

# Industry Capability Network New Zealand Review

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MINISTRY OF ECONOMIC DEVELOPMENT

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## Executive Summary

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The original 1991 policy rationale establishing the Industry Capability Network (ICN) focused on a perceived market failure caused by information asymmetries between suppliers and purchasers. Its primary role was to facilitate purchases of domestic (New Zealand and Australian) products within New Zealand, focusing initially on government purchasing. It was established on a trial basis with a view to it being placed on a “user pays” or private sector funding basis from 1 July 1993.

In 2007 the government has directed its policy focus to government procurement, sustainability and economic transformation. This now provides ICN with a renewed opportunity to increase New Zealand industry’s competitiveness by facilitating business between large major project owners and local suppliers. It is hoped that the spillovers from this activity will generate increased business productivity and environmentally sustainable business practice. Given the government’s focus in this area, the programme offers a ready channel for the implementation of policies which support government procurement, sustainability and economic transformation. Therefore this review recommends the programme should continue but with some modifications to ensure operational efficiency and effectiveness.

## Findings

The ICN is doing its work well and is efficient. However, it was established primarily as a service to reduce information asymmetries between small New Zealand firms and large contractors. For a few of the firms examined, this information gap clearly exists. On balance it is the judgement of the evaluation that this is not a widespread issue. As a result the ICN in its current role has limited effectiveness. We therefore recommend changes designed to leverage its core capabilities to where there will be greater effectiveness.

The evaluation found that the programme reduces some costs for suppliers and purchasers, such as search and discovery costs, but suppliers also acknowledged that there is a level of fixed costs inherent to tendering for major projects. These are irrespective of ICN involvement. In effect the ICN programme part subsidises suppliers and purchasers for the costs associated with resourcing a project. This subsidy has a far greater value and impact on smaller firms and enables them to enter a market they may otherwise have been precluded from by cost.

The evaluation also found that purchasers considered the total risk profile, including cost and through-life support, when deciding whether to use local suppliers. Thus, although New Zealand suppliers may be cost competitive internationally, this does not guarantee success in winning contracts even with assistance from the Industry Capability Network programme.

Where ICN had provided assistance to New Zealand businesses, the evaluation found that thirteen of the fifteen suppliers interviewed (i.e., 86.6%) considered they could tender independently of ICN and would still be successful. Nine firms were successful in tendering for major projects in Australia, with five of the firms achieving success without assistance from the ICN. However, there is a lack of information on how well New Zealand firms are doing in the Australian major projects market. This evaluation has recommended better defined parameters to more accurately measure the success of the programme. This will be achieved through the collecting and reporting of key data detailing the success of New Zealand firms in Australia and New Zealand.

The evaluation found that, in terms of competitive import substitution, the value added by the programme is significant. The competitive import substitution values for New Zealand

suppliers to four major projects<sup>1</sup> ranged between \$5M and \$35.1M, with a total value of \$83.5M. The programme can enable New Zealand suppliers to leverage off its government credentials by providing credibility to those who have yet to establish themselves in the major projects market. These are primarily smaller sub-contractors.

The ISO programme, and subsequently the ICN programme, has been evaluated five times since its inception in 1991. The original intention to transfer the programme from central government funding to a user-pays basis and/or private sector management within three years was thwarted by a restraint of trade clause which precluded such a move until January 1997.

In 1996 a review of the ISO concluded that there was no market failure caused by supplier/purchaser information asymmetries. The ensuing advances in internet usage and capability further weaken this market failure argument. This current review's findings are that New Zealand suppliers can successfully tender for major projects without assistance from ICN.

## **General Conclusions**

ICN's greatest value-add is in facilitating introductions and access to major project purchasers. Success for suppliers, when tendering, is ultimately by dint of their own efforts. However, some smaller suppliers do have a requirement for the information that ICN can provide in assisting entry into the major projects market. Larger suppliers tender successfully irrespective of the programme. Hence, the ICN programme tends to benefit smaller firms such as sub-contractors to major projects, rather than larger, more established firms. Essentially, this is where the value-add of the ICN programme lies. This is in line with the programme's intent as it is here at the margin where information search costs are greatest.

The government procurement market would likely benefit from a more proactive relationship with the private sector. Such a relationship can generate greater awareness of local supply capability and potentially create a forum where suppliers and purchasers can meet and establish business relationships. Ideally, in the long-run such a relationship would operate independent of government.

The new policy on government procurement, economic transformation and sustainability should provide greater impetus and direction for the Industry Capability Network programme.

## **Key recommendations**

All the recommendations are listed in Section 5.2.

1. The Industry Capability Network (ICN) programme should continue but with the following provisos:
  - The purpose of the ICN programme is to serve as an information repository and to facilitate access by New Zealand firms to supply opportunities into major projects. These include government procurement opportunities and contracts arising from the Australian ICN network, with the option to secure major projects in other jurisdictions when they arise.

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<sup>1</sup> Wellington Hospital, Protector, Kupe and Huntly e3p.

- The purpose of the ICN should also be to facilitate a more comprehensive understanding by New Zealand businesses of public sector procurement market opportunities in New Zealand. It has a role in disseminating this information to SMEs in New Zealand and informing government of the access issues faced by SMEs in securing large government procurement contracts.
2. The priorities of the programme over the next three years should be to:-
- Contribute to whole of government networks to facilitate the acquisition and dissemination of information pertaining to government procurement and major projects.
  - Monitor and report, in a timely manner, on the performance measures as recommended within this report.
  - Establish a working relationship within MED with the Government Procurement Development Group and, through formal consultation, establish an agreed framework for reviewing where ICN has targeted its services during the current financial year and should target them in the future.
  - Provide tender facilitation services at the start of a project only and once contracts have been awarded then cease involvement with the major project and transfer scarce resource to the next opportunity.
  - The service should continue to operate within NZTE in compliance with the Standard Operating Procedures of the ICN network.

## **National Projects Office**

NZTE is in the process of implementing a National Projects Office (NPO) designed to assist New Zealand suppliers to bid as prime or first-tier contractors for international major projects through a consortia-based membership approach. This will be achieved by developing the capabilities of suppliers to successfully tender for business with the goal of the NPO becoming self funded in four years.

A review of the functions of the NPO should be undertaken by MED to ascertain their relevance in relation to the functions that the ICN performs. There appears to be some overlap in the roles performed by the ICN and those proposed by the NPO. These are primarily around assisting New Zealand suppliers to successfully tender for international major projects. As part of the review, questions need to be answered about whether these two programmes should be run separately or whether one programme can be incorporated into the other.

There are also some significant differences between ICN and the proposed NPO. ICN does not directly assist with bid preparation nor does it actively intervene to create collaborative teams among client firms. It also does not underwrite international bids which are something the NPO may do. The ICN targets major projects in New Zealand and Australia while the NPO intends to direct their resources at medium-sized projects in New Zealand and the Pacific.

This review should be conducted by June 2010. The results from this review should inform officials about the feasibility of merging the two programmes (in whatever form it may take) or keeping them separate. Consequently, a decision can be made and scoping can begin on how to implement the review recommendation.

## **Future evaluations**

For the next evaluation of the ICN programme it is essential that information is collected on the 'counterfactual' (i.e., private sector suppliers that were not involved with ICN). Information on the success or lack of, of these suppliers can be provided by ICN as they collect data on firms that have successfully tendered for major projects without ICN assistance or involvement. However, in order to avoid potential conflicts of interest and ensure robust and credible data sets this information should be collected independently of ICN.

Evaluations of the ICN, both past and present, have struggled to fully quantify the efficiency and effectiveness of the intervention due to the variable quality and scarcity of data available. Each review has requested that more robust processes for data collection be implemented so that a full and proper evaluation can be undertaken. The collection and reporting of accurate data enables good governance and oversight of the relationship between the government and its clients via the ICN programme. These relationships and systems are now being established and we recommend annual reporting to government which demonstrates continued progress.

The next evaluation of the ICN should be conducted by June 2010.

# 1. Introduction

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The purpose of this report is to present the key findings and recommendations arising from the recent evaluation conducted by MED of the Industry Capability Network (ICN) programme.

The broader ICN programme was evaluated in 2003/04. It confirmed the existing programme objectives, albeit with minor alterations. However, the 2003/04 review was unable to effectively evaluate the Major Projects component of the ICN programme because of the paucity of information available. This was due both to the limited history of the Major Projects component of ICN and the lack of data collected.

Major projects typically have lead-times of 18 months to 3 years and as ICN only started to focus on this activity in 2001, it was deemed too early for the review to observe tangible outcomes. As a result, the 2003/04 review was unable to draw any firm conclusions about the effectiveness of ICN's engagement with major projects. This was, in part, due to the policy foundations for this area of ICN activity not being adequately articulated. It was also due to appropriate metrics and processes not being in place to capture the information required to conduct a full review of the Major Projects component of the ICN programme.

However the review did highlight several areas warranting greater policy analysis. It identified that there was ambiguity surrounding the policy foundations for ICN and that this could be reduced by determining the primary objectives of ICN and how it should deliver those objectives.

In March 2005 a separate policy review was conducted of ICN. The underlying rationale that emerged from the policy review was for a more explicit focus on local industry development. The revised strategic goal shifted from enhanced participation in government procurement and major projects to improving innovation and growing more sustainable businesses capable of succeeding in the global economy. Since last year, responsibility for government procurement has been placed within MED and ICN's focus is now solely Major Projects.

Therefore the objective of this evaluation is to fill the information gap noted in the 2003/04 review and endeavour to evaluate the effectiveness and efficiency of the ICN programme in securing New Zealand businesses opportunities to participate in major projects. The evaluation also endeavours to assess the programme in light of policy objectives and the experiences of comparable Australasian ICN programmes.

In a broader sense, the evaluation has also provided the opportunity to consider the full range of options for government involvement in the major projects market that alleviates information externalities while conforming to the wider aims of government policies. To this end, the evaluation has sought to provide a basis of useful information from which to inform future policy options in this area.

This review focuses only on evaluating the impact of ICN in securing greater access to major projects for New Zealand businesses.

## 1.1 Background

In May 1991 Cabinet recommended the establishment of the New Zealand Industrial Supplies Office (NZISO) [CAB (91) 341] within the Ministry of Commerce. The restructuring of the domestic economy had resulted in government departments and state agencies being given the responsibility for their own purchasing decisions. The move away from central purchasing meant the disappearance of the centralised repository of information on purchasing requirements and potential suppliers. The government saw greater local

participation in government procurement as a potential means to stimulate economic growth. The Manufacturers' Federation and the unions saw its potential to preserve and enhance jobs in the manufacturing sector, under pressure because of the phase down of tariffs and increasing globalisation of the economy.

