



Wellington's knowledge economy

—coming to grips with technology change

1 JUNE 2014

PREPARED FOR: WELLINGTON REGIONAL COUNCIL
PREPARED BY: RICHARD NORMAN AND JUDY OAKDEN



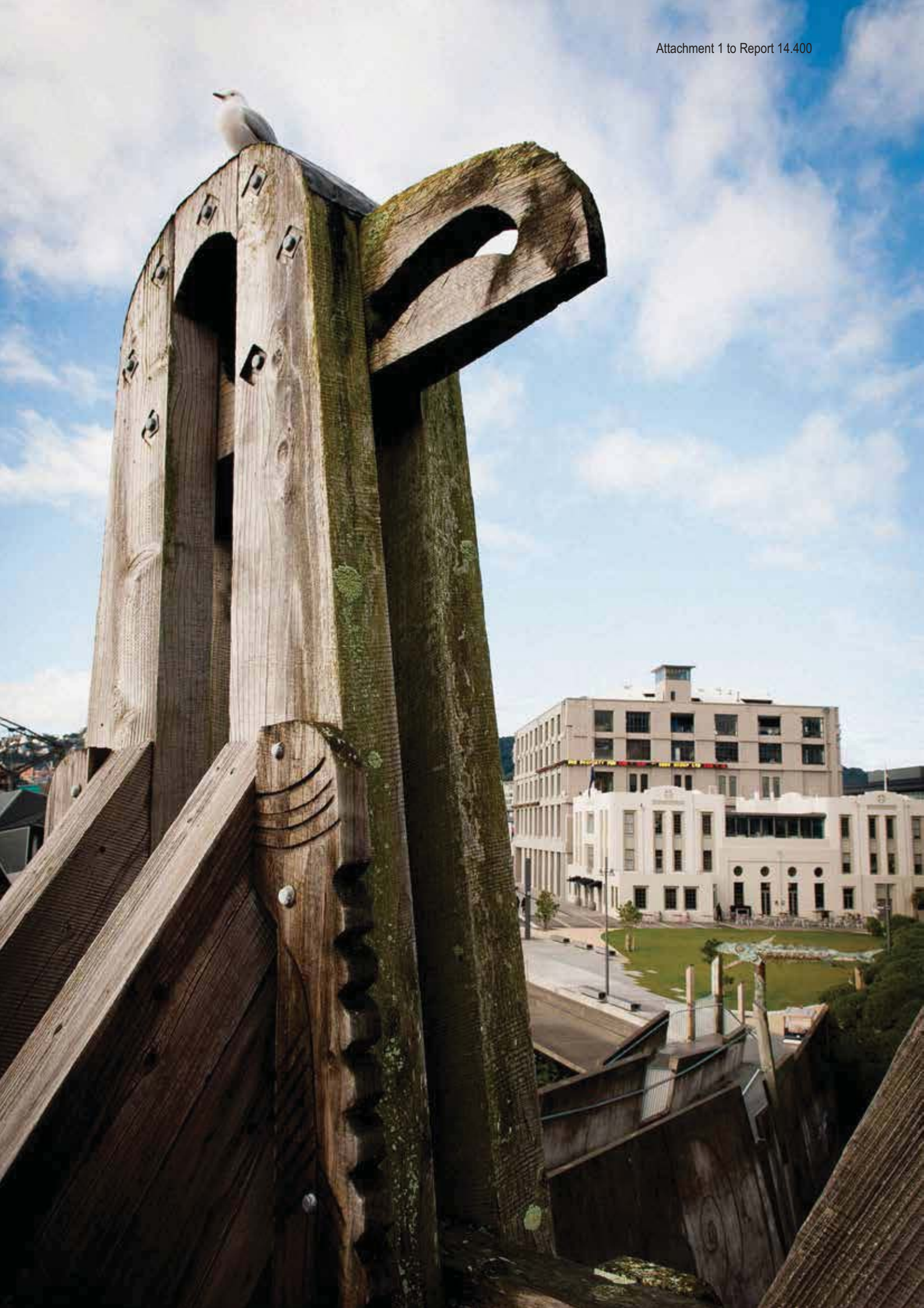
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1. Executive summary

Preface

This research is a response to concerns about the state of the economy and employment opportunities in the Wellington region, drawing from the experience of 113 knowledge economy companies.

The Prime Minister, John Key, gave the Wellington region a wake-up call in early May, 2013, when he told a Takapuna business audience¹ in Auckland that, “the reality is even Wellington is dying and we don’t know how to turn it around. All you have there is government, Victoria University and Weta Workshop”. The Prime Minister’s comments were triggered by economic data, which showed that the region had not grown in three years and had one of the country’s highest unemployment rates.

These comments galvanised Wellingtonians, with *The Dominion Post* leading debate about options for a region which has been strongly affected by constraints on government expenditure since the global financial crisis. The current challenges for Wellington are very different from the early 1990s, when the Absolutely Positively Wellington slogan was first adopted to counter the unrelenting bad news of a period of government cutbacks, corporate office departures and manufacturing closures. As Wellington City Council’s Smart Capital strategy puts it, “from the quiet government town of the 1980s, Wellington has become New Zealand’s ‘Creative Capital’, transforming the entertainment, arts, culture and economic base of the city.”²

The Wellington Regional Strategy 2012³, identified that 47% of the region’s workforce is employed in knowledge-intensive occupations, compared with a national average of just over 33%. It shows that the Wellington region has the highest concentration of web and digital-based companies per capita in New Zealand; people are more than three times as likely to work in Information, Communications and Technology (ICT) and the region has one research scientist for every 250 people. Wellington is New Zealand’s most concentrated example of the ‘weightless’ or ‘invisible’ economy, based on technology developments that are as disruptive as assembly-line production of automobiles and other consumer goods proved to be between 1900 and 1930.

