

Economics Rock Star

World Thought Leader

David Teece is recognised as one of the outstanding economists of our time. He is a founding father of the field of strategic management as we know it today. Accenture has placed him on the list of the world's top 50 business thinkers. He's also a very successful entrepreneur.

David is well known for the difference he has made in shaping the understanding and practice of technology management, corporate strategy and business behaviour. He has made seminal contributions to the understanding of the dynamics of the modern business enterprise and has published a dozen books and over 150 scientific papers.

David grew up in Nelson and attended Waimea College, before going to Canterbury University and stepping on the economics escalator that's taken him to the top of his profession. He started studying economics at Canterbury in 1967, then went to study graduate level economics and finance at the Wharton School of the University of Pennsylvania, where he received his Ph.D. in 1975. "I got good advice that the future of the field of economics was in North America." A stellar career has followed – including appointments at Stanford and Oxford Universities. In 1982, at the age of 34, he was made a full professor at the University of California, Berkeley. David is not just a faculty member at UC Berkeley. He's also director of its Institute of Management, Innovation and Organisation (IMIO).

The stream of academic research David has spearheaded from the 1980s to the present day is heralded as visionary and is recognised worldwide. In the last three years alone he has been awarded three honorary doctorates – from the Copenhagen Business School (Denmark), St Petersburg State University (Russia) and Lappeenranta University (Finland). He has also been presented with two prestigious prizes...the Viipuri International Prize in Strategic (Technology) Management and Business Economics and the Strategic Management Journal Prize. He can proudly claim one of the highest citation counts of any living scholar in the social sciences...which means people use his work and cite his papers frequently.

However, David Teece is by no means an ivory tower academic. Sitting alongside his world class academic record are his impressive achievements as a creative businessman. He can rightfully be proud of building the world's first expert services firm – LECG (listed on the NASDAQ exchange with the ticker XPRT). Described by one reporter as a "rent a brain trust" LECG provides "high end" consultants in a wide variety of professions. It's a "go to" place for world-class talent in many areas including economics, finance, statistics, engineering, and science policy.

"For thirteen years after I graduated with my Ph.D. I focused on academic research and teaching with a passion; but I always had one foot in the business world, consulting to companies and governments around the world. I realised that I was capable of building not for profit institutions – I had built up the IMIO from scratch - and thought "it's time to build a for profit enterprise to provide truly independent research for paying clients." From a cold start in 1988 LECG has grown into a multinational firm spanning 20 countries with over 750 staff and revenue of NZ\$300 million annually. David retains a very active interest as Chairman.

He credits the American university model with its fluidity between academia, business and government for his ability to flourish as both as an academic and entrepreneur. It has also been helped by living in "Silicon Valley" which he believes is "the crucible of Western Civilisation right now".

"Silicon Valley is a state of mind rather than a place. It's a magnet for brains, where creative thinking and money come together. Two of the world's greatest research universities are right here, along with a disproportionate share of venture capital and entrepreneurship. It's a cornucopia of new ideas in science, technology, politics, the arts, and business."

David applauds Air New Zealand's move to launch direct flights between Auckland and San Francisco because it puts Silicon Valley right on New Zealand's doorstep. "Previously Australia was actually closer to Silicon Valley than New Zealand because you had to go through LA's overcrowded international airport to get from San Francisco to Auckland. It's a significant plus in terms of time and convenience."

David returns to New Zealand three or four times a year...most recently in March to take part in board meetings. He and his wife Leigh have a home in Nelson and the family visits as often as it can. An expat who lives in California but is still very much connected to New Zealand.

Q: You're widely respected as one of the world's fundamental thinkers on business strategy. What does it take for a business to be competitive in the global marketplace?

DT: You need to own specialised assets that are unique, hard for others to imitate, and difficult to transfer. Ideally, you want to own "intangible assets" that are relevant to customer solutions. The intangible could be a manufacturing or development process, or creative design skills; it could even be brands. Winning firms usually have a portfolio of intangible assets including know-how and skills learned over time. It's not inventions or bits of code that are important; what's important is how it's all put together to serve customer needs. The business model and the strategy are critically important. So is a deep understanding of customer needs. If firms can build and retain knowledge assets, and if management can orchestrate these assets astutely, then market share can be won and defended.

