

Coincidence or necessity:

A study of innovation in Katikati, New Zealand



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1. Executive Summary:

This report sets out results from an investigation into the reasoning behind the large number of innovative and successful export businesses in Katikati. It examines contributors to innovation in business, the influence of Katikati on innovation and the barriers to growth in operating from Katikati. Results highlight that entrepreneur's qualities, business capabilities (KSFs) and geographical distance influence innovation. Furthermore, location, land costs, lifestyle properties and community culture result in Katikati being a location of choice for both lifestyle and business. Though not major hindrances to operating their businesses, owners identified legislation and a lack of funding and skilled labour as being minor hurdles. Ways in which these challenges could be overcome include; a road show presenting support organisations, an innovation cluster with a Council liaison and increased involvement with Economic Development Agencies (EDAs). Other small towns could also foster innovation through these initiatives. Lastly, the paper highlights ideas for further research, stemming from this initial investigation.

2. Introduction:

TechNZ is the nationwide Ministry of Science and Innovation (MSI) body which provides funding to businesses in the private sector. TechNZ has identified that within the Bay of Plenty region, Katikati seems to have a proportionately large number of innovative and successful exporting businesses given its size. With a population of just over 3,500, it hosts the world's leading dart and dartboard manufacturers, an innovative dentistry supplier, and a company that supplies marine tanks for international yacht builders among others. It is of sufficient interest to the regional economic development agency (Priority One), Waikato University, and TechNZ that the reasons for the success of Katikati businesses be explored. In attempting to determine whether there are common factors across these businesses, this knowledge may also be able to be utilised in helping other small regional centres grow and prosper.

This research investigation will examine why Katikati seems to have such a high number of innovative and successful export businesses, using qualitative research methodology. Qualitative research is that which explores attitudes, behaviour and experiences through such methods as interviews or focus groups (Allyne & Bacon, 2000). It will attempt to determine why this hotbed of innovation in Katikati has occurred and whether this is due to coincidence or necessity.

Three key areas concerning both the businesses and the location will be explored. These include;

1. How and why the businesses are innovative and successful exporters. Explore the influences of the entrepreneurs' qualities, business capabilities (KSFs) and geographical distance.
2. Has Katikati contributed to this innovation? Investigate the advantages and disadvantages in operating from Katikati.
3. Barriers to growth. Consider the difficulties in starting up and running innovative business from small town locations.



3. Literature Review:

Context: Innovation in New Zealand.

Literature shows that New Zealand businesses are traditionally successful at initiating innovations but lack in the implementation stage. New Zealand Trade and Enterprise (NZTE) highlights that there are two stages of the innovation process: *initiation* where ideas emerge, things are invented/discovered, problems solved etc., and *implementation* where wealth is created and captured. "It is initiation in which New Zealanders have considerable strength, and implementation in which we do not (NZTE, 2009)." In 2009, innovation and R & D spending in the high-tech manufacturing sector amounted to \$773million out of a total \$2.5 billion across all industries (Stats NZ). Though this shows that New Zealand's manufacturing sector is heavily investing in initiating innovation, it does not necessarily mean that businesses are successfully implementing these ideas. For businesses to be successful exporters, the implementation stage of innovative is therefore essential.

Sources of innovation: How and why are businesses innovative and successful exporters?

Though this report focuses primarily on the influence of location on innovation, supporting sources of innovation - the entrepreneurs and business activities - will also be explored.

Past research highlights that business innovation capability is influenced by the entrepreneur. As stated by Besser (1997), the human capital model indicates that business success is positively related to the level of training, experience and incentives of the entrepreneur. Extending from Solow's model of labour + capital = output, Audretsch and Keilbach (2005) propose that knowledge capital + entrepreneurship capital = higher economic output and productivity. This suggests that businesses under the influence of an experienced entrepreneur are likely to achieve higher output and productivity than those headed by an inexperienced owner.

Additional to the contribution from the entrepreneur themselves, Statistics NZ data indicates that particular activities within the business largely support innovation capability. These are identified as being; the acquisition of computer hardware and software (22 percent of all businesses), employee training (21 percent) and acquisition of machinery and equipment (17 percent) (Stats NZ, 2011). Conversely, factors negatively influencing innovation for businesses generally include: development costs, management personnel and industry regulations (see Appendix 1) (Stats NZ, 2011). Through exploring whether or not businesses in the research are engaging in these activities, the proportion of innovation attributed to solely location can be better determined.

Influence of location on innovation and export success

In determining whether location influences innovation and business success, past literature of business survival rates and entrepreneurship was examined. Buss and Lin (2001) and Williams (as cited in Renski, 2009) suggest that rural town businesses in fact have higher survival rates than urban cities and actually support entrepreneurship. In high-tech manufacturing, a new firm's odds of success are 24% higher in rural areas than they are in the urban core (Renski, 2009). In addition, rural towns are found to have the highest concentration of high-tech manufacturers, with roughly 37% more entrants than expected given their population (Renski, 2009). Businesses operating from



peripheral towns can also enjoy the size advantages of nearby large towns whilst incurring lower costs and less mass market penetration (Renski, 2009). Considering these statistics, it would therefore not be unusual to find a larger than expected number of entrepreneurial, high tech manufacturing businesses in rural towns.

However, Buss and Lin (2001) also identify that there are disadvantages in operating from a small town which could restrict business success. These include: lack of capital, infrastructure, skilled labour, business support and small and undiversified markets (Buss and Lin, 2001). Observing these hindrances without considering Renski's research, one would have expected low business survival rates.

Though operating from a rural location may have been a restriction to achieving export success in the past, global borders can now be bridged through advancements in technology. This results in establishing business in rural towns becoming all the more attractive for entrepreneurs. Broadband offers every community the opportunity to move from the periphery to the centre in economic terms. It enables small companies in rural locations to be global exporters – including the export of skills and knowledge which were never before transportable across time zones or national borders (Intelligent Communities, 2011). Suwon in South Korea is one example of such a region which has attracted many innovative export businesses in the high-tech manufacturing sector (Intelligent Communities, 2011).

At an organisational and local level, key determinants of business success in small towns have been identified as community culture and networking. Kilkenny, Nalbarte and Besser (1999) argue that reciprocated community support is a form of 'social capital' which contributes to business success in the form of: creating a feeling of success for the entrepreneur which encourages retention and expansion of business in the region, in turn stimulating job growth and regional development (see Appendix 2). Strong community support creates trust in small towns, which economists hypothesize results in businesses wasting fewer resources protecting themselves from competitors, having more credible and stable government institutions, increased access to credit and risking more on innovation (Kilkenny et. al, 1999). Strong relationships with customers also increases the receptiveness to feedback, further stimulating innovation (NZTE, 2009).

