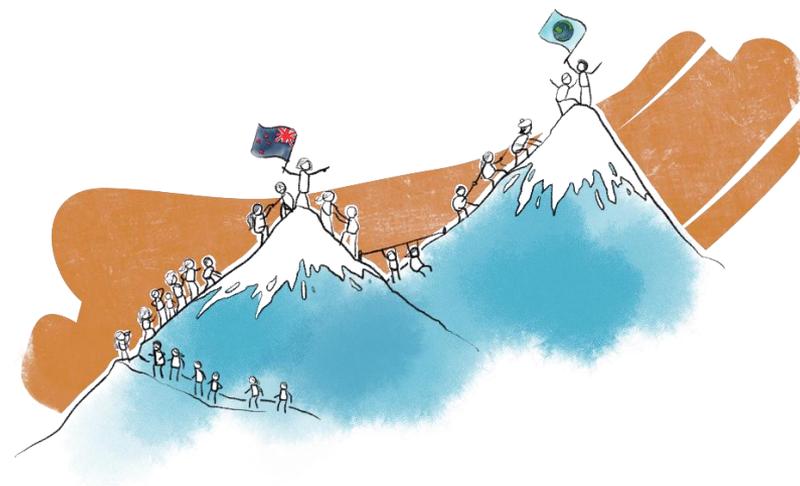


How can we help Kiwi firms reach the productivity frontier?

Webinar

Wednesday 22 July 2020, 12.00-1.00 pm



Patrick Nolan, Penny Mok, Geoff Lewis and
Jo Smith, New Zealand Productivity Commission

Outline of presentation

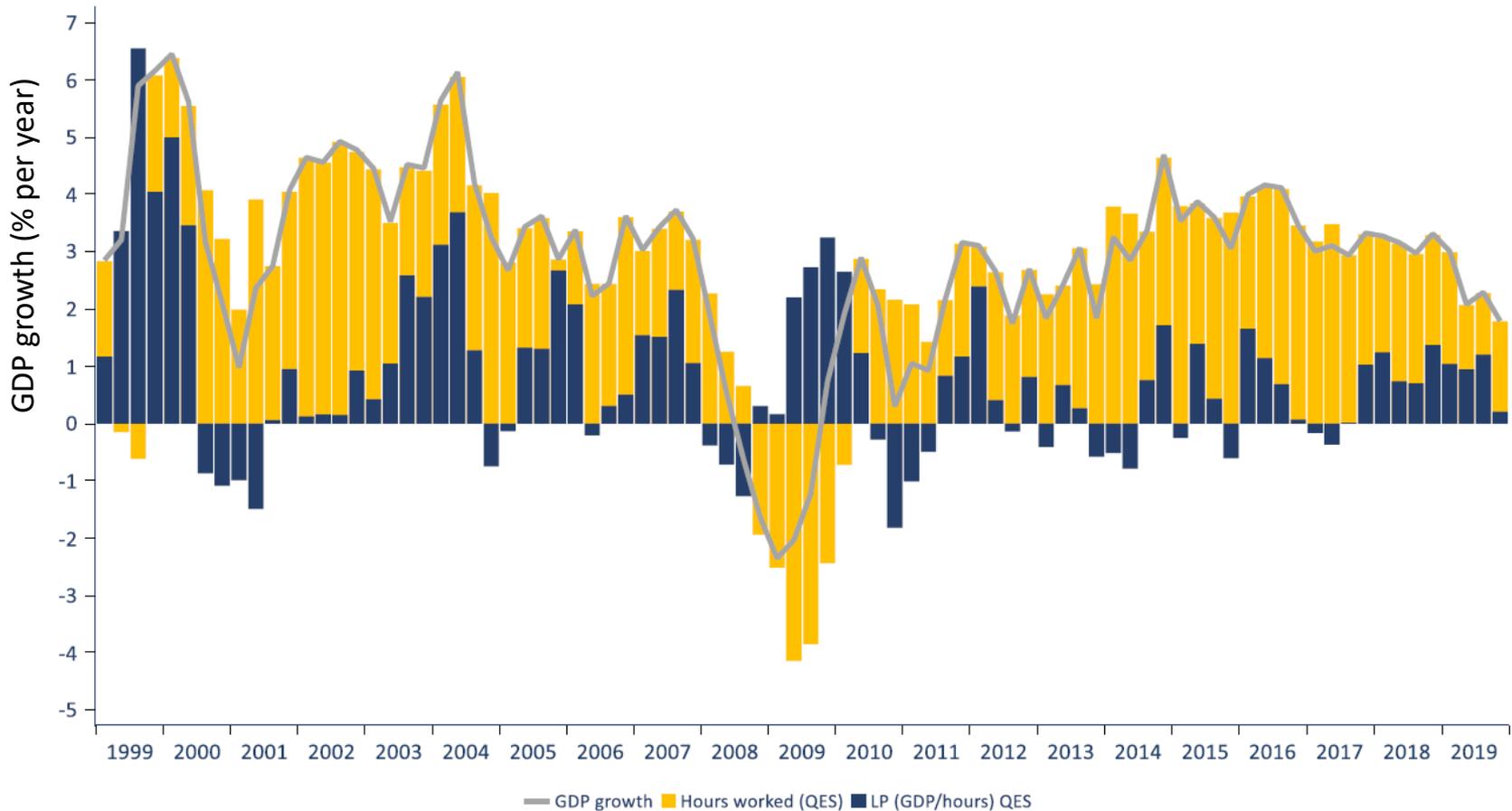
- Introduction to the Productivity Commission and frontier firms inquiry
- Outline of key research workstreams
- Next steps for the inquiry
- Q&A

