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Developing Kiwi global champions: Growing successful New Zealand multinational companies

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community



EXECUTIVE SUMMARY

Increasing the level of New Zealand's exporting and outward foreign direct investment (FDI) in a substantial way is a vitally important part of strengthening New Zealand's economic prospects. Achieving this goal will require developing many more global champion New Zealand firms with the capacity and aspiration to expand successfully into global markets.

Of course, New Zealand's small scale and isolation can make international expansion by New Zealand firms a daunting challenge. This goes some way to explaining why there are relatively few medium and large-sized New Zealand firms operating successfully in international markets.

Overcoming these challenges, and achieving a substantial increase in New Zealand's participation in the global economy, will require a deliberate, aggressive response by both business and government. Indeed, it is New Zealand's failure to respond with sufficient intensity that is the primary cause of New Zealand's relatively low level of international economic engagement rather than its geographic isolation.

Much improved performance is possible. New Zealand's international sporting success demonstrates that New Zealand has what it takes to create Kiwi global champions. The priority should be to apply the same standards to international business success as New Zealand does to achieving sporting success.

Developing many more Kiwi global champions will require meaningful

action from business and government. New Zealand's policy settings need to be configured to be as supportive as possible of international expansion by New Zealand firms. And there is a need for New Zealand firms to take advantage of global opportunities and be willing and able to move successfully into international markets.

The Institute's previous report identified four significant factors that needed to be addressed in order to assist many more New Zealand firms to expand into international markets. In particular, actions need to be taken to enhance financial incentives for firms to go global, to strengthen firm-level capacity with respect to international expansion, to increase New Zealand ownership of these expanding firms by increasing the domestic pool of capital, and to raise the level of aspiration around international success.

Four high potential areas for business and government action have been identified in order to respond to these issues, and develop more Kiwi global champion companies. These solutions are to reform the tax regime, to implement a bold savings policy, to encourage international expansion by State-Owned Enterprises (SOEs), and to improve corporate strategy around international expansion.

Reform the tax regime

New Zealand's tax system can be changed in two ways to improve the financial incentives around international expansion by New Zealand firms. First, we propose the introduction of an international market development

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rebate that will provide financial assistance to firms as they establish a presence in offshore markets.

Second, we propose that income earned from the active operations of New Zealand firms in international markets not be taxed in New Zealand. This will make New Zealand a much more attractive place to locate multinational activity.

Implement a bold savings policy

Increasing the size of New Zealand's domestic pool of capital will help to develop more Kiwi global champions in a few ways. First, increased savings will strengthen New Zealand's capital markets, enhance the supply of capital, and reduce New Zealand's high cost of capital. Second, a larger pool of domestic capital will raise the New Zealand ownership share of these companies as they go global, which will increase the likelihood that firms retain a New Zealand presence. And third, increased savings will moderate New Zealand's exchange rate cycle, making international activity more attractive to New Zealand firms. To achieve such an increase in savings, we propose an expanded version of the government's KiwiSaver scheme.

Encourage international expansion by SOEs

New Zealand has a relatively small number of large companies that are well placed to undertake substantial international investments. However, some of the government's remaining SOEs have the potential to make a material contribution to New Zealand's level of international economic

engagement through their investment activity. Historically the government's policy approach has been to discourage SOE expansion. We propose that this be changed to encourage some SOEs to explore the potential for international expansion, and that shareholding Ministers support proposals for international expansion where the business case stacks up. Issues around strengthening SOE governance and considering the ownership of SOEs should also be addressed in this context.

Improve corporate strategy around international expansion

The way in which New Zealand firms undertake international expansion is critical to creating a global New Zealand economy. There are particular challenges associated with going global from a New Zealand base, and this report identifies four features of corporate strategy as being important to successful international expansion from New Zealand: sustaining a long-term commitment to international success, developing world-class competitive advantage, moving into international markets in steps, and placing experienced people on the ground in foreign markets.

Improved corporate strategy is likely the most significant of the four areas identified. Public policy can and should be made more supportive of international expansion by New Zealand firms, but achieving much higher levels of exporting and outward FDI ultimately rests on whether sufficient New Zealand firms have the capacity and aspiration to become global champions.

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What this report begins to show is that there are concrete actions that business and government can take to improve New Zealand's level of international economic activity. There is no reason that New Zealand cannot generate global champion companies, just as New Zealand has over-produced sporting and cultural talent. But this will not happen spontaneously. It requires substantial and sustained investments by both business and government.

The actions identified in this report should generate a material increase in New Zealand's level of international economic engagement. These actions need to be supplemented with a series of other actions that were identified in the Institute's previous report; enhancing international market access for New Zealand firms; connecting New Zealand to the world through enhanced transport, communication, and people-to-people links; and

developing substantial new strengths in the New Zealand economy. These actions will be detailed in three further reports.

New Zealand needs to be much more ambitious about its international engagement. New Zealand's poor performance in terms of its international economic engagement reflects in large measure that these issues have not been taken sufficiently seriously. The policy environment has not been as supportive of international expansion by New Zealand firms as it could have been, and there have been issues around the capacity and aspirations of firms to undertake international expansion. Developing many more Kiwi global champions is possible but will require a sustained commitment from business and government in terms of taking meaningful action to create a supportive environment around international expansion.



DEVELOPING KIWI GLOBAL CHAMPIONS

CREATING A GLOBAL NEW ZEALAND ECONOMY:
PROJECT STRUCTURE

No Country is an Island

The importance of international economic engagement for New Zealand's economic future



Dancing with the Stars?

New Zealand's level of exports and outward FDI does not compare well to other countries



The Flight of the Kiwi

Identifies four classes of solutions to create a global New Zealand economy



Detailed Analysis and Recommendations

(To be contained in four reports)

1. Developing Kiwi global champions

2. Achieving real market access

3. Connecting to the world

4. The New Zealand economy 2.0