Community support and networking do not only provide benefit to the businesses themselves, but to the community also. Besser, Miller and Perkins (2006) highlight that networked businesses provide more leadership and support for their communities than non-networked businesses. In the New Zealand context, networking amongst entrepreneurs to encourage community support and foster innovation is seen as being both a strength and a weakness. 'The New Zealand Innovation Ecosystem Map' explains the recent release of a large inventor network map across the whole of New Zealand and highlights the strength of New Zealand's collaboration in becoming internationally competitive (Ministry of Science and Innovation Website, 2011).



“We are fortunate in the sense that geographical distance is not an inhibiting factor for collaboration in New Zealand. Besides patents, people collaborate and share ideas by attending the same conferences, workshops and seminars – but this map shows we have a great platform to build on and deepen. Seeing our inventor network in this form is a good reminder that New Zealand needs to operate as a single entity if we are going to compete globally.”

Lesley Middleton, MSI (Ministry of Science and Innovation Website, 2011).

On the flipside, Industrial Research Limited highlights that:

“In cities like Sydney or Melbourne it is much easier for inventors to collaborate due to living and working in close proximity to one another. In New Zealand we need to work hard to overcome this barrier to innovation. We need to learn to act like a city of four million people” (Industrial Research Limited, 2011).

On a smaller scale to Sydney or Melbourne, regions of New Zealand with a high concentration of innovative businesses could be a starting point for such collaboration.

Facilitating innovation and export success in small town businesses

In finding ways to encourage innovation and entrepreneurship in small rural towns, literature suggests recommendations to policymakers. Henderson (as cited in Renski, 2009) suggests that policy support businesses by developing infrastructure i.e. expanded broadband access, and specialized services or trade and promotion assistance, that will help growth-oriented entrepreneurs compete in broader markets. Successful strategies designed to foster entrepreneurship include: incubators, seed and expansion capital funds and managerial training for small business owners (Renski, 2009). It must be noted however, that in some cases, entrepreneurs may not have a desire to develop the business, being more motivated to achieve a work-life balance (see Appendix 3). NZTE (2009) highlights that New Zealand business growth potential is often limited by lifestyle factors, referred to as ‘satisficing’- “the bach, boat and BMW phenomena in which leisure wins out at a low threshold of wealth accumulation”(pg. 12).

In facilitating export success, NZTE’s 2009 report; ‘Playing to Our Strengths’, highlights drivers to export success for small and innovative New Zealand businesses. Suggestions include:

- Speed to market in order to optimise market entry and growth.
- Different export options such as forming Joint Ventures (JV’s) in order to become more adept at the ‘implementation stage’ of innovation.
- Working smarter, not harder - selling more volume more efficiently, market positioning and product customisation (p. 15).



4. Methodology:

Seven Katikati-based businesses identified by MSI as ‘innovative and successful export businesses’ in the high-tech manufacturing sector were selected to partake in this study. As cited in Hurley and Hult (1998), innovation is defined by Amabile et al (1996) as the “successful implementation of creative ideas within an organisation” and similarly by Thompson (1965), as the “generation, acceptance and implementation of new ideas, processes, products or services.” An export business can be defined as a business which “produces goods or services in one country and then sells these to be consumed in another country” (www.business.yourdictionary.com).

Defining a ‘successful business’ however, is not as straightforward as what may represent ‘success’ to one person or business may not represent success to another. A successful business could be defined as “a company that provides value to its customers, owners, shareholders, society and employees” (www.ask.inc.com) or as one that has a long term and profitable future (www.tbba.co.uk). For the purpose of this investigation, the academic definition of a successful business as having; “a competitive advantage, above-average management and market leadership” (www.investopedia.com) will be utilised.

In conducting the report research, a representative of the business was interviewed in person for 1-1.5hrs. Five of these individuals were the business owners, one was the CEO and one the manager. A code letter was given to each for reference in the report; Businesses A-H and Owner/ Entrepreneur/ Manager A-H. Interviews were semi-structured with discussion focussing around five question areas; personal background, business description, networks and relationships, specific issues and Katikati as an innovative town (see Appendix 4).

5. Results and Analysis

5.1 How and why are these businesses innovative?

Based on the interview results, the sources of business innovation will be examined and analysed. Firstly, the entrepreneur’s qualities will be discussed, followed by the key success factors of the business and lastly, the influence of location on innovation. The results will be presented in this order as the reader will be more able to understand the influence the entrepreneur has had in shaping the culture and strategy of the business, and the impact of location in necessitating innovation.

Entrepreneur’s personal qualities:

Having a vision

A common finding in the research was that each of the owners and CEOs has a clear vision. They all have the ability to look to the future, identify opportunities in the industry and act - even if there is risk involved. They are never satisfied with what already exists and are constantly thinking of ways to do basic things better. Many of these entrepreneurs began translating their vision into reality in a



garden shed - a place where New Zealanders can be innovative in a safe environment, one where they can try things out, succeed, and sometimes fail. Owner D came up with the idea for his business in the car shed. Owner G started his business in the back room of his existing office.

Industry Knowledge and experience

Another determinant of these businesses' innovation success is likely due to the entrepreneurs background knowledge of, and experience in the industry prior to establishing their own businesses in Katikati. Though naturally having a mind for thinking outside the square, these individuals also had a lot of knowledge and experience which, as highlighted in Besser's human capital model, is a key contributor to business success (Besser, 1997).

Owners A, C and F and G all had formal training in their respective industries, as well as experience in a related business. None of these entrepreneurs just saw the idea, clicked their fingers and created a business. It was a work in progress, a culmination of the industry knowledge and experience they had built up over time which led to that initial idea.

Experience gave these entrepreneurs the chance to understand how a business should be run and to learn from their mistakes. CEO B had established a world class brand and, although in a different industry, had discovered how to run a successful business through trial and error. Owner D had no formal training but is a 'natural innovator'; "People come to Owner D with problems as he is the only one who can work it out" (Owner D). He also has extensive knowledge of the industry as it encompassed a lifelong hobby.