The original policy purpose of the ISO was to address the perceived information asymmetries which were thought to increase the transaction costs for both government purchasers and potential local suppliers. The program focused around four primary delivery roles for the ISO: facilitating the sale of locally made goods and services to government purchasers; establishing an information base of potential suppliers and helping to make known the requirements of purchasers to potential sellers; establishing linkages with Australian ISOs; and exchanging information on trans-Tasman opportunities. It was established on a trial basis with a view to it being placed on a "user pays" or other private sector funding basis from 1 July 1993. However, in 1993 it became evident that moving the programme to private sector management was precluded by a restraint of trade clause in the Government's agreement with Supplycorp. This restraint of trade did not expire until 31 January 1997 [CEG(93)31 refers].

The Government Electronic Tendering Service (GETS) website was established in the mid-nineties, to provide an electronic platform to list government tenders and notify registered users of opportunities. The GETS website includes TenderWatch, an automatic tender notification service that alerts users, via email, to tendered opportunities.

The NZISO was evaluated in 1996 and it was recommended<sup>2</sup> that the government cease funding the programme by the end of that financial year. That review found there was no market failure, i.e. no information asymmetries between purchases and suppliers. There also appeared to be limited demand by purchasers and suppliers alike for the NZISO services, no substantiation of a structural bias against New Zealand suppliers and little evidence of value in the NZISO Australian connections. Furthermore, because the programme had been ineffective thus far, continuation of the programme on a user pays basis was not considered to be a viable option. The government at the time elected to retain the NZISO and to continue to fund it.

Initially the efforts of the NZISO were focused on government procurement. It helped address perceived information gaps between suppliers and purchasers and was intended to allay domestic suppliers' concerns that government purchasers were reluctant to buy from them. The policy intent was to promote increased competitive import replacement with the effect that the sourcing of domestically manufactured goods and services would advance New Zealand's business capabilities.

In 2000 a shift in the emphasis of the NZISO activities targeted the major projects market and medium-sized government procurement projects were consigned to the GETS system. Major projects are those that take a number of years to complete (e.g. typically between 18 months to 5 years) and tend to occur in areas of infrastructure (e.g. power generation, defence and hospitals). Often a major project will have a lead project manager who oversees the tendering and construction process. There will also be several key suppliers who provide the core technology. Lead project managers and key suppliers are those whom the NZISO seek out and engage with.

In 2001, the NZISO was moved out of central government (Ministry of Commerce) into Industry New Zealand (INZ), the newly created industry development delivery agency, which in 2003 became New Zealand Trade and Enterprise through integration with Trade New Zealand. The primary rationale for both INZ and NZTE is to promote the development

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<sup>2</sup> The recommendations are listed in Appendix 6.1.



of local industry. This has implications for how the program is delivered and the expectations placed on both ICN and NZTE.

In 2003, the name was changed from NZISO to the Industry Capability Network (ICN). This was to keep New Zealand in line with our Australian counterparts.

In 2006, GETS was split out of ICN and returned to MED leaving ICN to focus on Major Projects and still operating as a unit within NZTE.

The cost of the ICN is \$1.386m (excl. GST) in the financial year 2006/07.

## **1.2 Policy**

### **1.2.1 Original Rationale**

The original policy rationale for ICN was asymmetries of information between purchasers and suppliers in New Zealand's government procurement market. It was thought that this imbalance in the information available increased business transaction costs for both purchasers and suppliers due to the increased search costs associated with the government procurement market. Additionally, it was hoped that ICN would help to dispel the unfavourable bias of government purchasers toward New Zealand businesses who were often regarded as inadequate and without the necessary capabilities. The policy was designed to generate an increase in domestic companies supplying into the government procurement market. It was hoped that this would make domestic suppliers more competitive and attractive to purchasers. This would lead, in turn, to an increase in competitive import replacement in the New Zealand market.

### **1.2.2 2005 Policy Review**

A rearticulation of the policy for the ICN programme was finalised in March 2005. This policy review examined the parameters of the ICN programme and the related issues identified in the 2004 evaluation.

The review recommended that the primary policy purpose of the ICN programme should be to assist industry through enhanced local participation in government procurement and major projects. GETS should primarily focus on government procurement as a provider of information and of matching services. The major projects component of the ICN programme is to facilitate competitive import substitution. Thus, the desired outcome of ICN was to increase competitive participation by local companies in government procurement and major projects.

The policy review also looked briefly at the possible future development of the programme. The question was raised, but not resolved, as to whether a policy focus on competitive import substitution should continue or whether there should be a shift of focus to enhancing capability development and innovation. However, a lack of adequate data meant it was not prudent to make far-reaching policy recommendations.

The link to the Australian ICNs was identified as a significant feature of the current ICN programme and it was important to take this into consideration when proposing future changes. A key issue was the concern of the State members of the Australian ICN network about the functional relationship between ICN New Zealand and NZTE whose roles include trade promotion and business development of NZ companies offshore

This review did not report to Cabinet because it did not recommend any policy changes.

## 1.2.3 2007 Procurement Policy Development

As part of its drive to embed sustainability into procurement policy and practice the Government has developed a new suite of procurement initiatives. These initiatives are also intended to help drive economic transformation and the growth of globally competitive New Zealand firms<sup>3</sup>, including SMEs<sup>4</sup>. The policy framework for this work is outlined in the Sustainable Business: Government Procurement, Economic Transformation and Sustainability Cabinet paper [POL (07) 150]. Specifically of relevance to ICN, and this evaluation, is where the paper raises the option of implementing a local industry procurement participation policy. This would have the aim of creating a level playing field for local firms, including SMEs, interested in partnering with or sub-contracting to prime contractors in government-funded major projects. The initiative would require potential prime contractors to investigate, fully consider and report on opportunities to include competitive local firms as partners or sub-contractors. The initiative would help to counter any ignorance or bias on the part of prime contractors (particularly large, multi-national suppliers) and would create increased opportunities for local firms to utilise their natural competitive advantages of proximity to the market, local knowledge and innovative adaptability.

The paper also states that an effective initiative of this kind would require active support from the ICN whose role it is to facilitate opportunities for local industry in major projects. In particular it would require further development of the ICN's information services and database on details of capable New Zealand firms available to multi-national suppliers looking for local partnering or sub-contracting opportunities. It is envisaged that such a scheme would be modelled on equivalent Australian schemes to utilise best practice and experience. Design and implementation will also take account of international trade obligations and objectives as well as the recommendations regarding the ICN programme that result from this evaluation.

## 1.3 Methodology

### 1.3.1 Data sources

#### Interviews

Between May and September 2007 interviews were conducted with selected participants in the ICN programme. The research undertaken was primarily qualitative and the interviews were designed to ascertain and assess the value the ICN programme offered to both purchasers and suppliers. Interviews were also conducted with Australian ICN representatives and officials. In addition to the interviews that were carried out, the ICN's database was examined to understand how to resolve data management issues raised in the previous evaluation.

Interviews were conducted with the following:

- Principal contractors - 4

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<sup>3</sup> **Globally competitive firms:** Local industry participation, Business procurement capability training, Short-listing New Zealand tenders; **Innovation:** Innovation platforms, Piloting research and development; **Sustainability:** Sustainable procurement standards, Sustainability targets/KPIs, Carbon costing for large projects, 'Invest to save' capital expenditure fund; **Capability building:** Capability audits, Procurement monitoring data, Documentation standardisation and Professional training.

<sup>4</sup> See POL (07) 150; POL Min (07) 9/25; CAB Min (07) 17/2B

- Supply Firms - 15
- ICN Personnel - 1
- Other key stakeholders:
  - a. Project management companies - 3
  - b. Industry Association – 1
  - c. Private Sector provider – 1
  - d. Australian Department of Industry, Tourism and Resources (DITR)
  - e. Industry Capability Network Limited (ICNL)

Other data drawn upon for this review included:

- NZTE existing data:
  - a. operational documentation
  - b. tender and contract documentation
- Other relevant literature
  - a. previous evaluation reviews
  - b. policy documentation

### **1.3.2 ICN Logic model**

The programme’s logic model on the following page represents MED’s view as to how the programme is designed to address identified needs and desired outcomes.

### **Data limitations**

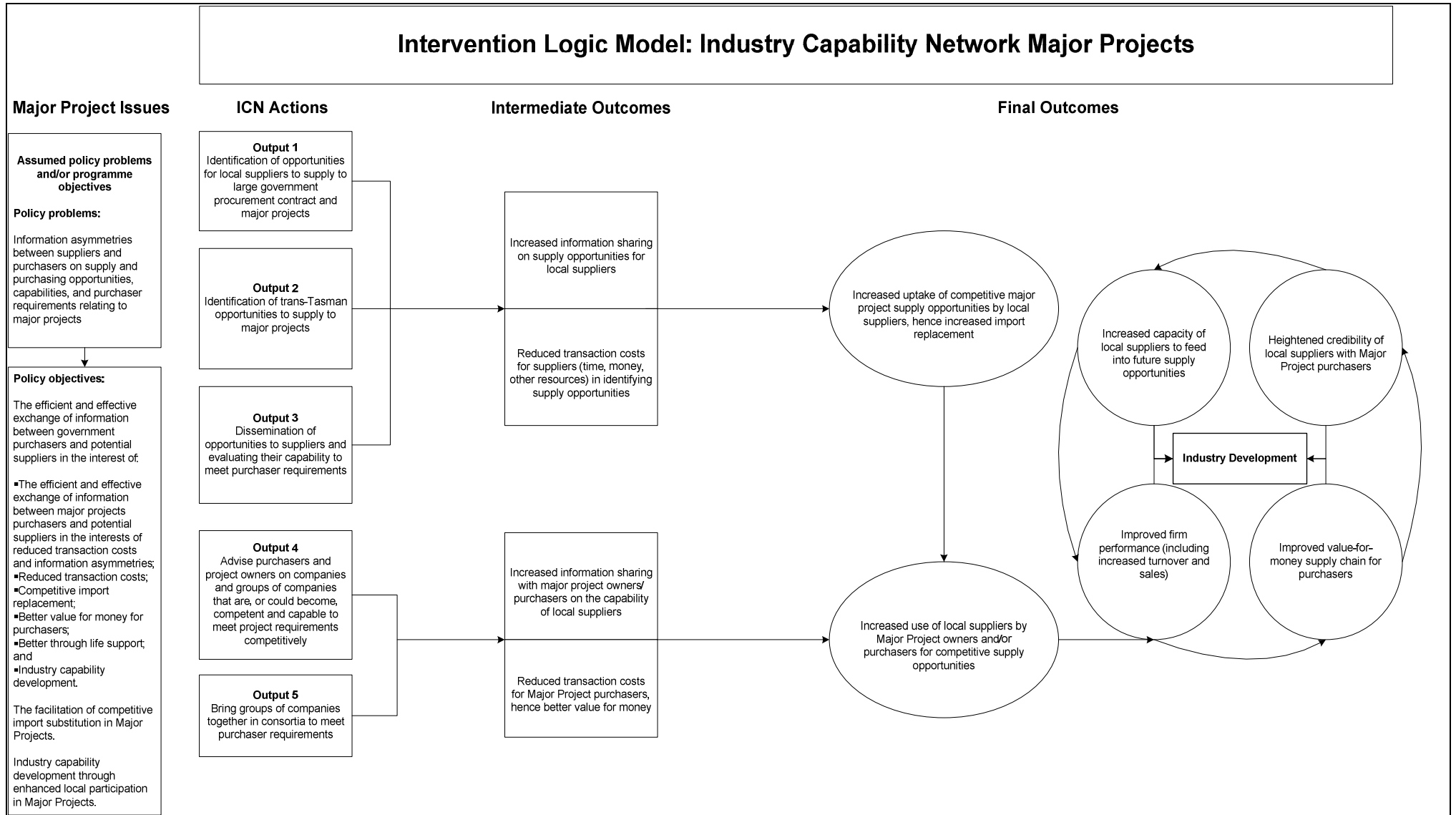
The information contained in this review is limited by the quality of data that is available. One of the key recommendations of the last review of ICN (2004) was that ICN endeavour to collect comprehensive data and statistics on all the major project activity they had input into. This was so that a thorough review and evaluation could then be conducted in 2007. This recommendation was not implemented<sup>5</sup>. Therefore it is important to note that the