Scope of the study

This research is a partnership between Victoria University and the Wellington Regional Council, with support from Grow Wellington and Wellington City Council. Sixty-five students from a stage three course about strategic human resource management – a final-year paper for a Bachelor of Commerce and Administration – were challenged to get beyond their textbooks and between 29 July and 15 September 2013 interviewed 113 senior managers, including more than 70 chief executives.

1 www.stuff.co.nz/national/politics/8639116/Prime-minister-side-steps-dying-comment

2 <http://wellington.govt.nz/your-council/structure-and-vision/vision-2040/towards-2040-smart-capital>

3 www.wrs.govt.nz/assets/WRS/Publications/Wellington-Regional-Strategy-2012.pdf

Key findings

While constraints on government spending have affected the Wellington region, the region also has many knowledge economy companies that are grappling with shortages of skills and experience. Far from dying, Wellington – as New Zealand’s most knowledge-intensive city – is coming to grips with the challenges of technology change.

Wellington has a strong core of knowledge economy businesses. A third of those surveyed (34%) had total sales of goods and services for the most recent financial year of over \$50 million. Almost half have operated in the region for more than 20 years, 37% employed at least 100 staff, and 84% had head offices based in the Wellington region.

Three in five of the knowledge economy businesses believed that their Wellington base contributed positively to their business to a considerable or high degree. Major advantages included proximity to central government, a base of businesses to sell goods and services to, the availability of skilled labour and a compact city in which it is easy to network and make effective links within their own sector and with other sectors.

Views varied widely about the effectiveness of current promotion of Wellington. The strongest recurring idea for promotion of Wellington’s attributes was to focus on its potential as a digital city.

The loss of corporate offices and the relative smallness of the local economy were the most frequently cited challenges followed by finding people with the right skills in a small labour market. Limited international flights out of Wellington were seen as a key challenge for nearly one in six businesses.

A third of managers thought they could hire people with the right attributes only to a limited degree or not at all from the Wellington region. The most important attributes were seen to be enjoying a challenge, being self-directed and motivated, being able to see how individual activities fit with the wider organisation, and being willing to undergoing continual learning and development.

Four out of five businesses had at least some contractors and one in six were contracting more than 50 people.

Companies interviewed came from the sectors listed below—a focus on the breadth of the Wellington economy rather than comprehensive coverage of particular sectors.

| Sector | Number of interviews |
|-------------------------------------|----------------------|
| Consulting | 9 |
| Digital media | 9 |
| Energy, Engineering and Environment | 11 |
| Finance and Insurance | 10 |
| Food and Beverage | 10 |
| Health | 11 |
| IT | 22 |
| Manufacturing | 12 |
| Marketing | 9 |
| Telecommunications | 7 |
| Not defined | 3 |
| Total | 113 |

2. The characteristics of Wellington knowledge economy businesses

Many of the businesses were well established. Almost half had operated in the Wellington region for more than 20 years, while 19% were established during the past 10 years. The majority (84%) had their head office in the Wellington region, with 15% in Auckland and one in Christchurch. Sixteen percent were listed on the stock exchange.

A third of those surveyed (34%) had total sales of more than \$50 million; and 28% sales between \$5 and \$50 million. Just 7% of the businesses had sales of less than \$1m.

Figure 1: Employment patterns

| Number of full-time-equivalent employees currently employed | |
|---|-----------|
| 1–5 employees | 12% |
| 6–19 employees | 19% |
| 20–49 employees | 18% |
| 50–99 employees | 13% |
| 100 or more employees | 37% |
| No Response | 2% |
| Number of freelancers, temps or contractors | |
| No freelancers, temps or contractors | 19% |
| 1–5 freelancers, temps or contractors | 42% |
| 6–19 freelancers, temps or contractors | 14% |
| 20–49 freelancers, temps or contractors | 7% |
| 50–99 freelancers, temps or contractors | 5% |
| 100 or more freelancers, temps or contractors | 9% |
| No Response | 4% |

Note: where numbers do not add to 100% this is due to rounding.

Effects of technology change

Changes in technology were affecting the design of work and workforce requirements to a considerable or high degree for 70% of businesses. The impact of technology varied widely, depending on the extent to which mobile phones and tablets were used. At one end of the spectrum, for a small ICT development company “technology has become more complex and moves at a fast rate. These changes happen quickly and thus finding people who are talented enough is the biggest issue”. A finance organisation by contrast found that people with “older technology skills’ were just as important.

The skills required for new technology were increasing in complexity because “customers are doing a lot more themselves and a lot more on-line” (a finance company view). A small marketing company found that more organisations were employing in-house practitioners, which “pushes us up the food chain because we do more specialist work, whereas they get the grunt work done by their own people”. In the advertising sector, digital platforms meant for one company, “the sort of people that we might have employed five years ago are no longer relevant to industry needs... They don’t need big, expensive advertising campaigns on TV, and they don’t need print campaigns, and they don’t need all of the things that traditional agencies have delivered in the past.”

However, a manager from a larger advertising company noted, “What hasn’t changed is that you still need powerful ideas to solve a client’s business problem. So the issue for us is to get clients to see value in and pay for the idea rather than the execution.”