Q: What special assets does New Zealand have?

DT: New Zealand is a leader in using technology – first in agriculture and now in ICT. New Zealand has always had one of the most productive agricultural economies in the world. Interestingly, New Zealand's world class agricultural productivity is not primarily because the country is good at growing grass and has a benign climate, but because of superior on-the-farm organisation and technology. Advantage can flow from methods of farming, and from the application of technology to improve crop yields. It can also come from developing and marketing superior foods and beverages. You don't necessarily have to develop the technology; it's how you use it that counts.

Q: What can New Zealand do to become more competitive internationally?

DT: The biggest missing ingredient is experienced management with in-depth knowledge of overseas customer needs and competitor offerings. Nothing beats getting out into the markets you are targeting. You can't do market research on the net or stay cloistered in Auckland if you want to understand customers in Dayton, Ohio, or in Sydney for that matter. Don't think of national boundaries as a barrier... you need to regard a trip from Auckland to San Francisco like a trip from Copenhagen to Frankfurt. Intimate knowledge and exposure to new markets and technology is critical to doing business today.

Also, New Zealand companies can be too "device" focused – they come up with new items of technology and proclaim the sizzle as the next best thing without considering what customers really need. Customers want solutions, and that may require combining multiple items of technology to generate the required functionality, and then marketing them in an appealing way. That's why you need marketplace exposure - New Zealand is frequently too small a market to be representative. Then there are companies that have the product right but fall down on management and marketing. The good news is that it's relatively easy to fix that

with the right strategy and an effective board of directors and outside expertise. Fortunately, there's a rising cohort of young, talented New Zealander managers with experience in business offshore.

Q: Has growing up in New Zealand shaped your vision?

DT: Definitely. By necessity New Zealanders are outward looking....well grounded but open to new ideas. You're very much aware of external economic forces, the importance of international trade. Kids today are on the internet chatting with other kids from the rest of the world. I grew up listening to shortwave radio. While in New Zealand I was living, in a virtual sense, in the rest of the world. I've always been a self-starter and I think that has something to do with being a New Zealander too.

Q: How did you first get exposed to business and economics?

In high school back in the 60's you couldn't study economics - it simply wasn't offered - but I was very interested in public policy and the competitiveness of nations. My father was a cofounder of Transport Nelson, a small transport and freight company, which grew to regional significance; so I got a sense of the business world indirectly through him. Also as a kid, I ran a market garden with my father and my brother. That was hard work.

Q: You wear a lot of hats. How much time do you spend on university related business?

DT: The great thing about being a professor in an American university is that you're not anchored physically to the place. My appointment has been part time for quite a while now. Just under 50% of my work is university business but that takes me into a really broad sphere of initiatives. For instance, I've helped set up a business school in Russia and am looking at a joint venture to set up educational initiatives in Iraq. I run an economic research institute focusing on the interface between management and technology. Right now we're looking at the issues surrounding the outsourcing of research...to what degree can an innovative firm outsource research and still remain competitive? I teach a couple of classes each year...an MBA class on management of technology and a doctoral seminar in strategy technology and policy.

Q: Talking about outsourcing – how do you see New Zealand's potential as an outsourcing destination?

DT: New Zealand is a great place for outsourcing. For U.S. businesses, it can be a halfway house between Silicon Valley and India...kind of a mezzanine floor for IT development! If you're a U.S. company looking for lower cost services provided by people who are highly skilled in IT, hardworking, and in a favourable time zone...New Zealand is perfect.

Q: Do you think young New Zealanders need to go offshore for higher education and work experience to be successful in business?

