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Minister for Economic Development
Minister of Trade

Growth Services Range: Policy Clarification and Articulation

Executive Summary

New Zealand Trade and Enterprise's (NZTE) Growth Services Range (GSR) was established in July 2003 from an integration of programmes formerly delivered by Industry New Zealand and Trade New Zealand.

An evaluation of the GSR in 2005 found that its existing policy prescription needed greater clarity for effective future evaluations and to guide NZTE's delivery of the Range. The evaluation identified eight specific areas where additional policy clarification would be beneficial:

- 1 Elaboration of the economic development objectives for the GSR recognising the need to show net economic benefits;
- 2 Intermediate outcomes to inform the development of a robust performance management system for the programme;
- 3 The applicability of the concept of high growth potential as a targeting mechanism;
- 4 The implications of the trade-off between intensity and breadth of engagement with clients;
- 5 The fit of Market Development Services within the GSR, given the difference in eligibility and service approach;
- 6 Boundaries with other government programmes;
- 7 The fit of the GSR with NZTE's sector activities; and

- 8 NZTE's responsibilities in ensuring the accessibility of the GSR to Māori, Pacific people and women.

The Ministry of Economic Development (MED) and the Ministry of Foreign Affairs and Trade (MFAT) were directed to review and clarify the policy objectives of the GSR and report to the Ministers of Trade and Economic Development by 31 August 2006. This report-back date was then extended to 30 March 2007 to incorporate the findings of the Expenditure Review of Business Assistance.

MED and MFAT have now reviewed the GSR. This paper reports back on the eight policy recommendations made by the 2005 evaluation. This paper also proposes a new GSR Policy Articulation (provided in Annex 1) to specify the purpose and intended policy outcomes of the GSR to help guide more effective delivery and future evaluations of the Range.

Growth Services Range: Policy Clarification and Articulation

Purpose of Report

- 1 To report back on a recent policy review of New Zealand Trade and Enterprise's (NZTE) Growth Services Range (GSR), and seek agreement to a new GSR Policy Articulation to specify the purpose and intended policy outcomes, to help guide more effective delivery and future evaluations of the Range.
- 2 This brief:
 - A. Clarifies a number of policy areas of the GSR that were recommended for review by an evaluation of the Range in 2005¹; and
 - B. Proposes a new GSR Policy Articulation (Annex 1).

Background

The Growth Services Range

- 3 The Growth Services Range (GSR) was established in July 2003, upon the formation of NZTE, from an integration of programmes formerly delivered by Industry New Zealand and Trade New Zealand.
- 4 The structure and parameters of the GSR were outlined in the suite of formation Cabinet Papers agreed to by Cabinet in April 2003 [CAB Min (03) 13/5 refers].
- 5 The current aim of the GSR is to accelerate the development of high growth potential firms and to enhance their contribution to New Zealand's overall economic growth. 'High growth potential' is defined by NZTE as the potential to generate either average 20 percent per annum revenue growth sustainable for five years, or revenue growth of \$5 million within five years.
- 6 In 2006/07 the Range was allocated total funding of \$58.8 million (around 43 percent of NZTE's annual budget). The Range comprises three components that form a suite of tools for NZTE to employ to meet the varying needs of its high growth potential clients:
 - A. **Client Management:** NZTE assigns a client manager to each participating firm to act as the primary interface between the firm and the services offered by NZTE (allocated \$7.2 million in 2006/07);
 - B. **Growth Services Fund:** funding assistance for firms with high growth potential, to purchase external advice and expertise (allocated \$9.4 million in 2006/07); and

¹ Ministers reported back to Cabinet in April 2006 [CAB Min (06) 12/4A refers] on the findings of the evaluation.

- C. **Market Development Services (MkDS)**: provided by NZTE's offshore offices and comprising specialist information, advice and facilitation assistance (allocated \$42.2 million in 2006/07). Fees are charged for some of these services. Although these services are grouped in with the GSR, they are also open to firms that do not have high growth potential, but are willing to pay for the services.

GSR Evaluation

- 7 An evaluation of the GSR in 2005 found that the existing policy prescription for the GSR needs greater clarity for effective future evaluations and to guide NZTE's delivery of the programme.
- 8 The evaluation identified the following specific areas where additional policy clarification would be beneficial:
 - A. Elaboration of the economic development objectives for the GSR recognising the need to show net economic benefits;
 - B. Intermediate outcomes to inform the development of a robust performance management system for the programme;
 - C. The applicability of the concept of high growth potential as a targeting mechanism;
 - D. The implications of the trade-off between intensity and breadth of engagement with clients;
 - E. The fit of Market Development Services within the GSR, given the difference in eligibility and service approach;
 - F. Boundaries with other government programmes, for example whether GSR clients should be eligible for other NZTE programmes such as the Enterprise Development Grants;
 - G. The fit of GSR with NZTE's sector activities; and
 - H. NZTE's responsibilities in ensuring the accessibility of the GSR to Māori, Pacific people and women.
- 9 MED and Ministry of Foreign Affairs and Trade (MFAT) officials were directed to review and clarify the policy objectives of the GSR and report to the Ministers of Trade and Economic Development by 31 August 2006. This report-back date was then extended to 30 March 2007 so that the policy clarification would be consistent with the outcomes of the 2006 Expenditure Review of Business Assistance programmes (considered by Cabinet in October 2006).

Policy Clarification

- 10 This section addresses each policy recommendation made by the 2005 evaluation. A brief summary of the recommendation is given followed by comment from MED and MFAT.

A: GSR objectives

Summary of the 2005 evaluation

- 11 The GSR policy articulated in the April 2003 Cabinet paper stated the high level aim “to accelerate the development of firms with high growth potential and enhance their contribution to New Zealand’s overall economic growth”.
- 12 However, the articulation did not identify specific objectives, outcomes and targets, which contributed to difficulties in measuring the performance of the GSR. In order to complete the evaluation, MED, MFAT and NZTE developed an intervention logic model which identified a number of specific desired outcomes of the GSR.
- 13 The evaluation recommended that review and clarification of the GSR’s policy objectives should take into account NZTE’s framework for assessing net economic benefit.

