

New Zealand Productivity Commission
PO Box 8036,
Wellington 6143

05 February 2021

Submission by Venture Taranaki on New Zealand firms: Reaching for the frontier.

Venture Taranaki is the regional development agency (RDA) for the Taranaki region, and thanks the New Zealand Productivity Commission for the opportunity to comment on the *New Zealand firms: Reaching for the frontier* document.

As it is for Aotearoa New Zealand, productivity will be a key area of growth for the Taranaki region going forward. Its importance has already been recognised in our strategic documents including Tapuae Roa (Taranaki's regional development strategy) and our Taranaki 2050 Roadmap for transitioning to a low-emissions future.

Venture Taranaki works alongside enterprises of all sizes and sectors to assist their development – either supporting growth aspirations and/or helping overcoming challenges and barriers inhibiting firms from achieving their full potential. This includes working with businesses from pre start-up and emergent to maturity. We also operate across the key sector work that is carried out in Taranaki, investment attraction and exporting. This leadership and facilitation role puts us in a great position to get first-hand visibility of innovative productivity changes in action and gives us an understanding of what works for businesses in Taranaki, and what will help ensure Taranaki has resilient enterprises, economies and communities.

Our Submission

Overall Venture Taranaki commend the findings and analysis in this paper, particularly that Government should commit to a long-term, stable, bipartisan, innovation policy including steady and increased R&D and innovation funding and support, alongside building business level capability and confidence to innovate. That support however should not be restricted to a few narrow options, i.e., not limited to pure research funding and tax credits (as the latter are complex and narrowly defined currently) but also include partnership grants and small easy-to-access grants for SMEs, so they can build their R&D skills and confidence to invest. And the emphasis needs to be on the “D” part of R&D for these. We also consider that while duplication is not helpful, multiple tools are – different supports have differing impacts and help ensure a cohesive approach to addressing a complex issue.

Furthermore, in terms of additional levers to accelerate the growth of frontier firms, attention should be given, not only to the firms themselves, but the specialist systems and industry clusters and geographic localities within which they operate. We therefore wish to suggest greater consideration be given to the fostering of strong regional economies based on clusters of businesses which have led to productivity increases in other small-advanced economies and what should be done to encourage these in New Zealand (or a 'place-based' as well as sectoral approach).

Specific feedback and recommendations by report Chapter is detailed below:

Chapter 5 – Exporting and innovation

Success in productivity, innovation and exporting are linked. It can be challenging to export from New Zealand because of our smaller firms, domestic market size etc. New Zealand lacks large exporters and the value these bring (canopy cover etc). It makes sense therefore to focus on product specialisation, which may be a range of things, including specialising in the production method.

We agree that the scope of exporting natural resources is limited but that conclusion is predicated on a volume play. We think that it is still a sector/area NZ should continue to focus on/leverage (in a value-add play) from hydrogen-enabled opportunities, to pharma- and nutraceuticals from dairy etc.

Support from NZTE is hugely valuable and important. Alongside this is support from RDAs like Venture Taranaki and the Regional Business Partnership, providing a pipeline to NZTE developing future exporters, encouraging and facilitating collaborative approaches, ensuring connections and networks are fostered, supporting R&D and increased business capability, confidence and skills.

Venture Taranaki supports the 3 areas of building scale on pp70-71 and the link to innovation ecosystems.

Recommendation 5.1: We agree that focus should be on existing domestic strengths. We recommend adding to this, the importance of regional spread/dispersal and a 'place-based' lens as well as a sectoral lens.

Section 5.3: Most government funding currently seems to exclude capital equipment, but the financial risk associated with scaling up to export can be directly linked to the need for this capital.

Section 5.4 p 74: We believe it is important to note the value of strong regional entrepreneurial ecosystems and the support RDA/EDAs bring to export firm growth and capability, and in extending NZTE's spread, depth and pipeline. The Regional Business Partner Programme is not only about supporting individual small/emerging businesses, it also underpins and supports a wider group of enterprises and capability in both enterprises and in the ecosystem wrapped around them.

Chapter 6 – Innovation ecosystems

From the comparison of New Zealand’s small, advanced economy to the small advanced economies that the NZPC highlight, there is a missing key detail in regards to diffusion of productivity and innovation – this being the role that regional clusters and collaborations and geographical specialism play in fostering and underpinning such frontier firms, their productivity, innovations and growth.

Many of the leading high productivity countries identified in the NZPC report show multiple strands of evidence that frontier, specialist high-growth firms are not located randomly but often located within strong regional economies that are centred on clusters/specialisations that underpin their business focus. For example, geothermal specialist firms tend to be located in regions where there is geothermal resource, similar firms and related infrastructure; frontier Information technology firms often opt to locate in ‘Silicon Valley’ and even ‘weightless industries’ such as film, tend to have their frontier base or hub in Hollywood, Bollywood etc.

The research, logic and interface of geographic specialism and clusters with frontier firms is emphasized in publications such as Michael Porter’s the *Competitive Advantage of Nations* – which highlights that frontier firms are not randomly scattered within a nation but are often geographically clustered; and more recently Christian Ketel’s European research confirming the regional relationship between clusters and positive economic outcomes, and many others. What this research, and many others are conveying is that spillovers and the diffusion of tacit information often has a tight geography.

The commonality of the advanced countries identified in the report is that they place a strong connection on the development of frontier firms with their interface with regional clusters and specialism.

Furthermore, many such countries have established sector and cluster programmes and initiatives to underpin their regional cluster development. In New Zealand, we have sporadically supported this and should look to continue this support with renewed focus.

