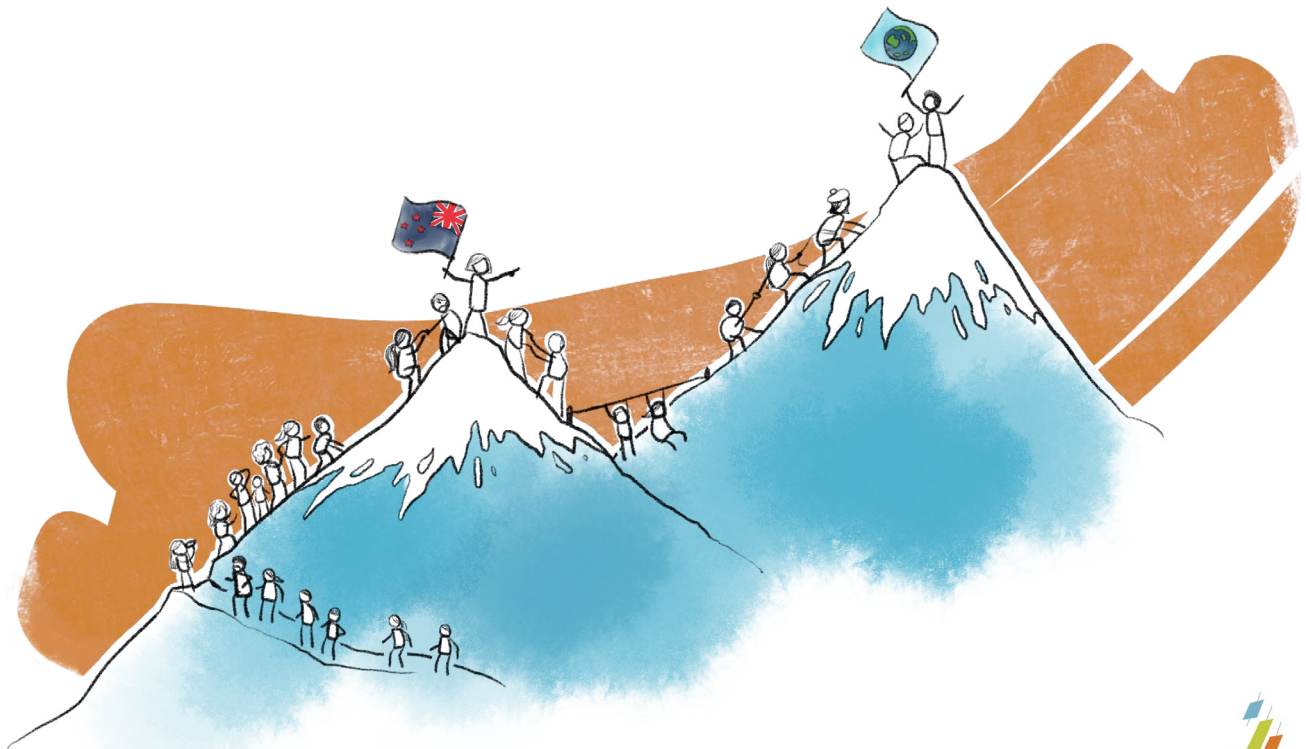


Helping Kiwi firms reach the productivity frontier

Call for submissions



NEW ZEALAND
PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa



Reaching the productivity frontier

New Zealand is facing the prospect of a significant economic shock from the spread of COVID-19. Helping more Kiwi firms reach the productivity frontier would be a valuable step towards the economy reaching its full potential once the immediate effects of COVID-19 have passed.

What we have been asked to do

The Government has asked the Productivity Commission to undertake an inquiry into New Zealand's "frontier firms". These are the most productive firms in our economy.

The Government wants to know how the economic contribution of these firms can be maximised, through their own performance and the way they diffuse new technologies and business practices to other domestic firms.

Why does this inquiry matter?

New Zealand has a longstanding problem with poor productivity, as productivity levels are well below the average of high-income OECD economies.

Despite the expectation that lower-productivity countries will absorb known technologies from leader countries, and narrow the gap with them via faster productivity

growth, this has not happened in New Zealand. A sizeable productivity gap remains.

The Commission will identify policies that could deliver a sustained lift in productivity outcomes.



Lifting productivity can help New Zealand

Lifting productivity can help solve many of New Zealand's hardest problems. It can mean families have decent incomes without having to work long hours. It can help the country earn a living from the rest of the world while protecting our natural environment. It underpins the provision of state services to needy parts of the population in a tighter fiscal environment.

Call for submissions

We'd like your help to understand the New Zealand situation. Your perspectives will help us identify relevant policies for the Government to help lift productivity.

An issues paper is available on the Commission's website with the information we seek:

www.productivity.govt.nz/frontier-firms/issuespaper

Inquiry process

Following the issues paper, a report with the Commission's draft findings and recommendations will be released in November 2020.

Submissions on the draft report will be accepted until January 2021.

A final report will be presented to Government in March 2021 and made publicly available.

What drives firm productivity?



Source: Robotics Plus

Impact of the policy environment

Factors that can influence how well innovation, diffusion and reallocation happen include:

- competitive pressure;
- investments in R&D and intangible assets;
- workplace relations;
- access to finance;
- international connections;
- ease of firm entry and exit; and
- skills and ease of labour mobility.

Government policies and business decisions affect each of these factors. Policy settings can help to drive productivity growth, or impede firms from reaching their full potential.

New Zealand is highly unusual

New Zealand is a small, geographically isolated country with low population density.

This combination may mean that following policy approaches that have been effective overseas will not be enough.