NZ Productivity Commission

- Established in 2011 as an independent Crown Entity
- Purpose:
“to provide advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders, having regard to a wide variety of communities of interest and population groups in New Zealand society”
- Must act independently

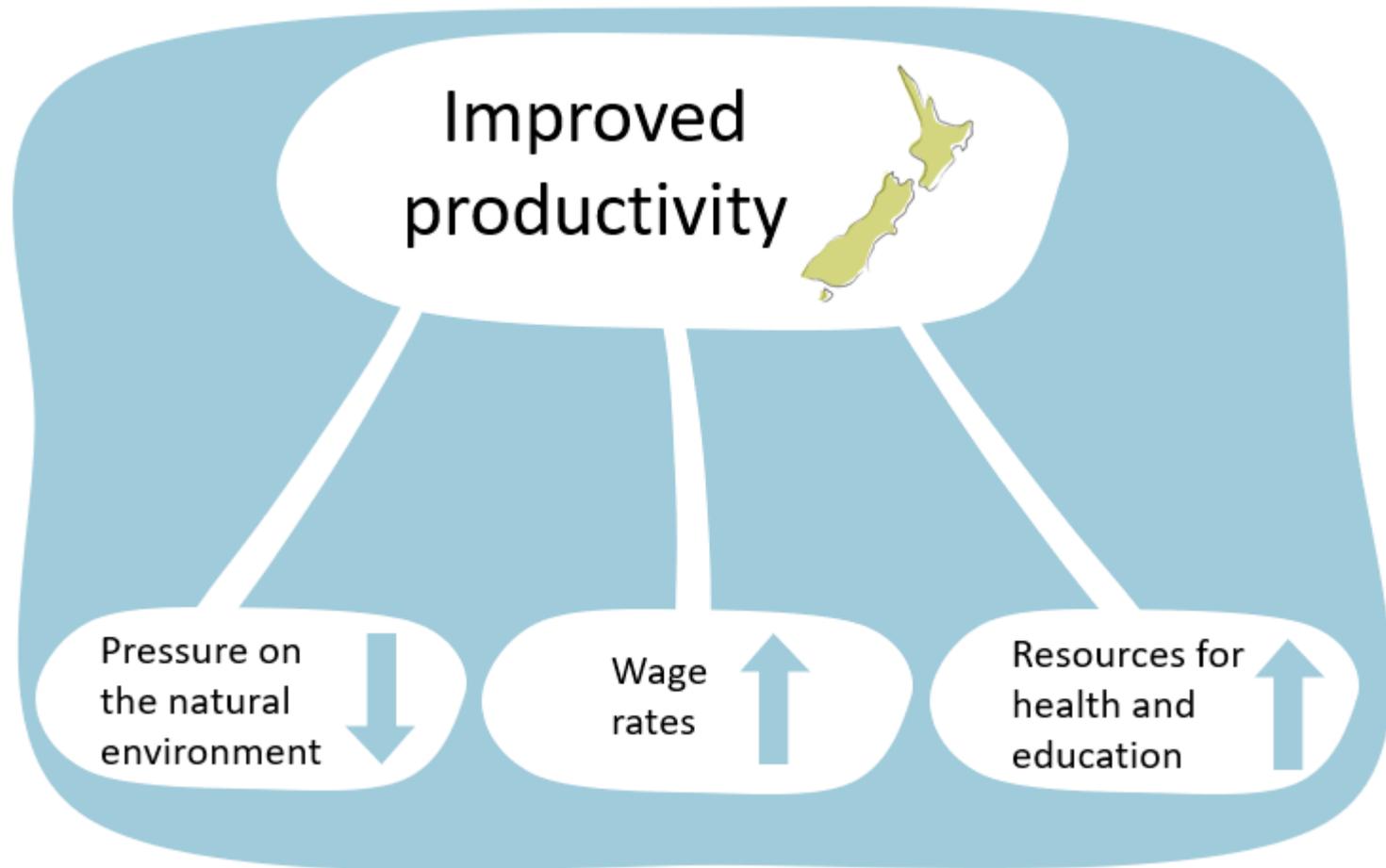


NZ's economic growth has been driven by working harder not smarter



Source: Skilling (2020). Frontier firms: an international small advanced economy perspective

Why productivity matters



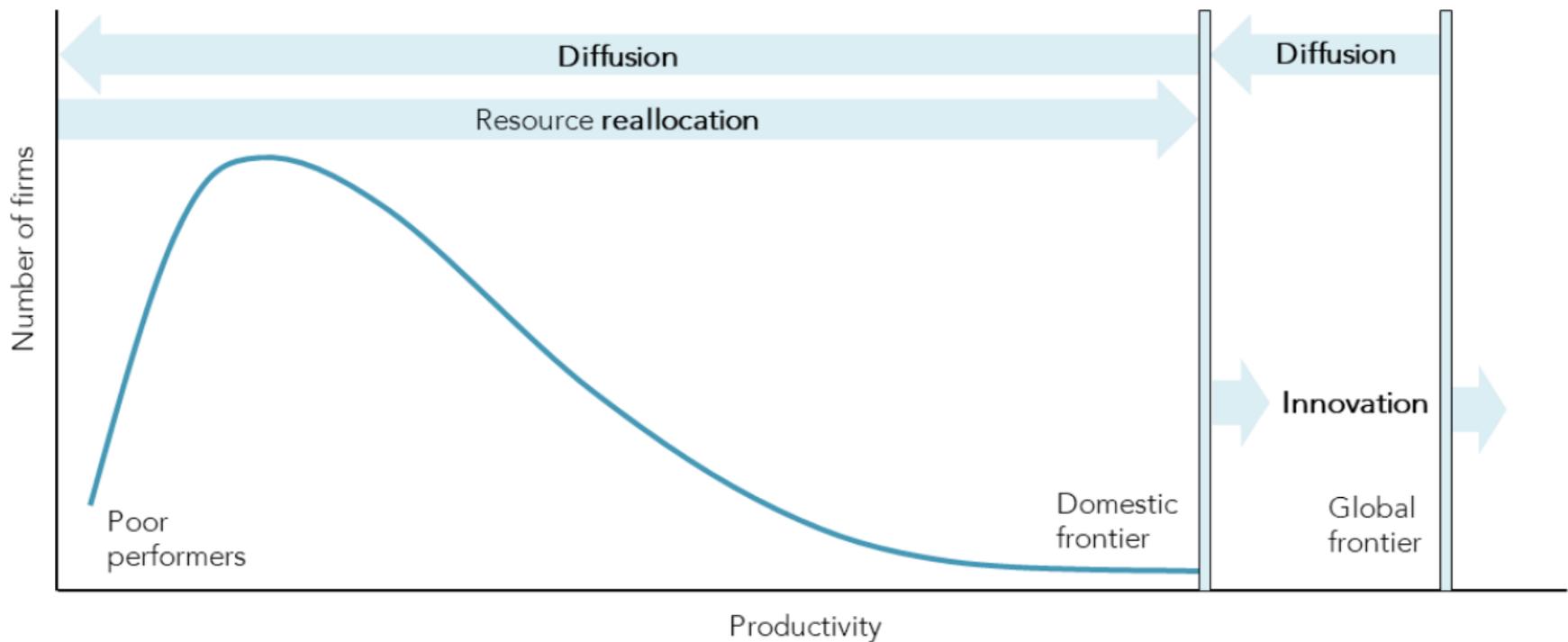
So why this inquiry?

