

**PACIFIC BUSINESS SUSTAINABILITY IN NEW ZEALAND:  
A STUDY OF TONGAN EXPERIENCES**

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## **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.



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## Conference Papers

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6. Prescott J (2005) "Using Case Studies in Pacific Island Research" *ARA Conference in Auckland MIT 2005*
7. Prescott J (2006) "Interview Experiences with Pacific Island Research Participants" *ARA Conference December 2006 Auckland*.
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## Abstract

Pacific business sustainability in New Zealand is important for the economic and social wellbeing of the Pacific Island people who have chosen New Zealand as their home. As with many ethnic minorities businesses overseas, Pacific businesses struggle to survive in a foreign commercial environment that is often not aligned to the value systems and customs of their country of origin. This study seeks to determine the key financial and entrepreneurial drivers of business sustainability for Tongan businesses as a specific group within the Pacific Island business sector. The study takes an ethnic specific view of business sustainability drawing on the experiences of twenty Tongan businesses, three Pacific business consultants and the wider Tongan community.

The data was captured in a series of *talanoa* sessions (a traditional and preferred form of communication based on face to face discussion) carried out in 2006 and 2007. Throughout the study, attention was given to Tongan protocols, cultural nuances and sensitivities to ensure the context in which these Tongan businesses operate was captured.

The study concludes by making several contributions to the literature. The first includes the contribution to methodology through to use of *talanoa* in a business context. The second is the contribution to embeddedness theory through the analysis of specific Tongan business experiences and lastly the empirical contribution to the Pacific Island business literature. The findings have been analysed from a number of perspectives including; financial accounting, business finance, management accounting and business related challenges. The empirical findings highlight that differences in culture and traditional Tongan protocols influence business practice. The impact of Tongan culture on business sustainability is both complementary and inimical. Tongan business sustainability in New Zealand is therefore a product of business practices that incorporate embedded Tongan culture and the western commercial paradigms within which they operate.



# CHAPTER 1: Introduction – Tongan Business Sustainability in New Zealand

## *1.1 Introduction*

The long term research strategy of which this study is the first step is to understand the business practices of Pacific Island peoples in New Zealand. The strategy will also seek to understand the strengths and weaknesses that result in Pacific Island business success and failure. The resulting insights into issues, practices and outcomes for Pacific businesses will contribute to enhancing the efficacy of initiatives aimed at promoting Pacific business sustainability in New Zealand.

The first part of the research strategy is to use a sample of Tongan-only businesses. This is done to ensure the ethnic and cultural integrity of the study, and because of the access to and communication advantages the researcher has with Tongan business participants.

The objective of this research study is to investigate and explain factors contributing to success and failure of Tongan businesses in New Zealand. The research question is to find out the key financial and entrepreneurial drivers of Tongan business sustainability (refer section 1.2.2 below).

## *1.2 Background*

New Zealand is a country characterised by a diverse ethnic population comprising European, Maori, Asian and Pacific Island people. While this diversity has created a multi-culturally rich society, business formation and growth across the various ethnicities is disparate. In particular, it is suspected that Pacific Island business development is slower compared with that of the general population. The failure rate across Pacific Island small to medium size enterprises (SME) is relatively high. Pacific Island people in New Zealand are also characterised with high unemployment, poor health status, accommodation

overcrowding and relatively poor education achievement. In addition, they are over-represented in the number of domestic violence cases and criminal convictions (Ministry of Pacific Island Affairs & Statistics New Zealand, 2002).

Although Pacific Island people represent only 7% of the New Zealand population, the median age and growth rate indicate that the proportion of Pacific Island people living in New Zealand is increasing. It is therefore important to address the issue of ethnic equality to ensure greater social harmony in a multicultural society, and to preserve the diverse cultural richness that is now the face of New Zealand.

These statistics are the result of Pacific Island people not assimilating smoothly into their adopted western environment in New Zealand. Although the problem is complex and extends across a range of disciplines, a key contributor is the poor socio-economic status within which many Pacific Island people live.

### **1.2.1 The Role and Demography of Small Businesses**

Small businesses play an important role in the New Zealand economy (Cameron & Massey, 1999; Frederick & Chittock, 2006; Hamilton & Dana, 2003; Knuckey et al., 2002; Linowes & Dixon, 1992) and overseas (Deshpande & Golhar, 1994; Gaskill, Van Auken, & Manning, 1993; Heneman, Tansky, & Camp, 2000; Phillips & Kirchhoff, 1989; Roman, 1989; Sato, 1989; Schwalbach, 1989; Storey, 2002). In New Zealand small to medium size enterprises represent over 97% of businesses (Bascand, 2008). Although small businesses employ less than half of the employee population, they also represent the large employers of the future.

Small enterprises are increasingly becoming the solution to unemployment for Pacific Island people. However, how they perform and to what extent they are sustainable is largely unknown. The establishment of the Pacific Business Trust in 1989 was a government initiative aimed at increasing employment for Pacific Island people through encouraging new business formations. The effectiveness of this scheme has been mixed, with many Pacific Island businesses no longer trading.



### **1.2.2 Understanding Small Businesses - Tongan Experiences**

While the small business literature is relatively rich, this is not the case for Pacific Island small businesses. The relatively small Pacific Island business population makes it difficult to employ quantitative research methods (Chetty, 1996). Furthermore the many small nations of the Pacific are unique and potentially approach business in different ways. While many studies have adopted a Pan-Pacific approach to research, the findings are not ethnic-specific, and are therefore unsuitable as a basis for policy development and guide for good business practice.

The current research takes an ethnic-specific focus, using Tongan-only business experiences to answer the question of what are the financial and entrepreneurial drivers of business sustainability. Studies about ethnic minority business have been carried out in several countries, but with a particular focus in the United Kingdom, Europe and the United States (Barrett, Jones, & McEvoy, 1996; Dadzie & Cho, 1989; L. M. Dyer & Ross, 2000; Hisrich & Brush, 1986; Shinnar & Young, 2008; Smallbone, Ram, Deakins, & Baldock, 2003).

Ethnic specific studies in the South Pacific are relatively few. Studies in Fiji (Asian Development Bank, 2002; Athukorala, 2002; Baldacchino, 1999; R. C. Brown, 1994; Davie, 2000), Papua New Guinea (Curry, 2005) and Tonga (James, 1997, 2002; Van Der Grijp, 1997, 2004) explore the impact of western commercial ideology on the development of commerce in the Pacific Islands. Other business-related studies involving Pacific Island people in Australia, New Zealand and Hawaii (Bertram, 1993; A. M. Brown & Tower, 2002; P. Chand, 2005; P. Chand, Patel, & Cummings, 2007; P. Chand & White, 2007; S. Chand, 2004; Firth, 2000; Henningham, 1995; Kramer & Herbig, 1994a; Krishnan, Schoeffel, & Warren, 1994; Larmour, 2006; Manuelli, Latu, & Koh, 2006; McGuire, 1996; Saffu, 2003; Tisdell, 2000; Wareham, 2002; Yusuf, 1995, 1998) identify the peoples from the Pacific Islands as a single group. While these studies make significant contributions to the literature on Pacific Island businesses, there remains a significant gap in relation to ethnic-specific studies. This research seeks to close some of that gap by providing a Tongan perspective on business sustainability in New Zealand.

### **1.2.3 Government Assistance Programmes – A stab in the dark**

Government initiated programmes aimed at assisting ethnic minority businesses have been in existence for many years in the United States (Bates & Williams, 1996; Chittenden, Kauser, & Poutziouris, 2003; Chrisman & McMullan, 1996; Craig, Jackson III, & Thomson, 2007), Canada (Chrisman & McMullan, 2002), South Africa (Bradford, 2007), Australia (Fulop, 2000) and the United Kingdom (Cooke & Wills, 1999; Oc & Tiesdell, 1999). Government assistance programmes in New Zealand have followed the format of many overseas programmes by providing loans, business advice and education. Oc and Tiesdell (1999) argue that assistance programmes targeting ethnic minority groups should first be aware of the specific needs of the target group. They write;

business support agencies serving ethnic minority groups...need to be demonstrably sensitive to ethnic minority business needs, problems and opportunities...the need to be sufficiently aware of the diversity of ethnic minority businesses in order to provide appropriate and targeted business support and ...the need to have credibility in the eyes of ethnic minority businesses (pp. 1744-1745).

In New Zealand, assistance programmes targeting Pacific Island businesses need to first understand the needs of Pacific Island businesses, including their ethnic diversity, if such programmes are going to be credible and effective. As discussed in section 1.2.2, this study aims to better inform policy and programme development aimed at assisting Tongan businesses, as a unique subset of Pacific Island businesses in general.

### **1.2.4 Tongan Business Sustainability**

The definitions for business success and failure are potentially widespread. Watson and Everett (Watson & Everett, 1993) provided a summary of definitions for business failure. These included discontinuance for any reason (Fredland & Morris, 1976), bankruptcy and loss to creditors (Dun & Bradstreet, 1979), discontinuance to prevent further loss (Ulmer & Nielsen, 1947) and failure to 'make a go of it' (Cochrane, 1981). For Tongan businesses any one or all of these definitions may be used. For the purposes of the current study, business failure refers to business discontinuance for any reason. However, given the nature

and culture of Tongan people discussed in Chapter 2, business failure is likely to be an involuntary exercise driven by financial distress.

Overseas small business research suggests that small businesses have a higher failure rate compared with their larger counterparts (Haswell & Holmes, 1989; Watson & Everett, 1996). Recent government statistics suggest 20% of new start businesses do not survive beyond their first year, and that only 37% of businesses formed in 2001 were still operating in 2008 (Bascand, 2008).

The failure rate of businesses has not been calculated for individual ethnicities, but the literature overseas would suggest that the failure rate of minority ethnic businesses is greater than that for mainstream (Bates, 1991; Bates & Nucci, 1989; Collins, Gibson, Alcorso, Castles, & Tait, 1995; Dadzie & Cho, 1989; Smallbone et al., 2003).

The problem for Tongan businesses in New Zealand is that they are relatively few in number, lack business leadership and are more prone to failure compared with other businesses. While many successful Tongan businesses exist, the majority are not sustainable in the long term. These claims are, nonetheless, anecdotal as there have been no formal studies carried out in New Zealand involving the Tongan business community. While the precise business failure rate for Tongan businesses in New Zealand is yet to be found, evidence from overseas studies suggests a higher failure rate, driven by financial and entrepreneurial challenges that are peculiar to minority ethnic small businesses. The present study aims to pursue this theme, and provide guidance to further research.

The measure of success for a business also requires definition. Although Tongan entrepreneurs may measure the success of their business based on non-monetary returns, the focus of this study is business sustainability. A business is regarded as sustainable if it is capable of continuing in the long term financially and operationally. However, a business that is financially sustainable, but not able to provide the owners with the rewards they are seeking, is unlikely to retain their ongoing commitment.

### *1.3 Research Approach*

This study is qualitative and uses traditional *talanoa* (refer chapter 4) as a means of collecting the data from Tongan business owners and operators, business advisors and members of the Tongan community in New Zealand. A total of twenty Tongan businesses and three business consultants from the Pacific Business Trust participated in the study. The methodology, discussed in chapter 3, is naturalistic inquiry. This approach allows the inclusion of the contextual aspects of Tongan culture. Embeddedness theory, discussed in chapter 5, provides the analytical framework against which the data and findings are discussed.

The format of the analysis is guided by the extant literature on small business, self-employed, minority ethnic businesses and family owned businesses. The analysis is divided into three sections including financial accounting (refer chapter 6), business finance and management accounting (refer chapter 7) and business related challenges (refer chapter 8).

This study does not attempt to establish findings that are statistically generalizable. The goal of this study is to contribute to Pacific Island small business theory. The findings are therefore theoretically generalizable and a potential guide for future research (Eisenhardt, 1989).

### *1.4 Conclusion*

Tongan business sustainability is important for the rapidly growing population of Tongan people in New Zealand. This study aims to increase understanding in relation to the practices of Tongan business in New Zealand. This increase in understanding will benefit development of policies and programmes aimed at assisting minority ethnic businesses in New Zealand, and provide guidance to Tongan businesses as to how they may strengthen and grow their business.

This study has addressed a gap in the Pacific Island business literature but, in the process has identified further gaps that call for additional research.

## CHAPTER 2: Background to Tongan Society

*My life belongs to the whole community and as long as I live it is my privilege to do for it whatsoever I can. I want to be thoroughly used up when I die, for the harder I work, the more I live. I rejoice in life for its own sake. Life is no 'brief candle' to me. It is a sort of splendid torch which I have got hold of for the moment; and I want to make it burn as brightly as possible before handing it on to future generations. (George Bernard Shaw 1907)<sup>i</sup>*

### 2.1 Introduction

This chapter discusses and summarises the characteristics of Tongan society both in Tonga and in New Zealand. Although it is not a comprehensive account of the ethnographic and anthropological literature, it highlights those aspects that are likely to influence the conduct of their business activity, particularly in New Zealand. The chapter is divided into two parts. The first provides a historical background to Tongan society as a country in the South Pacific and as a minority ethnic community living in New Zealand. The second part provides a summary of Tongan culture in the context of resource utilisation, distribution and consumption. While acknowledging the impact that western culture and values have had on the evolving Tongan culture, the entrenched societal mentality associated with resource utilisation based on commons continues to resonate in Tongan communities and businesses both in Tonga and in New Zealand.

### 2.2 Historical Background

#### 2.2.1 Overview

Tonga is a constitutional monarchy located in the South Pacific with Samoa to the north, Fiji to the west and the Cook Islands to the east. The population according to the latest estimate (2007) is 117,000 with an annual growth rate of 1%. The Tongan population in New Zealand (2006 census) is 50,000 representing 19% of the total Pacific Island population in New Zealand and the third largest by ethnicity. The annual growth rate of 7.5% is more than twice that of the general population, and apart from the relatively small

Fijian population (10,000) living in New Zealand, boasts the fastest growth rate. Although Tongan people are now spread across the world, the main population hubs include New Zealand, Australia and the United States. The greatest of these is New Zealand (James, 2002).

### **2.2.2 Tonga in the Pacific**

The countries of the Pacific Ocean are divided into three groups including Micronesia (referring to ‘small islands’) to the North West Pacific, Melanesia (referring to ‘black islands’) to the south west and Polynesia (referring to ‘many islands’) to the east. Of the three groups, Polynesia covers the greatest ocean area. Stretching as far north as the Hawaiian Islands, Easter Island to the east and as far south as New Zealand, Polynesia comprises a total of 13 different countries. Countries within the Polynesian group include Hawaii, Kiribati, Tuvalu, Tokelau, Wallis and Futuna, Western Samoa, American Samoa, Niue, Cook Islands, French Polynesia, Pitcairn, Tonga and New Zealand (Bailey, 1994; Crocombe, 2001).

Tonga is one of many small island nations in the South Pacific belonging to the Polynesian group (Bailey, 1994). Comprising about 170 islands with a total land area of 750 km<sup>2</sup>, Tonga is the only remaining independent kingdom following the colonization of the Pacific (James, 2002). Although it claims to be the only Pacific Island nation that has not been colonized by the major European powers, its highly developed system of social stratification mimics much of the characteristics of the British monarchy. Aside from these similarities, its monumental architecture suggest the existence of a complex and sustained dynasty of chiefs that predates the arrival of European settlers (Burley, 1998).

### **2.2.3 Tonga - Pre-European**

Tonga’s pre-European history is sketchy, as written records were not kept. The oral history, although rich and interwoven with folklore (*fanaga*) says little of the country’s origins. Archaeological evidence in the form of stone monuments and pottery provide additional clues as to its pre-European history. Lapita pottery found in Tonga dates back as far as 430

B.C. (Shutler & Shutler, 1970). Similar lapita pottery excavated in Fiji dates back to 510 B.C. and in New Caledonia as far back as 847 B.C. This would suggest the settlement of the South Pacific Islands started at least 3000 years ago. Other authors including Dayton in 1992 (cited in Childress, 1996) suggest Pacific Island people represented the first farmers in the region based on agricultural evidence dating back 30,000 years.

Archaeological finds in Tonga including the Ha'amonga Trilithon (the burden of Maui) (see Figure 2.3.3.1-1 - Ha'amonga (Source: Queen Salote Tupou III (2004, p. 311)), and the pyramids, canals and docks in Mu'a, suggest a history that not only dates back at least 3,000 years, but that Tonga was the hub of the ancient Pacific Island civilization (Childress, 1996). The oral history of the *Tu'i* Tonga or Kings of Tonga includes a lineage that is traced back to a connection with a God figure, *Tangaloa*. The exact connection from the first king to the present is unclear, leading some authors to report the present King of Tonga Siaosi Tupou V as the 40<sup>th</sup> of the *Tu'i* Tonga (Childress, 1996), while others report he is the 23<sup>rd</sup> (Bain, 1993). The present royal line is traced only back as far as the formation of the constitution in 1875, from which the present monarch is the 5<sup>th</sup> of the Kings with the name of Tupou.



Ha'amonga-a-Maui, 2003.

**Figure 2.3.3.1-1 - Ha'amonga (Source: Queen Salote Tupou III (2004, p. 311))**

While comparative studies into the arts, social structures economy and beliefs of each of the Pacific Island nations have not been carried out, the anecdotal evidence suggests they share many historical, social and linguistic characteristics (Colbert, 1997; Crocombe, 2001). Furthermore the oral histories across the different island nations of the South Pacific echo common themes. The similarities are beyond coincidence and suggest a common ancestry (Childress, 1996; Colbert, 1997). The origins of this ancestry continue to be debated between those who suggest migration from South America (Suggs, 1970) and those who suggest settlement by Austronesians from Asia (Childress, 1996; Grace, 1961). Irrespective of where the peoples of the Pacific came from, the similarity in linguistics, cultural themes, social order, agricultural techniques and physical appearance supports a connectedness that resulted either from a shared origin or subsequent interaction following settlement. The similarity between Fiji and Tonga for instance can be explained by the historical evidence that Tongans occupied a significant part of Fiji before the arrival of the Europeans (Childress, 1996). This explains the similarity in many of the customs between these two countries, despite the classification of one as Melanesian (Fiji) and the other as Polynesian (Tonga). Some knowledge and understanding can therefore be gained by studying Pacific Island nations as unique nations and as a regional collection of small nations.

Before the arrival of the European explorers, the history of each of the island nations (including Tonga) was not documented. Anthropological studies have revealed a history that dates back more than 3000 years. Understanding the pre-European history of one nation is inherently difficult because of the lack of written records. However, some progress can be made in achieving a greater understanding by studying other island nations in the region as this provides a contextual setting within which many of them would have operated. Tongan pre-European customs are therefore better understood by comparing what little can be found with those of its neighbouring countries.

### 2.3 *Tongan Culture*

The cultures of the Pacific Islands can be understood through studying their language, arts, activities, beliefs, social networks and architecture. The arts in many respects acted to



preserve Tongan culture through poetry, music and dance, storytelling (*fananga*), traditional crafts and sculpture (Kaepler, 1996). The complex social structure in Tonga is a reflection of a society based on a collective rather than an individualistic mentality that is harmonised through entrenched relationships that exist at multiple levels. Order and economic sustainability are maintained through an abundance of traditional protocols and values that are socially enforced through the recognition that each individual cannot exist without the context of his or her family, community and society (Bain, 1993; Campbell, 1992; Morton, 1996). In this section, Tongan culture is discussed in terms of three interlocking themes that are the basis for Tongan society and way of life. These include the existence of a societal mentality, a focus on the present or present event and relationship building.

### **2.3.1 Tongan Social Structure – Politics, Region, Family and Religion**

The relatively small size of the Tongan population, together with the distribution of the population into distinct pockets, nurtures social relations among community members. Communities are normally based on their regional location or *feitu'u*. Each region is further divided into villages (*kolo*), each with a distinct identity, characteristic and affiliation to the political and social structure. Such is the sense of identity that each village or region is characterized with a story. These stories may be based on a landmark, behaviour, dietary habit or historical event. The stories are not always informative or complimentary and are sometimes derogatory (*luma*). Irrespective of the connotation, each village will take some pride in their identity and defend it should the occasion arise. This community connectedness is common among the island nations of the South Pacific as Helu-Thaman writes;

Oceanic peoples – variously described by Western scholars as Melanesian, Polynesian and Micronesian - generally have cultural identities and world views which emphasize place and their links to the *vanua/fonua/ple* (inadequately translated into English as 'land'), as well as networks of exchange and/or reciprocal relationships (Helu-Thaman, 1995, p. 723).

Villages vary both in size and population. Despite this, they are never so large as to dilute the sense of community. Street addresses, particularly in the rural villages are secondary to

the identity of its members and family connections. On a recent trip to Tonga, having been away for many years, I needed to get from Nuku'alofa (the city centre) to the house of a relative who lived somewhere in the town. Half expecting to be frowned upon for making such a request, I asked the driver if he happened to know the house where my uncle lives, declaring with some embarrassment that I did not know the address. He asked for the name of my uncle, and my own family connections. In reply I disclosed the name of my parents and grandparents and before I could complete my story, he was able to fill in the gaps in my family connections and drive me straight to the house.

On November 16<sup>th</sup> 2006, for the first time in Tongan history a politically motivated riot broke out that led to the burning of more than 70% of the capital, Nuku'alofa. The mayhem was immediately followed by mass looting of the shops and offices in the central city. The investigation that followed was assisted by video footage that was taken by tourists and locals. The poetic irony of the situation was that looters and arsonists caught on camera were easily identified through the close community networks that characterize Tongan society.

Without an attachment to a community, Tongan people become withdrawn, lonely and depressed. Morton (1996) writes;

In Tonga, too, a person's emotional life is seen as inextricably bound up with others. However, Tongans also value autonomy and recognize the importance of subjectivity. Emotion and thought emerge from one's *loto* (heart and mind) and may be as much a result of one's '*ulungaanga*' as of one's social relations (p. 216)

The landscape of Tongan society is testimony to a people entrenched in a societal mentality. This is evident in the strong presence of the church, community identity, clubs (*Kalapu*), college alumni, family reunions and community events. In New Zealand, Tongan people prefer to take care of the elderly rather than placing them in retirement homes (Kiata & Kerse, 2004; Morton Lee, 2003). Morton Lee (2003) writes;

Aging parents usually live with one of their adult children, as most Tongans are averse to the idea of placing the elderly in retirement homes or aged care facilities (p. 40).

The social structure identifies the various levels of the hierarchy including the royal family (*hou'eiki*), the nobility (*nopele*), orators (*Matāpule*) and the common people (*kakai tu'a, me'a vale*). Superimposed onto this social structure is the family hierarchy based on family connections (Morton, 1996). Traditional roles including family elder or head (*'ulu motu'a*), sisters (including children of a sister) of the male head (usually the father) of the family (*mehekitanga, fahu*), brothers of the father (*tamai*), brothers of the mother (*fa'e tangata*) and sisters of the mother (*fa'e*) each having a ranking in the extended family unit. The order of ranking depends on the occasion, and the underlying roles and relationships that individuals hold in relation to the occasion. During a funeral, for instance, the deceased is the focal or reference point for the occasion. The ranking will therefore align with the following hierarchy. For the purpose of analysis these have been arbitrarily numbered from one to three signifying lowest (1) to highest (3) in Table 2-1 - Typical hierarchy in the event of a funeral below

**Table 2-1 - Typical hierarchy in the event of a funeral**

Rank	Deceased's father's side of the family	Deceased's mother's side of the family
Rank 3	<i>Fahu</i> – Children of the paternal aunt ( <i>mehekitanga</i> ) of the deceased. This honour is normally given to the eldest daughter of the paternal aunt. During the funeral the fahu is seated at the front at the head of the deceased.	
Rank 2	<i>'Ulu motu'a</i> – This position also extends from the father's side of the deceased and is the eldest of the deceased's paternal uncles. This position has the responsibility of being in charge of the funeral proceedings, including speaking rights.	
Rank 1		<i>Liongi</i> – These are the lowest ranking in a funeral and represent the maternal uncle ( <i>fa'e tangata</i> ) of the deceased and his children. They have the role of preparing the food during the funeral, hence the reference <i>tu'u 'ihe afi</i> , meaning post at the fire or kitchen.

Family connectedness and the specific role of each family member are as strong in New Zealand as they are in Tonga. This is evident during functions such as birthdays, weddings and funerals. During these occasions, traditional protocol dictates the manner of the function, seating arrangements, those who speak and who makes the decisions. These national protocols predate the arrival of the European and are still carried out today. Crocombe (2001) writes;

Tonga was one of the few places that had a national protocol before the arrival of Europeans. It is still used in modified form (p. 190).

Age and gender also influence one's position in the family hierarchy. The oldest male (son) in the family is not only heir to the family fortune (usually referring to real property or land), but also takes on the responsibility of eventually becoming the *'ulu motu 'a* or family head. The oldest female (daughter), even if she is the oldest of the siblings is not heir to the land, but is usually responsible for the ongoing care of the parents. In recent times a push has been made for greater sharing of the family property between male and female siblings, although traditional protocols continue to dominate (Bureau of Democracy Human Rights and Labor, 2006; Holy, 1996). In a report released by the Bureau of Democracy, Human Rights and Labour in March 2007 they write in relation to Tonga;

Inheritance laws, especially those concerned with land, discriminate against women. Women can lease land, but inheritance rights pass through the male heirs. Under the inheritance laws, the claim to a father's estate by a male child born out of wedlock takes precedence over the claim of the deceased's widow or daughter. If there are no male relatives, a widow is entitled to remain on her husband's land as long as she does not remarry or engage in sexual intercourse. In August the cabinet asked the Ministry of Lands to consider amendments to the country's land laws to allow women to inherit registered land allotments in the absence of a male heir. The inheritance would then continue to the woman's first male descendant. The proposal was a subject of considerable national debate during the year; it was still under consideration by the ministry at year's end.

### **2.3.2 A Culture of Social Identity**

Tongan people identify themselves within the context of an extended family and their community. Historically this sense of community and acceptance of the hierarchical social structure maintained order and ensured the country's survival from neighbouring island nations, including Fiji and Samoa (Campbell, 1992; Crocombe, 2001). The hierarchical structure of Tongan society (Campbell, 1992; Crocombe, 2001) is apparent at all levels of its social strata. The family unit, extended family and village community all mimic that of the national hierarchy (Bain, 1993). This embedded social structure provides a template for the Tongan way of life. The influence of this embedded social structure can be seen in the way Tongan people act, make decisions, prioritise, interpret reality and carry out business. Tongans value the order that comes from acting towards the collective good rather than individual gain. They see themselves as part of a community or village and not as

individuals (James, 2000; Morton, 1996). Social status is regarded as more important than personal wealth as are the collective opinions of others. Protecting the integrity of the family name and status in the community provides an incentive for each to act for the common good. The importance placed on public perception creates a self-regulating community held together by a complex network of relationships, values and beliefs. The following images of churches built in Auckland New Zealand (see Figure 2.3.3.1-1 - Lotofale'ia in Mangere Auckland belongs to the Siasi Uesiliana of Tonga and is a two-level church building with a seating capacity for more than 500 worshippers. The lower level includes a fully equipped kitchen facility, seminar rooms and large open hall. and Figure 2.3.3.1-2 - Tuinga Papai on Favona Road Mangere, Auckland belongs to the Siasi Uesiliana of Tonga and is a single-level church building with a seating capacity for more than 600 worshippers. The 7-acre grounds provide ample room for car parking, gardened lawns, playground, pre-school, Minister's residence and market gardens.) provides evidence of the strong collective mentality that exists in Tongan communities, despite their being disproportionately represented at the lower end of the socio-economic scale.



**Figure 2.3.3.1-1 - Lotofale'ia in Mangere Auckland belongs to the Siasi Uesiliana of Tonga and is a two-level church building with a seating capacity for more than 500 worshippers. The lower level includes a fully equipped kitchen facility, seminar rooms and large open hall.**



**Figure 2.3.3.1-2 - Tuinga Papai on Favona Road Mangere, Auckland belongs to the Siasi Uesiliana of Tonga and is a single-level church building with a seating capacity for more than 600 worshippers. The 7-acre grounds provide ample room for car parking, gardened lawns, playground, pre-school, Minister's residence and market gardens.**

The real sense of community identity continues to be strong among Tongans living in New Zealand, although the influence of Western culture has had the result of reducing the extent to which it is present in the younger generation (Tu'inukuafe, 1996).

## **2.3.3 Tongan Culture and Time**

The second theme that characterises Tongan culture is their focus on the present or the event at hand. Two characteristics are a focus on the present and the view that time is not a commodity in short supply (Kramer & Herbig, 1994b). This view of time is evident in a wide range of Tongan activities including production, distribution and consumption, and is discussed in detail in sections 2.3.3.1 and 2.3.3.2.

### **2.3.3.1 Focusing on the present – an event mentality**

A perception that resonates in Tongan culture is their focus on the present. Production, distribution and consumption are all geared towards the present. Production is intended for immediate consumption and not wealth accumulation. Before the drive towards production for export in the 1950s and 60s (Campbell, 1992), agricultural production was subsistence-based. Each family and village produced enough to satisfy the collective needs of the village. Campbell (1992) writes;

Most Tongan men spent most of their time producing food for themselves and their families. Most of them also produced copra as a cash crop, but

this was a sideline; their livelihood was their subsistence gardening (p. 143).

Elders in the Tongan community in Auckland outline that fluctuations in the amount of food produced across members of the village were managed through sharing. This attitude can still be found in coastal villages that rely on fishing. They add that sharing one's excess produce or catch (both of which are perishable) is a practical solution to the storage constraints that exist. As produce cannot be stored, it needs to be consumed immediately. Distribution is based on entrenched social protocols usually beginning with the paternal sisters of the family, the household and then to the rest of the village. Excess production is gifted, both as an act of goodwill and to preserve the social status of the family. Production is driven by need and limited by the availability of technology (farming methods and capital equipment) and resources (land and labour) (Campbell, 1992).

The increasing use of electrically powered appliances introduces new challenges for many subsistence gardeners who find an increasing need for cash resources rather than the traditional food produce. This has been addressed in part by the increasing volume of remittances, normally in the form of cash from relatives living overseas. Despite this shift however, village life continues to rely on subsistence agriculture for its livelihood. During a recent visit to the Tonga, the sharing of food was seen during the Christmas period and through to the *uike lotu* (prayer week held during the first week of the New Year).

Crocombe (2001) makes reference to "The Pacific Way" as including a tendency to distribute and consume in the present with little regard to the future. He writes:

The Pacific Way was used from 1970 to summarise some common values, practices and sentiments in the region which differed from those of the Europeans and Asians. These include emphasis on distribution and consumption as against saving and investment; priority for extensive kinship networks; spending a high proportion of time and resource on ceremonies associated with initiation, marriage, death, accession to chiefly titles and other community events; and lower priority for work and output (p. 159).

Crocombe's summary is incomplete, for while it provides an accurate account of the transparent characteristics of Pacific Island culture, including Tonga, it does not provide the context or rationale for why it is that way. Ceremonies associated with initiation, marriage,



death, birthdays and religious festivals when they occur become the focus of all involved. These events represent opportunities to showcase Tongan traditional dance and song, food, dress and cultural protocols. Commitment to these events acts to preserve Tongan culture and in so doing preserves the social identity of Tongan communities.

In a speech to the Legislative Assembly in Tonga in 1959, Queen Salote Tupou III provides a pre-emptive message of the importance of Tongan culture in the face of technological and economic change brought about by Tonga's inevitable interaction with other countries. She is noted as saying:

I wish that all Tongans should realize the importance of full knowledge of our customs and traditions. Research into the social past of our people is not a Tongan characteristic only, but rather the characteristic of an enlightened community. The customs of a people are its heritage and the possession of a complete knowledge of their customs will enable them to modify those customs to meet the demands of modern progress along lines most beneficial to their well being. It is the aim of this committee to stimulate among the Chiefs and People of our land a desire to hold on to what is best in our customs (cited in Campbell, 1992, p. 169).

Tongan people, both in Tonga and abroad, share a commitment to preserving their culture as evidenced by their preservation of language, observance of traditional festivals and commitment to the church (Tu'inukuafe, 1996). The outcome of this continued commitment to Tongan culture and traditional customs is a focus on the event. As these events are observed and celebrated in the present, the result is a focus on the present rather than any other timeframe.

#### **2.3.3.2 The unlimited nature of time**

Tongans do not regard time as being in short supply (Kramer & Herbig, 1994a). Emphasis is given to the task or event, rather than the time required to do it. Time is therefore not allocated, nor is it given a value. Time is regarded as well spent if the task is successfully completed, or that it has resulted in a positive outcome. A positive outcome of a task is measured by the degree to which establishes or strengthens a relationship. The Tongan term *maumau taimi* (or wasted time) is associated with time spent on a task that remains incomplete or where the outcome is negative. A discussion, for instance, that does not

result in relationships being forged or strengthened is regarded as *talanoa maumau taimi* or talk that is useless or a waste of time.

The allocation of time into defined periods is consistent with an anti-commons mentality that identifies time as a commodity belonging to an individual. Tongan people share a reluctance to allocate and schedule their day into defined blocks of time. They share a view that they should not be prisoners to time (*popula hoku taimi*), but that they should be free to do as they wish at their own pace. A common phrase that captures this relaxed attitude is *taimi faka Tonga*, or Tongan time. It is often used in the context of a meeting to signal that if it is based on Tongan time, then the meeting is unlikely to begin at the scheduled time. As attendees arrive, it is not uncommon for the meeting to be delayed for up to an hour. The opposite, known as *Palangi* time (European time), is an indication that the meeting will begin irrespective of who is there at the scheduled start time.

The present day, event-based focus that many Tongan people share is part of Tongan culture, and their efforts to preserve that culture in the face of modern progress. This, however, has a number of implications for Tongan business sustainability in western market contexts such as in New Zealand. The impact of this present-day focus is discussed at length in Chapters 6, 7 and 8.

### **2.3.4 A Culture of Building Relationships**

Building and strengthening relationships is central to Tongan culture. As a consequence Tongan society is characterised by complex multilayered relationships based on gender, family, village and community, religion, politics and ability. Beliefs, values and cultural protocols both contribute and result from these complex relationships. Identity and social status is also inseparably linked to this complex network of relationships. To maintain the social status of the family and preserve its identity, relationships need to be continually forged and strengthened. While sharing resources and food provides practical solutions towards sustaining the village, it is also a vehicle for building relationships. Sections 2.3.4.1 and 2.3.4.2 specifically discuss sharing.

#### 2.3.4.1 Land as a Shared Resource

While specific studies in Tonga in relation to traditional land use have not been carried out, much can be learnt from equivalent studies carried out in other parts of the Pacific. These studies show findings which are consistent with Tongan protocols and traditions and with the Tongan data collected by Van Der Grijp (2004) and that of this present study. The similarity across the Pacific Island nations, including Micronesia, Melanesia and Polynesia, is hardly surprising, given the anthropological evidence suggesting they shared a common origin or had interacted significantly with one another.

Malinoski (1970) found that the Trobriand people living off the coast of New Guinea maintained a societal existence that valued the greater good of the village more than the individuals within it. The social hierarchy consisted of a chief, garden magician and people. The agriculture work was the responsibility of the village, and so each working member of the village participated in the cultivation, planting and harvest. The garden magician played the role of technical advisor, while the chief was the authority figure who settled any disputes that may arise. The garden magician, although technically knowledgeable in respect to farming and the seasonality of the various crops, was regarded as a mystic who was able to intercede with nature to provide a good harvest. The produce was shared among the village with each male member first providing for his sisters and his sisters' families, a characteristic that the Trobriand Islanders share with both Tonga and Fiji. Giving the first and usually the best of the produce to the sisters' family is found in Fiji (Sahlins, 1970) and in Tonga (Morton, 1996). *Polopolo* in Tonga refers to the first and finest part of the harvest and is traditionally gifted in honour of the sisters of the father's side of the family.

Mahina et al (2006) acknowledges that there are similarities between the Tongan and western meaning for land (*fonua*), but suggests that in the Tongan context the emphasis is placed on the connectedness between the land (*fonua*) and the people (*kakai*).

*Neongo ai 'a e fakamatapapa 'a e 'unhinga 'o e lea fonua 'I Tonga mo e Uesite ka 'oku lahi pe ke fakamamafa'i 'a e 'uhinga 'o e fonua ki he kakai.* (Mahina et al., 2006, p. 128)

Despite the similarities in the meaning of land in the Tongan and Western languages, the greater emphasis is on the meaning of land to the people (Mahina et al., 2006, p. 128).

The difficulty with previous attempts to understand the economics of Pacific Island society is that the framework under which such studies have been carried out are foreign (western) by nature and inconsistent with the underlying concepts prevalent in the South Pacific (Malinowski, 1970). A search of the extant literature on Tongan culture and history reveals studies in the areas of myths and folklore (Mahina, 1996), education (Helu-Thaman, 1995; Paongo, 1996), politics and society (Bain, 1993; Campbell, 1992; Ellem, 1996; Morton, 1996; Morton Lee, 2003), the arts (Kaepler, 1996; Mahina, 2004), but reveals a gap in relation to the impact of Tongan culture on Tongan business practices. Van Der Grijp (2004) provides an insight into recent economic development in Tonga. The framework used in this study is based on a western capitalistic construct, and while acknowledging the customs that have impacted on the growth and sustainability of businesses in Tonga, does not seek to investigate the data through a Tongan indigenous lens. A more appropriate approach was adopted by Malinowski (1970) where interpretation of the data was taken from the Trobriand Islanders' perspective. This necessarily required the appreciation of indigenous concepts which did not have an exact equivalent in the western context. While Malinowski's study was in relation to the Trobriand Islanders of Micronesia, the approach is appropriate to apply to a Tongan research context.

Land is valued by Tongan people for what it may be used for, rather than its intrinsic worth. Its intrinsic value is a foreign concept and land is not regarded in the same way as in western societies. In particular, land is not regarded as a tradeable asset, since it is illegal to sell land. Land may be passed down from generation to generation within each family, although the collective authority remains with the noble or chief for the region. The present generation of land-holders are restricted in terms of their control of the land. A land-holder may for instance not dispose (gift to another person) of his land unless the heir to the utilisation rights gives his/her consent. Land is therefore not commercially traded and the purpose of legal title (*tohi 'api*) is to establish the right to use, and to pass down that right to use only to the next generation. Transactions for the agricultural use of land are similar to a leasing arrangement, although the consideration is often clouded by social relationships, timing and the form of the consideration (cash, in kind) (Van Der Grijp, 2004). Land titles are not intended to establish legal ownership for commercial transactions. In the traditional sense, land is held in common by the noble or chief of the region for the

collective benefit of the villages in that region. The allocation of usage titles is intended to preserve sustainability and reduce the occurrence of land conflicts arising from the growing shortage of land (Campbell, 1992). In practice, the usage of the land is more aligned with resources held in common. Although a section of land may be allocated to a particular family, the usage of that land is shared among the members of the village (Crocombe, 2001). Sharing this usage is not normally through commercial arrangements, but through mutual cooperation that arises from the entrenched interwoven relationships that exist between the villagers. For this same reason, allocated sections are seldom fenced. The following images taken in 2009 are three plantations belonging to villagers in Navutoka, Tonga. Figure 2.3.4.1-1 – Three adjacent plantations separated by long stretch of uncut grass is of three adjacent plantations separated only by a long stretch of long grass. The absence of fences makes it difficult to identify the exact boundary. Two dotted red lines have been drawn onto the grassed area to indicate the actual boundary line.

Figure 2.3.4.1-1 – Three adjacent plantations separated by long stretch of uncut grass



Figure 2.3.4.1-2 – Taro Plantations in Navutoka Tonga  
Figure 2.3.4.1-3 – Taro and kape plantation in Navutoka Tonga are of a taro plantation belonging to Mo'unga Manumu'a of Navutoka, Tonga. The layout of the taro plants is typical of many plantations, where the



crop is positioned around the larger trees that also act as wind breaks and boundary markers. Again, the absence of fences makes it difficult for outsiders to the village to determine boundary lines.

**Figure 2.3.4.1-2 – Taro Plantations in Navutoka Tonga**



**Figure 2.3.4.1-3 – Taro and kape plantation in Navutoka Tonga**



Land is important to Tongan people because of subsistence agriculture. The land, although limited in size, is regarded as a resource to be used in common for the benefit of the village in the same way that members of the village may access the sea for food. The three plantations shown in Figure 2.3.4.1-1 – Three adjacent plantations separated by long stretch of uncut grass above belong to three families who are also related. While they each work their own section of land, it is not uncommon for others in the village to use a portion of the land to grow produce for a given season. Similarly farmers may swap the use of their land with one another to facilitate rotational cropping.

The introduction of western commercial activity has eroded many of the traditional protocols and beliefs concerning land. In the late 1960s and early 1970s, government initiatives to set up cooperatives were introduced. In relation to these agricultural cooperatives, Campbell writes:

Co-operative societies were also encouraged as a means of increasing agricultural production. The first was registered in 1969. Co-operative societies had been introduced elsewhere in the Pacific nearly twenty years before, in the expectation that the spirit of co-operation often found in Polynesian societies could be turned to more profitable advantage. In theory, co-operative ventures would encourage relatively poor people to pool their resources, thus enabling investment and increased productivity. They would also provide an opportunity for people to gain experience in the management of commercial undertakings, and thus become a step towards individual economic enterprise (1992, p. 195).

The entrenched commons attitude to community identity and sharing clashed with the idea of individual economic enterprise and many of these co-operatives eventually collapsed. Campbell (1992) concludes that “the co-operatives and the diversification of agriculture and growth of commercial agriculture, were all disappointing, notwithstanding the progress actually made. The new economic services had failed to stimulate the creation of a private sector” (pp. 96-97).

In regard to the social relationships that influence the use of land in the South Pacific Clarke writes;

“Only a few points can be made here in this regard, the primary one being that in the traditional Pacific Islands, agricultural and land-use activities are always social acts; never can planning a garden, cutting a tree, or establishing an orchard of breadfruit and *Pandanus* be considered as restricted solely to an isolated sphere of agronomy or land management. Although land tenure systems vary considerably from place to place in the Pacific, all were based on some sort of communally held land, within which individuals or extended families had right of use, either generally or specifically” (Clarke, 1994, p. 27)

Tongans are more appropriately regarded as land holders or custodians, rather than owners. The custodian or holder concept is consistent with that found in Fiji (Norton, 1993). As Crocombe (2001) writes “rights to land were in all cases multiple, conditional and negotiable. What was owned was not the land or water so much as rights to it – rights vis-à-vis other people” (p. 295). Similar concepts of custodianship of land can be found with the Aboriginal people of Australia and the Maori people of New Zealand.

The desire to maintain a societal identity through building and maintaining relationships continues to be strong for Tongan people in Tonga and abroad. For Tongan entrepreneurs in New Zealand this desire influences the way that they operate their business. The findings from the empirical data in this study show the impact of this and are discussed further in chapters 6, 7 and 8.

#### **2.3.4.2 Distribution and the Mentality of Sharing**

Distribution (*tufa*) of the produce or fishing catch is based on sharing or *fie tokoni'aki*<sup>ii</sup>. Commercial exchanges are unpopular and rejected as culturally inappropriate (*fai totongi*). Villagers were expected to share as part of the village culture. Gifting one's excess produce is inconsistent with a western commercial framework, but presents a number of practical solutions to the problems of village economics. Without a formal medium of exchange, excess produce is directly gifted to others in the village that are in need. This process ensures each member of the village enjoys a continual supply of food. Retail networks are not required, as the gifting process is carried out between individuals. In addition, traditional gifting is characterised as not having a commercial value. Tongans measure the worth of the sharing process in terms of its social impact rather than the fair value of the



items being shared. As a follow on from the sharing process, relationships are forged and strengthened, which in turn perpetuates the cycle.

Traditional distribution of food is also influenced by the available technology at the time. A fisherman with a good catch of fish will share his catch with the local village as refrigeration equipment has been generally unavailable. Similarly, the leftovers from a community feast were also quickly distributed, as storage is not practical for any period of time more than one day. In recent decades, the introduction of refrigeration equipment to the Islands by well-intentioned relatives living overseas has removed the technological barrier to food storage. However, food sharing can still be found in many rural villages despite the introduction of technology. In some villages, including my own in *Manuka* and *Navutoka Hahake*, the deep freeze unit has become a community resource for use by a number of families.

The accumulation of wealth in the western context is new to the Pacific Islands and Tonga. The purpose of agriculture is to ensure the continual provision of food supplies to feed the family and the wider community. In order to do this in a sustainable way, villagers need to work together. An unproductive harvest or poor fishing catch for one family is borne by all. The produce of one person's crop (*ma'ala*) is traditionally shared with the rest of the village. The sharing is not a formal exchange, but a show of strength and wealth, social status and generosity. Being parsimonious (*nima ma'u* meaning tight fisted) and individualistic in the way that you distribute your produce or catch is generally regarded as negative or offensive. The opposite attribute *nima – homo* (meaning freely giving) is synonymous with kindness (*'ofa*) and being good-natured (*anga lelei*).

For many Pacific Island nations including Tonga, the distribution of the produce or catch confirms a family's social status and family hierarchy (refer sections 2.3.3.1 and 2.3.4.1). In some villages, the noble for the region (*vahe fonua*) would also be recipient to the *polopolo*. In more recent times, the minister of the local church has joined the ranks of those that are to share in the *polopolo* or first fruits. Traditionally this act was an appeal to those who were high in the social hierarchy (including God), who may consider the act of kindness and respect as reason to grant continued good fortune in the future.

Giving in the Tongan context is partly related to social status (Campbell, 1992). This is consistent with practices found in Ponape, Caroline Islands (Bascom, 1970) and Papua New Guinea (Curry, 2005). Bascom describes the agricultural practices of the Ponapeans as being separated into three parts. These included subsistence, commercial and prestige. The first refers to agriculture that is aimed mainly at providing food for the family and village. The second is intended for sale in order to provide money to meet those needs that cannot be locally catered for (include kerosene fuel for lighting and gas for cooking). The third refers to produce intended for gifting during ceremonial occasions and community feasts. Bascom referred to this as prestige gifting, as it was intended to raise the individual's community profile and status in the village. This three way allocation of resources is still prevalent in villages in Tonga today. Prestige giving is central to the Tongan village community and families will allocate usually the best part of the crop and livestock (including pigs and or cattle) for the annual church fund-raising event (*misinale*), village and family events including weddings, funerals and birthdays. The practice is common in the Pacific and has been described by some writers as competitive gifting (Bascom, 1970; Crocombe, 2001; Sahlins, 1970).

Members of a village community share in the work as a matter of social responsibility. This is captured in the Tongan concepts of *toka'i* (respecting relationships) *fetokoni'aki* (helping one another) and *tauhi vā* (keeping or maintaining relationships). In New Zealand, many Tongan social groups are based on village identity. Fund raising to upgrade utilities in their home village is common, and provides a source of capital injection to these otherwise impoverished communities.

Another aspect of sharing is captured in the Tongan notion of *fai fatongia* (fulfilling one's responsibility). This is central to the Tongan way of life. A strong part of the Tongan mentality is acknowledging and fulfilling each person's responsibility within its complex social structure. A person's social status is strongly equated with the degree to which he or she carries out their personal, family, social and cultural responsibility. The continued harmony (*molumalu*) of the family, village and country is dependent on the notion of *fai fatongia*.

A common saying in the Tongan language is '*ko e koloa pe 'a e Tonga ko e fakamalo*'. The expression means that the Tongan individual's only asset is gratitude and draws on the

importance and centrality of the sharing mentality. In what is typically a poor society, when members of a community give resources (often food) to one another, what is offered in return is no more than a humble (although public) *thank you*, in acknowledgement of the giver's generosity. Little or nothing is exchanged (materially) in this common practice of sharing, yet it continues through to the present day.

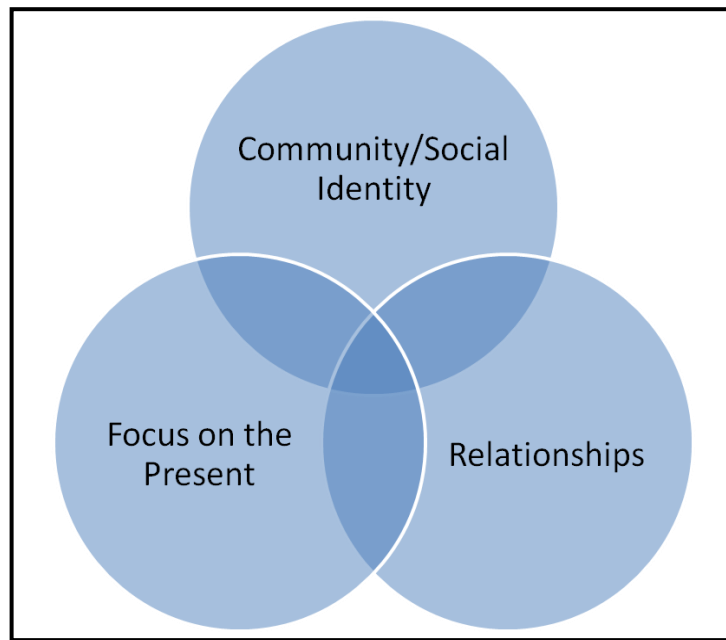
Helu-Thaman (1992) in encapsulating the Tongan concept of education in her *Kakala* (fragrant garland) metaphor, notes the role of sharing as the third and final step in the education process. The first and second refer to the plucking of the flower (selecting worthwhile knowledge or data) (*toli*) and preparing (compiling the data into something meaningful) (*tui*) it into a garland, which at its most beautiful stage is then simply given away (*luva*) or shared with others.

Many Tongan people associate the rewards of sharing with spiritual and indirect social wealth. The Christian concept of 'building treasures in heaven', for instance, is commonly identified as the non-material reward for kindness. Others see kindness as being rewarded through public acknowledgment that in turn contributes positively to the social status of the giver.

In this section (2.3.4) different aspects of sharing have been discussed in relation to land, food and other resources including equipment. The sharing process is an entrenched part of Tongan culture aimed at nurturing and building relationships. These relationships are important for the preservation of Tongan society and also have an impact on Tongan business sustainability in New Zealand. The implications for Tongan businesses in New Zealand of relationship building as an aspect of Tongan culture are covered in chapters 6, 7 and 8.