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<sup>5</sup> It must be noted that there are gaps in what data is collected by the ICN and what is reported to MED. Hence, this review seeks to remedy this problem.

conclusions that are drawn at the end of this review are based on data that has fundamental inadequacies.

# ICN Logic model



## 2. Australian ICN

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ICN New Zealand is a member of the Industry Capability Network Limited (ICNL), which is an independently managed company (based in Canberra) funded by the Australian Commonwealth Government through the Department of Industry, Tourism and Resources (DITR). ICNL was established in 1995 to co-ordinate ICN, which prior to that, had been State based<sup>6</sup>.

ICNL provides services to the ICN Network, with its principal activities being to:

- manage and facilitate the national coordination of the activities of the ICNs in Australia and New Zealand;
- manage the Supplier Access to Major Projects (SAMP) programme on behalf of the Commonwealth Government of Australia;
- maintain and develop the Industry Capability Showcase (ICS); and
- assist companies to achieve access to global supply chains.

The ICN operates in twenty-four offices located throughout Australia and New Zealand. Many of these offices also receive State and Territory funding. The purpose of ICN is to help businesses to maximise the opportunities that may arise from the purchasing requirements of the government and private sectors. ICN has a mandate to promote the development of competitive, world class supply chains able to contribute to major New Zealand and Australian public, industrial and commercial developments and procurement projects.

### 2.1 The Industry Capability Showcase (ICS)

ICS is an online virtual trade showcase for buyers and suppliers designed to facilitate the sourcing of locally produced goods and services. The ICN Showcase provides -

- Manufacturers and service providers with the opportunity of registering products, services and capabilities with the Industry Capability Network.
- New business opportunities for Australasian manufacturers and service organisations.
- A tool to introduce local buyers with local sellers.

Registration on ICS is open to purchasers and suppliers from Australia and New Zealand. Registered companies can search for Australian and New Zealand products and services, find detailed company information, list or search supply opportunities, and receive automatic notifications of listed supply opportunities. Data is stored in the Showcase and used by ICN consultants throughout Australia and New Zealand to assist in sourcing Australian and New Zealand made goods and services for import replacement or export opportunities.

The Showcase is managed by and operated by each local Industry Capability Network office. Offices are located across Australia and New Zealand.

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<sup>6</sup> ICNL was formerly ISONET Ltd, and the ICN officers were called Industrial Supply Offices (ISOs).

## 2.2 Supplier Access to Major Projects (SAMP)

The SAMP program was established in 1997 and is designed to save companies time and money. Through DITR funds are provided for networks and specialist consultants to work with project developers to identify supply opportunities for capable and competitive Australian companies. The SAMP program includes SAMP Australia and SAMP Global.

- **SAMP Australia** funds specialist consultants to work with major developers to identify capable Australian suppliers to meet the needs of major projects in Australia. SAMP Australia aims to maximise opportunities for Australian industry participation, especially small and medium enterprises (SMEs), in major projects.
- **SAMP Global** funds networks and specialist consultants to work with project developers and Australian industry to achieve global outcomes for Australian industry, to increase opportunities for capable and competitive Australian industry to participate in major projects overseas, and to increase Australian industry's access to global supply markets for major projects. In December 2006, six projects were offered a total of \$1.2 million in the first allocation of SAMP Global funding.

Project developers are said to benefit primarily from cost savings attained through reductions in search and transaction costs and a broader, competitive supply base. Since its inception in 1997 SAMP Australia has provided more than \$6.5 million to assist 93 projects. ICNL estimates that under SAMP Australia, Australian companies have won contracts worth more than \$1.7 billion for work that could have gone to overseas competitors.

## 2.3 Global Opportunities Programme

In May 2007, the Australian government released its new Industry Statement<sup>7</sup>, which sets out the policy directions designed to maintain Australia's present economic momentum into the future. The central tenet of the new industry statement is increased support to Australian industries to allow them to become more internationally competitive and sustainable. It builds on the successes of the last decade by continuing to address impediments to growth and encouraging the nation's businesses to achieve greater integration into the global economy.

Underpinning this new policy initiative is the new Global Opportunities (GO) Programme which will help Australian firms win work in global supply chains and major projects. The programme has been allocated AU\$254.1 million of funding over the next ten years.

The GO Programme targets global opportunities for which there is competitive Australian industry capability and capacity in the manufacturing and services sectors and sets a role for the Government in improving access to opportunities and in developing a team approach by Australian industry, including small and medium enterprises, to pursuing global opportunities.

The GO Programme is designed to underpin long-term, coordinated and strategic approaches by industry capability teams to pursue global opportunities with the support of the Australian Government. The grant component of the GO Programme will do this by providing funding grants and other support to enable groups of Australian firms to develop a business plan to pursue a global opportunity and to implement that business plan. Global opportunities targeted under the Programme must be substantial, representing total commercial value in excess of A\$500 million over a foreseeable period.

The following organisations are eligible to apply for a grant under the GO Programme:

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<sup>7</sup> See [www.industry.gov.au](http://www.industry.gov.au)

- an Australian industry association incorporated or registered under Australian, state or territory law; or
- a company incorporated in Australia under the *Corporations Act 2001*.

Government bodies are not eligible to apply.

The GO Programme will be delivered through the formation of Industry Capability Teams (ICTs) comprising groups of Australian firms, including small and medium enterprises, which will work together and with Government to develop long term strategies for increasing their participation in global supply chains and major international projects. An Industry Capability Team is a group of Australian firms that are prepared to act in collaboration with each other and in partnership with the Australian Government in pursuit of a Global Opportunity. It is envisaged that ICTs will be between 20 and 30 firms depending on the Global Opportunity being pursued. Assistance will be provided through grants and by other means to enable teams to pursue these strategies.



## 3. Policy

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The ICN programme was evaluated in 2004 and a policy review conducted in 2005. The policy review elected not to recommend any significant policy changes because the major projects component of the programme had yet to be fully evaluated. This was due to there being insufficient data available from ICN. The review did, however, question whether a programme focussed on competitive import substitution was still relevant and suggested that future work should consider whether a more appropriate primary focus would be enhancing capability development and innovation. The original policy rationale for the ICN programme was to address perceived information asymmetries which were thought to increase the transaction costs for both government purchasers and potential suppliers. While the advent of the internet has, to some extent, ameliorated this ICN still plays a role in facilitating supply opportunities for New Zealand businesses in major projects

In May 2007, Cabinet considered the Sustainable Business: Government Procurement, Economic Transformation and Sustainability Cabinet paper [POL (07) 150] and agreed to its recommendations.<sup>8</sup> The paper sets out a framework for a new approach by government to building sustainable businesses. It recognises that standardisation and alignment of departments' procurement policies can have a significant impact on sustainability and economic transformation. This will be best maximised by implementing it across the wider state sector, as well as the core public sector. The key components identified for this new approach are sustainable procurement standards; globally competitive firms and SME development; innovation; and government agency capability building. These are discussed below:

### 3.1 Key components of the new sustainable business<sup>9</sup> paper

#### Sustainable procurement standards

A national framework of sustainable procurement principles will be developed as a guide to ensure a common understanding as to what is sustainable procurement, to outline the benefits and to assist government departments and agencies with implementation of best practice.

In collaboration with the Ministry for the Environment (MfE), MED is developing a sustainable procurement project plan that covers initiatives in the following areas:

- National framework for sustainable procurement;
- Standards for sustainable procurement<sup>10</sup>;
- Sustainability KPIs/targets and reporting mechanisms; and
- A carbon costing methodology for procurement decisions.

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<sup>8</sup> See POL (07) 150; POL Min (07) 9/25; CAB Min (07) 17/2B

<sup>9</sup> Government procurement, economic transformation and sustainability

<sup>10</sup> The Govt3 programme, led by MfE, has already assisted 47 participating agencies to improve their sustainability in areas such as fuel efficiency, building energy efficiency, office supplies and waste minimization. Specific standards and criteria developed by Govt3 are in the following categories: paper (recycling etc), timber and wood products (legally sourced), travel and light fittings.

## **Globally competitive firms and SME development**

A local industry procurement participation policy would help create a level playing field for local firms, including SMEs, interested in partnering with, or sub-contracting to, prime contractors in government-funded major projects. The initiative would require potential prime contractors to investigate, fully consider, and report on opportunities to include competitive local firms as partners or sub-contractors. The initiative would help to counter any ignorance or bias on the part of prime contractors (particularly large, multi-national suppliers) and would create increased opportunities for local firms to utilise their natural competitive advantages of proximity to the market, local knowledge and innovative adaptability. It is envisaged that these firms will be able to achieve greater scale, and increase their international connections and experience by leveraging off their New Zealand government experience thus becoming more globally competitive. The implementation of the local industry procurement participation policy would require active support from the ICN, run through NZTE.