- A lot of good work has been done but NZ's productivity remains stuck in first gear
- Looking at firm-level data provides fresh insights – eg, on average the NZ frontier *appears* to be underperforming relative to the global one



What is a frontier firm?

- The OECD approach...



What is a frontier firm?

- Other approaches...



NZTE's Focus 700



Start



Build



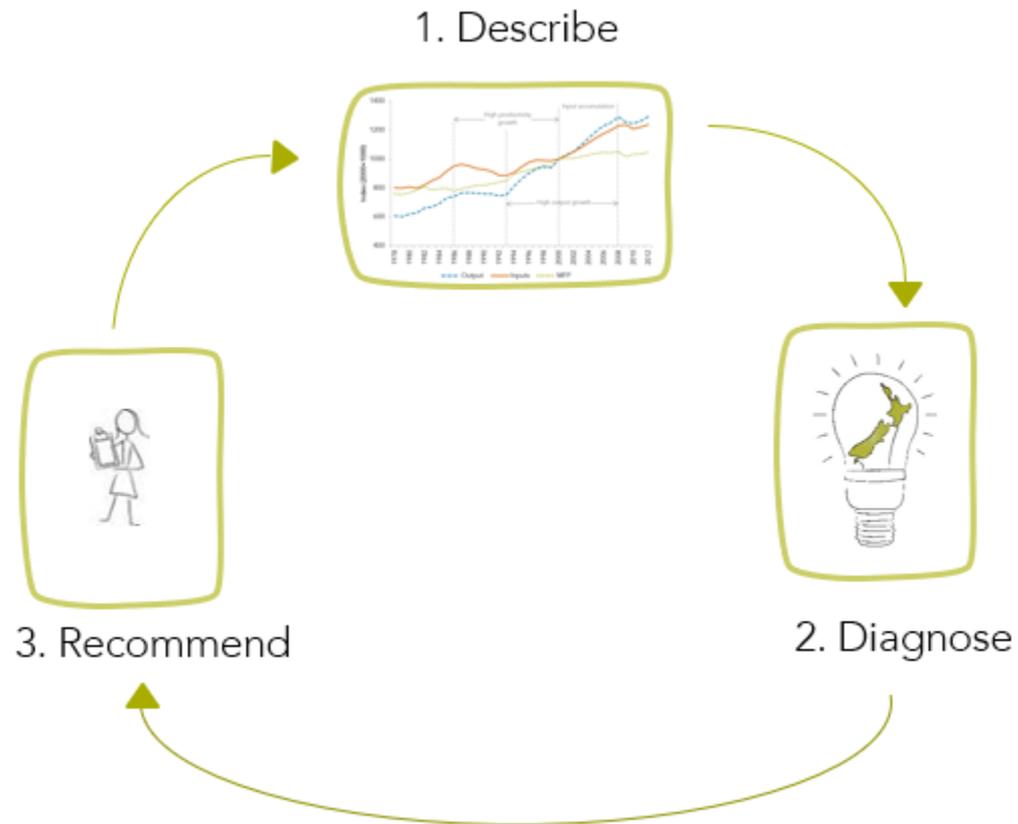
Focus

DELOITTE
TOP 200

Key questions

- **Innovation** eg, is the NZ frontier underperforming?
- **Diffusion** eg, has there been a breakdown in diffusion from the NZ frontier to lagging firms?
- **Reallocation** eg, is sluggish or poor reallocation detracting from productivity growth?
- What can be done (**policy levers**) to maximise the economic contribution of frontier firms?
- What are the features and economic contribution of **Māori frontier firms**?