Owner E learnt the ins and outs of the family business from a young age, and is now one of the world's most knowledgeable in the industry. These entrepreneurs passing on their acquired knowledge, has translated into business success and stimulated innovation in their respective businesses. "Sometimes I feel like a walking gossip line" (Owner E). This knowledge has created a greater understanding and ability to satisfy customer and industry needs through innovation.

Open to learning - Mentors and advice

Each of the entrepreneurs is open to learning: they have had mentors or sought advice in order to increase their knowledge of their respective products, materials and industries. Business owners A and E and CEO B came from entrepreneurial backgrounds and had mentor-type figures in their careers; Owner A and E's fathers were in the same industry/business and CEO B's family owned a business. Owner C also seeks advice from his father and still draws on advice he received at the start of his career. He recommends to; "Seek advice from people who have skills that you don't." CEO B also supports this recommendation. He sought professional business training and advice (even going all the way to L.A. to meet the industry guru) and had a philosophy that you have to learn from the best. This culmination of advice has contributed to the entrepreneur's knowledge and experience.

The Kiwi 'can do' attitude

Another aspect of the research is not solely why the businesses are innovative, but why they are successful also. Underlying this success, a common trait amongst owners is the sheer determination to succeed and the Kiwi 'can do' attitude. Phrases such as 'overcoming the impossible', 'if someone says you can't do it, then do it', 'seeing the opportunity and going for it' and 'never are satisfied with



what's there' were spoken time and time again. Owner D's motto is "Be the best." Owner C highlights the determination to succeed and being driven by doing something you are passionate about (will jump out of bed in the morning for) as key success factors in creating a successful business. Owner E also maintains 'tenacity' as a valuable trait in business, exemplifying this trait in securing a distributor in one of the business' largest export markets. "Twice a year, for eight years I visited South Africa to secure this distributor until I eventually secured the deal" (Owner E). This distributor is now one of the most successful international distributors in the business.

Business Capabilities (Key Success Factors):

Customisation of products to satisfy customer and industry needs.

As earlier highlighted entrepreneurs' knowledge and experience being transferred to business operations results in innovation through an understanding of customer and industry needs. Expert knowledge, flexibility and strong relationships are common qualities among the innovative businesses in this research. Expert knowledge of raw materials, industry trends and legislation allows the entrepreneur and his/her business to identify opportunity in new products where other business owners may not. Flexibility allows the business to be adaptable - to alter operations around unforeseen externalities or to customise a product based on customer requests or changes in industry legislation; "We have a loyal customer in the US upon who we always consult when developing new product designs" (Owner E). Statistics New Zealand research in 2009 highlights the three key sources of information for innovative New Zealand businesses to be; existing staff (74%), customers (61%) and new staff (54%) (see Appendix 5). Supporting this data that 61% of innovation information is sourced from customers, innovation of new product designs commonly arises from customers approaching the business with a need; "On a daily basis we hear people wanting solutions or wanting to develop solutions for some situation" (Owner A). Business H has leveraged off ideas and comments brought up in conversation with customers and competitors in developing new innovative products, which have generated extensive profit for the business.

Though the majority of these innovative manufacturing businesses have a combination of R&D and operations, they have the potential to focus solely on R&D and patent their designs. However, these businesses also enjoy the operational side with a lot of the entrepreneurs and staff having a passion for the hands-on manufacturing.

Niche market focus

Each of the businesses focuses its business strategy on a niche market - producing quality > quantity of products. Business E is a case in point: "Originally we had a generalised target market, but now target the high end of the market, resulting in greater profit from lower output." Businesses A and H also have achieved success through focussing on a niche market. Business H combined its niche focus with a strong pricing strategy, resulting in high profit margins with minimal product. Though having such a niche focus may have seemed a disadvantage at the time for Business A, it ultimately resulted in international success; "We were forced to internationalise because of a downfall in the New Zealand market when we invented the products" (Owner A).



Strong business relations

Having strong customer relations can also contribute to the innovation success of a business. Businesses with a focus on building strong business ethics and stakeholder relations, such as Business A, reap benefits of repeat purchases and product design from loyal customers/competitors. “Trust and loyalty commonly result in us capturing overflow work from competitors, as well as helping us to maintain loyal suppliers and contractors all around the country (Owner A)”.

Staff as family focus

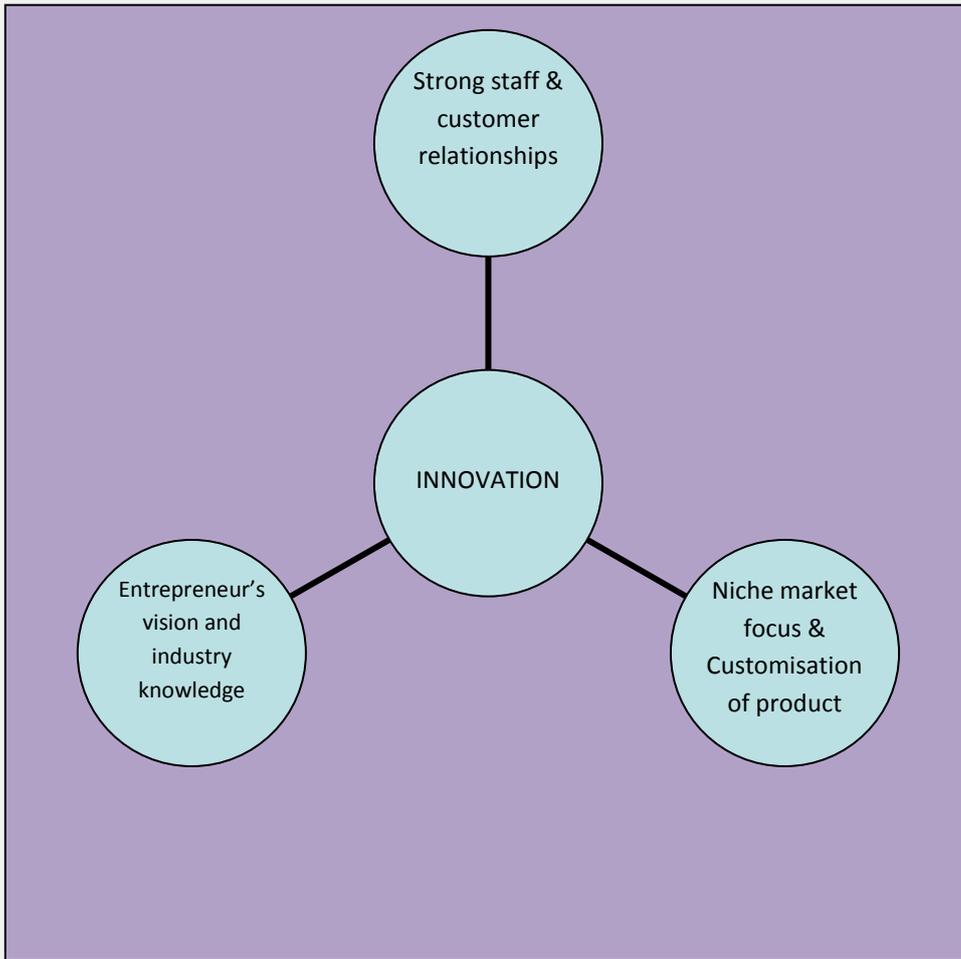
Each of the six businesses has strong in-house staff relationships as well as good relationships with other local Katikati businesses. Having a business culture which fosters innovation and encourages workers to achieve their best creates a productive and successful business environment. As highlighted above, Statistics NZ data shows that businesses rate existing staff (74% of businesses) and new staff (54%) as being two of the most valuable sources of information for innovation. Owner A realises the value of having an organisational culture which fosters innovation among staff. “We provide free staff lunches and have a flat structure where everyone’s ideas matter. Staff will sit around the table at lunchtime with a pen and paper, brainstorming ideas. They feel comfortable at work where they are treated not just as a number but as individuals. Staff even come into work on their days off!”(Owner A). Close relationships outside of the office are also maintained.