### **2.3.5 The Three Drivers of Tongan Culture and Society**

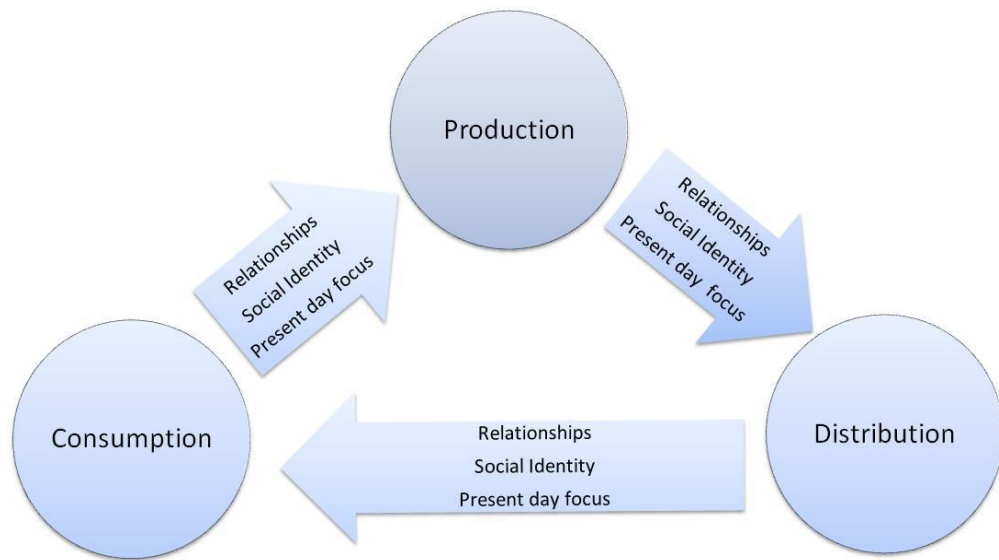
The discussion of Tongan culture in section 2.3 above identifies three drivers working together as the basis of Tongan culture and society. These include community or social identity, a focus on the present or event and relationship building, and are represented as three joined circles in Figure 2.3.4.2-1 – Three drivers of Tongan Culture and Society



**Figure 2.3.4.2-1 – Three drivers of Tongan Culture and Society**

Figure 2.3.4.2-1 – Three drivers of Tongan Culture and Society highlights the interconnectedness of the three themes behind Tongan society both past and present. The three themes are interdependent of one another. The present day focus leads to sharing, which in turn builds relationships, which strengthen society and social identity. Similarly social identity encourages relationship building through community events, which in turn encourages the present-day focus on consumption.

These three themes can also be seen as influencing the economic cycle of the village. Figure 2.3.4.2-2 - Cultural influences on Production, distribution and consumption below illustrates how relationship building, social identity and focus on the present or event all contribute to the production, distribution and consumption process. The arrows are not used here to indicate cause and effect, but rather that what is produced, distributed and consumed is influenced by the three cultural characteristics shown in Figure 2.3.4.2-1 – Three drivers of Tongan Culture and Society. What and how much to produce is regulated by climate (seasons), available resources and technology and current need, all of which share a focus on the present or event. Who should share in the produce is regulated by traditional protocols, values and beliefs, all of which are based on a social collective identity. The relationships that are forged and strengthened through competitive gifting and sharing, encourage and perpetuate the observance of community events.



**Figure 2.3.4.2-2 - Cultural influences on Production, distribution and consumption**

## **2.4 *Tongan People living Abroad***

According to the most recent census data, there are as many Tongans living abroad as there are in Tonga. Despite this relatively high proportion living overseas, Tongan people have maintained a strong attachment to their ethnic identity and way of life (Crocombe, 1973). In countries such as New Zealand, Australia and the United States, Tongan people have formed community groups that resemble and nurture traditional Tongan society (Tu'inukuafe, 1996). These have normally taken the form of Church groups, regional clubs, ex-students' associations and more recently education and health associations. Business activities carried out by Tongan people are inevitably influenced by Tongan culture, which in a western context continues to be resilient to change (refer section 2.4.1).

### **2.4.1 Tongan People in New Zealand**

Tongan people living in New Zealand (50,478) make up 19% of the total Pacific Island population, according to the 2006 census. 80% are resident in Auckland, with 95% living in

the North Island. Of those living in Auckland, the greatest concentration is in South Auckland (48%) and in Central Auckland (38%) (Statistics New Zealand, 2007).

The most significant influx of Tongan immigrants was in the period 1969-1975 (Tu'inukuafe, 1996). Since then the population has continued to grow rapidly with Tongans having the highest birth rate of the New Zealand population (Ministry of Pacific Island Affairs & Statistics New Zealand, 2002). The relatively high birth rate has resulted in a relatively young Tongan population. The median age for Tongan people in New Zealand is 19 years, compared with 21 for the remainder of the Pacific Islands and 36 for the total New Zealand population. According to the New Zealand 2006 census, 56% of Tongans living in New Zealand are New Zealand born.

Despite the relatively young population, and the high number born in New Zealand, Tongan people have maintained and nurtured their Tongan way of life. Tu'inukuafe (1996, p. 207) writes,

Tongan people in New Zealand cities, where they mostly live, are also engaged in learning to be more acceptable of other Tongans as Pacific port town inhabitants meet those from the surrounding villages, and as people from different islands come into contact. Through incidental encounters and through the kava drinking groups and clubs (*kalapu*), Tongans learn about each other's families and the traditions of their common homeland.

Most Tongan people (90%) in New Zealand are affiliated with a Christian church (Statistics New Zealand, 2007, p. 12), the highest rate of all the Pacific Island ethnicities. The church not only provides for their spiritual needs, but 'has become the village in New Zealand city setting. It is where language and culture is regularly practiced through meetings, seminars, choir practice, festivals and funerals, youth groups and worship' (Tu'inukuafe, 1996, p. 211). This continual preservation of language and culture has been an effective means of maintaining the Tongan identity for those living in New Zealand. Such is the effect of this village-type networked community, that the proportion of Tongans able to converse fluently in Tongan (currently 61%) increased by 1% in the five-year period to 2006 (Statistics New Zealand, 2007, p. 11). By comparison all other Pacific Island ethnicities showed a 3-4% decrease in language fluency.

The Tongan way of life is not only evident in the churches and preservation of language. Family and community networks among Tongan households closely mimic those back in Tonga. ‘Tongans in New Zealand were more likely to live in family situations than the total New Zealand population’ (Statistics New Zealand, 2007, p. 13). Furthermore, the proportion living in a family situation (87%) is an increase of 3% since the last census (2001). Similarly, the number of households that comprised multiple families was proportionately higher than that for the general population. However, they were less likely to be in a situation of sharing a flat with other ethnicities or living alone. This pattern is consistent with household living arrangements in Tonga.

The statistical evidence supports a people who have long since migrated to New Zealand, but continue to preserve their way of life in terms of culture, language, community networks and social hierarchy. They have not only nurtured their traditional way of living in New Zealand, but have an ongoing connectedness to their homeland (refer section 2.4.2 below)

## **2.4.2 Continued Connectedness to Tongan Way of Life Abroad**

Tongans living in Tonga and abroad share a duty to preserve their identity and culture (also see section 2.3.3.1). This is evident in their music, which continues to feature the great harmony and virtue of the monarchical hierarchy. Morton (1996) in her ethnographic study of childhood in Tonga, noted the importance and value Tongans place on their monarchical social structure. She goes further to suggest that the appreciation and preservation of “rank and status are fundamental aspects of everyday life and crucial components in the construction of individuals’ sense of self” (p. 23).

Tongans living in (but not indigenous to) New Zealand face the same threats of potentially losing their cultural identity as the indigenous Indians of North America, Aborigines of Australia, indigenous Melanesians of Fiji and Maori people of New Zealand (Bishop, 2005; Crocombe, 2001; Davie, 2000; Gallhofer & Chew, 2000; Schaper, 1999). In relation to these indigenous minorities, Gallhofer and Chew (2000) argue that “indigenous peoples retaining distinctive identities have done so, even if concurrently being constituted as a unity by global forces, including the similar policies that have been pursued by imperialistic

states” (p. 260). In New Zealand Tongan people have managed to preserve much of their traditional culture despite their minority status. This is evident in the New Zealand census data discussed in section 2.4.1 above.

One of the ways in which culture is preserved is through song. Crocombe (2001) identifies this as one of the ways in which Tongan culture is maintained. He writes; “Tongan songs give tremendous emphasis to extolling the hereditary, royalty and aristocracy” (p. 191)

Tongans living abroad demonstrate their connectedness to Tongan culture through their strict adherence to protocol during events such as birthdays, weddings and funerals. Most Tongan churches in New Zealand continue to deliver sermons in the Tongan language. Popular radio programmes in New Zealand, including Radio 531PI and Niu FM were set up with the purpose of preserving Pacific Island culture and language. Television programmes including *Tangata Pasifika*, in New Zealand provide a platform for disseminating Pacific Island events and news. The annual Polynesian festival hosted in Auckland provides an opportunity for the wider New Zealand population to appreciate and experience the various cultures of the South Pacific. Kava ceremonies (*kalapu fai kava*) both formal and informal, are popular and common across the New Zealand Tongan communities. In New Zealand a separate ministry (Ministry of Pacific Island Affairs) has been established to channel Pacific Island views into the political decision-making process.

The third layer of the Tongan social structure is that of the church. Introduced by the early European settlers, the role and position of the church in Tongan society is entrenched and forms part of present Tongan culture. Embracing the virtues of Christianity was relatively easy, given its close alignment to many Tongan values and beliefs. The sense of order that it introduced, together with the equality and hope afforded by Christian salvation, was immediately embraced by the common people (Crocombe, 2001, p. 217). The adoption of Christianity by the royal family and nobility contributed to this entrenchment and placed religion in a protected position in Tongan society.

Despite long periods of having lived in New Zealand, Tongan people continue to share a sceptical attitude towards self-employment. In Tonga, as in many other Pacific Island nations including Samoa, Niue and Fiji, the government sector is a significant employer. For many Tongans living in Tonga, being employed by the government is a sign of



employment security and high social status. Despite the relatively poor pay, the government is regarded as a secure employer who is immune to the impact of market volatility. The Tongan reference to *Ngaue fakapule'anga* (working for the government) continues to be regarded in Tonga as employment of high social status. The reliance on the public sector for paid employment has become a mindset, and has possibly detracted from the development of the private sector and entrepreneurship. The mindset of shying away from self-employment is continued among Tongans living in New Zealand. For Tongans living in New Zealand, less than 5% of those employed are self-employed, and approximately 2% are employers (Ministry of Pacific Island Affairs & Statistics New Zealand, 2002). This compares with 12% and 8% respectively for New Zealand in total.

### **2.4.3 Remittances – Sharing at a Global level**

An indicator of Pacific peoples' connectedness to the Pacific Islands and the tradition of sharing or gifting, is in the volume of remittances back their families and communities. A study by Brown and Walker in 1995 reports that Tongans in Sydney remitted back to Tonga an average A\$3500 per household per year (R. P. C. Brown & Walker, 1995). Based on 1992 data, this represented approximately 40% of Tonga's GDP (R. C. Brown, 1994; R. P. C. Brown & Ahlburg, 1999). Brown (1998) argues that contrary to prior studies suggesting remittances decline over time, this is not the case for Samoa and Tonga. Connell and Conway (2000) suggest remittances to the Pacific Islands is consistent with that of traditional sharing and gifting that ensured the sustainability of the village. Cowley et al (2004) discuss the continuance of remittance to the South Pacific Islands, despite the significant financial pressure this places on Pacific families in New Zealand.

Tongan entrepreneurs in New Zealand share the same sense of giving. Most Tongan businesses included in this study give to family members and community organisations. Furthermore, some indicated that they also remitted funds back to Tonga to help family members and community groups. This sense of sharing is not only a potential drain on the owners' personal resources but also on those of the business. This is discussed further in Chapter 6 section 6.3.2.

## 2.5 *Conclusion*

Tongan people share an ancestry that dates back at least 3000 years to the arrival of the Lapita people (Austronesian) in the South Pacific. The culture, although unique, exhibits common themes. The values, beliefs and traditions support an organised society based on a community, rather than individualistic mentality. The community or village represents the focal unit of Tongan society and not that of the family. Their culture and belief systems support a society that holds the needs of the community higher than those of the individual and immediate family. This societal approach is entrenched in both their social, spiritual and economic activities. The treatment of natural resources such as the sea and land follow a commons model, regulated only by the intertwined relationships and values that hold the community together. Ownership in a western sense is relatively new to Tonga and introduces with it the concept of individualistic land titles and personal wealth accumulation. Despite the slow take-up of western market paradigms, these are a threat to the continuity of traditional Tongan society in Tonga.

Tongan people share three principal cultural characteristics that impact on their decision making, prioritisation, interaction and business management. The first of these is their desire to build or enhance relationships through everything that they potentially do or say. The second is their identity with extended family and community, rather than that of an individual. The third is their focus on the present or the immediate event as having priority over other less immediate obligations. These three characteristics are an outcome of the commons framework in which Tongan culture is entrenched. These entrenched characteristics impact on the way Tongan business owners operate their business, and therefore contribute to the ongoing success or failure of the business. These are discussed in chapters 6, 7 and 8.

## CHAPTER 3: Methodology and Research Design

### 3.1 *Introduction*

The following chapter discusses the methodology used and the design of this research study. The research explores business sustainability among Tongan businesses in New Zealand. It is a qualitative approach and draws on the rich oral history of Tongan society through a series of *talanoa* sessions carried out with Tongan entrepreneurs over a two-year period. This chapter covers a discussion of the methodology and methods used in this study. The discussion begins with a summary review of the research question and topic, as a guide to the approach and framework selected and employed (section 3.2). The second part discusses research methodology and the naturalistic inquiry approach used (section 3.3). Part Three outlines the specific design of the study, taking into account the aim and nature of the inquiry and the naturalistic methodological framework (section 3.4).

### 3.2 *Research Question and Topic*

#### 3.2.1 **Background**

The original aim of the study was to look at the sustainability of Pacific Island businesses in New Zealand. This was influenced by the scope of the database of Pacific businesses held by the Pacific Business Trust (which the researcher was given access to) and the collective manner by which Pacific Island people were regarded by mainstream New Zealand. For instance, the establishment of the Ministry of Pacific Island Affairs looked to address policy development for all Pacific Island people, rather than a specific ethnicity from the South Pacific. However, after looking more closely at the similarities and differences across the thirteen Island nations of the Pacific, this was abandoned in favour of a single ethnicity: namely Tongan. Table 3-1 - **Comparative characteristic of the Pacific Islands** below provides a summary comparison of the characteristics of the Pacific Island nations in the three categories of Polynesia, Melanesia and Micronesia. An even closer analysis of the countries within the Polynesian classification revealed further differences in

values, family and societal structures and language. Grouping them together would mask the uniqueness of the participant businesses and defeat the aim and value of the study.

This study, including Tongan-only businesses represents the first phase of a research strategy that may be extended to include other Pacific Island nations. This initial phase provides a pathway and framework to guide further studies in Pacific Island business research in terms of the methodological approach and analysis of research finding.

**Table 3-1 - Comparative characteristic of the Pacific Islands**

Regional Divisions		Polynesia	Melanesia	Micronesia
Nations included		Western Samoa, American Samoa, Tonga, Niue, Tokelau, Cook Islands, Tuvalu, Society Islands	Papua New Guinea, Solomon Islands, Vanuatu, and Fiji	Nauru, Kiribati, Guam, Northern Marianas, Marshall Islands, Federated States of Micronesia and Palau
Societal Structure		Hierarchical at the country level	Egalitarian. Little social stratification	Hierarchical at island level
Leadership Selection		Ascribed status. Based on lineage	Achievement based	Ascribed Status. Based on lineage
Diversity of Culture		Significant similarity	Significantly diverse	Some similarity
Language		Languages Similar	Up to 1200 languages, each relatively unique	Some similarity in language
People		Tall heavy build, light or reddish brown skin	Greater variation in appearance, with light brown to deepest black skin	As with Polynesia
Spiritual Beliefs		Multiple Gods and spirits More recently strong Christian presence	Multiple Gods and spirits More recently strong Christian presence	Multiple Gods and spirits More recently strong Christian presence
Land ownership		Vested in kinship group	Vested in kinship group	Vested in kinship group
Property rights		Societal and Social Status	Societal	Societal
Wealth sharing		Competitive gifting as mark of status	Competitive gifting as mark of status	Competitive gifting as mark of status
Economy		Subsistence Agriculture	Subsistence Agriculture	Subsistence Agriculture

### 3.2.2 Aim of the Study

The key research question for the current study is to find out what are the key financial and entrepreneurial drivers of business sustainability among Tongan businesses in New

Zealand. In addition, the study aims to contribute a set of ideographic working hypotheses that not only increase our understanding of the individual businesses involved in the study, but also guide future research. The focus of the study is on Tongan businesses operating in a western commercial framework. Specifically, the relatively large number of Tongans living in Auckland New Zealand not only provides a strong rationale for the study, but also provides an accessible research base that is relatively concentrated in the largest commercial cities in New Zealand. The significant shift by Pacific Island people away from their Island homes to countries including New Zealand, Australia and the United States has placed significant social and economic pressure both on these migrant families and the infrastructure of their host country. Development economics research has made some headway in studying the economic growth of various Pacific Island people in their home Island setting, but how these people have survived in an anti-commons context remains unanswered. The approach has been to capture the experiences of these Tongan business entrepreneurs and pioneers through the stories they have to tell about their businesses. Chapter 4 covers a detailed discussion of *talanoa* and how this was used to capture these stories in an environment and format conducive to open dialogue.

Although there are significant similarities between the peoples of the South Pacific Islands, a deliberate ethnic focus has been used for the present research in an attempt to reach a deeper level of understanding behind the decisions and activities of these businesses. (A more thorough discussion is included in the research design section 3.4 of this chapter)

Business sustainability among Tongan people living in New Zealand cannot be approximated or deduced from the existing literature on small to medium size enterprises. Their cultural background, values and beliefs need to be taken into account if a comprehensive understanding of their business activities is to be gained. It is only when this occurs that more targeted assistance and guidance can be offered to increase their likelihood of survival in what must be an unfamiliar and challenging commercial environment for them.

### **3.2.3 Research Topic**

The topic of the current research - Tongan business sustainability - is a specific branch of ethnic minority business research which is within the larger area of small to medium size business research. The research topic also ties to studies in entrepreneurship, family business, micro-enterprises (cottage industry) and business incubation. An overarching theme in this study has been the impact of culture in a revival of the ongoing debate over commons and anti-commons.

### **3.2.4 Research Question**

The main research question is: what are the key entrepreneurial and financial drivers of Tongan business sustainability among Tongan businesses in New Zealand? During the *talanoa* sessions, few questions were asked. However, through the discussion about their current business practices and the drivers behind their decision-making, it has been possible to develop some understanding about the impact of the actions of business owners on business sustainability. The discussions were additional to providing understanding about Tongan business sustainability, and also provided insight into the following related lines of inquiry.

1. What are the record keeping practices of Tongan business?
2. How have Tongan businesses incorporated the financial accounting framework into their business practices
3. How do Tongan businesses address the management accounting and business related challenges of small business?
4. How have Tongan businesses managed growth and succession planning?
5. What attitude do Tongan entrepreneurs have towards business planning and how has this affected the likelihood of survival for their business?
6. What has been the impact of Tongan culture on Tongan business sustainability?
7. What aspects of Tongan culture have complemented the increased likelihood of survival for Tongan businesses?
8. To what extent have they been able to manage the challenges of business compliance?
9. What have been the motivations behind Tongan people entering into business?
10. How do Tongan entrepreneurs measure business success?

11. What common practices among Tongan businesses contribute to business sustainability or failure?
12. What differentiates Tongan businesses from other small businesses in New Zealand?

In considering the above lines of inquiry, the multiple realities revealed through the business stories and experiences of the twenty Tongan businesses included in this study establish a firm theoretical basis for further research in this area, and guide the development of policy and assistance programmes aimed at building business capacity among small yet rapidly expanding Pacific populations in New Zealand and other similar western countries.

### 3.3 *Methodology – Naturalistic Paradigm*

The following section discusses the naturalistic inquiry approach to research (Lincoln & Guba, 1985) and its appropriateness as the methodological framework for the present research. In their outline of the naturalistic paradigm, Lincoln and Guba discuss five axioms. These axioms constitute and explain the characteristics of naturalistic inquiry. These axioms are discussed below and include;

1. The nature of reality (ontology) (refer section 3.3.1)
2. The relationship between the knower and known (epistemology) (refer section 3.3.2)
3. The possibility of generalisation (refer section 3.3.3)
4. The possibility of causal linkages (refer section 3.3.4) and,
5. The roles of value in the inquiry (refer section 3.3.5)

The present study is a qualitative inquiry into the business practices, experiences and stories of twenty Tongan businesses in New Zealand. Qualitative research is a potentially far reaching and diverse approach and as Denzin and Lincoln (1994) argue “a field of inquiry in its own right” (p. 1). However, its natural alignment with studies in the social sciences makes it particularly appropriate for the present inquiry. The nature, questions and aims of this study are suitably aligned with a qualitative research approach. Summarising qualitative research Denzin and Lincoln (2005) write:

Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible. These practices transform the world. They turn the world

into a series of representations, including field notes, interviews, conversations, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them. (p. 3)

The more specific choice of adopting the naturalistic paradigm is in line with the aim of this study to understand Tongan businesses in their natural setting (be it a western anti-commons environment in New Zealand) and to interpret their experiences with a sensitivity and appreciation of their specific and collective context (Putman, 1983).

The choice to use a qualitative approach has been influenced by a number of factors. The discussion has separated these into pull and push factors referring to those influences that push the methodological decision away from a particular paradigm (push factors) and those that provide attractions towards an alternative paradigm (pull factors). The discussion is formatted into the five axioms of naturalistic inquiry outlined by Lincoln and Guba (1985).

### **3.3.1 The nature of reality (ontology)**

Among the push factors are the ontological, epistemological and methodological inconsistencies between the quantitative positivist and post-positivist paradigm and the aim of the inquiry together with the particularity of the research participants. From an ontological perspective the positivist's (and to an extent post-positivist's) argument that there exists a single reality (Guba, 1990b) that captures the multiple ethnic make up and decision making behaviour of business actors in a given society is inconceivable. Different opinions, decisions, understandings and tastes are a product of the diverse background and uniqueness of the individuals in that society. While they may share aspects of their character with one another in clusters of common interest, beliefs and cultural traits, this does not rule out the existence of multiple realities. Tongan businesses in New Zealand have struggled through the challenges of sustainability with arguably less success compared with the general population. Entrenched in a commons framework of sharing and working together, the threatened survival of their businesses in a western commercial society based on anti-commons is indicative of the existence of multiple realities. Since the positivist



paradigm prescribes a single reality for all, it represents here a push factor for the current study, away from quantitative inquiry towards some other alternative.

Naturalistic inquiries (Lincoln & Guba, 1985) from an ontological perspective support the existence of multiple realities. They further discuss the nature of reality as falling into four categories, including objective reality, perceived reality, constructed reality and created reality. Objective or naïve reality represents the contribution made by the post-positivists to the paradigm debate. While this view is consistent with aspects of Tongan society, particularly in the area of religion, the diversity in religious branches suggests that convergence on a single truth or reality that exists is unlikely, and that objective realism is at best an awkward fit with Tongan society. The concept of a perceived reality appears a more suitable fit with Tongan people and society. Lincoln and Guba (1985) outline that although perceptual realists acknowledge the existence of a reality, individuals (with only limited capacity and knowledge) are only able to appreciate a subset of it. For Tongan people the existence of truth and reality is consistent with the Christian faith that is entrenched in post European Tongan society. The Tongan stance on reality is appropriately captured in the Tongan version of the Belgic confession that is now commonly used as the final blessing at the end of church services.

*Pea ko e 'ofa 'a e 'Otua 'a ia 'oku mama'o he tatae 'o e 'atamai kotoa  
pe...tataki mo malu'I ko e he 'Otua koe Tamai, 'Otua ko e 'Alo 'Otua ko  
e Laumalie Ma'oni'oni. (Tongan blessing based on the Belgic confession)*

And the love of the Father that surpasses all human understanding...  
guide and protect you in the name of God the Father, God the Son and  
God the Holy Spirit

This popular version of the blessing supports the existence of a divine love, but that it cannot be fully appreciated or understood by mortal humans. Constructed and created reality denies the existence of reality in a collective sense, suggesting it depends on the consciousness of the individual. This notion implies a denial of creation and God which is unlikely to sit well with the understanding and cultural values of Tongan society. The ontological position of naturalistic inquiry with the specific reference to perceptual realism represents a 'pull' factor for the current research.

Hill and McGowan (1999), in relation to small business research, argue that “the only reality is that actually constructed by individuals involved in any research situation. Thus multiple realities exist in any given situation”(p. 8). For the present study, beginning with an appreciation that there exist multiple realities demonstrates an open mindedness to the individual experiences of the participant Tongan businesses involved. The naturalistic paradigm ensures a greater degree of integrity with regard to the data collected and the way in which it is interpreted. A more specific version of naturalistic inquiry is that of *Kaupapa Maori* (Bishop, 1998, 2005). This ethnic specific research paradigm represents a pragmatic and culturally appropriate approach to research involving Maori people in New Zealand. Bishop (2005) suggests that representational integrity is important yet often compromised through traditional research pathways. He writes that it is important that:

research constitutes an adequate depiction of social reality? Traditional research has misrepresented, that is, simplified/conglomerated and commodified, Maori knowledge for “consumption” by the colonizers and denied the authenticity of Maori experience and voice. Such research has displaced Maori lived experiences with the “authoritative” voice of the “expert” voiced in terms of defined/determined by the “expert” (Bishop, 2005, p. 112).

It is not the intention of this study to misrepresent the lived experiences of Tongan business people in New Zealand. Instead, the person carrying out the analysis process should be aware of the potential danger of losing sight of the specific realities of these businesses, in favour of a filtered version that has managed to sift those aspects that are most important.

### **3.3.2 The relationship of knower and known (epistemology)**

The epistemological characteristic of a positivist research paradigm represents another push factor away from a quantitative research approach. The positivist and realist attitude to the relationship between the researcher and the subject of the research is that they are objectively disconnected. The researcher is able to observe and learn about the topic of his or her inquiry without interacting with any of the participants in the research (Guba, 1990a). The post-positivists have taken a softer approach, suggesting that objectivity is a

goal that is not always achievable, but that every practical effort should be made to try and achieve it.

Research involving Tongan participants is destined to fail if, according to the positivist and post-positivists, the relationship between the researcher and research participant is to be disentangled. Relationships and relationship building are core aspects of Tongan culture and society (Refer chapter 2). Rather than objectively distancing the researcher from participants, every effort is made to strengthen the relationship if free and frank communication is to take place. Spradley (1979) supports the building of relationships between researchers and participants, and is quoted in Fontana and Frey (2005) as suggesting that it is about “the establishment of a human-to-human relation with the respondent and the desire to understand rather than explain”(p. 706). The naturalistic approach acknowledges and supports the notion that the “inquirer and the object of the inquiry interact to influence one another; knower and known are inseparable” (Lincoln & Guba, 1985, p. 37).

Another core characteristic of Tongan society is that of societal or community identity. Community identity is in turn reciprocally connected with the Tongan attitude of sharing. In research, knowledge and information is shared in the same way, with the researcher and participant both contributing to the topic being discussed.

### **3.3.2.1 Pre-existing relationship of the Researcher – Inside or outside?**

In addition to the debate concerning the independence of the researcher is that of the researcher holding a pre-existing relationship with the respondent, either directly or indirectly. In relation to Tongan business research, the question of whether an insider to the Tongan culture is likely to be better positioned to carry out the research, as compared with a non-Tongan, raises a number of issues worth noting. The advantages of research being carried out by an insider include accessibility, language, greater understanding of cultural nuances of communication and a greater ability to appreciate and interpret the significance of the stories and experiences of the participant. Merriam et al (2001) summarise these advantages, outlining that it is “commonly assumed that being an insider means easy access, the ability to ask more meaningful questions and read non-verbal cues, and most

importantly be able to project a more truthful, authentic understanding of the culture under study”(p. 411).

There are other advantages experienced in the current study that should be mentioned. These include the visual advantage, language advantages and the specific reputation of the researcher. In small ethnic communities, as in the case of Tonga, individual reputations, family linkages and social status become common knowledge. This is both an advantage and disadvantage depending on the good or bad reputation of the individual. A Tongan researcher with a poor reputation is unlikely to secure access to the data. However, the opposite is seldom going to meet with a refusal to participate. In the present research, the reputation of the researcher has provided access to discussion sessions and data that is unlikely to have been disclosed to anyone else.

The advantage of having the researcher able to communicate fluently in Tongan and English has resulted in a more detailed and transparent level of communication with participants. Tongan participants were offered the choice of having the *talanoa* sessions conducted in both English and Tongan. Most participants opted to communicate using both languages, with only three out of the twenty either choosing one or the other exclusively. In a number of cases, the deliberate shift between languages was a means of effectively communicating difficult and complex concepts that do not have an equivalent in one or the other language. If only one language had been offered (English), a significant number of the participants would not have consented to or have been capable of taking part.

The visual advantage of having a researcher who is an insider to the Tongan culture is the most obvious. Tongan people, as with their Pacific Island neighbours, share a preference for face-to-face forms of communication (A. M. Brown, Tower, & Taplin, 2005). They are a visual people by nature, and this is evidenced by the rich use of decorations and colour in their décor, clothing and fine mats<sup>iii</sup>. The visual impact of sitting down with another Tongan was found to hasten the pace towards establishing an open communicative relationship.

A criticism of having researchers who are regarded as insiders has been the inherent bias that they are likely to hold. In particular, they have been accused of not being able to critically evaluate the situation and to ask contentious questions that are likely to cast a negative image of the culture under inquiry (Bishop, 2005; Smith, 2001, 2005). Gallhofer

and Chew (2000) acknowledge that “engaging with other cultures is always difficult, especially if one is mindful of the dangers of ethnocentric analysis”(p. 258), but this does not necessarily prescribe that the researcher be a native to that culture. While there is no single ideal concerning the insider/outsider debate, a balanced view should be taken. Gallhofer and Chew summarise their view in writing

Yet we shall also emphasise that this should not be seen as a license to once again instruct other cultures from an assumed vantage point about what is best for them. This argument is suggestive of a balanced critical appraisal that can highlight the negative and problematic of both that which is common between the European and the Other and that which is a particularity of a culture (Gallhofer & Chew, 2000, p. 258)

The appropriateness of the researcher being an ‘insider’ or ‘outsider’ is determined by the specific circumstances of the study. In this instance, the background of the researcher provided significant advantages, including access to potential participants, ability to speak Tongan, trusted reputation in the Tongan community, knowledge and appreciation of both Tongan and New Zealand society and culture, and a strong practical and theoretical background in accounting and business in a western commercial environment. These advantages were regarded as clearly outweighing those disadvantages often associated with having a researcher who is regarded as an ‘insider’.

### **3.3.3 The possibility of generalisation**

The third of the axioms discussed by Lincoln and Guba is that of the potential for generalisation. The aim of naturalistic inquiry is “to develop an ideographic body of knowledge in the form of “working hypotheses” that describe the individual case” (1985, p. 38). These working hypotheses they term naturalistic generalisations and were originally formalised by Robert Stake in 1978 (Stake, 1978). The notion of naturalistic generalisations was further developed by Eisenhardt (1989) where multiple case studies were used to build theories. Stake and Eisenhardt acknowledge that generalisations of a statistical nature cannot be made from case-study based research, but that the individual experiences collected through each case or interview are the building blocks of a ‘theoretical generalisability’. Lincoln and Guba point out:

if you want people to understand better than they otherwise might, provide them with information in the form in which they usually experience it. They will be able, both tacitly and propositionally, to derive naturalistic generalisations that will prove to be useful extensions of their understanding. (1985, p. 120)

Statistical studies aimed at forming generalisations about the wider population are sometimes not possible for relatively small populations. Chetty (1996) used case studies to explore the export performance of small to medium size enterprises in New Zealand. She argues that “the case study method overcomes the problem of conducting research in a country, such as New Zealand, where the small sample base means that there might not be enough firms to justify using statistical generalisation” (Chetty, 1996, p. 74). The current research, focusing on Tongan business in New Zealand seeks to research a population base that is even smaller. While the case study method has not been used in this study, the *talanoa* sessions resemble aspects of the case study approach through the collection of individual business experiences, triangulated with discussions with business advisors, customers and other members of the Tongan community.

In line with the naturalistic paradigm, this study does not aim to contribute findings that claim statistical generalisability, but rather theoretical or naturalistic generalisations. Although these generalisations are bound by the context and timeframe in which the original experiences occur, they do increase our understanding of Tongan businesses through easy to understand accounts of personal experiences and stories.

### **3.3.4 The possibility of causal linkages**

The fourth axiom of naturalistic inquiry refers to the possibility of causal linkages. The positivist paradigm suggests that every action is the result of a cause that necessarily precedes it in a temporal sense or at the very least at the same time (Lincoln & Guba, 1985). The naturalistic paradigm abandons this rigid directional relationship in favour of an indefinite non-directional set of observations. Lincoln and Guba (1985) refer to this adaptation of the post-positivist view as mutual simultaneous shaping. They describe mutual simultaneous shaping as follows:

Everything influences everything else, in the here and now. Many elements are implicated in any given action, and each element interacts with all of the others in ways that change them all while simultaneously resulting in something that we as outside observers label as outcomes or effects. But the interaction has no directionality, no need to produce that particular outcome; it simply happens as a product of the interaction – the mutual shaping (pp. 151-152).

The interaction that Lincoln and Guba refer to is, however, not free of intention or motive by those involved in the interaction. Their reference to “it simply happens” they later qualify as there being no guarantee that a set of actions will impact on a particular outcome, or that an observed result is the exclusive result of a single type of interaction.

The nature and aims of the present study resonate well with the concept of mutual simultaneous shaping for the following reasons. Firstly, Tongan communities are characterised as being societal. Tongan people identify themselves as members of a village community as compared with the individualistic character of many western societies. The intertwined and multiple layers of relationships between individuals are conducive to generating observable outcomes that “might be evaluated, even if only in principle” (Lincoln & Guba, 1985, pp. 152-153). Secondly, Tongan people share a temporal focus on the present. Evidenced in their verb based language, Tongan people observe and interpret their environment “in the here and now”(Lincoln & Guba, 1985, p. 151).

The key aim of this study is to determine the key drivers of business sustainability among Tongan businesses in New Zealand. Together with the supplementary questions in section 3.2.4 above, the scope of the study indicates its aim is to probe into the causal links between Tongan business practices and sustainability. This, however, does not dispense with this fourth axiom, but rather uses it to appreciate the potential complexity of Tongan business interactions. Through their individual experiences (interactions with one another and the environment) we are able to go beneath the raw observations and begin to understand the interactions behind them. While it may not be possible to fully appreciate the complexity of these interactions, we can at least come to an understanding even if at the very least it is only in principle.

### **3.3.5 The roles of values in inquiry**

The last of the five axioms of naturalistic inquiry is that of the role of values. While the positivist research paradigm advocates a value-free approach, naturalistic inquiry is value bound. Lincoln and Guba (1985) suggest naturalistic research is bound by values in five corollaries, including the impact of: the values of the inquirer, the chosen research paradigm, the choice of theory, the social context of the inquiry and (lastly) whether the inquiry is value-resonant or value-dissonant.

The values of the researcher are an inseparable part of the research process. This has been a criticism of the positive paradigm where the scientific lens through which the inquiry is based is value laden. The interpretation process which inevitably is carried out through the eyes of the researcher is also value laden. The debate over whether the researcher is an insider or outsider (refer section 3.3.2.1 above) is irrelevant here since both are bound by some pre-existing set of values. As Lather (1990) points out:

All researchers construct their object of inquiry out of the materials their culture provides, and values play a central role in this linguistically, ideologically, and historically embedded project that we call science. (p. 317)

In relation to the current research, values are an entrenched part of the research process. Close attention is given to documenting the values of the research participants and making sure that these are preserved throughout the analysis by having the research carried out by one of their own.

The second of the corollaries mentioned above is that of the presence of value in the chosen research paradigm. For the present research, the naturalistic paradigm is used, entailing an approach that is open to the existence of multiple realities and necessarily bound by the entrenched values of Tongan people. To appreciate the significance of the business experiences of Tongan entrepreneurs, as the naturalistic paradigm would prescribe, they need to be interacted within their natural context. Part of this natural context is the underlying values which they share and are characterised with.

The third corollary refers to the choice of theory and the values that are embedded within it. For the present study, embeddedness theory (discussed in chapter 5) is used to frame the



analysis of the findings. The value implications of embeddedness theory are consistent with that of Tongan culture. As discussed in chapter 2, two key characteristics (or values) of Tongan culture are that of relationship building and societal or community identity. Both these characteristics are captured in Polanyi's notion of embeddedness. In particular Polanyi (1944) argues that social relations are not an outcome of economic activity but that economic activity, is shaped by our social relations. He writes:

The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his own individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end. Neither the process of production nor that of distribution is linked to specific economic interests attached to the possession of goods; but every single step in that process is geared to a number of social interests which eventually ensure that the required step be taken. These interests will be very different in a small hunting community from those of a vast despotic society, but in either case the economic system will be run on non-economic motives. (p 48)

The values inherent in embeddedness theory are echoed by those of Tongan society. In terms of the third corollary, the value impact of embeddedness theory not only complements the nature of traditional Tongan society, but is also necessary to ensure the integrity and worth of the current research.

The fourth corollary discussed by Lincoln and Guba (1985) looks at the value impact of the social context of the inquiry. This is inevitable with a naturalistic inquiry, as participants are observed within the context of their natural or normal operating environment. The social context in which the current study takes place is that of a western capitalistic setting. While this western setting may be inconsistent with the norms of traditional Tongan society, it is the impact of this dissonance that is likely to increase our understanding of Tongan business sustainability.

The last of the corollaries looks at the issue of value resonance (where values are reinforcing or congruent) and value dissonance (where values are conflicting) in relation to the four corollaries discussed above. In relation to corollaries 1-3, we see a case of value resonance, since the underlying value base of the inquirer, paradigm and theory resonant a

set of values that are complementary and re-enforcing of one another. The fourth, however, suggests a clash of societies, one based on commons and the other anti-commons with a potentially conflicting set of values.

The naturalistic inquiry approach used in this study is value-bound. Appreciating the different sources and roles these underlying values play, together with an understanding of their tendency to either harmonize or conflict is important. Just as individuals are bound by the values and beliefs that shape who they are, so it is with a research approach that not only acknowledges its existence, but also weaves it into every stage of the research process.

### *3.4 Research Design – Talanoa Sessions Studies*

The following section outlines and discusses the design of the current research, including the broad steps of developing the research question, selection of methodology and method, selection of research participants, and data collection through to analysis and summary. Where particular steps are discussed in other sections of this study report, cross-reference is made to those sections, but is not repeated here.

#### **3.4.1 Origins of the research question**

The present author, for the three-year period to 2002 had been a member of the Pacific Island Business Development Trust<sup>iv</sup>. During this period the issue of Pacific Island business sustainability was topical, given the objectives of the Trust and the relatively high failure rate of small Pacific Island businesses in New Zealand. While assistance, including financial and professional advice, had been provided to many Pacific Island businesses, their likelihood of surviving beyond three years was low. The key question for the present study emerged from the desire to better understand Tongan business practices in New Zealand, and to provide guidance as to how they may manage their businesses to increase the likelihood of success.

### 3.4.2 The Research Participants

The research participants in this research included twenty Tongan businesses, three business consultants, and members of the Tongan community in Auckland that were customers of the twenty businesses or were aware of them. The choice to target Tongan businesses was driven by a number of factors, including the background of the researcher, accessibility to participants, access to data regarding Tongan businesses, language and the cultural resilience demonstrated by Tongan people living in New Zealand.

The background of the researcher was the most influential driver in selecting Tongan businesses rather than for instance businesses managed by Samoans who represent over half the Pacific population in New Zealand. The researcher in this instance is Tongan by ethnicity, is able to speak Tongan and English fluently, has extensive networks and contacts within the Pacific Island community (particularly Tongans) and has expertise in accounting, finance and economics in a western commercial framework. His familiarity with the Tongan culture and ability to speak fluently in Tongan and English provides a number of advantages. These include an appreciation and sensitivity of Tongan cultural principles, nuances in everyday Tongan conversations and an ability to understand complex notions and themes unique to either Tongan or western society.

Given the background of the researcher, access to Tongan businesses networks and community was much easier than for other Pacific ethnicities. In a number of cases the reputation of the researcher influenced the securing of willing participants. In the Tongan community, as with many of the Pacific Island nations, networks play a significant role. Tongans prefer to interact in the broader social context with people they know and feel comfortable with. In the case of research, Tongan people are more likely to *talanoa* (talk) with a researcher they feel is likely to understand their opinions and potentially unique perspectives.

Tongan people living in New Zealand have demonstrated a greater resilience to foregoing their Pacific heritage than any of the other Pacific Island countries. As discussed in chapter 2, the proportion of Tongan people able to conduct a conversation in the Tongan language fluently increased by 1% between 2001 and 2006 (Statistics New Zealand, 2007) compared with a decrease of 3-4% for the other Pacific Island nations. This aspect is important, as the

potential impact on cultural resilience on business sustainability, which may be applicable to all Pacific Island businesses, is likely to be more noticeable with Tongan businesses.

A second group of research participants includes three business consultants from the Pacific Business Trust. These were selected based on their business knowledge, as they had worked with many Tongan businesses in New Zealand and in Tonga. Two of the three business consultants included in the study were Tongan by ethnicity, allowing greater alignment to the ethnic focus of this research. Their selection is consistent with the guidance offered by Morse et al (2002) when they suggest that “the sample must be appropriate, consisting of participants who best represent or have knowledge of the research topic”(p. 12).

### **3.4.3 Process for Selecting Tongan Businesses**

The number of Tongan businesses in New Zealand who are employers is approximately 300 (about 2% of the Tongan adult population). A further 600 are in self employment, but do not employ others (Statistics New Zealand, 2007). With the possibility that some of those identified as self employed are cottage industry, the actual number of registered self employed is likely to be significantly less. The casual and temporal nature of many Tongan businesses at the cottage industry phase make it difficult to estimate how many there are. As discussed in Chapter 6, many who are at the cottage industry stage of development are not registered and prefer to operate discreetly for fear of the compliance challenges that come with being an official business. Given the relatively small population base, it is not possible to carry out statistical analysis at the industry or subcategory level.

The process for selecting Tongan businesses was based on capturing a collection that reflected the diversity in industry, time in business, gender of owner/operator, size of business, revenue base and organisational structure (Morse et al., 2002). The rationale for casting the net wide was to capture a mix of experiences that would not be unique to any particular sector or sub-category. The 20 businesses included in the current study were sourced so as to reflect the diversity noted above.

To begin the selection process, an initial presentation of the research project was made to the Pacific Business Trust, seeking access to their business database. Given the benefits that the research would have for the ongoing business of the trust, together with the relationship the researcher had with the trust as a former trustee, this access was granted. However, clients were not to be contacted directly, except through the business consultants.

The first step in the process of selecting Tongan businesses was an analysis of the business database held by the Pacific Business Trust. This was done to provide an overview of the number of Tongan businesses and the spreads of industries they operating in. A letter outlining the purpose of the research was then sent to the Pacific Business Trust, so that they could announce at the regular breakfast meetings with Pacific Island businesses that this research project was being carried out and that some may be invited to participate. The rationale for this step was to forewarn potential participants of the project and to encourage them to participate.

Using the public business directory maintained by the Pacific Business Trust (Pacific Business Trust, 2005), telephone contact was made with Tongan businesses, inviting them to participate in the research. Throughout the project only three contacts did not eventuate in a *talanoa* session. Two were later discovered not to be Tongan businesses, and the third initially agreed to participate, but subsequent calls to schedule a meeting time were unsuccessful.

The researcher's existing networks with the Pacific Island community provided a secondary access point for participants. Contact was made to several participants by key members of the Tongan community, encouraging them to participate. These were then followed up with a telephone contact by the researcher to invite them formally to participate and to arrange a time. These networks also provided key contacts of Tongan businesses that were likely to participate. Of the contacts provided through the researcher's networks, two were not followed through, as other businesses with similar dynamics and industry had already been including in the study.

In two instances the researcher's personal relationship with the organisation allowed him access to the business and a *talanoa* session with the Tongan management.

### 3.4.4 Number of Participants - Saturation

Following the notion of saturation as suggested by Morse (1995), the number of *talanoa* sessions carried out continued until the depth and significance of the experiences gained reached a level where the researcher felt adequate data had been collected to develop a clear picture of the Tongan business practices and how these have impacted on the sustainability of their business.

Morse (1995) suggests that “the tighter and more restrictive the sample and the narrower and more clearly delineated the domain, the faster saturation will be reached”(p. 148). For the current research, the choice to limit the ethnic spread to just Tongan businesses will have the effect of reaching saturation point more quickly. However, the diversity in businesses included in the study (refer section 3.4.3) is likely to have the opposite effect. The use of traditional Tongan *talanoa* as the method for collecting data negated the need for predetermined questions. As discussed in the chapter 4, the *talanoa* sessions began with an introduction of the topic to be discussed, without asking direct questions. The fact participants were left to lead the discussions as much as the researcher meant deviations from the topic were frequent. This characteristic of traditional *talanoa* delayed the pace towards saturation. Morse acknowledges that this is often the case with qualitative research as many “studies begin broadly and focus naturally as the researcher homes in on some aspect that is particularly interesting, and the process of inquiry narrows to a particular topic” (Morse, 1995, p. 148). While it is inevitable that any researcher engaging in an inquiry is going to have some pre-conceived notion of what may be gained, however casual, these were consciously kept in check with the current research, in order to give participants the opportunity to tell their stories and experiences at their own style and pace.

Repeated experiences were not the basis for assessing data adequacy or saturation, but rather that sufficient information had been gained through the stories and the experiences collected to paint an accurate picture of the experiences of Tongan businesses and how this influenced their likelihood of survival. Information or experiences that were unique to a participant were particularly useful in providing for a more detailed and comprehensive account of Tongan businesses collectively. Saturation for the current study was reached with approximately 18 businesses and three business consultants. Supporting data from the

wider Tongan community also contributed to the dataset although these do not form part of the 20 Tongan businesses included in chapter 6.

### **3.4.5 Analysis of the data**

The analysis of the data was carried out in four stages. The initial stage of analysis occurred during the *talanoa* sessions. As discussed in chapter 4, the key aim of *talanoa* is to gain understanding and build relationships. The open discussion format of *talanoa* made the session the most appropriate place to analyse the information being shared. The notion of talk now and analyse later is inefficient and contrary to the philosophy of *talanoa*. It is an axiom for both *talanoa* and interview sessions that the detail the researcher takes away is always less than what was available during the session. Analysis by definition is the examination of something in detail. This is often done by examining the detail and breaking issues down into their component parts. Access to the detail and the ability to analyse it in a temporal context is best carried out during the *talanoa* session. As the themes and ideas are unfolding continually throughout the sessions, elaborating on interesting ideas and collating them into thematic strands at the mental level is an important part of the analysis process.

Stage two of the analysis was carried out during the transcription and note-taking stage. At the conclusion of each *talanoa* session, the digital MP3 type recordings were played back using the Microsoft Media player and transcribed into a word document. Since much of the recording was in Tongan, the transcription process included translating Tongan into English. Strict translation of individual words was not carried out as this often resulted in the loss of emphasis and meaning. Instead whole sentences, phrases and key ideas were used as the focus of the translation process. Where expressions were uniquely Tongan without an exact equivalent in English, the Tongan was transcribed with an English explanation of its significance adjacent. Where English words and phrases were used, the transcription process continued to focus on capturing the idea rather than the strict words used. This was done deliberately to avoid misinterpreting the message through incorrect use of English words, which frequently occurred. During many occasions where ideas and concepts were difficult to explain, participants would use both English and Tongan. Hence

where ideas were unclearly expressed in English or Tongan, an explanation in the other language helped to reduce the possibility of misinterpretation.

Throughout the transcription/translation process, time markers were made using the Microsoft Media Player time meter. This was carried as a cross reference and as a means of easily going back to the desired part of the *talanoa* session for further analysis, quotation or clarification during the second and third stage of data analysis. As part of the transcription/translation process, italicised comments were made and inserted into the transcript as a record of the researcher's impression of the recorded experience and potential themes of analysis for stage two and three of the process.

In a few cases where a tape recorder (on two occasions the recorder failed to record) was not used, the field notes taken during the *talanoa* sessions were analysed, and detailed accounts of the session captured immediately following. This was done in order to capture in writing as much detail as possible of the session while it was still fresh in the researcher's memory.

Stage three of the analysis involved going through the written notes and transcripts to identify common themes. The mental thematic strands in stage one and italicised comments in stage two assisted in this part of the process. A total of 41 different themes were identified during this third stage of the analysis. Sections of the transcripts were also identified as possible sources of quotes and or illustrations for the analysis discussions. At this point, although the transcripts and translations of the *talanoa* sessions with the three business advisors had been done, they were not included as part of stage three.

Stage four of the analysis involved grouping the 41 thematic strands identified in stage three into two or three broad categories for the purpose of theory formulation and reporting. During this process, four additional thematic strands were identified, prompting a repeat of stages two and three with particular focus on identifying data from the transcripts and translations to support them. Stage four also involved review of the transcripts and translations of the *talanoa* sessions with the three business advisors and comments from customers, Tongan community members and other key stakeholders. Although the researcher in this instance was Tongan by ethnicity with a sound knowledge of accounting



and business, a close review of the academic literature on Tongan culture, financial accounting and those specific areas identified in stage three was carried out.

This fourth stage of the analysis resulted in three main strands of analysis and reporting being done. These are included in chapters 6, 7 and 8 and include financial accounting (chapter 6), business finance and management accounting (chapter 7) and business related (chapter 8) challenges faced by Tongan businesses in New Zealand. Using embeddedness theory, discussed in chapter 5, Tongan culture (discussed in chapter 2) provides the contextual framework for the discussion in chapters 6, 7 and 8.

### *3.5 Conclusion*

The current study is essentially an investigation into the financial and entrepreneurial drivers of business sustainability among Tongan businesses in New Zealand. This chapter discusses the naturalistic paradigm and its appropriateness as the methodological framework for the current study. The design of the study outlined in section 3.4 is a reflection of the flexibility afforded by the naturalistic paradigm and the need to introduce traditional Tongan (alternative) means of communication to effectively reach and develop an understanding of Tongan business practices (from their perspective) in New Zealand and how this is related to the sustainability of their businesses. This chapter (section 3.3.3) highlights the need for a more qualitative approach to be adopted given the statistically small size of the Tongan business population.