Our approach



Our timeline



Key inquiry workstreams

- The following slides present highlights of *some* of the inquiry workstreams



Firm microdata research

Key questions

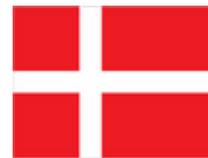
- What are the characteristics of frontier firms in NZ?
- How does NZ compare to other small advanced economies?
- Working with the National University of Singapore to benchmark NZ's frontier firms with selected small advanced economies



Australia



Belgium



Denmark



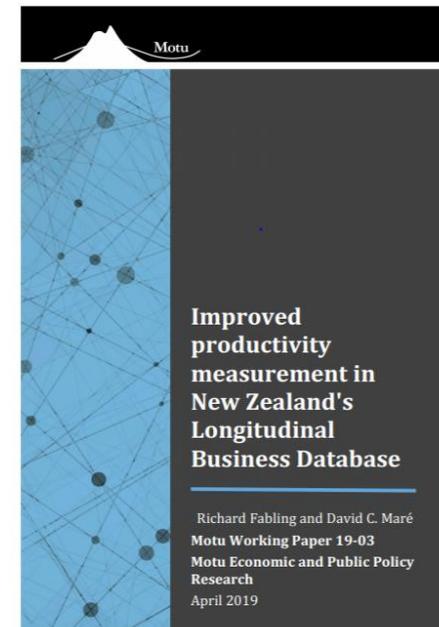
Finland



Sweden

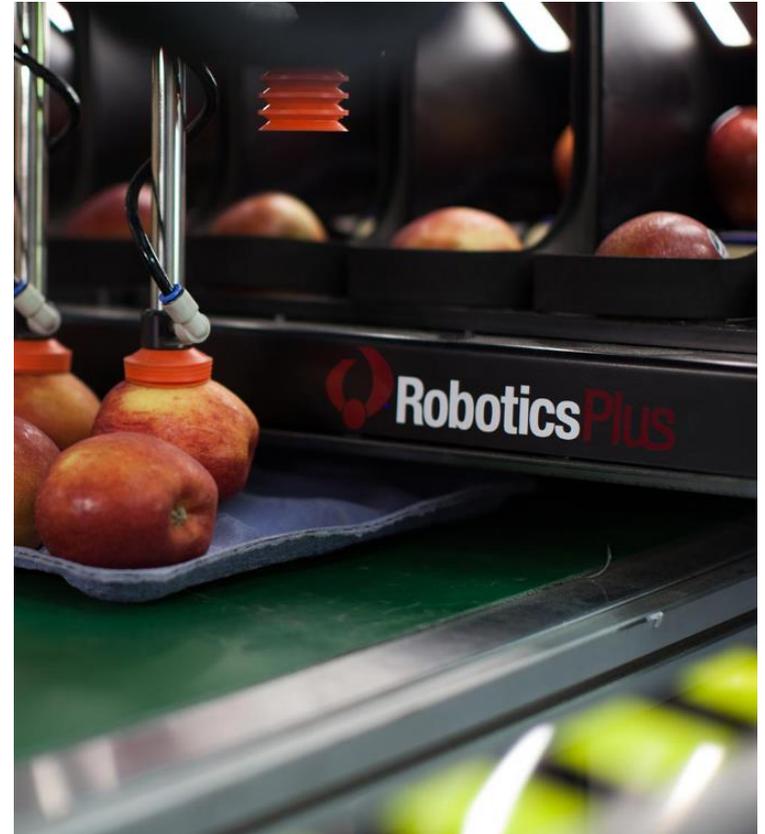
Firm microdata research

- Empirical research to look at frontier firms' attributes (ie, firm size, skills, innovation, management practices) and the relationship between firms' attributes and productivity growth