The importance of treating staff like family is highlighted by Businesses D, E and F. One of Business E’s core values is: “A family business operating in a family manner.” Owner D similarly operates his/her business under the philosophies of: “treat workers like you treat yourself” and “a business is only as good as the staff you’ve got.” Owners D feel they are parent-figures to their staff. “Even with our patent standard, without our staff we wouldn’t have had motivation to keep going (Owner D)”. They even privately financed their staff through the economic downturn and found them work with other local businesses when unable to provide further work. This highlights how valuable it is to small-business owners to retain these knowledgeable and trained staff. It also shows how the community spirit in Katikati can help facilitate business. If other local businesses did not offer to take on Business D’s staff during the recession, then they may have left the region with the skills they had learnt and Owners D would have been forced to retrain new staff.

The influencers to innovation determined in this study are illustrated in the diagram below.



Diagram 1: Influencers to innovation





5.2 How and why are these businesses successful exporters?

Sales & marketing and technology investment were identified as being two key factors which have given businesses a competitive advantage in the international arena. Not all of the businesses have become successful exporters as a result of these factors however, with many identifying sales and marketing as a focus for the future.

Sales and Marketing

Businesses participating in the research were largely reliant on word of mouth promotion. This is largely because they have insufficient capital for extensive marketing campaigns. Business E and H however are the exceptions, with Owner E identifying sales and marketing as being the back bone of the business' success. "It's all about knowing which products to sell to which customers" (Owner E). In the past, Business E had a generalised target market, but now targets the high end of the market. With this more specific focus it can reap greater profit from lower output.

Business G's sales and marketing (described as 'genius' by Manager H), as well as its pricing strategy have also contributed to the business' large export volume being sold at a high price. Despite most Kiwi start-ups trialling their product in the local or regional market, Business H took its product directly to the larger US market, promoting it at trade shows. Business A also took their product to an international trade show. "We had to set up inside at a small table with 5 chairs around it, as we didn't have a lot of money. By 10am there were over 100 people standing around and within 2 weeks we had sold 200 of the product" (Owner A). This supports NZTE's suggestion of taking a product with 'speed to market' (2009). When Business H entered the US market, its competitors decreased their price, attempting to shut out Business H through consolidating. However, Business H didn't lower its price; instead, it increased its price, raising the profit margin and thus had more profit to reinvest into marketing.

Though Businesses E and H both have a share of the New Zealand market, this is not their main target market. All of the businesses in this study have become more successful through exporting for reasons from gaining access to a larger market, to cheaper operational costs. This is highlighted through Business H, which, despite being based in NZ, can advertise its product in the US market for a tenth of the price of advertising in the NZ market.

Technology Investment

Selling more volume more efficiently is one way in which businesses can successfully export to a global market (NZTE, 2009) and investment in technology is one way in which this could be achieved. Technology investment is a way in which businesses in Katikati can become globally competitive, despite size and location. Capital investment has played a critical role in the business productivity and product customisation and quality for Businesses B, D and E. "We have achieved success, high productivity and longevity through being smarter; investing in more expensive technology early which increased our efficiency, reduced labour costs and enables us to produce three times the output than our competitors" (Owner E). Business F has also invested in technology and machinery to increase productivity. "We have an annual review to identify where there is waste in our systems



and brainstorm smarter ways to operate. This often involves using technology wherever possible to increase productivity, and having an on-going review and improvement process based on lean manufacturing” (Owner F). Business D has the only machinery in the Southern Hemisphere for producing its product. It also uses only the highest quality material in manufacturing its products in order to produce the highest quality products. Business D also got a patent standard in the late 90s in order to be seen as the best and to develop a strong quality reputation. Though investing in technology or patents may seem like an enormous outlay for a start-up business, the medium-long term benefits will more than compensate for this initial investment.

5.3 Has Katikati contributed to this innovation?

The key question behind this research investigation is whether operating a business from Katikati is in some way conducive to stimulating innovation. Results indicate that the advantages of combining lifestyle and business, as well as community culture and networking, contribute to the businesses within this study being both innovative and successful.

Advantages in operating from Katikati

Lifestyle

Lifestyle is a critical factor for entrepreneurs in deciding a location in which to start up business. Interviews generated the results that all owners who moved to Katikati, bar Owner F, moved to Katikati firstly due to personal reasons/lifestyle and then in turn created their businesses. Business Owner A highlighted that in order to work in Katikati this was of necessity as his background work experience could not be applied to an existing Katikati business. Business owner E was the only interviewee originally from Katikati, and Owners A and B moved to Katikati as had family in the area. Owner F was based in Auckland but conducted most business in the Tauranga/ Katikati region due to the nature of his work. Owner G worked in Katikati in a related business, and didn't want to move location when establishing the innovative new business. These results indicate that owners made the move to Katikati for personal reasons, and subsequently established their business.