## CHAPTER 4: Research Method – Using Traditional *Talanoa* in Pacific Business Research

### 4.1 *Introduction*

This chapter is a follow-on from Chapter 3 – Methodology and Research Design and discusses the method employed to collect the data and interact with research participants. The method used in this study is traditional *talanoa* – a Pacific Island oral form of communication embedded in the cultures of the island nation of the South Pacific.

Studies aimed at understanding Pacific Island businesses raise a number of research challenges. These challenges feature at all levels of a research strategy, from design, data collection, analysis, through to reporting. They include Pacific Island attitudes and perceptions of research; the participants' values, culture, ethnic diversity, education and language and their relationships and interactions with one another and the researcher. The traditional process of *talanoa* provides an opportunity to reach a greater understanding of Tongan business in a manner that embraces the cultural values embedded in Pacific Island communication. Its strengths and weaknesses as a tool for collecting data are discussed in the context of business research. The field work presents a series of Tongan business experiences not found in the academic business literature, and provides insights as to their prospects for sustainability in a western commercial environment.

### 4.2 *Talanoa*

*Talanoa* has been and continues to be the preferred means of communication across many South Pacific Island nations (A. M. Brown et al., 2005). The following discussions focus on *Talanoa* in the Tongan context, although similar themes and characteristics may be found with other South Pacific Island nations.

*Talanoa* is defined as to talk (in an informal way), to tell stories or relate experiences (Churchwood, 1959). The word *talanoa* is derived from the words *tala* meaning tell or communicate and *noa* meaning anything or in general. As with the word interview, *talanoa*

has a popular context in which it is used. A *po talanoa* for instance refers to an evening of conversation which can be both informal and formal.

#### **4.2.1 Talanoa – The Traditional Method of Oral Communication in the Pacific Islands**

The focus of *talanoa* is to reach a state of understanding between those involved. Halapua (2003) writes “our *talanoa* process of dialogic-exchange interactions with each other can and ought to be orientated towards building understanding and respect of the competing claims of rights and obligations which we value and share in our lives” (p. 5) This understanding, he argues, is reached through the respectful and mutual sharing of views, experiences and beliefs through the process of *talanoa*.

The philosophy of *talanoa* as Halapua suggests is narrative, rather than a written dialogue (Halapua, 2003). Although the wider meaning of the word *talanoa* encompasses all forms of communication, including the use of flags (*talanoa fuka*) and lights (*talanoa maama*), it is more popularly associated with oral communication. Talanoa is regarded as the preferred form of communication for many of the Pacific Island nations (Pepa, 1997). In a more recent study carried out in Tonga, Brown et al (2005) found that oral communication continued to be the preferred and most popular mode of communication, despite the increasing availability of written material and email. Although the telephone and internet have extended the medium for oral communication, face-to-face is consistent with traditional *talanoa*. Otsuka (2005) concludes “talanoa literally means a face-to-face conversation whether it is formal or informal” (p. 3)

In 2003 the *talanoa* process, facilitated by Dr Sitiveni Halapua was used to bring together the political opponents to the 2000 Fijian coup. Such was the success of the process that it was again used to bring together the parties associated with the public servant strike in Tonga in 2005. More recently, it was employed in July 2006 by the National Committee on Political Reform to collect together the views of the wider Tongan population on the issue of political change.

While *talanoa* is used across the various island nations of the south Pacific, each country appears to have incorporated its own culture and traditions into the process. In Fiji, for instance, the traditional *yoqona*<sup>v</sup> ceremony, embracing the social hierarchy of chiefs has determined the specific manner of the *talanoa* process. In Tonga, the social hierarchy including the royal family, aristocracy and *matāpule*<sup>vi</sup> has impacted on the manner of the Tongan *talanoa* process, particularly during formal *kava*<sup>vii</sup> ceremonies.

A common characteristic of *talanoa* is that it is a voluntary process (Robinson & Robinson, 2005) involving willing participants. *Talanoa* in the Pacific manner cannot occur unless those involved are willing to cooperate. Cooperation here means being in a state of mind to seek understanding and reconciliation. The flexibility in the process is indicative of the need to accommodate the multitude of situations in which it is used, and the personalities of those who participate. Robinson & Robinson (2005) in discussing Halapua's (2003) view of *talanoa*, write "the philosophy of *talanoa* involves using an open dialogue where people can speak from their hearts and where there are no preconceptions" (p. 18). The voluntary nature of *talanoa* implies the occasion is one where participants feel comfortable to take part.

Halapua (2003) suggests the concept of *va*<sup>viii</sup> or space is a feature of *talanoa*. Embedded in the concept of *va* is the existence of relationships between individuals and groups or communities. Maintaining these relationships sets the conduct of participants during a *talanoa*. Respect for elders, family members, society and tradition encourage participants to consider the wider context of their existence and not just their individual point of view. The concept of *va* in the context of *talanoa* supports the focus of achieving understanding, rather than agreement.

The process of *talanoa* is without a defined timeframe. The lack of a timeframe is an important feature of *talanoa*. "No one is rushed to meet deadlines, if someone needs more time to think about a problem or decision that they need to make, then they are allowed to take as much time as necessary" (Robinson & Robinson, 2005, p. 19). This can lead to lengthy discussions that can stretch over several days. While this has been a popular criticism of the *talanoa* process, to reach a state of understanding where the many faces of an issue have been explored is arguably more valuable than rushing a decision that is more often a case of imposing the views of one party over another (Halapua, 2003).

### **4.2.2 Talanoa in Tonga**

In Tonga, *talanoa* is used as a means of communication. It is used across a number of social settings, from the informal *talanoa* that can take place between friends to the formal setting of a *kava* reception.

In July 2006 in Tonga, the *talanoa* process was taken to a national level during the community consultation programme carried out by the National Committee on Political Reform (NCPR). In a progress report presented to the House of Representatives on July 27<sup>th</sup> 2006, Dr ‘Ana Maui Taufe’ulungaki, a member of the NCPR noted “The committee found the *talanoa* process stressful at times and physically and mentally demanding, but nevertheless we found it to be a deeply moving, heart-warming and life changing experience” (Taufe'ulungaki, 2006).

When engaging in a *talanoa*, it is important to recognise the setting in which it is carried out. Understanding the setting will help determine the specific protocol that should be followed. Robinson and Robinson (2005) suggest the role of “ceremony and protocol are just as important as the process itself” (p. 15). Following the appropriate protocol will help create an atmosphere in which open and useful *talanoa* can take place. For example, during formal *talanoa* (a *kava* ceremony), meticulous attention to traditional protocol will establish the necessary atmosphere of order and mutual respect between the parties present.

In the case of informal *talanoa*, cultural protocol is just as important. For example, a young male suitor seeking the affections of a potential bride will seek the permission of her parents to *talanoa* at her home. Requesting a private outing away from her home is regarded as inappropriate and disrespectful of the potential bride, and is likely to meet with rejection.

### **4.2.3 The Abstract Language of Tongan *Talanoa***

In formal Tongan *kava* ceremonies, participants are often referred to by their family title or *hingoa fakamatāpule* as a means of establishing their place in the social order, lineage and

often right to speak. The language used is poetic and rich with metaphors, traditional imagery and symbolism. The issues discussed are seldom addressed directly, but rather in abstract form. The abstract tone of the discussion allows the participants to talk about an issue as if they were one step removed. This type of abstract discussion (generally associated with formal *talanoa*) helps to create an atmosphere of ease by encouraging the speaker to focus on the issue, rather than on any personal link they may have to the issue discussed.

It is common in Tongan *talanoa* to disguise the presentation of your opinion rather than stating it directly. Stating one's opinion directly is often regarded as being aggressive or *ta'enā*. Time is taken to carefully articulate one's view in language that draws on traditional legends, proverbs, songs and poems, biblical passages and common landmarks and images. To those unfamiliar with the background to this use of language, the dialogue may appear confusing and unclear. However, Tongan speakers are often able to reach a deeper sense of understanding through this type of abstract *talanoa*. *Talanoa* in this context takes on a form of conversation that not only achieves the effective communication of knowledge, but also does it in such a way as to be pleasant, appropriate and contextual. Like performers in an opera, participants in a *talanoa* will often use the opportunity to display their skill in oratory, their depth of knowledge and wit to package their message.

Context is an important component of *talanoa*. Given the abstract nature of the language used, understanding the context will help clarify what the speaker actually means. Sarcasm, exaggeration, humility and humour are common features of *talanoa*. What is often said in *talanoa* can mean something quite different. An invitation to share in a *fo'i pateta hamu* (or a meal of potatoes without an accompanying meat dish) is more often an invitation to share in a banquet. Invitations of this nature are often downplayed as a gesture of humility aimed at lifting the status of the guests. Similarly, during the salutations at a funeral reception, mourners often describe the manner of their attendance as one of having run (*lele mai*) all the way with the utmost haste. In fact, they would have driven or walked with no particular urgency in mind. Again the language is intended to downplay the status of the speaker and thereby elevate the importance of the grieving family.

Context in *talanoa* refers to the entire setting and situation, including the relationship between the participants (Halapua, 2003), place (Robinson & Robinson, 2005),

circumstance, time, topic and social structure. In Tongan *talanoa*, if the participants include members of the royal family or nobility, then the language is respectfully formal and traditional protocol is followed very closely. The language may also take on a more abstract tone, drawing on traditional imagery. If the participants are family members, then careful attention is given to the presence of members who are regarded as brother and sister. Where a brother and sister or cousins of the opposite sex are present, the *talanoa* must be *faka'apa'apa*<sup>ix</sup>. *Faka'apa'apa* describes the traditional relationship of respect between a brother and sister. Discussion and humour of a sexual nature including swearing is avoided as a mark of respect.

The place or physical location can also have an influence on the *talanoa* and the language used. *Talanoa* that takes place in church or *faletapu*<sup>x</sup> tends to be formal and topics of a sexual nature are avoided, again as a mark of respect.

### 4.3 *Talanoa in Research*

While the tradition of *talanoa* extends back beyond the recorded history of the Pacific Islands, recent examples of its application and use in educational research in Fiji (Otsuka, 2005) and Tonga (Vaiotei, 2003), housing research with Tongans in New Zealand ('Alatini, 2004) and political harmonisation in Fiji and Tonga (Halapua, 2003; Taufe'ulungaki, 2006) is testimony to its ongoing relevance as an effective means of communication.

While much of the literature on *talanoa* has emerged following the *talanoa* sessions facilitated by Dr Sitiveni Halapua involving the political opponents to the 2000 Fijian coup, the *talanoa* process has been used in a number of situations other than formal conflict resolution. *Talanoa* has been used in education research ((Manuatu, 2000; Otsuka, 2005; Vaiotei, 2003) housing research ('Alatini, 2004) and gambling research (Guttenbeil-Po'uhila, 2004).

The *talanoa* process is characterised by having no set agenda. In research this is impractical as any study is bound by a research topic or area. The absence of an agenda in the case of *talanoa* does not necessarily means a free-for-all discussion on whatever topic the speaker

wishes, but rather an open format for the participant to raise any matter they feel relevant to the issue or issues being discussed. In the facilitated *talanoa* in Fiji between political opponents to the 2000 coup, the issues for the discussions were confined to those relating to the recent coup (Halapua, 2003; Robinson & Robinson, 2005). *Talanoa* in an education study carried out in ethnic Fijian villages by Setsuo Otsuka (2005) adopted a semi-structured interview format to define the issues for the *talanoa*.

In research it is appropriate to disclose the purpose for the *talanoa* and the broad issues to be discussed. While this may appear contrary to the philosophy of *talanoa* it addresses another important criticism of research involving Pacific Island peoples. Sanga and Pasikale (2002) outline that a common criticism of research involving Pacific Island communities is the lack of disclosure about the research and the practical benefits of the findings to the community and individual participants. Bowler (1997) emphasises the importance of establishing a shared understanding of the research process and suggests this is a pre-requisite to having a successful discussion. Although traditional *talanoa* is without preconceptions or an agenda, it is seldom without a purpose.

Despite the pre-announcement of the topic or issues to be discussed, the open format of *talanoa* can be achieved through not having preset questions. Once the broad issue or topic is put forward, participants are invited to *talanoa* openly and generally, raising any aspect of the topic they feel is relevant or important. Seeking clarification regarding the points that they raise is not a return to a scripted interview format, but rather the natural progression of a *talanoa*. Robinson and Robinson (2005) write, “within the use of the philosophy of *talanoa*, ideas are floated and discussed” (p. 17).

In any *talanoa*, formal or otherwise, the identity of the participants is an important part of the process (Bishop, 2005; Halapua, 2003; Merriam et al., 2001; Otsuka, 2005; Robinson & Robinson, 2005; Vaioleti, 2003). Halapua, in discussing the concept of *va* with respect to *talanoa*, suggests a person is defined by their relationships, social status and position. Robinson & Robinson (2005) summarises Halapua’s suggestion as, “In *talanoa*, the people with whom one is speaking in front of, or to, create the environment and you must understand who you are before they will accept what you say” (p. 18). The salutations made at the beginning of the *talanoa* aim to establish the *va* or relationship between the participants. In the case of the *talanoa* sessions with Tongan business participants in



Auckland, the relationship between the researcher and the participant was established over three occasions during the *talanoa* process. The first occurred during the initial contact made to key business people and organisations within the Tongan business community. The second occasion was during the initial direct contact with the potential research participant, and the third during the salutations at the beginning of the *talanoa*. Over the course of these three occasions, the identity and background of the participant was made known to the researcher, as the details of the researcher were made known to the participant. Information about either party to the *talanoa* is often not confined to information in the public domain, but frequently extends to include the family (*hako*<sup>xi</sup>) they belong to and the region (*feitu'u*<sup>xii</sup>) they come from. Other information about the parties involved may also be disclosed to assist in establishing a connection between the researcher and the research participant. These may include the church they attend, other community affiliations they may have and personal interests.

Respect (*faka'apa'apa*) and humility (*lototo*) are regarded as core values of Tongan society (Taufe'ulungaki, 2006). It is therefore important that such values are reflected in the *talanoa* process. Halapua (2003) argues respect and humility are central to the *talanoa* philosophy and cannot proceed successfully without it. As part of the Tongan tradition, *talanoa* normally begins with *fakatapu*<sup>xiii</sup> or salutation and acknowledgement. This part of the *talanoa* establishes who is present, as a mark of respect. The salutation is usually followed with a brief general apology, plea for forgiveness or *fakamolemole*<sup>xiv</sup>. Although at that point the speaker is unlikely to have committed any act requiring forgiveness, its purpose is to level the playing field and establish an atmosphere without ill will prior to the discussion actually beginning. The plea for forgiveness is also made in anticipation of any unintentional remarks that may be made during the course of the *talanoa* causing offence to the other party present. The mood of respect and humility is maintained throughout the entire *talanoa* to ensure the discussion remains open and from the heart.

A benefit of the *talanoa* process is the opportunity given to participants to tell their story in detail, providing the necessary context they feel appropriate. Sanga and Pasikale (2002) maintain the complex and contextual nature of Pacific Island businesses in New Zealand needs to be reflected in the format of the *talanoa*. Pacific Island research participants are likely to harbour a fear of being misunderstood or of being judged against a set of criteria

they do not identify with. *Talanoa* will give participants the opportunity to contextualise their responses. As a consequence *talanoa* sessions are likely to be longer in duration and may need to be conducted in the preferred language of the participant.

*Talanoa* is a two-way process. It is therefore important that the researcher plays an active role in the *talanoa* that takes place. Researchers must therefore be prepared to share their own experiences and stories as part of the *talanoa* philosophy of openness and sharing and mutual respect. This aspect of *talanoa* is supported by a number of authors as a necessary part of any face to face dialogue that occurs between researcher and participant (Douglas, 1985; Fontana & Frey, 2005; Holstein & Gubrium, 1995; Seidman, 1991; Spradley, 1979).

Although the topic in which the research is based is fixed, each *talanoa* session should be treated as unique and therefore potentially having something new to contribute (Goulding 2002). *Talanoa*, as with unstructured interviews, has the tendency to deviate from the topic or line of inquiry. While it is the role of the researcher to bring the discussion back in line, it is important to exercise this with some caution. The participant must be given the opportunity to contextualise their experiences. Some of the seemingly irrelevant stories are an integral part their story. These stories will help the researcher reach a clearer understanding of the participant's character. Gubrium and Holstein (1998) argue that storytelling is a practical means that participants use to give their account in a coherent manner. This coherence may be compromised if the participant is not given the opportunity to give their account in full.

#### **4.3.1 *Talanoa* and Interviews**

The interview is a well understood and increasingly popular method for the collection of data or knowledge. Despite this familiarity, Gubrium and Holstein (2002) suggest that historically, the interview as research tool is relatively new. The increasing acceptance of the interpretative paradigm (generally associated with qualitative research) as a legitimate counterpart to the positivist methodology, generally associated with quantitative research, formed the catalyst for the development of the modern style of interview. During its relatively brief history the interview has grown to include virtually any manner of verbal

dialogue between individuals. Gubrium and Holstein (2002) describe the process for the traditional interview as one where:

The interviewer coordinates a conversation aimed at obtaining desired information. He or she makes the initial contact, schedules the events, designates its location, sets out the ground rules, and then begins to question the interviewee or “respondent.” Questions elicit answers in more or less anticipatable format until the interviewer’s agenda is completed and the interview ends.(p. 3)

Minichiello et al (1995) define interviewing as a “means of gaining access to information of different kinds ... by asking questions in direct face-to-face interaction”(p. 62). This definition is consistent with that offered by Stewart and Cash (1997), where an interview is described as an ‘interactional communication process’ usually involving the asking and answering of questions. While these definitions fall short of describing the modern unstructured interview, they continue to represent the common and popular understanding.

As a research technique, this traditional interview approach received much scrutiny from the sociological perspective. In more recent times the interview has developed to embrace the society and culture in which it is used (Gubrium & Holstein, 2002; Silverman 2004). Dunbar et al (2002) acknowledge that “interviews involving non-mainstream subjects, especially in the area of race” (p. 281) is problematic. They conclude that interviews engaging individuals or groups from diverse ethnic backgrounds should “take the subject to have a biography that is socially and historically mediated, and proceed accordingly” (Dunbar et al., 2002, p. 295).

Developments in interviewing represent an expansion in the technique in terms of format, procedural implementation and application. However, it is still generally regarded (at least in the context of research involving Pacific Island participants) as a method for the collection of knowledge encompassing the traditional process described earlier by Gubrium and Holstein (2002).

Whereas the modern interview appears to have addressed the diverse needs and characteristics of the individuals involved and the varied applications for which it is used, there does not appear to have been any regard given to the possibility that such forms of communication already exist. In the case of research involving Pacific Island participants

the specific form of interview that addresses the challenges of race, culture, beliefs and society redefined a form of communication (*talanoa*) which is already well understood and entrenched in Pacific Island culture. Researchers may go to extraordinary lengths to explain a form of interview that addresses the weaknesses generally associated with traditional interviews or they may simply request that they would like to *talanoa* with the participant.

So is there a difference between traditional *talanoa* and the modern form of unstructured interview? To answer this question it is important to revisit the aim or purpose of each. *Talanoa* is any form of communication aimed at reaching understanding towards the building or enhancing of relationships. The openness associated with *talanoa* is a product of the underlying trust relationship and sense of cultural connectedness between those involved. The benefits associated with reaching a state of understanding are shared between the participants without prejudice. The modern interview, on the other hand, while mimicking the transparent characteristics of *talanoa* is primarily focused on gaining knowledge. The relationship thread which is central to *talanoa* is not embedded within the modern interview process.

#### **4.3.2 Ontology and Epistemology in the Interview and *Talanoa***

The long history of *talanoa* in the Pacific Islands is based on discussions that lead to a common understanding. This understanding is in turn the product of natural laws, beliefs, traditions, values and culture of those engaged in the *talanoa*. As method for the collection of data, its ontological roots are linked to the interpretative (constructivist) paradigm and to a lesser extent post-positivism (Guba, 1990b). The understanding that is reached as a result of *talanoa* is a constructed reality and one that is not necessarily true for all like situations. Traditional *talanoa* is seldom used as a fact finding or fact validating exercise. In a number of *talanoa* sessions with Tongan business entrepreneurs carried in 2006, participants would begin by suggesting they have little knowledge of what accords to good business practice beyond their personal experience. Participants appeared to engage in the *talanoa* more openly when it was made clear that it was their personal experience and understanding of business that was of interest to the research project.

The epistemology of *talanoa* is again closely associated with that of the interpretative (constructivist) paradigm. In *talanoa* the researcher and participant are regarded as being equal and inseparable. They both contribute to the discussion and therefore both benefit in terms of the understanding gained from the experience. A *talanoa* cannot take place if a condition of the inquiry is that the researcher takes a neutral or distant position.

The interview is a little more difficult to singularly classify in terms of its ontology and epistemology. The difficulty is based on the wide spectrum of formats and applications over which the interview is stretched. The structured interview format comprising a telephone survey is generally associated with an ontology that supposes the existence of a reality that can be found or known through inquiry (Guba, 1990b; Gubrium & Holstein, 2002). Furthermore, the epistemology of such an interview format can accommodate an interviewer being distant from the interview process. This lineage in the positivist research paradigm had for some years stagnated the growth and development of the interview to its current modern form (Gubrium & Holstein, 2002).

The ontology of the unstructured interview is the same as that for *talanoa*. The epistemology in terms of the relationship between the researcher and participant, although very similar is arguably not as entrenched as with *talanoa*.

The manner and context of *talanoa* is not as restricted as with the traditional structured interview. Literally translated *talanoa* means communication (not necessarily oral) about anything between or among any number of persons. The specific context in which the word (*talanoa*) is used determines its meaning. *Talanoa* as a means of communication is not restricted to being oral. *Talanoa fuka* for instance refers to communicating using flags while *talanoa maama* and *talanoa tuhutuhu* refer to communicating using lights and hands<sup>xv</sup> respectively.

An interview in the traditional sense is based on the researcher seeking knowledge from the participant by asking questions (Minichiello et al., 1995; Stewart & Cash, 1997). While this can range from the very structured format of an opinion poll to the unstructured format generally associated with ethnographic studies, the purpose remains as one of seeking knowledge from the participant. The directional flow of information is from the participant

to the inquirer and the inquirer is expected to be the net beneficiary at the conclusion of the interview.

The *talanoa* process goes beyond the linear transfer of knowledge generally associated with an interview. Having an appreciation for the diverse interests, needs, rights and obligations of participants, especially of different ethnic groups, means giving such participants the opportunity to “express and share their narrative worldviews through *talanoa*, rather than covering up the world views of others within some pre-determined assumptions and concepts” (Halapua, 2003, p. 2). It is therefore argued that, at least in the Tongan context, a more frank and open discussion can be achieved through *talanoa* compared with interviews.

While the *talanoa* process should not be mistaken as simply a particular style of interview, there are a number of similarities between unstructured interviews and *talanoa*. Fontana and Frey (2005) suggest “the latest trends in interviewing have come some distance from structured questions; we have reached the point of the interview as negotiated text” (p. 716). Corbin and Morse (2003) describe unstructured interviews as giving the participant “considerable control over the course of the interview” (p. 339). According to Peräkylä (2005) “interviews consist of accounts given to the researcher about the issues in which he or she is interested” (p. 869).

Spradley (1979) argues that unstructured interviews should not follow the format of the researcher taking a passive role as suggested by Converse and Schuman (1974). Fontana and Frey summaries Spradley’s position as follows:

He describes the following interviewer-respondent interaction, which would be unthinkable in traditional sociological circles, yet it is the very essence of unstructured interviewing – the establishment of a human to human relation with the respondent and the desire to understand rather than explain (Fontana & Frey, 2005, p. 706).

Spradley’s approach with unstructured interviews is consistent with that set out by Douglas (1985) and later developed by Holstein and Gubrium (1995, 2004). Douglas (1985) and Holstein and Gubrium (Gubrium & Holstein, 1998, 2002; Holstein & Gubrium, 1995, 2004) suggest that the interviewer should take an active role in the discussion through

contributing, and not merely collecting, the views of others. Fontana and Frey (2005) support this style of interview, suggesting “we talk to the respondent and attend to the meaning of the stories they weave, while interjecting our own perspective” (p. 718). Seidman (1991) views the interview as being a relationships based on mutual sharing of ideas and perspectives, to the extent that each party no longer regards the role of interviewer and respondent as being separate, but as one.

While these authors describe a form of interview that echoes many of the characteristics of *talanoa*, namely the lack of a formal agenda or set of research questions plus the active role played by the researcher, unstructured interviews cannot be used as a term synonymous with *talanoa*. The views of these authors however support the philosophy of *talanoa* and the contribution it may potentially make to the wider research field.

Despite the differences between interview and *talanoa* discussed above, the terms continue to be used interchangeably. Those who remain confused between the two terms may be excused to a certain extent, as some academic studies alleging to have used the *talanoa* process switch to using the word interview in their written report. Otsuka (2005), for instance, used the *talanoa* process to collect the data required in an education study in Fiji, but then proceeded to refer to the discussions with the research participants as interviews.

#### *4.4 Using Talanoa in Tongan Business Research*

In a study exploring business sustainability among Tongan businesses in New Zealand, *talanoa* was used as the method for collecting the information required. The following is a discussion of the strengths and weaknesses of the *talanoa* process with respect to Pacific Island business research.

##### **4.4.1 Securing the *Talanoa* Session**

One of the key initial challenges when using *talanoa* to collect data is making the initial contact with potential research participants. Perhaps the most significant fear that a researcher may have at this point is that of rejection. No matter how relevant, noble or

interesting the researcher's topic, the prospective participant has absolute discretion to decline the request. While there is no single approach that will guarantee a favourable response, a refusal should not be for lack of skill or trying on the part of the researcher.

Before the actual *talanoa* sessions were scheduled, an approach was made to key members and bodies within the Tongan business community including the Pacific Business Trust<sup>xvi</sup>. The purpose for the initial approach was twofold. The first was to gain the contact details of possible business people who may wish to take part in the research and the second was for these key people and bodies to introduce the proposed research to the business community. *Talanoa* needs to be between willing people, and introducing the research generally or through a known contact removed the element of surprise. In many cases the key leads in the Tongan business community, including the Pacific Business Trust, went further than merely introducing the research project, and helped advocate in favour of participation.

#### **4.4.2 Building Relationships**

Where individuals in a *talanoa* are familiar with the culture in question, they are likely to more immediately recognise the significance of the protocols and thereby reach more quickly a state of connectedness. This is important in terms of creating an atmosphere of openness and reaching consent for the *talanoa* session to take place. Bishop (2005) and Merriam et al (2001) suggest accessing research participants of a particular community or minority group is more successfully achieved by researchers who are considered insiders to that community or group. Walliman (2001) supports this in writing that “to gain understanding there must be at least some common ground between the researcher and the people who are being studied” (p. 15).

Contentious topics are sometimes not discussed in a *talanoa* session if the participant is unwilling. Using abstract language or discussion of the topic in the third person is a technique often used to address contentious topics. In one instance the topic of cash flow management was raised. The participant was prepared to discuss the challenges of cash flows in general and the importance of cash flows for good business, but appeared reluctant to specifically admit that the company struggled with the issue. However, during the same *talanoa* session the participant was prepared to tell of the difficult periods that the company



had gone through without cash for the basic items of tea and coffee for the lunch room. Tongan people are prepared to share their negative experiences in business, provided they feel comfortable about the context and forum in which it is being discussed. The familiarity and experience of the researcher with Tongan *talanoa* is important to ensure that the correct interpretation is being given to the information being shared.

#### **4.4.3 Duration of *Talanoa* Sessions**

Business people in general are busy, and Tongan entrepreneurs are no different. A negative aspect to *talanoa* is the time involved. Potential research participants, (particularly busy small business entrepreneurs) will often refuse the invitation to participate if the *talanoa* is expected to take a long time. When direct contact was made with participants to secure a time for the *talanoa*, the time frame was not specified unless requested. This approach was consistent with the philosophy of *talanoa* having no specified timeframe but did raise issues for a number of participants of potentially taking up a significant part of their day. In response to a request as to the possible duration of the *talanoa*, an indicative time based on previous *talanoa* sessions was provided, but emphasis was placed on the participant's availability.

The time and place for the *talanoa* is an important part of the process (Robinson & Robinson, 2005). Participants need to be in a space and time in which they feel comfortable and willing to participate (Halapua, 2003). *Talanoa* sessions were therefore arranged to be held at the workplace of the participant or at an alternative venue they requested. The majority of sessions were carried out at the participant's workplace, three were carried out at the participant's home and one was conducted in a restaurant. Although convenience in terms of travel was taken into account in setting the venue, the overriding issue was one of agreeing on a place where the participants felt they could *talanoa* openly.

The time for the *talanoa* to take place is influenced by the context of *va* suggested by Halapua (2003). In the ideal sense the time for the *talanoa* should take place during the weekend and not between appointments, to allow the participant to feel at ease and thereby in a frame of mind to openly engage in the *talanoa*. This was not always possible given participants' busy schedules. As a result, many of the *talanoa* sessions were scheduled

during work hours with only three carried out during the week end. *Talanoa* sessions that occurred out of work hours, were generally found to be longer in duration.

#### **4.4.4 Language and Protocol**

During the *talanoa* sessions with Tongan businesses in Auckland, the formal salutation was intentionally omitted, as it was felt this created an unnecessary atmosphere of formality. Nevertheless, the general apology was given at the beginning of the *talanoa* and the mood of humility maintained throughout. Given the *talanoa* was an opportunity for the participant to tell their story, listening intently and not writing notes was part of maintaining the mood of mutual respect. The mood of respect was also maintained throughout; thanking the participant for giving up their time, explaining the purpose for the *talanoa*, outlining the contribution they will be making to the research, seeking clarification as to the issues they raise and not rushing them. The mutual respect between the researcher and participant was important and contributed positively to the flow and openness of the discussion.

Many of the participants in the Tongan business sustainability study were fluent in both Tongan and English. Participants were offered a choice of which language they preferred. Of the thirteen *talanoa* sessions conducted, only one was done exclusively in English. Participants preferred to *talanoa* in both Tongan and English. This added to the richness of the *talanoa*, as many Tongan concepts are difficult to explain in English as many western business concepts are difficult to explain in Tongan.

#### **4.4.5 Recording Equipment and Disclosure Documentation**

The consent documentation, information sheet and tape recording equipment can often create a sense of formality that may jeopardise the atmosphere of trust required for *talanoa*. However, given the need to accurately capture the data collected during the *talanoa*, together with the need to comply with the terms under which ethics approval was granted, these steps were unavoidable.

The atmosphere of trust need not be compromised if the purpose for the documentation and equipment is explained to the participant. The Tongan business research participants were generally receptive to the documentation process and use of the recording equipment once this had been explained to them<sup>xvii</sup>. The participants appeared at ease when assurance was given that the recording and information gathered was confidential to the researcher and to be used within the objectives of the research project.

Modern recording devices can be small and inconspicuous. Where this is the case, some emphasis should be made of the description and purpose for the device, lest it be mistaken for some other equipment such as a mobile telephone or other media player<sup>xviii</sup>. The equipment should ideally be ready to use with an independent power source. A free flowing *talanoa* can be disrupted through equipment failure or equipment that is difficult to use. Digital recording devices are compact and portable with generous recording capacity. Digital media is more reliable and durable and often easier to transfer to playback devices, including computers. While quality recorders can be more expensive, it is important given the bi-lingual nature of the *talanoa* that the audio recording is clear.

The duration of the *talanoa* sessions ranged between twenty five minutes and two and a half hours. Given the potential duration of each *talanoa*, it is important to have ample recording capacity for each session.

#### **4.4.6 Concluding the *Talanoa***

Concluding the *talanoa* can often be as challenging as beginning it. One of the difficulties is associated with concluding the session without giving the impression that the researcher has no more time for what they have to say. It is important to leave the participant with the feeling that this is not the end of the relationship.

This can be achieved by thanking the participant for their time, and asking them for permission to follow up any points needing clarification in the future. It is also appropriate to offer the participant the opportunity to contact the researcher in the future if they have anything to add or modify with regard the *talanoa* session.

As part of concluding the session, it is appropriate to outline to the participant what will happen next. This will not only reinforce that the relationship is ongoing, but will act as a reassurance and follow-up to the process outlined at the beginning of the session (Bowler, 1997).

In the case of the Tongan *talanoa* sessions in Auckland, a small gift was offered to the participant at the close of the session. In traditional *talanoa*, gifts are presented at the beginning in an attempt to establish a mood free of any pre-existing ill will or preconception. This is appropriate during *talanoa* situations where the parties involved have known conflicting views. In this case the gifts were offered at the end as a token of appreciation.

While the formal part of the *talanoa* may have finished some time before your expressions of thanks, turning the tape recorder off should be the final step. Although not part of the formal discussion, *talanoa* does not finish until the parties part company.

#### 4.5 Conclusion

*Talanoa* as a mode of communication is popular in the South Pacific. The philosophy of *talanoa* embraces the underpinning values and relationships of Pacific Island cultures, while being flexible in terms of its application to suit multiple social settings, including conflict resolution, informal social dialogue, formal ceremonial events and research.

While there are significant similarities between unstructured interviews and *talanoa*, to the extent some may argue that *talanoa* is simply a version of interview, the latter is a process embedded in Pacific Island culture and commonly understood by Pacific Island research participants. That same level of understanding cannot be said of the unstructured interview. Despite developments in interview techniques allowing a more unstructured approach, the common perception, particularly among Pacific Island people, is still that of the traditional interview format.

The *talanoa* sessions with Tongan business owners and operators in New Zealand confirm the effectiveness and appropriateness of the approach in contemporary business research. In a number of cases where the research participants have been in business since the 1950s,

the information collected introduced a historical aspect to business and accounting that would not have otherwise been gathered. Through the *talanoa* sessions, participants were able to tell their stories and experiences in business in a way that was unthreatening, unhurried and with as much context as the participant was willing to provide. With *talanoa*, once a relationship is established, parties become relaxed, allowing open discussion and sharing to take place. Issues that are potentially contentious or embarrassing for the participant are simply not raised, or they are discussed in a third party context. Abstract language can also allow contentious topics to be discussed in a non-threatening manner. The familiarity and experience of the researcher with Tongan *talanoa* is important to the analysis and interpretation of the discussion.

Despite its seemingly casual approach of *talanoa* to the effective communication of ideas and knowledge, this chapter highlights its appropriateness as an effective means of collecting data about Pacific Island businesses, and in the process, potentially achieving a greater level of understanding as to the challenges they face, their strengths and weaknesses and sustainability. The embeddedness of *talanoa* in Pacific Island culture makes it a key to potentially unlock the vast oral history of Pacific Island business practice.

## CHAPTER 5: Theoretical Framework - Embeddedness

### 5.1 *Introduction*

The cultures of the Pacific are characterized as being collective or societal. Focusing on the community rather than the individual, this characteristic underlies many of their activities including business, even when they have settled overseas.

Over the past 50 years, many Pacific Island people have left their tropical island homes for destinations including New Zealand, Australia and the United States. In settling into these host countries, many have entered into business. In a predominantly western business environment based on rational self interest, many of these island entrepreneurs have carried out their activities while enduring conflicting paradigms. In understanding their business practices, it is necessary to move beyond the constructs of classical and neoclassical economics towards that of social embeddedness. This chapter discusses the appropriateness of embeddedness theory in framing and explaining the behaviour of Tongan business entrepreneurs in New Zealand.

The chapter is divided into three parts. The first provides a general discussion of embeddedness theory and the circumstances in which it is appropriately applied. The second part outlines the different types of social embeddedness, while the third focuses on embeddedness in the context of Tongan business research.

### 5.2 *The Theory of Embeddedness*

#### **5.2.1 Background to Embeddedness**

Embeddedness is the process that captures the impact of social relations on economic activity that is not otherwise explained by mainstream economic theory. Here mainstream economic theory refers to the traditional economic model based on rational self interest. Polanyi (1944) introduced the notion of embeddedness as a defence against the growing popularity of western capitalistic market structures. These capitalistic structures were based on Adam Smith's rational self-interest model, and provided a cold and clinical explanation

for the development of the market economy. Summarizing over three hundred years of economic development, Polanyi argues that the regulatory environment created through the development of a market economy becomes suffocating. Individuals in such a controlled social environment are deprived of the opportunity to develop social relations, in favour of performing to a prescribed role of economic self-interest. Faced with such an environment, Polanyi argues that people revert back to an embedded form of society based on social relations. This is not a case of individuals fighting a system or regime as a result of a knee-jerk sense of rebellion, but rather a noble crusade in defence of human interaction and social relations.

Polanyi (1944) argues that social relations are not an outcome of economic activity, but that economic activity is shaped by our social relations (refer section 3.3.5). Polanyi's notion of social embeddedness was introduced generally without discussion as to how it may be further broken down (1944). Social embeddedness at this level referred to all types of embeddedness, including the social relations between traders in a particular industry, people with a common cultural background, or members of a community. The nature of the social relations to Polanyi was secondary to the notion that they exist and that they impact economic activity.

The concept of embeddedness has been further developed by Wrong (1961), Granovetter (1985), Zukin and Dimaggio (1990), Portes and Sensenbrenner (1993) and Uzzi (1996). Embeddedness theory provides an alternative to the mainstream economic theories of Smith's '*The Wealth of Nations*' and gives greater recognition to the value and impact of social relations on economic behaviour. Embeddedness describes a process where social relations mould economic activity in ways that cannot be explained by the free market model (Granovetter, 1985; Uzzi, 1996).

Social embeddedness theory provided the platform for network theory which featured in the work of Dore (1983), Asanuma (1985), Baker (1990), Helper (1990), Powell (1990), Smitka (1991), Gerlach (1992), Larson (1992) and Uzzi (1996, 1997, 1999). These studies support the need for incorporating social relations into economic and business research.

### 5.3 *Embeddedness as an alternative to neoclassical market theory*

#### **5.3.1 Economic Models of Rational Self Interest**

Traditional economic theory suggest economic activity is shaped by rational self interest and that participants are not only rational and consistent, but make decisions primarily for their own gain. Smith (1776) suggests participants engage in trade, as if led by an “invisible hand” towards fulfilling the single ambition of individual wealth maximization. As with adversarial legal systems, justice, and in this case an equilibrium price, is reached with a sense of harmony. The seemingly cut-throat activity of selfish trade says little for the compassion of human society and echoes Polonius’ aside about Prince Hamlet that ‘though this be madness, yet there is method in’t’ (*Hamlet’ Act 2 scene 2*)

Transactions in a free market economy are assumed to be arm’s length and devoid of any social relation between the transacting parties. The integrity of the market is safeguarded through competition, making it self-regulating. This is in contrast to embeddedness theory, which suggests the integrity of the market is based on social relations and networks (Etzioni, 1988; Granovetter, 1985; Macaulay, 2001; Polanyi, 1944; Uzzi, 1996). Earlier writers, including Parsons (1937) attributed the existence of order in the market to an autocratic structure. This autocratic structure developed a regulatory framework largely through legislation.

The rational self-interest model is characterized with having a large number of anonymous buyers and sellers who have insignificant influence over the market price. Each transaction happens quickly and independently with no time for the buyer and seller to form any long-term relationship (Hirschman, 1982). The denial of social relations between individuals in any given society is a convenient reaction aimed at maintaining objectivity in economic analysis. However, it is a simplification of commercial reality that renders many of its predictions unreliable and irrelevant.

#### **5.3.2 Some Acknowledgements of Social Relations**

Economic theory based on rational self-interest continues to be the predominant theoretical framework for many studies in economics. Its continued popularity has been partly



attributed to its simplicity in concisely framing human economic behaviour. Etzioni (1988) suggests that the absence of emotions from many economic models “is that they have been difficult to define” (p. 111). In cases where the observed reality is different to that predicted, the explanation is often a violation of one or more of the underlying assumptions. In a more asserted attempt to explain these variations, some acknowledgement has been made of the influence of social relations. Etzioni (1988) provides a strong case for the inclusion of social relations in understanding economic behaviour. Etzioni writes in relation to competition and commerce that:

Competition thrives not in impersonal, calculative systems of independent actors unbound by social relations, as implied by the neoclassical paradigm, nor in the socially tight world of communal societies, but in the middle range, where social bounds are strong enough to sustain mutual trust and low transaction costs but not so strong as to suppress exchange orientations. (1988, p. 211)

For Tongan people living in New Zealand, it is this ‘middle ground’ that best describes the social and market environment they operate their business in. The two extremes that Etzioni refers to are the neoclassical market framework, where all actors are driven by individual utility maximisation, and the other tribal societies where market economies are overtaken by “powerful” social bonds. He writes “market economies tend to be limited, if not absent, in small, highly communal, tribal societies”(Etzioni, 1988, p. 211).

Many economists acknowledge the existence of social relations, but regard their impact as insignificant. The loyalty that may arise through the social interaction between a buyer and seller has been regarded as a frictional drag slowing down the market clearing process (Granovetter, 1985).

For a number of years, economists, anthropologists and sociologists alike have subscribed to the idea that the existence of social relations and their impact on economic behaviour is more significant in traditional non-market societies, where their relatively small size and family ties lead to more frequent and stronger social relations forming (Granovetter, 1985; Uzzi, 1996). However Polanyi, Granovetter and Uzzi argue the embeddedness process is equally applicable in modern market structures.

Referring to the issue of whether or not social embeddedness is more aligned with traditional non-market cultures, Polanyi (1944) writes:

It should by no means be inferred that social economic principles of this type are restricted to primitive procedures or small communities (p. 52).

Uzzi (1996) discusses the existence of structural embeddedness in the highly competitive textile fashion industry in New York. Similar research carried out in the United Kingdom, Italy and Japan (Dore 1983, Asanuma 1985, Baker 1990, Helper 1990, Powell 1990, Smitka 1991, Gerlach 1992, Larson 1992) supports the notion of social relations having more than a casual impact on economic behaviour in developed market economies.

The number of studies into economic and business behaviour that employ a theoretical framework, rather than one based on rational self interest, continues to grow (Etzioni, 1988; Portes & Sensenbrenner, 1993). This sends a strong message to the business research community (and particularly economics) that social relations are deserving of greater recognition and attention than it has had in the past.

#### *5.4 Limitations to Embeddedness Theory*

Embeddedness theory provides a convenient alternative to neoclassical economic theory, largely through criticism of the latter. Embeddedness theory makes no clear prescription of how social relations can be objectively incorporated into the analysis process. Portes and Sensenbrenner write “Embeddedness for example, provides a very useful standpoint for criticising neoclassical models, but when turned around to provide concrete propositions, it suffers from theoretical vagueness” (1993, p. 1321). This sense of ‘theoretical vagueness’ according to Portes and Sensenbrenner, renders embeddedness theory incapable of generating predictions and theory accumulation. In terms of generating predictions, Portes and Sensenbrenner are simply reiterating a common weakness in qualitative research approaches with which embeddedness theory is often used. However, theoretical generalizability and therefore theory accumulation, as with case studies (Eisenhardt, 1989) can be developed through qualitative studies employing an embeddedness theoretical framework. Section 5.5 of this chapter provides a discussion of the different types of

embeddedness in an attempt to better understand the classifications of social embeddedness and to address Portes' concern regarding theoretical vagueness.

Portes and Sensenbrenner's addressed the weaknesses they identified with embeddedness theory by introducing social capital as the driving influence of social embeddedness and then further unpacking social capital into its various types. This discussion is outlined in section 5.4.1 below.

### **5.4.1 Social Capital**

Bourdieu (1985) provided the initial analysis of social capital, suggesting it to be the "aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintances or recognition"(cited in Portes, 1998, p. 3). In more recent contributions to the social capital literature, the definition has tended towards "the ability of actors to secure benefits by virtue of membership in social networks or other social structures"(Portes, 1998, p. 6). This emergent definition, according to Portes, has been used in a variety of situations resulting in a less than specific understanding of when it is more suitably applied. Portes and Sensenbrenner (1993) define social capital as "those expectations for action within a given collectivity that affect the economic goals and goal seeking behaviour of its members"(p. 1320). Portes and Sensenbrenner offer possible reasons for the existence of social capital by using immigration data in the United States. They introduced four sub-categories and sources of social capital, including value introjections, reciprocity transactions, bounded solidarity and enforceable trust. For the purposes of the present discussion, it is this definition that is used, including the sub-classifications formalised by Portes and Sensenbrenner. The association of social capital with immigration is appropriate here given the strong linkage between Tongan business and their immigration to New Zealand, where they currently operate their business.

Polanyi's social embeddedness suggested that members of any society made decisions both economic and non-economic based on premises that were not isolated to rational self-interest and wealth maximisation. Individuals are entrenched in social relations that influence their economic behaviour. More recent writers have gone further to classify this

social embeddedness into different types, including structural, cognitive, cultural, political and institutional (Refer section 5.5 of this chapter).

Value introjections refer to the moral character of economic transactions. Any society is characterised with an underlying set of moral codes that prompt individuals to behave in ways other than sheer greed. In Wrong's (1961) discussion of social relations, he refers to this type of behaviour as that of members being "over-socialised". It is this source of social capital that is implied in Polanyi and Granovetter's discussion of social embeddedness. Tongan businesses in New Zealand are faced with two sets of value systems, including that of their own native country, and that of their adopted society in New Zealand. As discussed in chapter 2, Tongan people have demonstrated a resilience to change and have maintained strong links with their Tongan culture (Crocombe, 1973). Tongan society is characterised with a communal sense of identity rather than an individual one (Campbell, 1992; Morton, 1996). Strong Tongan community networks in New Zealand have contributed to the preservation of traditional networks, values and beliefs (Tu'inukuafe, 1996). These entrenched traditional values and strong networks have a significant influence on their business behaviour.

The second source of social capital is reciprocity transactions. Reciprocity transactions refer to individual actions that are driven by self-interest in a context where reciprocity is regarded as the norm. Reciprocity transactions are not necessarily monetary or contractual in nature. They are not carried out for the sole purpose of profit maximisation, but rather to build up an abstract stock of good deeds which in a reciprocity context will provide returns to the originator.

Tongan society is characterised with reciprocity sharing, although the motivation is not based on self-interest. Reciprocity sharing is a product of a Tongan commons mentality, and is carried out based on traditional and practical values of sharing. At the individual level, reciprocity is carried out as a means of preserving or building social stature in the community. For these reasons, reciprocity transactions as a source of social capital provide an appropriate lens for the analysis of Tongan business activity in New Zealand. Examples of reciprocity sharing occur at all levels of Tongan society, from sharing meals on Sundays with neighbours, to Royal celebrations where villages compete in pulling together their resources to fulfil their social obligations. Traditional Tongan funerals (*putu or me'a faka*

*'Eiki*) provide a platform for reciprocity sharing. Tongan funerals are normally carried out over a period of several days. During this period the community come together to pay their respects in the form of prayers and gifts. Traditionally these gifts comprise fine mats, pieces of cloth, flowers, perfume and food. More recently, food gifts have been replaced with an envelope containing money (*Sila*, literally meaning envelope). These gifts are formally presented, received and recorded. In the weeks following the funeral the recipient family will distribute many of the items collected to members of the community according to protocol and will include those from whom gifts were received.

Bounded solidarity represents the third source of social capital. Portes and Sensenbrenner (2001) define bounded solidarity as behaviour that arises from “members of a particular group who find themselves affected by common events in a particular time and place” (p. 118). Although host nations including New Zealand have in recent years demonstrated a willingness to assist new immigrants, the emergence of bounded solidarity is inevitable as differences in language, cultural norms, economic status and religion become apparent.

Tongan people arriving in New Zealand in the early 1970's were confronted with a number of challenges. These included language barriers, access to skilled employment, residency status, and housing. The mental onslaught of being discriminated against quickly set in, resulting in the emergence of community groups built on bounded solidarity (Tu'inukuafe, 1996). Many of these community groups, including the United Church of Tonga in New Zealand, have continued through to the present day. Although Portes and Sensenbrenner suggest discrimination and minority status give rise to the emergence of dormant home customs and “a sense of cultural continuity and autonomous presence”(2001, p. 120), it is more than likely that these groups would have emerged regardless. Whether or not bounded solidarity was the key driving force behind their formation they are certainly reinforced by it.

The last source of social capital discussed by Portes and Sensenbrenner is that of enforceable trust. Enforceable trust refers to the social sanctions and incentives within minority communities that influence the economic actions of individuals within that community. The benefits for members of being part of a bounded solidarity group are both economic and social. For many minority ethnic communities, the members represent the different parties to their economic activity. Businesses that operate within these ethnic

communities rely on them for consumer support, supply networks and capital funding. Enforced trust in such an environment takes the form of benefits to its members and sanctions to those alienated from the group. Enforceable trust is more predominant in minority communities that maintain independence from mainstream organisations. Portes and Sensenbrenner (2001) write:

As a source of social capital, enforceable trust is directly proportional to the strength of outside discrimination and inversely proportional to the available options outside the community for securing social honour and economic opportunity (p. 124).

Tongan people living in New Zealand continue to be affiliated to Tongan village communities. As an example, 90% of Tongan people regularly attend church, the majority of which are ethnic based (Statistics New Zealand, 2007). Social ties and an identity based on commons reinforce the existence of many Tongan community groups, and as a consequence, enforceable trust. Interactions (both commercial and non-commercial) between members in a Tongan community are often not contractual. However, the importance of reputation is entrenched in Tongan culture and acts as a self regulating mechanism against malfeasance. The rewards for these good deeds and penalties for misdeeds are not legally enforceable. In a society where reciprocity is the norm and reputation important for economic sustainability, enforceable trust provides an effective system of coordinated sharing.

Social capital is generally regarded as advantageous to the businesses of minority ethnic communities (Portes & Sensenbrenner, 1993) and small businesses in general (Adler & Kwon, 2002; Bourdieu, 1985; Brehm & Rahn, 1997; J. S. Coleman, 1988; Cooke & Wills, 1999; Portes, 1998). For Tongan businesses operating in New Zealand the advantages are significant. The well networked Tongan community in New Zealand represents the customer base for many Tongan businesses, and a source of capital for both individuals and groups that are not otherwise able to access such service through mainstream networks. Invariably the success and sustainability of many Tongan businesses is dependent on the social capital fostered and nurtured by the Tongan communities in New Zealand.

The theoretical framework used to analyse the business practices of Tongan businesses in New Zealand is embeddedness theory. Social capital is discussed here as a means of

addressing the theoretical vagueness highlighted by Portes and Sensenbrenner (1993) as a weakness of embeddedness theory.

### *5.5 Types of Embeddedness*

This section discusses the various types of embeddedness as identified by Zukin and Demaggio (1990). Zukin and DiMaggio (1990) identify four types of social embeddedness. The first classification is structural embeddedness, referring to the social relations between traders arising from the structural make-up of the market in which they participate. The second is cognitive embeddedness and refers to the structured mental processes that influence economic logic and decision making. The third type, cultural embeddedness, refers to the shared beliefs and values of individuals in a given society. The last is political embeddedness and refers to the institutional and regulatory environment that forms the limitations and boundaries for economic activity. Here they are discussed within a Tongan business research context as a more detailed follow-on to the general notion of social embeddedness introduced by Polanyi and Granovetter.