Tailored policy settings will be required to overcome this country's specific challenges, and support effective innovation, diffusion and reallocation.

Global and domestic frontiers

Two productivity frontiers

The global frontier is made up of the most productive firms in the world. The domestic frontier is made up of New Zealand's highest-performing firms.

Evidence suggests that in many industries there is a significant gap between the two frontiers.

Firms drive growth in productivity

They do this in three main ways:

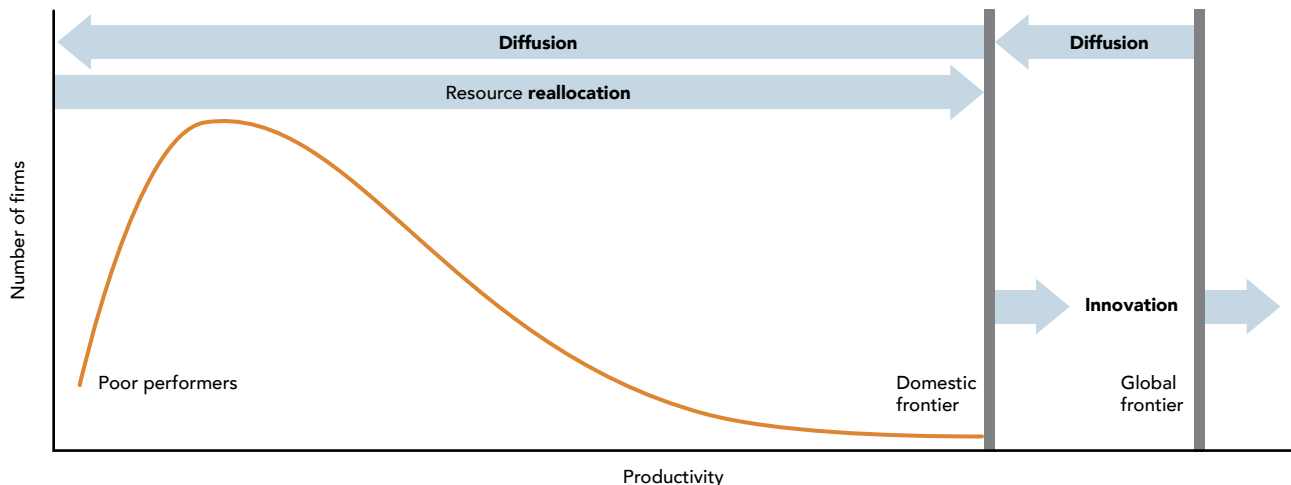
1. Innovation – when ideas and knowledge are turned into new products or ways of doing things. As firms at the global frontier innovate, they change what can be produced

and how activities are undertaken, pushing the frontier further out. Innovation flows from investments in R&D, and from combining ideas and capabilities in new ways. Evidence suggests that Kiwi firms do not innovate as effectively as they could, and that rates of public and private investment in R&D are among the lowest in the OECD.

2. Diffusion – when existing technologies, ideas and practices spread from the domestic and global frontiers to other firms in the economy. As technologies and practices diffuse throughout the economy, more firms reap the productivity benefits from the latest innovations. Less-productive

firms can become more productive and closer to the domestic frontier, and firms at the domestic frontier can close the gap with the global frontier.

3. Reallocation – when resources like capital and labour move away from the least productive firms to higher-productivity firms. Stronger firms grow, innovative new firms are created, and poorly performing firms leave the market – leading to improved overall productivity. In New Zealand, firms enter and exit the market at a normal rate, yet the least productive firms tend to survive for a long time, suggesting that reallocation is not happening as efficiently as it should be.



A focus on the Māori economy

Increasing the productivity of Māori enterprises presents an important opportunity for improving the economic and social outcomes of Māori. Te Ao Māori approaches to business may also offer valuable lessons for other Kiwi firms, for how they deliver on their business objectives and contribute to society in other ways.

The Māori economy has grown and diversified significantly over recent decades, and the Māori asset base is now valued at around \$50 billion.

Māori enterprises face unique opportunities and challenges to improving productivity. Collective ownership, governance structures,

access to capital, legislative requirements and the inalienability of many Māori assets may pose challenges not faced by other firms.

The Commission wants to learn how Māori business opportunities can be maximised, and constraints lifted, so the Māori economy can reach its full potential.



We'd like to hear from you

The Commission welcomes submissions on the following questions:

- Do you have views on how the Commission should define frontier firms?
 - Are there particular barriers to innovation, diffusion and reallocation that you think the Commission should focus on?
 - What do you think are the most important drivers of firm productivity?
 - Are there barriers and opportunities that are unique to Māori frontier firms?
- What are the main challenges for New Zealand firms that strive to be world-leading?
 - How can the government:
 - help to encourage the growth of new and emerging firms?
 - support diffusion of technology, ideas and practices between firms?
 - support the movement of resources from lower to higher-productivity firms?
- What action can/should the private sector take to support innovation, diffusion and reallocation in New Zealand?
 - What are three outcomes you would like from this inquiry?

For more information and further questions, an issues paper is available at:
www.productivity.govt.nz/frontier-firms/issuespaper

Make a submission

Key questions

The above questions are not intended to limit comment. We welcome information and comment on all questions in our issues paper or anything relevant to this inquiry.

How to submit?

Anyone can make a submission. It may be in written, electronic or audio format. A submission can range from a short note on a single issue to a more substantial document.

Why submit?

Your insights will help us evaluate relevant issues and possible ways forward to help lift productivity. We ask that submissions are provided by 1 September, if possible, to ensure that feedback can be incorporated.

Submit today – www.productivity.govt.nz/have-your-say/make-a-submission