Owners C and G specifically pin-pointed that combining lifestyle and business through living in Katikati brings out the best in the entrepreneurs and the staff, thus resulting in successful business. The main attraction of living in Katikati for business owners is that it meets both business and social needs. “There is the need to focus and deliver on all aspects of both private and business life to make it the best that it can be. If you disregard the private and social environment, business people will not want to live there (Owner A)”.

Though businesses have the option of relocating to regions which offer more growth potential, they choose to remain in Katikati; “In the past we have had lots of pressure put on us to move overseas to China or Australia” (Owner E). Owners were attracted to Katikati through being able to live a rural lifestyle, yet still be close to main regional centres such as Tauranga, Hamilton and Auckland. Through living close to these major cities, owners are still able to maintain social relations with previous colleagues, friends and family. “Katikati is so close to Tauranga that it could be classified as a suburb. Katikati is closer to the Northern Tauranga suburbs than is Mount Maunganui, yet



residents can still live on a lifestyle property” Manager H. This same sized property in Auckland would be twice the price and be so far out of the city that, combined with traffic it would likely take longer to get to Auckland City than it would commuting from Katikati.

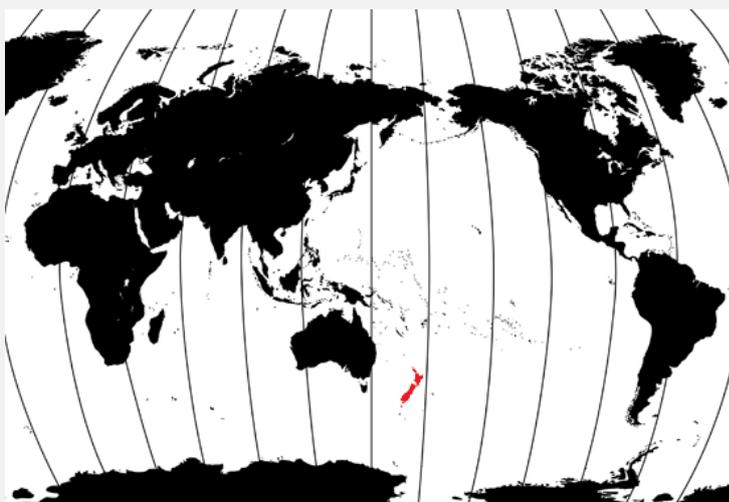
Additional to the rural lifestyle, Katikati has a mild climate, views and space to build large town houses on the harbour. There is a low crime rate, a strong community spirit and there are good schools. Local industries such as avocado or kiwifruit also provide a background income to many business owners who have orchards on their properties. This likely provided them some financial security and thus gave them the chance to take risks in establishing their businesses. “Many business people are interested in having an orchard as well as their other business. Owners don’t have to drive the business - they can spend time on their orchard and large property.” (Owner A).

Business

In terms of business, owners identified there being no major disadvantages in operating from Katikati. Conversely, it is close to transport centres with couriers, trucking and freight, port and the airport all readily accessible. Being close to main regional centres also means that businesses can have strong business relations with customer in these centres also. “Location is no obstacle in operating business from Katikati. You can still have customers in large cities such as Auckland - even if going to meet them is an obstacle to you. As long as there is no obstacle to the customer then it is not an issue. But, if you say you’ll be there, be there” (Owner C).

Isolation was suggested as being both an advantage and a disadvantage in doing business from Katikati. Though isolation was seen as encouraging productivity due to fewer distractions, there may not be the energy or vibrancy of workplaces in big cities. However, the isolation factor in operating from Katikati is not an issue for these businesses who all service overseas market; 170kms from Auckland is not extreme when compared to the 14,200kms to New York or 18,300kms to London (www.timeanddate.com).

Diagram 2: World Map



Owner A highlighted that land prices are half the cost of that in Tauranga and are not overpriced for establishing business premises. However, Owner D reminisces having “no preference to live in Katikati as lease prices are higher than other small towns and comparable to Tauranga or Mount



Maunganui.” An April 2010 publication on Bay of Plenty Regional Council’s Annual Plan proposal supports Owner D’s view, with median property land value of the Western Bay at \$310,000 and Tauranga at \$200,000 (www.boprc.govt.nz). However, it is unknown whether this takes into account property size which would explain the higher prices in the Western Bay with the larger properties and orchards.

Though businesses generally felt there is a sufficient labour pool in Katikati and the wider region, recruitment for highly-skilled workers often requires advertising nationally or internationally. However, Manager H highlights that Business H recruited some of its senior, experienced and most valuable staff who were coincidentally already based in Katikati. This goes hand in hand with Owner G’s theory that “Katikati is a smart place to live and it attracts smart people”.

Organisational culture and community spirit

As past research has found in other locations, key success factors highlighted in operating businesses from Katikati were identified as community spirit and small-town networks as enhancers of business and innovation.

Businesses in Katikati seem to have a strong community focus, contributing to the community spirit. All businesses in the study prioritise recruiting from Katikati when sufficient labour exists. Businesses A and B run internship programmes, as does business C: “Katikati College has a gateway programme in which a student comes into the business one day a week as an intern to learn about the business” (Owner C). Business F works alongside the local college to provide before and after school work for the students when they require more hands. “If the students work during a meal time, we provide meals for them and will drop them to school after working the morning shifts” (Owner F).

Additionally, owners try and support other Katikati-based businesses wherever possible, whether it be working in partnership, sourcing materials, providing over-flow business or ‘directing clients to the local motel down the road’.

Key benefits of involving students and the wider community in their business is that it fosters pride in what the community has to offer, it highlights the importance of innovative thinking and it gives young people exposure to businesses for which they may want to work in the future. From the business’ perspective, this organisational culture and community spirit in Katikati is also a business enhancer - they can more readily recruit staff from part-time workers and can create strong community relationships which may help other areas of their business. Owner A for example highlights that: businesses can do background checks when employing staff, owners can approach each other for advice and, if a business needs assistance in a project, efficient and effective results can be achieved.

Networking

Networking with other entrepreneurs in Katikati, and with key business stakeholders is essential to business’ success, according to the participants of this study. Owners C & E and CEO B highlight the importance of networking in: generating results, increasing knowledge and gaining market access. CEO B attends a men’s business group in Katikati who regularly meet to bounce ideas off each other. Owner C has also utilised local Katikati networks; “When first starting out, we were located right



beside Business A so, if faced with an issue, I would pop over next door to ask Owner A for advice” (Owner C). However, at a local level, Owner E highlights that “Tall poppy syndrome in NZ means I tend to keep to myself rather than going to business functions or formal networking events.”