Comment

- 14 MED and MFAT, in consultation with NZTE, have now reviewed the GSR and have developed a new policy articulation to underpin the GSR (provided in Annex 1).
- 15 This articulation was developed by mapping the original policy intentions of the GSR (outlined in the 2003 NZTE formation Cabinet papers) with policy work and research that has been undertaken since the programme began operating in its current form. This includes:
- The policy work developed to provide a framework to undertake the 2005 GSR evaluation;
 - The recent Expenditure Review of Business Assistance programmes in Vote Economic, Industry and Regional Development;
 - Recent MED research on the growth performance of a cohort of New Zealand firms²;
 - Joint MED, NZTE, MFAT work to develop a Performance Management Framework to monitor and evaluate the contribution of NZTE’s activities to economic transformation;

² Hull, L. & Arnold, R. (2006). *Size by turnover of New Zealand firms and 2000 to 2005 turnover growth of a cohort of New Zealand firms (internal MED Research, Evaluation and Monitoring Team paper)*. Wellington: Ministry of Economic Development.

- The current Economic Transformation agenda policy context which highlights the importance of growing globally competitive firms through focusing government programmes on innovation and international integration;
 - NZTE's framework for assessing net economic benefit and its intervention logic for delivering business assistance;
 - Current MED work to develop an evaluation framework for the 2008 GSR evaluation; and
 - Other related New Zealand and international research on supporting high growth potential firms through government business assistance schemes.
- 16 The articulation refines the current aim³ of the GSR so that it reflects the Range's focus on enabling firms with growth opportunities, but resolvable capability weaknesses, to achieve high growth outcomes and become more competitive. The proposed refined aim of the GSR is to: "assist firms with high growth potential to identify business growth opportunities and address associated business capability weaknesses, in order to increase their competitive advantage and achieve high growth." The refined aim does not change the focus of the Range, rather it links the aim and objective of the Range to measurable outcomes.
- 17 MED, MFAT and NZTE are confident that the resulting policy articulation reflects an up-to-date and robust framework for the intervention. This includes rationale and outcomes to guide the delivery of the GSR in the future and enable a comprehensive evaluation of the programme's performance (to occur in 2008).

B: Intermediate outcomes

Summary of the 2005 evaluation

- 18 As mentioned in Section A of this paper, the GSR policy articulation in 2003 did not include specific expected intermediate outcomes. To inform the 2005 evaluation, MED, MFAT and NZTE developed a number of intermediate outcomes to measure the GSR against.
- 19 The evaluation recommended that, as part of the review and clarification of the GSR, an enduring set of intermediate outcomes be developed to inform a robust performance management system for the programme.

Comment

- 20 NZTE, in consultation with MED and MFAT, has been developing a performance management framework to monitor and evaluate the contribution of its activities to economic transformation. This framework,

³ This is: "to accelerate the development of firms with high growth potential and enhance their contribution to New Zealand's overall economic growth."

when completed, will address the issues raised by the evaluation around data collection and improving the assessment the GSR's performance. You have been invited to report back to the Cabinet Economic Development Committee by 31 May 2007 on progress made in implementing NZTE's performance management framework.

- 21 The intermediate and final outcomes for the GSR included in the Policy Articulation and Intervention Logic Model in Annex 1 are encapsulated within the performance management framework.
- 22 Also included in the Policy Articulation and Intervention Logic Model is an "Initial Influence" description of the initial value-add that client managers provide to assisted firms. These influencing factors may change over time. Understanding this process could be enhanced through evaluation (e.g. through interviews with a selection of GSR clients) to give a picture of how firm's better understand their needs and potential after engaging with a client manager. Examples of those influencing factors include:
 - Firms better understand their strengths, weaknesses & opportunities;
 - Firms better understand the importance of strategic planning and management capability in achieving high growth; and
 - Firms that receive GSF, or are directed to other specific NZTE assistance, undertake actions to address weaknesses, and exploit strengths and opportunities.

C: Targeting High Growth Potential firms

Summary of the 2005 evaluation

- 23 GSR firms that received client management services and/or the Growth Services Fund are selected based on their 'high growth potential'. High growth potential is defined by NZTE as the potential to generate either average 20 percent per annum revenue growth sustainable for five years, or revenue growth of \$5 million within five years. The 20 percent threshold is approximately three times greater than the national average over the past five years.
- 24 It is also likely that the target high growth potential companies, or groups of companies, will be those whose growth will also have a significant impact on other companies, either by way of a supply chain relationship, or as part of a cluster or other collaborative grouping.
- 25 The evaluation noted that entry into the programme and assessment of Growth Services Fund applications are based on the subjective assessment

and judgement of Sector Managers⁴ and the Growth Services Fund Assessment Panel⁵. Since the assessment does not rely on objective criteria, it is difficult for an external evaluation to review the quality of these assessments to determine if the right firms are being served by the GSR and whether NZTE is adding value.

Comment

- 26 MED and MFAT agree that targeting firms with high growth potential is an appropriate mechanism for allocating scarce government resources. This approach is preferred because of the potential positive spillovers to the economy which are likely to result from enabling businesses with growth potential to achieve significant growth.
- 27 However, based on the 2005 evaluation finding and subsequent MED research, MED and MFAT acknowledge that the selection of GSR clients could be more robust and that the criteria used to select clients should be reviewed to assess areas for improvement.

Selecting high growth potential firms

- 28 When resources are constrained, defining the best candidates for assistance should consider at what level of risk and potential it is appropriate for government to intervene.
- 29 Using potential as a criterion, but not risk, is likely to result in an assistance system that selects firms who can manage growth on their own. Firms who have the very best potential are, by definition, those facing little or no risk, from either their own capability or their environment. Assisting these firms is likely to result in government assistance producing no additionality and not producing a net benefit.
- 30 The diagram below describes client selection based on risk (need) and potential. The matrix balances high growth potential with the level of assistance the firm needs to achieve it (utilising the intervention logic outlined in the GSR Policy Articulation in Annex 1 that defines the intention of the GSR as identifying opportunities or capability weaknesses).

⁴ The role of a 'Sector Manager' is to work with industry groups and groups of firms within a sector. Sector Managers also have a 'Client Manager' role working with individual firms that have clear and significant growth potential to help them achieve their potential by identifying growth and development opportunities.