ROW LTD
REPAIRS

LOVE
hairdressing

7
Days

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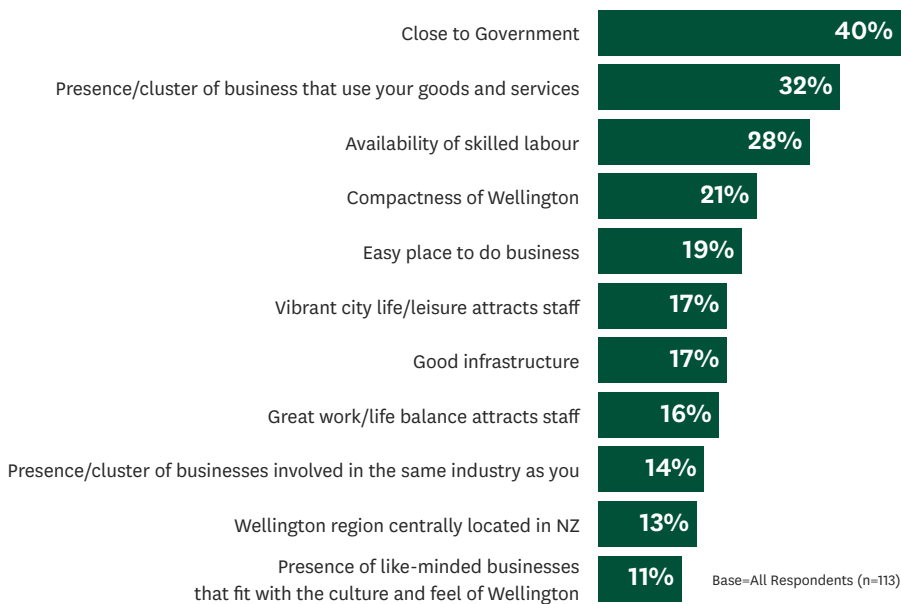
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3. The benefits and challenges for knowledge economy businesses of operating in the Wellington region

There are a number of benefits for the knowledge economy businesses in operating in the Wellington region.

Figure 2: Top three key benefits of being based in the Wellington region.



Proximity to government

Proximity to government was a key advantage observed by 40% of respondents from a range of sectors. An executive from a major consultancy commented that:

“We’re a national business with a significant office in Wellington... Because the government sector’s here, you get to work on some really complex problems – which are quite an opportunity – and you can build relationships for the long run.”

Health providers saw closeness to government and particularly the Ministry of Health as a key reason to have head offices in Wellington.

A smaller IT business commented

“Government is always a good reason to be in Wellington. There’s always a lot of work going on, and government being so fragmented at times means that even the small guys can get a share of the pie.”

Lifestyle benefits

Major lifestyle benefits included a vibrant city life, being able to walk everywhere and being in a creative hub. Half of the senior managers surveyed (50%) have lived in Wellington for more than 20 years and 22% for 11-20 years. A small number of the senior managers (4%) commute from Auckland. The following examples illustrate more specifically how executives from different sectors experienced the lifestyle benefits.

A bank executive commented that in Auckland it is possible to lose three hours of the day travelling between meetings and commuting to and from work – time-wasting that is avoided in Wellington.

Another bank executive who commutes periodically to Auckland commented that the cost to live there was ‘frightening’. “That’s why I don’t go and live there. Why would I pay \$3 million for a house that I can get for \$700,000 here, and don’t have to deal with the commute and the traffic?”

There were also benefits of the smaller and cheaper city for graduates “who have fewer to compete with than for work roles in Auckland”. Smaller banks which have retained headquarters in Wellington have found it easier to hire experienced client services specialists and credit analysts.

While traditional businesses placed a premium on being in the same city, for new IT companies distance is less of an issue. One growing company executive maintained “it doesn’t really matter with email, phone calls, where [contacts] are. We hardly ever meet them face to face, so it’s not so important where those firms are.”

For globally focused businesses, the city location is irrelevant. As one film producer put it, “If we’re in LA we don’t talk about Wellington, we talk about New Zealand”. Another film company saw its major challenge as being rather the different languages, skills, knowledge and approach required for overseas markets as different as North America, Australia, Denmark and China.

Networking and skills

The compact central city was a commonly named advantage, with a typical comment being “there is no doubt that it is very easy to network in Wellington and very easy to get good people working for you”. One media company executive working with mostly international clients found Wellington to be a good place for business because “generally people are giving of their time and are interested in sharing insights...”.

Project management and business analysis are core skills available in Wellington, according to one IT company manager, helped by a passionate commitment locally to certify such skills.

Wellington’s technology niches were described by one interviewee as start-ups, web development, mature technology and blogging. Experience was also growing in fields such as online design, software engineering, user experience, databases, online customer support, online trust and safety, and online news media.

The advantage of a small country and city was highlighted by one ICT developer:

“The ability to put it all together [is something] you don’t find in other countries because you quickly go into a specific industry and end up specialising. In New Zealand, some people who have been able to specialise in more than one area become almost ‘general specialists’ and they can talk just as extensively about entrepreneurship, people management and web development, and those people can start ventures.”

Marketing Wellington as a work destination

Views varied widely about the effectiveness of current positioning of Wellington, and it appeared that the current attraction strategies were not universally understood.

The need for good positioning was emphasised by an executive with a large consulting company.

“We are moving into a world where geographic borders are nowhere near as important as they used to be and there is aggregation of activity around cities as opposed to around countries... Wellington needs to re-define itself, like all cities do.”

A positive view came from a food company manager who experienced a ‘collegial’ city in which it was possible to work together with people in different industries. “I think we are quite a parochial city so industry recognises that what is good for the city is good for our individual businesses. People tend to work relatively altruistically in order to make sure the city is vibrant and interesting and well regarded.”

Other perspectives included:

“Wellington is a good city to start and people are not resistant to ideas – you can prove something here quite easily and grow it somewhere else.” (IT company)

“It is quite possible to grow your business fast in Wellington as shown by Trademe and Xero.” (an executive of a fast-growing IT company).

“Wellington is a really connected city, in terms of doing business. There is a high intellect. The market here drives a lot of innovation, in terms of technology and telecommunications.” (telecommunications company).

