

EXECUTIVE SUMMARY

Many other small advanced economies succeed by exporting high value differentiated goods and services and New Zealand should do the same. Commodity agriculture and tourism, the mainstays of our export economy, do not have high enough productivity or growth potential to allow New Zealand to rejoin the ranks of the world's most prosperous nations. Information, communications, technology, niche manufacturing and value-added goods and services based on primary production are high productivity sectors where differentiated exports can be grown.

New Zealanders are inventive and have a high rate of business start-ups, including many businesses aspiring to succeed internationally by selling differentiated goods and services. There are many success stories and a large number of emerging businesses demonstrating success is possible.

These successes are not enough. Many internationalising businesses find it difficult to obtain the capital required for expansion and many struggle to assemble the talent needed to be successful. New Zealand's internationalising businesses are smaller than businesses in other countries when they internationalise and they are far from their markets. Other countries do more to help their businesses succeed.

Capital does not seem to be an important constraint for very small start-ups with early funding available from 'family, friends and fools' or by mortgaging the house. Angel networks are established and growing in New Zealand and are an important source of funding for up to about \$1 million to \$2 million per business.

Venture capital from the New Zealand Venture Investment Fund (NZVIF) and partners also provides some funding for up to a few million dollars per business. Private equity firms make some investments in stronger businesses down to about \$5 million. It is generally accepted though that once expansion capital is required beyond about \$2 million, many businesses will find it difficult to obtain funding in New Zealand and must attract international investors, which is hard to achieve.

Three proposals aim to increase the availability of capital for international expansion. The first is to revitalise the developing venture capital industry by establishing tax-based incentives to encourage investment and by requiring co-investment by international partners to access skills and connections.

The second is to extend those tax incentives to angels and others, and establish a fund to allow more New Zealanders to invest in new ventures targeting international markets.

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The third is to establish a loan guarantee facility that will lead to greater bank lending to internationalising businesses and encourage banks to establish specialised lending capability.

Launching a new product into a new and distant market is very difficult so specialised skills and knowledge are required. However, most New Zealanders who are leading and managing internationalising businesses learn on the job. Several proposals aim to lift the quantity and quality of talent available.

While New Zealand puts a huge amount of effort into training and recruiting doctors, nurses, teachers, and others whose skills are essential to economic and societal success, it is less systematic about supporting training in international entrepreneurship, despite the importance of talent and the potential to lift prosperity.

Entrepreneurship, especially international entrepreneurship, has been relatively neglected in New Zealand. Unlike many other countries New Zealand does not have a national entrepreneurship strategy to encourage and develop entrepreneurs, and it should.

Management competences are very important for internationalising businesses too. International marketing and sales, operations management and strategy skills can make a huge difference to the success of businesses and there should be more effort to manage the talent supply from an 'NZ Inc' perspective.

The proposal to address talent shortages for management roles is to establish world-class institutes to conduct research on what works, to train specialist managers, and to offer subsidised internships. The institutes should also provide content that can be delivered to people who require training but do not attend the institutes, for delivery by others. They should be established with a purpose to lift the quantity and quality of management in their specialisations throughout New Zealand.

The shortage of well-qualified directors should be addressed by requiring directors of companies receiving government assistance to have completed specific training in governance of internationalising businesses, or demonstrate relevant experience that provides them with that competence.

In addition, internationalising businesses should be able to access guidance from a panel of strategic advisors.

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There are also opportunities to improve domestic and international connections, to provide growing businesses with knowledge and resources that will reduce their costs and risks, and to help businesses access benefits from economies of scale.

Clusters are important ways to improve the productivity of businesses in the same sector and there should be renewed efforts to establish them here. Establishing colonies of New Zealand businesses in important locations around the world will help develop sustainable international connections.

The efforts of business academics in New Zealand should be focused more on research that assists internationalising businesses to be successful. Information such as standard contracts and how-to guides that are commonly needed should be provided from a single central source. Relevant research findings, commonly used information and opportunities to connect should be available via a single web-based clearinghouse with a strong brand.

An Innovation Council should be established to monitor the performance of the innovation ecosystem as a whole, including internationalisation success. The Council should review opportunities and obstacles, agree priorities and identify resourcing requirements. The importance of innovation to economic success, the large number of agencies and constituencies involved, and the high rate of change make coordination critical for success.

If New Zealand can become more prosperous by developing an innovation driven economy with high value differentiated exports, then it will attract more talent and capital, establishing a virtuous cycle.

Any one critical factor such as insufficient talent, capital, information and connections will be enough to seriously reduce success. A decision to remedy some but not all of the obstacles to world-class performance may lead to improved outcomes but the performance of the whole depends on the weakest link.

Many competing countries are improving their innovation performance too. We are in a race.

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