

New Zealand Trade & Enterprise's response to the Productivity Commission's draft report titled *New Zealand firms: reaching for the frontier*

Thank you for inviting submissions for this important topic.

This response is structured into five parts:

1. Introduction
2. Points of agreement
3. NZTE's recommendations
4. Feedback on specific Productivity Commission recommendations in the report
5. Conclusion

1. Introduction

Background to NZTE

New Zealand Trade and Enterprise ("NZTE") is the Government's international business development agency. It is a Crown entity, operates under the Crown Entities Act 2004, the Public Finance Act 1989 and the NZTE Act 2003. Its purpose is to grow export businesses internationally for the good of New Zealand. This includes two core activities: to support exporters to success, and to help match investment opportunities with capital and international connections.

NZTE plays a critical role in the trade and innovation eco-system. It supports businesses to grow, enter new markets and expand exports into existing locations. It works with New Zealand's other internationally facing and innovation agencies, including Ministry of Business, Innovation and Employment (MBIE), Ministry of Foreign Affairs & Trade (MFAT), Ministry for Primary Industries (MPI), and Callaghan Innovation (CI).

NZTE has two sets of customers: export customers and investment customers. Export customers are companies growing from New Zealand (NZ), and investment customers are the companies, sectors and regions it works with to develop investment opportunities, and the investors with whom we match these opportunities. It also works with coalitions, which are self-selected, business-led groups of customers that are willing to work together on a common opportunity, challenge or go-to-market purpose.

In 2020, NZTE engaged and worked with approximately 6,000 export customers with a portfolio value of around \$40 billion. It has more than 2,200 investment customers with a pipeline valued at \$8.9 billion. The nature of these companies is diverse, including food and beverage producers, manufacturers, Māori, tech firms, service providers and more.

2. Points of agreement from the draft report

NZTE agrees with The Productivity Commission's (The Commission) finding that:

1. The reasons for NZ's weak productivity performance and underperforming frontier firms include:
 - The small size of the domestic market and its distance from large international markets;
 - Businesses are typically capital shallow; and
 - Not enough goods and services command a premium.
2. NZ needs more large exporting firms at scale. Successful Small Advanced Economies (SAEs) tend to have developed disproportionately high numbers of large multinational companies. Thanks to their scale, these can invest more, spend more on research & development, innovate and export.
3. NZ needs a "nursery" to grow these firms – an effective and high-performing innovation eco-system. Currently however, the cost of innovation is relatively high.
4. This innovation eco-system and its leadership capabilities need to improve, with clear roles, responsibilities and incentives across the public and private sectors.
5. Innovation happens on the edges. NZ should focus on carefully chosen sectors where it is determined to have a competitive advantage and/or there is an addressable market opportunity for innovative niches.
6. There is a significant opportunity to foster and learn from Māori frontier firms.
7. NZ should learn from other SAEs on what levers are the most impactful to drive great productivity.
8. Any change needs to support sustainable and inclusive economic recovery and growth.

3. NZTE's recommendations

NZTE makes the following additional commentary regarding the Commission's recommendations.

Recommendation 1: Shift the productivity focus to “beyond the enterprise”

NZTE recognises and celebrates the inspiring innovation that happens within enterprises driven by skilled and passionate entrepreneurs. However, systemic innovation remains limited, and it agrees with the draft report's recommendation that an innovation ecosystem needs to be designed and built at speed.

Accordingly, NZTE recommends that New Zealand establish an innovation ecosystem that is “beyond the enterprise”. NZTE believes this ecosystem needs to stretch well beyond the enterprise to create a joined-up public-private sector approach that is informed by external/industry leaders.

To achieve this, NZTE recommends:

(a) Prioritise sectors and identify niches.

NZ has a proud history in innovation and its response to COVID-19 has heightened global interest, positioning NZ as nimble, decisive, and a country that thinks differently. However, given the size and location of the domestic market, limited resources and funding, NZTE recommends that this innovation ecosystem focus on two key areas:

1. Sectors where it is determined that NZ has a competitive advantage and/or there is an addressable market opportunity for innovative niches; and
2. “Missions” or big challenges facing NZ.

From today's current state, NZTE believes that the best possible sector selection is to commit to the current Industry Transformation Plans and the sectors and sub-sectors within them.

(b) Engage external expertise and perspectives.

NZTE suggests getting an “external” expert unincumbered by past attempts and current settings but who has an understanding of the complexities and dynamics at play. NZTE proposes that [Larry Keeley](#) is engaged in this process. Keeley is one of the top Innovation Ecosystem designers in the world, working out of Stanford University. He is engaged in NZ through a range of companies including Fonterra, NZ Merino and Callaghan Innovation.

