms of the operations so far? Well it has changed the way we look at the market. Ok, so it’s still at the stage of looking at opportunities for the future, rather than an immediate change to the operations. Yes (Senior executive, activity 11, 2007).

**Cost-effective and tax-effective financing arrangements (e.g. lease-in lease-out and structured loan arrangements)**
So in relation to the lease transaction and the borrowing transaction, have you entered into any more of those in the last 12 months?
No, we haven’t and in fact there’s now been a Board decision not to pursue any more of those type of arrangements…

Oh, ok. And that’s in the last 12 months?
Yes, that’s been in recent months, that Board decision. So the structured finance transaction, where we borrowed more than we needed and on-lent it, I think it might be next year that it comes to an end. It’s a five year term, and we will need to renew that debt, but we will be doing it in a more normal structure. The cross-border lease goes on for decades, so that will just continue. I’m not privy to why the Board made that decision, but I suspect there’s a lack of appetite for those [kind of transactions].

And 12 months ago I guess, you were dealing with quite a few issues regarding the whole regulatory structure of the Electricity Commission and the Commerce Commission. And has that progressed, or been resolved to some extent?
No, unfortunately. I think we’ve got general acceptance at Government official level that [there’s an issue to be addressed]. And there’s a review of the Commerce Act at the moment, on the basis that things aren’t right at the moment. So there will be some changes, but they’ll be slow. We still haven’t got things settled with the Commerce Commission; it was supposed to have happened a year ago, but it doesn’t look like happening until November this year (2007).

So does that mean you’re in violation technically of…?
Yes, were still in violation69, we’re still under threat of price control. We’ve suggested a settlement that they weren’t quite happy with, so there’s now to’ing and fro’ing going back and forth. So we will get there eventually, we’ll have a settlement, and then we’ll try and move on and actually work towards a more sensible regulatory regime (Senior executive, Activity 12, 2007).

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69 In 2005 the Commercial Commission imposed a revenue restriction on the SOE, calculated as the Consumer Price Index – 1 per cent.
# Appendix E: New Zealand’s Economic Indicators and SOE Contribution

## $m

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<tr>
<td>GDP</td>
<td>118,407</td>
<td>122,799</td>
<td>132,730</td>
<td>142,746</td>
<td>160,980</td>
<td>157,323</td>
<td>166,714</td>
<td>134,134</td>
<td>141,917</td>
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<td>Total govt revenue</td>
<td>40,596</td>
<td>49,979</td>
<td>57,027</td>
<td>60,387</td>
<td>67,065</td>
<td>76,919</td>
<td>77,566</td>
<td>55,993</td>
<td>62,275</td>
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<td>Core crown revenue</td>
<td>30,095</td>
<td>39,907</td>
<td>43,624</td>
<td>46,952</td>
<td>52,065</td>
<td>59,508</td>
<td>60,880</td>
<td>44,107</td>
<td>48,407</td>
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<td>Core crown expenses</td>
<td>36,699</td>
<td>37,970</td>
<td>41,749</td>
<td>41,808</td>
<td>46,234</td>
<td>50,238</td>
<td>53,742</td>
<td>40,852</td>
<td>43,560</td>
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<td>Core crown expenses as a % of GDP</td>
<td>0.31</td>
<td>0.30</td>
<td>0.31</td>
<td>0.29</td>
<td>0.31</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
<td>0.32</td>
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<tr>
<td>Total expenses</td>
<td>44,213</td>
<td>47,653</td>
<td>55,224</td>
<td>53,057</td>
<td>60,910</td>
<td>65,422</td>
<td>69,017</td>
<td>52,211</td>
<td>56,653</td>
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<td>Operating balance</td>
<td>1,358</td>
<td>2,397</td>
<td>1,968</td>
<td>7,424</td>
<td>6,247</td>
<td>11,473</td>
<td>8,663</td>
<td>3,871</td>
<td>5,901</td>
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<td>SOE ave profit</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td>792.7</td>
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<td>SOE ave cash returns to govt</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>481</td>
<td>552</td>
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<tr>
<td>SOE revenue</td>
<td>4,480</td>
<td>5,488</td>
<td>6,188</td>
<td>5,715</td>
<td>6,870</td>
<td>8,401</td>
<td>8,018</td>
<td>5,748</td>
<td>6,533</td>
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<tr>
<td>1. SOE ave profit / operating balance</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.12</td>
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<td>2. SOE ave cash returns to govt / total govt revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.008</td>
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<td>3. SOE rev / GDP for same period</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.06</td>
<td>0.04</td>
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*Based on information from the New Zealand Government Financial Statements 2007*