#### **5.5.1 Structural Embeddedness**

Structural embeddedness is based on the social relations that exist between traders, as determined by the dynamics of the market in which they operate. Uzzi (1996) attributes structural embeddedness to the existence of organizational networks that facilitate resource pooling, cooperation and long term partnerships. Traders who are part of a network believe maintaining a good relationship with those who are in the network promotes loyalty. This in turn results in reliability and timeliness of supply, priority and quality of service, and non-contractual consideration during periods of difficulty. The spread of Tongan businesses across different industries in New Zealand has resulted in too few traders existing in any particular industry or market sector. Although not ethnically based, Pacific Island businesses in the health, broadcasting, social services and legal professions have formed alliances for their mutual benefit. The loyalty between members of a profession, although competing as individual businesses, is strong. The strong social relations between members

of a profession have resulted in the formation of a number of pan-Pacific organisations including, the Pacific Medical Association, Pacific Media Association and Pacific Business Breakfast club.

### **5.5.2 Cultural Embeddedness**

The cultural form of embeddedness considers the shared values and beliefs of members in a given society. Helu-Thaman (1995) defines culture in the context of Tonga as “the way of life of a discrete group of people. It includes language, together with an associated body of accumulated knowledge, understandings, skills, beliefs and values.” (p. 723). This more encompassing definition is appropriate, as Tongan culture is an inseparable mix of all these components.

These shared values and beliefs are not stagnant, and change over time. The change usually takes place over such long period of time that it often goes by unnoticed (Fine & Kleinman, 1979; Helu, 1997). Advocates for the preservation of culture would argue that it should not change at all, as culture is an inseparable part of the heritage of a country. Heritage assets, including historical buildings, artefacts and traditional landmarks are identified as having cultural significance and are protected by law. However, in many western societies, traditional processes including cultural protocols and language do not receive the same degree of protection.

Wrong’s concept of an over-socialized individual is similar to that of cultural embeddedness insofar as it refers to values and beliefs becoming so internalized that individuals do not regard them as being burdensome but accept them as given (Wrong, 1961). Wrong’s discussion focuses on the individual within a society while culture is a social construct shaped by society and influences the members of that society (Fine & Kleinman, 1979).



### 5.5.3 Political Embeddedness

The last of Zukin and DiMaggio's classifications is political embeddedness (Zukin & DiMaggio, 1990). Political embeddedness establishes the regulatory boundaries within which economic activities take place. These regulatory boundaries are brought about through legislation, professional standards and industry codes of conduct. Arrow (1974) adds a further dimension with the concept of a generalized morality, suggesting that societies develop implicit agreements. These implicit agreements are essential for the efficient operations of a society or market. Political embeddedness can therefore be regarded as a collection of boundaries both formal (as in the case of legislation) and informal (as in the case of implicit agreements).

The existence of a regulatory framework echoes Hobbes's structure of an autocratic authority (cited in Parsons, 1937). Where Hobbes had introduced a structure of autocratic authority as a mechanism to ensure order<sup>xix</sup> in the market, the regulatory framework implicit in political embeddedness goes a step further. The regulatory framework determines the boundaries for economic activity, and is also entrenched in the social and economic behaviour of individuals.

Classical liberalism and classical economics argue that such autocratic authority and regulations are superfluous to the efficient operations of a competitive market. They argue that market competition will naturally filter out malfeasance from economic activity.

Where compliance with the regulatory framework is voluntarily carried out, there is a strong argument for the existence of political embeddedness. However, where compliance is simply an act driven by the fear of invoking the direct punitive consequences of breach, the action can hardly be regarded as embedded, but must be regarded as prescribed. This is despite the fact that regulations are often introduced with the understanding they are for the greater good of society.

For Tongan businesses in New Zealand the regulatory boundaries for business activity are an anticommons construct. As discussed in Chapter 6, these boundaries represent hurdles for Tongan business, as compliance is not voluntary, but through fear of the penalties of non-compliance. Tongan businesses therefore do not share a political embeddedness in

carrying out their business activities, but a cultural embeddedness that is based on commons.

### 5.6 *Part Three: Discussion – The Appropriateness of Embeddedness*

While Etzioni's argument on the moral dimension to economic behaviour was targeted at human society in general, there would appear to be a stronger case for it in relation to Tongan people living in New Zealand. Since the opening of the economy to overseas markets, western market practices have significantly impacted on traditional Tongan society (Campbell, 1992). For those that migrated to countries including New Zealand, Australia and the United States, the clash between traditional Tongan society based on commons and the west based on anticommons is more pronounced. The importance of social relations and relationship building is not abandoned, and is incorporated into everyday business practice. As Etzioni concludes:

It seems quite clear that neoclassical economics, and its “consumer sovereignty” assumption, in effect reflect a value system and a social, economic and political structure – that of mature capitalism – rather than human nature. To maintain otherwise, leads those who internalize such a theory to assume that their buying preferences reveal normatively correct choices, because they made them, presumably on their own, while in effect they are largely culturally bound and conformist (Etzioni, 1988, p. 247).

It is the view of this thesis that Tongan business practices are culturally bound, even though they are carried out in a western capitalistic context. Embeddedness theory is an alternative to neoclassical theories, and in the current study appropriately incorporates the social context of Tongan society and the importance of traditional relationships.

A number of writers have suggested that in order to understand the business behaviour of select populations, an understanding of their culture is essential (Crocombe, 2001; Curry, 2005; Etzioni, 1988; Granovetter, 1985; James, 2002; Ray, 1999; Saffu, 2003). Although Pacific Island people over the past fifty years have migrated to countries such as New Zealand, Australia and the United States, they have shown a significant amount of resilience in letting go of their own culture in favour of that of their host country. A study

of Tongan small businesses in Zealand suggests their operation is strongly influenced by the culture of the entrepreneur.

In part two of this chapter, characteristics of the Tongan culture and way of life were discussed with particular attention to those strands that were likely to lead to a deviation in behaviour from that associated with a traditional business paradigm. Social embeddedness (embracing all the strands of institutional, structural, cognitive, cultural and political) is suggested here as the most appropriate theoretical framework for studying the business behaviour of these Tongan entrepreneurs.

Tongan society is based on collectivism. This culture of collectivism is embedded in the complex social structure of the country at all levels, including the political hierarchy, community (village), family and religion. These relationships are so embedded in the persona of Tongan individuals that it is difficult to separate them from their business activities and decision making. Tongan entrepreneurs are therefore unlikely to make business decisions based solely on motivations of rational self-interest. Social relations are more likely to be the significant driver of Tongan business activity.

The conflict between western business philosophy and Tongan collectivism is an ongoing struggle for Tongan entrepreneurs living abroad. While the former would suggest the absence of relationships in order to pursue personal gain, the latter enters a business transaction for the primary purpose of establishing a relationship. Tongan anthropologist and poet Dr Okusitino Mahina (2004) refers to the relationship between business and culture as being opposed and resolved only through time and space. In his poem *Business and Culture* he writes;

*Ko e pisinisi mo e kalatua  
He takanga ka kuo fēsitu'a  
,Itiologia 'ena ia ē taautaha  
Kae teoli ē 'o e lukufua  
Toki vete ,e he tā mo e vā*

Business and Culture  
They co-exist yet oppose  
One, the ideology of individualism  
The other, a theory of collectivism  
Resolved only by time and space

(Extract from *Pisinisi mo e Kalatua*, Business and Culture, poem by Okusitino Mahina 2004 p26 and 27)

Curry (2005) argues that many small businesses in Papua New Guinea are embedded in their indigenous exchange economies, and that market imperatives assume only a subordinate role. He states that “many businesses are established primarily for facilitating gift exchange and enhancing the social status of their proprietors and investors” (p. 231). Although this may not be the extent of business formation and behaviour for Tongan businesses in New Zealand, there is evidence to support the idea that western market demands represent only a secondary influence. Cowley et al (2004) acknowledge the growing western impact on gift exchange, but maintain that it is still a significant part of Pacific Island commercial activity in New Zealand.

The collectivist character of Tongan society is evident in the way Tongan people identify themselves. James (2000, 2002) writes; “In the Pacific, however, most Islanders see themselves not as isolates, but as part of a wider set of social relations from which they derive their identity or consciousness of self” (James, 2000, p. 270). Given the embeddedness of social relations and the way Tongan people identify themselves, using a neoclassical framework as the basis of analysis is inappropriate.

Classical and neoclassical economic theory suggest the existence of a perfect market where individuals are motivated by personal self interest, yet with an absence of fraud and malfeasance. The market mechanism through competition is self-correcting and self-regulating. Actors are discouraged from engaging in fraud because of the negative economic impact it is likely to have on their business. The existence of trust and absence of malfeasance, essential for the smooth running of any market, is ensured in the Tongan context through its complex social structure and relations, not market competition. The small size of the economy (or business community in the case of those in New Zealand) allows little chance of fraudulent business behaviour being a secret. Furthermore, social relations and the social status of the individual are maintained through positive business activity. Remedies in law as suggested by Hobbes (cited in Parsons, 1937), although recently popular, are regarded as contrary to the Tongan manner of settling disputes. Instead, the preservation of relationships is central to Tongan conflict resolution (Halapua, 2003).

The concept of land (*fonua*) is fundamental to Tongan business practice. *Fonua* is not only the source of food and shelter, but also determines the identity and sense of belonging for each Tongan individual. Tongan businesses are often regarded as assuming the traditional concept of *fonua* insofar as it is a means for providing food, shelter and resource to its proprietors. It is also a mark of social status within the Tongan community both in Tonga and abroad. It is therefore unlikely that businesses are regarded as a commodity to sell, once established or acquired. Tongan business operators may lose their business through involuntary means (bankruptcy), but are likely to transfer ownership and responsibility through the process of inheritance. Selling one's business is equivalent to selling land, and therefore unlikely to occur in a market transaction.

The mentality of sharing (*fetokoni'aki*) and fulfilling one's responsibility (*fai fatongia*) are indicative of cultural embeddedness. Fulfilling one's responsibility to the family, church and country not only adds to the social status of the individual, but is also collectively regarded as preserving the harmony, culture and identity of Tongan society (*molumalu*) at each level of its complex social structure. Such behaviour is inconsistent with the neoclassical paradigm based on rational self-interest.

## 5.7 Conclusion

Polanyi (1944), Granovetter (1985) and Uzzi (1996) argue the suitability of embeddedness as a theoretical framework for research in developed modern market structure and traditional non-market economies. Portes and Sensenbrenner further add the concept of social capital providing the rationale for social embeddedness. Tongan migrants operating businesses in western countries (including New Zealand, Australia and the United States) bring together traditional Tongan culture (*anga fakatonga*) and western market philosophies. The clash has some interesting implications for Pacific business sustainability in New Zealand. To appreciate these implications requires adopting a theoretical framework of social embeddedness as opposed to the traditional western market constructs based on rational self-interest.

Tongan people in business are faced with competing paradigms based on anti-commons on the one hand and commons on the other. Tongan business entrepreneurs operating

businesses in countries outside their own, demonstrate resistance to adopt western business market philosophies in place of their own. Despite their minority status in larger countries including New Zealand, Tongan businesses are entrenched in their traditional culture based on commons. Their business activities are significantly influenced by the Tongan culture in which they are embedded. Their cultural embeddedness makes theirs different from that of other businesses. The influence of Tongan traditions and culture has had both negative and positive results for business sustainability (refer chapters 6, 7 and 8).

## CHAPTER 6: Financial Accounting Challenges for Tongan Businesses

### 6.1 Introduction

This chapter covers discussion of the financial accounting challenges faced by Tongan businesses in New Zealand. The findings from *talanoa* sessions with Tongan entrepreneurs, business consultants and individuals and groups from the wider Tongan community is discussed in the context of the New Zealand financial accounting framework. The chapter brings together the interaction between the Tongan commons culture (discussed in Chapter 2: Background to Tongan Society) and the anti-commons framework in which the accounting profession is based. The interaction has produced both negative and positive outcomes for Tongan businesses in New Zealand. The embeddedness theory covered in chapter 5 is used to frame the discussion and to highlight the contribution that this study makes to the body of knowledge. The chapter begins by discussing the New Zealand financial accounting framework in relation to the operational management of Tongan businesses in New Zealand. Chapter 7 covers discussion of the management accounting challenges faced by these same businesses, while chapter 8 includes discussion concerning the business-related challenges they face. In each of these three chapters, the experiences of the twenty Tongan businesses included in this study are used to formulate insights into their business practices within a New Zealand commercial context. In line with the main research question, these practices are considered in relation to their impact on Tongan business sustainability.

The following discussions make reference to a series of cases, each representing a small Tongan business. For reasons of confidentiality these organisations have not been individually named and are referred to as C1 for case one, C2 for case two and so on. The reference to cases is intended to facilitate discussion and not to be taken as a series of unique case studies to be used in a case study research framework. A total of 20 cases or organisations were used in this study. Three business consultants were also consulted as part of the study. In the following discussion these are referred to as BC1, BC2 and BC3. The following Table 6-1– Summary of Cases provides a summary of the cases with their

primary line of business noted adjacent. In a number of incidences, reference is made to opinions collected from members of the Tongan community who are affiliated to many of these businesses either as customers, employees or members of the extended family of the owner. The triangulation of these three views provides a robust source of information for research about the sustainability of these businesses.

Accounting has been identified as both challenging for small businesses and a cause of small business failure (Collis & Jarvis, 2002; Maingot & Zeghal, 2006; McMahon & Davies, 1994; Salamon & Dhaliwal, 1980). Boden (1999) outlines that:

Self-employed people may be exposed to requests and demands from a wide variety of state, voluntary or private sector quarters for financial information. Some of these interactions may be mandatory such as taxation or assessment for child support payments, whilst others will be elective, such as applications for means-tests social security benefits or business development loans or grants. ... Failure to comply with requests for information in elective interactions may result in financial loss or disadvantage, leaving the individual with little effective choice (p. 44).

Other writers including (Joshi & Ramadhan, 2002) and (McMahon, 2001) suggest that accounting and in particular adoption of the financial accounting framework is important for business growth and sustainability.

Tongan businesses included in this study range from self-employed to body corporate, and the accounting challenges identified in previous studies are present with all of these businesses. The discussion below, in relation to the financial accounting framework and associated standards, specifically explores the interaction between the framework and these Tongan businesses. While many of the findings from previous studies appear to be echoed here, considering the Tongan cultural context provides additional insights into the adoption of accounting practices and how this impacts on Tongan business sustainability.



**Table 6-1– Summary of Cases**

Case Number	Reference	Approx Number Employees	Initial Business Activity
Case 1	C1	5	Communications & Public Relations
Case 2	C2	5	Recruitment Services
Case 3	C3	4	Television Production
Case 4	C4	10	Paving and road resurfacing
Case 5	C5	20	Painting
Case 6	C6	2	Financial Services and lending specialist
Case 7	C7	1	Immigration Consulting
Case 8	C8	3	Automotive Engineering
Case 9	C9	2	Health Advisory Services
Case 10	C10	2	Screen Printing, mortgage brokerage and textile sportswear manufacturer
Case 11	C11	4	Legal services
Case 12	C12	n/a	Furniture manufacturing and retail
Case 13	C13	3	Agricultural food importer
Case 14	C14	n/a	Freight Services
Case 15	C15	25	Radio Broadcasting and media
Case 16	C16	n/a	Fence and boundary construction
Case 17	C17	4	Travel consultancy
Case 18	C18	1	Manufacture and retail of traditional crafts
Case 19	C19	2	Youth Services
Case 20	C20	20	Health Services Consultant

## 6.2 *The New Zealand Financial Accounting Framework*

The New Zealand financial accounting framework is based on the International Accounting Standards Board's (IASB) *Framework for the Preparation and Presentation of Financial Statements*. Since the decision to adopt International Financial Reporting Standards (IFRS) in 2004, the development of accounting standards in New Zealand has been based on those

released by the IASB. This development process has primarily been the work of the Financial Reporting Standards Board (FRSB), a board established by the New Zealand Institute of Chartered Accountants (NZICA). The endorsement of these standards by the Accounting Standards Review Board (ASRB)<sup>xx</sup> gives them statutory backing through section 22 of the Financial Reporting Act 1993. Accounting standards, which have been approved by the ASRB, are a reflection of the concepts, conventions and principles that in essence make up New Zealand Generally Accepted Accounting Principles (NZ GAAP).

The New Zealand financial accounting framework (*NZ Framework*) provides the basis on which accounting standards have been developed for businesses producing general purpose financial reports. Specifically paragraph NZ 4.1 states:

This *NZ Framework* sets out the concepts that underlie the preparation and presentation of financial statements by entities required to prepare general purpose financial statements that comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP)' (New Zealand Institute of Chartered Accountants, 2007a para NZ 4.1)

Although many Tongan businesses by virtue of size are likely to be exempt<sup>xxi</sup> from compliance with these standards ("Financial Reporting Act," 1993 Section 22) they will still need to complete special purpose financial reports for tax. The Financial Reporting Act 1993 is aimed at enforcing non-exempt companies to prepare and file accounts with the Companies Office. It does not prohibit or discourage exempt companies from preparing accounts for their own purposes. To this end it is inevitable that small companies and non-incorporated entities will need to incorporate into their reporting practices aspects of the *NZ Framework*. Paragraph 6 of the *NZ Framework* states:

Special purpose financial reports, for example, prospectuses and computations prepared for taxation purposes, are outside the scope of this *NZ Framework*. Nevertheless, this *NZ Framework* may be applied in the preparation of such special purpose reports where their requirements permit.' (New Zealand Institute of Chartered Accountants, 2007a para 6)

Irrespective of firm size and the application of the differential reporting framework, small firms continue to adopt aspects of the financial accounting framework both for compliance and to increase the prospects of their business success (Boden, 1999; Collis & Jarvis, 2002;

Joshi & Ramadhan, 2002; Maingot & Zeghal, 2006; McMahon, 2001; McMahon & Davies, 1994; Salamon & Dhaliwal, 1980). In relation to compliance, the complexity of the financial accounting framework and associated accounting standards is a burden for both small and large businesses. Boden (1999) suggests the preparation of financial accounts for self-employed businesses requires the assistance of professional accountants, because of the complexity of the accounting process, and yet this for many firms is unaffordable. She writes “if financial reporting systems are constructed in such a way that the average self-employed person has neither the skill nor the confidence to negotiate their way effectively and cheaply, then they will be seriously disempowered if they cannot afford the services of a professional” (p. 58). Collis and Jarvis (Collis & Jarvis, 2002) found that external accountants were employed to prepare financial reports and provide advice to small businesses that were unfamiliar with record keeping and reporting practices. The reliance of small businesses on external accountants to assist with the preparation and presentation of financial statements, both for compliance and for the management of their business, is an indication of the potential misalignment of accounting standards and framework with small businesses (Salamon & Dhaliwal, 1980). Chittenden, Kauser and Poutziouris (2003) suggest that “although the governments have attempted to reduce the extent to which the burden of tax compliance falls more heavily on small firms compared with bigger businesses, there is little evidence of progress” (p. 110).

The financial accounting framework is a source of information for small businesses that increases their prospects of survival. Dyt (2005) found that small businesses in Australia that completed financial reports for tax compliance also benefited from the use of the same information to manage their business. Joshi and Ramadhan (2002), using a survey in Bahrain, found that most companies that responded to the questionnaire applied International Accounting Standards (IAS) and considered IAS to be very relevant for them. They write:

A majority of small and closely held firms have already voluntarily adopted IASs for various reasons. Chief among them is the need to standardize the financial reporting process to provide a common ground for comparison and analysis. In addition, respondents indicated that their decision to adopt IASs was influenced by the expectation of improving the efficiency and effectiveness of financial reporting plus achieving their firms’ objectives. Other reasons included the influence of credit providers—mainly banks—and the desire to improve their credit rating

for purposes of obtaining external financing (Joshi & Ramadhan, 2002, p. 438).

McMahon (2001) argues “that improved financial reporting should be realistically viewed as simply part of a broader competence in financial management, which taken together with other functional capabilities, is likely to lead to more effective and efficient management of SMEs and significantly improve their prospects” (p. 152). Collis and Jarvis (2002) add that an indirect benefit of engaging external accountants to prepare financial statements for compliance reasons is that it also creates an opportunity for the same accountants to provide advice as to the ongoing management of the firm.

Larger Tongan businesses will either need to comply fully with NZ GAAP or at the least in part if they qualify for concessions under the differential reporting framework<sup>xxii</sup>. The New Zealand environment for financial reporting is converging on a single set of standards for all reporting entities. The implication for Tongan businesses in New Zealand is that they will progressively be required to comply with the NZ *Framework*.

Small businesses in general are driven by compliance and the need to proactively use financial information for management of their businesses. As a consequence they are obliged to follow the conventions and principles included in the financial accounting framework. While there are benefits associated with the adoption of the framework, small business owners are generally ill-equipped to accommodate the cost. Tongan businesses in particular find it difficult to embrace many of the conventions contained in the framework, as they are inconsistent with their culture, based on commons. The cultural importance of relationship building, focus on the present and maintaining a social rather than individual identity is discussed in section 6.3 as they relate to the conventions and principles that make up the financial accounting framework.

### **6.2.1 Accounting concepts and Tongan Businesses**

A difficulty that Tongan business people face with regard to financial reporting is based on the standardised format of the reports, which is not aligned with the business’s information needs. Chand, Patel and Cummings (2007) suggest a two-tier system of reporting including

one for mainstream SMEs and a second for Pacific Island SMEs, to recognise the “distinctive characteristics of SMEs in emerging and developing economics”(p. 2). Chand (2005) argues that a network of support including education and training is needed to harmonise the adoption of international accounting standards by Pacific Island nations. Using the case of Fiji, Chand and White (2007) suggest the differences in cultural and economic background can be reconciled through embracing the need to report both locally and internationally. Reconciliation of these differences needs to go further than that already reflected in the differential reporting framework (refer footnote xxii on previous page). Nobes (1998) suggests that:

For culturally dominated countries, the class of the accounting system is determined by the cultural influence. However, sometimes an equity-outsider market may gradually develop, or certain companies may be interested in foreign equity markets. This will lead to the development of the appropriate accounting, and it is one of the reasons for the existence of more than one class of accounting in one country (p183).

Tongan businesses in New Zealand are not operating in an emerging or developing economy. However their continued hold on their indigenous culture, despite their long time residence abroad (Crocombe, 1973), is likely to give rise to cross purposes and mixed expectations in relation to the adoption of accounting standards. Presently Tongan businesses in New Zealand do not represent a large enough portion of the market to significantly influence the development of a separate accounting class. What is inevitable is a less than enthusiastic adoption of accounting concepts, which in turn impacts on their sustainability.

Brown and Tower (2002) discuss the reluctance of Pacific Island business in their own countries to file annual reports and adopt international accounting standards. Instead these indigenous businesses favour traditional reporting models based on oral communication (A. M. Brown et al., 2005). Brown and Tower (2002) report that many Pacific Island businesses fail to file annual returns and where they do they are often late and incomplete.

A characteristic of successful Tongan businesses in New Zealand is their ability to prepare and file their annual returns on time. The majority of businesses included in this study, together with small businesses discussed in the extant literature, are able to do this only

with the assistance of an external accountant (Boden, 1999; Collis & Jarvis, 2002; Dyt, 2005). A number of Tongan businesses (including C1, C3, C4 and C9) indicate their efforts towards compliance are largely influenced by their fear of penalties from the Inland Revenue Department. Other cases indicate reluctance towards record-keeping, while acknowledging its importance as a means of keeping compliant. C5 and C8 are the only two businesses included in this study that specifically acknowledge the benefits of maintaining and using financial reports to manage their businesses. These experiences appear to support the view that Tongan businesses generally have not adopted accounting standards voluntarily, but rather as a matter of compulsion through the need to be compliant.

Many of the accounting concepts, conventions and principles that form the financial accounting framework are based on an individualistic or anti-commons mindset (Etzioni, 1988; Rubin, 2005). This foundation in an anti-commons mentality has made it difficult for many Tongan small businesses in New Zealand to accept and adopt these accounting conventions. The following discussion based on the experiences of Tongan businesses in New Zealand provides evidence of this difficulty. The clash between western capitalistic society (based on individualistic principles) and Tongan communities (based on societal networks) represents an additional layer of challenges for Tongan small businesses in New Zealand. These are outlined in the sections that follow.

### **6.2.2 Mixed Purposes in Financial Reporting**

The objective of financial statements is to provide information about the financial position and performance of a reporting entity and to outline the change in equity for the same period. The information is produced for the benefit of a wide group of stakeholders, many of whom are not normally in a position to demand such information. The information is intended to assist an investor to make informed decisions regarding his or her portfolio (Alfredson et al., 2007). This purpose is largely inconsistent with the expectations held by many Tongan business entrepreneurs included in this study. A number of possible reasons for this inconsistency are discussed below.

Tongan people generally regard commercial activity as a means to generate income rather than an investment, irrespective of whether this is done through employment or self-employment. In the five years to 2001, the number of Pacific Island employers and self-employed increased from 2.2% to 4.4%. The increase is in line with a general trend towards self-employment and starting a business. During the same period, the Pacific Business Trust was established to assist in the creation of new businesses owned and managed by Pacific Island people living in New Zealand (Ministry of Pacific Island Affairs & Statistics New Zealand, 2002). The growth in the number of Pacific Island businesses has not changed the mindset of many Tongan business entrepreneurs moving from paid employment to self-employment. While in employment, Tongans regarded work as a source of income. In moving to self-employment many continued to regard it as a source of income rather than an investment. Since many Tongan business people do not regard their business as an investment, the concept of return (ROI) is redundant. Consequently, the objective of financial statements to facilitate informed investing decisions being made is misplaced, as they often do not regard their business as an investment. Business consultant BC1 makes the comment in relation to Pacific Island businesses that “they do not appear to be solely focused on the aim of making money. It would appear that they aim to make enough to cover costs and to support the family, but they are not bothered with what would otherwise be a competitive rate” (BC1:2:35). Case C4 represents a typical example where the owner’s perception of return is the money remaining to feed his family after all the bills had been paid. He jokingly remarks that his personal share is the portion that is left over after he has provided income for his family. While he acknowledges the need for capital investment through the purchase of equipment for the business, the focus is on earning enough for his family rather than growing the business or maximising his rate of return.

The majority of Tongan businesses participating in the study measured performance in one of two ways. The first is based on revenue volume and business activity, while the second is based on the balance in the bank account. A good performing business is one where revenue is high and growth is positive. Businesses with high levels of revenue were generally associated with high levels of activity. Consequently, businesses associated with high levels of business activity are regarded as being more successful. This single and narrow indicator of performance has been seen as sufficient for many Tongan businesses. However, a lack of attention to cost management has led to the discontinuance of a number

of Tongan businesses. C10 and C12 are examples where growth without attention to costs results in the discontinuance of the business. The second measure of performance is the size of the balance in the bank account. This surrogate measure of financial position is easy to calculate and interpret. In a number of instances owners who found the income statement too detailed and technical in its language and form would abandon trying to understand it in favour of asking what was remaining in the bank account. Many participants in the study found the size of the bank account balance as being the most reliable indicator of financial strength and sustainability.

The traditional goals of financial reporting are inconsistent with that of some Tongan businesses. In particular, the balance in the bank account acts to replace the need for a balance sheet and statement of changes in financial position. Revenue volume and business activity replace the traditional performance statement.

As with many small family-owned businesses, Tongan entrepreneurs regard their business as successful if it is able to provide ongoing income for the owner's family (Dupuis, Haines III, & Saba, 2008; Kuratko, Hornsby, & Naffziger, 1997; John L Ward, 1997) and wider community (Radha Chaganti & Greene, 2002). This source of income is expected to meet both the personal needs of the owners, plus those of his extended family and community (Kramer & Herbig, 1994a). According to Kramer and Herbig (1994b), to a Pacific Islander, "the primary purpose of human living is maintaining harmonious relationships with one's family and clan"(p. 37). The findings from the present study with Tongan entrepreneurs in New Zealand are consistent with this suggestion. C2, C3, C4, C5, C6 and C13 all maintain strong ties with their ethnic and religious community. C15 (radio broadcasting) and C20 (primary health services) represent two organisations that rely heavily on community networks into order to survive. As a consequence, particular attention is given to support of community events. An example of their (C15 and C20) support of the local community includes the sponsorship of a stage at the annual Pasifika festival held in Auckland each year. This continued for several years, until the company (C15) was taken over by another radio network in 2007. In general, maintaining these ties with the community and extended family involves providing financial assistance to them. In Tongan society, business activities that support the enhancing of community relationships either directly or indirectly are regarded as a positive outcome of that business. This type of outcome is not captured in



the financial statements, nor is it acknowledged in the accounting standards as one of the objectives of financial reporting.

According to the *NZ Framework*, financial statements are produced for stakeholders who are external to the operations of the business. External stakeholders who are likely to be associated with Tongan businesses require more information than what is contained in a standard set of financial statements. For many Tongan businesses, external stakeholders include the taxation authorities, financial institutions, employees, customers and suppliers. Apart from the taxation authority, lenders, employees, customers and some suppliers are likely to be members of the owner's ethnic community (L. M. Dyer & Ross, 2000). Many of the Tongan businesses included in this study including cases C2, C3, C6, C7, C10, C13, C14, C17, C18 and C20 were originally set up to deliver services or provide goods for other Tongans. C20 represents a Tongan health service established primarily for Tongan patients. Case C3 was originally established to provide immigration services to Tongan people, while case C6 provides financial services, including loans, to a predominantly Tongan clientele. External stakeholders who are members of the Tongan community are unlikely to understand the information contained in a set of financial statements. Members of the Tongan community from the United Church of Tonga in Auckland indicated during a church meeting that they were unable to interpret financial information. The information that Tongan customers and employees require includes service quality, value for money and reputation of the business owner. This information is not contained in the financial statement, and therefore highlights an inconsistency between the information provided and that required.

The timeframe and format of financial reports are inconsistent with the present-day focus that is characteristic of Tongan culture. The format of the financial reports consists of a summary of the activities of the business over a standard timeframe of one year. For Tongan people, perceptions are based on present experiences. Perceptions about a business are therefore formed through the day-to-day encounters they have with it and not the summarised information captured in the financial statements.

The timeframe for financial reports is historical. Information contained in the reports usually relates to the previous financial year and asset and liability valuation are indexed to the balance sheet date. More recently financial accounting practice has started to reflect the

impact of future periods. Examples include the income method for valuing fixed assets (New Zealand Institute of Chartered Accountants, 2007a, NZIAS 16 s33), capitalisation of development costs ((New Zealand Institute of Chartered Accountants, 2007b, NZIAS38 s57(d)), and valuation of financial instruments (NZIAS 39). The financial reporting timeframe, whether historical or future based, does not focus on the present – the timeframe regarded by Tongan people and entrepreneurs as being most relevant.

### *6.3 Embracing the conventions and Principles of Accounting*

This section discusses the challenges that Tongan businesses potentially face with the adoption of the financial accounting conventions and principals in their own businesses.

#### **6.3.1 Monetary Convention**

The monetary convention suggests that the scope of accounting information is limited to that which can be measured reliably using money as the unit of measurement (Edwards & Bell, 1961). Money as a unit of measure is a relatively new concept to Tongan society. The importance of community festivals and events, including funerals, weddings, church fund-raising (*misinale*) and birthdays cannot be measured in monetary terms, but is derived from the context in which they are carried out. The monetary convention is therefore contrary to the commons approach that is embedded in Tongan society. Tongans, in sharing both the work they perform and the resultant produce, do so in part to maintain and enhance social relationships. Gifting and sharing is not measured in terms of its monetary worth but in relation to the impact that it has on the social relationship matrix within a community or village. The fair value measure of a gift is secondary to the social impact on the community and the status that it places on the giver.

A common criticism that has been made of Pacific Island people, including Tongans, is the proportionately large amount of resource given to the church or other community events (Crocombe, 2001). Despite the criticism, Pacific Island families continue to give generously both in the Islands and abroad. Many Tongans believe that what they give to the church can never equate to the divine love and blessings they receive from God. Similarly,

giving to extended family, community and village and (more recently) college alumni groups cannot equate the opportunities and sense of belonging associated with them.

The introduction of currency and western administrative infrastructure in the mid 19<sup>th</sup> century by Shirley Baker was embraced by the Tongan government in an attempt to bring Tonga in line with a growing global economy (Campbell, 1992). Although this modernisation continues through to the present time, traces of traditional commons thinking are still present. Despite efforts to move farmers away from subsistence towards commercial agriculture, Tongans continue to follow traditional conventions. These include dividing their produce into three categories, including subsistence (to feed the immediate family), prestige gifting (to meet extended family and community obligations) and commercial trade (normally to raise money to purchase those items such as kerosene fuel which cannot be individually produced) (Bascom, 1970).

A form of currency that is used during Tongan gifting activities is *Koloa fakatonga* (Kaeppeler, 1996). *Koloa fakatonga* refers to woven mats, tapa cloth and baskets produced primarily for ceremonial gifting. During Tongan community events, money is not regarded as an appropriate replacement for *koloa fakatonga*. A number of Tongan finance businesses in New Zealand (some of which have taken part in the present study) have recognised the liquidity associated with these traditional crafts to such an extent that this is now the only type of loan security they will accept. While the production and use of *koloa fakatonga* has similarities with that of money or currency, it is based on the commons mentality of sharing and falls short of being a medium of exchange.

Tongan entrepreneurs operating in a commercial environment regulated by accounting concepts of value and reliability find traditional notions of gifting are ignored. Traditional Tongan gifting or the simple act of doing some else a favour is done in an environment of reciprocity. When an individual or business provides a service or gift to another business, it creates a constructive obligation on the part of the receiver. These traditional obligations are difficult to measure in financial terms, and consequently do not appear in the financial statements. Traditional obligations of this nature are not openly discussed, as they are connected to the reputation of the owner rather than the business, irrespective of whether the gift was provided to the owner or the business. Business consultant BC3 recalls a number of Tongan businesses that had compromised their financial sustainability when the

owners used the resources of the business to settle traditional Tongan obligations resulting from reciprocity gifting.

Tongan businesses operate in markets where clients and employees are either family members (John L Ward, 1997) or co-ethnic (Miller, Le Breton-Miller, & Scholnick, 2008). They are entrenched in ethnic based communities that both contribute in terms of social capital (W. G. Dyer, Jnr, 2006; Portes, 1998; Portes & Sensenbrenner, 1993) and place demands on the business through social obligations. Kuratko Hornsby and Naffziger (1997) further add that financial goals are only a part of the motivation behind many entrepreneurs starting a business and that the “security and autonomy they can provide for themselves and their families” (p. 31) are strong features. While the introduction of currency has assisted in the measurement of business activities for Tongan businesses, it is not able to capture the significance and value of many cultural activities that Tongan businesses are engaged in, nor the manner in which many regard business success.

### **6.3.2 Accounting Entity**

The accounting entity concept is the basis of financial reporting. Accounting standards frequently use the term ‘reporting entity’ as a defined economic unit of activity. In a corporate environment, the separation of the owners (shareholders) and company is recognised in law and for accounting purposes. For many Tongan small business owners this separation is blurred. In most cases the business is not legally separate from the owner, since they are not registered companies. However, Godfrey et al (2006) writes “for accounting purposes, the enterprise is separate from its owners”(p. 102) irrespective of the organisational structure.

The rationale for isolating a business entity as separate from its owners in a western context includes several threads. The first relates to taxation accountability as discussed later in section 6.4.1. The second is to define the reporting unit so as to allow accurate and objective measure of its financial performance and position. This information is used to inform the owners as to the economic viability of their investment. Under a commons framework, the relevant entity is the community or village (Bain, 1993; Campbell, 1992; Clarke, 1994; Crocombe, 2001; Morton, 1996). The success or failure of a business impacts

on the entire village. A business in that context is part of the community and its performance or lack thereof is the responsibility of the community. Talanoa with members of the Tongan community provides evidence of this in relation to Tongan businesses. Successful Tongan businesses are discussed in terms of the generosity of the owner, the family from which he or she comes from and the village or region in Tongan they come from. Similarly, unsuccessful businesses are a potential scourge on the reputation of the owner's extended family and home village.

Separating owners from their businesses and from the community is consistent with that of an anti-commons framework. Tongan business entrepreneurs invest both their time and resources to establish their business. Transferring assets, including motor vehicles (case C2), computers (Cases C1, C2, C3, C8 and C10) and furniture to the business is done unselfishly. Many feel that their time and personal resources are naturally part of the process of setting up a business. For others, they did not regard their business as being separate from themselves. A consequence of this non-separation is the disregard of many of the costs that form part of the business' expenses structure. Business consultant BC1 comments that some business owners do not factor the cost of their own time into the calculation of business performance. BC1 adds that in some cases the cost of the owner's time was not factored into the cost structure, because they felt they were doing something that they either enjoyed or would have done regardless of the business.

This view of a business should not be confused with that discussed in section 6.2.2. Tongan entrepreneurs regard their business as a source of income and value it for its ongoing ability to provide them with security and employment (Kuratko et al., 1997). The critical point with respect to the accounting entity convention is that the business is a means of employment that is often not regarded as separate from the owner.

The introduction and implementation of the accounting entity principle to Tongan businesses has resulted in both negative and positive outcomes. Although the unselfish gifting of resources to the businesses has clearly been beneficial to the business entity, unmanaged private use of business resources has the opposite effect. A number of Tongan business people who were unable to fully understand the accounting entity principle tended to draw down the resources of the business to the extent that its economic viability was compromised. Although the business owners included in this study did not disclose that this

may have been the case in their business, each of the business consultants outlined that this was a common problem among Pacific island business. Business consultant BC1 comments:

Entrepreneurs need to be careful of how much they take from the business especially at the early stages of the business...People who have demonstrated this sense of discipline in the early start-up of their business have come through to being more success and sustainable. The same cannot be said of those that have not demonstrated this sense of discipline (BC1: 19:40)

Tongan business owners share the same sense of giving as other Tongans in Tonga and New Zealand. This is supported by the amount of money remitted back to Tonga on an annual basis (R. C. Brown, 1994, 1998; R. P. C. Brown & Ahlburg, 1999; R. P. C. Brown & Walker, 1995; Cowley et al., 2004) (refer Chapter 2 section 2.4.3). Most of the Tongan businesses included in this study made donations to family members and community organisations, including relatives and friends in Tonga. This is a potential drain on the resources of the business. While some Tongan businesses withdraw too much from the business (according to the view of the business analysts) and thereby compromise its sustainability, others have successfully managed the challenge through planning. A number of Tongan business owners (generally the more successful) include as part of their business cost structure a fixed wage which marks the limit to which they can draw down the business' resources. C1, C3, C5, C6, C11, C17 and C15 specifically mention setting up a fixed wage for themselves rather than withdrawing the residual income of the business. C3 further discussed budgeting for extended family commitments, so as to limit the amount gifted. Businesses tended to introduce these control mechanisms in order to help manage the operational sustainability of the business rather than to formally recognise the accounting entity principle.

Another negative consequence with the introduction of the accounting entity concept has been with Tongan worker attitudes. In line with the commons attitude of cooperation and sharing, many Tongan businesses indicated a preference to employ Tongan workers or engage Tongan contractors. Despite their good intentions, the outcome in an anti-commons environment, characterised with employment contracts, minimum wages and set working conditions has alienated the workers from the business. Some workers became

opportunistic as in the case of C15 and C5 and selfishly carried out the minimum tasks specified in their employment contract, because they felt separated from the business and alienated. This is discussed further in Chapter 8, section 8.4.3.

The accounting entity convention is an anti-commons framework. Tongan businesses that are entrenched in a commons framework find this difficult to adopt. The clash has resulted in both good and bad business practices. Internalising the owner's social obligations, such as giving to dependent members of the family, through budgeting has proved beneficial for business sustainability. Tongan culture, based on a commons framework, tends to blur the boundaries between owners and their business. At one end of the spectrum the result is a tendency to draw down the resources of the businesses to the point where its sustainability is compromised. At the other end of the spectrum, owners who fail to separate their activities from those of the business may not incorporate the cost of their time as part of business expenses and as a consequence overstate the true performance of the business. The business experiences included in this study suggest that in an anti-commons market society, Tongan businesses that are able to adopt the accounting entity convention increase their potential to survive irrespective of where they fall in the spectrum.

### **6.3.3 Going Concern**

The going concern assumption is fundamental to the preparation and presentation of the financial statements of a business. The assumption establishes that the accounts are prepared and presented as if the entity will continue trading in the same manner indefinitely (Fremgen, 1968). The assumption is important as it determines the valuation frame that is to be used for recording assets and liabilities. A reporting entity that is about to discontinue operations either voluntarily or otherwise is required to use liquidation values for assets and liabilities (New Zealand Institute of Chartered Accountants, 2007a ,NZIAS1 s23-24).

For Tongan businesses, their focus on the present distracts them from considering the indefinite continuity of their business. Tongan entrepreneurs run their businesses until such time as they are no longer able, or the business ceases to exist (Refer Chapter 7 section 7.1.2.2 on succession planning). During difficult periods, there is no concept of giving up while there is a hope that the business may recover. This stubborn and characteristically

Tongan attitude is captured in the Tongan saying and national motto; *Tonga mo 'unga kihe loto* (the highest attribute of the Tongan character is his/her will). C5 outlines the difficulty he and his wife faced when they first started their business. Without any assistance from outside lenders they persevered, drawing down on their personal assets to the extent that they thought their business may not survive. He explains that they worked long hours during the day and in the evenings they completed the paperwork. Despite this difficult period, they were determined not to give up. Similar experiences were encountered by other businesses included in this study (including C1, C2, C8, C9, C13 and C15). Other pressures in terms of losing face and social status are a constant motivation for Tongans to endure. This was not discussed during the *talanoa* sessions, as it is not in the nature of many Tongan people to boast openly of their success. However, discussions with members of the Tongan community support the idea that this is the case (Campbell, 1992; Crocombe, 2001).

Another entrenched perception is the inseparability of the owner and the business (see section 6.3.2.). The two are regarded as being inseparably connected, so that giving up or selling the business to another owner is a loss of face and contrary to Tongan culture (Clarke, 1994). In the context of the going concern principle, the business' operating timeframe is independent from that of the owner. Ownership may change but this does not affect the continuity of the business. Many Tongan businesses included in this study do not regard their business as an asset that may be sold to another owner. C7, for instance, planned to leave the business to her children, while C9, C11, C18 and C19 regard the operating timeframe for their business as inseparably linked to their own.

In a number of cases (including C5, C7 and C13) the business was not just regarded as a means of income, but rather as a family treasure to be handed down through the generations in the same way as land. These three businesses considered to varying degrees succession planning, and foresaw that their children would continue the business after them. The majority, however, did not or had not considered the continuance of the business beyond their lifetime. This attitude to business is consistent with the present day focus and commons mentality that many Tongan people share. Their focus on the present is often at the cost of long-term strategic and succession planning. The focus is on the health of the business today, rather than on its ability to continue into the future. Also, the inseparability



between the owner and the business discounts the potential for the business to continue without the involvement of the owner.

The inseparability of the owner from the business, coupled with a tendency by many Tongan entrepreneurs to focus on the present, makes the adoption of the going concern principle difficult for Tongan businesses. Entrepreneurs who identify themselves as being one with their business tend to enjoy lower agency costs (W. G. Dyer, Jnr, 2006) and greater dedication to the success of the business (Miller et al., 2008). However, their relative lack of attention to future sustainability, preferring to focus on the present, may lead to situations where some Tongan entrepreneurs are unlikely to admit (and declare to creditors) their financial hardship until it is too late.

#### **6.3.4 Accounting Period and the Accrual Accounting Convention**

The period concept is central to financial reporting. The financial performance of most businesses is measured over a period of one year and the financial position assessed at the close of each financial year. The period convention addresses a number of issues in relation to financial reporting. The first is in relation to the financial reporting period. The reporting period refers to the timeframe over which financial performance is measured. This time frame defines the duration of the reporting period (usually one year) and the balance sheet date, the latter setting out the last day of the year being reported.

Transactions are recognised and recorded in the accounting period to which they belong. The allocation of revenue and expenses to an accounting period is carried out in relation to the accrual accounting convention. This convention seeks to allocate expenses and revenue to the accounting period to which they relate, and not necessarily to when they are paid or received in cash. According to NZIAS1 s25, ‘an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting’. These conventions are difficult for many Tongan businesses to adopt as they are inconsistent with the way they view business performance.

Tongan entrepreneurs do not consider business activity in strictly defined accounting periods. Time is a concept that is held in common and not regarded as being in short supply

(Kramer & Herbig, 1994a). What is more important to many Tongan businesses is the financial status that results from business activities in the recent past. Good performance is regarded as having occurred over the past months or years, depending on the business context. Measurement of performance over regular intervals as prescribed by the accounting period convention is a relatively new concept to some Tongan businesses. One Tongan business owner, for instance, described their business as good. They were recalling the recent successful bid for a government contract. C15 (radio broadcasting) is an example of a business that provides regular financial reports to its owners. However, when interpreting the performance statement, emphasis was placed on current sales volumes and pre-booked sales, both of which fell outside the accounting period being reported.

The accrual accounting convention is an extension of the accounting period concept. According to the accrual accounting convention, revenue and expenses are recognised and reported against the accounting period to which they relate. This is inconsistent with the present-day focus that many Tongan business owners share. Tongan businesses included in this study indicated a preference for cash based reporting. C1, C2, and C20 describe incidences of revenue from government grants or contracts being received in a lump sum. This revenue is recognised in the accounting period in which it is received, rather than being spread over the contract period it related to. C2 in particular outlines the false sense of security that this can have on the business in terms of having significant funds in the bank, yet holding back from spending these funds to meet current obligations. C2 outlines a number of businesses that he is aware of that failed through not being able to hold back from spending funds committed to future periods.

The accounting period and accrual accounting conventions are a relatively foreign concept to Tongan business entrepreneurs, who share a preference for managing their businesses with a present-day focus. This focus is beneficial from a cash management perspective, as many of their business decisions are influenced by the availability of cash. However, in circumstances where revenue and expenses flows are irregular or infrequent, adopting the accounting period and accrual accounting convention are likely to help them better manage their business. Tongan businesses that have been able to adopt these conventions (e.g. C5 and C8) are generally more successful. Tongan entrepreneurs who do not use the financial statements prepared on a period and accrual basis are not able to make comparisons from

period to period, and consequently plan for growth. C8 is one example of a Tongan business that uses both budgets and the information contained in the financial reports to manage his business. The majority of other businesses use the information in the financial statements primarily for the purpose of tax compliance.

### **6.3.5 Reliability**

The *NZ Framework* discusses reliability in the context of financial reporting usefulness (paragraphs 31-38) and measurement (paragraphs 86-88). In particular, financial information is deemed useful only if it is reliable. Reliability in turn extends from representational faithful through presentation disclosure, nature and measurement. Faithfulness in presentation disclosure suggests including in the reports those transactions and events that can reasonably be expected to influence the decisions of users. The nature of the transactions included should be captured in a manner that is unbiased, complete and presented in such a way as to not intentionally mislead users. Reliability in measurement suggests objectivity in the calculation of monetary values.

While the principle of reliability maintains a sense of rigor and credibility regarding financial statements, these are largely taken for granted by Tongan business owners and entrepreneurs. Tongan businesses in this study associated reliability with simplicity. The simpler the information, as in the case of the bank account balance, the more reliable and useful it is. C2 and C15 are organisations that both prepare regular financial statements. However, both organisations placed more value on those transactions affecting the bank account and the closing bank balance than on accrual entries, including depreciation and provision for doubtful debts. In the majority of cases, Tongan businesses were more interested in their cash performance, and relied on information regarding liquidity to guide their business decisions. C15 specifically adjusted the reported accrual profit by adding back depreciation expenses in order to approximate the cash performance of the business.

The second part of the discussion regarding reliability is in relation to measurement (paragraphs 86-88 of the *NZ Framework*). While Tongan businesses acknowledge the value associated with reliably measuring the monetary value of transactions, they continue to be influenced by cultural protocols, social status and community relationships all of which are

not reliably measured in monetary terms. C13 gave extensively to the church, and provided ongoing assistance to the development of his home village in Tonga. This was done in response to his personal identity and sense of belonging to that village community and maintaining relationships with those who are part of that community. While the monetary cost of these gifts can often be measured, the personal value to the owner and social capital arising from these relationships are impossible to measure in monetary terms. Similarly, fine mats and *tapas* cloths (*koloa fakatonga*) are traditionally used in ceremonial gifting during family and community events. The skill, time and social setting in which these items are produced, together with the entrenched cultural and family lineage of each piece, make it difficult to measure their monetary value reliably. In addition, the traditional manner in which they are transferred from one person or family to another is through traditional gifting which does not have a monetary value.

In order to ensure the reliability of information provided in the financial statements, Tongan businesses have often outsourced the accounting function to an external accountant or financial advisor. Two Tongan businesses (C3 and C5) indicated that they would have done this from the very beginning had it been affordable at the time. Accountants were hired to assist with compliance and setting up financial systems. While most of the Tongan businesses kept records of day-to-day transactions, these were based on advice they had received and systems developed by their accountant. This finding is consistent with the extant literature for small business, including the self-employed (Boden, 1999; Collis & Jarvis, 2002). This negated the need for many Tongan entrepreneurs to acquire hands-on knowledge of accounting concepts and principles. However, it has relieved many from the onerous task of compliance, allowing them to focus on managing the business. (Refer section on outsourcing in Chapter 7)

Producing financial reports that are reliable is required from a taxation point of view and important for the efficient management of the business. Tongan businesses find the task difficult, and where they have been able to afford it, have outsourced it to an external accountant. Of the Tongan businesses included in this study, the more successful employed or contracted an external accountant to prepare the financial statements and complete the business' income tax return. Tongan entrepreneurs indicated a preference for simplicity, and therefore relied on the bank account balance as a reliable measure of both performance

and position. Book entries, including depreciation and provision for doubtful debts were often ignored in favour of cash performance measures. The criterion for reliability as outlined in the financial accounting framework is irrelevant for many Tongan entrepreneurs who appear to have developed their own sense of what information is deemed reliable. Their preference for information about their bank account supports their present day focus. Furthermore, many of the commercial and non-commercial activities that Tongan businesses are involved with are aimed at building community relationships and upholding the reputation of the owner. These traditional notions are an inseparable part of the business yet, they are excluded from the financial statements, as they are not able to be measured reliably.