⁵ The Growth Services Fund Assessment Panel meets monthly to assess applications worth over \$25,000 on its level of risk compared with potential gain. The Panel consists of an independent external advisor, the General Manager Business Programmes, and the Programme Manager Growth Services Fund.

Balancing Need with Potential

<p>Potential to achieve high growth (e.g. there are many market opportunities)</p> <p>STRONG</p>	<p>NON-GSR CLIENT</p> <p>Firm is likely to achieve high growth without NZTE assistance.</p>	<p>GSR CLIENT</p> <p>Firm is more likely to achieve high growth with NZTE assistance to either identify opportunities or address weaknesses.</p>
	<p>NON-GSR CLIENT</p> <p>Firm is unlikely to qualify for NZTE assistance.</p>	<p>NON-GSR CLIENT</p> <p>Firm might be a candidate for other NZTE assistance – e.g. foundation or enabling services.</p>
<p>WEAK</p>	<p>Firm's need for NZTE assistance to either identify opportunities or address capability weaknesses</p> <p>LOW HIGH</p>	

- 31 Selecting a GSR client is a balancing act between a firm's growth opportunities and the capability it possesses to realise them. Typically, a GSR client should have a high level of growth opportunities, but needs NZTE assistance to either identify them or to overcome capability weaknesses (or perhaps both). However, if a firm has many growth opportunities, has identified those opportunities, and already has the capability to realise the opportunities, the firm should not require NZTE assistance as it is likely to be able to achieve high growth on its own.
- 32 The issue remains, however, of how to define what a 'high growth potential' firm really looks like and, once one is identified, what business needs and capability weaknesses would signal the need for GSR assistance.

How do other countries define high growth potential?

- 33 A scan of international government programmes that support the development of high growth firms uncovered a range of approaches to selecting firms for assistance.
- 34 The United Kingdom's Department of Trade and Industry (DTI) defines a high growth potential firm as having an aspiration of £1 million sales per annum (DTI argue that sales turnover has the advantage of clarity, simplicity and ease of measurement which some other indicators, such as profit, lack).
- 35 The Business Development Bank of Canada (BDC) conducts a growth potential assessment that examines 16 business functions, compares the firm to its industry, and assesses senior management, middle management, and non-management employees' perceptions of business performance. This analysis is intended to show the firm where improvements can be made and how to maximise strengths and minimise weaknesses that could hinder success.

- 36 Other international research⁶ suggests a number of other indicators that signal whether a firm has the potential to achieve high growth. For example, internal factors that impact on firm growth such as individual traits of the business owner, the competencies and experience of the management team, the team's ability to mobilise resources, the quality and distinctiveness of the business concept, and the types of strategy followed.

How should NZTE define a high growth potential firm?

- 37 MED undertook research⁷ recently on the turnover growth patterns of a cohort of New Zealand firms between 2000 and 2005. The research found that the two definitions that NZTE use to determine what a high growth potential firm might look like (either 20 percent per annum revenue growth over five years or \$5 million revenue growth within five years) are quite different. The research found that an estimated 46,628 (10 percent of all New Zealand firms) generated 20 percent per annum revenue growth sustained over five years and, in comparison, that an estimated 1,448 firms achieved revenue growth of \$5 million within five years.
- 38 The group of firms who achieved 20 percent per annum revenue growth sustained over five years was 43 per cent of those firms who, over five years, sustained any growth at all. So nearly 50 per cent of firms who can achieve any sustained growth will meet the current outcomes criteria of 20 percent per annum revenue growth sustained over five years without any assistance. This suggests the definition of 'high' growth is too low and that as the potential of a firm in achieving either of these two growth targets determines their selection as a GSR client, NZTE should review its definition of a high growth potential client.
- 39 NZTE also uses several qualitative indicators to select high growth potential firms, which reflect that 'high growth potential' has different meanings for clients in different sectors. These criteria include: a differentiated, internationally compelling value proposition; innovative technology; technology transfer; nation branding potential; strong international aspirations; exemplar or leadership role; and strategic fit with NZTE.
- 40 NZTE intends to undertake an examination of its suite of programmes for improvement opportunities (within the context of implementing the Expenditure Review of Business Assistance recommendations). This project may entail changes to the design of individual programmes, their delivery and/or configuration.

⁶ For example, Smallbone, D., Baldock, R., & Burgess, S., (2002) Targeted support for high-growth start-ups: some policy issues" in *Environment and Planning C: Government and Policy* Vol 20, pg 195-209, England: Centre for Enterprise and Economic Development Research, Middlesex University Business School.

⁷ Hull, L & Arnold, R. (2006). This research analyses Statistics New Zealand Business Activity Indicator data to describe patterns of growth by turnover of NZ firms and the number of firms with the different turnover growth patterns; estimates the number of firms who fit within the growth criteria used by MED and NZTE; and creates a dataset enabling the comparison of the turnover growth of firms who are clients of NZTE, with the typical growth of similar firms in NZ.

- 41 MED and MFAT will partner NZTE on this project and will look to incorporate the findings of the GSR review. We consider that a likely outcome of this work will be the development of a robust, evidence-based selection tool (utilising a number of quantitative and qualitative indicators including those currently used by NZTE) to ensure that GSR assistance is directed towards firms with the greatest needs and potential.

D: Intensity and breadth of client engagement

Summary of the 2005 evaluation

- 42 The evaluation found that the current reach of the GSR is very small. The total number of firms that received the Growth Services Fund since its inception⁸ is 583 firms, which represents less than 0.2 percent of the current population of New Zealand firms and fewer than 5 percent of New Zealand exporters.
- 43 There is a trade-off between programme reach and intensity, i.e. should the programme provide many services for a few firms, or a few services for many firms, or some compromise between the two extremes. The evaluation stated that NZTE was already reviewing its client engagement with a view to focus intensive engagement on a small group of firms.
- 44 Additionally, the evaluation found that in 2004/05, 20 percent of grants were awarded from the Growth Services Fund for values between \$25,000 and \$50,000. The evaluation noted however, that NZTE is moving towards awarding larger grants which is consistent with the original policy intent in the April 2003 Cabinet paper that the grants could be in the range of \$50,000 to \$500,000.
- 45 The evaluation recommended that the size range of Growth Services Fund grants should be reviewed (i.e. to assess whether a minimum grant size should be set) to ensure it is appropriate given the increased focus of the Fund on funding firms with projects that can generate significant net economic benefit.