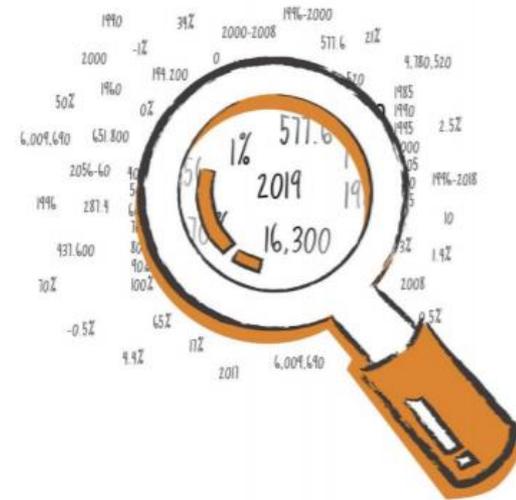
We have chosen 4 industry case studies...

- Selection based on size and performance (actual or potential) including export performance:
 - Dairy (both dairy farming and processing)
 - Horticulture (eg, kiwifruit, wine, berries, apples)
 - Health technology (eg, F & P Healthcare, Orion Health)
 - Computer system design and related services (eg, Xero, Datacom)



Our approach to the case studies

- We'll look in each industry at its:
 - innovation eco-system
 - international connectivity
 - demand and supply of skills
 - regulation and competition
 - ownership and organisational form
- We'll use our access to powerful micro-data on each industry's firms to look at productivity dynamics and other characteristics



Key questions in each case study

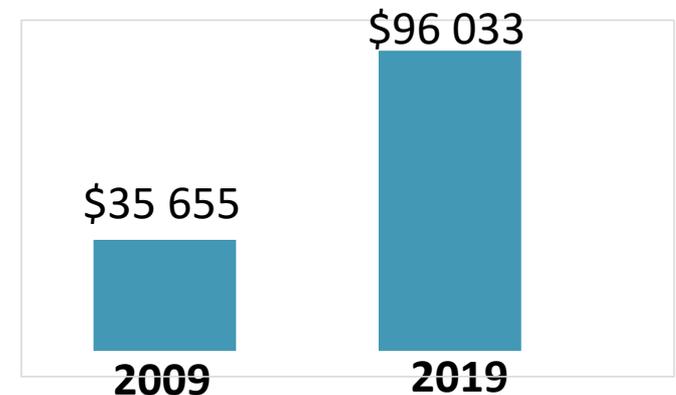
- How do firms create themselves, or learn, adopt and adapt from others, cutting-edge technologies and practices?
- Are there ways in which the innovation ecosystem could be improved to better support innovation and diffusion?
- What types of international connections best help knowledge diffuse from the global to the domestic frontier? What could be done to improve these kinds of connections?
- How do different organisational forms and ownership structures affect firms' incentives to innovate, grow and internationalise?

Kiwifruit: the green path to gold

- NZ first country to commercialise kiwifruit
- Largest kiwifruit exporter in the world
- Strong track record of innovation – new-to-the-world techniques and products such as Zespri® SunGold
- Sophisticated licensing to protect its IP
- Continued, strong growth in yields