#### **6.3.5.1 Prudence and Neutrality**

One of the qualitative characteristics of financial statements is that of prudence. Paragraph 37 the *NZ Framework* defines prudence as “the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated”(New Zealand Institute of Chartered Accountants, 2007a, p. 20).

The adoption of prudence for the majority of Tongan businesses is seen as redundant for a number of reasons. The first is that the relatively small size of their business operations means there is no separation between the owner and management, as is the case with corporations. This lack of separation removes the motivation for management to mislead users of the financial statements through not exercising prudence and neutrality in the preparation and presentation of financial statements. The second reason stems from the present day focus that Tongan people share. Exercising caution during situations of uncertainty is a redundant issue for many Tongan business owners, who operate their business on a cash basis. (Refer section 6.5.3. on cash flow management) With cash-based businesses, uncertainty relating to debtors, creditors, income and expenditure is eliminated, or at the very least minimised. C6 and C15 represent two organisations that maintain a debtors’ ledger. C6 provides financial consulting services and loans to Tongan families. Traditional fine mats and tapas are used as collateral and held by the lender. Since the loan

amounts are half the approximate value of the collateral, there is little risk of debts not being recovered. This collateral arrangement negates the need to create a provision for doubtful debts (Refer section 6.5.2 security and collateral).

The present day focus that many Tongan people share has the potential to impact on the recognition of certain classes of assets and liabilities. Uncertain future liabilities, including provision for doubtful debts, are not treated as an expense until such time as the debt becomes uncollectable. C15 (since acquired by a competitor through a merger agreement) provides radio broadcasting services to a primarily Pacific Island clientele. The radio industry in which case C15 operated is highly competitive and characterised with clients not paying their accounts. In preparing the accounts, estimates of doubtful debts were influenced by the company's need to remain solvent. Consequently, the provision for doubtful debts tended to be understated, thereby inflating the financial position and performance of the company. This practice focused on the current financial viability of the firm, and ignored the long-term impact of some day needing to write these debts off.

The popularity of cash-based operations, non-separation of owners and managers and relatively small size of the business remove many of the motivations for providing misleading financial information. However, there is evidence in this study to suggest that Tongan businesses that maintain a focus on the present and are operating in a competitive environment may compromise the principles of prudence and neutrality in favour of remaining in business in the present.

### **6.3.6 Comparability**

The concept of comparability is central to the process of preparing and presenting financial reports. According to the NZ Framework, financial statements are to be prepared and presented on a consistent basis from one accounting period to the next, so as to allow the user to make comparisons. Tongan businesses accept the principle of comparability (paragraphs 39-42 *NZ Framework*) in financial reporting, but struggle with its implementation. In particular, where accounting policies have been changed, they do not see a need to retrospectively alter the accounts for prior periods. This is in part driven by the cost associated with preparing comparative prior period accounts and in part because

they do not see the value in doing so. In January 2007, non-exempt companies were required to comply with International Financial Reporting Standards (IFRS) as part of a nationwide move towards global standardisation of accounting practices. C15 was not opposed to adopting the new accounting standards, but was reluctant to recast their prior period accounts in order to make them comparable.

Apart from C1, C3, C5, and C8, who used the information contained in the financial statements to manage their business, most Tongan business complete financial accounts to satisfy tax compliance and funder reporting schedules (for businesses associated with a government grant or contract) as in the case of C2, C9, C15, C19 and C20. Preparing accounts that are comparable is seen by many Tongan businesses as redundant. The focus of their analysis is on the current period and not so much on how it compares with prior period performance.

The focus of many Tongan businesses on the current period overshadows the benefit that may be gained by analysing their businesses performance over multiple periods. Furthermore, there is a cost to maintaining a comparable set of accounts, particularly during those periods where there has been a change in accounting regulations or the business has adopted a new accounting policy or procedure. Business planning is an important part of developing small businesses and making them financially sustainable (Blackwood & Mowl, 2000; Chrisman & McMullan, 2004; Danes, Loy, & Stafford, 2008). Tongan businesses may increase their survival prospects through greater attention to comparative analysis of their financial statements and by using this information to manage and plan for the future.

## *6.4 Compliance Challenges for Tongan Businesses in New Zealand*

### **6.4.1 Taxation Compliance**

One of the challenges faced by many Tongan businesses is the management of tax obligations. The obligation to pay tax and the calculation of tax liability is based on an individualistic framework. Small businesses in their early years of operations find the adjustment to filing tax returns and paying goods and services tax (GST) difficult. Findings from *talanoa* sessions with Tongan entrepreneurs and business advisors suggest a number

of possible reasons. One reason relates to the individual approach taken with the assessment of tax liability. Traditionally produce (agricultural and fishing) to be consumed is a collective effort, so that the distribution of the produce among the members of the community is a reasonable expectation. In the western business context, the payment of tax is assessed on the individual's personal income. Since personal income is the result of individual effort, the redistributive nature of taxation is regarded as inconsistent with income or wealth that is generated collectively. Tongan businesses already share a significant part of their net income with the extended family through money transfers to the Pacific, and community through donations made to the church. The taxation process ignores this level of community sharing, leading to a situation where Pacific Island people effectively go through the income redistribution process twice – firstly with tax and secondly through traditional gifting. Business consultant BC1 suggests that Tongan people who are unwilling to pay tax should remember that many of their relatives are beneficiaries of the tax system. While this is often true, the redistributive role of tax takes away the opportunity for relationships to be formed through traditional sharing.

Distribution of produce in a village setting is based on a complex network of relationships. Distribution is not enforced, but encouraged through these relationships and community identity. Members of a village share as mutual acts of goodwill and towards preserving social relationships (*tauhi va*). The process of gifting and sharing occurs between individuals, in line with the relationship ties between them. Mandatory collection (taxation) to an independent third party (government), as in the case of tax, removes the opportunity for individuals to connect. The commons mentality in Tonga is fused together by the relationships between individuals in the community. Removing the opportunity to maintain traditional community relationships through the introduction of tax compromises traditional networks, and is therefore not regarded as a redistributive mechanism. A comment made by a business consultant during a *talanoa* session suggests that Tongan entrepreneurs needed to be educated about the redistributive function of taxation. While this may help in some cases, it is unlikely to reassure entrepreneurs that community connections are strengthened through the payment of taxes.

The shift away from employment to self employment has resulted in the non-payment of taxes for a number of reasons. Tax paid by Tongan people is mainly through PAYE (pay as



you earn) and GST (goods and services tax). Since personal income tax is deducted at the source, Tongan tax-payers become accustomed to the net pay they receive. Similarly, good and services tax levied on most retail transactions is included in the selling price. With no option but to pay, consumers become so accustomed to the GST-inclusive amount that the net price is ignored. The calculation and mechanism for the deduction of tax from gross earnings or GST from the transaction of goods and services is not the direct responsibility of employees. As Tongan people shift away from employment towards running their own business, this responsibility to account for and pay tax becomes theirs directly. The income tax liability of small businesses is based on the firm's assessable income. In order to calculate their assessable income each year, accurate records need to be kept, including all income and expenses, plus any accrual adjustments required. The additional responsibility of calculating assessable income, together with an inherent objection to the role of taxation in the community, has resulted in some Tongan business people's taking a less than enthusiastic approach to the payment of tax. C15, for instance, deferred the payment of tax during a period of cash shortage, only to be levied with penalties and use of money interest that further exacerbated their financial situation. Tongan business entrepreneurs, faced with having to file accounting records to allow the calculation of their tax liability, often fail to acknowledge the compulsion associated with tax liability. Since the taxation process is foreign to traditional Tongan culture based on a commons approach, it is more suitably imposed at the source to avoid the tendency to default on making payment.

The liability to pay tax represents a deterrent to many businesses to grow beyond 'cottage industry'<sup>xxiii</sup>, status<sup>xxiv</sup>. Tongan women, who are responsible for many of these cottage businesses had, originally produced traditional crafts in the form of fine mats, ceremonial clothing, tapas and baskets for ceremonial events. These items were seldom sold, and were gifted as part of the ceremonial process. In recent times, the demand for these ceremonial treasures (*koloa*) in New Zealand, Australia and the United States has led to their being commercially traded (Kaepler, 1996). Business consultant BC1 describes these 'cottage industry' businesses as having significant potential for growth. However, despite this growth potential many of the women involved have opted to keep their operations small. To grow their business beyond cottage industry status will trigger a range of compliance hurdles, including tax that they are unfamiliar with and unwilling to manage. C18 is an example of a business that has grown from the cottage industry status. Together with the

business challenges of fixed rental costs and utilities and other fixed overheads, C18, represents a relatively rare occurrence and cottage businesses can still be found in large numbers operating their stalls at the many flea markets throughout Auckland.

Financial reporting compliance is generally accepted as a challenge for small business (Boden, 1999; Chittenden et al., 2003; Collis & Jarvis, 2002; Salamon & Dhaliwal, 1980). Tongan businesses in general were found to struggle with compliance, and in particular, tax. C2 (recruitment and training) suggests that compliance costs can be too much for small businesses that are ill prepared to fulfil or fund the associated financial costs. He further suggests that government contracts like his demand a greater level of compliance and reporting as non-government contracts. C2 has successfully managed the issue of tax compliance by outsourcing this function to an external accountant. The owner operator of C2 believes that “although this is a cost, it is far better to have this function outsourced than trying to do it in house”. Similarly C5, a painting company, completes the day to day record-keeping in-house, but then hands over to an accountant these documents at the end of each month so as to allow the preparation of the month end accounts and the filing of tax returns.

C4, a paving firm owner, sought the assistance of his adult children, as the required technical knowledge to complete the forms and returns was beyond his ability. Similarly, C7, an immigration consultant, acknowledges the challenges of running a business and compliance demands. Although her children are currently responsible for filling in the tax returns (one of her children has completed a Bachelor of Commerce from the University of Auckland) she states that she had previously outsourced this to an accountant to ensure compliance. She says that:

when I first started I had an accountant assigned to do it (referring to the accounts and filing tax returns) because I believed I should be on the right track of business, compliant and make sure I do it according to the law and the New Zealand rules and ... I believe that's why I last long (Case C7- Immigration consultant 18:55)

Now that her children are responsible for completing the returns, she does continue to check it before it is filed. Although she no longer uses an external accountant to complete

this function, she admits that she does not hesitate to contact the Inland Revenue Department (IRD) if there is anything she is unsure about.

Seeking advice from authorities including the Inland Revenue Department (IRD) and banking organisations is an option that many Tongan businesses have not pursued. The fear that a number have expressed is that of being found doing something incorrectly and being penalised. Pacific Island people tend to hold a negative view of the IRD as unfriendly and unhelpful. Business consultant BC1 recalls a client saying to her “gosh I do well in business, and the government just wants to take my money” (BC1, 11:47). She adds that some businesses go into a phase of denial about their tax obligations, hoping that the problem will go away. Two Tongan business owners (C4 and C7) say that they have approached the IRD for assistance and have found them helpful. Their bold and humble attitude to becoming compliant has been clearly beneficial for both. Their actions echo the advice that BC1 has given her clients that “anyone going into business, but realises that they are weak on the compliance front, should make contact with an IRD advisor” (BC1, 11:42).

The owner of C1 (communications and publications) admits that the single biggest concern for him is “meeting our financial obligations, paying suppliers on time and taxes”. As with C7, C1 now keep their own accounts and file their own tax returns. The owner admits that he is thankful that his wife is able to do this and he does not have to deal with it himself (The owner’s wife in this case is a commerce graduate from the University of Auckland).

C9, a healthcare consultant, admits that although she is capable of completing tax returns, it continues to be an ongoing challenge her, as she suspects it is for other small Pacific businesses. She says:

I think the other thing ... the age old discipline ... the stuff around GST returns paying tax. All those things are a problem. They’re hard all the time. And I’ve been doing it for a long time ... I hate it (C9 Healthcare consultant 1:18:30)

The experiences of these Tongan businesses are consistent with that of business consultant BC2 when he says:

Koe kovi pe tax ia ko 'etau ngaue hala aki...koe tax ia kapau he 'ikai teke very careful hono ngaue 'aki koe tax 'e toe mate pe 'ete pisinisi he ngaue 'a e tax (BC2, 13:40)

The negative aspects of tax come about from how we abuse it. If we are not very careful with complying with tax, the consequences are that it will be the tax that destroys your business.

#### **6.4.1.1 Implications and summary - Tax**

Tax compliance is a mandatory requirement for all businesses, large and small. Like many other small enterprises, Tongan businesses struggle with tax compliance. Filing tax returns requires the preparation of financial accounts for the calculation of assessable income. This process is difficult for Tongan small owners who often do not have skills in accounting and tax. Many Tongan businesses are unable to afford the services of professional accountants to assist in preparing and filing financial accounts and tax returns. Some small Tongan businesses (cottage industry) find tax compliance too threatening and prefer to maintain their operations at a discrete level so as to not trigger having to file tax returns. Successful Tongan businesses included in this study are either able to employ a professional accountant or secure the assistance of family members and friends to fulfil their tax compliance needs. Few Tongan businesses take advantage of the advice and help offered by the Inland Revenue department (IRD). However, Tongan businesses that do contact the IRD find the service helpful. Although many Tongan business people express a fear of the IRD, tax compliance may be made easier through taking advantage of IRD assistance programmes.

Part of the difficulty with Tongan businesses becoming tax-compliant is related to Tongan peoples' inherent sense of sharing (societal identity) and building relationships. Tongan businesses demonstrate this sharing attitude through gifts and assistance they make and provide to the churches (C5 and C13), sports clubs (C4) and family. Some Tongan businesses provide for their ethnic community by providing employment as in cases C2, C13 and C16. This form of sharing acts to replace the redistributive role of taxation. Furthermore, taxation acts to remove the potential for relationships to be formed as an outcome of traditional sharing.

Finally, Tongan businesses need to incorporate into their set-up plan, systems to address tax compliance. Some Tongan business people, moving from paid employment to self-employment, having been accustomed to PAYE, overlook the importance of filing business and personal income tax returns. Based on the experiences of the Tongan businesses included in this study, Tongan businesses in New Zealand may increase their survival potential by recognising the importance of tax and internalising it into their cost and management structure, despite the inconsistency that this has with cultural traditions of sharing and collective production of goods and services.

#### **6.4.2 Record Keeping**

In a culture where oral history is the established mechanism for preserving information, written records are considered superfluous and onerous. Although Wareham (2002) suggests that records are important for the preservation of Pacific Island cultures Brown et al (A. M. Brown & Tower, 2002; A. M. Brown et al., 2005) maintain that oral communication continues to be the preferred means of communication and passing down of ideas. Tongan entrepreneurs have reluctantly adopted record-keeping as part of a compliance process, rather than as a tool for planning and managing their business. Business consultant BC2 explains that the two reasons he sees why many Tongan small businesses keep records is to satisfy the Pacific Business Trust (who may have provided them with a loan) and for filing tax. He suggests that business survival is dependent on good record-keeping. He advises that:

If you are unable to keep good records of your business dealings, it will be very hard for you to understand what is happening let alone how you will grow it...If you want to expand your business, it is difficult to know what parts to expand (BC2, 15:30).

The majority of Tongan entrepreneurs who participated in the study found the record keeping process difficult, and often did not see the benefit associated with it. C5 (painting and decorating company) successfully manages the record-keeping process, but acknowledges that it had been difficult at first. During the first three years of his operations he explains that he did everything (meaning keeping records and filing tax) himself. He

would go to work during the day and then in the evenings would carry out the paper work with recording jobs, invoicing and paying suppliers. During this period he admits that the only way he had been able to “keep on top of it” was “by doing it every day and not letting it pile up”. He notes that after the third year he was able to afford the services of an accountant, as the volume of paper work had become too much for him to manage.

Good record-keeping practices have been suggested as essential to business sustainability and growth (Riemenschneider & Mykytyn Jr, 2000; Scott & Bruce, 1987). Business consultant BC2 advises that “good records will provide you with a good foundation for the future...one of the important reasons for keeping records is for the purpose of having a running history of the accounts that will be needed if the business is ever sold off and when it applies for funding or loans in the future” (BC2, 13:20). The success of case C8 (automotive services) and C5 (painting and decorating) has been through careful record-keeping, with the intent of using it to manage the business. C5 suggests that:

Koe anga pe ‘eku faka kaukau keu ‘ilo ‘a e ‘osi ko e ‘a e mahina... hange koe quotation ‘oku ou keep pe. Ta mai ‘a e kau me’a ia ko enau ngaue peau lava keu tala ai pe na’e fiha ‘a fakamahuinga’i. (C5, 9:15)

The way I think about it is that I need to know at the end of the month what has happened and in the case of quotations that I keep, I am able to tell what was originally quoted and not have to rely on memory.

The record-keeping process requires systems for collecting data, skills to collate and interpret the data, and technology to facilitate the efficiency and effectiveness of the record-keeping process. For many Tongan businesses, these requirements are either lacking or expensive to acquire. Tongan small business operators struggle with the accounting conventions that form the basis for the record-keeping process, and often abandon the exercise as being too difficult. Small businesses in the ‘cottage industry’ phase of growth are examples of unwillingness to grow, through fear of the complexity and cost of compliance. Successful Tongan businesses have managed the problems associated with record-keeping by outsourcing it to an accountant. In many cases the accountant provides guidance on the types of records that need to be kept and the mechanism by which they can be captured. Processing the information into financial statements and filing company tax returns is then carried out by the accountant.

The record-keeping experiences of many new Tongan entrepreneurs echo a similar story. Many begin by trying to keep their own accounting information, usually through lack of an alternative. Some of the 20 businesses in this study, constrained by cost, continue to keep their own records (C4, C6 and C18). The majority of Tongan businesses maintain their own records as a matter of preference, although this is with the assistance of a professional accountant (Blackwood & Mowl, 2000; Dyt, 2005). Business consultant BC1 cautions Pacific businesses that delegate the accounting and record-keeping function to a professional accountant, suggesting that “by moving all the financial functions to the accountant, you lose some of the control that you need to effectively manage the business” (BC1: 14:30). BC1 advises that “businesses should try to do it themselves (referring to record keeping and accounting), but that in the event they can’t, not to sit around but to call for help” (BC1: 14:50). In general, the information they collect is minimal and intended for the purpose of tax compliance and specific disclosures required by government funding agencies. Information to allow cost and revenue analysis is generally not kept. As the businesses expands some employ computer technology to streamline the record keeping process. C8 (automotive services) used the MYOB (Mind Your Own Business) accounting package to manage and record transactions. Case C6 (financial advisory and lending services) started with manual records, but now enters these into a computer database, including electronic digital images of the security (traditional Tongan *koloa* in the form of fine mats) on the loans advanced.

The difficulty and reluctance that many Tongan entrepreneurs have with record-keeping is linked to an inconsistency in the framework in which record-keeping is based. Record-keeping is based on an anti-commons approach. Records are maintained based on individual ownership (as in the case of freehold assets) or property rights (as in the case of financial leases). Financial data is collected and stored for the primary purpose of establishing individual accountability, including tax. Similarly, the recognition and measurement criteria used in capturing financial activity assumes transactions are the result of arms length exchanges between individuals for which there are no pre-existing relationships.

Record-keeping practices are important for the sustainability of Tongan businesses, particularly in western commercial contexts such as New Zealand. Tongan businesses find

the record-keeping process onerous, expensive and inconsistent with their culture. The relative lack of understanding that Tongan entrepreneurs have about record-keeping and the benefits that arise from it have negatively impacted on the sustainability of some Tongan businesses. This may be overcome by Tongan businesses seeking assistance from the IRD or organisations such as the Pacific Business Trust. Successful Tongan businesses included in this study maintain records for reasons of compliance and for the management of their business. Although the record-keeping process is based on an anti-commons framework, Tongan businesses in New Zealand increase their potential to survive through diligent attention to the maintaining accurate and relevant records.

## *6.5 Cash and Credit Management Challenges for Tongan Businesses in New Zealand*

### **6.5.1 Credit Transactions**

Credit transactions including goods and services received or used on a deferred payment basis present a number of challenges for Tongan business in New Zealand. How these credit arrangements are handled by Tongan businesses is influenced by their present-day focus and attitude to building relationships, as demonstrated in the business practices of the Tongan businesses included in this study.

In Tongan society, activities are primarily undertaken for their impact on the present and to maintain community relationships. Goods acquired or produced are to satisfy present consumption or obligations. Stockpiling of produce is generally not possible given the perishable nature of the goods, and is culturally inappropriate, as the expectation is to share. C13 recalls his business experiences in Tonga where he operated a number of shops and a commercial bus service. He describes a situation where a family is without the means to acquire goods or services, and they go without. Credit agreements are traditionally not regarded as an option. This focus on the present provides a natural incentive for Tongan people to work forever. However, he says that in recent decades, credit transactions (*faka mo'ua*) have been introduced in local shops in Tonga to promote sales. While this has been effective in some cases, many small village shops have closed business as a result of



debtors (usually extended family members) not paying. In traditional Tongan society, present consumption is regulated by the current resources of the individual or family. Increasing present consumption is achieved by increasing one's ability to acquire or produce goods to consume. The introduction of credit agreements provides an opportunity for individuals and families to consume beyond their present means. However, when it comes to repaying these debts, priority is still placed on ensuring current consumption rather than settling debt arising from consumption in prior periods. Tongan businesses, as with Tongan people in New Zealand, tend to rank present community obligations higher than family obligations. C6 provides financial advice to Tongan people in Auckland. In his dealings with Tongan clients, he recalls frequently advising them to prioritise their financial commitments and to place more importance on their personal rather than traditional social obligations. Although C6 acknowledges that Tongan people are culturally entrenched in fulfilling their collective responsibilities to the community and extended family, he maintains that it should not be at the cost of immediate family obligations. C6 recalls incidences of Tongan families not paying the power bill, so that they can contribute to the cost of a family wedding. Business consultant BC3 explains that Tongan businesses mirror this behaviour by prioritising present day obligations, particularly those related to community events or family functions, above the ongoing operational obligations of their business.

Credit transactions allow many Tongan entrepreneurs to receive goods and services now and pay for them later. The problem arises when they are required to pay. Some fall into the trap of over-committing their future income stream, not realising that some of the future revenue may have to be used to pay for past debts. Others struggle with the notion of prioritising payment for past consumption over that of the present. Successful Tongan businesses participating in the study demonstrate an ability to manage the use of credit transactions and embrace the concept of paying for goods and services based on their legal obligation to do so. C5 is a mature business having operated in the painting and interior design industry for the past twenty five years. The owner explains that his business operates trading accounts with many hardware suppliers in Auckland. He comments that he has established a good relationship with his suppliers through the regular and timely settlement of his trading account.

As with the case of many small village shops in Tonga, allowing credit to customers is problematic for Tongan businesses in New Zealand. C15 represents a Tongan-managed business that offers credit to customers. In many instances these debts are never repaid, resulting in significant amounts being written off as bad debts. For this reason many Tongan businesses operate their business on a cash basis. This is not only appropriate given the nature of their businesses (services and non-durable goods), but is consistent with the way their target customer base (Tongan and Pacific Island people) operates. In cases where credit sales are available, Tongan business people (including C1, C5, C7, and C8) express a reluctance to grant credit to Tongan customers. Their caution is based on the difficulty of collecting debts from Tongan customers and the potential strain it may put on relationships and reputations within the Tongan community. In Tonga, as with New Zealand, a number of businesses cease trading as a result of debtors not paying. C15, a Pacific radio broadcasting service in Auckland, outlines that their most significant hurdle to growth and sustainability has been customers not paying their debts. As operations continued, customers were asked to be pay before their radio advertisements could be aired.

A number of Tongan business people say they are not in a position to offer credit because of insufficient working capital. In a number of cases (C2, C3, C4, C5 and C20) work on a project or order did not commence until payment had been received either in full or in part from the customer. C5, for instance, requires from customers a 50% deposit before the job started. He explains that this is necessary to cover the cost of contractors and paint required for the job.

While credit transactions are common in many businesses both large and small, it creates a shift in pattern from the present-day focus that both Tongan entrepreneurs and Tongan customers share. In order to increase their likelihood of survival, Tongan businesses need to place greater importance on the timely settlement of debt and maintenance of a good credit rating. Continuing to focus on cash sales is appropriate, although this may not be possible in some industries where competition is significant or where the product has a high unit price (as in the case of whiteware and electronic goods).

## 6.5.2 Security and Collateral

While many Tongan businesses operate on a cash basis, making the issue of security redundant, others embrace a form of security that draws on both traditional and western characteristics. C6 is one of twenty-five lending and financial advisory services targeting Tongan people in Auckland. The growth of these businesses is a reflection of Tongan people's struggle with day-to-day finance in a western environment. Entering into hire purchase agreements provides an easy means for many Pacific Island people to acquire expensive assets, including cars and household appliances. Utility charges including electricity, gas and water are billed in arrears, and therefore do not present an immediate claim on present income.

The challenge for many Pacific Island people is the payment of these credit transactions from a limited and insufficient future income stream. C6 explains that many of his clients struggle with meeting these contracted obligations and that it is further compounded by ethnic community obligations. He comments:

*Ka kou 'ilo 'oku fu'u lahi 'a e me'a 'oku hoko meihe ngaahi me'a fakafamili pea mo e me'a faka siasi. Ngaahi me'a pehe 'okune take over part of their budget. Ka ko 'eku sio 'a'aku 'oku prefer ange 'a e toko lahi 'ihe 'eku kustoma he fakakakato 'a e me'a fakatokolahi instead of their family (obligations). They would rather do that because 'oku sio mai 'a e kakai (C6:10:27)*

I believe there are too many (financial) commitments arising from the extended family or from the church. These things (financial commitments) take over part of their budget (available funds). But the way that I see it, many of my customers prefer to fulfil their community obligations before that of their family. They would rather do this because the people (community) are watching. (C6:10:27)

He explains that Tongan people place greater importance on ethnic community obligations than those of their immediate household. However, they do not plan for these, resulting in short-term cash shortages. When clients approach him for short-term loans, the form of security that he accepts are *Koloa fakatonga* or traditional fine mats and crafts. An active market for these traditional crafts provides a reliable estimate of their fair value. Loans are granted based on half the estimated value of security accepted. The loans are normally short-term with an inflated interest rate. Credit checks are not done, but default on

repayment allows the lender (security holder) to sell the traditional craft to recover the outstanding debt. In practice the traditional crafts are sold for more than the amount of the debt, with the excess being kept by the lender. Despite the seemingly harsh contract terms, C6 is not short of clients, and the majority of his clients are returning customers. The relationship between lender and borrower is more than an 'arm's length' commercial transaction being between members of a community who are helping each other through difficult periods. From the borrower's perspective, these short term loan facilities provide a service that they are not able to access through mainstream banks and other finance companies.

C6 represents a Tongan response to challenges that have arisen out of the coming together of a people whose way of life is based on community and a focus on the present, with western society based on individualism and the facility for credit transactions. The financial difficulties these Tongan households face are overcome through a loan facility that recognises the type of security that they are able to offer, without the credit screening that would disqualify many of them.

For many Tongan businesses included in this study, the issue of security and collateral is a redundant one, as many operate on a cash basis. However, many small lending organisations servicing Tongan people in New Zealand have managed to overcome the common risk of customers defaulting on their repayments by introducing traditional crafts (*koloa fakatonga*) as a means of lucrative security. For many Tongan people in need of short term finance, *koloa fakatonga* may be the only form of security they can offer. For the lender, they are providing a service (short-term borrowing facility) which many Tongan people would not be able to access through mainstream channels. While the practice of using *koloa fakatonga* as security may be regarded as commercially innovative, it does run the risk of debasing long standing traditions of *fua kavenga* (meeting traditional obligations) by commercially trading items (*koloa fakatonga*) that are normally gifted as part of the *fua kavenga* process.

### **6.5.3 Cash Flow Management**

Maintaining a healthy cash flow position is a challenge facing many small to medium size enterprises (Holtz-Eakin, Joulfaian, & Rosen, 1994). Discussions with Tongan business owners reveal that this is also the case with Tongan businesses. Their present day focus influences the way that Tongan businesses manage cash. C1, C2 and C3 specifically discuss the false sense of security associated with receiving significant amounts of income in single period, but having to spread this over several future periods. They discuss how they feel wealthy and confident during such periods, even though they realise it is income in advance and that it is to last them for several future periods. Tongan businesses in this study display behaviour conducive to both good and poor cash flow management practices. C4 adopts a simple ranking process which includes paying all that he owes for the week, leaving the balance as his disposable income. C5 and C8 manage cash flows using a formal accounting system (MYOB). C5 points out that part of maintaining good relations with staff, suppliers and contractors is through paying them on time. For a number of Tongan businesses, good cash management skills are gained from consulting with business professionals (mainly accountants), mentors and business advisors from the Pacific Business Trust.

Good cash flow management is particularly important for case C6 (financial advisory services and micro-lending). He explains that he gained cash flow management skills through his own research, which he did before he started business. He now offers training and advice to his clients on cash management strategies.

Apart from the difficulty discussed above in relation to managing cash flows, Tongan people prefer to do business in cash transactions. Many Tongan business people (including C2, C5, C4, C5, C7, C8 and C20) express this preference to deal in cash. Cash based businesses are relatively simple to operate, as they negate the need for credit procedures, bad debts and delays in receivables. In addition, some Tongan businesses do not have the working capital required to maintain a debtors' ledger.

Monitoring the financial position and performance of a business is easier if it is cash-based. The balance of the bank account provides a perpetual indicator of the financial position of the business. Financial performance can be measured through the rate at which the bank

balance increases over time. The complexity of financial reporting is reduced to information that can be gained from a single source – the bank statement. In a Tongan church in Auckland, Tongan trustees during a financial presentation expressed a preference to see the bank account balance over the statement of income and expenditure. When they were presented with a balance sheet showing assets and liabilities for the church, they interpreted all the assets of the church as being near cash or cash equivalent. Assets that cannot be converted into cash (as was the case with church buildings and land) were regarded as assets of lower status. This focus on bank account information has positively impacted on the sustainability of many Tongan businesses.

Good cash flow management is important for the survival of all small businesses. For Tongan businesses the need for sound cash flow management is even more pronounced, given the relative shortage of cash and access to finance. Moving away from employment where income is regulated by individual and collective employment contracts, towards self-employment, many Tongan business people find the inflow and outflow of cash irregular and infrequent. Their likelihood of survival in business is partly driven by the pace and manner in which they have been able to embrace good cash flow management practices. With a traditional tendency to act in the present, Tongan businesses are adequately managing cash flows. However, resource demands from family and community have frustrated even the most diligent of entrepreneurs. Given the number of businesses operating on a cash basis, the challenge is more a case of spending discipline.

## *6.6 Recognition and Treatment of Assets*

Fixed assets in the context of Tongan businesses pose a number of issues from an accounting perspective. The *NZ Framework* prescribes specific criteria for the recognition of assets. In particular, an item of property, plant or equipment satisfying controllability, future revenue generating capacity and arising from a past transaction or event is recognised as an asset. Aspects of this definition are consistent with traditional Tongan perceptions, others are not. For example, controllability implies the right to use an item, but not necessarily ownership of it. This is consistent with Tongan culture where the concept of

ownership does not have an equivalent (Campbell, 1992; Clarke, 1994; Crocombe, 2001; Malinowski, 1970; Van Der Grijp, 2004).

The second part of the *NZ Framework* definition, future revenue-generating capacity, helps to establish the asset's value (New Zealand Institute of Chartered Accountants, 2007a NZIAS 16 s33). Here the present-day focus takes the form of an activity-based mentality. An asset is recognised based on its current usefulness and utility, and not on its intrinsic value. The concept of benefits in the future is not taken seriously. An asset may be useful for multiple future periods and generate substantial dollar revenue. This is overshadowed by the present day focus of whether it can be used now and the revenue it will generate in the current period.

The criterion of 'arising from a past transaction or event', is included for the purpose of establishing who has control. This concept is consistent with Tongan culture where societal and family hierarchies and cultural protocols serve to fulfil this purpose.

The three components of Tongan culture discussed in Chapter 2 (Background to Tongan Society) are reflected in management practices regarding fixed assets. Firstly, the fixed assets of the business and those of the owner are treated as being one and the same. This is consistent with a commons approach to resources and the entrenched societal identity mentality they share. Secondly, assets are acquired for reasons of utility and practicality. As a consequence, many Tongan businesses do not replace assets through a process of disposal (by sale) and replacement. Fixed assets are employed until they can no longer be used or are beyond repair. Fixed assets that are near the end of their useful life are often gifted to relatives, rather than being sold for a salvage value (refer section 6.7.1 on Depreciation). Thirdly, the right to use the assets of the business rests with the owner. For this same reason, replacement of fixed assets is the responsibility of the owner rather than of the business (see Figure 7.2.1.2-2 – Tongan View of the Business Process and discussion in sections 6.3.2 and 7.2.1.2).

Tongan businesses have a preference for purchasing fixed assets, as opposed to leasing. Freehold ownership of assets is regarded as a greater status symbol than the right to use an asset. This preference is influenced by Tongan culture, where assets are expected to be handed down from generation to generation. Leased assets cannot be gifted, bequeathed or

used with the same degree of freedom as purchased assets. Although the utilisation of land is similar to that of a financial lease, the right to use is able to be transferred indefinitely from generation to generation. The implication for Tongan business people is that they should regard leasing arrangements as potentially a means of overcoming the problem of not having cash to fund expensive capital purchases and unnecessarily tying up cash resources in fixed assets. Tongan businesses stand to benefit in terms of business sustainability by taking advantage of leasing contracts as a means to secure the use of capital assets and increase their working capital ratio.

Most of the twenty Tongan entrepreneurs in this study demonstrate an ability to separate their personal financial needs from those of the business and to limit their claims on the business' resources by allocating a fixed wage or salary for themselves. However, this discipline is not apparent in their management of business fixed assets. Unsurprisingly, most of the Tongan business owners spoken to, do not have a formal fixed asset management and replacement policy or procedure in place. Processes that are followed appear to be geared towards the calculation of depreciation for tax purposes rather than recognition of the diminishing value of fixed assets. To increase the likelihood of business survival, Tongan business owners need to adopt set policies and procedures for managing fixed assets.

## *6.7 Non-Cash Transactions*

A number of transactions in the course of business do not require or result in a transfer of cash. Examples include depreciation, asset revaluations and adjustments to provisions. These transactions are carried out so as to better reflect the financial performance and position of the business. The adjustment for depreciation has the impact of reducing the reported profit (through increasing expenses) and reducing the book value of the asset. These non-cash transactions are difficult concepts for many Tongan business people to understand. This difficulty is based on Tongan people's tendency to focus on the present. The following sections 6.7.1 and 6.7.2 discuss accounting for depreciation, impairment and provisions in the context of Tongan businesses as illustrations of the difficulty they have with non-cash transactions.



### **6.7.1 Depreciation and Impairment**

Depreciation is defined as the “systematic allocation of the depreciable value of an asset over its useful life” (New Zealand Institute of Chartered Accountants, 2007a ,NZIAS 16 s 6)<sup>xxv</sup> where the depreciable amount is the cost of the asset less its residual value. This definition and associated process is problematic for many Tongan businesses that operate on a present day time frame. The notions of “systematic” and “useful life” imply foresight as to how the asset is to be used in the future. This is difficult for many Tongan people to estimate, as assets are used for both private and business purposes. Many assets are not maintained in accordance with a prescribed maintenance routine and are kept until they can no longer be used or repaired. Residual value for the same reason is set at zero, as old fixed assets are either damaged beyond repair, or if they are no longer required, are often gifted to other members of the family or community. Many Tongan entrepreneurs regard the benefit to the family and community, and their own elevation in social status greater than the salvage value they recover from disposal of the asset. C15 (radio broadcaster) purchased much of its furniture second-hand. When it came time to dispose of these items together, with its old but still functioning computers, the business owners opted to gift these to community organisations rather than to sell them.

Other Tongan businesses see the disposal of a fixed asset as a secondary exercise, given that they have already been paid for. The cost of the asset is treated as a sunk cost, rendering the debate over its usage and disposal academic and redundant. Many Tongan businesses and organisations feel that once an item (such as a fixed asset) has been paid for, the cost should not represent an ongoing expense against future periods. Fixed assets are used for multiple periods where their useful life allows; however, the cost is expensed in the period in which it is paid. The accrual principle of capitalising a fixed asset and depreciating it over its expected useful life is redundant if the asset has already been paid for. C3 (television production) purchased recording equipment on hire purchase (at the start of business) believing that the monthly instalments represented the ongoing cost of using the equipment. By contrast, other items of equipment that were purchased using cash did not have an ongoing cost attached to them. C20 (healthcare services) added back

depreciation when analysing the accounts, as they felt the assets had already been paid for, and that depreciation acted to mask the cash performance of the business.

The concept of impairment and the accounting to recognise it was not known to the Tongan business people in this study. Their practices indicate impairment tests are not carried out and that the financial impact of damaged assets is not reflected in the financial statements.

The stance that Tongan businesses take with regard to depreciation and impairment is not without merit. For many small businesses management of cash flow is a common challenge (Feldman & Klofsten, 2000; Gaskill et al., 1993; Huang & Brown, 1999; Scott & Bruce, 1987; John L Ward, 1997; Yusuf, 1995). Focusing on the cash position of the business provides a sound measure of its ability to pay creditors and equity holders. Some Tongan small businesses adjust for the impact of depreciation on the income statement in order to better gauge its cash performance.

While the views noted above resonate with many Tongan businesses, others have reluctantly adopted the depreciation concept, following the advice of their accountant and the need to comply with tax and accounting regulations. The impact of depreciation and impairment expenses for most Tongan businesses included in this study are small as many do not have a significant asset base. Apart from C5, C8, C15 and C20, all other businesses maintained few fixed assets.

The confusion over the accounting treatment of fixed assets can be explained by the traditional manner Tongan people use resources in a commons environment. Legal ownership is a relatively foreign concept in Tonga. Although families are allocated the right to use resources, these are not traded, but gifted and passed down from generation to generation. Using these resources does not entail a direct cost on the user and therefore is not taken into account. Also, their cultural focus based on the present clouds the need to match revenue and expenditure (matching concept), through allocating depreciation over multiple accounting periods. Depreciation is an anti-commons concept that does not sit well with the Tongan culture. This is because depreciation allocates the cost of an asset to defined periods and specific entities.

The implications associated with the treatment of depreciation and impairment for Tongan businesses compound the complexity of the accounting process, which for many is already

difficult to understand. Never-the-less, Tongan entrepreneurs need to appreciate the purpose of depreciation and impairment, particularly for businesses that have a significant fixed asset base, if they are to increase their likelihood of survival.

### **6.7.2 Provisions**

A provision is defined as “a liability of uncertain timing and amount” (New Zealand Institute of Chartered Accountants, 2007b , NZIAS37 s10)<sup>xxvi</sup>. Provisions are created to recognise obligations that an organisation expects it needs to settle in the future, but is unsure as to the timing and size of the settlement. Popular provisions include the provision for doubtful debts, warranty liabilities and provision for employee benefits (Trotman & Gibbins, 2005). Tongan entrepreneurs find the concept of provisions difficult to understand as it is inconsistent with their present-day mentality. To many Tongans, events unfold according to a divine plan (Campbell, 1992; Crocombe, 2001). Good fortune is the result of past good deeds, while ill fortune is associated with past wrongs. To make provision for an obligation in the future is an acknowledgement of past wrongs and should be addressed only if and when it arises. If an entrepreneur acts in good faith then there should be no need to create a provision. If an event is pending that is likely to result in a cost to the business, and that cost does not have to be settled now, then the pending obligation is ignored.

The process of creating a provision in recognition of a pending obligation is an anti-commons concept in so far as it attempts to identify individual obligations and property rights. The financial impact of creating a provision is an expense in the present period, thereby reducing profit, with the contra being a liability in the balance sheet. The effect is that current profit is reduced in favour of accumulating a reserve aimed at financing the expected obligation. The pending obligation is identified as being the responsibility of the business, as separate from the owner. Tongan businesses see windfall gains and losses associated with the business as being the ultimate reward and responsibility of the owner. As a consequence, business profits should be allowed to fluctuate, rewarding the owner during periods of prosperity and drawing on the personal resources of the owner during periods of difficulty.

Their stance is consistent with the way in which they introduce capital at the start-up of business. For most Tongan business start-ups, mainstream funding channels are not an option and many commence business with a capital structure that is entirely equity-financed. The majority of Tongan business owners in this study did not use accounting for provisions, except depreciation. Creating a provision for doubtful debts is irrelevant for the many businesses that operate on a cash basis. For larger Tongan businesses including C5 (painting and decorating), C8 (automotive repairs), C15 (radio broadcasting) and C20 (healthcare services), the use of provisions is carried out as a matter of compliance and ignored at the operational management level. The accounting adjustments for provisions are carried out by accountants that are contracted to assist with compliance, rather than to advise management regarding the extent of their probable future obligations.

The implication of using provisions in the financial reporting process is similar to that of depreciation and impairment – namely adding to the complexity of a process that is already difficult for many Tongan businesses. Provision accounting represents a departure from the cash-based operating regime many Tongan businesses prefer. Accounting for provisions is inconsistent with the focus that many Tongans share that favours addressing obligations as and when they arise, rather than creating a reserve in anticipation of a future event arising. As Tongan businesses grow and become more complex, the need to more accurately reflect the financial performance and position of the organisation becomes more important. Using provision accounting, for both compliance and for effective management of the business, is likely to contribute positively to its success.

## *6.8 Conclusion*

The NZ Financial Accounting Framework and western commercial environment represents an individualistic and anti-commons paradigm. This is contrary to the three themes that form the basis of Tongan culture and society. These themes, including societal identity, focus on the present (event focus) and relationship building are echoed through the business practices of Tongan entrepreneurs in New Zealand. These practices have both complemented and compromised the likelihood of survival for many Tongan businesses. The various conventions that make up the financial accounting framework are complex

from a commons perspective. The period convention, accrual accounting, comparability and prudence and neutrality are all contrary to the Tongan culture of focusing on the present or the event. The monetary convention, accounting entity, and going concern are all contrary to the overarching culture of relationship-building and social identity.

Tongan businesses struggle with the general purpose of financial reporting and regard the process of preparing and presenting accounting statements as having little value and in some cases being compliance hurdles restricting their freedom to run their business. Similarly, record-keeping and filing tax returns are negatively regarded, since the redistributive role of tax is already captured in the Tongan culture of sharing, competitive gifting and community social capital.

Cash based businesses are common in Tongan business markets and echo the preference for focusing on the present or the event. However, in an environment where credit transactions are both available and commonly used, the management of cash flows represents a challenge for businesses that are unable to accommodate allocating resources across multiple accounting periods and managing the collection of debts from customers who are from the same culture.

Tongan business people regard the acquisition and use of fixed assets differently from that of the financial accounting framework. Assets are treated as a resource at the disposal of the owner. While maintenance and replacement are also regarded as the responsibility of the owner, this view leads to the misuse of company assets, accelerated depreciation and potential non-availability of assets for business activity.

Business sustainability and the survival of Tongan businesses in Zealand is an exercise in compromise and tradeoffs. It is not possible to hold fast to either the western or Tongan approach completely, without jeopardising the ongoing success of the business. Understanding the differences and similarities between Tongan business practices and the commercial environment of accounting and financial markets is likely to guide decision makers towards selecting the best from both worlds.

## CHAPTER 7: Business Finance and Management Accounting Challenges for Tongan Businesses in New Zealand

### 7.1 *Introduction*

This chapter is a follow on from chapter 6 and covers discussion of the management accounting and business finance challenges faced by Tongan businesses in New Zealand. The discussion draws on a series of *talanoa* sessions with Tongan business owners, entrepreneurs and managers. The findings from these *talanoa* sessions are discussed here in the context of management accounting and business finance processes and practices. As with chapter 6, the aim of the chapter is to provide insight into the management accounting and business finance practices of Tongan businesses in New Zealand and to explore the potential impact this has on business sustainability. Section 7.2 covers discussion of the business finances practices and challenges, while section 7.3 include discussions regarding the management accounting practices and challenges for Tongan businesses in New Zealand. For ease of reference in relation to the discussions that follow, table 6.1 from chapter 6, listing the Tongan businesses included in this study, is shown here as Table 7-1 – Summary of Cases.

**Table 7-1 – Summary of Cases**

Case Number	Reference	Approx Number Employees	Initial Business Activity
Case 1	C1	5	Communications & Public Relations
Case 2	C2	5	Recruitment Services
Case 3	C3	4	Television Production
Case 4	C4	10	Paving and road resurfacing
Case 5	C5	20	Painting
Case 6	C6	2	Financial Services and lending specialist
Case 7	C7	1	Immigration Consulting
Case 8	C8	3	Automotive Engineering
Case 9	C9	2	Health Advisory Services
Case 10	C10	2	Screen Printing, mortgage brokerage and textile sportswear manufacturer
Case 11	C11	4	Legal services
Case 12	C12	n/a	Furniture manufacturing and retail
Case 13	C13	3	Agricultural food importer
Case 14	C14	n/a	Freight Services
Case 15	C15	25	Radio Broadcasting and media
Case 16	C16	n/a	Fence and boundary construction
Case 17	C17	4	Travel consultancy
Case 18	C18	1	Manufacture and retail of traditional crafts
Case 19	C19	2	Youth Services
Case 20	C20	20	Health Services Consultant

## 7.2 *Tongan Business Finance Practices and Challenges*

The business finance challenges facing Tongan business in New Zealand are based on access to capital financing and entrepreneurs' motivations for entering business. Section 7.2.1 covers the motivation for Tongan people entering business. The rationale for beginning here is to gain insight into the possible lack of congruence between neoclassical models of rational self-interest and profit maximisation with Tongan society based on a commons approach. In section 7.2.2, challenges associated with access to capital funding

are discussed, while section 7.2.3 covers the challenges for Tongan businesses of diversification, innovation and growth. In each section, the implications for Tongan business sustainability are outlined.

## **7.2.1 Rationale for Business Formations and Return on Investment**

### **7.2.1.1 Motivation and Rationale for Business Formation**

The motivations for starting a business are varied and multiple. Traditionally, profit and wealth maximisation represent the main reasons for starting a business. Maslow (1954) identifies that small business formations follow a hierarchy of motivational needs that range from providing family members with employment at the base of the pyramid to assuring the business' contribution to society at the top. Ward (1997) adds that the motivational needs that form the base of this pyramid hierarchy do not provide businesses with a sustainable and long term commitment to growth and ownership continuity. Kuratko, Hornsby and Naffziger (1997) suggest that family-owned businesses are motivated by security and autonomy in addition to wealth creation. At a national level, Bertram (1993) advises that assistance programmes targeting Pacific Island nations need to acknowledge that conventional notions of western economic development are likely to be inconsistent with those of the Pacific Islands. Despite the wide spectrum of motivations and obstacles to business formations, Barrett, Jones and McEvoy (1996) identify an increase in the number of ethnic minority self-employment in Europe and North America. In New Zealand the same trend is found with Pacific Island people (Ministry of Pacific Island Affairs & Statistics New Zealand, 2002).

For Tongan people starting business, the focus is on being able to provide for the needs of the family and community. Business start-ups and self-employment are traditionally regarded as alternatives to employment. Tongan people in the early 1970s immigrated to New Zealand for reasons of education and employment (Tu'inukuafe, 1996). Securing employment as unskilled labour in the freezing works and orchards became a popular designation for many Pacific Island people, including Tongans. Although poorly paid, this income was able to satisfy the basic needs of the family both in New Zealand and in the Islands. For a society focused on the present, wealth accumulation was not a priority. Much



of the investment they had for the future was in the education of their children and paid employment was a secure means of allowing this to happen. This preference for employment has continued through to the present time, although economic changes and education have encouraged the option of self-employment by starting a business. A report by the Ministry of Pacific Island Affairs and Statistics New Zealand on the progress of Pacific people writes:

Pacific people today are more likely to run their own businesses than in the past. This may be partly a reflection of broader economic changes that have encouraged self employment and partly a result of social mobility within the Pacific population associated with increasing skill levels and changing aspirations and attitudes. However, there are still relatively few Pacific people who are self employed and even fewer who employ others. (2002, p. 77)

The existence of social welfare benefits, including that for the unemployed, met the basic needs of many Pacific island families, but removed the motivation to seek work. However, continuing increases in the cost of living and the downturn in the New Zealand economy in the early 1980s and late 1990s forced many Pacific Island people into self-employment. With the help of education and assistance programmes introduced by the government, more Tongan people are starting their own business.

Table 7-2 – Summary of motivations for starting business, provides a summary of the main motivations for starting a business for the twenty businesses included in this study. The most predominant of the motivations is providing for the family. In a number of instances, this was prompted by dissatisfaction with a previous employer, redundancy or retirement. Three businesses (including C7, C8 and C12) arose from situations where the business owners identified that they would earn more money by starting their own business, when compared with remaining in paid employment. In four cases (C2, C14, C16 and C20), one of the primary motivations for starting a business is to employ family members or co-ethnic workers. In each case, however, the primary or secondary reason for starting a business is to provide for the family. In Tongan society the notion of providing for the family includes providing for the immediate and extended family of the owner, plus those of the community. This finding is consistent with that found in the extant literature for family owned businesses (L. M. Dyer & Ross, 2000; Hutchinson, 1995; Kuratko et al., 1997; John

L Ward, 1997) and the self-employed (Barrett et al., 1996). A number of Tongan businesses (including C1, C2, C9, C15, C19 and C20) are significantly reliant on government funding. In particular, C2, C15, C19 and C20 are businesses set up in response to government-funded initiatives. While these government funding initiatives provide an opportunity for new business formations, they are not necessarily a long term source of revenue (Bates & Williams, 1996). C2 describes a situation where the business was outperforming the government funder's expectations to such an extent that the government began providing the service themselves. As a result the owner of C2 has been forced to diversify into other areas of business, including TV production, marketing and promotion.

Owners of mature Tongan businesses (including C4, C5 and C13), each with a business history of more than 25 years, see their business not only as a source of employment, but also as a family treasure to be passed down from generation to generation. Although motivated by employment in the first instance, this shift in focus appears to have occurred as the business matured. Ward (1997) regards this latter set of motivations for running a business as being consistent with businesses that are more successful and sustainable.