Lower costs were seen as an advantage, as pointed out by an executive from a communications company that has four clients in Auckland, including ones that have made a conscious decision to work with a Wellington agency “because they perceive us as having a lower overhead structure”.

Wellington as a career destination was highlighted by one telecommunications company. It finds that people thinking of working in Wellington ask, “where would I go to next?” Promoting Wellington as a location suitable for career development could make a considerable difference. This would require the business community to say, “Hey you can actually have a career here – the New Zealand stock exchange is here; the government is here; you’ve got Trademe, Xero, and Weta as businesses.”

There was also some criticism of the current attraction strategies from businesses.

A design company manager, one of the most critical, thought that Wellington “has no idea” about its “core competitive advantage... What are its attributes that it can build a very strong proposition off, and use it to attract investment and people? Wellington has not figured it out yet. ...It’s not positive; it’s negative. Visions need to be bold and inspire behaviour.”

Another respondent thought Wellington should stop trying to do too many things, and use its small promotional budget to brand itself as “the Silicon Valley of the South Pacific” – a centre for technology and “where new stuff happens and digital businesses thrive”.

There were also a number of challenges of doing business in the Wellington region, which are summarised in the following Figure 3. The loss of corporate offices and the relative smallness of the local economy were the most frequently cited challenges followed by finding people with the right skills in a small labour market. Limited international flights out of Wellington were seen as a key challenge for nearly one in six businesses.

Figure 3: Top three key challenges of doing business in the Wellington region – main challenges mentioned.



The issue of limited international flights out of Wellington tended to be raised by people in companies with more than 100 employees.

Those who sought long-haul flights made more comments about the trans-Tasman links than about flights direct to Asia.

“The airport issue does wear you down after 10 years of travelling. [I’m] pretty sick of having to go through Auckland to get a decent flight to Australia or to have to come and go to Australia at 6am or come home really late – it just wears you down.”

“We can’t just fly over to LA, which is where there are a lot of tech companies, so it does make it hard to communicate with them.”

4. Commitment of knowledge economy businesses to the Wellington region

On balance, considering both the benefits and challenges, nearly two thirds of knowledge economy businesses (62%) believed that being based in Wellington contributed positively to their business to a considerable or high degree.

Wellington still has a significant number of head offices, even after the exodus in the late 1980s and 1990s of companies in the banking, insurance, telecommunications and television sectors and the announcement in late 2013 that BP would relocate to Auckland. Significant companies with head offices include RaboBank, Kiwibank, Cooperative Bank, Farmers Mutual Group, Infratil, Z Energy, Contact, Meridian and Opus. Rapidly growing information technology companies include Xero, Trade Me and Fronde.

While finance and insurance companies have migrated to Auckland or Australian headquarters, a number of health organisations providing home or elderly care have consolidated their bases in Wellington to engage with government and specialists in the Ministry of Health. A number of health sector chief executives thought their contribution to Wellington was undervalued in contrast to the focus given to information technology and film.

Some finance and insurance corporate offices that remain in Wellington reported it was an increasing challenge to find senior staff because candidates from Auckland or New Zealanders seeking to return from international experience were concerned about further career opportunities in Wellington in comparison with Auckland, Melbourne or Sydney. The chief executive of one bank thought such candidates perceived that Wellington was all government, with not many career prospects outside that. “[People] are more likely to see Wellington as an option if they started here, or have friends here and have been told how great it is.” The pull of Auckland was particularly strong for manufacturing, distribution and retail-focused companies.

However, for the head of an internationally-owned finance organisation, the location of New Zealand headquarters was less of any issue:

“Most of the staff here in Wellington are not relationship-based; they are administrative, they are back-office or they are marketing. Most of our relationship-based staff are out in their regions; out where our branches are... Money is made out in the regions.”

For another finance sector executive, the growth of entrepreneurial, IT-based companies was a positive which outweighed the loss of headquarters.

“There are less institutional-type businesses and more small to medium-sized enterprises. It’s pretty hard to ignore it when Xero and TradeMe are on the bottom floor; because they’d be closer to that vibrant, technical scene.”

5. Skills

General skills and attributes sought

Figure 4 outlines the skills valued by businesses to support growth in the knowledge economy to a considerable or high degree.

Figure 4: Skills valued by knowledge economy businesses



Importance of attitude

Attitudes were seen as being as important as skills and the following were priorities:

- enjoying a challenge (92%)
- being self-directed and motivated (88%)
- being able to see how their activities fit with the larger organisational work process (88%)
- being willing to undergoing continual learning and development (80%).

As one small ICT business manager reflected “for me it’s about recruiting the person, because I can train people in the skills, but you can’t change people’s attitudes”.

Specific skills in demand

Amongst the sectors, there were a range of specific skill sets that were in demand. The difficulty of finding experienced visual effects (Vfx) artists, with three to four years' experience, was raised regularly by digital media sector respondents. Of concern across sectors was the challenge of finding people who could do multiple roles such as

“think strategically and get their head around a business, a sector, what it offers to the market... and at the same time come up with solutions to help that business punch above its weight and stand out”.

Businesses reported it could often take up to three months to find designers, account managers and front-end developers. In the film industry, skills most in need included “costuming, modelling, set builders, carpenters ...” In the digital media sector, research and development drew on locals with other transferable talents such as mathematicians.

Specialities in short supply in the energy and engineering sectors included experienced climate scientists, calibration engineers and geoscientists. People with experience in sales or commercial negotiation were typically rare, due to Wellington's public sector dominance and for the IT sector, project managers and business analysts were in great demand.

Combining technical and business skills was another sought-after talent, particularly for one small ICT company with customers who were highly skilled engineers.