Comment

Programme reach and intensity

- 46 NZTE has now reviewed its client engagement processes, and has resolved to move toward intensive engagement on a small group of firms. MED and MFAT support this approach. This approach is also supported by recent international research which found that initiatives that seek to promote rapid entrepreneurial growth must be highly selective when choosing participating firms and individuals, even to the point of exclusivity.⁹

⁸ As at the time of the 2005 GSR evaluation.

⁹ Autio, E., Kronlund, M., & Kovalainen, A. (2007) *High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorization, and Recommendations* (report prepared for the Finnish Ministry of Trade and Industry, Helsinki, Finland: Ministry of Trade and Industry).

- 47 More intensive engagement with a smaller number of firms, however, requires a more formalised, transparent and systematic approach by NZTE in engaging with its clients. Central to this is the importance of consistent record-keeping and data collection, and measuring performance.
- 48 NZTE has made progress towards more systematic engagement. The development of the performance management framework will ensure consistent and regular data collection (including longitudinal financial performance data) from clients post engagement with NZTE.
- 49 NZTE has also developed a Client Engagement Plan template with a view to ensuring that its engagement with each high growth potential client is based on an individual engagement plan. Plans outline areas where NZTE will work with the firm and are derived from an assessment of business growth opportunities and an analysis of the firm's strengths and weaknesses. NZTE has begun implementing this approach and aims to have Plans for all GSR clients by 1 July 2007.
- 50 MED and MFAT strongly support this approach. Plans will facilitate a robust assessment of whether GSR assistance makes a difference to the growth performance of the client and progress towards reaching specific development goals.

Growth Services Fund grant sizes

- 51 The Growth Services Fund is intended to be highly flexible in terms of the level of funding provided and eligible activities. Eligible activities include: feasibility studies; preparation of documentation to obtain finance for business development; development of prototype design and testing; international business exchanges; development of business, strategic, or marketing plans; advice and assistance for human resource development; and development of intellectual property protection and commercialisation. These activities are usually provided by consultants.
- 52 MED and MFAT consider that the most important GSR intervention is the Client Manager's assessment of the firm's need (e.g. identifying weaknesses to be addressed and opportunities to be pursued which provide the basis for drawing up a Client Engagement Plan). The Growth Services Fund should be viewed as the secondary supporting mechanism to action this assessment.
- 53 For example, if the Client Manager determines that a very small intervention is likely to have a big impact on the firm's capability, then the amount of Growth Services Fund assistance required might be minimal. However, if the Client Manager identifies a series of actions that a firm should undertake to improve its growth outcome then a larger grant (to cover the series of identified actions) should be sought.
- 54 This suggests that there is no need for a minimum grant size to be set. In addition, if a minimum grant size was set this might have an effect of artificially raising the fees of the consultants who provide the activities.

- 55 Therefore, MED and MFAT consider that as long as the Growth Services Fund assistance given to clients is aligned to the firm's individual Client Engagement Plan, the size of the grant and any suggestion of a minimum grant level, is of lesser importance.

E: Market Development Services

Summary of the 2005 evaluation

- 56 The Market Development Services (MkDS) component of the Range was grouped in with the client-management and the Growth Services Fund components to form the GSR outlined in the 2003 NZTE formation Cabinet papers.
- 57 However, MkDS differ from the other two components of the GSR (Client Management and the Growth Services Fund) on two counts:
- A. MkDS do not target firms with high growth potential but are open to all firms, regardless of growth potential, that are willing to pay for the services; and
 - B. MkDS are generally provided on a more reactive basis while NZTE takes a more proactive approach with Client Management and the GSF.
- 58 The evaluation recommended that the fit of MkDS within the GSR be reconsidered.

Comment

- 59 The Ministers for Industry and Regional Development and Trade Negotiations agreed to a new policy articulation of the MkDS in July 2005. This articulation was developed by MED and MFAT in consultation with NZTE.
- 60 The articulation was developed in recognition that MkDS, formerly delivered by Trade New Zealand, had evolved over time and needed a clearer statement of the policy underpinning it. It was also used to inform the 2005 evaluation of the GSR.
- 61 The objective of the MkDS is "to encourage and accelerate per-capita GDP growth through firm productivity improvements resulting from enhanced international market engagement".
- 62 MED and MFAT propose that the MkDS no longer be considered as a component of the GSR due to its different objective, focus, target group and delivery principles as outlined by the 2005 MkDS policy articulation.
- 63 The separation of the MkDS from the GSR will leave the Range comprising of two components: Client Management, and the Growth Services Fund, and will enable the 2008 evaluation of the GSR to focus on assessing the

effectiveness of the Range on the actual growth outcomes of 'high growth potential' recipients.

- 64 We, therefore, recommend that the MkDS be separated out from the GSR and its effectiveness be evaluated as an individual service by June 2008.

F: Boundaries with other NZTE programmes/grants

Summary of the 2005 evaluation

- 65 The Enterprise Development Grant-Capability Building (EDG-CB) and Enterprise Development Grant-Market Development (EDG-MD - also known as the Market Development Assistance Scheme) are other grants offered by NZTE that do not target firms with high growth potential.
- 66 The evaluation found that between 4 and 11 percent of Growth Services Fund recipients¹⁰ also received these other grants either the same year or at a later point in time.
- 67 The evaluation recommended further examination of the issue of whether GSR firms with high growth potential, which can access the Growth Services Fund, should also be eligible for other NZTE grants.

Comment

- 68 The evaluation suggested that allowing GSR firms to access other grants would limit the amount of funding available to firms that do not yet have high growth potential.
- 69 The 2003 Cabinet paper, which set out the parameters of the GSR, stated that GSR clients may access both the Growth Services Fund and the Enterprise Development Grants scheme, but that they would not be able to access both funds at the same time (e.g. in the same financial year).
- 70 GSR clients have been identified as having high growth potential, and therefore, have the opportunity to apply for the Growth Services Fund. However, recipients of the Enterprise Development Grants scheme (or other schemes) cannot apply for the Growth Services Fund if they are not a high growth potential GSR client.
- 71 Generally, it is expected that if a client is receiving GSR assistance, the needs of the firm are more sophisticated than firms receiving other NZTE services and grants.
- 72 In addition, if GSR clients are able to pick and choose from NZTE's other funding schemes as well, then they crowd out firms that those schemes target.