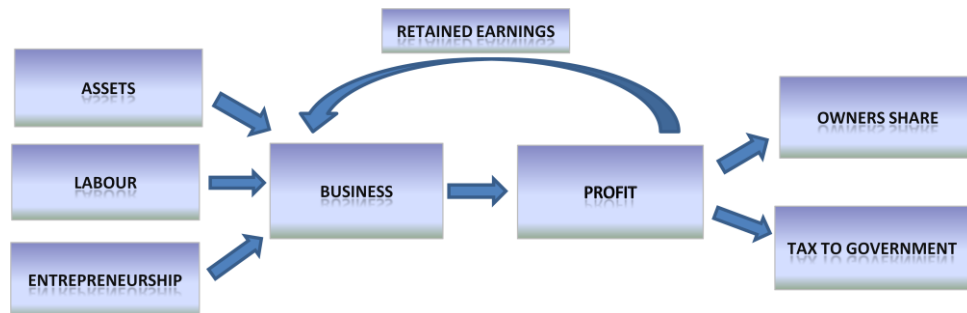
The motivations for starting a business found in this present study have a number of implications for business sustainability. Firstly, Tongan businesses that are created and used primarily as a means of employment and sources of income for the family are less likely to survive in the long term, as these motivations are unlikely to be sustainable (John L Ward, 1997). Such firms are less likely to be driven by profit and return on investment and therefore unlikely to plan for growth (Bertrand & Schoar, 2006; Morck & Yeung, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001). Secondly, firms that are motivated by a business opportunity gap will have a tendency to survive in the long term as they are more likely to identify and take advantage of future opportunities as and when they arise (Miller et al., 2008; Perricone, Earle, & Taplin, 2001). Lastly, government-funded initiatives, while being beneficial at the beginning, are prone to changes in funding priorities, thereby potentially jeopardising the sustainability of businesses set up under such initiatives.

**Table 7-2 – Summary of motivations for starting business**

Case Number	Reference	Initial Business Activity	Motivation for starting business
Case 1	C1	Communications & Public Relations	Provide for family Business Opportunity Gap
Case 2	C2	Recruitment Services	Business Opportunity Gap (Govt Contract) Provide for family Employ family members
Case 3	C3	Television Production	Business Opportunity Gap (PI TV) Provide for family
Case 4	C4	Paving and road resurfacing	Provide for family
Case 5	C5	Painting	Provide for family Dissatisfaction with previous employer or redundancy
Case 6	C6	Financial Services and lending specialist	Provide for family
Case 7	C7	Immigration Consulting	Provide for family Business opportunity Gap (Can earn more in private practice )
Case 8	C8	Automotive Engineering	Provide for family Business opportunity Gap (Can earn more in own practice )
Case 9	C9	Health Advisory Services	Provide for family Dissatisfaction with prev. employer or redundancy Business Opportunity Gap (Government funded initiative)
Case 10	C10	Screen Printing, mortgage brokerage and textile sportswear manufacturer	Provide for family Business Opportunity Gap
Case 11	C11	Legal services	Provide for family
Case 12	C12	Furniture manufacturing and retail	Provide for family Business Opportunity Gap (Can earn more in own business)
Case 13	C13	Agricultural food importer	Provide for family
Case 14	C14	Freight Services	Provide for family Employ family members
Case 15	C15	Radio Broadcasting and media	Social service (Radio) to Pacific Island community Response to government funded initiative
Case 16	C16	Fence and boundary construction	Provide for family Employ family members and co-ethnic workers
Case 17	C17	Travel consultancy	Provide for family Business Opportunity Gap
Case 18	C18	Manufacture and retail of traditional crafts	Provide for family
Case 19	C19	Youth Services	Provide for family, Provide services to ethnic community. Business Opportunity Gap (Government funded)
Case 20	C20	Health Services Consultant	Provide services to ethnic community Employment for co-ethnic workers Business Opportunity Gap (Government funded)

### 7.2.1.2 Return on Investment

The concept of return on investment implies profit performance and wealth accumulation, both of which are irrelevant in a Tongan context. Figure 7.2.1.2-1 – Western View of the Business Process [Based on cash flows between firms and financial markets (Ross, Westerfield, & Jordan, 2000, p. 16 figure 1.2)] shows the traditional western model of business. Assets, labour and entrepreneurship are introduced by the owner (assuming 100% equity finance, as is the case with many small businesses) into a business reporting entity. The business then generates a profit which is shared three ways between the owner, government and business (through retained earnings). Since the business retains for itself a share of the profit, it is regarded as an entity showing both activity (performance) and status (balance sheet). The model assumes the entity concept (refer chapter 6 section 6.3.2) and that the goal is one of profit maximisation. The arrows in the following figure 7.2.1.2-1 are indicative of cash flows and should not be taken to infer causation.



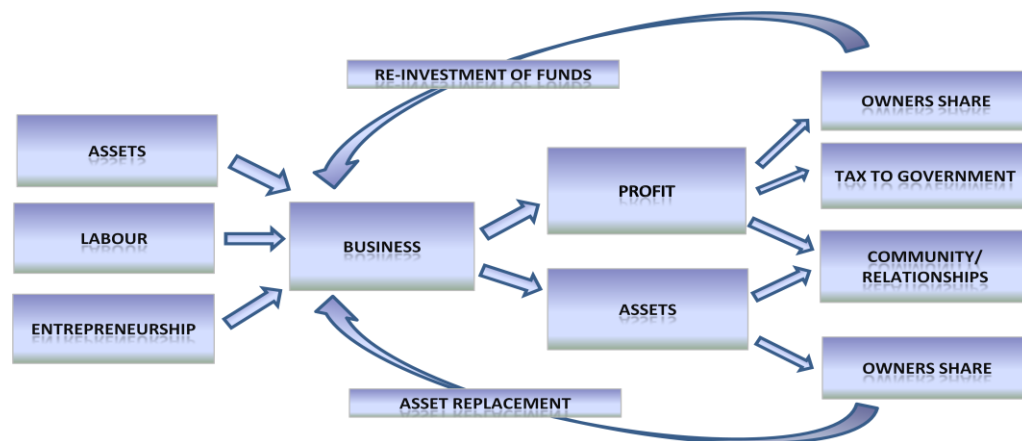
**Figure 7.2.1.2-1 – Western View of the Business Process** [Based on cash flows between firms and financial markets (Ross, Westerfield, & Jordan, 2000, p. 16 figure 1.2)]

Based on the business experiences of the organisations included in this study, the Tongan concept of a business, embracing the three themes of Tongan culture (included in Chapter 2) is shown in Figure 7.2.1.2-2 – Tongan View of the Business Process below. Two basic differences can be seen here in comparison to the western business process in Figure 7.2.1.2-2 – Tongan View of the Business Process. The first difference is that the assets of the business are available for use by the owner and potentially his or her community. Secondly, the owner is directly responsible for the replacement of these assets as and when required (refer Chapter 6 section 6.6). C1, C2, C3, C7, C12 and C13 each recollect introducing personal assets into the firm including computers and motor vehicles. However,

they continued to use these assets for personal reasons and also felt it was their responsibility to maintain and replace them. C1 and C2 transferred assets into the company's name so that they were able to recognise the cost of depreciation for tax purposes and expenses including petrol, and to take advantage of the refund through GST. The ongoing care and responsibility for the assets, however, remained with the owner and not the business entity.

The second difference is in the way profits are re-invested in the business. In the Tongan business model all profits after tax are at the disposal of the owner. As with fixed assets, the owner is directly responsible for re-investing funds in the business. As discussed in Chapter 6 section 6.3.2, the tendency for many Tongan businesses not to separate the owner from the business removes the discipline of re-investing in the business through maintaining an adequate level of retained earnings. Business Consultant BC1 comments that since Pacific Island entrepreneurs view total profit as their share of the return on investment, they overlook the need to re-invest in the business. She points out that "PI (Pacific Island) businesses need to understand that you can't just give money away (to family and community) and that the business has financial demands which are just as urgent, if not more so" (BC1:27:55). The tendency not to re-invest in the organisation is likely to reduce the rate of growth and likelihood of sustainability of the business. A number of the more sustainable Tongan businesses included in this study (C5, C8 and C9) indicate that they are aware of the importance of re-investing in the business and that this has resulted in the growth and strength of their business. Other cases, (including C15 and C20), maintain a charitable status and are therefore obliged to re-invest any surpluses back into the organisation. In both cases this has resulted in sustainability.

As many Tongan entrepreneurs are also employees of their business, their view regarding return on investment is wider-reaching. For many Tongan businesses, the financial return they receive from the business is only a fraction of the total benefit. Other rewards include use of fixed assets, flexibility in working hours, employment of relatives and friends and social status. While these are difficult to quantify, they nevertheless make up the complete picture of return.



**Figure 7.2.1.2-2 – Tongan View of the Business Process**

The view that many Tongan entrepreneurs share regarding return on investment has a number of implications for the sustainability of their business. Their commons-based attitude to asset management leads to situations where the asset's useful life is shortened and there is greater uncertainty as to when and how it will be replaced. While some Tongan businesses recognise the tax advantages of transferring assets to the firm, the management of records to differentiate private use from that of the business creates an additional compliance hurdle. Tongan firms that follow a re-investment strategy generally have higher growth rates and a stronger asset base than those that do not. However, the majority of businesses included in this study demonstrate behaviour consistent with the owners not being separated from the business, and show that the financial demands of the business compete equally with the personal demands and obligations of the owner. For Tongan businesses, this commons attitude to profit represents a threat to their ongoing growth sustainability.

The broad view adopted by Tongan entrepreneurs regarding return makes it difficult to gauge with conventional ratios of return on investment (ROI) and return on equity (ROE). As a result these calculations are either not done or they are ignored. Thus Tongan entrepreneurs continue in business because of the non-monetary benefits, such as the employment of family members and co-ethnic workers, although the firm is no longer financially sustainable.

### **7.2.2 Access to Capital and Capital Structure**

A common cause of small business failure is undercapitalisation (Chandler & Hanks, 1998; Feldman & Klofsten, 2000; Kotey, 1999; Yusuf, 1995). Undercapitalisation renders the business more vulnerable to changes in market conditions. Adverse changes in the market cannot be absorbed by small business, as funds are limited (Holtz-Eakin et al., 1994) and access to additional borrowing is normally unavailable (Frederick & Chittock, 2006; Hailey, 1989; Small Business Advisory Group, 2004). In addition, lack of collateral, credit history and track record continue to restrict the sources of capital for small businesses to personal savings and non-commercial assistance from family and friends (Holmes, Dunstan, & Dwyer, 1994; Wall, 2007).

For ethnic minority businesses, access to funding is even more restricted. Bates (1991) found that small businesses owned and operated by African Americans were undercapitalised and received smaller loans, compared with small businesses in general. Bates notes that their relatively higher failure rate is driven by the smaller loans they receive. Similar studies in the United States (Cavalluzzo, Cavalluzzo, & Wolken, 2002) and UK (Smallbone et al., 2003) support the thesis that ethnic minority businesses have higher rates of loan denial, compared with the general population.

#### **7.2.2.1 Access Issues for Tongan Businesses in New Zealand**

In New Zealand the access to funding challenges faced by small businesses echoes that of small businesses around the world (Small Business Advisory Group, 2004). For Pacific people in business the challenges are more complicated (Frederick & Chittock, 2006; Ministry of Pacific Island Affairs & Statistics New Zealand, 2002). Each case involved in this study discusses the difficulty they experienced in securing finance to begin their business. In all cases, the capital required in the first two years (at least) of operations was entirely equity financed. A number explained that they needed to borrow or enter into debt contracts at a personal level in order to acquire equipment for running the business. Many claimed financial assistance and support from family and friends during the early periods of their operations (Kotey, 1999; Wall, 2007). C2 (recruitment services) explains that the

contribution that the family makes towards starting the business is sometime difficult to quantify as it takes many forms. He says:

*Koe kamata ko e (company name) koe seniti pe koe na'ate ma'u (C2, 1:01:47)*

Starting (company name) was based on the money that you personally had.

He then went on to explain that their family car was transferred to the business and that he had some difficulty explaining to his wife and family that the car was now the property of the business. C5 (painting and decorating) explains the difficulty in trying to start a business with no money and having to ask for family assistance. He says:

*Koe ngaue na'e kamata faingata'a... 'ikai ke iai ha seniti ke kamata 'aki ... nau kamata pe mo e hoa... mei 'api. Koe 'uluaki ta'u e ua koe taimi faingata'a. 'Ikai foki ke tali ha taha ia kete 'alu 'o no mai ha ki'i seniti. Koe me'a na'e fai koe 'alu pe kihe ongo matu'a ke ma'u mai ha ki'i seniti. (C5, 3:23)*

The start of the business was very difficult...there was no money to start it with...I started with my wife from home. The first two years were the most difficult. Nobody accepted your applications for a loan. The only option left was to go to our parents and ask for money.

The limited access that many Tongan businesses have to debt financing during the early years of their operations limits their growth rate. In addition, the relatively narrow reserve base they have leaves them vulnerable to adverse fluctuations in the market. Bates (1991) suggests undercapitalisation leaves small companies more vulnerable to failure and that this is more apparent in relation to ethnic minority businesses, which receive smaller loans by comparison. Since small businesses are often not able to access debt financing, the cost of capital is comparatively higher. Companies that are able to access debt financing pay a higher rate of interest because of their relatively high rate of failure (Bates, 1991; Cavalluzzo et al., 2002). The high cost of capital faced by small companies is an additional hurdle contributing to their high failure rate. Tongan businesses in this study share the same capital access issues faced by minority ethnic businesses overseas. Compared with companies included in overseas studies, Tongan businesses in New Zealand are small. It is therefore likely that access issues for Tongan businesses in New Zealand are even more



restricted than the current literature for small ethnic minority businesses suggests. As indicated by many businesses included in this study (including C1, C3, C5, C6, C7 and C8) access to debt finance through mainstream sources including banks was not merely limited, but non-existent. Although some debt financing was possible through the Pacific Business Trust, the debt servicing costs were high and the size of the loans relatively small.

#### **7.2.2.2 Cost of Capital for Tongan Businesses and Attitudes to Borrowing**

In relation to finance theories of capital structure, Tongan businesses follow a pecking order (Myers, 1984). Entrepreneurs who are aware of their business strength and access to funding channels will choose those financing options that are easier to access and less costly. Tongan businesses included in this study chose those financing alternatives that are relatively easy to access and do not involve complex application processes. Coupled with a lack of financing alternatives, the least costly option is not always the one chosen. Business consultant BC2 explains that Tongan businesses applying for debt finance are turned off by the application process, and in some cases ignore the business plan that accompanied their application once they have secured the borrowed funds. This is also consistent with findings from small businesses in Australia (Cassar & Holmes, 2003) and the United Kingdom (Howorth, 2001; Michaelas, Chittenden, & Poutziouris, 1999). Tongan businesses that are reluctant to embrace the compliance requirements associated with borrowing capital are less likely to access debt finance and thereby leave their businesses more vulnerable to failure through undercapitalisation. The attraction for many Tongan businesses of less onerous application processes for debt finance, contributes to the vulnerability of the business. According to C6, the same preference is found with Tongan families in need of finance.

Some Tongan businesses explained their reluctance to borrow, even when they were able to access external funding. Maintaining control of their business through not being burdened by external debt commitments is a strong factor influencing capital structure decisions (Haugh & McKee, 2004; Hutchinson, 1995; Michaelas et al., 1999; Vos, Jia-Yuh Yeh, Carter, & Tagg, 2007). C3 (television production) discusses her reluctance to borrow, “because of the compliance costs associated with such borrowing”. Others express the

freedom they enjoy to run their business as they wish. This sense of entrepreneurial freedom is important for Tongan people, who are not accustomed to an overly prescriptive anti-commons environment. Kotey (1999) supports this negative relationship between entrepreneurship and external debt finance, suggesting a loss in entrepreneurial drive is characteristic of highly geared businesses. A number of Tongan businesses (including C1, C3, C5 and C8) reflect that their businesses are strong today because of the difficulties they faced at the start. They add that the experience gained during periods of financial shortage and other business challenges makes them more prepared for the future. Where Tongan firms are able to reduce their financial risk by borrowing less, without compromising the continuity of the business, they increase their likelihood of survival in the future.

Many Tongan people, particularly the older generation of entrepreneurs, are inherently reluctant to borrow funds because they regard their business as a family treasure that should be passed from one generation to the next (refer section 7.2.1.1). Family treasures, including land and buildings are traditionally freehold to avoid outside influence and control. This same belief is found in relation to church assets, including land and buildings. Discussions with Tongan church leaders reveal that church land and buildings in New Zealand and overseas are freehold and that banks are prepared to lend money to church groups because of their history of settling long term debt early. The experiences of three Tongan businesses (C4, C5 and C13) echo this reluctance to use debt finance, preferring to maintain a status of being debt free.

### **7.2.2.3 Government assistance programmes**

In response to the financing challenges faced by minority ethnic groups, government programmes in New Zealand and abroad have been implemented. These programmes identify that there are particular minority ethnic groups that struggle with adopting a western commercial mindset. These programmes have been successful (Chrisman & McMullan, 2002; Craig et al., 2007), but need further refining. Bates and Williams (1996) suggest for instance that government preferential procurement programmes targeting minority businesses in the United States created an environment of overdependence and inability to diversify. In New Zealand the Pacific Island Business Development Trust was

established in 1989 to increase employment for Pacific Island people and encourage new business start-ups. This was achieved through providing free business training and assistance with developing business plans. Financial assistance was made through business loans that were granted to Pacific businesses that would otherwise not be able to secure such financing through mainstream channels.

The Pacific Business Trust has continued to the present time and is responsible for the setting up and strengthening of many Pacific Island businesses, including a number of the Tongan businesses included in this study. Despite the extensive work that the trust has carried out to date, it is in need of further research to guide its ongoing role in the future. Oc and Tiesdell (1999) write:

Hence, lessons for business support agencies serving ethnic minority groups are: first, the need to be demonstrably sensitive to ethnic minority business needs, problems and opportunities; secondly, the need to be sufficiently aware of the diversity of ethnic minority businesses in order to provide appropriate and targeted business support and, thirdly, the need to have credibility in the eyes of ethnic minority businesses.(pp. 1744-1745)

Government funded assistance programmes are a valuable source of capital and business advice for Tongan businesses in New Zealand. C1, C2, C3, C5 and C8 confirm the valuable contribution that the Pacific Business Trust has made to their business. However, business consultants BC2 and BC3 note that some Pacific business clients found the training difficult and the application process for funding onerous. In addition, many Pacific businesses did not want to keep in contact with the Trust (PBT) once they had received their loan. This highlights the need for such programmes to appreciate the entrenched cultural background of these clients, so as to establish a long-term relationship that will increase the likelihood of their businesses being sustainable. Some Tongan businesses, as many of the more successful of them have demonstrated, do take advantage of the assistance programmes available and proactively use these to help make their businesses sustainable.

#### **7.2.2.4 Summary – Access to Capital and Capital Structure**

Access to debt financing by small to medium size enterprises is generally limited. For Tongan businesses in New Zealand, access to debt financing is even more restricted because of their relatively small size and reluctance to undertake complex and onerous application processes. Consequently, Tongan business owners rely heavily on equity finance in the form of monetary and non-monetary contributions made by the owner and his or her family and friends. The limited access to external finance reduces the rate of growth for Tongan businesses and leaves them vulnerable.

Many Tongan businesses face relatively high debt servicing because of their risk profile. Their high cost of capital and debt servicing increases the business's likelihood of defaulting on loan agreements and thereby compromising the sustainability of the firm.

Some Tongan businesses are reluctant to borrow, because they are put off by the compliance requirements and because they do not want to lose control of the business. Some Tongan business owners indicate that they found it difficult at the beginning, but are stronger now because of the experience they have gained during the early years in business. The aim of maintaining control of the business is important for many small firms and particularly for family-owned businesses. Many Tongan business people also believe that the firm is a family treasure to be maintained and passed onto future generations. The impact that this has on capital structure is that the owner may not take advantage of the benefits associated with debt finance, including the reduction in the overall cost of capital.

Government assistance programmes are of benefit to Tongan businesses, but require a greater understanding by those implementing such programmes of the cultural nuances of Tongan entrepreneurs. Tongan businesses need to engage more enthusiastically with such programmes.

### **7.2.3 Diversification, Innovation and Growth**

Diversification occurs either in anticipation of or reaction to changes in the market. Diversification is discussed here in relation to broadening of the firm's customer base and/or line of business. In any business environment, the sustainability and survival of a

business is made possible through diversification and the innovative management of its entrepreneurs. However, diversification for small businesses is a two-edged sword. Robson Gallagher and Daly (1993) based on UK data write:

Diversification strategy is only useful for those small firms which have first built a strong foundation in their primary line of business. Otherwise, it will endanger a firm's survival prospects and be a hindrance to future growth.(p. 53)

Tongan businesses respond well to changes in the market. These responses are generally reactive rather than proactive. Losing a customer simply means that you have to get another. Similarly, when a product is no longer in demand, another is found to take its place. However, this reactive attitude to market fluctuations is not always effective. C2 describes the over-reliance his business has on government funding, but that to date he has not had the opportunity to explore other revenue channels. He is resigned to the fact that “Tongan people tend to learn the hard way”, suggesting that Tongan businesses grow and learn from experience (negative and positive) rather than through forward planning and risk management. While many of the Tongan businesses in the study identified with the importance of diversification, few did anything about it until they were forced to (C2, C3, C5, C6, C9 and C15).

Diversification as a strategy for business growth has had mixed results for the twenty businesses included in this study. Of the twenty cases in this study, only three (C4 (paving and road resurfacing), C15 (radio broadcasting) and C18 (manufacture and retail of traditional crafts)) have not diversified either through their product line or customer base. C7 (immigration services), C8 (automotive repairs) C11 (legal services) and C17 (travel consultancy) focus on their original product line, but have diversified by maintaining a broad customer base. C9 (health advisory), C19 (youth services) and C20 (health services) are all bound by government contracts. While C9 and C19 maintain a single product line, C20 has diversified by holding multiple government contracts for a variety of health services. With C14 and C16, the issue of diversification was not discussed or subsequently explored. C10 (screen printing, mortgage brokerage and sportswear) technically did not diversify, but indicated during the *talanoa* session that they had considered this before starting business and this was the reason why they now had three product lines operating.

Since the commencement of this study C10 has discontinued operations. Compliance challenges, together with a lack of business planning, are suggested as possible reasons for failure. It is possible that greater planning may have revealed that having three product lines was too much for the limited human resources of this family business.

The remaining seven cases have all diversified with varying degrees of success. C12, a manufacturer and retailer of wooden furniture, diversified into agriculture. The entrepreneur's lack of knowledge in agriculture ultimately led to the closure of the entire business. In the other six cases, diversification appears to be assisting the growth and sustainability of the business. Table 7-3 - Diversification of businesses since commencement below is a summary of the diversification that has occurred since commencing business.

Diversification is often motivated by the desire for the business to grow. C2 operated a service based on a government contract. To grow the business and move away from being over reliant on government funding, he discusses the need to diversify. Managing this growth is important for the survival prospects of the business. C2's owner comments that:

“One of the threats that we face at the moment is having a one source income. (In these situation) They (the government) actually control you. You got no control of them or of the situation. But we address this through diversification” (C2:1:16:59)

**Table 7-3 - Diversification of businesses since commencement**

Case Number	Initial Business Activity	Diversification Activity(ies)
Case C1	Communications & Public Relations	Graphic Design, translations & Publications
Case C2	Recruitment Services	TV Productions, marketing and promotion and communications
Case C3	Television Production	Journalism and news media
Case C4	Paving and road resurfacing	Did not diversify
Case C5	Painting	Redecorating, interior design, scaffolding and property investment
Case C6	Financial Services and lending specialist	Magazine publishing
Case C7	Immigration Consulting	Did not diversify but targets an ethnically diversified cliental
Case C8	Automotive Engineering	Did not diversify but maintains a diversified customer base
Case C9	Health Advisory Services	Did not diversify. (Bound by government contract)
Case C10	Screen Printing, mortgage brokerage and textile sportswear manufacturer	Did not diversify further as business already diversified at outset (Business discontinued)
Case C11	Legal Services	Did not diversify but maintains a diversified customer base
Case C12	Furniture Manufacturing and Retail	Farming (Agricultural) (business discontinued)
Case C13	Agricultural Food importer	Currently operating other businesses in Tonga
Case C14	Freight Services	Not discussed
Case C15	Radio Broadcasting and media	Did not diversify (business taken over)
Case C16	Fence and Boundary Construction	Not discussed (business discontinued)
Case C17	Travel Consultancy	Did not diversify but maintains a diversified customer base
Case C18	Manufacture & Retail of traditional crafts	Did not diversify
Case C19	Youth Services	Did not diversify (based on government contract)
Case C20	Healthcare provider	Diversified through multiple government health contracts and non-Tongan customers/patients (Based on government contract)

### 7.2.3.1 Innovation in Tongan Businesses

A number of Tongan businesses, to their advantage, were able to pre-empt future market conditions and diversify early. C1 makes the point of how he kept ahead of the competition by establishing a creative board to scrutinise and develop ideas for new products and services. The owner foresees that “there will be competition”, although there is none at the moment. He comments that “my biggest fear is that our work will become too predictable” (C1:32.44).

C7 deliberately uses a non-Tongan company name so as to attract a diversified customer base (not just Tongans). C10 started business with three separate divisions in recognition of the fluctuation in sales associated with each one.

The owner of C5, a painting company with 25 years' experience, discusses his steady but sure approach to business growth. Mindful of the risks associated with diversification and growth, he hired a consultant in 2004 to identify growth opportunities for his business, admitting that he did not have the skill or objectivity for the exercise.

*“Koe last two years nau ‘alu ‘o haea mai ‘a e QS. Koe tama ke ha’u ‘o ngaue heni. He’s finding jobs for us every day”*

*“In the last two years I went and hired a (QS) Quantity Surveyor. He’s a guy that comes and works here. His job is to find the company new work” (C5:15.35).*

Since starting business in 1981, C5 has diversified into a number of business lines including interior decorating and design, property and scaffolding. He comments;

*“But there’s another thing too. A lot of people doesn’t know that we doing other things. They only look at us. They only thought that we only doing painting. But we actually doing other things...We buy and sell property...and I also set up another company...a scaffolding company” (C5:17.31).*

### **7.2.3.2 Other influences of growth**

In a number of Tongan businesses (including C4, C6, C7, C8 and C11), growth is influenced by factors other than innovation and diversification. C4 states that he was never driven by wanting to be the biggest or best in the industry, but by wanting to maintain a steady income for his family. The lending activities of C6 grew in response to the increase in demand for his financial services and as the lendable pool of funds increased. He now admits that the size of the loans that they are able to provide is restricted only by the amount of security borrowers are able to offer.



*“Ka koe ‘ahoni ‘oku ‘ikai ke ‘iai ha limiti ia ‘o e mahu’inga koe ‘oku fiema’u he kakai. Koe ha pe ‘a e lahi taha, kohono ivi koe ‘okune ma’u aki a e koloa tene ma’u ia ‘a e seniti ‘okune fiema’u.”*

“As for today there is no limit to the value of the loans that customers want. Whatever the amount is, those that have a lot of personal *koloa* (traditional crafts including fine mats and tapas which is used as security on the loan) are able to get the money (loan) they want” (C6:5:49).

With C7, growth is limited by the limited time that she has to service clients. C8, an automotive engineering business has experienced significant growth in the last five years it has been in business. The owner currently employs two engineers (in addition to himself) to assist with the workload. However, he is wary of the risks associated with growing too quickly, and adopts a very conservative approach to expansion. He says that while he has an opportunity and potential to be a significant company in the automotive industry in South Auckland, he prefers a life balanced between work and family.

“But I have to say that I got the opportunity to be (a large player in the Manukau automotive repair industry). It’s like this. I don’t want to be married to my job. I’m a family man. I want to spend as much time with my family as well. I’ve been offered twice ..money’s not everything. To me money is not everything. For me money is just a tool... I’d rather have a happy life. Earn a reasonable income but I certainly do not want to be married to my job” (C8:27:50).

### **7.2.3.3 Summary – Diversification Innovation and Growth**

Diversification, innovation and growth are important aspects of the long term sustainability of small to medium size enterprises. As discussed above diversification is important as a means of reducing overall business risk through offering a range of products or services. For Tongan businesses this is particularly true in highly competitive industries such as the graphic design, public relations and communications industry in the case of C1. Strategic planning and innovation are important to ensure firms are responsive to changes in the market and technology. Other Tongan businesses (including C7, C11 and C20), recognise the importance of a diversified customer and while originally targeting co-ethnic clients now service a wide range of non-Tongan clients.

Tongan businesses that encourage and demonstrate innovation in their business practice (including C1, C2, C3, C5 and C7) benefit from doing so. These businesses manage innovation through their business planning process so that new ideas are scrutinised before being implemented. While innovation and diversity are generally worthwhile strategies for small businesses, C10 and C12 demonstrate that they can potentially lead to business failure if not managed through a planning process.

Many of the smaller Tongan businesses in this study (including C4, C6, C9, C18, and C19) did not diversify their services, as business activity is limited by the human resource capacity within the firm. These businesses continue to be vulnerable as they tend to be over reliant on a single income stream and on the owner as the driver of that income. These smaller businesses are not unlike the early operations of case C5 and they can increase their likelihood of survival through expansion and diversification.

Growth for some Tongan businesses (including C4, C6, C7, C8 and C11) is influenced by resource constraints and non-monetary drivers, including spending time with family. Tongan businesses in this study share the motivation of starting a business with the goal of providing for their family and community. As a result, growth strategies are influenced by the personal preference of the owners and their families. While a balance between personal and business life is important for business sustainability, maintaining a business at the micro-enterprise level with a narrow product and service offering leaves them vulnerable to failure.

### *7.3 Tongan Management Accounting Practices and Challenges*

Management accounting practices in small businesses are regarded as complex and difficult for many entrepreneurs, without the assistance of external professionals (Bracker, Keats, & Pearson, 1988; Marriot & Marriot, 2000). McMahon and Holmes (1991), following a review of the literature on management accounting practices in North America found “the most widely-used instrument of managerial planning and control is budgeting” (p. 25). While budgets are commonly used in large businesses the same is not found in small firms. Costing practices are tied to providing customers with a price or quotation, but the majority

of businesses do not use full costing, and cost volume profit analysis is not done before making changes to price. They conclude:

Almost half of the businesses made no use at all of full cost calculations in pricing, largely because of difficulties in accurately measuring full cost. Some firms in this group followed suppliers' recommendations; others looked to competitors' prices and/or experimented with prices. While a few businesses undertook cost-volume profit studies before changing prices, there was little evidence that small firms priced to achieve a target rate of return. (McMahon & Holmes, 1991, p. 25).

Budgeting and costing practices are discussed below in relation to Tongan businesses in New Zealand.

### **7.3.1 Budgeting**

A major part of the business planning process is the preparation of operational and capital budgets. The process is ongoing and reflects the perpetual cycle of planning, implementation and review that occurs in many businesses in the west. An inevitable part of the budgeting process is to engage in costing expenses and estimating revenue in the forthcoming periods.

For many Tongan businesses, preparing a budget as part of a business plan is often their first encounter with the complexity and rigor of the accounting discipline. Each of the business advisors involved in the present study describes the difficulty that Pacific Island entrepreneurs have with preparing business plans and financial budgets. Business consultant BC1 says that many of her clients perceive that the planning and budgeting process “is really huge, but it is important that you point out to them that it is really simple and need not be complicated” (BC1, 20:50). She advises her clients that the budget and annual plan is “your business bible” but does admit that some find it “too hard to do a formal budget” (BC1, 21:34). Business consultant BC2 emphasises the importance of budgets as part of the planning process. He says:

“It is very important that such businesses initially sit down and think through the things that need to be done and to document this. An important part of this process is the preparation of a budget. This does not

have to be detailed but should incorporate all those issues that can be identified and measured or estimated at the beginning” (BC2, 8:40).

Some Tongan businesses are encouraged by government assistance programmes (such as that carried out by the Pacific Business Trust) that provide financial assistance following the completion of a business plan. However the benefits of having an operational budget to work with are sometimes not realised. C8 (automotive repairs) attributes the success of his business to good business discipline and planning. He suggests that “a common problem with Tongan businesses is financial mismanagement. They do not budget or see that there is a limit to the resources available to them” (C8, 24:45). He explains that in his own business, he uses MYOB<sup>xxvii</sup> (an accounting software package) and analyses the performance of the business in terms of budget variance and trend analysis. C8 discusses his use of budgets as follows.

**Researcher:** You obviously keep a budget.

**C8:** I have high expectations. Very high expectations

**Researcher:** So you sit down at the beginning of the year and set forecasts...and then you follow these?

**C8:** Yes I can compare this month to (the same time during) the last two, three four years...there’s always a time of the year that’s a little bit slow and then it’s up but if you budget right and you spend your money right, you have a good night’s sleep....I think planning is the most important thing, you gotta budget so you know exactly what you can afford and what you cannot...yes and we do review them (budget) from time to time. (C8:26:19)

Tongan entrepreneurs (as with other Pacific Island entrepreneurs) often did not appreciate the benefits of planning until well into the running of their business. C5 (painting and redecorating) has been operating for more than 25 years. The volume of work together with the need to give quotations and to tender for jobs has highlighted the importance of budgeting and record keeping. C3 describes the budget process as an exercise carried out with the assistance of an external accountant.

**Researcher:** But does the accountant provide you with what you need to know to run the business?

**C3:** Yes they do. And if we decide to buy something expensive we consult then first. They give us a budget to use every month. And if we...

**Researcher:** Who sets the budget though?

**C3:** We set the budget together with our accountant (C3:21.43).

C3, C8 and C5 are in the minority however, and the remainder of Tongan businesses in this study either did not use functional budgets, or did so to a lesser extent compared with C3, C8 and C5.

C3, C5 and C8 are the only Tongan businesses in the study that proactively use functional budgets to monitor, control, and plan their businesses. C1 (communications and public relations), C2 (recruitment services) and C4 (paving and road resurfacing) are able to accurately cost jobs, including a competitive profit margin, but did not discuss to what extent they were using budgets to manage their business. C7 (immigration consultant) through her accountant and business mentors is able to use develop and implement a business plan, but did not discuss the use of ongoing budgets. C7 comments that her use of budgets was only at the beginning, when she was setting up the business.

I went to an accountant who was a dear friend of mine...*pea ma'u koe 'a e 'u fakakaukau koia pea ha'u leva 'a e* I want to move and set this business up...that's the plan that I had plus the advice given to me by these people (advisers and business mentors).

I went to an accountant who was a dear friend of mine (who advised her of how to start her business)... and when I received these ideas, it came to me that I want to move and set this business up.. that's the plan that I had plus the advice given to me by these people (business advisers and mentors). (C7: 6:14)

In relation to the ongoing management of her business, she explains that her focus is on cash management and ensuring that expenses and taxes are paid on time, rather than following an annual budget process.

Setting a financial plan (budget) for the future is contrary to the Tongan present day focus. Budgets represent commitments and outcomes that have not occurred and are therefore not real. The monitoring function of a budget is seen as unnecessary as variances are for periods that have already occurred and therefore corrective action is considered redundant.

The controlling function of budgets echoes an anti-commons mentality that is inconsistent with Tongan peoples' sense of community sharing and identity. Most of the Tongan businesses included in this study do not appear to use budgets beyond the timeframe of the original start-up business plan. With the exception of C5 and C8, Tongan businesses manage their financial performance against informal personal expectations and not period-based budgets. Financial budgets do not capture the non-monetary benefits, including providing employment to family members or co-ethnic workers, and detract from the overriding purpose for which many Tongans entrepreneurs started business – namely to provide for their family. However, Tongan businesses stand to benefit from employing an ongoing budgeting process, as this is likely to provide a clearer picture of the sustainability of their business.

### **7.3.2 Costing**

Costing is an important part of any small business to ensure that each job, project or contract provides the business with positive net income (Marriot & Marriot, 2000; McMahon & Holmes, 1991). However, as discussed in chapter 6 (refer section 6.2.2) many Tongan businesses focus their attention on revenue activity and volume, often without regard to the costs associated with generating that revenue. Business consultant BC2 explains that many Pacific Island business entrepreneurs, including Tongan, fail to consider the cost of executing their business plan and as a result fail.

One of the pitfalls is that they (Pacific Island businesses) do not plan before they go into business. In particular they do not plan how they will conduct their business activities. Although they start with an idea, they go straight into the implementation without careful thought as to how they should execute their idea and how best to do it (BC2: 3:35).

Business consultant BC1 explains that some Pacific Island businesses (including Tongans) focus on revenue and ignore the importance of costs. BC1 suggests that many overlook including the cost of their time as part of the cost of their product or service.

They would often look at the revenue and not factor in the expenses or the costs. One type of cost that they find difficult to factor in is the labour cost. In particular many do not factor in the time that it took to make a

particular item, because it was their own time and was not considered a compulsory cost of their business” (BC1:5:25)

The use of costing techniques across the twenty firms included in this study suggests a limited use of management accounting processes to manage their business. A summary of the costing practices of the Tongan businesses included in this study is shown below in Table 7-4 - Summary of Costing Practices. Costing appeared to be carried out for three main purposes. As part of the initial development of a business plan, most used costing to create their initial budget. In many cases this would have been done with some reluctance, since Pacific Island businesses generally regard planning as onerous and superfluous (based on comments from the three business consultants). The second main use of costing is during tendering for new contracts, as budgeted costs normally feature as part of the information required. This use of costing is found in cases C1, C2, C9, C19 and C20, where contracts are based on government initiatives, following a prescribed tendering process. The third main use of costing is in regard to providing customers with price quotations. The majority of Tongan businesses use a cost plus approach to pricing. C1 is the only business that uses market price rather than cost plus. The three main reasons for using costing all have the objective of increasing revenue. For most Tongan businesses, costing is not used to manage profitability at the individual activity level.

Full costing is found to be used in the initial set-up phase and when tendering for new contracts. The use of full costs at the job or activity level is not common (with the exception of C5) and Tongan businesses tend to ignore allocating overheads and other fixed costs to each activity. Marginal costing using labour hours and direct materials is used to approximate price, but cost-volume-profit analysis is not used at all.

The costing practices of many Tongan businesses are associated with the nature and complexity of their businesses. C6, C7, C17 and C18 do not use costing on an ongoing basis, as the products and services they provide and deliver are narrowly based and relatively standardised. C4 uses an informal costing approach based on his many years experience in the industry. C5, a company offering a range of services including interior decorating, painting, real estate and scaffolding hire, use a formal documented approach to costing and is the only one of the Tongan businesses in this study to use full costing.

The Tongan word or phrase that most closely translates the meaning of cost or expense is *faka mole*. The strict translation of *faka mole* is 'of loss' or 'impacting loss'. The same word is used to convey notions of waste as in the expressions *faka mole taimi* or waste of time. The connection between revenue and cost is not as direct in the Tongan context as it is in western commercial markets. The focus of many Tongan businesses is revenue generation with less attention to cost and operational capacity. Merz, Weber and Laetz (1994) states that, out of the four categories of entrepreneurs, including focused, unfocused, survivor and adventurous entrepreneurs, the survivor category was associated with the greatest growth in sales and profit, although with greater volatility. They characterise the survivor category's performance as follows;

In spite of their dismal sounding name, the survivor entrepreneurs reported the highest profit level of the four sales change patterns studied, yielding average profit levels of 6.6 percent of sales. Their organization strategy could best be described as "minimalist," showing the least of virtually every management style element measured other than specialization of job tasks, which was average. They conducted the least amount of planning activities, in terms of market scanning and futures forecasting, of any sales change pattern. They were highly centralized in their decision making. Their organization structure was least formal, with little collaboration and low levels of cost control. The survivor entrepreneurs operated in environments possessing little diversity (low heterogeneity) and were the least proactive and innovative of any sales change type. (Merz et al., 1994, p. 57)

While many Tongan businesses included in this study echo the managerial characteristics of 'survivor entrepreneurs', the potential to fail is mitigated by the non-complex nature of their business and the relatively small size of their operations. As they continue to grow, sustainability will require a great deal more attention to costing at the job activity level, as demonstrated by the 25 year story of C5.



**Table 7-4 - Summary of Costing Practices**

Case Number	Initial Business Activity	Costing Practices
Case C1	Communications & Public Relations	Estimated the cost of each project prior to entering into a contract. The cost of each assignment was driven by the estimated amount of labour time assigned to each job.
Case C2	Recruitment Services	Did not employ a formal costing approach to each job or contract and indicated difficulty in absorbing overhead costs with some government contracts
Case C3	Television Production	Did not employ a formal costing approach and based cost estimates on the labour component assigned to each job. Jobs were accepted based on available capacity rather than financial return.
Case C4	Paving and road resurfacing	Did not employ a formal costing approach but the years of experience that the owner had in the business enabled him to make accurate estimates as to the cost of each job taking into account both materials and labour cost.
Case C5	Painting	Used a formal costing process for each contract or job including both direct and overhead costs
Case C6	Financial Services and loans specialist	Did not use costing
Case C7	Immigration Consulting	Did not use costing
Case C8	Automotive Engineering	Estimated the cost to each job as part of providing a quotation to clients
Case C9	Health Advisory Services	Only used costing during the tendering process but otherwise does not employ costing
Case C10	Screen Printing, mortgage brokerage and textile sportswear manufacturer	Estimate costs for some jobs but do not consistently do this for all goods and services provided.
Case C11	Legal Services	Not discussed
Case C12	Furniture Manufacturing and Retail	Not discussed
Case C13	Agricultural Food importer	Do not use a formal costing approach although experience in the industry provided an accurate means of informally estimating the net income associated with each job
Case C14	Freight Services	Not discussed
Case C15	Radio Broadcasting and media	Used costing as part of proving quotations to customers.
Case C16	Fence and Boundary Construction	Used costing as part of providing quotations to customers
Case C17	Travel Consultancy	Do not use costing
Case C18	Manufacture & Retail of traditional crafts	Do not use costing
Case C19	Youth Services	Only used costing during the tendering process for each contract.
Case C20	Healthcare provider	Do not use costing unless tendering for a health service contract

#### 7.4 *Conclusion*

The business finance and management accounting practices of Tongan businesses contribute both positively and negatively to the long term sustainability of their businesses. From a business finance perspective, the concept of return on investment is outweighed by social motivations of providing for the family and community and providing employment for family members and co-ethnic workers. While these motivations are a strong driver of new businesses, they are regarded as short term and unlikely to support strategies that encourage growth and sustainability (Ward 1997 reference).

Many Tongan entrepreneurs share a wider notion of return that takes into account non-monetary factors including employment of family members, social status of the owner and fulfilment of obligations to the community. However, Tongan entrepreneurs increase their likelihood of survival by incorporating into their strategic plan the importance of financial sustainability since providing ongoing support to the family and community can only occur if the business is financially viable.

While the majority of Tongan businesses begin with business goals, including employment and financially supporting the family, other goals, including building a family asset to be passed down from generation to generation, emerge as the business matures. These new goals are consistent with long-term business sustainability and long-term growth. Tongan businesses that are able to shift from the present day focused goals of employment to the social identity goals of maintaining and building a family treasure, increase their likelihood of survival.

Government assistance programmes provide opportunities for Tongan entrepreneurs to start business. These assistance programmes and government contracts are temporary in nature and likely to change with shifts in government priorities. Tongan businesses that take advantage of government assistance programmes or contract initiatives need to consider alternative financing and revenue channels in order to be sustainable in the long term.

Tongan businesses reduce their operational risk through diversification. Growth through innovation and diversification is also important to ensure business sustainability. Diversification initiatives that are reactive (rather than planned) are potential causes of business failure. Growth for many Tongan businesses is influenced by other factors,

including personal commitments, resource constraints and security or collateral arrangements with customers. These are all important considerations and need to be managed through a process of planning review, to ensure that they do not compromise the sustainability of the business.

The management accounting practices of Tongan businesses are based on budgeting and costing. Budgeting is widely used as part of the process for creating the initial business plan. However, few businesses continue this practice through to the use of ongoing functional budgets. As with budgeting, costing is used as part of developing the initial business plan. Ongoing use of costing is limited and used as part of providing customers with price quotations. Full costing is rarely used. Tongan businesses stand to benefit, in terms of business sustainability, from greater use of management accounting practices, including functional budgets, cost volume profit analysis and full costing approaches.

## CHAPTER 8: Business Related Challenges for Tongan Businesses

### 8.1 *Introduction*

This chapter includes discussion of the business related challenges faced by Tongan businesses in New Zealand. The findings from the *talanoa* sessions with Tongan business owners and operators reveal a number of issues impacting on the sustainability of these businesses. The businesses related challenges discussed here are a follow on from the accounting challenges discussed in chapter 6.

The issues discussed here include governance and organisational structure, marketing and advertising, human resource management and information and communications technology.

### 8.2 *Governance, General Management and Organisational Structure*

Corporate organisational structures are characterised by a clear division between owners or shareholders and the management of the company. They are also characterised by an elected or appointed board of directors that provides the strategic leadership and governance to the organisation. Management typically comprises a chief executive who is delegated the authority to employ the remainder of the staff and ensure that the strategic initiatives set by the board of directors are achieved. This structure provides a number of key advantages for businesses, both small and large. The main advantage is the independent professional input provided by directors who are external to the firm (Johannisson & Huse, 2000; Vilaseca, 2002).

The organisational structure of many of Tongan businesses included in this study resembles that of a sole trader or partnership arrangement. The owner takes on the role of entrepreneur and manager of the firm. This is inevitable for many small businesses where there are insufficient staff members to cover all the roles that you would otherwise find in a corporate arrangement. However, the involvement of external directors even in the case of very small firms contributes favourably to the performance and survival of the firm

(Chrisman & McMullan, 2004; W. G. Dyer, Jr, 2006; Fulop, 2000; Johannisson & Huse, 2000; Ray, 1999; Vilaseca, 2002).

### **8.2.1 Governance Structures and External Input**

General management has been identified as one of the key challenges faced by small businesses (Deshpande & Golhar, 1994; Gaskill et al., 1993; Hornsby & Kuratko, 1990; Huang & Brown, 1999). Huang and Brown (1999) suggest that this is expected as “ the lack of managerial experience typifies small businesses, given that many start-ups are driven by people enthused about a business opportunity which they identify, yet they often lack the managerial or business experience” (p. 78). Small businesses that seek and use professional external advice, particularly during the planning phase of the business, increase their likelihood of survival (Aghion & Tirole, 1997; Chrisman & McMullan, 2004; Gaskill et al., 1993; Johannisson & Huse, 2000; Perry, 2001; Ray, 1999; Vilaseca, 2002).

The management challenges facing small businesses in general are shared by Tongan businesses in New Zealand. C5, C6 and C8 represent businesses set up based on the owner’s personal skill-set or experience in a particular trade. Although these businesses did not adopt a formal governance structure, governance input was in the form of external advice during the planning and early implementation phase.

A number of businesses adopt formal governance structures in response to mandated governance models required by the funding organisation, while others adopt it voluntarily. C1, C15 and C20 represent organisations who receive a significant part of their revenue from government agencies. As such, a formal governance model by way of a trust or board of directors is adopted to provide evidence of financial and operational accountability. C2, C3, and C17 represent examples of businesses that have voluntarily set up governance structures, including independent external directors. The benefits for Tongan businesses in adopting a formal governance structure include structural credibility and business accountability to funders and customers, professional independence advice on strategic issues and an external source of innovative ideas.

C3 describes the role of the board of directors as important for the sustainability of the business.

We meet once a month with our directors just to double check how we are going, and one of our board of directors, he's a lawyer. So we consult him with all our legal side of the media, so ..keep us on track...We are very lucky to have them (directors) (C3:23.44).

C1 describes that they have two boards to assist in the strategic matters and another for creative issues.

“Again that was part of the original set up. An accountant was appointed. We have accounting programmes with the latest computers...But I have also a board (of directors) that sits outside (the operations). A board for business matters and a board for creative.. And they strategise long term. Very informal at the moment but it was one of the things that need to be set up and happening” (C1:32.39).

Tongan businesses included in this study that take advantage of external advice through having formal governance structures or informal advice from professionals are stronger financially and more responsive to changes in the market. Two firms (C10 and C12) included in this study that did not seek external professional advice have ceased trading since the commencement of this study. While other factors may have contributed to the closure of these businesses, lack of external advice, particularly on strategic issues (according to business consultant BC3) was a contributing factor.

The agency cost associated with corporate governance structures can be expensive for small organisations and it is difficult to secure willing professional directors to advise and provide ongoing support to small businesses. Dyer (2006) writes “family firms have a limited pool of potential recruits. The family may not be able to supply the firm with enough talented employees to manage the key operations” (p. 262). Huang and Brown (1999) suggest that this is particularly true in the area of general and strategic management. C1, C2, C3, C15, C17, and C20 are the only businesses involved in the study that have a formal governance board including independent external directors or trustees. The owner of C3 discusses the difficulty she faced in recruiting professional directors and that had it not been for her networks in the Church, she would not have been able to secure directors of such high calibre. She acknowledges the weakness she has in general and strategic

management, and is grateful for the guidance provided to her by the board. The owners of the majority of other businesses that do not have a formal governance board indicate that they are not able to afford one, and hence rely on family members and casual professional assistance from friends. C7, for instance, does not have a formal board, but maintains close ties with a number of former work colleagues as professional mentors. Small Tongan businesses (including C8, C5, C12, C14 and C18) that are not able to afford the cost of an independent professional governance board have used the expertise of business consultants from the Pacific Business Trust. However, the casual nature of this relationship has not always been successful as in the case of C18, where the consultant's (B2) advice was not followed and this led to the demise of the company.

A formal governance structure that necessarily separates owners from managers is a model foreign to Tongan traditional society. Tongan business owners tend to regard their business as more than a financial asset and means of income as an extension of their family network and a signal of their social status. As such, the owner is regarded as the most powerful person in the business. This chief-like attitude frustrates the formal adoption of governance, where the board of directors potentially sets the strategic direction for the CEO (who in many cases is the owner). Despite the benefits afforded by external independence input, Tongan businesses experience difficulty in securing such directors for a number of reasons. These reasons include affordability and unwillingness by directors to take on a role, given that the ultimate control continues to rest with the owner who (for embedded cultural reasons) is unlikely to share this control. Furthermore, the risk associated with such directorships is accentuated by non-business influences such as traditional gifting and maintaining the owner's social status, which impact negatively on the performance of the business. BC2 discusses an example of a Tongan business that eventually collapsed as a result of mismanagement of the business in favour of preserving the owner's social status. The example describes a Tongan business owner who repeatedly withdrew funds from the business to meet personal social obligations without regard to the financial viability of the business.

### **8.2.2 Business Planning**

Business planning is an important step in building a business and keeping it successful and sustainable (Danes et al., 2008; Feldman & Klofsten, 2000; Gaskill et al., 1993; Perry, 2001). Chrisman and McMullan (2004) suggest outside assistance and planning are important during the set-up of a business and lead to greater likelihood of survival. Rauch, Frese and Sonnentag (2000) go further, to suggest that business planning is not only important, but needs to incorporate the cultural context in order for it to be successful. This section includes discussion of the role and impact of business planning and to what extent this has been adopted by the Tongan businesses. Despite the initial reluctance by many Tongan businesses to engage in business planning, they later admit its value in making their business sustainable.