“You tend not to get too many engineers wanting to be sales people... To be honest they should do because the opportunities are still there, and it can be exceptionally rewarding financially.”

Analytical ability

In the finance sector, regulatory change prompted the need for advisors to have a higher degree of skill and knowledge. So rather than staff having a single-product or area of knowledge, it was expected they would be able to work across all products or areas.

One IT sector manager sought the best graduates:

“highly skilled, top-class graduates; graduates who are very well-rounded. They need to have a lot of exposure to a wide variety of software... and know how the industry works. .. [They need to be] very intelligent, very bright, very capable. And they also need to be able to see the problems and the issues and work on their own.”

Rapid growth and development

The impact of rapid change in IT and creative industries was distilled in these comments:

“Staff that you might hire today could be very different from the staff you'll need in six months' time.”

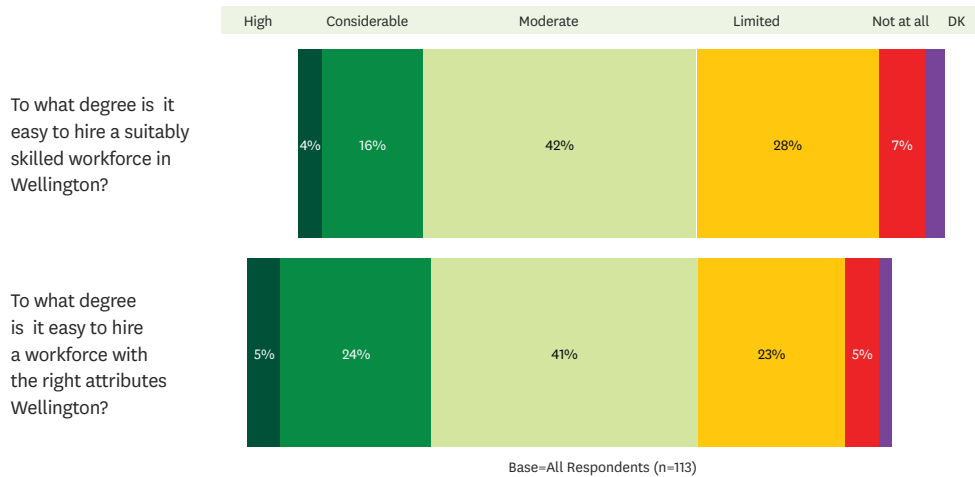
“In a creative industry, you always have to innovate no matter what you are doing. So this means that you have to have people that are willing to learn and be flexible; the need to continually innovate and deliver value – over and above what a client believes is the right level of cost.”

6. Recruitment

Availability of workforce

A majority of businesses reported they were struggling to hire suitably qualified workers.

Figure 5: Degree to which suitable workforce is available in Wellington.



There were a number of different challenges in hiring suitably qualified staff across the sectors.

The impact of Xero and TradeMe, both of which have doubled in size during the past three years, have made Wellington “more a magnet now for staff” in the experience of an ICT manager. A leading software development company emphasised the “dynamic, exciting and international flavour” of its work in a response to the competition for talent.

Shortages of technical skills and industry experience were most critical within the IT sector, which relied strongly on contract staff for senior appointments. Smaller IT companies were facing a challenge described by one of “Xero hoovering up every developer that can turn a computer on,” but for one IT company the solution had been “a good supply of interns from Victoria University”.

A leading telecommunications company used shoulder-tapping to recruit talent and found this worked well given Wellington’s size. Similarly, for another company, networks of people were explored for potential candidates, and word-of-mouth seemed effective for one consulting firm.

For the finance and insurance sectors, the major challenge was a perception of limited career opportunities in Wellington – a result of corporate offices moving to Auckland.

Recruitment methods

Networking was important for recruiting talent, illustrated in this comment: “You tend to find out when someone is coming back because New Zealand is a small community.”

Technology events provided good opportunities for networking and helped companies to discover talent, particularly in the digital media and ICT sectors.

Graduate recruitment tended to be mentioned by larger organisations, with formal processes for selection, while smaller organisations relied on networks, and used recruitment agencies for more important roles.

An engineering company found great value in hiring graduates.

“We will continue to employ graduates, we will do it with engineers mainly because they are good at disrupting the older ones, [getting them to] rethink how they do it, and they don’t come with a whole lot of baggage.”

Labour market forces worked in favour of some in the food and beverage sector who reported a large number of marketing graduates seeking employment which “helped keep wages down and productivity up”.

However, recruiting graduates was seen as a luxury by many, especially smaller companies. “We don’t retain them for long because they go off overseas.”

Migrants as a source of skills

Across a range of sectors it was noted that attracting overseas people to Wellington was not difficult – in the words of one interviewee, it being “easier to sell Wellington on its merits [than Auckland]”. A health sector business with a large emphasis on international recruitment said “the arts centre reputation” attracted international talent.

A large digital media firm that had recently hired 200 people for a project noted 90% of them were from overseas. Recruiting internationally has also been a key trend in the health sector, particularly for nurses.

Stability in government employment was an issue for attracting and retaining migrants. According to one international water engineering company, about half to two thirds of its staff “would have some connection to government or a state-owned enterprise, so that makes a difference when government is laying off... People may have to move on as their spouse lost their work opportunity.”

Retention of overseas workers was low following project completion in the digital media sector, which has a clear emphasis on contract work. “If there is no consistent work, they will go to Auckland [or] go overseas”. One large employer with international presence noted, “That is fine and that is what happens. Then we bring them back.”

Companies that place more emphasis on fit rather than skills were less reliant on migration as a source of skills. An architecture firm said it “prefers local” because there was less regulatory training required.