DT: Yes, if you want to be world class and compete successfully in the global economy. Talented young New Zealanders need to be encouraged to go offshore to gain the very best graduate level education and to build up understanding of how people think, live and work in different cultures. New Zealand universities provide a very good education and excel in some particular areas. However, if you want to become a world expert you have to take instruction from the world's best and in most cases that means going overseas. In the past too many Kiwi kids did their OE by heading to London and taking any old job in a bar or on a construction site. Now the smart ones are aspiring to take top-level jobs in engineering, law and accounting firms, and getting insights to the international business world while also making valuable contacts.

Q: How do we attract our best brains back home?

DT: To attract Kiwis home, New Zealand companies need to better appreciate the skills that expats with significant overseas experience bring. There are an increasing number of good jobs in New Zealand...I know that KEA has helped place a number of talented people back in New Zealand. Part of the problem is that headhunters are not always as effective as they could be. They need to tap into networks like KEA to reach Kiwis who want to come home but are unaware of the opportunities. It's a case of not understanding what you don't know about. There are better chances of reversing the brain drain today than 20 years ago. And it's because of new opportunities and attractive lifestyles in New Zealand. The reforms in the 1980s were a watershed and have given New Zealand a chance to make it.

Q: You're one Kiwi who hasn't come home but you're still very much connected to New Zealand. How do you see expats helping to grow New Zealand's economy?

DT: Well, if I can use myself as an example, there are four vehicles I use to engage with New Zealand in a positive way.

1. KEA – the Kiwi Expat Association – which I set up with Stephen Tindall and George Barker after the first Knowledge Wave Conference in 2001. It now has 4000 members and is steadily growing. In fact, I just participated in the opening of a chapter in Los Angeles in March. KEA provides a platform for expat Kiwis in business and the professions to make linkages with New Zealand that are mutually beneficial.
2. i-cap – a private equity company I co-founded in 2000. i-cap provides expansion capital for New Zealand and Australian companies. i-cap has offices in Auckland, Emeryville (California), London and a representative in Luxembourg. We raise money in the Northern Hemisphere and invest it in the Southern Hemisphere...something that hasn't really been done in an orchestrated way since colonial times. Until we created i-cap, there really wasn't any significant merchant bank bridging capital markets overseas and private equity opportunities in New Zealand. We are placing \$100 million plus with New Zealand companies, helping them to establish working partnerships with overseas investors. We're finding opportunities across the board – ICT, healthcare and branded goods.
3. LECG is the third vehicle. I'm frequently interacting with LECG Ltd. We have offices in Wellington and Auckland. Dr Graham Scott is the Chair of LECG New Zealand. We are connecting New Zealand talent to opportunities in New Zealand and around the world.
4. New Zealand Trade & Enterprise Silicon Valley Beachhead Advisory Board. The beachhead is another visible platform for New Zealand businesses in the U.S. market. NZTE is doing an excellent job creating additional linkages to well connected people in the technology sector and also opening doors to venture capital. It complements what KEA does. In fact, NZTE's and KEA's efforts are mutually reinforcing.

Collectively, KEA, i-cap, LECG and NZTE all serve to keep me connected to New Zealand. They're all structures to access business networks offshore, raise capital and build credibility. Using these platforms, I can sometimes help legitimise an "unknown" New Zealand company in Silicon Valley or in Europe because I know the players. New Zealand companies need good connections to the global marketplace if they are going to expand.

Q: Going back to the question of investment in New Zealand – why would someone in Europe choose to put their money in a New Zealand company over a local company?

DT: A number of reasons. Perhaps, surprisingly, innovation is part of it. People talk about looking outside the square...New Zealanders don't know where the square is and as a result

they come up with some really different things! For instance, they'll see an angle on a marketplace or a use for technology that other people don't see. New Zealanders are not easily blinded by conventional wisdom. They are very pragmatic. There are also some areas where New Zealand has leading customer groups - like dairying and sailing. Another plus is that in New Zealand there's less money chasing the opportunities. Accordingly, the pricing to the investor is better. On top of that New Zealand has a stable, growing economy. So it makes very good sense to include New Zealand companies as part of an international investment portfolio.