C1 (communications and public relations), C2 (recruitment services), C7 (immigration consulting) and C8 (automotive repairs) focused on the goal setting aspect of business planning and that running the business is not a case of “knee-jerk” management. The owner of C3 stresses that having a vision and laying down a plan are inseparable, and that one cannot happen without the other. The owner of C4 (paving and resurfacing), one of the oldest of the Tongan businesses in the study, admits that he did not engage in business planning, but was able to survive through the hands-on experience that he had gained as a long time employee in the trade. C6 (financial services and personal loans) and C7 (immigration consulting) both spent a significant amount of time researching and planning before commencing business. They discussed their research into their respective markets and the approach they each made to government departments and other business professionals before they started.

A number of the Tongan business operating in New Zealand were (and continue to be assisted by the Pacific Business Trust). Business advisors working for the trust discussed the difficulty they had in trying to convince Tongan entrepreneurs that they needed a business plan. BC2 describes a common situation where some Tongan businesses progress quickly to the stage of applying for finance before thinking about how the business will operate. He says “you can always tell when you first talk to the clients that they first go for the money, rather than having the appropriate mechanisms in place to ensure sustainability” (BC2, 7:51). Some Tongan businesses could not appreciate the value in the exercise and



would reluctantly participate in order to qualify for the trust's financial assistance programme. BC2 recalls cases where some applicants abandoned their business plan shortly after receiving the loan, often resulting in the failure of their business. He says "lack of planning, forward thinking and strategic thinking before the operations are actually put together is the single biggest cause of business failure for Pacific Island businesses, including those from Tonga" (BC2, 9:50)

Many of the more successful businesses under the trust's assistance programme quickly recognised the benefits of having a business plan and adopted it as a valuable business tool and not a compliance chore. C8 (automotive repairs), a client of the Pacific Business Trust programme is one example of this.

Other Tongan businesses including C2 (recruitment services), C9 (health advisory services), C15 (radio broadcasting), C19 (youth services) and C20 (healthcare provider) operate services funded directly by the government. In these cases, business planning is an integral part of the registration of interest and tender process.

Tongan culture is not aligned to the philosophy of business planning as its focus is not the present. Tongan business owners who are reluctant to engage in business planning find that their businesses are characterised with slow growth, inefficiency and business failure. While studies overseas confirm this relationship between business planning and survival, Tongan cultural attitudes set in the present provide an additional obstacle for business success among Tongan businesses in New Zealand. Assistance programmes established by the government and others will need to take this into account. As with the comparative study of Ireland, West Germany, East Germany and Wales by Rauch et al (2000), the success of such assistance programmes depends on its sensitivity to the cultural context in which it takes place.

### **8.2.3 Succession Planning**

Succession planning refers to those initiatives that secure the ongoing operations of the business beyond the time that the current owner or management is involved. Since the majority of Tongan businesses are family owned and operated, succession planning is

essential to the continuity of the business. The concept of succession planning is readily accepted by Tongans as it mimics traditional Tongan inheritance protocols. However, two aspects of Tongan culture are seen here working in opposite directions. The first extends from the societal mentality prominent in Tongan culture, while the second is the present day focus that they share. Keeping up social status influences Tongan behaviour. Working hard to maintain the ongoing survival of the business is important to preserve the social status of the family and to have an asset to pass onto the next generation (refer section 6.3.3). C7 (immigration consulting) explains her ongoing encouragement of her children to continue the business when she retires, despite their reluctance. She says:

I talk to them.. I try to insert this to them for a number of years but to be honest with you James none of them, none of them like this kind of business...but I don't stop there I keep nagging them... but they don't know how lucky they are (C7,33:09).

C4 (paving and road resurfacing) and C13 (agricultural importer and exporter) represent the two oldest Tongan businesses included in this study. In both cases the children grew up working for the family business and acquiring the skill and experience required to ensure its continuity. By the time that control needed to be handed over, the new management team was experienced and skilled in the trade. Since the commencement of this study, both these Tongan business pioneers have passed away leaving a thriving business to their family and community. The manager of C15 (radio broadcasting) describes the difficulty of running a business in a competitive radio market in Auckland. In order to continue operating a merger with another Pacific Island organisation was completed in 2007. Although this was not a family business, the view that the service was a community asset to be shared in common made its survival important to the entire Pacific Island community. During the announcement of the merger, emphasis was placed on the fact that although the legal ownership would change, the Pacific Island community was able to secure its continuity for the benefit of all Pacific Islanders.

Tongan peoples' focus on the present has resulted in a number of them delaying the implementation of initiatives that will secure the smooth transition of the business to the next of kin. Their relaxed attitude to succession planning is understandable. Succession planning in the traditional sense is dealt with through traditional protocols. The heir to the

family property (including the family business) has the responsibility of managing it in the future. There is little need for a will or testament, as traditional protocols set out how the transition should take place. In a western commercial framework such as that in New Zealand, Tongan business owners do not appear to appreciate that the transition will not happen smoothly unless they proactively put the appropriate mechanisms in place.

The practice of many Tongan businesses in this study lacks formal succession planning, placing an overreliance on the skills and knowledge of the current or founding owner. This is consistent with the findings of Feltham et al (2005) where Canadian families were found to rely unduly on a single decision-maker. While many of the businesses are financially strong, they are nevertheless vulnerable to changes in management or ownership. Unlike passing on land, handing on a business to the next generation requires that this generation has business skills, vision and a willingness to work, in order for the business to continue into the future.

Tongan businesses acknowledge the need to engage in succession planning. Motivated by the cultural need to preserve the family identity in the context of the community, they work hard to maintain the continued existence of the business. However, they demonstrate a casual attitude to ensuring that smooth transition of ownership and management takes place. Their reliance on traditional protocols and customs in a western commercial framework is misplaced and attention to formal succession planning is needed to preserve the continuity of Tongan businesses if they are to continue to contribute to the prosperity of Tongan people in New Zealand.

#### **8.2.4 Role of the Family**

Most of the Tongan businesses included in this study are family businesses owned by the husband and wife (and in some cases including the children). The literature on family businesses suggests that they are characterised by limited resources, both financial and skills, potential conflicts of interest and an unwillingness to include external management (Carter & Van Auken, 2006; Deshpande & Golhar, 1994; W. G. Dyer, Jnr, 2006; Gaskill et al., 1993; Kellermanns, 2005; King, Solomon, & Fernald Jr, 2001; Kuratko et al., 1997; Perricone et al., 2001). While many of the findings in relation to family firms agree with

findings about the businesses included in this research, consideration is also made of the fact that they are ethnically characterised. Chaganti and Greene (2002) go further to suggest that such businesses should be regarded not on their ethnicity alone, but by the degree of involvement they have in the community. For Tongan businesses embedded community involvement is a characteristic of their Tongan ethnicity (Tu'inukuafe, 1996).

The family unit is a central part of Tongan society and has an influence and role in the growth and management of Tongan businesses. A family with a business background, for instance, serves as an incubator for entrepreneurship. Bates and McGuckin (1990) write “coming from a background of family self-employment has been linked to the development of entrepreneurial values within an individual, as well as increasing one’s familiarity with small business milieu” (pp. 753-754). Perricone et al (2001) writes:

Keeping the firm within the family and asserting the primacy of ethnicity in hiring practices enhances institutional memory and preserves identity within the community infrastructure. The commercial benefits of the latter are paramount for such firms’ continuity, and a strong institutional memory can both aid performance routines and reinforce organizational commitment (p. 116).

C4 and C13 are examples of successful businesses characterised by long standing family involvement spanning multiple generations.

The desire to maintain control of the business impacts on the decision to involve outside directors (Rajeswararao Chaganti, DeCarlos, & Deeds, 1995; W. G. Dyer, Jr, 2006; Haugh & McKee, 2004; Johannisson & Huse, 2000; Kuratko et al., 1997; Miller et al., 2008; Perricone et al., 2001; John L Ward, 1997) and external financing (Hutchinson, 1995). A number of businesses (including C1, C2, C5, C8 and C10) acknowledge the benefit of external advisors, but do not want to compromise the control they have in the business. Tongan business owners see their business as more than an investment as an extension of their family assets which therefore should be maintained to pass onto future generations. They are reluctant to compromise the control they have in the business resulting from external governance, outside partners or debt covenants. Business consultant BC3 explains that a number of Tongan businesses, he had worked with, secured loans to start their business, but then failed to keep to the business plan. Many felt that they were the ones in

control since it was their business, and that they should be given the freedom to run their business as they felt appropriate. Other businesses (including C1, C2, C4, C4, C5 C8 C10 C14 and C19) are co-owned by a husband and wife partnership. A number of these felt that they should be the ones in control as they are the risk takers, and it is their reputation and resources that are at risk. As a further consequence of this attitude of taking ultimate responsibility, Tongan businesses that are family-owned do not regard outside assistance during periods of financial difficulty as an option. The demise of a family firm is regarded as tainting the family reputation and therefore happens without community attention and open discussion.

The attitude that Tongan business owners have in relation to maintaining control is consistent with that held by owners of many family businesses. The cost of maintaining control for these Tongan businesses has been a compromise with external professional advice, innovation, collaborative networks and awareness of strategic opportunities.

On the positive side, family businesses, including many of those included in this research, share a competitive advantage over their larger and non-family owned counterparts. Dyer (W. G. Dyer, Jnr, 2006) suggest that “agency theory has often been used to argue that family firm governance is more efficient than that of nonfamily enterprises”(p. 259). He adds that;

Families may have some unique advantages in developing social capital between the family and firm stakeholders (e.g., customers, suppliers, employees), given that they typically have the ability to cultivate and nurture long-standing relationships across generations, and firm stakeholders may be more likely to develop personal attachments to a family that owns and operates a business, rather than to an amorphous, impersonal firm (p. 262).

Miller et al (2008) add to this view, suggesting that family-owned businesses (FOB) show a greater devotion to ensuring the success of the business because of its inseparable link to the reputation of the family. They write:

FOB owners are said to care deeply about the long-term prospects of the business, in large part because their family's fortune, reputation and future are at stake. Their stewardship is said to be manifested by unusual devotion to the continuity of the company, by more assiduous nurturing

of a community of employees, and by seeking out closer connections with customers to sustain the business (p. 51).

The Tongan businesses included in this study share a strong commitment to the success of their business and link that to their own personal and family success. While this passion is a positive driving force, maintaining focus is important for the continuity of the business (Perricone et al., 2001; John L Ward, 1997). Ward (1997) writes;

The “best practice” that is most important to long-term family business growth is the process of holding family meetings to define family purpose and mission, family values, and the motivations and rationale for continued business ownership. If good consensus emerges, the path to long-term business growth is quite secure. (p. 335)

Maintaining focus and ensuring that the family is united is absent in a number of the Tongan businesses involved in the study. The result in some cases has been detrimental to the performance and ultimate survival of the business. The owner of C7 notes that her children are not interested in continuing the business, despite the advantages of it already being a going concern. C1 and C5 are both successful firms with significant turnover. Despite this, they both run the risk of not being continued by family members in the future. The present-day focus, in this instance, does not work in their favour. Succession planning and strategic planning within the family are both essential to maintain control of the business and to ensure that it is sustainable.

### **8.2.5 Governance and Organisational Structure Summary**

The organisational structure of Tongan businesses included in this study is similar to that of many small businesses in their early stages of growth. Many are partnerships with ownership being shared by the founding family. A significant number are husband and wife businesses with no external representation at the governance level. Although some are incorporated, the ownership and control remain vested within the founder’s family. External representation and input at the governance level (particularly during the planning stages) is generally regarded as beneficial to the business. However, securing appropriate individuals to fulfil this function is difficult and expensive.

While the organisational structure is typically flat, with the governance and management function being carried out by the owner(s), this is both inevitable and to some extent appropriate given the size of many of the firms and the early stage of growth that many of them are at. Maintaining control of the business through ownership and operational management is a key motivation found in many of the Tongan businesses included in the study. This results in the deliberate exclusion of input from non-family members and other external professionals from the planning process that may have contributed positively to the sustainability of the business. Unity of vision and passion to succeed, which is found to be stronger among family members connected with the business, is regarded as impacting positively on business sustainability.

### *8.3 Marketing and Advertising*

Sales and marketing have been identified in the small business literature as one of the major challenges facing small businesses (Carter & Van Auken, 2006; Cooper, Upton, & Seaman, 2005; Davis, Hills, & LaForge, 1985; Huang & Brown, 1999; Weinstein, Nicholls, & Seaton, 1992). Huang and Brown (1999) go further to suggest that “sales and marketing issues were found to be the most dominant problems encountered by small business operators” (p. 77). Despite the significance of the problem for small business operators relatively few studies have addressed the issue. Davis et al (1985) acknowledge the constraints regarding marketing research for small businesses but maintain that the importance of these small businesses to the economy is deserving of greater attention from marketing experts. For Pacific Island businesses there is even less research and what there is draws on that carried out in the area of ethnic minority businesses (Bates & Williams, 1996; Radha Chaganti & Greene, 2002; L. M. Dyer & Ross, 2000; Frederick & Chittock, 2006) and family businesses in general (Bates & McGuckin, 1990; Cooper et al., 2005; Miller et al., 2008; John L Ward, 1997).

Most of the Tongan businesses included in this study did not employ a formal marketing strategy. C1, a communications and public relations company, and C15, a radio broadcasting station, are the exceptions. In each case marketing of the company is essential, given the competitive industry in which it operates and that the skills to market the

company are within the company. As with the general literature on small business marketing, most Tongan businesses are not able to afford expensive marketing and promotion campaigns. C2, C9, C19 and C20 are all based on government contracts and as such do not engage in marketing and sales promotion. With C2, C9 and C20, the choice not to engage in marketing has increased the risk of business failure, through not identifying and diversifying into alternative market opportunities.

### **8.3.1 Customer base, co-ethnic and others**

C3, C4, C5, C6, C7, C8 C14 C16 and C17 initially relied on marketing by word of mouth and then through ethnic radio advertising. This form of advertising is inexpensive, but effective given their capacity constraints and the close-knit nature of the community. Many of these businesses are either targeting a predominantly Tongan customer base or began with a Tongan customer base, with a view to expanding to other ethnicities as the businesses became more established. L.M. Dyer and Ross (2000) suggest that ethnic minority businesses are more likely to have a customer base that is co-ethnic, because of the coincident roles of managers and clients, existing social networks and easy flow of information. However, Dyer and Ross (2000) caution that although this is advantageous at the beginning it may lead to situations where growth is compromised. They write:

On the other hand, the ethnic form may be a symbol of entrapment and rejection. It may signify to clients and owners alike that they are “stuck” doing business activities with one another because other people won’t do business with them. An important part of the ethnic enclave theory is the impact of discrimination from those outside the ethnic group. Dependence on co-ethnic customers and positioning the enterprise as one that is purely ethnic may actually stunt the firm’s growth, as the co-ethnic market is small relative to the broader market (L. M. Dyer & Ross, 2000, p. 59).

C7 is one such business that is reliant on Tongan clients. However, the owner deliberately chose to register the company using a non-Tongan name to signal that the service provided is not exclusively for Tongans. C8 is an automotive engineering company and struggled initially with securing enough customers. The owner did not engage in a formal marketing campaign and relied on clients from his previous employer. This made for a difficult start, but once he had secured a number of corporate clients (car dealerships) the business was



able to break even and become sustainable. A similar experience is shared by case C5, who after twenty five years in business has diversified his business and employs and contracts with major corporate clients. Despite the slow beginnings, both of these cases no longer rely on a co-ethnic customer base and their businesses are characteristically more sustainable.

C6 is another business that targets Tongan clients. The organisation of the firm is based on traditional valuations of crafts and would be difficult to operate with a non-Tongan customer base. The size of the business is limited by the number of clients that this husband and wife team are able to service. They indicate they have no ambition to grow it beyond this level and are satisfied with the current earnings. This is an example of a business that does not need to engage in mainstream marketing and for which continual growth is not a motive.

### **8.3.2 Customer Retention, Innovation and Growth**

Perricone et al (2001) outlines that the “key to successful transfer is the presence of trust and the utilization of social capital as well as the ability of successive generations to acquire skills that enable them to identify new market niches” (p. 105). Although they make reference here to ownership focus being transferred from generation to generation, the ability for a single generation to identify new market niches is equally important. Robson, Gallagher and Daly (1993) suggest “diversification strategy is only useful for those small firms which have first built a strong foundation in their primary line of business. Otherwise, it will endanger a firm’s survival prospects and be a hindrance to future growth” (p. 53). C10 and C12 are examples of businesses that began well and were able to secure a reasonable customer base, both Tongan and non-Tongan. However, both businesses diversified into other lines of business without exploring the extensive marketing required to make these new business lines successful. Since the commencement of this research, both of these businesses have ceased trading, largely because of ill-planned diversification initiatives. Business consultant BC3 suggests that in the case of C12, the company was performing successfully, but then decided to expand into farming without knowledge of the industry and how business should be done.

Despite the seemingly casual marketing attempts made by the Tongan businesses in this study, all echoed the importance of image and reputation. This focus is not only good for business sustainability, but is consistent with the Tongan ethnic characteristic of relationship building. As discussed earlier, Tongan business owners regard their business as an extension of themselves, their family and community. Preserving this image through their business transactions serves to benefit the business, plus their personal and collective social standing.

Each of the businesses in this study demonstrates a strong focus on customer service. Cooper et al (2005) in their comparison between the customer relations management (CRM) practices of family companies and non-family companies found that they employ different tactics. In particular, non-family firms employ tactics that are more sophisticated, involving “high levels of investment” (p. 252), while family firms “are more like to use more traditional, less risky versions of CRM” (p. 252). However, they conclude that there is no indication that one is more or less effective than the other. Niehm et al (2008) found that family-owned business success was positively correlated with the firm’s commitment to the community. Tongan businesses are like the family businesses discussed by Cooper et al (2005) and Niehm et al (2008) in-so-far as they approach customer services management using the traditional approach of relationship building. C3 suggests that the success of her business is the result of building good relationships with customers.

What really works is actually we build the customer relationship with our customers. Some of our customers that stays with us from the very beginning, even some advertisers (C3: 14.21).

My theory of business is that you build the relationship (C3:22:10)

For C1, maintaining strong networks with the local ethnic community is important for maintaining good customer relationships and awareness of changes in community needs.

And I also wanted to have a really good network of community groups, church leaders, and all of that. I wanted to be the man. I wanted to be the man that you go to for this kind of work (C1:18:07).

Customer relations management is important for Tongan business sustainability, because of the relatively small size of the customer market. Stories of good and poor service travel quickly in ethnic minority communities, making it more important that public image is not compromised. While most of the businesses included in this study are not experts in marketing, they all share the goal of securing and maintaining good customer relations. This is more easily achieved within their own Tongan community, which many rely on as their first group of customers. Reaching a wider group of clients is a more difficult exercise and requires greater investment in mainstream marketing activities that many are unable to afford. Building strong and ongoing relationships with customers is important for repeat business, but is also consistent with Tongan traditions of building and preserving relationships.

Most of the businesses acknowledge the need to target a broader customer base. However, only a few (C1, C2, C3, C5 and C12) see it as important for growing the business and diversifying into other lines of business. The majority of businesses see targeting a broader customer base as important for maintaining an ongoing client base, rather than for growing the firm. In addition, some indicated that they did not want to be solely reliant on the Tongan community because of the potential volatility in demand.

The owner of C7 admits that from the outset she did not want to be seen as a business that was only there to service Tongan clients. She comments:

That's the thing. ..I did not want to be framed as I can only service Tongans. My thinking at the time (when the business started) was that it was for everybody (C7:10.55).

Many companies appear to have reached the capacity that they are comfortable managing. In a few cases (including C1 C2 C5 and C15), changing demands on the industry require a greater degree of innovation and marketing to maintain their current volume of operations. While this is true for all small businesses, irrespective of industry, it is more pronounced in the retail and technology sector (Carter & Van Auken, 2006).

While the businesses included in this study each demonstrate a commitment to customer focus and retention, business consultant BC3 discusses a number of Tongan traits that have acted to compromise the performance and sustainability of the business. In relation to

marketing, BC3 outlines a number of issues that some Tongan businesses overlook. As an example he quoted the case of a motor mechanic who thought that the quality of the work that he did was sufficient, not realising the importance of customer focus. To illustrate he says:

“If a customer comes through the door and we continue talking as if they are not there they will have a negative impression about your business and possibly go away. Similarly if the customer comes in and sees that the place is messy they may not want to do business with you” (BC3:6:03).

Business Consultant BC3, a Tongan by ethnicity also suggests “that there is also an element of business snobbery where the business owner feels that he is above the customer, forgetting that he is not in a monopoly situation” (BC3:6:18).

### **8.3.3 Marketing and Advertising Summary**

The general experiences of the Tongan businesses included in this study in relation to sales and marketing indicate a mix of good and bad practices. Most commence business without formal marketing experience and rely on Tongan community networks and word of mouth to provide at least the initial group of clientele. Depending on the nature of the product or service provided, this is sufficient to make the businesses sustainable. Broadening the customer base, however, to ensure both a more secure clientele and growth, requires more substantial marketing expertise that many do not have. In two cases poor marketing and planning resulted in the discontinuance of two firms included in this study.

On the positive side, all firms included in the study share a commitment to customer retention and service. Lacking a more formal skill-set of marketing expertise, their attention to customer relations management, be it based on traditional Tongan values of relationship building or not, contributes positively to the ongoing success of their business.

## **8.4     *Human Resource Management***

Human resources management (HRM), as with sales and marketing, ranks as one of the most significant challenges faced by small businesses (Heneman et al., 2000; Hornsby & Kuratko, 1990; Huang & Brown, 1999). Heneman et al (2000) and Hornsby and Kuratko (1990) go further to suggest HRM as the number one challenge faced by small businesses. Heneman et al citing a study carried out by the National Federation of Independent Business in 1998 report “a recent survey of 641 small business entrepreneurs identified labour shortage as their number one concern”(2000, p. 11). Hornsby and Kuratko (1990) found that across the three size categories of small businesses included in their study, “the highest ranked issues in all three size categories focus upon the need to obtain and retain a quality workforce” (p. 17). Cressy (1996) argues human capital is the true determinant of survival and that the correlation between financial capital and survival is spurious. For many Tongan businesses the HRM challenges are compounded by the fact that employees are generally co-ethnic and members of the owner’s family.

### **8.4.1    HRM Challenges for small businesses**

Tongan businesses are no different from many other small businesses that begin their operations based on an enthusiastic business opportunity, but lack the experience and skills in essential competencies, including human resource management (Huang & Brown, 1999). Hornsby and Kuratko (1990) outline that the adoption of human resource management practices is inherently difficult for small businesses. Resource constraints and lack of in-house expertise limit the ability of small firms to adopt more sophisticated recruitment processes and remuneration structures. They also are unable to effectively engage formalised performance appraisals processes and disciplinary procedures and to invest in development and training for staff (Bacon, Ackers, Storey, & Coates, 1996). For these reasons they suggest small businesses have often been inappropriately labelled with a “bleak house” reputation.

While many of the reasons for poor adoption of resource management techniques are evident in many small businesses, there are also advantages that encourage the adoption of

HRM techniques. Bacon et al (1996) suggest that small businesses represent an ideal platform for implementing HRM techniques. They write:

The small business is in many ways the ideal site for the development of a HRM approach in two ways. Communications are more direct, people have to work more flexibly, the hierarchy is flatter, the impact of each employee or organisational performance is clearer and the greater insecurity makes the organisation more responsive to changes in market and customer demands. (p. 98)

Many of the Tongan businesses included in this study struggle with HRM issues, partly because of resource constraints and also because of unfamiliarity with the employment environment and employment law. The more successful businesses included in this study (including C1, C3, C4, C5, C8, C11 and C17) all acknowledge the importance of securing good staff. While many owner entrepreneurs lack formal human resource training and expertise, they tend to measure and expect good performance from staff based on their personal work habits and goals. C1, for instance, employs a lead-by-example approach and believes that his hard-working attitude, being the first to arrive each day and often working late, provides a role model for his staff. Similarly, the owner of C8 draws on his own experiences as an employee in an automotive repair firm as a template for how his own staff should work.

C2 (a recruitment services agency) and C11 (legal services) represent two Tongan firms that have human resources expertise in-house. Both of these firms acknowledge the difficulty in securing reliable and committed staff, but rank human resource management challenges low on their agenda.

The owner of C4 employs a cavalier approach to human resources management that comes from the years of experience he had as a Tongan football coach. As an employer he treats his staff as a team and maintains “the point is keeping the relationship good”. He says that, although he often uses abusive language with his workers, it is taken in good humour. He points out that, despite his rough style of human resources management, the staff are happy and the work always gets done on time. Although his approach falls short of mainstream codes of conduct in a work environment, C4 maintains a healthy and productive relationship with his staff and this translates to the ongoing success of the business.

Building positive and open relationships with staff is evident in most of the businesses. Although some of the staff members are members of the owner's family, those that are not are regarded and treated as if they were family. Owners of C2, C5 and C9 regard their employees as members of a corporate family. While this notion is not unique to Tongan businesses, it is behaviour consistent with traditional Tongan values surrounding the importance of family and community coupled with that of relationship building. The informal approach that many Tongan businesses show in relation to human resources management is not solely driven by resource constraints and lack of expertise, but by influences unique to the small businesses in question (Kotey & Slade, 2005). For Tongan businesses, their relatively small size, industry niche and entrenched traditional ties to Tongan culture impact on their human resources management practices.

#### **8.4.2 Staff Development, Education and Training**

Many small businesses begin with little more than a passionate vision or idea. Fired by the enthusiasm of starting a new business with the potential to launch a new product or service or at the very least generate a profit, entrepreneurs overlook the obstacles to success and sustainability. Gaskill et al (1993) and Gibb (1997) discuss the importance of education and training for small businesses and how this should be done in line with the specific needs of the business in question. Cressy (1996) argues that human capital is the true determinant of business survival, and that the correlation between financial capital and success is spurious. Coleman (2007) further suggests human capital through education and experience has a greater positive impact on profitability than financial capital. However, the reality for many small businesses, particularly family owned, is that education and training is unaffordable and unsupported by a formal corporate infrastructure (Kotey & Folker, 2007).

The migration by many Tongan families to New Zealand, Australia and the United States has been driven by the desire for better education of their children. Tongan people have embraced the value of education without question (Helu-Thaman, 1995). Education and training are recognised by most Tongan businesses involved in the study as important, although there is little evidence to suggest that ongoing staff development occurs. The business owner operators in cases C1 (communications and public relations), C2

(recruitment services) and C3 (television production) all enrolled in tertiary courses aligned with the specific needs of their business, while firms C7-C10 took advantage of training courses offered by their former employers whilst they were still in employment. Cases C4 (paving and road resurfacing) and C5 (painting and decorating) did not undergo formal training, but gained the skills required while in employment. These two businesses and case C8 (automotive repairs) were set up in competition to those of their previous employers.

Staff development and training is an important determinant of small business sustainability. Kotey and Folker (2007) suggest “the approach to employee training in family SMEs is in consonance with their slower growth, informal management style, limited financial resources, and greater emphasis on efficiency compared with non-family SMEs” (p. 214).

Ongoing staff development and training appears to be generally lacking for most of the businesses involved in this study. While many of the Tongan business owners acknowledge the importance of education, this is more in relation to their personal education and the need for acquiring the necessary skills to start and run the business. Few Tongan businesses are able to demonstrate the existence of a formal ongoing education and training programme for staff as policy.

C1, C3, C8 and C15 were the only companies that specifically commented on the importance of ongoing training in order to keep abreast of changes in technology. The owner of C8 in particular recalls the benefit of the staff development and training courses he attended while working for his previous employer and feels that this is needed if his business is to remain competitive. C8’s owner discussed attending regular up-skilling courses in order to keep abreast of the changing technology in the automotive industry.

For family owned and operated businesses, many did not directly link the benefits of ongoing development and training to the sustainability and growth of the business. This finding is consistent with that of Heneman et al (2000) who suggested that the owners of many small businesses “do not view human resource management practices as a source of improved business performance” (p. 23).

For some Tongan businesses, staff development and training is regarded as more for the benefit of the staff than the business. A number of firms (C4, C12, C14, C16 and C18) do not see ongoing training and development as the direct responsibility of the firm. C3 and



C15 both carried out training and development with staff, but found that some of their more qualified staff would leave to work for larger employers once they had gained skills from the training offered. This potential for staff to leave, having received training from their employer, is the source of some scepticism by Tongan employers. After successfully recruiting a member of staff, there was an expectation that they had the necessary skills to do the job and that there was no need for additional training, at least in the short term. The same cannot be said for family members, who were regarded as having a greater commitment to stay with the firm after training.

Although the Tongan business owners involved in the study appreciated the value of education and training, financial constraints often prevented their implementation. Most of the Tongan business people in this study acknowledged the benefit of education and were able to gain this through formal training or through work experience. However, specific skills in business management and accounting were comparatively lacking. While these have been overcome in part through contracting the services of accountants and other business professionals, these have been aimed at compliance rather than the day-to-day operational management of the business. BC1 suggests that education and training in business management is an important skill to have in any small business, and should be incorporated into the planning phase.

The general attitude that many Tongan businesses have in relation to staff development and training is to regard it as positive, but ranking low on the priority list when it comes to practice. This is consistent with the general small business literature and the traditional Tongan focus on prioritising those activities that are in the present rather than the future. In this regard, training and development are investments in staff for the benefit of future periods at the cost of the present.

### **8.4.3 Employing Staff**

The human resources management challenges that many Tongan businesses face are compounded by the fact that they are family businesses employing family members and that obligations to assist others in the Tongan community will mean that many employees are also Tongan. This is both an advantage and a disadvantage to the firm. As part of their

embedded sense of social identity some Tongan businesses are formed with goals based on the collective benefit to the family and community and not exclusively that of profit maximisation. Kuratko et al (1997) suggest that “the relevant goals set for entrepreneurs are not relegated to traditional performance orientated goals. While traditional financial success seems to be part of the goal set, entrepreneurs are also motivated by the security and autonomy they can provide for themselves and their families”(p. 31).

#### **8.4.3.1 Employing Co-ethnic Workers**

Tongan businesses, as with many family firms, share a culturally based desire to employ co-ethnic workers (Miller et al., 2008). This is consistent with their traditional sense of social identity and building relationships in their own community, and increases the social status of the business owner. Tongan businesses also tend to employ co-ethnic workers because of their familiarity with Tongan ideology and the additional personal information about the worker they are able to gain through Tongan community networks. Some workers are personally recommended by friends and relatives and since the offer of work is regarded under such circumstances as a favour on the part of the owner, a sense of loyalty and trust is established at the outset. C2 and C4 are examples of businesses that make extensive use of Tongan community networks to gain competent workers.

The *talanoa* sessions with a number of Tongan businesses (including C2, C4, C12, C14, C16 and C17) reveal the existence of incidences of illegal employment practices. Further discussion with other members of the Tongan community confirmed the relatively widespread nature of the practice. However, specific details were not discussed openly because of its potential illegality and for the protection of the workers involved. One type of practice is the employment of illegal co-ethnic workers. Tongans who do not hold a work permit are employed by Tongan businesses as a patriotic gesture of good faith. These employment arrangements are informal and workers are paid “under the table”, so as to not be detected by the employment authorities. These casual employment arrangements have had mixed success for the business owners and workers. Discussions with members of the Tongan community who have worked under these circumstances tell of cases of not being paid and working under harsh conditions. Others appreciate the opportunity to work and

earn an income that their residency status would not otherwise allow. Similarly, some Tongan employers complain of workers being inefficient and not turning up for work, while others share positive working experiences of co-ethnic workers. The owners of C2, C4, C13 and C16 tell of experiences they had where co-ethnic workers were found unreliable and unappreciative of the opportunity that had been given to them. The owners of C2 and C4, however, believe that these cases are few and maintain a commitment to assisting co-ethnic workers.

The conflicting experiences of worker exploitation and poor worker performance suggests a possible lack of communication and breakdown of the relationship, facilitated by the significant imbalance in power and lack of detail in the expectations of both parties.

The employment arrangements with co-ethnic workers for the businesses included in this study are formal in nature and yet they mimic the same issues as the casual employment arrangements. The owners of C2, C3, C4, C17 and C20 believe that the majority of experiences they have with co-ethnic workers are positive. They find that many co-ethnic workers are hard-working, focused and committed to the success of the business. The owners of these businesses feel that their loyalty is related to the genuine good nature of these workers and the realisation that the success of the business ensures their ongoing employment. The owners of C5 and C8 both spoke of negative experiences they had with co-ethnic workers. Both say that employing co-ethnic workers blurs the boundary between employer and employee leading to inefficiency. Furthermore, Tongan workers use their common heritage as leverage to bypass disciplinary action and processes. They also feel that Tongan workers, at least in their industry (painting and automotive repair), share an uncommitted attitude and as a result are generally unreliable.

Although both of these businesses no longer employ Tongan workers, they comment that the decision is made with some regret and disappointment with the behaviour of their own community. The owners of C5 and C8 regard the use of 'arm's length' employment arrangements, not involving Tongan workers, as more productive for the firm. In addition, they are more at ease dealing with disciplinary and performance issues that do not involve Tongan workers.

A distinguishing characteristic of C5 and C8 are that both owner managers are quiet by nature and share a 'lead by example' management style. This style of leadership is conducive to having a friendly working environment, but lacks the stern hierarchical and chiefly leadership style that is common in Tongan society. It is therefore possible that the behaviour of the Tongan staff is linked to the non-traditional passive leadership style of these particular managers. The owner of C4, by contrast, displays an aggressive leadership style that is effective and which the workers and contractors respect.

The owner of C1, a communications and public relations company, says that he employs workers based on skill and that ethnicity is not a deciding factor. However, given that few Tongans have qualifications or experience in this field, the likelihood of this becoming an issue is small.

#### **8.4.3.2 Employing family members**

A feature of many Tongan businesses is that they are family firms employing family members. Based on Maslow's hierarchy of motivational needs (Maslow, 1954), Ward (1997) suggests that at the base of the motivational pyramid, representing the initial reasons for starting a business is that of "providing family members with employment or withholding liquidity wealth from future generations" (p. 335). For each of the Tongan businesses included in this study, providing employment for the owner and secondly to other members of the family was a key motivation.

Many of the smaller businesses included in this study did not employ external (non-family members) staff and represent husband and wife partnership operations. These operations are characteristically smaller and represent businesses that are at the early stage of growth. For these businesses, the challenge is not so much one of human resource management as it is attention to the accounting entity principle. C6, C7 and C9 represent businesses that do not employ external staff, yet have managed to keep the financial affairs of the owner separate from that of the business. In each case these owners comment on the importance of this separation and make reference to businesses they are aware of that have failed through overdrawing on the cash of the business for personal reasons. Business consultants BC1, BC2 and BC3 during the *talanoa* session all emphasise the importance of business owners

limiting their withdrawals to the equivalent of a regular wage. Business consultant BC2 likens the attention that business owners give to their business to raising a child or growing a plant and ensuring that it be given that opportunity to grow. She explains;

I think it is making sure you don't take a lot of money out of the business yourself for yourself especially in the early stages.. These people who are like that (careful not to over withdraw from the firm) see themselves as a business. (BC2: 19.55)

For many Tongan family businesses that employ only immediate family members, human resource management is not an issue. In relation to husband and wife operations (including C6, C7 and C10), human resource management issues are absent through having a greater sense of shared responsibility between the co-owners. Similarly, in the case of C13 (agricultural importer) where the adult children are also employed, employment issues are overtaken by common family values and objectives, ensuring a united approach to the operation and management of the business (W. G. Dyer, Jnr, 2006; Miller et al., 2008).

While common family values and aims can unify family workers in family business, they can also be a source of concern leading to compromises in business performance (W. G. Dyer, 1988; King et al., 2001; J L Ward, 1988; Welsch, 1993). King et al (2001) writes that “the family’s values and culture create a level of complexity in strategic planning of human resources not seen in human resource planning of a non-family business” (p. 3). Two businesses discussed the reservations they have in employing family members. In particular, the owners of C5 and C16 tell of negative experiences they have had in employing family members, especially those that were not part of their immediate family. In particular they raise the frustration and awkwardness regarding disciplining family employees who are not performing. In one case the owner deliberately arranged for the family worker to report to an external manager (not a member of the family) to avoid this happening. Members of the owner’s immediately family (spouse, siblings, children and parents) who are employed by the firm generally regard themselves as part owner of the firm although this is not legally the case. As such, their commitment to the continuity and success of the business is more entrenched. Where family employees are from the extended family, particularly the children of the sister of a male owner, traditional family hierarchies start to undermine employer employee relationships. Business consultant BC3 mentions

that problems with the traditional concept of *fahu* (respect and responsibility that exist between a brother and sister) in a number of cases he is aware of, resulted in the near collapse of the business.

The issue is probably quite widespread, but business owners are unlikely to talk negatively about other family members as a matter of family and cultural integrity.

#### **8.4.4 Human Resources Management Summary**

Human resource management practices and challenges for Tongan businesses in New Zealand echo those of small businesses, particularly ethnic minority and family businesses. The challenges they face are largely based on resource limitations, lack of expertise in HRM and employing co-ethnic workers and family members. Entrenched traditional values based on social identity, community and family relationships over-shadow these employment relationships, contributing both positively and negatively to the performance and sustainability of the business.

Employing Tongan workers and family members is inevitable for many Tongan businesses. Rather than ceasing to employ co-ethnic workers and family members, Tongan entrepreneurs should consider both the merits and disadvantages of doing so, taking into account the needs of the business for long term sustainability, and those of the community and family. This is important, given the reliance of these businesses on the Tongan community and the core motivation for the starting of many businesses.

#### **8.5 *Information and Communications Technology (ICT)***

The use of information technology (IT) systems is an essential for small businesses (DeLone, 1988; Kellermanns & Eddleston, 2006; McGregor & Gomes, 1999). This is especially true given the changing nature of the market from a physical location to a virtual platform. Communicating with customers and suppliers is also changing with greater reliance on the internet and mobile telephones. Expectations from both customers and suppliers for quicker response rates are making the use of mobile telephones and computers

more prevalent. Filing returns for tax and retrieving information for compliance purposes is increasingly done using the internet. Accounting systems and the need for accurately capturing and reporting financial information have stimulated the early adoption of technology.

McGregor and Gomes (1999) suggest that New Zealand small and medium size enterprises (SMEs) “demonstrate a limited conception of technology strategy” and that “the international economic environment is forcing those New Zealand SMEs who export to adopt a more strategic view of technology planning”(p. 100).

### **8.5.1 Adoption of ICT by Tongan Businesses**

Tongan businesses in this study demonstrated a strong appreciation for the use of computers in business. While the size and nature of their business does not raise the need for complex data management processes, the use of computers for email, internet access and management of financial information is widespread. Although Pacific Island businesses use computers, they are not taking advantage of the more advanced applications, including database management, internet marketing, banking and sales, financial reporting and interfacing of electronic systems and devices. Manueli et al (2006), based on a survey conducted in 2001, found that “Pasifika businesses are not capitalising on IT to increase their productivity”(p. 195). While the low rate of adoption of information and communications technology (ICT) may have improved in recent years, the businesses of the Tongan businesses included in this study paint a picture of under-employment of ICT.

C1, C3, C8, C15 and C17 use information and communications technology (ICT) in the management and development of their business. In each case the industry within which they operate had an influence on their adoption of ICT. C1 is in the communications and public relations sector and as such uses specialised computer software for developing graphic designs for clients. C3 and C15 use specialised computer software for editing visual and audio digital files while C17 uses the internet together with scheduling software to book flights and accommodation for clients. C8, an automotive repair shop uses a special device that communicates with the on-board computer of many modern motor cars and C20 uses a patient management system to maintain patient records and to generate billing

instructions to the accounting department of the organisation. Each of these businesses acknowledges the advantages that technology has on their business performance and sustainability. C1, C5, C8, C15 and C20 comment on the use of accounting software (MYOB) to manage their accounting records. The remaining cases either keep manual records and spreadsheets (including C4, C6, C7, C10, C18) or outsource the management of the accounts to an external accountant (including C2, C3, C9, C11, C12, C13, C14, C16, C17 and C19). The following table 8.1 provides a summary of computer usage across the Tongan businesses included in this study.



**Table 8-1 – ICT Usage by Tongan Businesses**

Case No.	Business Activity	ICT Usage	Accounting System
Case 1 (C1)	Communications and Public Relations	Specialised computer software for graphic design and publishing. Microsoft Office Suite including internet, Networked telephone system	Mind your own business (MYOB). Year end accounts prepared by external accountant.
Case 2 (C2)	Recruitment Services	Microsoft Office Suite, internet including video editing software.	Only day to day record keeping maintained on excel with significant part of the accounting function outsourced.
Case 3	Television Production	Microsoft office suite, internet. Graphic design and digital video editing software. Networked telephone system	Preparation of accounts and maintenance of accounting system outsourced to external accountant. Specific accounting software not discussed
Case 4	Paving and Road resurfacing	No evidence of use of computers.	Accountant maintained manually by a family member for tax purposes
Case 5	Painting	Microsoft Office suite, internet, Other specialised programmes not discussed. Networked telephone system	MYOB. Accounts maintained by external accountant. Day to day transactions processing carried out in-house
Case 6	Financial Services and lending specialist	Microsoft Office suite, internet	No accounting software identified. Records maintained on Excel. No evidence of external accounting assistance
Case 7	Immigration Consulting	Microsoft Office suite, internet.	Manual accounting system maintained on excel spreadsheets
Case 8	Automotive engineering	Microsoft office suite, internet, electronic interface system to access onboard vehicle computer log.	MYOB. Outside accounting professionals used infrequently
Case 9	Health Advisory Services	Microsoft Office Suite, internet	Maintained manual records but outsourced accounting to external professional
Case 10	Screen Printing, mortgage brokerage and textile sportswear manufacturer	Microsoft Office Suite, internet	Maintained own accounting records on excel. Did not use an external accountant
Case 11	Legal Services	Microsoft Office Suite, internet	Outsourced accounting to external professional
Case 12	Furniture manufacturing and retail	Microsoft Office Suite. internet	Not discussed
Case 13	Agricultural food importer	Microsoft Office Suite, internet only recent	Manual records based on spreadsheets
Case 14	Freight Services	Microsoft Office Suite, internet, foreign exchange conversion facilities	Not discussed
Case 15	Radio Broadcasting and Media	Net worked computer, telephone system. Radio scheduling, music & editing programmes	MYOB in conjunction with radio billing software. All accounting maintained in-house
Case 16	Fence and boundary construction	Microsoft Office Suite. Basic application only	Not discussed
Case 17	Travel Consultancy	Microsoft Office Suite, internet, networked telephone system, specialised booking software for travel and accommodation	Outsourced to external accounting professional
Case 18	Manufacture and retail of traditional crafts	Telephone only	Manual paper records only. Computers not used.
Case 19	Youth Services	Microsoft Office Suite, internet	Outsourced to external accountant
Case 20	Health Services Consultant	Networked Microsoft office suite and telephone system, patient management system also used for billing, internet	MYOB for day to day processing but overseen by external accountant

The above Table 8-1 – ICT Usage by Tongan Businesses, highlights a number of characteristics regarding the use of accounting systems and software that impact on the sustainability of Tongan businesses in New Zealand. Small businesses with few employees and a short business history are characterised with low uptake of computers and accounting

records are maintained on either Excel spreadsheets or paper records. Mature businesses with more capital to invest in equipment show a greater degree of usage of computer systems, including networked personal computers with email functionality, internet access and networked telephone systems. These businesses use specialised accounting software (MYOB) to maintain their financial record-keeping, and access the use of computerised accounting systems through outsourcing the transactions-processing function to an accountant. Tongan businesses included in this study that are financially sustainable are those that have readily adopted ICT and in particular computerised accounting systems. The majority of Tongan businesses, however, do not have in-house accounting software and rely on external accounting services. Apart from C1, C5 C8 and C20, the accounting function is regarded as a compliance hurdle, rather than part of efficient operational management.

The use of ICT can both benefit and disadvantage the performance and sustainability of small businesses. Gelinas and Bigras (2004) and DeLone (1988) explain that small businesses should be cautious when adopting computer systems as they may be too complex. They also suggest that small businesses are often not able to absorb the expensive cost associated with a “misadventure in electronic data processing” (DeLone, 1988, p. 51). The adoption and usage of ICT among the Tongan business people included in this study indicates that they share a reserved attitude. The adoption of complex data systems is influenced by the personal knowledge of the owner about those systems. The owner of C8 purchased a computer device to interface with the computer systems in many modern vehicles, partly because of the efficiency that it would have for the business, but also because he had personal experience with using such a device. Similarly, the underemployment of computers and computer systems is also influenced by the personal knowledge of the owner. The majority of Tongan businesses do use computers in their business. However, the functions they use are typically limited to word processing, spreadsheets and more recently, email.

Despite the trend towards an electronic platform for conducting business, many Tongan businesses and co-ethnic customers prefer face-to-face communication. Members of the Tongan community in dealing with booking flights, immigration issues, legal advice and contracting services prefer to meet face-to-face with service providers. Although the use of

mobile telephones has increased, the transaction of goods and services continues to be face-to-face encounter. This behaviour is consistent with the relationship building focus shared by many Tongan people.

The adoption and use of ICT in Tongan businesses in New Zealand suggests that many are taking a reactive rather than proactive approach. While many have adopted the use of computers in their business activity, computers are not being used in an innovative manner to streamline and grow the business. ICT is therefore regarded as a tool to ensure that business is carried out efficiently in the present, but less so to bring about future performance benefits. Traditional Tongan focus on the present may be in part responsible for this slow adoption and under-employment of ICT.

### **8.5.2 Information and Communication Technology (ICT) Summary**

Tongan businesses in New Zealand are relatively slow in relation to the adoption of ICT. Under-employment of computers is thwarting the potential for many of these businesses to grow and develop. While small businesses should be cautious when adopting complex data systems, this does not appear to be the case with many Tongan businesses that are taking a reserved approach based on the owner's personal knowledge and experience and ethnic background. Building and nurturing relationships through face-to-face contact has stopped the quick adoption of the internet and telephone as a mechanism for conducting business. Similarly, the traditional culture of focusing on the present frustrates the innovative adoption and use of systems to develop and grow the business.

Tongan businesses have been slow to adopt computerised accounting systems and software, opting to delegate this function to external accountants. Lack of resources and financial expertise within the firm has made this a sensible option, but it also causes some Tongan entrepreneurs not to get to know the financial challenges facing their business in more detail.

However, the cautious approach that many Tongan business owners have towards the adoption of ICT has meant a low incidence and cost of ICT misadventures (that Tongan businesses are ill-equipped to absorb).

## 8.6 *Conclusion*

Business-related challenges, including management and organisational structure, marketing, human resource management and information and communication technology are common to most small to medium size enterprises. The present research demonstrates these same challenges are faced by Tongan businesses in New Zealand. Many of these Tongan businesses are family owned and have relatively flat management structures. However, reluctance and inability to secure external governance expertise, particularly during the planning stage, impacts negatively on the performance and sustainability of some businesses. The role of the family has also had a significant influence on the firms, proving to be an advantage in terms of commitment and unity of vision, and a disadvantage in relation to lack of experience and expertise. Traditional views of the businesses as an extension of the owner's family and symbol of his or her social status have had a generally negative impact on business performance.

Few Tongan businesses have formal expertise in marketing and sales. However, the entrenched culture of relationship building impacts positively on the way many deal with customers in terms of both quality and retention.

Traditional Tongan values surrounding building and maintaining relationships impact on the way Tongan businesses approach human resource management and consequently business performance. Entrenched family and community relationships encourage the employment of co-ethnic workers, introducing a layer of complexity to the management of human resources. While these entrenched relationships act to curtail the occurrence of personal grievance cases, they also place owner-managers in an awkward position when managing a poorly performing employee.

The adoption of Information and Communication Technology (ICT) has been relatively slow, and those using computers tend to use only the most basic functions. The innovative use of ICT to develop and grow the business has been relatively low. The under employment and low uptake of ICT depends on the personal skill of the owner, affordability and a focus on initiatives to benefit the present rather than the future. In addition, Tongan peoples' preference for face-to-face commerce has overshadowed the

potential use of the internet and telephone for conducting business. This cautious uptake of ICT has, however, prevented the occurrence and cost of ICT misadventures that could cost Tongan businesses dearly.

## CHAPTER 9: Research Summary, Contributions and Recommendations

### 9.1 *Introduction*

This chapter provides a summary of the findings of this research and identifies the contributions it makes to the body of knowledge. The last section makes a number of recommendations for future research and policy development in relation to Tongan business sustainability in New Zealand.

Tongan people represent 19% of the Pacific Island population living in New Zealand. Numbering just over 50,000 people, they claim the highest birth rate and are a relatively young population with a median age of 19 years compared with 21 years for all Pacific Islanders and 36 years for the general population. Although 56% of the Tongan population in New Zealand are New Zealand born, they demonstrate a strong resistance to adopt western culture, preferring instead to preserve their own through language, annual festivals and community organisations, including kava groups, alumni associations and church groups.

Tongan people play a significant role in New Zealand society and more recently by starting their own businesses are present in a range of industries including retail, financial services, health, education, housing, construction, manufacturing, automotive sales and service, freight, media and social services.

Twenty Tongan businesses and three Pacific business consultants participated in a series of *talanoa* sessions that were carried out in 2006 and 2007. Discussions were also carried out with members of the Tongan community, many of whom are customers of the businesses included in the study or are aware of them.

The *talanoa* sessions were unstructured and avoided the use of direct questions. Participants were invited to talk openly about their businesses and what they felt were the drivers of business sustainability. The business experiences were recorded and analysed against three broad categories, including financial accounting, management accounting and

finance, and business related challenges. Embeddedness theory was used as the theoretical framework against which the data was collated, analysed and reported.

The broad research question seeks to determine the key financial and entrepreneurial drivers of business sustainability for Tongan businesses in New Zealand. The findings provide an insight into the sustainability of Tongan businesses in New Zealand and introduce a means of conducting research with Tongan business participants that recognises their uniqueness and preference for oral communications.

The contribution to the literature that this study makes is divided into three categories. The first category includes the methodological contributions discussed in chapters 3 and 4 (refer section 9.2). The second category summarises the contributions that this research makes to the embeddedness theorisation literature discussed in chapter 5 (refer section 9.3), while the third summarises the empirical contributions to the literature discussed in chapters 6, 7 and 8 (refer section 9.4).