The role of organisational culture

Established firms emphasised the value of maintaining a consistent culture. For a leading consulting firm the key was to attract people “based on culture, philosophy and the right fit... [they] feel connected to the business rather than classing it as just a job”.

For an established IT firm the creation of “a trusted environment” was an important counter to high pay rates. The company had no middle management but “one manager for senior staff and one manager for non-technical staff ... We have always believed in flexible working hours; we have always believed in a work-life balance and don’t allow our staff to work long hours. We have always had a very low staff turnover; we have always paid our staff very well – above market average.”

A CEO of a major electricity company reported very low staff turnover, but that their workplace design relied upon shift workers at the generating end of their business, which had created some problems trying to recruit in other areas such as leadership. To address this challenge, they changed the way they grew their people internally.

“We are all fighting over the same leadership people who have three key skills: leading teams through change; developing their direct reports; and commercial thinking. Those really good people are constantly moving around and we pay a really high premium for them, so now we are resorting to trying to grow those skills internally and that’s where we are investing our money.”

Rewards

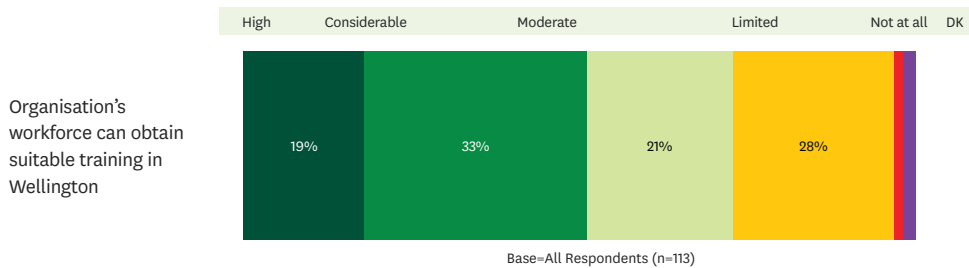
A search for on-line job advertisements during the research period showed the greatest number of roles paid more than \$100,000 annually were in the ICT sector. Aware that they can’t match such salaries, small firms emphasised having “interesting stuff to work on” or in the words of one small ICT company:

“The very best reward is someone feeling appreciated and being given a chance to grow – the two things that actually keep people happier than anything else.”

7. Training

While 52% of the knowledge economy businesses in the Wellington region could obtain suitable training, 26% maintained they could only obtain training to a limited degree or not at all.

Figure 6: Ability to obtain suitable training



Tertiary education

Across sectors the contributions sought from new graduates included an aptitude for analytical thinking, complex problem solving, good relationship management, the ability to think critically, innovate and work collectively towards shared objectives.

Several interviewees were sceptical about university-based ICT learning, with one mid-sized company representative commenting:

“We don’t care a huge amount what they learn at university because we have to teach them anyway.”

A design company was critical of “lowly skilled people” coming from commercially run schools “who can use the tools of our industry, the design software tools, but who don’t have the rigour in design thinking... Usually we end up righting quite expensive mistakes. The institutions are churning out a lot of designers but are not ... degree-level qualifications and I think that is impacting our industry quite a bit.”

One law firm described the importance of mentoring, including a pastoral care element. “Each staff member has a partner who’s responsible for their professional and personal development within the firm”.

Internships

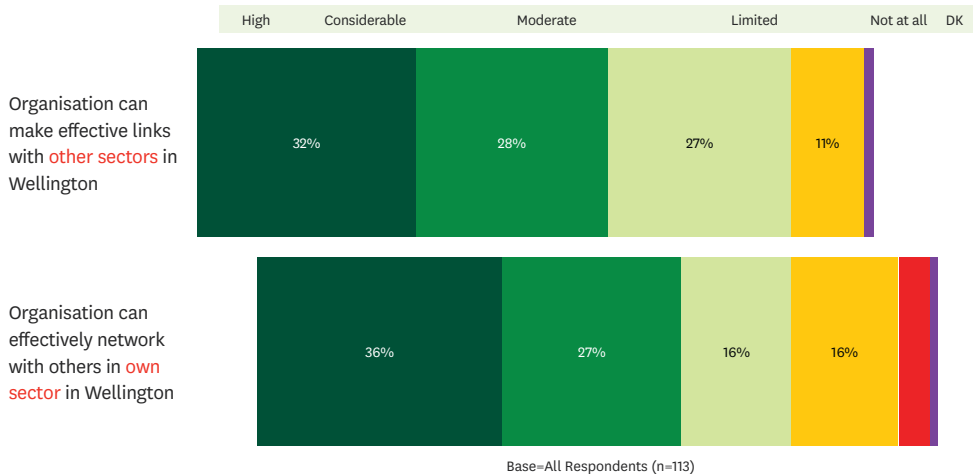
For many employers seeking new recruits, real-world experience was more important than the standardised knowledge and skills created through tertiary education. An executive from a company with United States directors said there was a sharp contrast between New Zealand’s approach and the US one where summer jobs or three-month internships were the norm.

One fast-growth IT company provided a strong example of how internships could work effectively. Almost all of their 20 staff came through the Summer of Tech initiative, an industry led initiative. It was an opportunity for students to spend a summer coding for the company.

8. Networking and clusters

Two in five knowledge economy businesses (43%) thought clusters of expertise in Wellington positively contributed to their business to a considerable or high degree.

Figure 7: Ability to network



There were a number of sectors in which clusters were thought to be emerging in the Wellington region, including communications, ICT, craft beer, manufacturing, the health sector, and digital media, as evidenced by the different comments from representatives of these sectors.

One medium-sized advertising agency noted the importance of clusters for a centre the size of Wellington.

“When there is a knowledge base of certain niches, then those people tend to stick together because socially they like talking to each other. That’s why clusters form. I think in a village like Wellington you get to know who your peers are, and that’s why you join with them.”