Although there are no other formal networking channels which business owners in Katikati utilise, they network on an informal basis, whether it is meeting with other business leaders at the local ‘Café Viva’ once a month or chatting on the side-line at children’s sports games.

Owner C highlights that networking with external stakeholders and meeting customers face to face is essential to relationship-building. Owner C used networking to create opportunity for his business: a chance meeting at a trade show in Amsterdam built the platform for establishing a recent sister company partnership. Owner A even networks with competitors, remaining on friendly terms in order to enhance business through capturing overflow work: “We don’t try to compete with larger Tauranga businesses as we can’t offer as attractive a price. Instead, we ring up the competing firm, inform them we have withdrawn our bid and ask for any overflow work that might come from the deal” (Owner A). CEO B and Owner E also see great importance in networking, travelling the world to meet and interact with customers, professionals in their respective industries or suppliers. Technology such as Skype is invaluable nowadays in maintaining communication channels; there is thus no excuse to not remain in regular contact with one’s business partners and stakeholders. For geographically isolated towns, advanced technology such as Skype and video conferencing also presents the opportunity to become a successful exporter without ever having to leave home.

5.4 Barriers to growth: encouraging innovation in small New Zealand towns

The participating businesses in this study are the type of innovative businesses which will be the backbone of New Zealand’s economic growth and international export success. In recognising this fact, businesses were questioned on how they could be assisted in developing their businesses.

Local Council: Laws, regulations and consent process

Despite the consensus being that there are few disadvantages in operating from Katikati, external organisations and laws are impacting upon business growth potential, and the lifestyle advantages Katikati offers. Owners A and G suggest the main reason business owners operate from Katikati is that it satisfies both lifestyle and business needs. Therefore, Owner A suggests that if Katikati changed too much as a town, business owners would leave: “These people don’t need business here, they want it here.”

Owner A highlights that such change could result from local council decision-making such as a recent council proposal to introduce broad restrictions on homes built within 300m of the harbour coastline. However, if one was unable to build the home they wanted this would be a huge disincentive to bring a business to Katikati. “Council needs to place more consideration on the big picture as there are many young town planners now in decision-making roles who don’t realise the implications of changing the status quo and that development on the harbour must be expected” (Owner A).



Owner F also had issues with local Council regarding obtaining consents when moving premises. “When moving premises we had to go through a lengthy consent process (21 day turnaround) which slows down business. Council could do a quick check over consent on day 1 and give even brief feedback so businesses can make changes more quickly” (Owner F).

Compliance costs

Business E has had to battle with extensive compliance costs with regards to dangerous goods. The business has had just 1 minor insurance claim in 20-25yrs, yet still has to be inspected annually. Business E then receives a list of things that need to be changed from insurers, and has to complete a lot of paperwork including government surveys. As highlighted by Owner F, this all takes time which could be better spent in further developing the business.

Funding

Lack of funding is another common issue faced by successful and innovative export businesses in Katikati. “We realise that we need a sales and marketing strategy to grow the business, yet cannot personally fund this so are restricted to word-of-mouth promotion” (Owners D). Business C needs engineers, but has no funding to recruit.

In addition, all businesses highlight the importance of attending trade shows overseas to market their products, yet few can afford to do so. From attendance at trade shows, businesses A, C, D and H have all secured immediate business or formed invaluable networks which have been vital to the growth of their businesses. Business A secured a contract with world-leading engineers Volvo, and Business C formed a relationship with a distributor which has recently become its sister company. Owner E also highlights that “exporters no longer get enough support to attend trade shows. We would like to go, but cannot due to finances. This puts us at a disadvantage when competing against overseas businesses which have access to lots of funding and also benefit from cheaper air travel.”

Labour

Although generally the local Katikati labour pool is sufficient for staff recruitment, businesses also recruit from around the region, largely Tauranga. “Although there are reasonably skilled people in Katikati, many travel to Tauranga for more attractive salaries” (Owner A). As highlighted by Owners B, E and Manager H, businesses are often forced to advertise on a national and international scale in the search for highly-skilled staff, particularly engineers. This is represented in Business B: “We have a very international workforce with our labour force made up of skilled workers from Wales, England and Russia” (Owner B). Staff management is also a challenge for Business H which has experienced such rapid growth that around one person per week is being employed.

Capital costs

Though the price of land is generally considered to be cheaper in Katikati than in other cities in the region, Owner F believes that there are additional capital costs of setting up business in Katikati: “If fibre was in the area it would have saved our business huge capital costs.”



Industry Legislation

Though changes in legislation can provide opportunities for businesses to develop new products and become more innovative, legislation can also be a restriction to business. The latter applies to Business D: “The only legislation in the world against our product and materials is in NZ and Australia, our two main markets. Therefore, prior to installation or export of our product, it must be approved by surveyors. Despite formally opposing against this legislation, it will not be reviewed for five to ten years” (Owner D).

Additional recent legislation applicable to Business D states that all workers in the industry in New Zealand need to be certified. However, Owners D wonder how this will be assessed as they believe they are perhaps the most qualified in New Zealand in this area of expertise.

Governance

Although NZTE provides case managers for the larger businesses in the Bay of Plenty region, smaller businesses are also often in need of direction in terms of business strategy or capability. “Case managers would be beneficial for smaller successful export businesses also” (Owner C). Business F was successful in realising the importance in separating out the management and operational sides of its business, investing in an advisory director to create a governance structure. However, not all businesses can so successfully identify the problem.



6. Conclusion:

In summarising the evidence provided in this report, the reasoning behind the concentration of innovation comes down to Katikati as a lifestyle location where there is an environment conducive to doing business. Results highlighted that Owners moved to Katikati initially due to the attractive lifestyle or having family in the area and then subsequently established their business. Reasons for starting up business included there being no work available for these skilled individuals in their respective and existing field, yet the desire to work from Katikati. In addition, low labour and land costs in Katikati also facilitated the ease of start-up of new and progression of existing business.

Reasons behind business' innovation success were identified as: the entrepreneur's knowledge acquired through experience and support from mentors/industry experts, the need to satisfy customer needs and the necessity to innovate when operating from a geographically isolated location. Both innovation and export success were found to be facilitated by community support, a staff culture encouraging innovation and networking with stakeholders, which also contributed to these businesses remaining in Katikati. Export success in particular was supported by technology investment and directed marketing strategy.