## **Innovation**

The government, as a key industry purchaser, is likely to be a significant driver for private sector research and development (R&D). Increased business investment in R&D and its subsequent commercialisation are important drivers of productivity. By making future public procurement opportunities more visible to business, the government provides greater incentives to firms to invest in R&D with the knowledge and confidence of future market opportunities.

## **Government agency capability building**

Professional and capable procurement teams across government are a fundamental prerequisite for any procurement policy and sustainability initiatives to be effective. However, the quality of procurement practices across government departments varies markedly. The aim should be for consistency in procurement policies across agencies, wherever appropriate, to ensure that sustainability standards and targets are achieved.

## **Single procurement policy**

A single procurement policy across government could be implemented in a number of ways. Ministerial direction to agencies, above and beyond current procurement policy and procedural rules is one option. An alternative would be through greater centralisation and control in the development, monitoring and enforcement of procurement policy and practice.

## **3.2 The policy rationale for the ICN**

The original policy rationale for the ICN was to address a market failure caused by information asymmetries between suppliers and purchasers<sup>11</sup>. This rationale remains although the internet has brought about significant change in the availability and dissemination of information generally. In 1996 a review of the ICN (formally the ISO) concluded that there was no longer market failure caused by information asymmetries and recommended the closure of the programme. Despite the review's findings the programme continued. The recent proposed changes to the government's procurement policy are timely and opportune given that current economic conditions are very different to those when the ICN policy was formulated in 1991. Consequently, the role of the ICN should now be considered in light of the present government's focus on economic transformation and sustainability.

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<sup>11</sup> See CAB (91) 341

NZTE's central directive is to grow globally competitive firms. While ICN's main role is in advancing local industry domestically, it also seeks to advance New Zealand firms globally. The resulting policy disparity between ICN's domestic role and its efforts to help globalise New Zealand firms needs to be clarified. This confusion has arisen, primarily, from a lack of policy direction provided to this programme. Therefore, this current evaluation and report back needs to make clear the role of ICN, now and into the future.

As mentioned above, a key component of the government's new policy focus on sustainable business and economic transformation is the emphasis on globally competitive firms and SME development. Central to this initiative is encouraging greater participation by local industry in government-funded major projects. ICN's role in assisting local industry to compete in the domestic market offers it opportunities to take a lead role in this policy initiative. Thus ICN has a role as an information intermediary, disseminating information to SMEs on government procurement major project opportunities in New Zealand and in other jurisdictions, notably Australia.

### **3.3 Programme objectives**

The programme objectives of the ICN are:

- The efficient and effective exchange of information between major projects purchasers and potential suppliers in the interests of reduced transaction costs and information asymmetries;
- Competitive import replacement;
- Better value for money for purchasers;
- Better through life support; and
- Industry capability development.

The intermediate outcomes of the ICN programme are:

- Increased information sharing on supply opportunities for local suppliers;
- Reduced transaction costs (i.e. time, money and resources) in identifying supply opportunities;
- Increased information sharing with Major Project owners/purchasers on the capability of local suppliers; and
- Reduced transaction costs for Major Projects purchasers, hence better value for money.

The final outcomes<sup>12</sup> of the programme are:

- Increased uptake of competitive Major Project supply opportunities by local suppliers, hence increased import replacement potential<sup>13</sup>;

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<sup>12</sup> In addition to these ultimate outcomes, there may be additional benefits such as export capability development, increased innovation and investment in technology.

<sup>13</sup> Whilst competitive import substitution (CRI) is a natural occurrence of the operation of ICN, the Output agreement (1.6) states that CRI is part of the purpose of ICN.

- Increased use of local suppliers by Major Project owners and/or purchasers for competitive supply opportunities;
- Increased capacity of local suppliers to feed into future supply opportunities.
- Heightened credibility of domestic suppliers and their ability to deliver with Major Projects purchasers.
- Improved firm performance (including increased turnover and sales);
- Improved value-for-money supply chain for purchasers.

### **3.4 National Project Office (NPO)**

NZTE is in the process of implementing a National Project Office<sup>14</sup> (NPO) to assist companies in the engineering, building and construction industries to collaborate, present and bid effectively for offshore projects that might otherwise be too large, complex, or beyond the capabilities of individual companies. The NPO will educate firms on how best to position themselves in the market for inclusion in large scale international projects. It will assist companies in marketing themselves effectively and facilitate best practice in bid preparation and the completion of tender documents to meet international standards. The market failure to be addressed by the NPO is:

- companies not being able to identify major project opportunities sufficiently early to be able to market themselves properly, and;
- the limited ability to put together turn-key solutions to bid on major projects.

The structures existing in New Zealand to capitalise on opportunities mean that some realistic and achievable opportunities are bypassed. Changes in the way we assess such opportunities and develop responses could result in a real increase in project work for New Zealand companies.

Many New Zealand engineering, building and construction firms have excellent, world-class capabilities. Their ability to prospect for work varies and opportunities are often identified too late to be capitalised on. This can be exacerbated when good opportunities are identified but companies lack the contacts or ability to bring other companies together sufficiently quickly to team and become serious contenders. Aggregation of this sort provides an opportunity for New Zealand companies to present more comprehensive solutions, and so capture more project value.

Project tendering is an art. Unless companies are well skilled in tendering, especially for international projects, they miss out. Bid preparation is usually resource intensive and failure to win a number of bids discourages companies from trying again. Explanations for unsuccessful bids are rarely given and companies may not necessarily learn from their failures.

Companies bidding on international projects often cannot match the funding provisions offered by rivals. More comprehensive New Zealand solutions can open up the possibility of more creative funding provisions being put together through the likes of the Export Credit Office. The concept of the NPO has been developed to meet these issues.

The NPO has been established in a way to ensure it is at arm's length from government. It will, in essence, be a private sector organisation receiving government funding to seed it through start-up phase. The NPO aims to be self funding through a variety of revenue streams such as annual subscriptions, fees for services and by taking a percentage of the price of all contracts won. NZTE will provide initial funding on the basis that its financial commitment will progressively be scaled

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<sup>14</sup> NZTE Board Paper, 24/08/2007.

back each year. After four years the NPO will become a self-sustaining body, enabling NZTE to exit the project.

### **3.4.1 Policy and rationale for the NPO and the ICN**

The current policy rationale for the ICN is to build local industry capability through participation in the local government procurement market, as well as facilitating participation in the global major project market, particularly in Australia. The rationale behind the NPO is to assist New Zealand companies in certain key sectors to successfully tender for international projects. These projects are more likely to be medium sized projects. NZTE has stated that a strong relationship between ICN and the NPO is critical to the success of the NPO. NZTE also recognises ICN's depth and breadth of knowledge and information on New Zealand companies in these sectors. While there appears to be some similarities between the functions of each they are ultimately targeting different markets. In fact, the NPO is targeting the same identified market failure as the Global Opportunities programme recently launched by the Australian government. However, the question needs to be asked as to whether further alignment between ICN and the NPO would be beneficial. For example, could the proposed work of the NPO be incorporated into and undertaken by the ICN? Or, if the NPO becomes a financially independent organisation as planned then would it also be feasible to combine the services of ICN into the NPO? Either way there are likely to be some significant synergies between the two programmes which could be leveraged leading to more optimal outcomes. Further policy investigation is required to answer these questions.

## 4. Review findings

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In this chapter we present the findings from interviews conducted with a sample of firms participating in the programme. The firms represented all have a relationship with ICN. Including firms who have not received assistance from ICN would have, arguably, allowed us to better understand where market failure might occur. However, this was not possible and so the findings presented here must be viewed accordingly (i.e. that non-intervention may deliver similar outcomes).

We also present the findings from interviews with other key stakeholders such as ICN, private sector purchasers and Australian ICN counterparts.

### 4.1 Suppliers

Interviews were conducted with fifteen<sup>15</sup> New Zealand suppliers to major projects that received assistance from ICN. Two main themes dominated. Firstly, the service that ICN provided was beneficial in getting suppliers major contracts and secondly, ICN is useful as a source of information about major projects.

The services of ICN were beneficial for nine of the fifteen suppliers and the contact they had with ICN was ongoing in relation to the major projects that they were engaged in. The remaining six suppliers had only casual interaction with ICN, primarily at the initial stage of the major project.

#### 4.1.1 Information issues

Obtaining information on major projects was not seen as problematic for thirteen of the fifteen suppliers, while all suppliers agreed that there are other mechanisms that they have used successfully to access information about major projects. For example, subscriptions to trade magazines and routine checking of relevant industry websites keep suppliers informed as to what major projects are happening. In 60 per cent of these cases using these sources of information led to future supply opportunities.

The information costs associated with major projects were primarily driven by time and resource requirements (e.g. submitting tenders) for ten of the fifteen suppliers. However, these suppliers also recognised that such costs were a necessary overhead in their business. The remaining five firms did not identify any prevailing major costs. For example, one firm commented that they had no problem getting work in New Zealand and, therefore, trying to get work in Australia (which would have incurred additional costs) was not worth it. Three suppliers commented that the ICN staff were able to 'cut through all the 'red tape' to identify the key people essential to assisting suppliers secure work.

Projectlink is an NZTE-administered online subscription service providing subscribers with qualified business opportunities in the engineering, marine and building and construction industries. Leads are sourced directly from the primary markets of Australia, Fiji, French Polynesia and New Caledonia and secondary markets of American Samoa, Samoa and Tonga. Ten of the fifteen suppliers did not subscribe and did not consider the service useful. The two firms who did subscribe valued the service but also used ICN to verify information on Projectlink. Three firms had used Projectlink in the past but were not currently using it.

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<sup>15</sup> ICN provided a list of 32 suppliers, of which 15 were accessible during the review period.

## 4.1.2 Tendering success

Nine of the fifteen suppliers interviewed found ICN's services beneficial. However, this is a general statement that does not accurately reflect how the assistance offered by ICN differs from client to project. This is due to the varying needs and capabilities demanded by different clients and different projects. One supplier found ICN's assistance in bid preparation useful, although it was unsuccessful in winning a contract. Six suppliers found ICN to be essential to finding out about project work and tendering successfully for it. Similarly, another supplier felt that ICN's endorsement enhanced their credibility in the major project arena. Another supplier did receive assistance from ICN to successfully tender for a major project, but only in one case. Of the six suppliers (40 per cent of the sample) that did not believe ICN's service was beneficial, one was using ICN to obtain information rather than tendering for projects. Another supplier was currently involved in tendering for a major project, hence could not comment on how beneficial ICN's service had been to date. Four suppliers found no benefit at all from the services of ICN.