Keeley has developed a framework, which comes from his academic study, that provides a useful lens through which to look at our innovation ecosystem. He advocates that NZ needs to design for velocity, efficiency, sustainability, and systemic transformation. To do so, he has identified eight pillars he considers are necessary for an innovation ecosystem to work with full force:

1. Conventions - shared advances you agree upon - make you efficient
2. Standards - simplified and streamline aspirations - make you safer
3. Metrics - drive transparency and efficacy - make you accountable
4. Integrated tech stacks - accelerate your clock speed - make you agile
5. Creative commons - improve collective progress - make you integrated
6. Tech and research hubs crack tough problems

7. Regulators ensure compliance with standards - drive consistency
8. Capital providers lubricate action - make participants move faster

NZTE believe that this framework could provide an overarching structure to guide the evolution of NZ's innovation ecosystem. Keeley talks to the essential tension between “individual, isolated, decentralised advances” (that NZ has a lot of) and “collective advances that change entire sectors” (that are orchestrated and not just serendipitous). The overall outcome is that a social and business model is built that can take New Zealand to the world, in a way that is good for the world.

(c) Ensure implementation, governance and accountability.

To deliver the level of transformation required, NZTE notes that the challenge lies in implementation.

- NZTE believes this approach needs to be “beyond the enterprise” - a collaborative, public-private sector structure, that is informed by external/industry leaders and led by MBIE.
- It advocates that a dedicated group is established that is responsible for the design and implementation of the ecosystem.

Academic research is clear that, when corporations launch transformations, roughly 70 percent fail. The challenge is amplified with any public-private sector collaboration, particularly at the scale required to shift current performance levels. NZTE strongly advocates that a robust implementation discipline underpins this transformation. This includes:

- Clear system-wide ownership and commitment to change and collaboration
- Sufficient resources and capabilities
- Clear accountability
- Continuous improvement during implementation
- Appropriate incentive structures
- Effective programme management
- The establishment of a cross-agency innovation hub.

(d) Establish a cross-agency innovation hub.

To help overcome the evident execution challenges, NZTE proposes that a dedicated innovation hub be established as a priority. Members should include NZ Inc agencies (Treasury, MBIE, CI, MPI, MFAT and NZTE), Crown Research Institutions, tertiary institutions, private sector representatives and thought leaders. This group will need a clear mandate, agreed roles and responsibilities, be well-governed and held to account. NZTE believes that Ministerial oversight and responsibility are required to implement this, with MBIE best placed to own this process. We suggest the existing Economic Chief Executives' working group provides the oversight of this “beyond the enterprise” innovation hub.

Recommendation 2: Measurement and evaluation

NZTE is an avid measurer. We support individual programme evaluation, performance tracking and metrics to drive delivery, accountability and continuous improvement. This measurement is underpinned by an elaborate system of scorecards, powered by a Business Information system. Through this system we measure participation in Export Deals, Growth Outcomes, Perceptions of value, Potential Economic impact, Realised economic impact, and many other outcomes. This measurement system itself is under constant change and improvement, and to that end NZTE is keen to explore the Commission's suggested use of the Longitudinal Business Databases. NZTE does currently have a longitudinal approach, but if the Commission can bring additional expertise to this exercise then it would be most welcome.

However, despite this strong commitment to measurement, NZTE, and its monitoring agencies, are faced with a fundamental dilemma. That is, while agencies can measure aspects of performance, and track continuous improvement, it is not possible to quantify the overall impact that NZTE has on the export economy. There is no quantitative methodology that can attribute the totality of NZTE efforts to the growth of the NZ export sector. There are two reasons for this dilemma:

1. It is impossible to know the 'counterfactual' case of what would have happened if NZTE did not exist. There may have been growth and innovation occurring anyway, or not.
2. It is impossible to isolate the variable of NZTE's intervention regarding a specific company, separate from exchange rates, commodity prices, variations in management capability, variations in sector and company size, changes in other NZ policy settings, other agency activity, and changes in international settings.

This fact is not only recognised in NZ but is an outstanding dilemma across the entire global trade promotion community.

This matter came under specific scrutiny during the inaugural performance review (the 'PIF') of NZTE in 2011, where the Lead Reviewer was Dr Murray Horn, former-Head of the NZ Treasury. In particular, Dr Horn observed the inordinate amount of resources that both NZTE and the then monitoring agency Ministry of Economic Development (MED) had committed to (not) answering these questions, and the significant tension and distraction that these questions caused. Therefore, in conjunction with Treasury and MED, Dr Horn established that NZTE needed to determine an 'intervention logic' to guide its fundamental 'where to play' questions, rather than trying to measure its way to answer the question of attribution. It helps define whether NZTE should intervene and, if intervening, what NZTE's role should be.

The intervention logic that Dr Horn established can be summarised as follows. The emphasis in the NZTE intervention logic is on Complementary Public Inputs. These inputs relate to the resources, skills or core competencies that NZTE can bring to bear in support of business. The logic has four pillars:

1. Leveraging the imprimatur of Government in international markets (where international governments are the purchaser, but also any country where the government connectivity is a prerequisite for business)
2. The ability to act on behalf of NZ to reduce transaction costs and create scale (virtual 'multinational' effect)
3. Commercial neutrality with independence and objectivity (which underpins the Government as a trusted advisor)
4. The ability to leverage business goodwill, for example sourcing private sector advisory to help NZ companies grow

Therefore, NZTE has some concerns (perhaps unfounded) that some of the Commission's recommendations will result in unproductive activity to try to establish attribution measurement. Rather than go there, NZTE would be much more enthused about the evolution of the programmatic measurement system, and the gathering of insights of how performance can be improved over time.