In order to determine ways in which new and existing businesses in Katikati with the potential to be innovative and successful exporters could be supported, businesses were also questioned in this area. Results highlighted the challenges of operating a business from a rural town, identifying barriers to growth such as lack of funding, consent applications and compliance costs being largely applicable to start-up businesses regardless of location. However, council regulations and recruitment of skilled labour, specifically affect Katikati businesses. Through looking further into these areas, ease of doing business in Katikati could be enhanced for participating and non-participating businesses in this study.



7. Limitations:

Limitations of this research investigation include: a sole focus on businesses in Katikati, not always being able to interview the entrepreneur themselves, and the restriction of participating businesses in the project.

Firstly, the question must be asked as to whether the number of innovative businesses in Katikati is actually considerable proportionate to the population. It could also just be that past literature is correct in the case of Katikati in suggesting that rural towns have a higher concentration of high-tech manufacturing entrants than urban cities (Renski, 2009). Interviews undertaken were restricted to Katikati businesses, yet perhaps other small towns in the Bay of Plenty also are hidden hubs of innovation. By interviewing innovative business in other small regional towns, information on a comparison to the evolution of innovation in Katikati and how this innovation could be replicated elsewhere could have been drawn.

Secondly, not all of the entrepreneurs of the businesses were interviewed: one was the CEO and one was a manager. This restricted information in some question areas such as the entrepreneurs' personal background and why they chose to live and do business in Katikati.

Lastly, the participating businesses in this research had to qualify as 'innovative', 'successful' and 'exporters'. However, other businesses in Katikati may also qualify as 'innovative' but may still be in a growth stage or servicing the local market only by choice, or by lack of knowledge or resources to export. Including these businesses in the interview process also could:

- Identify differences in entrepreneurs' personal qualities and business capabilities between the successful and non-successful businesses. E.g. each of the entrepreneurs in the research had a role model as well as extensive industry experience whereas the non-successful business owners may not have had this guiding influence or experience.
- Identify whether or not these businesses maximise the opportunity Katikati presents in terms of community culture and networking. Perhaps they have recently moved to Katikati and have not yet established community ties.
- Identify barriers in operating from Katikati which the successful businesses in the research may not have come across.



8. Recommendations:

Ways in which economic development agencies and the wider community could support innovative businesses in both Katikati and other small New Zealand towns include:

- Road show highlighting support service organisations: Assist businesses in becoming more aware of opportunities for funding, knowledge-access and advice. Transferrable across regions, businesses could be made more aware of support services offered by organisations such as NZTE, TechNZ and the Chamber of Commerce through a road show in which support organisations present an elevator pitch for 2-3 minutes each on the services they offer to businesses.
- Recreation of Katikati brand: It was suggested by a local business leader that Katikati business' innovation success be highlighted through the rebranding of Katikati from the 'Mural Town' to the 'Innovation Town.' This branding provides increased potential in attracting both business and investment to Katikati, as well as contributing to Katikati business' promotion at a national and international level.
- Increase networking opportunities through EDAs: Enhance collaboration between businesses to foster innovation and to encourage joint business opportunities, knowledge-sharing and shared resources. At a local level, Katch Katikati, and at sub-regional and regional level, Priority One and the Chamber of Commerce are able to create links between these businesses and others in the region through providing networking events and shared collaboration facilities.
- Innovation Hub: An innovation hub such as the Newnham Park Horticulture Innovation Centre in Te Puna could be a means of fostering innovation in both Katikati and other small towns around New Zealand. In the case of Katikati, such a hub could focus on specialised manufacturing. Benefits of an innovation hub would include: cost savings on overheads, inspiration from other entrepreneurs and increased access to a range of business people and services.
- Accommodate for the baby boomer generation: In order to overcome difficulties in recruiting highly-skilled staff, businesses should consider changing workforce demographics (see Appendix 6) and how older workers could contribute to their R&D and business development. As well as being attracted to rural areas or small towns with scenic amenities, affordable housing and easy access to main regional centres, older workers have strong knowledge and experience which businesses could tap into.



9. Further Research

Having completed this research investigation, topics for further research could include:

1. An analysis of other small New Zealand towns close to main regional centres such as Te Puke to investigate:
 - The number of innovative businesses comparative to the population.
 - The advantages/disadvantages experienced by entrepreneurs in operating from these towns.

These results could then be compared to the results for Katikati to consider whether or not hubs of innovation occur in other small New Zealand regional towns also.

2. Why were all of the entrepreneurs who participated in this research project male? An investigation into female entrepreneurship in New Zealand and how this could be encouraged.