In sectors such as ICT which do encourage clusters, an IT recruitment adviser thought the New Zealand culture was a help.

“Kiwis are keen to share and they don’t get hung up on the wrongs and the rights in respect when it comes down to sitting in a room with a competitor... [F]or example there is TradeMe and Xero in the same [building]. They compete for staff, but it won’t stop them from sitting down and talking about what they are doing.”

In the finance sector, a Wellington-headquartered bank noted the importance of advice about regulations, and the value of having all the company’s advisers within walking distance. “That’s amazing, you never have that anywhere else in the world.”

Craft beer makers saw clustering as an important part of marketing, for example

“We don’t see other craft brewers as our competition. We see that the craft beer industry needs to be working as a unit and we take on the big boys.”

Hutt Valley-based manufacturers have a different approach to clusters, described by one this way:

“It’s a good location geographically, and you do get some sort of distribution businesses like ours based around this area... [Some] have done very well over time so we’re starting to network with them a bit about shared learning back and forth. But it’s not like a Silicon Valley; it’s not a tightly woven infrastructure that’s self-supporting.”

In the health sector, clustering was driven by proximity to government, as noted by one health company interviewee.

“The clusters appearing in terms of the national offices of major home support companies are consolidating into Wellington... Basically it is the management team, plus the senior clinicians and the senior quality and risk people.”

The digital media sector is driven by the film-related businesses in Miramar, described by one sector manager:

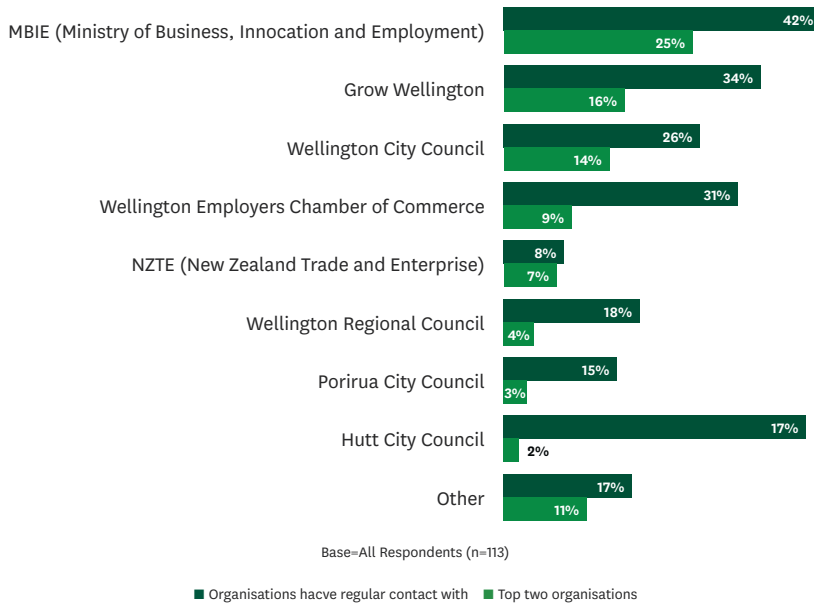
“The common factor is Peter Jackson [and] Richard Taylor. We have 1200 people...so we would see ourselves as the theatrical cluster of New Zealand if you like.”

The ICT sector was seen by one interviewee as ‘stronger than Auckland’ and driven by smaller companies which are not big enough to retain all the necessary expertise in-house.

However, clustering was not such a familiar concept to companies in the consultancy sector. One consulting firm with a global presence said “we fiercely compete with each other, we don’t club together. We run the same business and compete daily for clients. We don’t do anything collaboratively.” A large law firm reinforced this view. The manager noted, “I see synergies developing in the business community, but the legal community doesn’t operate that way”.

9. Support of local and central agencies businesses have contact with.

Figure 8: Local and central agencies businesses have contact with.



Support from government

The Ministry of Business Innovation and Employment (MBIE) provided significant support for companies in the IT and media sectors through research and development grants and incentives. An investment company noted that this support helped move companies from being “un-investable to investable”.

Different sectors relate to different roles of MBIE, for example a large IT company with immigration, a telecommunications company with regulation and competition law, and energy companies with health and safety regulations.

The nature of New Zealand Trade and Enterprise support was captured by one small company with its experience that “if we have a target customer [NZTE] can identify a person to ring within a company, and they make that first phone call.” A phone call saying, “I’m ringing from the New Zealand Government” was a considerable help to gain that first meeting.

Support from Grow Wellington

Grow Wellington, the economic development agency funded through Wellington Regional Council, received mostly positive mentions from more than 20 ICT companies and manufacturers. Film companies were particularly complimentary about support from Film Wellington with strategy and street closures.

Companies that received 50/50 grants for business development and training through Grow Wellington described the support as “access to outside advice at a subsidised rate”, “free money” that helped spread budgets further” or “great funding which works as a win-win”.

Role of business associations

Interviewees commented that the Wellington and Hutt Valley Chambers of Commerce helped save money and time through combined purchasing power. They also provided opportunities to market to other businesses, acted as an effective lobby group with central and local government, and provided employment advice and training on new regulations.

Challenges for local government leadership

At the end of each interview, participants were asked to summarise their top two or three points for

action. Perhaps reflecting the timing of the interviews, which occurred in the run-up to local elections, the most frequent comments were about the role of local authorities. An investment company director made a typical comment that, “Wellington has lost its mojo – it has just fallen off the national debate”.

The chief executive of a major enterprise, who moved from Auckland less than three years ago, was frustrated that the city was not more dynamic and commercial.

“I don’t see the links between tertiary education and public and private sectors... I don’t see a lead agency that takes responsibility to glue some pretty dynamic and successful organisations and leaders together in one place. Ironically, in a city that is three times the size and five times the landmass, it happens more readily in Auckland.”