Further questioning drew the following responses. With regard to ICN enhancing a firm's ability to deliver goods and services, of the four suppliers who responded to this question three agreed whilst the other supplier disagreed with this question. 40 per cent of the sample responded to a question asking whether ICN helped increase the supplier's capacity to feed into future supply opportunities. Five of the six firms said ICN did help. Nine firms responded to a question about ICN assistance to improve their performance, capacity, additional skills and potential for spillovers. Seven agreed that ICN had been of assistance, whereas two firms said ICN had not been of assistance.

General comments made about the benefits of ICN by particular suppliers emphasised ICN's knowledge of local suppliers, their expertise in particular fields relevant to the supplier and their contacts. Additionally, one firm felt that having an ICN contact person to assist them during the project through all stages was very beneficial.

Suppliers were also asked whether they would have been able to successfully tender for a project without ICN. Thirteen of the fifteen suppliers (86.6 per cent) said they could but that it would have been more difficult without the assistance provided by ICN. The level of assistance provided was contingent upon ICN's skill base and knowledge of the supplier's area of expertise.

One supplier said the services of ICN were crucial to helping them get their first successful tender. The overall consensus seemed to be that the ICN programme is inherently valuable with its government connections adding credibility and status to a company's bid, particularly when the project owners are Asia-based and where such things are culturally important.

The average figure for client sales from New Zealand major projects was \$3.6 million<sup>16</sup>.

## 4.1.3 Globalisation

A key component of the government's new policy focus on sustainable business and economic development is the emphasis on globally competitive firms and SME development. In addition to growing local industry participation by suppliers ICN management is also developing global opportunities for New Zealand suppliers.

When asked whether ICN had enhanced their firm's effectiveness to go global, six firms (i.e. 40 per cent of the sample) interviewed answered no to this question. NZTE provided assistance to one

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<sup>16</sup> This figure was for five of the fifteen suppliers who provided figures. Five suppliers did not respond to this question, whilst the remaining five suppliers only provided percentages from sales and turnover for major projects in New Zealand. Of these suppliers, the percentages for two were 95%; one was at 20%; another was at 30%, whilst the final supplier was at 60%.

firm by setting up tender meetings for the firm in another country. Another five suppliers agreed that ICN was enhancing their firm's ability to go global through ICN's networks and contacts by increasing these firms' visibility with project owners. The remaining three suppliers' responses were varied. For example, one firm saw New Zealand and Australia as one market and was not prepared to go 'global' unless the firm had an identified niche product. Another firm had no global aspirations, whilst the remaining firm relied on its own efforts and assistance from NZTE.

Nine of the supplier firms had tendered for major projects in Australia, with eight of these having financial success. The average turnover for seven<sup>17</sup> of these firms in Australia was \$3.05 million. The role that ICN had played was primarily in providing information and contacts. Five<sup>18</sup> suppliers achieved their success without assistance from the ICN. Six suppliers had not tendered for major projects in Australia.

#### **4.1.4 General comments**

Suppliers interviewed, by and large, identified no unforeseen consequences arising from their involvement with ICN. There was a general view that ICN provides relevant information about major projects, serving as a useful conduit for contacts while maintaining a watching brief for opportunities to promote local industry. The receipt of regular emails and newsletters on major projects is appreciated. Additionally, personal contact with ICN staff is also valued.

ICN has also provided assistance with business planning and marketing. However, four suppliers commented that it was hard to see what ICN is doing for New Zealand suppliers in Australia. ICN themselves provided little information to us regarding opportunities for New Zealand firms in Australia and what they were doing to improve this situation.

Suppliers also thought that the ICN could help facilitate processes that allowed firms to accelerate the tendering and awarding of contracts by providing an interface between business and government. In the area of defence, where details such as security clearances are critical, this was seen to be of primary importance. Additionally, there was the view that if ICN could act as a spokesperson on behalf of local industry in communicating to government various concerns then this would be beneficial. One such example is the move to user-pays for product testing and the disbanding of the Department of Science and Industrial Research. Industry must now pay for all product tests and the costs of these ensure that only the essential tests are done. The result is that many of the serendipitous discoveries that occurred from wide-ranging testing no longer arise thus depriving industry of innovation by accident.

## **4.2 Purchasers**

Interviews with four major project purchasers were conducted. Key issues covered were the capability of local suppliers to deliver on major projects and the competitive advantage they had in doing so. Inherent to these issues were questions about the difficulty of locating suppliers and the value ICN added, if any, to purchasers in identifying suitable suppliers.

### **4.2.1 Local supply capability**

Purchasers were asked about the capability of local suppliers including the transaction costs of identifying them; the credibility of firms in being able to deliver on major projects; ICN's contribution

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<sup>17</sup> One firm only provided a percentage figure for sales/turnover, which was 40%. This firm achieved its success without assistance from the ICN. Another firm was still in the tendering phase.

<sup>18</sup> One of these suppliers had help from ICN for putting in a tender, which is still in progress. However, this firm had had financial success previously in Australia without help from the ICN.



to improving suppliers' capabilities, and information sharing between purchasers on suppliers' capabilities.

Purchasers acknowledged that the ICN service saved time and money when locating suppliers. The expertise of ICN staff (i.e. their contacts and their knowledge about local suppliers) meant that purchasers did not have to spend time and resource finding credible suppliers, which saved costs as well. However, purchasers also considered their in-house expertise, particularly where they had an internal procurement team, to be sufficiently able to identify local suppliers. Purchasers also questioned the value of long term project engagement of ICN staff, as the greatest value ICN added was at the beginning of a major project.

All of the purchasers agreed that the suppliers who had successfully tendered via the ICN had delivered and performed satisfactorily relative to international standards. ICN provided additional value to purchasers in educating suppliers (especially first-time suppliers) about the tendering process; putting forward suppliers that would be able to deliver; improving purchasers' ability to deliver by matching them with suppliers relevant to their needs. Regarding those suppliers that had successfully tendered without ICN assistance, one purchaser said they were credible in delivering on major projects. Only one of the purchasers commented on this question.

Information sharing between purchasers about supplier capability does occur. Purchasers use their contacts and networks as well as their knowledge of the market. Additionally purchasers put tenders out to market, use GETS and are approached by suppliers directly. However, purchasers also agreed that ICN does assist in building up their knowledge of the supplier capability available. Therefore, although purchasers have the ability to discover this knowledge themselves, ICN adds value by effectively underwriting the search and discovery costs associated with this acquisition of knowledge. There is a risk that these search and discovery costs will be deemed too high by any one purchaser resulting in precisely the information asymmetries the ICN programme is designed to address.

## **4.2.2 Competitive advantage**

The competitive advantage accorded through using local suppliers varies among purchasers. In some companies using local suppliers is a philosophical underpinning of the organisation but this is not the case across all purchasers. Purchasers understand the importance of using local suppliers generally but the primary driver is value-add (i.e., is it cost effective for the purchaser to utilise local suppliers and to still remain competitive)? If it isn't, then local suppliers will not be used. Cost effectiveness is calculated using financial measures as well as qualitative measures such as guaranteed continuity of supply. It also often depends on the type of major project purchasers are involved in. For example, big projects will have maintenance and warranty requirements which local suppliers are unable to meet as they are not large enough to do so. In such cases international suppliers are preferred.

Two of the four purchasers have not had Australian suppliers recommended to them by ICN.

## **4.3 Operations of the ICN programme**

A representative from ICN was interviewed for a perspective on the programme's operations. Issues such as success measurement, programme delivery and effectiveness, and industry capability were covered. The benefits to New Zealand industry of the ICN programme are channelled through suppliers and purchasers. ICN enables suppliers to invest in technology through success in winning business, increase their understanding of the tendering process through benchmarking, and helps build global markets by multiplying access through supply chains and by increasing scalability. Purchasers benefit primarily through reducing their whole-of-life costs by selecting the most cost effective supplier. By having access to local supplier registries outlining the skills and capabilities of suppliers, purchasers are able to make informed decisions

when implementing a major project. Purchasers can readily evaluate whether local suppliers or international suppliers are more cost effective.

Success of the programme is evaluated every three years. The evaluation seeks to gather feedback from clients who have participated in the programme. Additionally, efficiency is measured on the basis of a ratio of successful contestability. An assessment is done by ICN as to which companies have the capabilities necessary that will see they have a reasonable chance of winning major project contracts. There are more major projects in the market than ICN can realistically pursue so ICN targets those projects where it thinks it can have the greatest impact. For example, New Zealand firms have a history of competence in the engineering and ICT sectors. These sectors are targeted in the private and government procurement markets. The effectiveness of ICN in utilising its resources for each major project it works on is balanced with what outcomes will be achieved.

ICN pre-qualifies firms for inclusion in the programme by assessing firm capability on an ongoing basis. This is achieved using an archival database of New Zealand firms which is then further refined into a new database of current firms detailing their capabilities and service quality. The firms on the new database are from the engineering and manufacturing sectors. However, information on ICT firms is also available through the relationships ICN has established with information technology groups (e.g., ICT New Zealand, Information Technology Association of New Zealand and the New Zealand Software Association). At a basic level ICN increases the capability of New Zealand firms by providing a matching service between suppliers and purchasers. ICN also refers suppliers to other NZTE capability building programmes. An area of work identified by ICN for the future is hosting seminars on bid preparation, especially for government procurement contracts.

The ICN representative said that, given the government's focus on sustainability, building the capability of New Zealand industry required an approach that added value for both suppliers and purchasers. This has meant a more strategic approach in managing people and projects. For example, greater value could be obtained from the programme by reducing the amount of on-site time for ICN personnel on a major project. Long-term on-site project involvement negatively affect the scalability of the ICN programme and more value could be extracted by strategically utilising resources elsewhere once the initial tender process and awarding of contracts was complete.

Direct comparisons with the Australian ICN networks regarding programme delivery costs are difficult. In Australia each state government funds its own ICN office resulting in a focus on interventions at state-level and a parochial bias. Partial funding comes from the federal government for an independent office in Canberra and the development and management of a national industry capability and project opportunities database as a platform for the ICN network. The shortfall in funding is met through jurisdictional payments from all ICN offices and revenue from portal development. Additionally, ICNL administers the federal Supplier Access to Major Projects (SAMP) programme, which is designed to promote and develop Australian industry, both locally and globally.

Information on the major projects that New Zealand companies have won in Australia is limited. Problems also remain with the consistency of the data entered by individual ICN offices. This is because there is reluctance on the part of ICN offices to share information given its often commercially sensitive nature. However, there is data on five New Zealand companies that have had financial success in major projects in Australia. The value of the work ranges from \$100,000 to \$13,000,000.

## **ICN Outputs: 2005/06 and 2006/07**

The outputs from the ICN programme for the financial years 2005/06 and 2006/07 are listed below in Table 1 and Table 2.