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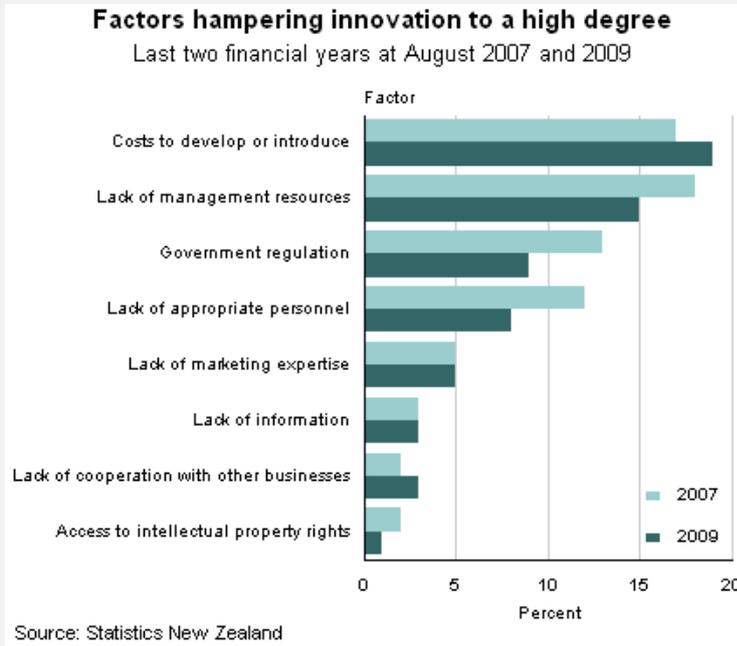
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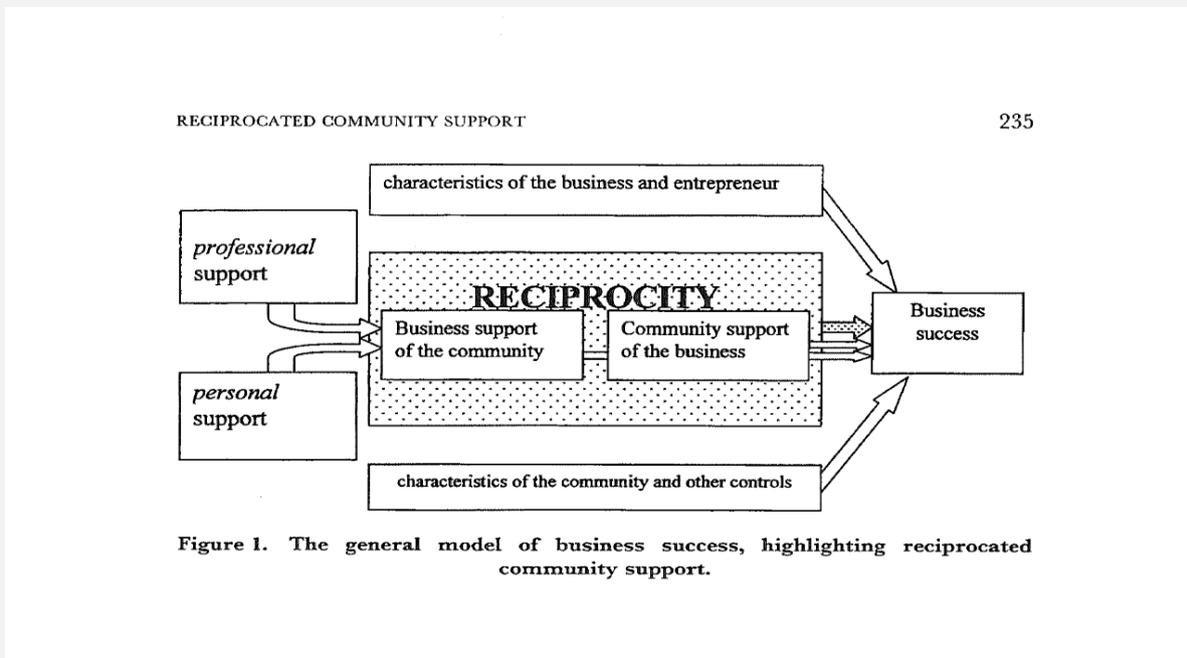


11. Appendix

Appendix 1:



Appendix 2:



(Kilkenny et al, 1999).



Appendix 3:

Motivators of business development in New Zealand





Appendix 4:

Questionnaire:

Personal Background

1. Were you born/did you grow up in Katikati? If not, what was your reasoning for moving to Katikati? i.e. Why Katikati?
2. What is your position in the business? Owner, MD, etc. What were you doing before you were involved with it?

Business Description

1. Describe business: what products or services to what markets? Who are the customers? What is your competitive advantage?
2. History of business. When established, how grown and changed? How many staff did you start off with? How many staff do you have now?
3. What was your incentive for creating this business?
4. How long has it been operating from Katikati? Why is the business based in Katikati?
5. What challenges you have faced in operating from a smaller town like Katikati? E.g. Lack of capital, infrastructure, skilled labour, business support, small and undiversified markets.
6. What advantages are there in operating from a small regional centre such as Katikati?

Katikati networks and relationships

7. Does your business interact/network with other Katikati businesses? Is this facilitated at all?
8. Are there any personal networks you maintain in Katikati which influence your business decisions at all?
9. Does community backing and support of your business play a role in its success?
10. Do you feel there is a culture of innovation in Katikati? What examples of this are there? Have you been inspired by any other business leaders/role models in the community? Who and why?

Specific Issues

11. How do you operate your supply chain? What does operating from Katikati mean for this? What particular advantages or disadvantages (i.e. Access to the port, airport, highways, Akl-Ham-Tga hub. How do you access suppliers?)
12. How do you access highly-skilled workers? Do you recruit from the community/ region? How does being located in Katikati impact your ability to recruit?



13. What are your key sources of innovation in the business? Where do you get new ideas for products or processes or technologies?
14. What are your future growth plans for the business? Would you every consider moving the business from Katikati? For what reasons?

Katikati as an Innovative town

15. Why do you think Katikati has such innovative and successful export companies? Do you think that there are common advantages across these companies?
16. What could other small towns learn from Katikati in attracting innovative companies?
17. What are the key success factors that could be transferrable to other small cities in order to foster innovation?
18. Could more be done in Katikati to attract and sustain companies like yours?

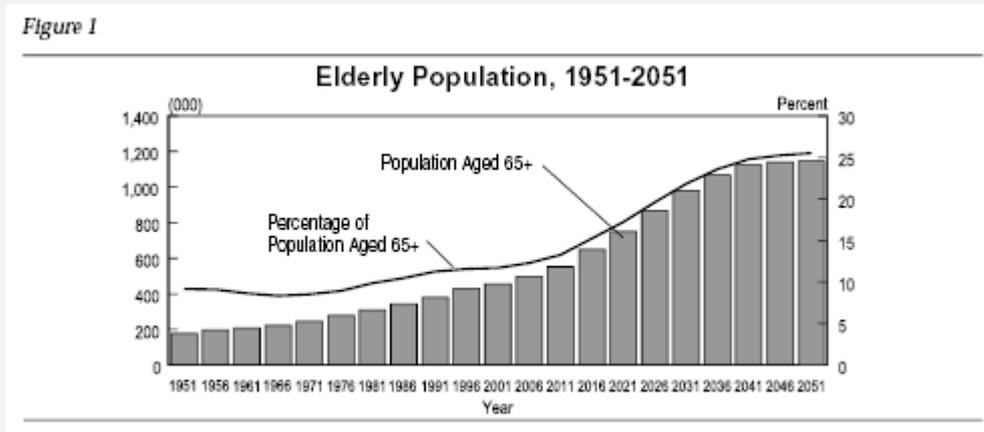
Appendix 5:





Appendix 6:

In New Zealand we also have an ageing population with the elderly’s share of New Zealand’s population trebling from 4 percent in 1901 to over 12 percent in 1999 (see Figure 1) (Statistics NZ website www.statsnz.govt.nz).



By 2051, there will be over 1.14 million people aged 65 years and over in New Zealand. This represents an increase of 715,000 or 166 percent over the base (1996) population. They are expected to make up 25.5 percent (or 1 in every 4) of all New Zealanders (4.49 million) (www.statsnz.govt.nz)