¹⁰ Of the 583 firms that received the GSF between 1 Jan 2000 and 30 June 2005, 4.6% also received the EDG-MD, 11% received an Enterprise Networks grant, and 4% received the EDG-CB after or in the same year as they received the Growth Services Fund grant.

- 73 The EDG-MD supports a number of market development activities that are not eligible under the Growth Services Fund.
- 74 In contrast, the EDG-CB supports several activities that are also eligible under the Growth Services Fund. However, the original policy design of the two grants envisaged the eligible clients to be very different. The EDG-CB is a much smaller grant for start-ups and early stage firms who have lower capability, and lower growth expectations.
- 75 MED and MFAT consider that Growth Services Fund recipients should be able to receive the EDG-MD grant because it funds activities that are not eligible under the Growth Services Fund that are likely to contribute to high growth outcomes. We do not consider that Growth Services Fund recipients should be eligible for receiving EDG-CB assistance.
- 76 MED and MFAT acknowledge that this raises issues around compliance and the transaction costs involved in applying for the Growth Services Fund (which is a high compliance grant due to its size). As mentioned in section C (paragraph 39) of this paper, NZTE, in partnership with MED and MFAT, intend to undertake a review of its suite of programmes for improvement opportunities. Within this context, MED and MFAT will work with NZTE on eligibility for different grants with a view to overcoming these issues.

G: GSR fit with sector activities

Summary of the 2005 evaluation

- 77 The GSR policy was designed to focus on improving the capability and performance of individual firms.
- 78 In addition to working with individual firms, NZTE staff who deliver the GSR are also involved in activities that support the development of entire industry sectors (i.e. as Sector Managers). Some of the Sector Managers interviewed were concerned that increased focus on sector projects could be to the detriment of their client management work with individual firms.
- 79 The evaluation recommended that the relationship between the GSR and NZTE's Sector Development work should be reviewed to identify any gaps or complementarities in achieving policy aims.

Comment

- 80 In 2006 NZTE's Sector Projects Programme was evaluated. This also highlighted the strong connection between the GSR and NZTE's sector development work.
- 81 The Sector Projects evaluation found that:
- High growth potential firms that are receiving intensive client management from NZTE sector teams are typically the first to be invited to participate in sector projects.

- In contrast to the Growth Services Fund, which reactively addresses the needs of individual firms, sector projects are intended to be used by NZTE to proactively address more systemic and strategic sector-wide issues.
 - It is important that NZTE continues to ensure that resources within the Sector Projects programme are not diverted away from more strategic sector-wide issues, and that this programme complements, rather than duplicates, its grants and other programmes designed to address the specific needs of individual firms. Sector projects could be used to disseminate best practices or spillover impacts from single successful GSF projects across the sector or to other sectors.
- 82 MED and MFAT agree that there are clear advantages to Sector Managers (in their other role as individual Client Managers), who have been involved in setting strategic priorities at a sector-wide level, assisting firms to understand their individual needs within the context of their sector.
- 83 However, it is essential that GSR firms are selected first and foremost for their potential to achieve high growth and because they would benefit from intensive and focused assistance. GSR firms should not be selected because they might contribute to sector projects.
- 84 The 2005 GSR Evaluation, the 2006 Sector Projects Evaluation, the 2006 Expenditure Review of Business Assistance and a recent review of NZTE's allocation of costs across output classes have all highlighted that there is significant crossover between NZTE's growth services (where the GSR fits) and its enabling services (where sector activities fit).
- 85 Cabinet has directed MED, in consultation with NZTE, MFAT and the Treasury, to report back to the Cabinet Economic Development Committee by 31 August 2007 on (amongst other things) the distinctions between NZTE output classes and whether they still reflect the most appropriate distinctions between types of economic development services (CAB Min (07) 10/3 refers). This report back is likely to have implications for the GSR and MED and MFAT intend to consider the issue of "GSR fit with sector activities" within this context and provide further advice to you.

H: Accessibility for minority groups

Summary of the 2005 evaluation

- 86 Accessibility and responsiveness of Client/Sector Managers to the needs of Māori, Pacific peoples and women was a principle stated in the GSR policy intent in the 2003 NZTE formation Cabinet Papers.
- 87 The evaluation found that it was not possible to assess whether this principle is being adhered to as NZTE has been unable to obtain complete or accurate data on ethnicity or gender of the principal contact or ownership of the GSR firms (in addition, many firms have been unwilling to provide this information). In implementing the GSR programme, NZTE has assessed

firms' eligibility for services based on the needs and growth potential of the firm, not gender or ethnicity.

- 88 Firms previously served by the Māori Enterprise Team (as part of Trade New Zealand before the NZTE formation) were incorporated into the main client portfolio and assigned a Client Manager or Sector Manager depending on their growth potential and industry sector.
- 89 The evaluation recommended clarification of whether this principle applies to NZTE services as a whole system, or to the GSR in particular.

Comment

- 90 At an organisational level, NZTE seeks to provide equal access and availability to its services which are defined by specific business and economic criteria and are delivered through mainstream channels.
- 91 However, NZTE recognises that some groups of the economy may have additional requirements and therefore delivers targeted business assistance for minority groups at an individual level. For example, NZTE provides a Māori Trustee training programme and also sponsors a pre-business training programme through the Pacific Business Trust to deliver training and one-to-one coaching to Pacific Island people who are considering self-employment.
- 92 At a programme level, the key eligibility criterion for receiving GSR assistance is that the business has 'high growth potential'. Therefore, it is rational to expect that a gender or ethnicity consideration would not take precedence over the firm's potential to grow.
- 93 Furthermore, the GSR is targeted at businesses rather than individuals and determining the 'ethnicity' or 'gender' of a business is difficult.
- 94 Therefore, MED and MFAT consider that the success rate of minority groups in receiving GSR assistance should be assessed within the context of NZTE's overall responsibility in ensuring accessibility and responsiveness to Māori, Pacific peoples and women.