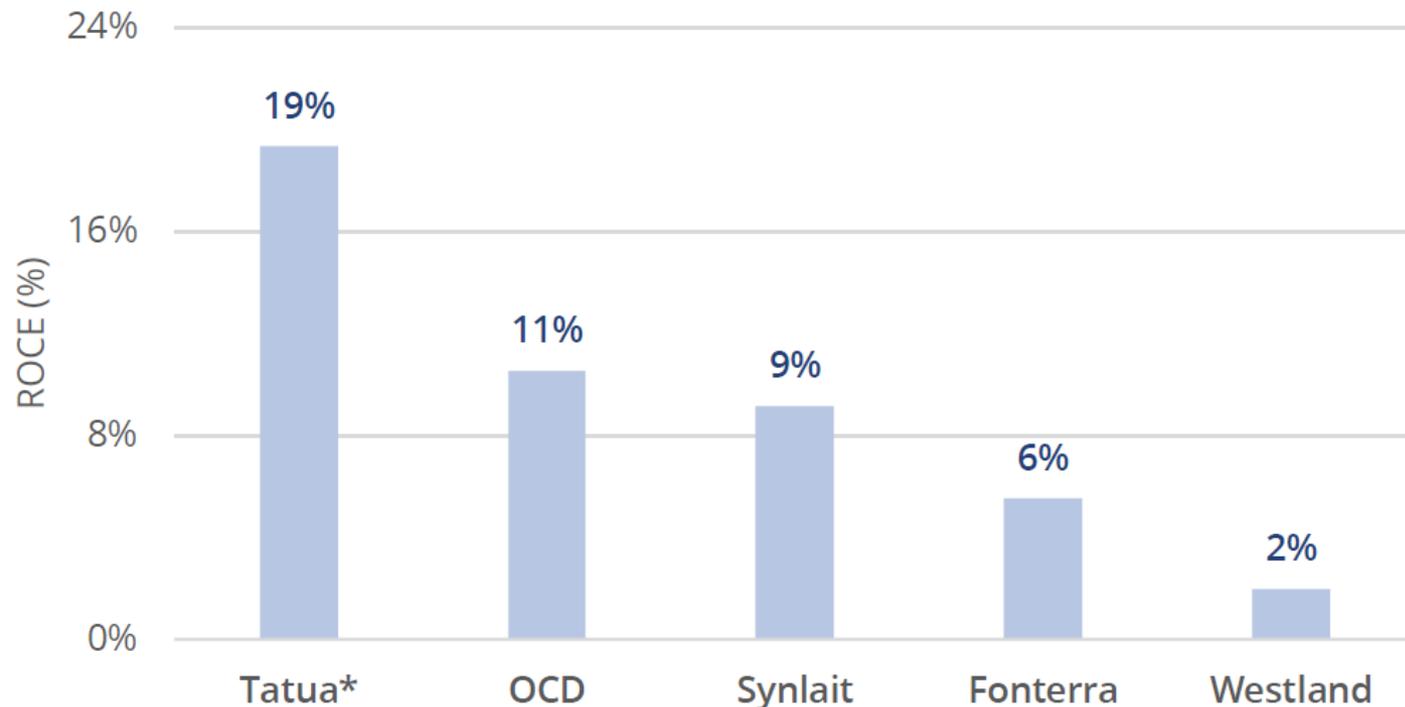


Average returns per hectare



Dairy: a tale with several strands...

Dairy companies' 5-year average annual return on capital employed, 2014-18



*Tatua's ROCE is calculated using earnings adjusted for milk price deviation from FGMP