**Table 1: 2005/06**

Total number of tenders notified through GETS	2160
Total number of new supplier registrations on GETS	7716
Value (NZD) of competitive import substitution from major projects and government procurement support (NZ\$M)	\$18.2

**Table 2: 2006/07****Key output measures**

Number of work packages	181
Total number of suppliers introduced by ICN to the project	327
Number of successful tenderers	17
Value (NZD) of competitive import substitution resulting from successful tenders (NZ\$M)	\$30.3

Competitive import substitution is calculated based on those segments of four major projects (A, B, C and D) that were contestable and which New Zealand suppliers successfully tendered for in the 2006/07 financial year. Table 3 shows calculations for these projects<sup>19</sup>. Table 3 shows that of the project components that were contestable, New Zealand suppliers won 45.8 percent of Project D, 31.9 percent of Project B, 25 percent of Project A and 10 percent of Project C. For Project B, \$15.7M was competitive import substitution, with the remainder being imported from offshore. For Project D, all of the \$23.3M was competitive import substitution.

The ICN programme is currently involved with a total of thirty-six major projects. However, the extent of the involvement varies ranging from concept and planning stages, where relationships with suppliers and purchasers are being built, to active projects directly linking up suppliers and purchasers. These major projects are shown in Table 4. In New Zealand and in Australia respectively, there are six major projects where ICN is engaging actively with suppliers and purchasers. The remaining twenty-four major projects (of which two are in Australia) are in the concept and planning phases. The Australian major projects targeted by ICN are those which ICN thinks New Zealand suppliers will have the greatest chance of successfully tendering for.

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<sup>19</sup> Figures for Project D are finalised (as the project is closed). Figures for the remaining three projects are estimates.

**Table 3: Competitive import substitution figures 2006/07**

<b>New Zealand Major Projects (aggregated data)</b>	<b>Project A</b>	<b>Project B</b>	<b>Project C</b>	<b>Project D</b>
Total project value (NZ \$M)	200	500	900	485
Total contestable <sup>20</sup> (NZ \$M)	20	110	200	50.8
Value (NZD) of competitive import substitution resulting from successful tenders (NZ \$M)	N/A <sup>21</sup>	15.7	N/A	23.3
Total won (NZ \$M)	5	35.1 <sup>22</sup>	20.1	23.3
Percentage won <sup>23</sup>	25%	31.9%	10%	45.8%

**Table 4: Major Projects with current ICN involvement**

<b>New Zealand Major Projects</b>	
<b>Active phase</b>	Protector, Wellington Hospital, Waikato Hospital, Kupe Gasfield, Kawerau Geothermal, Wellington Regional Rail, Wairau Hospital, Wanganui Hospital.
<b>Concept &amp; Planning phase</b>	Auckland Rail, Transpower 400kV, Rodney Combined Cycle, Otahuhu C Combined Cycle, NZ Steel Expansion, Wellington Hilton Hotel, Taranaki LNG Receiving, Eden Park Redevelopment, Transmission Gully, Kaipara Tidal, Tokelau Ships, Dunedin Stadium, Combined DHB purchasing, Supreme Court Building, Wanganui Hospital, Wairau Hospital (Blenheim), Rotorua/Taupo Hospital redevelopment, Square Kilometre Array (NZ).
<b>Australian Major Projects</b>	
<b>Active phase</b>	Gorgon Gasfield, Air Warfare Destroyers, LHD/Amphibious Vessels, Pluto Gasfield, Prominent Hill Mine, NSW Rail.
<b>Concept &amp; Planning phase</b>	Gunns Pulp Mill, Penola Pulp Mill.

<sup>20</sup> For Projects A, B and C, these are expected contestable amounts (i.e., these are estimates only).

<sup>21</sup> This data was unable to be calculated for Project A and Project C as the contracts have not yet closed to enable these figures to be calculated.

<sup>22</sup> \$10.7M was won by Australian firms.

<sup>23</sup> The percentages for Projects A, B and C are of the expected contestable amounts.

## **4.4 Other stakeholders**

### **4.4.1 Project Management Companies**

Informal interviews with three project management companies were conducted as part of the scoping exercise for this review. According to these companies, project contractors are primarily concerned with minimising their risk profiles. Consequently whether local suppliers are used or not is contingent upon risk being reduced. This may not necessarily correspond to a reduction in costs. When local suppliers are utilised competitors will, generally, work together as part of the project team. This is because certain sectors (e.g., consulting engineers) are fragmented with numerous small players and, therefore, a collaborative approach is more effective than individuals working alone.

One project contractor suggested that the government should look to streamline its procurement methods as each government department appeared to have its own set of unique processes. Another suggested that the government regulate for a minimum level of domestic industry participation in local major projects. The project contractors had not had any involvement with ICN.

### **4.4.2 Industry Association**

The Director of an industry association (IA) representing New Zealand firms in that sector, was interviewed. The IA is a non-profit organisation which exists to support member companies to develop their technical competence and improve industry capability and competitiveness.

The relationship of the IA with ICN is productive and the IA stated that the relationship with ICN is necessary in promoting and developing New Zealand industry.

The IA's member companies are interested in government procurement and the IA collaborates with ICN to advise its members of supply opportunities. The IA's member firms have the capability to deliver on major projects. However, the IA keeps, and regularly updates, a capability register where member firms declare information on their expertise and skills to the IA. This is similar to what the ICN does with the information it has on its suppliers. The IA suggested that the ICN could develop more in-depth information about specific capabilities of firms, relative to particular major project 'packages'. There could be a role here for closer collaboration between the IA and ICN about firm capability. For example, a capability registration scheme could be jointly run between the IA and ICN. The key issue is the ability of New Zealand firms to scale up to compete for and win major projects. This could be achieved through forward planning around deficits in firms' capabilities, assisting firms in bid preparation and undertaking post-tender analysis.

Fostering a public-private partnership in developing New Zealand industry capabilities is a positive move strategically.

### **4.4.3 Private Sector Provider**

We interviewed a private sector provider offering streamlined web-based tendering services. This was to get another perspective on government procurement processes and the ICN programme. The provider's value proposition for its' clients is that their service is flexible to meet client needs, is easy to use and it gets to the 'nitty-gritty' of what purchasers need to know from suppliers. The provider had heard of ICN but had not had any relationship with them. However, they did think the policy rationale behind ICN was appropriate and that the government should be working to better assist New Zealand firms in the government procurement and major project market. This was primarily because a lot of the smaller New Zealand firms needed assistance in identifying opportunities in major projects, something that was not easy when working in isolation. The provider also viewed GETS as an important service provided by government for suppliers, in particular its regular updates on tendering opportunities. However, the provider did not see itself

as a competitor to GETS as it is offering a niche product and service that is different to that offered by GETS.

#### **4.4.4 Australian ICNL and DITR**

Officials from the ICNL and the DITR were interviewed to gain Australian perspectives on the Major Projects component of the New Zealand ICN programme.

##### **ICNL**

Officials intimated that New Zealand is regarded as a key player in the ICN in Australia. It is their opinion that the Australian economy is benefiting from ready access to capable New Zealand firms. There are no statistics available on how successful New Zealand firms are in Australia but officials thought that they were competitive with their Australian counterparts.

It was suggested that Australian purchasers found it easy to do business with New Zealand companies, given the similarities between the two countries in terms of culture and the business environment. New Zealand companies are competitive on price with their Australian counterparts. New Zealand IT related industries are well known and respected by Australian purchasers. Generally the ICN relationship between New Zealand and Australia is working well based on the established historical economic relationship between the two countries (e.g. trade and defence).

An evaluation of the Australian ICN programme was completed this year and the executive summary of the findings made public in September. It noted that relationships between the State ICNs in Australia have improved and states are now adopting a national focus rather than a state-focus. As a result approximately 30 per cent of contracts, by value, are awarded to Australian companies outside the State in which the engagement with ICN originates, thus demonstrating the success of ICNL in encouraging cross jurisdictional cooperation.<sup>24</sup> This has had spillovers to New Zealand businesses as they are also now considered. Where there are State capacity and capability constraints then New Zealand firms are promoted alongside businesses from other States.

Generally Australian firms are benefiting from the ICN programme but this is contingent upon the type of firm and the state from which it originated. Certain states such as Western Australia focus on mining, oil and gas whereas other states, and consequently firms in those states, emphasize the development of other sectors such as ICT. Thus, it is the jurisdictions that drive the types of firms benefiting from ICN. ICN does pre-qualify firms for participation in major projects. However the reality is that most firms (including start-ups) apply to be registered with ICN and almost all get registered on the system. Getting included on the ICN database is very beneficial to firms as it allows them to then submit expressions of interests in major projects listed by ICN.

##### **DITR**

The DITR maintains an overarching perspective on the ICN network and facilitates the coordination of the different approaches taken by each State toward the ICN. In Victoria, for example, the enthusiasm for ICN has resulted in five ICN offices being established within the State and an increase in business. In Western Australia, however, the State has devolved responsibility for the running of the ICN to the Chamber of Commerce.

The ICN network is considered worthwhile because:

- it is a commercially focussed operation run at arms-length from the government;

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<sup>24</sup> See

[http://www.industry.gov.au/assets/documents/itrinternet/ExecSumm\\_ICNL\\_SAMP\\_Eval20070823162520.pdf](http://www.industry.gov.au/assets/documents/itrinternet/ExecSumm_ICNL_SAMP_Eval20070823162520.pdf)

- it addresses market failure caused by information asymmetries;
- *it provides direct advice to firms which is more than just the supply of information and includes an advisory function enabling firms to increase their chances of successfully securing major project contracts, and;*
- *it enables firms to participate in a large manufacturing, energy, infrastructure and mining private sector market (i.e., a market whose growth is not government dependent).*

The ICN network in Australia has 40,000 businesses registered and each business has been recommended by the local ICN office. Approximately 16 per cent of registered firms get business through the network annually.

On May 1, 2007 DITR launched the Global Opportunities Programme<sup>25</sup> providing AU\$254.1 million over ten years from 2007–08 to build the capability of Australian SMEs to become globally orientated businesses. The Global Opportunities programme will target more than 30 large international projects each year, with a combined value of at least \$16 billion. Drawing on the resources of the Department of Industry, Tourism and Resources, Austrade, the Industry Capability Network and industry partners, project teams will identify the most promising opportunities for Australian industry. Consortia of Australian businesses will be formed to pursue these opportunities, giving SMEs the chance to forge new links with Australian and international businesses. New Zealand businesses that establish a company incorporated in Australia under the Corporations Act 2001 will be eligible to apply.