Other Information

The GSR Policy Articulation and future evaluation

- 95 As mentioned in Section A of this paper, MED and MFAT, in consultation with NZTE, have developed a new GSR Policy Articulation (including an intervention logic model) (Annex 1).
- 96 The GSR is due to be evaluated again in 2008. The new GSR Policy Articulation is expected to guide and inform the 2008 Evaluation.

Recommended Action

We recommend you:

GSR Objectives and Outcomes

- 1 **Agree** that the “Growth Services Range Policy Articulation” and Intervention Logic Model in Annex 1 will underpin NZTE’s Growth Services Range.

agree/disagree

Targeting High Growth Potential firms

- 2 **Note** that NZTE intends to undertake an examination of its suite of programmes for improvement opportunities (within the context of implementing the Expenditure Review of Business Assistance programmes recommendations), which may result in proposed changes to the design of individual programmes, their delivery, and/or configuration.
- 3 **Note** that MED and MFAT will collaborate with NZTE on this project to investigate opportunities to improve high growth potential client selection using a robust, evidence-based assessment that ensures GSR assistance is directed towards firms with the greatest needs and potential and report back to Ministers by 31 August 2007.

Intensity and breadth of client engagement and Growth Services Fund grant sizes

- 4 **Note** that NZTE is working to effectively operationalise the selection and mentoring of firms and the application of programmes in a way that ensures integrated delivery to clients and reduces product clutter. NZTE and MED will develop an overarching framework to ensure that the implications for client delivery is considered when refinement and enhancements are made to policy and programmes.
- 5 **Note** that NZTE has now reviewed its client engagement processes with a view to moving towards focusing intensive engagement on a small group of firms.
- 6 **Note** that the performance management framework being developed by NZTE aims to ensure consistent and comprehensive data collection from clients so as to determine the impact of NZTE’s activities and to focus its resources on those which are the most successful.
- 7 **Note** that NZTE will ensure that every high growth potential client has an individualised Client Engagement Plan, which will enable a comprehensive assessment of the success of the GSR on firm development and growth.
- 8 **Note** that the Client Engagement Plans for GSR clients, which will be in place for all clients by 1 July 2007, are being based on the development needs of individual firms, the opportunities they are seeking to develop, and the areas where NZTE can work with them to make a difference.

- 9 **Note** that the Client Engagement Plan can also be used to facilitate and support the firm's application for Growth Services Fund assistance (or other eligible NZTE assistance).
- 10 **Note** that MED and MFAT do not recommend any changes to the minimum level of funding that GSR clients can receive from the Growth Services Fund.

Market Development Services

- 11 **Agree** that, as the Market Development Services component of the GSR has a different policy focus from the overall policy focus of the GSR, that it be considered as a stand-alone service.

agree/disagree

- 12 **Agree** that MED and MFAT should evaluate the effectiveness of the Market Development Services component separately from the GSR (by June 2008) and informed by the Market Development Services policy articulation developed in July 2005.

agree/disagree

Boundaries with other NZTE programmes/grants

- 13 **Note** that recipients of Growth Services Fund assistance are currently also able to receive Enterprise Development Grant (both the Market Development component [otherwise known as the Market Development Assistance Scheme] and the Capability Building component) which are not specially targeted at high growth potential clients.
- 14 **Note** that MED and MFAT consider that Growth Services Fund recipients should be eligible to receive Market Development assistance under the Enterprise Development Grants scheme.
- 15 **Note** that MED and MFAT consider that Growth Services Fund recipients should not be eligible to receive Capability Building assistance due to the overlap in eligible activities between the Growth Services Fund and the Enterprise Development Grant-Capability Building scheme.
- 16 **Note** that NZTE intends to undertake an examination of its suite of programmes for improvement opportunities and that MED and MFAT will collaborate with NZTE to ensure that the issues raised around eligibility for grants are considered within this context.

GSR fit with sector activities

- 17 **Note** that the 2005 GSR evaluation, the 2006 Sector Projects evaluation, the 2006 Expenditure Review of Business Assistance and a recent review of NZTE's allocation of costs across output classes all highlighted a significant crossover between NZTE's growth services and its enabling services.

- 18 **Note** that MED is due to report back to Cabinet by 31 August 2007 on (amongst other things) the distinctions between NZTE output classes (CAB Min (07) 10/3 refers) and that MED and MFAT will consider the issue of “GSR fit with sector activities” as part of this report back.

Accessibility for minority groups

- 19 **Agree** that gender or ethnicity should not be a consideration of firms' eligibility for GSR services as long as the intent of the GSR is to focus on high growth potential firms.

agree/disagree

Dougal Morrison
Manager, Firm Capability
Ministry of Economic Development

Nick Hurley
Director, Economic Division
Ministry of Foreign Affairs and Trade

Hon Trevor Mallard
Minister for Economic Development

Hon Phil Goff
Minister of Trade

ANNEX 1

New Zealand Trade and Enterprise Growth Services Range Policy Articulation

Outcome Context: Contribution to Government Goals

Economic transformation is driven by improved productivity of firms. Competitive pressure (both domestic and international) is necessary for driving efficiency, innovation and ultimately productivity in firms. Through open markets and exposure to international competition, New Zealand firms (both large and small) will need to be internationally competitive regardless of whether they sell their products to the world or operate exclusively in local markets. To be able to respond effectively to competitive pressure or the threat of competition (whether domestic or international) firms require skilled people, capital, finance, technology, ideas, entrepreneurship and aspiration.¹

Improving the international competitiveness of New Zealand's firms in order to ensure that they make the most significant contribution possible to transforming the New Zealand economy is a critical stated objective of the government.

The Growth Services Range

The Growth Services Range aims to assist firms with high growth potential to identify business growth opportunities and address associated business capability weaknesses, in order to increase their competitive advantage and achieve high growth.

Problem Specification

Rationale for supporting high growth potential firms

Firms with the potential to achieve high growth span across all industries. These businesses can have far reaching consequences for the economies in which they operate, particularly because of their impact on job creation, innovation, and international connectivity. Even though high growth potential activity represents only a small minority of all new firm activity, it promises to generate a disproportionate contribution to economic growth.