Recommendation 3: Investment attraction strategy

NZTE notes that the Government's Investment Attraction Strategy was developed and launched in 2015. It also notes that the Labour Manifesto has committed the Government to a new strategy to encourage high-value investment into New Zealand. It agrees with The Commission that efforts to attract foreign investment should also be better targeted, and that this supports NZ's innovation efforts. The key is getting the right kind of foreign direct investment, which has not been the case historically for NZ. This should cover individuals to small-medium sized enterprises to multi-national corporations.

To support this strategy, NZTE believes that a more attractive investment climate needs to be created if the income gaps with Australia and other member countries of the Organisation for Economic Co-operation and Development are to be closed within any reasonable time frame.

NZTE's observation is that the implementation of this investment strategy is constrained by two dilemmas:

1. A range of philosophical views of the benefits of international investment into NZ's economy – when is investment good for NZ and when is it not. This existential debate constrains momentum and progress.
2. There is a proliferation of Government agencies involved in investment attraction and matching. This includes MBIE's Innovation Partnership programme and Provincial Development Unit, NZTE, NZ Growth Capital Partners, CI, and the regional business partner network. While each agency has an important role to play, there is an absence of a clear mandate and strategy.

NZTE supports the original investment strategy and undertakings made in the Labour Manifesto. It believes these commitments should be delivered at pace.

4. **NZTE feedback on specific Productivity Commission recommendations**

NZTE broadly agrees with most of the draft report’s recommendations and provides the following feedback:

Productivity Commission Recommendation	NZTE Feedback
<p>2.1 The Government should develop a clear overall strategy and take deliberate steps (in collaboration with business, workers, educators and researchers) to upgrade New Zealand’s innovation ecosystem and support the export, at scale, of goods and services with a difficult-to-imitate competitive advantage</p>	<p>NZTE agrees with this recommendation. NZ needs an ecosystem approach that fosters innovation around specific sectors where it may have a competitive advantage and/or there is an addressable market opportunity for innovative niches; that it gets external expertise involved; and is underpinned by robust implementation disciplines.</p>
<p>4.1 The Government should facilitate a Hui Taumata (national Māori business summit) of iwi and Māori business stakeholders and workers. The Hui Taumata would:</p> <ul style="list-style-type: none"> • enable a national discussion by Māori for Māori on ways to support productivity, growth, innovation and resilience in the Māori economy; • focus on defining the Māori economy and consider ways to improve the Māori business ecosystem; and • formulate ideas for how the Government and Māori business networks can work better together. Scoping of the Hui Taumata could be led by Te Puni Kōkiri, working closely with the Ministry for Business, Innovation and Employment, the Treasury, the Ministry for Primary Industries, and the Māori Economic Development Advisory Board. 	<p>NZTE agrees with this recommendation. It has a set of Māori-specific outcomes it aims to deliver each year supported by dedicated Māori expertise. It proposes that it should be engaged in the Hui Taumata and specific deliverables be set.</p>
<p>5.2 NZTE should regularly commission independent evaluations of their services. These evaluations should assess the effectiveness of their range of services, to inform choices around the future mix and design of services. To facilitate evaluation, businesses receiving NZTE support should be tagged in the Longitudinal Business Database to allow for more robust long-term assessment of NZTE’s performance.</p>	<p>As outlined in NZTE’s recommendation #2, it is happy to explore The Commission’s suggested use of the Longitudinal Business Databases to help track the performance of its customers. However, it is concerned if the intention is to develop a methodology that attributes NZTE’s performance to the overall performance of the export economy.</p>

<p>7.7 The Government should review the suite of programmes designed directly to assist firms with innovation and exporting. The review should identify and implement ways to:</p> <ul style="list-style-type: none"> • reduce and consolidate the number of programmes • simplify the process for firms to apply for assistance; and • make it easier for firms to identify and access relevant programmes, including by providing a common platform and “front door” across programmes. 	<p>NZTE agrees that access to expert and innovative services should be made easier. For speed and efficiency, NZTE proposes that the common platform and “front door” across programmes reduces complexity and accelerates access.</p>
<p>8.1 NZTE currently provides its customers with access to a range of coaching and support services to help build firm-level capabilities. These services should be evaluated for their effectiveness.</p>	<p>As per the above response to The Commission’s recommendation 5.2, NZTE is committed to continuous improvement and is happy to explore the use of the Longitudinal Business Database. Its current measurement framework and range of metrics measure improvement and the impact of specific programmes.</p>

5. Conclusion

The benefit of increasing the overall productivity levels of NZ’s firms is substantial, but so is the challenge. To create a material shift in productivity levels, an innovation ecosystem is required that brings together the public and private sectors, informed and assisted by external experts. NZTE believes that a dedicated group is established that has a clear mandate and accountability to implementation of the plan.