### **Implications for the New Zealand ICN as part of its relationship with the Australian ICN**

The overall impression from our interviews with Australian officials is that the New Zealand and Australian relationship within the ICN is in good health. The New Zealand ICN is an active contributor to the Australian ICN network. However, there is no available data on how successfully New Zealand suppliers are participating in the Australian network compared to Australian suppliers. There is an emphasis by States to utilise local suppliers rather than New Zealand suppliers. However, approximately 20-25 per cent of business (to suppliers) is accessed cross-state and, in a full-employment economy, New Zealand suppliers are considered competitive. Improving the ICN relationship between New Zealand and Australia through promotion and networking is, primarily, the responsibility of each ICN office.

### **The monitoring and measurement of the performance and success of the ICNL**

The DITR relies upon periodic evaluations to measure and monitor the performance and success of the ICN programme. The most recent evaluation was completed in September this year<sup>26</sup>. The evaluation found that, through its support of ICNL, the Australian Government is achieving worthwhile outcomes in relation to development and coordination of the industry capability network and development of the national database, ICSv2. These outcomes are fully consistent with, and are making an effective contribution to, the principles espoused in the Australian Industry Participation National Framework. For a relatively modest outlay, the Australian Government, through ICNL, has been able to ensure that States act nationally rather than parochially. It is

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<sup>25</sup> See <http://www.industry.gov.au/content/itrinternet/cmscontent.cfm?objectid=4141BD07-DE57-9258-EB4355D65A74CF04&searchID=325816>

<sup>26</sup> See the following link for a listing of the Executive Summary:  
<http://www.industry.gov.au/content/itrinternet/cmscontent.cfm?objectid=911AE4E2-D1F9-677F-7840CB30601A5C05&searchID=351314>

recommended that these arrangements be retained with ICNL as an independent agency undertaking the same basic functions.

The DITR does not use government procurement to the same extent that New Zealand does to develop the capability of local industry. This may be to do with the differences between New Zealand and Australia in the size of the market as Australia has a far greater depth of private sector for suppliers to participate in. Consequently, proportionately more opportunity exists in New Zealand's government procurement market for New Zealand suppliers.

## 4.5 Discussion

The 'value-add' of ICN is in enabling smaller firms to enter the major projects market. Participation in larger projects allows these firms to get major project experience and from there step up into new markets and consolidate their business's market position. Ultimately it is hoped that firms participating in the ICN will go on to become internationally successful firms helping realise the government's goals as set by the economic transformation agenda. The services provided to larger firms by the ICN are predominantly viewed by these firms as information services. These firms are able to successfully tender without ICN, albeit at a cost of time and resource. Utilising the information provided by ICN ameliorates some of these costs. Thus, it may be that the market failure argument of information asymmetries existing between suppliers and purchasers no longer relevant. Whilst a certain type of firm such as a sub-contractor will benefit from ICN's services such as facilitating initial contacts with purchasers, larger and more established firms are able to enter the major projects market themselves independently of the ICN.

The entry into the market of a private sector provider of tendering services suggests that the market is beginning to address gaps in the major projects market. This may be an early indication of 'crowding in', where government activity in the procurement market is encouraging private sector participation. Such private sector behaviour should be encouraged because, in the long run, if such 'crowding in' increases then government will be better positioned to reassess its role.

In the 2004 evaluation it was recommended that the major projects component be re-evaluated once there was a meaningful baseline on ICN's major project activities. The 2004 evaluation noted that appropriate metrics and processes were not in place to capture the information required. Consequently, it was difficult to directly attribute competitive import replacement activity to the services of ICN. This review has found that the ICN has been collecting data on the major projects it has been involved with. However, there are key gaps in some of the data collected (e.g., on the success of New Zealand companies in securing Australian major project work<sup>27</sup>) and what is reported to MED. In determining the competitive import substitution value of major projects, more stringent reporting to MED of major project activity is required. This would allow for a longitudinal measure of the success of the ICN programme to be calculated. The ICSv2 database that records all ICN activity in Australia could become operationally more compatible with New Zealand's ICN systems. Ultimately, the ICSv2 database should become the central repository for New Zealand and Australian ICN data.

For the 2006/07 financial year, the competitive import substitution figures for the constestable components of the Wellington Hospital, Protector, Kupe and Huntly e3p projects suggest New Zealand companies are cost competitive against their international peers. Whilst the introductions to purchasers facilitated by ICN are a valued service for suppliers, fundamentally these companies tender successfully on their own efforts.

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<sup>27</sup> Whilst it is acknowledged that obtaining data from the ICN in Australia is problematic, looking forward it should be possible to work towards gathering it.



## 5. Conclusions and Recommendations

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### 5.1 Conclusions

#### 5.1.1 Effectiveness and Efficiency

The programme is efficiently run. However, it was established, primarily, as a service to reduce information asymmetries and it is, therefore, addressing a market failure that largely no longer exists. Consequently, it has limited effectiveness. The programme has met its objectives<sup>28</sup> but in varying degrees, as explained below:

- The programme has value in reducing some costs for suppliers and purchasers, although ten out of fifteen suppliers (i.e. 66 per cent) acknowledged that there is a level of fixed costs inherent to tendering for major projects. This creates a barrier to entry for smaller firms. Purchasers agreed that the ICN provides them with a channel to what supply capability is available in the market, although without ICN purchasers could still locate suppliers but with additional cost to them in time and resource. Purchasers considered that the ability of suppliers to deliver on major projects was not in question and they also agreed that New Zealand suppliers were competitive internationally.
- New Zealand industry's capability is up-skilled through the greater participation in major projects that is enabled through ICN's services. For example, from our sample of fifteen suppliers, seven agreed ICN assisted with improving their performance, capacity and additional skills. Additionally, five suppliers agreed that the ICN did assist in feeding into future supply opportunities. However, despite these obvious successes, all but two of the suppliers agreed that they could still tender successfully without utilising the services of ICN. Thus, whilst the services of ICN assist small sub-contractors, the question needs to be asked about the programme's overall relevance when 86.6 per cent of suppliers can successfully tender for major projects without ICN assistance. For example, only nine suppliers had ongoing dialogue with ICN whereas the remaining six suppliers used ICN as an information service only.

The value ICN brings to helping suppliers globalise (which includes Australia) is mixed. Six suppliers reported that ICN had provided them with contacts for overseas opportunities which the suppliers had then pursued. However, six suppliers reported that ICN had not actively assisted them in their efforts to globalise, whilst the remaining suppliers' responses varied. These suppliers either relied on their own efforts or they had niche products and no particular global vision.

In Australia, the success for New Zealand suppliers in the major projects market was assisted by involvement with ICN. ICN's primary role, with respect to the Australian market, is the provision of contacts and information about major projects. While only nine of the suppliers interviewed for this review tendered in Australia, the average in sales from Australian major projects for seven of the eight successful firms was \$3.05 million.

The degree to which purchasers valued the advantages of using local business, such as ease of access for follow-up, was contingent upon the other risk-reduction factors taken into account by purchasers. If using a local supplier for a major project is cost competitive and reduces risk (e.g. around guarantee of supply), then purchasers will utilise the local supplier. This may or may not reduce actual dollar project costs overall. However, increased information sharing between purchasers about supplier capability contributes to a more successful project implementation for purchasers.

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<sup>28</sup> See Section 3.2

There have been no unintended consequences arising out of the programme.

### **5.1.2 Programme structure and Policy**

The objectives for the programme date back to 1991 when it was established primarily as a service to reduce information asymmetries. It is our belief that it is addressing a market failure that largely no longer exists. As a result it has limited effectiveness and so we have recommended changes designed to leverage its core capabilities and remain relevant to current policy priorities.

The research undertaken for this review suggests that certain suppliers benefit from involvement with the ICN programme. These suppliers are the smaller sub-contractors to major projects who need assistance in getting their 'foot in the door' of purchasers and contract owners. Other more established suppliers do not need the services of ICN to successfully tender for major projects. Thus, it is entirely feasible that established local suppliers would successfully tender for major projects, both within New Zealand and in Australia, with or without the programme. Where ICN adds the greatest value is with those suppliers who are novices to the major projects market and have yet to establish a foothold. It is also feasible that assistance such as bid preparation and tender documentation could be given to these suppliers via other NZTE programmes.

The value of the contestable components from the four major projects that New Zealand suppliers successfully tendered for, and won, ranged between \$5M and \$31.1M with a total value of \$83.5M. This result indicates some success by New Zealand suppliers. It also needs to be seen in the context of New Zealand suppliers being able to compete in larger markets and establish credibility in the eyes of major contractors. Thus, the value of the programme, in terms of competitive import replacement, is not financially substantial when compared to larger overseas suppliers but is, nevertheless, significant when taking into account the leverage New Zealand suppliers get from engaging in major projects. Comment from the Australian ICN and DITR confirmed that New Zealand suppliers play a key role in the major projects market in Australia.

The government procurement and the major project markets would benefit from a more proactive relationship with the private sector. Government tendering processes need to be more streamlined so as to make it easier for the private sector to participate in the government procurement market. The current procurement policy implementation review conducted by MED in 2005/06 addressed private sector concerns. Private sector companies offering tender facilitation services are starting to emerge. However, as yet insufficient information exists to be able to determine what impact they are having relative to government efforts in the major projects market.

The new policy on government procurement, economic transformation and sustainability provides certainty and direction for the ICN programme. It serves as an endorsement for the ICN programme to actively pursue lines of inquiry leading to sustainable procurement and to advancing globally competitive firms.

## **5.2 Recommendations**

1. The Industry Capability Network (ICN) programme should continue but with the following provisos:
  - The purpose of the ICN programme is to serve as an information repository and to facilitate access by New Zealand firms to supply opportunities into major projects. These include government procurement opportunities and contracts arising from the Australian ICN network, with the option to secure major projects in other jurisdictions when they arise.
  - The purpose of the ICN should also be to facilitate a more comprehensive understanding by New Zealand businesses of the government procurement market opportunities. It has a role in disseminating this information to SMEs in New Zealand

and informing government of the access issues faced by SMEs in securing large government procurement contracts.

2. That the priorities of the programme over the next three years should be to:-
  - i. Contribute to whole of government networks to facilitate the acquisition and dissemination of information pertaining to government procurement and major projects.
  - ii. Monitor and report, in a timely manner, on the performance measures as recommended within this report.
  - iii. Have a working relationship with the Government Procurement Development Group within MED, including consultation on where ICN has targeted its services.
  - iv. Provide tender facilitation services at the start of a project only and once contracts have been awarded then cease involvement with the major project and transfer scarce resource to the next opportunity.
3. The service should continue to operate within NZTE in compliance with the Standard Operating Procedures of the ICN network.
4. The adoption of performance parameters.