In other words, such countries recognize that whilst clusters are a natural occurrence, cluster development is a deliberate intervention to raise cluster competitiveness and the firms within it. By doing so, the competitiveness, productivity and growth of such frontier firms can also be accelerated.

These interventions include the provision of commercially neutral facilitation support often undertaken by the local RDA, development of plans and activities to foster co-operation/co-opetition to enable and accelerate the development of specific specialist services and infrastructure, training and capability building, sharing of specialist knowledge, access to

technology, shared transportation, and the importance of social infrastructure when such firms share discussions on challenges and opportunities and support.

Presently resources have been dedicated to our national agencies to develop “Industry Transformation Plans”, but they are at risk of disappointment in delivery if they fall short in consideration and resourcing for regional sector/cluster linkages.

VT recommendation: Consideration be given to develop cluster development programmes as a means to further accelerate frontier firms in New Zealand, leveraging international learnings and linking with industry transformation plans.

Section 6.1: It is important to understand that innovation is also limited by market factors and competitive advantage, i.e., if another country is already doing something well then can we compete in that space?

Section 6.3, p 82-83: We agree, however we do need to ensure we play to our national and regional strengths (e.g. food and fibre) not trying to create new industries (e.g. movies or space – the focus here instead should be on digital tech as that’s where our strength lies). Note that sector innovation is interdependent, e.g. we can’t/won’t have a highly productive agritech sector without a strong food and fibres sector (as a domestic market and test-bed for agritech).

We would like to applaud the references to ‘place-based’ approaches, e.g. page 88 and Denmark. This is worth exploring further for Aotearoa New Zealand.

We agree that IP is most certainly not the ‘magic bullet’ and the emphasis on this in research incentives (eg ‘number of patents’ measures, unstable funding, CRIs being driven to a profit model) currently is not helpful.

Chapter 7 – Innovation policy and New Zealand firms

The government funding system is arguably overly competitive, bureaucratic and costly. Our own observation is that numerous groups give up on seeking funding due to the process or require significant support to meet the requirements of process despite having investable propositions. EDAs/RDAs play a valuable role helping navigate this, but we struggle to keep up and find it challenging to navigate, including understanding rationales for funding decisions which are also often confusing.

NZFIN is hugely valuable to those regions with those facilities. These facilities lacking in other regions are a barrier to innovation and value-add opportunities.

Overall, we agree that NZ needs stronger public sector innovation experience **and** better connections with regional actors ‘on the ground’ (eg RDAs/EDAs). The ITPs and the draft RSI need to be better linked), provided the areas selected build on existing strengths (e.g. food) and are not limited to niche areas such as movies, space.

Recommendation 7.3 and particularly the need to include areas of existing strength for NZ with greater potential (e.g. food and fibres/primary sector) is in line with this.

Figure 7.5: We are aware of a proposal to provide a digital navigator concept across government funds that was not invested in by agencies as not seen as a priority. This could assist significantly.

Rec 7.6: We agree services should be regularly evaluated and assessed to understand their impact, and identify room for improvement etc., allowing decisions can be made on the back of a robust evidence base, and that there should be support for both individual firms and for collaborations. It is important to support both in order to build the export firms of the future as well as support the growth and productivity of our existing exporters.

Rec 7.7: We recommend that regional agencies are utilised more so than currently. We do not need funding to be centralised or heavily controlled by central government agencies. Government should utilise objective third parties, such as RDAs/EDAs, who know regions and enterprises more deeply.

Reg 7.8: We agree, but also believe it is critical to ensure that we seek to tap knowledge and connections of 'people on the ground'.

Small note: Page 97 Figure 7.3, Ara Ake (New Zealand's national energy development centre) is missing from this listing; it has central government funding of \$7m per annum for low-emissions energy technology development.

Chapter 8 – Talent and leadership

We strongly agree that having MNC's helps develop and grow people, best practice, and the whole region (there are many spill-over benefits). Taranaki's experience with the energy sector is an excellent case study of this.

We often see that it is financially prohibitive to retrain mid-career, especially if you have a mortgage and family (the same can be said for starting a business too). We would like to see policy settings to reduce this barrier, such as micro-credentials. Likewise, it is even more difficult to retrain and upskill if living regionally.

Government support and funding is needed for investor migrants to move beyond passive to active investment in NZ business (MBIE research suggest they want to invest more and be more involved but lack connections and knowledge of NZ business to do so). RDAs/EDAs can again assist with this.

Alternative ways to support market research and validation capability in Frontier firms should be considered (either boost NZTE or develop talent capability through funding students in this, in a similar way that science and tech research do).

There should be reduced costs to individuals for training in critical fields (like apprentice boost for vocational training) by making it cheaper to study. The report suggests one option of tying PhD work to industry-specific projects and much greater integration of industry and research. Venture Taranaki are on-board with this idea.

VT Recommendation: We recommend continuing to build on global entrepreneur schools/initiatives like Te Hono and NZTE's offshore business FAMILs that encourage a global perspective.

We need to look at ways skilled migrant visas can have conditions around knowledge transfer and NZ talent capability development.

Chapter 9 – Innovation enabling regulation

Gene editing should be considered for NZ in line with recommendation 9.4. We are falling behind but also missing significant opportunities for pest control etc.

Figure 9.1: Energy regulation - Offshore renewable energies is another example where a lack of clear regulatory framework is deferring significant investment.

Venture Taranaki thanks the New Zealand Productivity Commission for the opportunity to comment on the ***New Zealand firms: Reaching for the frontier.***

Michelle Jordan,
General Manager, Enterprise
Venture Taranaki Trust