The head of a bank thought Wellington needed to demonstrate it was “open for business” and keen to attract private-sector companies to set up headquarters. “I think it’s still got a bit of a reputation as a government town.”

Communications and advertising companies tended to be particularly critical, as in this example:

“The dying city comment is true, and people don’t want to talk about it but... when you go to Auckland you can feel the buzz and the vibrancy of the city and you know there is a lot of business going on there.”

A manufacturer whose company has moved corporate functions to Auckland because of the bigger market captured many of the benefits of Wellington despite the move.

“It’s really about marketing what it offers, because I don’t think that’s really well done at all. Most people think of Wellington as some sort of windy place, where the politicians are... I would talk about its suitability as a geographical hub for distribution; I’d talk about the compactness of the geography; it’s a unique region. I’d talk about the vibrant city, and you could argue in some ways that Wellington’s really the only real city we actually have in the country... I’d talk about the work-life balance aspects; it can be a nicer choice – look what’s in the paper every day about housing prices in Auckland.”

Terms such as “distinctive niche” were regularly used. To get there, an advertising agency executive said, Wellington needed “people with vision. We need people who will go out on a limb and bang the table for Wellington”. A bank executive wanted to see “a better working relationship with central government, to get more or at least a fair share of infrastructure happening”. Indeed one bank executive, who commuted from Auckland, thought a weakness should be turned into a strength commenting “some of the happiest people in the world, for instance, have some of the worst weather!”

Local government structures were seen by an accounting firm as “a reflection of the past; not a reflection of the future, and a reason for a lack of a cohesive voice for greater Wellington”. An architectural practice experienced “all those little silos” and a lack of critical mass. “The fact that there is a different district plan 10 minutes away is a madness.”

Indecision over local government structures was holding back investment decisions for one utility company, while a small advertising agency thought Wellington had become lazy and relied too much on being the capital city instead of pursuing the vibrant, supportive culture for a smart city.

Some businesses saw council investment in facilities as providing an economic kick-start. For a digital media company, the major gap was creative studio space for designers, not “another 24-storey building with fluorescent lights”.

A need for facilities for larger conferences was raised by a science sector executive who had recently organised a small conference worth \$500,000 for Wellington city through accommodation and meals. The chief executive of a utility company thought such a facility was needed to address the lack of a recognizable hub. A thriving convention centre could attract the Australian as well as New Zealand business community. Without this, the city was limited in its ability to shift from being a “public sector capital to a genuinely commercial capital.”

Wellington City Council was mentioned positively by a number of ICT and marketing companies for initiatives such as sister-city relationships in China, assistance with the concept of a building to house technology companies, assistance with implementing technical innovations, flexibility with planning in some cases, and support for inner city wi-fi installation.

Challenges for central government leadership:

Concerns about changes to government contracting were mentioned regularly, particularly by smaller IT companies. Some were positive, reflecting success of the company with the new contracting system, e.g., an IT company commenting “our business has changed [to be] more aligned to how the government thinks and acts”. A recruitment company was philosophical. “The pendulum will swing back. We can at least be agile to meet the market. Many of my competitors, unfortunately, can’t.” That supplier reflected that “the pricing is really, really, really low” [in order for staff to work with government].

One advertising company had merged to ensure a place in the government contracting system. A project-by-project approach to funding reduced the ability for companies to develop specialisations based on in-depth engagement. “If you involve us in this project, it doesn’t mean that you will do the next project with us. I guess it is Wellington culture thing.”

A mid-sized IT company commented, “As a taxpayer, it’s great that they’ve got government under control. The process of getting work is more wasteful now, but the work that’s being done is probably less wasteful.”

An advertising and marketing company commented, “half of the government departments use international agencies, and I think that’s just wrong. If anyone should support Wellington-based agencies and keep profits on-shore, it should be them.”

One potentially serious challenge for Wellington comes from government agencies increasingly considering relocating work to Auckland to follow the population base, and also to have a back-up for the earthquake risk of Wellington.

On the other hand, a bank headquartered in Wellington commented, “the central role that government plays is an advantage for Wellington to attract companies here, but I don’t think that’s particularly well promoted. A lot of companies need to be close to government. I think that could be better promoted.”

10. Conclusion

A comment by an Auckland-based Prime Minister that Wellington might be ‘dying’ provided practical support for this research. It helped boost the readiness of Wellington-based chief executives to discuss their strategies with students. About 70% of the 113 interviewees were chief executives, whose comments reflect that, far from dying, Wellington is adapting to the challenges of the world-wide changes prompted by the emerging digital economy.

Wellington is New Zealand’s strongest example of a new economics which is based on knowledge and creativity and fostered by a compact and walkable city. Nearly 50% of this region’s workers are employed in knowledge intensive occupations, compared with the national average of just over 33%.

People are three times as likely to work in ICT (information and communications technology) here as elsewhere in New Zealand. Cities that can attract creative individuals are recognised internationally as being increasingly the major sources of economic development. For a country whose exports are still dominated by land-based commodities, this is a challenging shift from what is considered to be ‘productive’ economic activity.

Toronto Professor Richard Florida, whose ideas have contributed to Wellington’s Smart Capital strategy, analyses this as a shift from an era in which large organisations dominated, to one where the creativity of individuals and groups is more critical. Cities that attract creative people through their diversity, authentic local buildings and shops, strong tertiary education institutions, easy access to the outdoors and exciting nightlife will best ride the waves of this new economy.

This report captures practical insights into how businesses are adjusting to an emerging digital economy and identifies challenges for local authorities, economic development agencies and tertiary educators.

Students who carried out the interviews for this report were:

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