The 2004 review of ICN recommended that more data/information be collected on ICN's major project activities. This review found that there are still gaps in the data collected by ICN on major projects and what is reported to MED. It is recommended that ICN collect data and report on:

- i. New Zealand firms success in major projects in Australia. This is contingent upon Australian ICN's providing this information. It is recommended that ICN actively engage with ICNL to help facilitate obtaining the following types of data:
  - a. Number of tender applications submitted by New Zealand suppliers to Australian major projects
  - b. Number of referrals by NZTE of New Zealand suppliers to Australian major projects
  - c. Financial value of successful major project wins for New Zealand suppliers in Australian major projects
  - d. To report on this information four-monthly and annually.

Progress on the collection of this data is to be reported in March 2008 to MED. Consequently, MED will assess if further steps need to be taken to augment the implementation of this recommendation.

- ii. New Zealand firms' success in major projects in New Zealand.
  - a. Filling gaps in the data as specified and recommended by the 2004 Industry Capability Review.
- iii. That the ICN collects competitive import substitution information on New Zealand companies, where it relates to ICN's work. In implementing this recommendation, ICN is to collect the following information, where possible<sup>29</sup> on:

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<sup>29</sup> It is acknowledged that the ICN relies on the discretion of what project owners and prime contractors consider reasonable information to disclose. Additionally, it is understood that there are commercial

- a. the number of ICN referrals, the number of wins and the total value of the wins as compared to the total value of those portions of major projects that are contestable by New Zealand firms
- b. where available, the number of locally awarded non-contestable portions of major projects and their total value,
- c. where available, the portion of major projects that New Zealand companies do not compete for and their total value,
- d. where available, the number of referrals, the number of wins for companies that were not assisted by ICN and their total value, and;

iv. To report this information four-monthly and annually.

Progress on the collection of this data is to be reported to MED in March 2008. Consequently, MED will assess if any further steps need to be taken to augment the implementation of this recommendation.

#### 5. National Projects Office.

- i. A review of the NPO functions should be undertaken by MED to ascertain their relevance in relation to the functions that the ICN performs.

NZTE needs to ensure that the work of the ICN and the NPO is complementary. At first glance, there appears to be some overlap in the roles performed by the ICN and those proposed by the NPO. These are primarily around assisting New Zealand suppliers to successfully tender for international major projects. As part of the review, questions need to be answered about whether these two programmes should be run separately or whether one programme can be incorporated into the other.

There are also some significant differences between ICN and the proposed NPO. ICN does not directly assist with bid preparation nor does it actively intervene to create collaborative teams among client firms. It also does not underwrite international bids which are something the NPO may do. The ICN targets major projects in New Zealand and Australia while the NPO intends to direct their resources at medium-sized projects in New Zealand and the Pacific.

- i. The review should also assess the efficiency of government contracting out the management of this particular intervention to the private sector, given that is the approach taken in this instance.
- ii. This review should be conducted by June 2010. The results from this review should inform officials about the feasibility of merging the two programmes (in whatever form it may take) or keeping them separate. Consequently, a decision can be made and scoping can begin on how to best implement the review recommendations.

#### 6. Future evaluations.

- i. That information is collected on the 'counterfactual' (i.e. private sector suppliers who have either successfully or not successfully tendered for major projects without ICN assistance or involvement).

sensitivities around the information that project owners and prime contractors will provide. Thus, ICN may or may not be in a position to obtain that data, given these commercial sensitivities. However, is it also contingent upon the ICN to think creatively about how to obtain the relevant data and therefore, implement processes, when and where possible, to acquire such data.

If, as a matter of course, this information is provided to the ICN, then it can be reported. However, if the ICN is able to obtain this data proactively, then it should do so. In order to avoid potential conflicts of interest and to ensure robust and credible data sets, this information ideally should be collected independently of ICN.

Evaluations of the ICN, both past and present, have struggled to fully quantify the efficiency and effectiveness of the intervention due to the variable quality and scarcity of data available. Each review has requested that more robust processes for data collection be implemented so that a full and proper evaluation can be undertaken. The collection and reporting of accurate data enables good governance and oversight of the relationship between the government and its clients via the ICN programme. To date this has not happened and it is our recommendation that there is an undertaking on the part of ICN that the appropriate data will be provided to MED. A pragmatic approach to this recommendation is that ICN, as part of the proposed closer working relationship with MED's Government Procurement Development Group, provide regular and timely updates on the robustness of their data collection processes.

That the next evaluation of the ICN should be conducted by June 2010.

## 6. Appendices

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### 6.1 Interview questions

#### 6.1.1 Principle contractors

1. Does ICN reduce transaction costs for you, giving you better value-for-money, when identifying potential/capable suppliers?
2. In your opinion, have firms that have successfully tendered via the ICN, been credible and been able to deliver on Major Projects?
  - Have firms (that have not used ICN) been more credible and been able to deliver on Major Projects, than those using ICN?
3. In your capacity as Major Project owner, have you increased your usage of local suppliers for competitive supply opportunities?
4. Has the work of ICN contributed, either directly or indirectly, to supplier's capability to deliver on Major Projects?
5. Would you use local suppliers rather than overseas suppliers to ensure through life support?
6. In your view, is there increased information sharing between project owners/purchasers on the capability of local suppliers?
  - Are you aware of the capability of local suppliers?
7. How do you find the information you need on local suppliers?
8. Has ICN brought you Australian suppliers as well as New Zealand suppliers?

#### 6.1.2 Suppliers

1. What contact have you had with the ICN in the past two years?
2. you think there is any problem with obtaining information on major project tenders/ hearing about major projects?
  - Do you think there is plenty of information available about major projects (that your firm could apply to supply)?
  - Are there any other mechanisms for finding major projects that your firm is aware of and has used (either successfully or unsuccessfully)?
  - Do these mechanisms enhance your firm's ability to feed into future supply opportunities?
3. Do information issues (e.g., lack of or excess) impact on transaction costs (i.e., time, money & resources)?
  - What are these costs (either reduced or increased) in dollar/percentage terms?
  - If your firms has not been noticed by contractors, has ICN helped to mitigate this?
4. Has ICN been beneficial in securing work for your company?

- Has ICN enhanced your ability to deliver goods/services to Major Projects?
  - Has ICN increased the capacity of your firm to feed into future supply opportunities (i.e., additional Major Projects)?
  - Has ICN assisted in any way to improve your firm's performance (e.g., sales & turnover), capability, additional skills and spillovers?
5. Could your firm have obtained/successfully tendered for Major Projects just as easily without ICN?
  6. Have any unforeseen consequences/impacts arisen out of your participation in ICN?
  7. Has your firm successfully tendered for any Australian Major Projects?
    - What is your firm's rate of success at getting Australian Major Projects?
    - Percentage of sales/turnover from Australian Major Projects?
    - What was ICN's role in that (i.e., networking assistance etc, or did you do it all on your own?).
  8. Do you subscribe to Projectlink – another NZTE programme that provides information of contracts in Australia?
  9. What is the percentage of sales/turnover from New Zealand Major Projects?
  10. Has involvement with ICN enhanced your firm's effectiveness/ability to go global?
  11. What other benefits did your firm receive or costs incurred, arising from your relationship with ICN?
  12. What other factor could ICN help you with?

### **6.1.3 ICN Personnel**

1. How does the Major Projects component of ICN benefit New Zealand's industry?
2. How do you measure:
  - Success as a programme?
  - Your efficiency (per work package per \$m)?
3. How does ICN select or target projects that have the most potential for the inclusion of local content (i.e., how do major projects get selected/ what sources of information does ICN use to identify projects)?
4. How does ICN establish the effectiveness of the resources it allocates to each selected major project?
5. On what basis does ICN pre-qualify/select firms, especially start-ups or new firms (relative to the new policy directive on developing globally competitive firms)?
6. How does the work of ICN directly contribute to increases in firm capability among suppliers?
- 6a. Is there value of locating ICN personnel on Major Project sites? If so, what?

7. Is the current structure of the ICN Major Projects programme the most effective means of
8. building the capability of New Zealand industry (given the broader aims of the government, such as sustainability, innovation etc, in the area of business performance)?
9. What processes does ICN employ to ensure synergies are optimised with NZTE training programmes to address capability gaps existing in supply chains and global supply opportunities?
10. How does the cost of delivering the Major Projects component of the ICN programme compare over time and/or to similar programmes (e.g., to the delivery of the Australian state ICNs)?
11. What Major Projects in Australia have New Zealand companies got work in, in the last two years, that you can attribute to the ICN Network and what is the value of those projects?
12. Any other comments you would like to add?

#### **6.1.4 DITR**

1. Are you aware of any changes to ICNL that could impact on ICN in New Zealand?
2. What is DITR's perspective of New Zealand participation in the ICN network (i.e., is there value for New Zealand suppliers)?
3. Are New Zealand suppliers participating in the ICN programme in Australia as successfully as Australian suppliers?
4. Is there a tendency for State major project owners to look toward State suppliers rather than New Zealand suppliers?
5. What are the ways that the New Zealand and Australian ICN relationship be jointly enhanced to improve results for the Australasian suppliers?
6. How does DITR measure and monitor the performance and success of ICNL? Is the quality of the data collected valid?
7. How effective is the ICN operation in Australia?
8. Is there inter-state cooperation among State ICNs in securing suppliers for major projects?
9. Does the policy rationale for ICNL continue to be valid, hence is there still a need for ICN in Australia?
10. Are there certain types of firms benefiting from ICN?
11. What parts of the service are most beneficial to suppliers?
12. What is the relationship between ICN and DITR's broader procurement policy goals?

#### **6.1.5 ICNL**

1. How is New Zealand's participation in the ICNL network at the moment (i.e., is there value for New Zealand suppliers; are they participating just as successfully as Australian suppliers)?
2. What is your perspective on the sourcing of State, inter-State and New Zealand suppliers by Australian project owners?



3. What are the ways that the New Zealand and Australian ICN relationship can be jointly enhanced to improve results for the Australasian suppliers?
4. Are you aware of any changes to ICNL policy and practice that could impact on ICN in New Zealand?
5. How effective is the ICN operation in Australia?
6. How is the inter-state cooperation among State ICNs in securing suppliers for major projects?
7. Are there certain types of firms benefiting from ICN?
8. How does ICN 'pre-qualify' new firms for participation in projects (e.g., start-ups)?
9. What parts of the service are most beneficial to suppliers?
10. Are you aware of any changes in DITR's policy perspective on ICNL?