

# Hon Grant Robertson

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**MP for Wellington Central**

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage



**16 DEC 2019**

Mr. Murray Sherwin  
Chair  
Productivity Commission  
PO Box 8036  
The Terrace  
Wellington 6143

Dear Murray

## **TERMS OF REFERENCE FOR AN INQUIRY INTO MAXIMISING THE ECONOMIC CONTRIBUTION OF NEW ZEALAND'S FRONTIER FIRMS**

I am pleased to refer to you the terms of reference for an inquiry into *Maximising the Economic Contribution of New Zealand's Frontier Firms*.

This inquiry focusses on a central aspect of New Zealand's productivity performance – the economic contribution of New Zealand's frontier firms. These firms play an important role in shaping aggregate productivity performance, both through their own performance and through the way they diffuse new technologies and business practices into the New Zealand economy.

I wish you all the best as you commence this inquiry and look forward to your findings.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Grant Robertson', written over a white background.

Hon Grant Robertson  
**Minister of Finance**

## **Terms of Reference – New Zealand Productivity Commission Inquiry into Maximising the Economic Contribution of New Zealand’s Frontier Firms**

Issued by the Ministers of Finance, of Economic Development and of Trade and Export Growth. Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission (“the Commission”) undertake an inquiry into maximising the economic contribution of New Zealand’s frontier firms.

### **Context**

While aspects of New Zealand’s recent economic performance have been strong, productivity growth is persistently weak and a significant drag on living standards and well-being.

This inquiry focusses on a central aspect of New Zealand’s productivity performance – the economic contribution of New Zealand’s frontier firms. Frontier firms are the most productive firms in the domestic economy within their industry. These firms play an important role in shaping aggregate productivity performance, both through their own performance and through the way they diffuse new technologies and business practices into the New Zealand economy.

While New Zealand has some world-leading firms, on average our frontier firms are not performing as well as their international peers, and the diffusion of innovations from the domestic frontier to other domestic firms seems slow.

The purpose of this inquiry is to identify policies and interventions that could maximise the performance and contribution to the economy of New Zealand’s frontier firms through:

- improving the performance of the frontier firms themselves; and
- helping innovations diffuse more effectively from frontier firms to other New Zealand firms.

This requires using the Productivity Commission’s high quality independent analytical capacity, and its links with OECD research and analysis, to accurately characterise the New Zealand situation and identify and evaluate relevant policies and interventions.

As the final report will be delivered in the year that New Zealand is hosting APEC, its substance could inform discussions through the Economic Committees.

### **Scope**

Having regard to the context outlined above, the referring Ministers request that the Commission undertake an inquiry into maximising the contribution of New Zealand’s frontier firms to aggregate productivity growth through their own performance and through the diffusion of innovations from frontier firms to other domestic firms.

For the purposes of the inquiry the Commission should:

- establish a coherent and measurable classification of what constitutes a frontier firm, and what the distribution of New Zealand firms looks like behind the productivity frontier. This could include benchmarking the performance of New Zealand’s firms with international peers.

- building on research from New Zealand and elsewhere, investigate the internal or external characteristics of New Zealand's frontier firms that correlate with productivity performance, and where possible make observations about likely causation. Relevant characteristics could include:
  - organisational form;
  - access to / use of capital (including type of capital and support received, and whether foreign or domestic);
  - level of competition;
  - location;
  - export status;
  - staff skill / governance and management capability levels (including whether migration flows are used to acquire these skills);
  - distribution across sectors at an aggregate and more detailed level;
  - firm age; and
  - rate of growth and expansion.
- drawing on the above analysis, identify factors that could be inhibiting the performance of New Zealand's frontier firms, and the interventions available to government that will (or will not) effectively lift their performance.
- identify factors that contribute to or detract from diffusion of knowledge and technology in the New Zealand economy, particularly from frontier firms to other firms. Identify the mechanisms by which this diffusion occurs and interventions available to government to improve this diffusion.
- investigate the economic contribution of Māori frontier firms. In particular, the Commission should consider, having consulted with Māori firms:
  - what challenges / constraints, and what resources / opportunities, are unique or greater for Māori firms at the frontier; and
  - how the diffusion of technology or practices from Māori frontier firms may be different from other frontier firms.
- use its focus on public engagement, and links with the OECD and other international agencies, to recommend responses and policies that are actionable and implementable.

### **Consultation Requirements**

In undertaking this inquiry, the Commission should:

- consult with key interest groups and affected parties (including firms, their employees, trade unions and industry peak bodies);
- engage with relevant government departments; and
- draw from international perspectives and experience.

## **Timeframe**

The Commission must publish a draft report and/or discussion paper(s) on the inquiry for public comment, followed by a final report or reports, which must be submitted to each of the referring Ministers by 31 March 2021. The Commission is also encouraged to produce any additional outputs that may facilitate public understanding or enhance the impact of their work as they see fit.