High growth firms go through often distinct stages of organisational evolution, and problems and even crisis situations are not uncommon as the organisation grows. Many of the growth stages bring predictable problems, and these often necessitate quite sophisticated responses from the growing firm's management. The challenges met and remedies required are typically quite different from those usually seen in non-high growth potential firms.

The process towards securely embedding a firm on a growth path begins with *exposure to opportunity*. Most new ideas emerge as a constellation of market or technological opportunity, on the one hand, and of the entrepreneur/business's

¹ "Economic Transformation: Securing New Zealand's Future Prosperity" Cabinet Paper.

competencies and strengths, on the other. Opportunities alone do not create new ventures, nor do entrepreneurs alone. Each new venture (or expansion of a current one) represents a unique combination of the entrepreneur's (or of the business or manager's) strengths and external conditions.

If many opportunities for business growth exist, the next key issue to consider is whether or not a firm has been able to adequately *identify* the opportunities and then, wedded to this, is whether or not they have the capability to pursue them.

If a firm has many growth opportunities, has identified those opportunities, and already has the capability to realise the opportunities, the firm should not require assistance as it is likely to be able to achieve high growth on its own.

If a firm has a high level of growth opportunities, but needs assistance to either identify them or to overcome capability weaknesses (or perhaps both), a strong rationale exists for supporting these firms to overcome the obstacles to achieving their high growth potential.

Why might high growth potential firms not achieve their growth goals?

Firms that have been identified as having the potential to achieve high growth may not be able to reach their growth potential due to:

- An inability to identify or pursue business growth opportunities; and/or
- Business capability weaknesses, particularly in these areas:
 - Market knowledge and/or market development capability.
 - Management capability to plan for and pursue growth.
 - Business capability to innovate and manage the commercialisation process.
 - Likelihood of accessing finance for growth.

The importance of these weaknesses is supported by New Zealand research² which identified that firms acknowledge capability weaknesses (specifically ability to source and use technology, management skills, and ability to internationalise) as barriers to their growth. Importantly, these barriers are felt more acutely by exporters. Firms that export, or are investing offshore, are likely to be those that have the greatest productivity and competitiveness.

² Knuckey, S., Johnston, H., Campbell-Hunt, C., Carlaw, K., Corbett., & Massey, C. (2002). *Firm foundations: A study of New Zealand business practices and performance*. Wellington: Ministry of Economic Development

Rationale for government involvement

Government policies should support firms who have the potential to grow but for some reason are not fulfilling that potential. The barriers to growth alone do not justify government intervention. Although, government intervention may be justified if addressing market failures results in the capture of net economic benefits that would not otherwise have occurred³.

In the case of identifying and pursuing growth opportunities, government intervention can be justified by the existence of:

- Transaction costs, or search and information costs, incurred by firms in assessing their business to identify strengths and weaknesses, and deciding how best to address them;
- Information asymmetries whereby firms do not have, and can not access the information available to identify opportunities and make decisions;
- Imperfect information resulting in capability gaps, whereby firms may have the required information but lack the confidence, experience or skill to use the information;
- Externalities and spillovers, where not all the benefits or costs of an activity are accrued to the firm undertaking the activity, for example, spillovers to the sector, such as new ideas, technology, contacts and networks. (The potential for spillovers is even greater for high growth potential firms as they are more likely to create the largest impact on their own firm, to their sector and to the New Zealand economy); and
- The government can also play a role as a coordinator and facilitator of collective action by encouraging firms in the same or complementary sectors to work together to achieve a critical mass of capability and capacity.

Policy Framework

(please also refer to the attached GSR Intervention Logic model in Figure 1)

Growth Services Range programme objective

The objective of the Growth Services Range is to reduce the risk of a high growth potential firm not achieving high growth outcomes, and contribute to the enhancement of New Zealand's economic growth through:

- Enabling businesses to identify and pursue growth opportunities; and
- The reduction of business capability weaknesses, through:

³ Net economic benefit is the sum of direct private and indirect public benefits minus the cost of the intervention.

- Improving market knowledge and/or market development opportunities and capabilities.
- Increasing management capability to plan for and pursue growth (e.g. strategic and financial planning, exploiting new business or governance structures, and accessing/developing specialist skills).
- Improving capability to innovate and manage the commercialisation process (e.g. developing marketing plans, assessing and implementing total quality management programmes and developing and protecting intellectual property).
- Improving the likelihood of accessing finance for growth (e.g. through business planning, and advice on external equity and tax and legal issues relating to new business structures and initiatives).

Growth Services Range programme mechanisms

The Growth Services Range comprises two components for NZTE to meet the varying needs of clients with identified high growth potential:

1. Client Management

- NZTE assigns a client manager to each participating firm to act as the primary interface between the firm and the services offered by NZTE.
- GSR client managers' role should be to:
 - Assess a firm's eligibility for GSR assistance against agreed criteria;
 - Undertake or facilitate the appraisal of firms' needs which is codified in an individual Client Engagement Plan (clearly identifying business growth opportunities, firm strengths and weaknesses, and determining an exit strategy for the firm 'to graduate' from the scheme);
 - Determine the appropriate mix of services that the firm requires;
 - Facilitate referrals to specialist services and funding (primarily the Growth Services Fund but potentially other NZTE assistance or complementary assistance from other government business assistance programmes e.g. the Foundation for Research, Science and Technology [FRST]);
 - Provide appropriate mentoring and commercial counselling but not strategic business advice or advice that would constitute investment advice; and
 - Ensure leadership and client interface for sector-based projects.

- Beyond the needs assessment, the duration and intensity of client management services will be proportional to the firm's growth potential, risk profile and level of need. The client base will change over time with new firms accessing GSR and other firms 'graduating' or decreasing their interaction with NZTE.
- GSR client managers will need to establish and maintain linkages and partnerships with a range of individuals and organisations. In particular, NZTE should maintain the proactive approach to the identification of high growth potential businesses, working in partnership with other government agencies such as FRST and local organisations.
- Client managers will need to carefully balance their role as a GSR client manager to individual firms, with their overall responsibilities to their respective sectors as Sector Managers. Part of this role will be to ensure that priorities that have been identified within the context of NZTE's Sector Strategies are also considered and actioned at the firm level.