## *9.2 Contributions to Qualitative Small Business Research*

This research makes a number of important contributions to qualitative small business research. These are summarised below from the discussions included in chapters 1, 3, 4 and 5.

### **9.2.1 Ethnic specific approach to Pacific Island business sustainability research**

The current research takes an ethnic specific focus using Tongan only business experiences to find out what are the financial and entrepreneurial drivers of business sustainability. Studies about ethnic minority business have been carried out in many countries but with a particular focus in the United Kingdom, Europe and the United States (Barrett et al., 1996; Dadzie & Cho, 1989; L. M. Dyer & Ross, 2000; Hisrich & Brush, 1986; Shinnar & Young, 2008; Smallbone et al., 2003). Ethnic specific studies in the South Pacific are relatively few. Studies in Fiji (Asian Development Bank, 2002; Athukorala, 2002; Baldacchino,

1999; R. C. Brown, 1994; Davie, 2000) and Tonga (James, 1997, 2002; Van Der Grijp, 1997, 2004) explore the impact of western commercial ideology on the development of commerce in the Pacific Islands. Other business related studies involving Pacific Island people in Australia, New Zealand and Hawaii (Bertram, 1993; A. M. Brown & Tower, 2002; P. Chand, 2005; P. Chand et al., 2007; P. Chand & White, 2007; S. Chand, 2004; Firth, 2000; Henningham, 1995; Kramer & Herbig, 1994a; Krishnan et al., 1994; Larmour, 2006; Manuelli et al., 2006; McGuire, 1996; Saffu, 2003; Tisdell, 2000; Wareham, 2002; Yusuf, 1995, 1998) identify the peoples from the Pacific Islands as a single group. While these studies make significant contributions to the literature on Pacific Island businesses, there remains a significant gap in relation to ethnic specific studies. This research seeks to close part of that gap by providing a Tongan perspective on business sustainability in New Zealand.

## **9.2.2 Qualitative approach to Pacific business research**

This research employs a uniquely Tongan approach to the collection, collation and analysis of the data. While this approach has been used in other studies in education (Helu-Thaman, 1992, 1995; Vaiioleti, 2003), it has not been applied to business research. Chapter 4 discusses the use of *talanoa* as a means of collecting data from Tongan research participants in a manner that recognises their preferred means of communication and the unease that they share in situations where they are being questioned. The use of *talanoa* in this study creates an open and safe environment for both the participant and researcher to discuss the topic of business sustainability.

Access to Pacific Island business research participants is relatively easy. Securing their willingness to participate in a research study is more difficult. Section 3.3.2.1 discusses the access advantages with the current research. These access advantages include the researcher's reputation and ethnicity (Tongan), previous membership with the Pacific Business Trust (who assisted in securing Tongan business contacts), extensive Tongan community networks and background in business, all of which represent contributions to the qualitative small business literature. The results of these access advantages include greater access to willing Tongan research participants, open discussion of business



challenges and experiences, and in-depth analysis and interpretation of the findings through understanding Tongan history and culture, coupled with western business practices and philosophies.

Section 4.4.4 discusses the use of the Tongan language during the *talanoa* sessions. Sections 3.3.2.1, 3.3.4 and 3.4.5 outline the advantages of using both Tongan and English during the *talanoa* sessions. This is a significant contribution to Pacific Island business research, as it allows participants to better express their experiences without the possibility of losing its meaning through having to use a single language (English).

Many of the studies in relation to ethnic minority businesses (referred to in section 9.2.1) have been carried out in the United States and the United Kingdom. These studies are predominantly quantitative and for relatively large ethnic minorities. Tongan people living in New Zealand by comparison are very few. The methodological approach used in this study is qualitative. As discussed in section 3.3, this approach is appropriate for a number of reasons. The first refers the unsuitability of quantitative methods given the relatively small size of the Tongan business population (Chetty, 1996). Secondly, quantitative research strategies often fail to recognise the contextual aspects of Pacific communities (Sanga & Pasikale, 2002). Despite the rich research literature on small and medium size enterprises, there remains a substantial gap in relation to Pacific Island businesses and in particular ethnic-specific business research. This gap in the literature exists in relation to an absence in both quantitative and qualitative research studies. This study is a Tongan ethnic specific business study that seeks to close part of this gap.

This study also makes a contribution to the family business literature, as many of the Tongan businesses are family owned and operated businesses. The findings here are consistent with the extant literature on family businesses, but in addition also bring into account the importance to many Tongan family businesses of the extended family and connectedness to the community.

### 9.3 *Contribution to the embeddedness theoretical framework*

Polanyi (1944), Granovetter (1985) and Uzzi (1996) argue the suitability of embeddedness as a theoretical framework for business research. Portes (1998) and Portes and Sensenbrenner (2001) added the concept of social capital as the rationale for social embeddedness. Tongan migrants operating businesses in western countries including New Zealand bring together traditional Tongan culture (*anga fakatonga*) and western market philosophies. This has some interesting implications for Pacific business sustainability in New Zealand. To appreciate these implications, however, requires adopting a theoretical framework of social embeddedness as opposed to the traditional western market constructs based on neoclassical rational self-interest.

Tongan people in business are faced with competing paradigms based on anti-commons on the one hand, and commons on the other. Tongan business entrepreneurs operating business in countries outside their own, demonstrate resistance to adopting western market philosophies in place of their own. Despite their minority status in larger countries, including New Zealand, Tongan businesses are entrenched in their traditional culture based on commons. Their business activities are significantly influenced by the Tongan culture in which they are embedded. Their cultural embeddedness makes them different from other businesses as outlined in chapters 6, 7 and 8 and summarised below in section 9.4.

Section 2.3.5 condenses the complexity of Tongan culture into three key characteristics. The social and cultural embeddedness introduced by Polanyi (1944) is here further developed for Tongan businesses as comprising three embedded social characteristics including relationship building, social identity and focus on the present or event. This development is a contribution to the embeddedness theorisation literature.

### 9.4 *Empirical Contribution*

Pacific Island people have been the target and topic of much research (Wesley-Smith, 1994) but seldom the initiators. Research agendas are externally determined, with often little or no input from the research participants (Sanga & Pasikale, 2002). This leads in turn to a sense of suspicion that the benefits of the research are not for the participants, but for

the researcher or funder of the research. Section 3.4.1 discusses the background to the preset research. Part of the originality of the present research is the manner in which the research agenda was developed. A number of initiatives have been developed to assist Pacific Island businesses in New Zealand, including the establishment of the Pacific Business Trust. While these initiatives have encouraged the formation and sustainability of Pacific Island businesses, this has been done without an in-depth understanding of their business practices and how best to assist them towards sustainability. This study contributes to Pacific business research through having an agenda developed at the 'grass roots' and geared towards assisting businesses at a pragmatic level and guiding policy development.

The specific empirical contributions are outlined below, based on the three categories of financial accounting (chapter 6), management accounting and business finance (chapter 7) and business related challenges (chapter 8).

#### **9.4.1 Contribution to Financial Accounting Policy and Practice**

Many of the accounting concepts, conventions and principles that form the financial accounting framework are based on an individualistic or anti-commons mindset (Etzioni, 1988; Rubin, 2005). Tongan businesses in New Zealand find adopting the financial accounting framework difficult, as it conflicts with their own entrenched approach based on commons (refer section 6.2.1). The inconsistency in the financial accounting framework and Tongan culture is discussed in chapter 6 and summarised below.

The majority of Tongan businesses participating in the study measured performance in terms of revenue volume and bank account balance (section 6.2.2). Businesses with high levels of revenue were generally associated with high levels of activity, and therefore more successful. Similarly, financial position was best measured by the cash balance remaining in the bank account. Revenue as an indicator of performance has been seen as sufficient for many Tongan businesses. However, a lack of attention to cost management has also led to the discontinuance of a number of Tongan businesses. The traditional goals of financial reporting are therefore inconsistent with that of some Tongan businesses. In particular, the balance in the bank account acts to replace the need for a balance sheet and statement of changes in financial position. Revenue volume and business activity replace the traditional

performance statement. Tongan business sustainability is, however, strengthened by taking a wider perspective than revenue and bank account balance.

Tongan entrepreneurs regard their business as successful if it is able to provide ongoing income for the owner's family (Dupuis et al., 2008; Kuratko et al., 1997; John L Ward, 1997) and wider community (Radha Chaganti & Greene, 2002). The findings in this study are consistent with the suggestion by Kramer and Herbig (1994b), that for Pacific Island people, "the primary purpose of human living is maintaining harmonious relationships with one's family and clan"(p. 37). This motivation is driven by their societal sense of identity and desire to build and nurture relationships. In Tongan society business activities that support the enhancing of community relationships either directly or indirectly are regarded as a positive outcome of that business. This type of outcome is not captured in the financial statements, nor is it acknowledged in the accounting standards as one of the objectives of financial reporting. If financial accounting is to reflect an increasingly global environment, it will need to incorporate both the financial aspects contained in the statements and the cultural aspects of family and community and the relationship ties that hold them together.

The monetary convention discussed in section 6.3.1 highlights another inconsistency between Tongan society and the financial accounting framework. Kuratko Hornsby and Naffziger (1997) suggest that financial goals are only a part of the motivation behind many entrepreneurs starting a business and that the "security and autonomy they can provide for themselves and their families" (p. 31) is a strong feature. The monetary convention has made it possible to measure the business activities of Tongans. However, it is not able to capture the significance and value of many cultural activities that Tongan businesses are engaged in, nor the manner in which many regard business success.

The financial accounting framework aims to provide information about a reporting entity to external stakeholders who are not in a position to demand such information. For Tongan businesses in New Zealand, this aim is misaligned. Tongan businesses regard the preparation of financial statements as a compliance exercise for the assessment of tax. Stakeholders are likely to be members of the Tongan community and not only require a different data set about the business, but also are unlikely to understand the information provided in the financial statements (section 6.2.2).

The time frame and format of financial reports are inconsistent with the present day focus that is characteristic of Tongan culture. The format of the financial reports consists of a summary of the activities of the business over a standard timeframe of one year. For Tongan people, perceptions are based on present experiences. Perceptions about a business are therefore formed through the day-to-day encounters they have with it, and not the summarised information captured in the financial statements. Future developments in financial accounting may be guided by the information preference of cultures like Tonga, where the emphasis is on the present.

The accounting entity convention discussed in section 6.3.2, is an anti-commons framework. Tongan businesses that are entrenched in a commons framework find this difficult to adopt. The clash has resulted in both good and bad business practices. Internalising (through budgets) the owner's social obligations (such as giving to dependent members of the family) through budgeting has proved beneficial for business sustainability. However, Tongan culture, based on a commons framework, act to blur the boundaries between the owner and the business. The business experiences included in this study suggest that in an anti-commons market society, Tongan businesses that are able to adopt the accounting entity convention increase their potential to survive.

Tongan entrepreneurs who focus on the present show a tendency to overlook the importance of the going concern principle discussed in section 6.3.3. Their relative lack of attention to future sustainability, preferring to focus on the present, may lead to situations where some Tongan entrepreneurs are unlikely to admit and declare to creditors their financial hardship until it is too late. The need to look beyond the present period is important in order to reach a status of sustainability. Successful Tongan businesses included in this study have demonstrated this, despite their embedded tendency to focus on the present event.

The accounting period and accrual accounting conventions are a relatively foreign concept to Tongan business entrepreneurs, who share a preference for managing their businesses with a present-day focus (refer section 6.3.4). Their focus on the present day is beneficial from a cash management perspective, as many of their business decisions are influenced by the availability of cash. However, in circumstances where revenue and expenses flows are irregular or infrequent, adopting the accounting period and accrual accounting convention

are likely to help them to manage their business better. The majority of other businesses use the information in the financial statements primarily for the purpose of tax compliance. Tongan businesses that have been able to adopt these conventions (e.g. C5 and C8) are generally more successful.

The criteria for reliability discussed in section 6.3.5, is irrelevant for many Tongan entrepreneurs, who have developed their own sense of what information is deemed reliable. Tongan businesses assume the financial information contained in the statements to be reliable. However, the financial accounting convention of reliability excludes many non-commercial activities that Tongan businesses are involved with, including building community relationships and upholding the reputation of the owner. As discussed above, financial accounting needs to appreciate the need for this type of information.

In relation to prudence and neutrality, the popularity of cash-based operations, non-separation of owners and managers and relatively small size of the business removes many of the motivations for providing misleading financial information. However, there is evidence in this study to suggest that Tongan businesses that maintain a focus on the present and are operating in a competitive environment may compromise the principles of prudence and neutrality in favour of remaining in business in the present. External stakeholders, including customers and creditors, need to be aware of the impact that the present-day focus may have on business activity and to factor this into business interaction with Tongan businesses.

Comparative analysis was not generally carried out by many businesses included in this study. However, the business planning process (including comparative analysis) is an important part of developing small businesses and making them financially sustainable (Blackwood & Mowl, 2000; Chrisman & McMullan, 2004; Danes et al., 2008). Tongan businesses stand to increase their survival prospects through placing greater attention on the comparative analysis of their financial statements and on using this information to manage and plan for the future (refer section 6.3.6).

Many Tongan businesses included in this study give generously to their community through the church, social events, sports clubs and school alumni associations. This is consistent with their approach to sharing, which in turn is a product of their sense of social

identity and desire to build relationships. This form of sharing acts to replace the redistributive role of taxation (refer section 6.4.1). Taxation acts to remove the potential for relationships to be formed as an outcome of traditional sharing. Some Tongan business owners do not regard the payment of tax as important, leading in a number of instances to their business failure. A number of Tongan businesses fail to include tax expense as part of their initial business plan, leading to cash flow difficulties when paying tax. Tongan businesses need to incorporate into their set up plan systems to address tax compliance. Some Tongan business people moving from paid employment to self-employment and having been accustomed to PAYE, overlook the importance of filing business and personal income tax returns. Based on the experiences of the Tongan businesses included in this study, Tongan businesses in New Zealand may increase their survival potential by recognising the importance of tax and internalising it into their cost and management structure, despite the inconsistency that this has with cultural traditions of sharing and collective production of goods and services.

Record keeping practices, discussed in section 6.4.2, are important for the sustainability of Tongan businesses, particularly in western commercial contexts such as New Zealand. Tongan businesses find the record keeping process onerous, expensive and inconsistent with their culture (based on a commons mentality). The relative lack of understanding that Tongan entrepreneurs have about record keeping and the benefits that arise from it have negatively impacted on the sustainability of some Tongan businesses. This may be overcome by Tongan businesses seeking assistance from the IRD or organisations such as the Pacific Business Trust. Successful Tongan businesses included in this study maintain records for reasons of compliance and for the management of their business. Although the record keeping process is based on an anti-commons framework, Tongan businesses in New Zealand increase their potential to survive through diligent attention to the maintaining accurate and relevant records.

While credit transactions are common in many businesses both large and small, it creates a shift in pattern from the present-day focus that both Tongan entrepreneurs and Tongan customers share (refer section 6.5.1). In order to increase their likelihood of survival, Tongan businesses need to place greater importance on the timely settlement of debt and maintenance of a good credit rating. Continuing to focus on cash sales, as many of the

businesses included in this study do, is appropriate. However, this may not be possible in some industries where competition is significant or where the product has a high unit price (as in the case of white-ware and electronic goods).

For many Tongan businesses included in this study, the issue of security and collateral is redundant, as many are operating on a cash basis. However, many small lending organisation servicing Tongan people in New Zealand have managed to overcome the risk of customers defaulting on their repayments by introducing traditional crafts (*koloa fakatonga*) as a means of lucrative security (refer section 6.5.2). For Tongan people in need of short term finance, *koloa fakatonga* may be the only form of security they can offer. For the lender, they are providing a service (short term borrowing facility) which many Tongan people cannot access through mainstream channels. The practice of using *koloa fakatonga* as security is an innovative response to the risks associated with credit management. This is an example where Tongan businesses may find solutions to their business challenges through greater understanding of their customers and their cultural environment.

Good cash flow management, as discussed in section 6.5.3, is important for the survival of all small businesses. For Tongan businesses, the need for sound cash flow management is even more pronounced, given the relative shortage of cash and access to finance. Their likelihood of survival is increased by the pace and manner in which they have been able to embrace good cash flow management practices. With a traditional tendency to act in the present, Tongan businesses are culturally aligned to managing cash-based businesses. However, resource demands from family and community have frustrated even the most diligent of entrepreneurs. While many Tongan businesses operate on a cash basis, there is still a need to exercise discipline in their spending.

As discussed in section 6.6, Tongan businesses have not been able to separate the utilisation of fixed assets between personal and business use. Most of the Tongan businesses in this study do not have a formal fixed asset management and replacement policy or procedure in place. Processes that are followed appear to be geared towards the calculation of depreciation for tax purposes, rather than recognition of the diminishing value of fixed assets. Some business owners feel that the maintenance and replacement of fixed assets is the responsibility of the owner. While this is ultimately the case, Tongan



business owners need to adopt set policies and procedures for managing fixed assets to ensure the sustainability of their business.

Section 6.7.1 discusses the difficulty that some Tongan businesses have with the concept of depreciation and impairment. In particular, Tongan businesses find the concept adds to the complexity of the accounting process which is already difficult to understand. Nevertheless Tongan entrepreneurs need to appreciate the purpose of depreciation and impairment, particularly for businesses that have a significant fixed asset base, if they are to increase their likelihood of survival

The implication of using provisions in accounting (discussed in section 6.7.2) is similar to that of depreciation and impairment – namely adding to the complexity of a process that is already difficult for many Tongan businesses. Provision accounting represents a departure from the cash-based operating regime many Tongan businesses prefer. Furthermore, it is inconsistent with the present-day focus that many Tongans share, which favours addressing obligations as and when they arise rather than creating a reserve in anticipation of a future event arising. As Tongan businesses grow and become more complex, the need to more accurately reflect the financial performance and position of the organisation becomes more important. Using provision accounting for both compliance and for effective management of the business is likely to contribute positively to business sustainability.

## **9.4.2 Contribution to Finance and Management Accounting Policy and Practice**

### **9.4.2.1 Business Finance**

The experiences of the Tongan businesses included in this study have been analysed from a business finance and management accounting perspective. The findings are discussed in chapter 7 and summarised below in terms of their contribution to Pacific Island business research.

Tongan businesses in this study show that their primary motivation for starting up was to provide for their family and community (refer section 7.2.1.1). In this respect these

businesses represent employment for the owner and a source of income for the family. Ward (1997) suggests that business created with this as a motivation are less likely to be sustainable. Such firms are less likely to be driven by profit and return on investment and therefore unlikely to plan for growth (Bertrand & Schoar, 2006; Morck & Yeung, 2003; Schulze et al., 2001). Tongan business people in New Zealand need to be mindful of the trend found with small businesses in other countries and to be proactive in seeking innovative opportunities to strengthen and grow their business. Innovation and diversity are worthwhile strategies for most small businesses. However, the collapse of two Tongan businesses in this study is evidence that diversification can potentially lead to business failure if not properly planned.

Diversification, innovation and growth, discussed in section 7.2.3.3, are important aspects of the long-term sustainability of small to medium size enterprises. For Tongan businesses this is particularly true in highly competitive industries such as the graphic design, public relations and communications industry. Strategic planning and innovation are important to ensure firms are responsive to changes in the market and technology. Other Tongan businesses recognise the importance of a diversified customer base, and while originally targeting co-ethnic clients, now service a wide range of non-Tongan clients.

As discussed in section 7.2.2.1, Tongan businesses in this study share the same capital access issues faced by minority ethnic businesses overseas. However, when compared with companies included in overseas studies, Tongan businesses in New Zealand are small. Thus capital access issues for Tongan businesses in New Zealand are more restricted than the current literature for small ethnic minority businesses suggests. The experiences of Tongan businesses in this study suggest that access to debt finance through mainstream sources including banks was not merely limited, but actually non-existent. Some found the process of applying for funding onerous and complex. Consequently, Tongan business owners rely heavily on equity finance in the form of monetary and non-monetary contributions made by the owner and his or her family and friends. The limited access to external finance reduces the rate of growth for Tongan businesses and leaves them vulnerable to failure.

Although some debt financing is possible through the Pacific Business Trust, an organisation established for this purpose, the debt servicing costs are high and the size of the loans relatively small. Many Tongan businesses face relatively high debt servicing

because of their risk profile. Their high cost of capital and debt servicing increases the likelihood of defaulting on loan agreements and thereby compromising the sustainability of the firm.

In a number of instances Tongan businesses, after receiving cash advances to set-up and grow their business sever their ties with the Pacific Business Trust. Some are reluctant to borrow funds, because they regard their business as a family treasure that should be passed from one generation to the next (refer section 7.2.2.2). Family treasures, including land and buildings are traditionally freehold to avoid outside influence and control. This same tradition can be found with respect to church assets, including land and buildings. Discussions with Tongan church leaders reveal that church land and buildings in New Zealand and overseas are always freehold. The experiences of three Tongan businesses in this study echo this reluctance to use debt finance, preferring to maintain a status of being debt-free. All three of these businesses are among those most successful in the study.

The issue of access to debt finance and Tongan attitudes to borrowing highlight the need for business assistance programmes to appreciate the entrenched cultural background of Tongan people so as to establish a long term relationship that will increase the likelihood of their businesses being sustainable. Tongan businesses, as many of the more successful businesses have demonstrated, take advantage of the assistance programmes available and use these proactively to help make their businesses sustainable.

A number of the Tongan businesses included in this study were created in response to a government funded initiative (refer section 7.2.2.3). While these opportunities are a significant advantage to entrepreneurs without start-up capital, they are prone to changes in government spending priorities and should therefore not be relied on as a means of long term business sustainability. A number of successful Tongan businesses in this situation have identified and pursued diversification as a means of addressing this risk.

Section 7.2.1.2 discusses the concept of financial return in relation to Tongan businesses. Tongan entrepreneurs in this study hold a broad view in relation to business return. The conventional ratios of return on investment (ROI) and return on equity (ROE) are based on an anti-commons paradigm, and do not reflect the non-monetary benefits such as the employment of family members and co-ethnic workers. While these other motivations are

an important part of the total return to the owner, financial sustainability as measured by ROI and ROE should not be clouded by these factors. Tongan entrepreneurs seeking to achieve long-term business sustainability need to realise that financial sustainability is the only means of ensuring that these non-monetary goals continue to be possible.

Growth for some Tongan businesses is influenced by resource constraints and non-monetary drivers, including spending time with family. Tongan businesses in this study share the motivation of starting a business with the goal of providing for their family and community. As a result, growth strategies are influenced by the personal preference of the owners and their families. While a balance between personal and business is important for business sustainability, maintaining a business at the micro-enterprise level with a narrow product and service offering leaves them vulnerable.

#### **9.4.2.2 Management Accounting**

Section 7.3 discusses the management accounting practices of the Tongan businesses included in this study. Most of these businesses started their operations with a business plan. These business plans were, however, in response to the application criteria for funding from organisations including the Pacific Business Trust, and not as a voluntary exercise. The budgets that were developed as part of this business plan do not appear to be maintained on an annual basis. The concept of budgeting is inconsistent with the Tongan focus on the present and the collective societal mentality in which they are entrenched. Two Tongan businesses included in this study used budgeting extensively and support its usefulness as an ongoing management accounting tool. Tongan businesses stand to benefit from employing an ongoing budgeting process, as this is likely to provide a clearer picture of the sustainability of their business.

Tongan businesses tend to focus on revenue generation and not cost. The concept of cost or expense, discussed in section 7.3.2, does not have an exact Tongan equivalent. Consequently, the link between revenue and cost is not as direct as in a western context. Tongan businesses included in this study echo the managerial characteristics of ‘survivor entrepreneurs’ introduced by Merz et al (1994), one of four business classifications with a tendency for failure. For Tongan businesses, the potential to fail is mitigated by the non-

complex nature of their business and the relatively small size of their operations. As they continue to grow, sustainability requires more attention to costing at the job activity level as demonstrated by the 25 year story of case C5. Successful Tongan businesses included in this study are characterised with having adopted both a periodic budgeting process and management and monitoring of costs.

### **9.4.3 Contribution to Business Related Issues - Policy and Practice**

#### **9.4.3.1 Governance and Planning**

Formal governance structures bring to small businesses the advantage of independent professional advice and experience (Johannisson & Huse, 2000; Vilaseca, 2002). Tongan small businesses favour structures that place the owner in a chief-like role representing the most powerful person in the business (refer section 8.2.1). The motivations for maintaining this type of structure are based on preserving the social status of the owner and keeping control of the business within the family. The first of these motivations is characteristic of Tongan society and extends from the entrenched societal identity Tongan people share. The second is consistent with the extant small family business literature. This chief-like attitude acts to prevent the use of independent external directors and the adoption of formal corporate governance structures, to the detriment of the long term sustainability of the business.

Some Tongan businesses indicate a willingness to engage external professionals as part of a governing board of directors. However securing the services of professional directors is difficult and expensive. Four successful Tongan businesses included in this study have adopted formal governance structures with independent professional directors. Their experience supports the role of independent directors as being of benefit to their business.

Business planning and succession planning are discussed in sections 8.2.2 and 8.2.3. For many small Tongan businesses in New Zealand, the importance of these two processes has been overlooked. Tongan culture is not aligned to the philosophy of business planning, as its focus is not the present. Tongan business owners who are reluctant to engage in business planning find their businesses are characterised with slow growth, inefficiency and failure (refer section 8.2.2). Tongan businesses that actively follow an annual planning cycle are

found to be more financially sustainable. Tongan cultural attitudes that focus on the present provide an additional obstacle for business success among Tongan businesses in New Zealand.

Succession planning is important for family businesses and the goal is maintaining the benefit from one generation to the next. The notion of succession planning is redundant in traditional Tongan culture as customs and protocols dictate the preservation and continuity of family treasures over time. However, this reliance on traditional protocols and customs in a western commercial framework is misplaced and attention to formal succession planning is needed to preserve the continuity of Tongan businesses if they are to continue to contribute to the prosperity of Tongan people in New Zealand.

#### **9.4.3.2 Marketing and Advertising**

The extant literature on small businesses suggests that marketing is often beyond the expertise and affordability of the entrepreneurs. 8.3.3 The experiences of the Tongan businesses included in this study indicate a mix of good and bad practices (refer section 8.3.3). Most commenced business without formal marketing experience and relied on Tongan community networks to provide the initial group of clients. Broadening the customer base, however, to ensure both a more secure clientele plus growth, require more substantial marketing expertise which many do not have. In two cases poor marketing and planning resulted in the failures of two firms.

On the positive side, all firms included in the study shared a commitment to customer retention and service. Lacking a more formal skill set of marketing expertise, their attention to customer relations management, even when based on traditional Tongan values of relationship building, contributes positively to the ongoing success of their business.

#### **9.4.3.3 Human Resources Management**

Many of the Tongan businesses included in this study struggle with HRM issues, partly because of resource constraints and also because of unfamiliarity with the employment

environment and employment law (refer section 8.4.1). The more successful businesses acknowledge the importance of securing good staff. While many owner entrepreneurs lack formal human resource training and expertise, they tend to measure and expect good performance from staff based on their personal work habits and goals. Others rely on their entrenched sense of relationship building to create an atmosphere of family among staff. The informal approach that many Tongan businesses show in relation to human resources management is not solely driven by resource constraints and lack of expertise, but by influences unique to the small businesses in question (Kotey & Slade, 2005). For Tongan businesses, their relatively small size, industry niche and entrenched traditional ties to Tongan culture impact on their human resources management practices.

The attitude that many Tongan business owners have in relation to staff development and training is to regard it as positive, but ranking low on the priority list (refer section 8.4.2). This is consistent with the general small business literature and the traditional Tongan focus on prioritising those activities that are in the present, rather than the future. A number of Tongan business see training staff as not being beneficial, as high staff turnover results from trained staff leaving for higher paying positions. Although resource constraints make it difficult for small Tongan businesses to fund the cost of staff development, it continues to be the medium to long term solution to business sustainability.

Human resources management is further complicated for Tongan business, by the employment of co-ethnic workers. Tongan business owners feel an obligation to employ family and co-ethnic workers as part of their entrenched sense of societal identity. However, some of these employment experiences have been negative, leading to some Tongan employers refusing to employ Tongan workers. In other cases the survival of the business is dependent on the continual supply of labour afforded by the Tongan community. Rather than ceasing to employ co-ethnic workers and family members, Tongan entrepreneurs should consider the merits and disadvantages of doing so, taking into account both the needs of the business for long term sustainability and those of the community and family. This is important given the reliance of these businesses on the Tongan community, and the core motivation for the start of many businesses.

#### **9.4.3.4 Information and Communications Technology (ICT)**

The adoption and use of information and community technology by small businesses in the current environment is important for their long term sustainability. Tongan businesses in New Zealand are relatively slow in relation to the adoption of ICT. Lack of resources and systems experience within the firm has contributed to this slow uptake. The building and nurturing of relationships through face to face contact has discouraged the adoption of the internet and telephone as a mechanism for conducting business. Similarly, the traditional culture of focusing on the present discourages the innovative adoption and use of systems to develop and grow the business.

Adopting ICT is potentially damaging for small businesses if not evaluated and planned appropriately. While small businesses should be cautious when adopting complex data systems, many Tongan businesses take a reserved approach. This cautious approach has the advantage of a low incidence and cost of ICT misadventures.

#### **9.5 *Limitations of the Study***

This research is a qualitative study employing the traditional method of *talanoa* (refer chapter 4) to collect the data from twenty Tongan owned or operated businesses in New Zealand. *Talanoa* sessions were also carried out with three business consultants who had worked with many of the Tongan businesses included in this study. This provides a means of triangulating the information collected to ensure some verification in relation to the research findings. *Talanoa* sessions were also carried out with members of the Tongan community regarding their views on Tongan business practices. These were carried in kava ceremonies and informal meetings. These sessions provided a community context to Tongan business practice.

The research participants were selected from a number of sources including the 2005 Pacific Business Trust Directory, referral from business leaders in the Tongan community and the networks of the researcher. Businesses were also selected to reflect a diversity of backgrounds and industries. This was done not to promote a particular segment of the Tongan business community, but rather to reflect experiences that were random in nature.

The study, however, is not intended to provide a set of statistical generalisations regarding Tongan business sustainability, but rather to draw on the triangulated experiences of



Tongan businesses in New Zealand as a theoretical basis for understanding the practices of and challenges for Tongan business.

### *9.6 Recommendations for future research*

This study goes some way to closing the gap in the literature for Pacific Island business research. However, the ethnic diversity, relatively small population sizes and traditional value systems make a single study addressing all business issues relating to the Pacific difficult. This study provides a platform for further research, which may take the form of replicating the approach used here for other Pacific ethnicities including Samoa, Fiji, Cook Island and Solomon Islands. Alternatively, further study may be carried out taking a specific aspect of the empirical findings outlined in this study. Chapters 6, 7 and 8 cover a diversity of areas including financial and management accounting, business finance, human resources, management, marketing and information technology. Each of these areas is a potential topic for further study and represents gaps in the current literature.

### *9.7 Concluding Remarks*

Tongan business sustainability is important for the rapidly growing population of Tongan people in New Zealand. This study has helped to increase understanding in relation to the practices of Tongan business, what drives these practices and the implications that they have on business sustainability. The findings are wide reaching and cover the discipline areas of accounting, finance, human resources, management, marketing, and information technology. The findings of this study will guide existing and future Tongan businesses. While each business is unique, the experiences of those captured in this study will help others become successful and sustainable. The findings are likely to guide policy development and to better steer government and corporate assistance programmes aimed at assisting Tongan and potentially other minority ethnic businesses in New Zealand.

This study has addressed a gap in the Pacific Island business literature, but in the process has identified further gaps that call for additional research.

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## Appendix 1 – Consent to Participation in research (English)

<h3>Consent to Participation in Research</h3>	 <small>AUCKLAND UNIVERSITY OF TECHNOLOGY TE WĀKANGA ARONUI O TAMAKI MĀKAU RAU</small>
Title of Project:	<b>Pacific Island Business Sustainability – Tongan Experiences</b>
Project Supervisor:	<b>Professor Keith Hooper</b>
Researcher:	<b>James Manisela Prescott</b>
<hr/>	
<ul style="list-style-type: none"><li>• I have read and understood the information provided about this research project (Information Sheet dated 29 March 2006.)</li><li>• I have had an opportunity to ask questions and to have them answered.</li><li>• I understand that the interview will be audio-taped and transcribed.</li><li>• I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.</li><li>• If I withdraw, I understand that all relevant tapes and transcripts, or parts thereof, will be destroyed.</li><li>• I agree to take part in this research.</li><li>• I wish to receive a copy of the final report from the research: tick one: Yes <input type="radio"/> No <input type="radio"/></li><li>• I understand that published data will not report the names or affiliations of informants and will use generic job titles only.</li></ul>	
Participant signature: .....	
Participant name: .....	
Participant Contact Details (if appropriate): ..... ..... .....	
Date:	
<b>Approved by the Auckland University of Technology Ethics Committee on 20<sup>th</sup> September 2005, AUTEC Reference Number 05/177</b>	
Note: The Participant should retain a copy of this form.	



## Appendix 2 – Consent to Participation in Research (Tongan)



### Consent to Participation in Research Fakangofua ke kau he Fekumi Fakaako

Title of Project: **Pacific Island Business Sustainability – Tongan Experiences**

Project Supervisor: **Professor Keith Hooper**

Researcher: **James Manisela Prescott**

- Neu lau 'o mahino 'a e fakamatala tohi kuo 'omai kia teau fekau'aki moe fekumi ako ko e ni. (Pepa fakamatala 'o e fekumi faka ako ni: Aho 29 Ma'asi 2006.
- Na'e 'omi kia teau 'a e faingamalie keu 'eke ha ngaahi fehu'i mo ma'u hano tali 'o fekau'aki moe fekumi ako ko eni.
- 'Oku mahino kia teau 'e hiki tepi mo liliu 'o hiki tohi 'a e fepotalanoa'aki 'e fai.
- 'Oku mahino kia teau 'oku 'ou 'ata keu ta'ofi mo fakafoki 'eku kau kihe polokalama fekumi faka ako ko eni pea 'e 'ikai ke iai ha uesia mo kau kovi 'e taha kia teau pe ko 'eku kautaha.
- 'O kapau 'e 'iai ha taimii teu pehe ke fakafoki ai 'eku kau kihe fekumi faka ako ko e ni, oku mahino kia teau 'e faka 'auha 'a e ngaahi tepi moe tohi kuo 'osi hiki.
- 'Oku ou loto fiemalie keu kau kihe fekumi fakaako ko e ni.
- 'Oku ou fiema'u keu ma'u ha tatau 'o e lipooti 'e fai o fekau'aki moe fekumi fakaako koeni.fs: 'lo O 'Ikai O ( √ Tiki ha taha)
- 'Oku mahino kia teau koe ngaahi 'lipooti 'e paaki 'e 'ikai fakahaa ai 'a e hingoa 'mo e lakanga taau taha 'o e kau ngaue pe koe kautaha.

Fakamo'oni 'o e Fakafongoa: .....

Hingoa 'o e Fakafongoa: .....

Fakaikiiki 'o e fetu'utaki mo e Fakafongoa (if appropriate):

.....  
.....  
.....

'Aho:

Approved by the Auckland University of Technology Ethics Committee on 20 September 2006,  
AUTEK Reference Number 05/177

Note: The Participant should retain a copy of this form.

## Appendix 3 – Ethics Approval



# MEMORANDUM

## Academic Services

To: Keith Hooper  
From: **Madeline Banda** Executive Secretary, AUTEC  
Date: 20 September 2005  
Subject: Ethics Application Number 05/177 **Pacific Island business sustainability: Tongan experiences.**

Dear Keith

Thank you for providing written evidence as requested. I am pleased to advise that it satisfies the points raised by the Auckland University of Technology Ethics Committee (AUTEC) at their meeting on 12 September 2005. Your ethics application is now approved for a period of three years until 20 September 2008.

I advise that as part of the ethics approval process, you are required to submit to AUTEC the following:

- A brief annual progress report indicating compliance with the ethical approval given using form EA2, which is available online through <http://www.aut.ac.nz/research/ethics>, including a request for extension of the approval if the project will not be completed by the above expiry date;
- A brief report on the status of the project using form EA3, which is available online through <http://www.aut.ac.nz/research/ethics>. This report is to be submitted either when the approval expires on 20 September 2008 or on completion of the project, whichever comes sooner;

You are reminded that, as applicant, you are responsible for ensuring that any research undertaken under this approval is carried out within the parameters approved for your application. Any change to the research outside the parameters of this approval must be submitted to AUTEC for approval before that change is implemented.

Please note that AUTEC grants ethical approval only. If you require management approval from an institution or organisation for your research, then you will need to make the arrangements necessary to obtain this. Also, should your research be undertaken within a jurisdiction outside New Zealand, you will need to make the arrangements necessary to meet the legal and ethical requirements that apply within that jurisdiction.

To enable us to provide you with efficient service, we ask that you use the application number and study title in all written and verbal correspondence with us. Should you have any further enquiries regarding this matter, you are welcome to contact Charles Grinter, Ethics Coordinator, by email at [charles.grinter@aut.ac.nz](mailto:charles.grinter@aut.ac.nz) or by telephone on 921 9999 at extension 8860.

On behalf of the Committee and myself, I wish you success with your research and look forward to reading about it in your reports.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Madeline Banda', is written over a horizontal line.

**Madeline Banda**  
**Executive Secretary**  
**Auckland University of Technology Ethics Committee**

Cc: Deryl Northcott, James Manisela Prescott [james.prescott@aut.ac.nz](mailto:james.prescott@aut.ac.nz)

From the desk of ...  
Madeline Banda  
Academic Services  
Student Services

Private Bag 92006, Auckland 1020  
New Zealand  
E-mail: [madeline.banda@aut.ac.nz](mailto:madeline.banda@aut.ac.nz)

Tel: 64 9 921 9999  
ext 8044  
Fax: 64 9 921 9812



## Appendix 4 – Information to Participants (Tongan)

Ko e ola 'o e fekumi fakaako ni 'e pifusi ia ha tohi fakatoketa 'oku 'ar... Ko e tohi ko e ni 'e 'ikai hē ai 'a e hingo'a 'o kinautolu 'oku kau mai ki... hōnau hingo'a ki ha mata'i fika ke malu i ai hōnau hingo'a.

**AUT**  
AUCKLAND UNIVERSITY OF TECHNOLOGY  
TE WĀNANGA ARONUI O TAMAKI MAKAU RAU

**Fakamatala 'o fekau'aki mo e fekumi faka ako ni**  
**Information for Participants**

Faka'apa'apa atu.

Si'i Tangata'eiki/Fine'eiki

Ko e fai ako au meihe mala'e pisinisi 'o e Univesiti Fakatekinilosia 'o 'Okalani. 'Oku ou lolotonga fai 'eku feinga ako kihe 'eku mata'itohi toketa 'i he mala'e 'o e pisinisi. Katakai kapau 'oku asi matamu'a atu 'ae fakahoha'ani ka ko e kole pe 'oku ke mau faingamalie ke ke kau mai kihe fekumi fakaako 'oku 'amanaki ke fai. Ko 'eku supavaisa ko Keith Hooper pea ko'eku tokotaha-fale'i ko Deryl Northcott.

Koe taumu'a 'oe fekumi faka ako ni ke ma'u ha 'ilo mo mahino 'o fekau 'aki mo e founda ngaue 'oku fakalele 'aki 'a e ngaahi pisinisi Tonga 'i Nu'u Sila ni.

Koe 'ola 'o e fekumi fakaako ni 'oku 'amanaki ke 'aonga kihe;

1. Fakalele lelei 'o e ngaahi pisinisi 'o e kakai Tonga 'i Nu'u Sila ni
2. Fakalele lelei 'o e ngaahi pisinisi 'o e kakai Pasifiki 'oku nau 'i Nu'u Sila ni
3. Fokotu'utu'u ha founda ngaue (Policy) moe tokoni (assistance) kihe ngaahi pisinisi 'a e kakai Pasifiki 'i Nu'u Sila ni meihe Pule'anga.
4. Langa ke kaukau 'a e tu'unga fakapa'anga 'o e ngaahi pisinisi 'o e kakai Pasifiki 'i Nu'u Sila ni.
5. Tanaki atu kihe tu'unga 'ilo faka ako kihe mala'e 'o e pisinisi 'oku fakalele he kakai meihe 'Otumotu Pasifiki.

Ko e fakaafe eni pea moe kole keke kataki 'o tokoni mai kihe fekumi fakaako ni 'aki ha'o kau mai kihe ni'ihī oku faka'amu ke fai mo kinautolu ha fepotalanoa fekau'aki moe founda 'oku nau fakalelei mo tataki 'aki 'e nau pisinisi. Koe taumu'a ke tau ma'u ha femahino'aki 'o fekau'aki moe ngaahi faingatamaki 'oku fepaki moe fakalele pisinisi 'i Nu'u Sila ni.

Neongo e toko si'i 'a e ni'ihī 'e fakaafe'i ke kau mai kihe fekumini (6-8), 'oku mai fakapapau'i 'e 'ikai fakaha hōnau hingo'a ha taimi tukukehe hanau loto kiai.

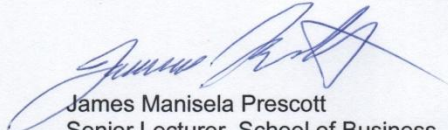
'Oku ou faka'amu keu fetu'utaki atu he ngaahi uike ka hoko mai ke fakapapau'i ha taimi 'oku ke faingamalie ai ke fai ha potalanoa. Kapau 'oku ke loto lelei pe keke kau mai kihe fekumi fakaakoni peake kataki o fetu'utaki mai kihe fika telefoni oku ha 'i lalo.

Kapau teke fili ke kau mai kihe fekumi fakaakoni, 'oku mau fakapapau'i 'e 'ikai fakaha 'a e 'ola 'o e fepotalanoa'aki kiha toe taha tuku kehe au pea moe ongo palofesa 'oku hiki 'i 'olunga.

Ko e ola 'o e fekumi fakaako ni 'e pulusi ia he tohi fakatoketa 'oku 'amanaki keu fa'u. Ko e tohi ko e ni 'e 'ikai hā ai 'a e hingoa 'o kinautolu 'oku kau mai ki he fekaumi pea 'e liliu honau hingoa ki ha mata'i fika ke malu'i ai honau hingoa.

Ko e fekumi fakaako ni 'o ku 'osi paasi ia me i he komiti 'efika 'a e univesiti. Kapau ,oku 'iai hao fehu'i 'o fekau'aki moe fekumi ni pea ke fetu'utaki ki he Executive Secretary, ATEC, Madeline Banda, [madeline.banda@aut.ac.nz](mailto:madeline.banda@aut.ac.nz) , 921 9999 ext 8044.

Faka'apa'apa atu,



James Manisela Prescott  
Senior Lecturer, School of Business  
The Auckland University of Technology (AUT)  
Private Bag 92006  
Auckland 1020  
New Zealand

Office: WF937, 9<sup>th</sup> Floor, Cnr Wakefield Street and Mayoral Drive, Auckland  
Email: [james.prescott@aut.ac.nz](mailto:james.prescott@aut.ac.nz)  
Phone: 09-921 9999 ext 5786  
Facsimile: 09-921 9990



## Appendix 5 – Information to Participants (English)



### Information for Participants

Dear .....

I am a Senior Lecturer in the Auckland University of Technology's Business Faculty and am currently undertaking research towards my Ph.D. I am writing to request your assistance in this research project. My principal supervisor is Professor Keith Hooper and my advisor is Professor Deryl Northcott, both of the Business Faculty at Auckland University of Technology.

The aim of this project is to understand current business practices among Tongan businesses in New Zealand in terms of how they are linked to business sustainability and or business closure. The study seeks to determine the key financial and entrepreneurial drivers of Pacific Island business success or closure based on case studies of Tongan owned or operating businesses in New Zealand. The result of this research will assist Pacific Island businesses in New Zealand become more sustainable through having a clear understanding of the challenges and issues they face. The research will also assist policy development both central and regional with respect Pacific Island businesses in New Zealand. The long term outcome will be to increase business success and prosperity among Pacific Island people in New Zealand

It would be much appreciated if you could participate in a discussion regarding your current business with a view to better understanding the threats and opportunities encountered. With your permission the research will also aim to collect information through participant observation and any other documents or information supplied by yourself from which a case study can be developed.

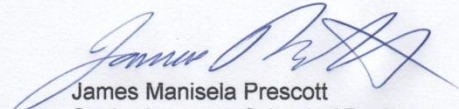
Although the target number of case studied for this research is between 6-8, anonymity of each case business will be assured.

As a follow up to this letter, I will be in contact with you over the next two weeks to arrange an interview should you decide to participate in the project. Should you decide sooner to participate in the project, please feel free to contact me. My contact details are noted below.

Should you be happy to offer your comments, you are assured of complete confidentiality. Raw data (interview tapes and emails) will be kept secure. The research data will be available only to myself and my principal supervisor. Results of the study will be published in aggregate form via the doctoral thesis, academic papers and conference presentations.

Participants will be identified only by code reference without disclosing the organisations or participant's name. A copy of any publications arising out of my research will be sent to you for your comment prior to submission for publication. This study has ethical approval from the Auckland University of Technology Ethical Committee (AUTEC reference no: 05/177 dated 20<sup>th</sup> September 2005). Any concerns you may have regarding the conduct of the research should be notified to the Executive Secretary, AUTEC, Madeline Banda, [madeline.banda@aut.ac.nz](mailto:madeline.banda@aut.ac.nz) , 921 9999 ext 8044.

Yours sincerely,



James Manisela Prescott  
Senior Lecturer, School of Business  
The Auckland University of Technology (AUT)  
Private Bag 92006  
Auckland 1020  
New Zealand

Office: WF937, 9<sup>th</sup> Floor, Cnr Wakefield Street and Mayoral Drive, Auckland  
Email: [james.prescott@aut.ac.nz](mailto:james.prescott@aut.ac.nz)  
Phone: 09-921 9999 ext 5786  
Facsimile: 09-921 9990

## Endnotes

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<sup>i</sup> From Art and Public Money cited in (Holroyd, 1989, p. 251)

<sup>ii</sup> The closest translation of the word sharing is *fi tokoni'aki* which literally means helping one another.

<sup>iii</sup> Traditionally woven fine mats and tapas were made from bark and other dried plant extracts that lacked colour. With the introduction of coloured material, balls of wool and feathers, traditional crafts are now able to capture the vibrant colours of the Pacific. Examples include the elaborately coloured *tevaivais* (bed spreads) richly coloured *kulasi* (tassels) of the fine mats and the bright patterns in the *me'a hina* (pale or white woven mats) and ceremonial *kafas* (traditional belts).

<sup>iv</sup> Later renamed 'Pacific Business Trust' is a crown entity established by the government in 1985 to assist Pacific Island people into employment and private business through training, mentoring, business advice and establishment loans.

<sup>v</sup> *Yaqona* is a ceremonial drink derived from the root of the piper *methysticum* plant. The drink is regarded as being sacred in Fiji.

<sup>vi</sup> A *matāpule* is a spokesman appointed by the royal family or nobles. The position is associated with a title name.

<sup>vii</sup> A *kava* ceremony is the Tongan equivalent of the Fijian *Yaqona* (defined earlier in note 4) ceremony where a group of usually men gather together in a formal meeting to talk and discuss issues.

<sup>viii</sup> *Va* is the Tongan word for space but also refers to the concept of relationship between individuals.

<sup>ix</sup> *Faka'apa'apa* refers to the Tongan customary relationship of respect between a brother and sister. The relationship of brother and sister in the Tongan community includes cousins of the opposite sex.

<sup>x</sup> *Faletapu* is the Tongan word for church or sacred building.

<sup>xi</sup> *Hako* meaning family line traces a person's identity back to their main family group. Given the relatively small size of the Tongan community, in most cases announcing your family name will establish a link between the researcher and the research participant.

<sup>xii</sup> *Feitu'u* meaning place or region is an important part of a person's identity. The region referred to here is not their current residence which is often a New Zealand address, but the region in Tonga where they originally came from.

<sup>xiii</sup> *Fakatapu* refers to the Tongan manner of acknowledging and honouring those who are present. The salutation and acknowledgement follows a strict order beginning with the God, the royal household, members of the aristocracy and or nobility, ministers of the crown, other members of the House of representatives, appointed orators or *matāpule*, ministers of the church follows lastly by the general public. It is also common to acknowledge the *fonua* or land as part of the salutation process.

<sup>xiv</sup> *Fakamolemole* in Tongan means forgive.

<sup>xv</sup> Communication using hands in this context does not necessarily mean sign language in the formal sense but any form of hand signal.

<sup>xvi</sup> The Pacific Business Trust is a New Zealand crown entity established to promote the development of Pacific Island business in New Zealand.

<sup>xvii</sup> Participants were assured that the consent form was intended for their protection and for transparency while the recording equipment was to ensure accuracy in capturing the discussion in a non-disruptive manner.

<sup>xviii</sup> The recent case of the Minister for Small Business John Tamahere being recorded on tape as having made damaging comments against the Government (and eventually leading to his stepping down from office) argued that he thought the recorder was actually a mobile telephone.

<sup>xix</sup> Here order refers to the existence of trust between transacting parties and the absence of malfeasance.

<sup>xx</sup> The ASRB is a statutory board established by the Financial Reporting Act 1993 to develop and implement accounting standards for use in financial reporting.

<sup>xxi</sup> Exempt companies are not required to comply with the accounting standards approved by the ASRB. However they are still required to furnish accounts for tax purposes. The minimum disclosure requirements for exempt companies are set out in the Financial Reporting Act 1993.

<sup>xxii</sup> The New Zealand differential reporting framework allows companies who qualify a number of concessions in relation to financial reporting disclosures.

<sup>xxiii</sup> Cottage industries refer to small businesses that are operated as a supplement to a household's primary income. They are characterized by their small size and ad hoc casual nature of their operations. For many cottage industry operations, they emerged from traditional Tongan arts and crafts carried out by women's groups that were produced primarily for ceremonial events.

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<sup>xxiv</sup> Base on information gained from discussions with business consultants from the Pacific Business Trust BC1.

<sup>xxv</sup> (NZIAS16) New Zealand equivalent to international accounting Standard 16 – Property Plant and Equipment published by the New Zealand Institute of Chartered Accountants (NZICA)

<sup>xxvi</sup> New Zealand equivalent to international accounting standard 37 – Provisions, Contingent Liabilities and Contingent Assets

<sup>xxvii</sup> MYOB – Mind Your Own Business is an accounting software package popular in New Zealand among small to medium size enterprises.