2. Growth Services Fund

The Growth Services Fund is to be used to fund assistance for firms (or groups of firms) with high growth potential, to purchase external advice and expertise to:

- Identify and/or pursue business growth opportunities;
- Improve market knowledge and/or market development knowledge, capabilities and opportunities;
- Increase management capability to plan for and pursue growth;
- Improve business capability to innovate and/or manage the commercialisation process; and
- Improve the likelihood of accessing finance for growth.

Funding is available for up to 50% of the costs of approved and eligible projects. Grants are up to \$500,000 within a three-year period.

NZTE's "Growth Services Fund: Operating Guidelines" provides more detail about eligibility to access the Growth Services Fund, the activities that are eligible for funding, grant levels, and information of the application process.

Initial Influence

"Initial Influence" describes the intended initial value-add that client managers provide to assisted firms. These influencing factors may change over time. Understanding the process could be enhanced through evaluation (e.g. through interviews with a selection of GSR clients) to give a picture of how firm's better

understand their needs and potential after engaging with a client manager. Examples of those influencing factors include:

- Firms better understand their strengths, weaknesses & opportunities;
- Firms better understand the importance of strategic planning and management capability in achieving high growth; and
- Firms that receive GSF, or are directed to other specific NZTE assistance, undertake actions to address weaknesses, and exploit strengths and opportunities.

Intermediate Outcomes

Intermediate outcomes comprise both direct and shorter term effects of the programme, such as changes in knowledge, skills and abilities and behaviours of programme participants.

A reasonable rate of firms are expected to achieve the following **intermediate outcomes**:

- Firms improve their market knowledge and/or market development capabilities.
- Firms improve their business and management capability to plan for and pursue growth.
- Firms improve their capability to innovate and manage the commercialisation process.
- Firms improve the likelihood of accessing finance for growth.

Final Outcomes

Final outcomes comprise the subsequent effects of the achievement of intermediate outcomes. Typically, indicators of ultimate outcomes (e.g. firm profitability) are influenced by multiple factors beyond the programme.

The **Final desired outcomes** of a successful GSR are:

- Firms are internationalised and globally competitive; and
- Firms achieve high growth.

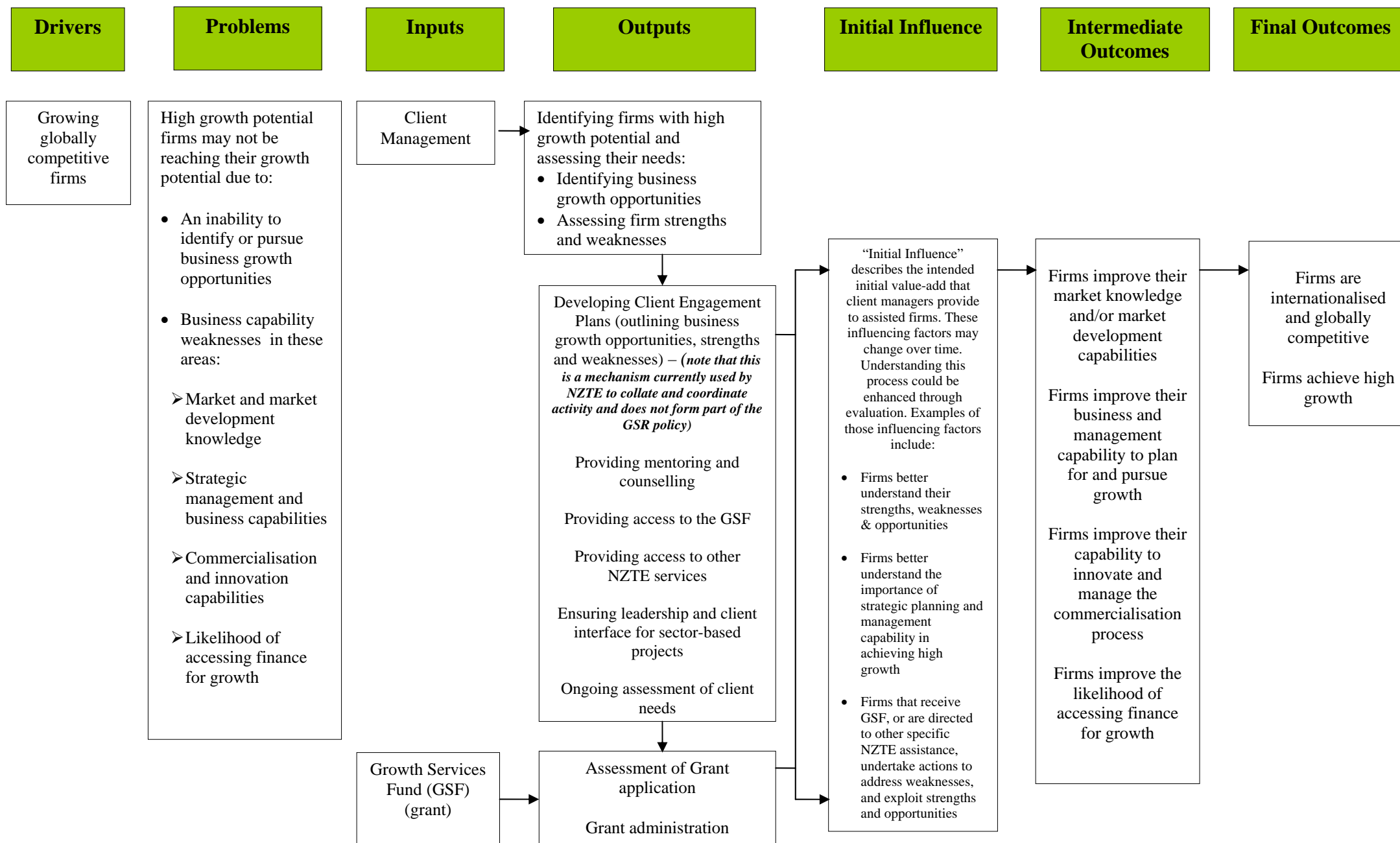


Figure 1: Growth Services Range Intervention Logic Model