Source: Company annual reports & TDB Advisory analysis

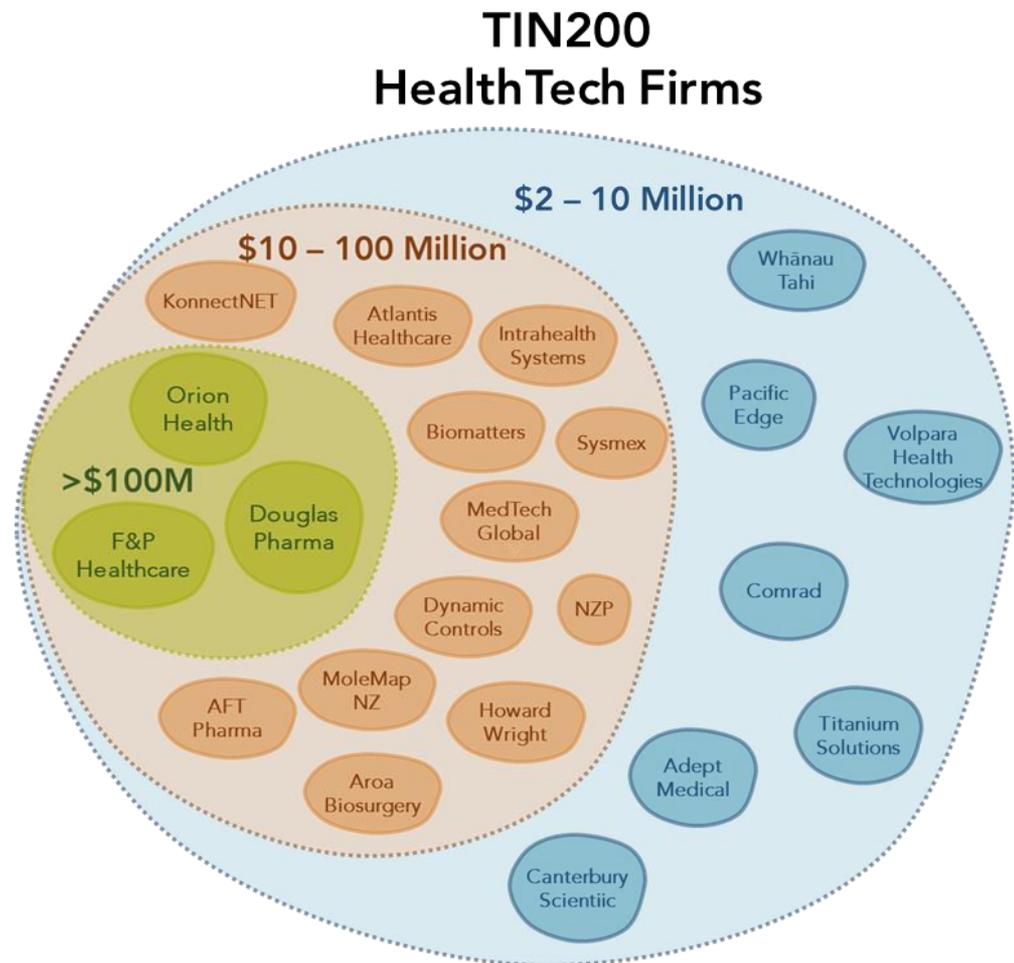


...while a2 Milk has gone into orbit



HealthTech: high growth, high value

- 22 firms in the TIN200 are in HealthTech, making it TIN's largest sub-sector
- These companies have grown their revenues by an average of 9.1% a year over the last 5 years



Firm governance

- Qualitative research into the role of corporate governance practices on entrepreneurship and innovation
- Using a dynamic capabilities framework (“sense; seize; transform”) to explore how firms make major strategic decisions, around growth, innovation, scale-up and internationalisation

Sensing

Identification of opportunities & threats at home and abroad

Seizing

Mobilization of resources to deliver value and shape markets

Transforming

Continuous renewal and periodic major strategic shifts

Firm governance – some key findings

- Boards can help support strategic risk-taking
- A board's role evolves with a firm's life stages
- Directors can play a key role in accessing capital and forging international connections
- Long-term investment horizon important for supporting innovation



Māori firms at the frontier

- Questions include:
 - How should the inquiry think about and define a Māori frontier firm?
 - What resources/opportunities and constraints/barriers are unique or greater for Māori frontier firms, compared to non-Māori firms?
 - What would help mitigate barriers or enable Māori firms to better maximise their potential?



Māori firms at the frontier

- Prof. Jarrod Haar (AUT) is investigating the role of a firm's internal assets on strategy and entrepreneurship; and their influence on firm performance in the context of competitive forces
- Using a database of 146 Māori enterprises, including 106 private sector firms
- Internal assets include: HR practices, human capital, relational capital, organisational/management capital and cultural capital
- Will analyse how Māori businesses perform and explanatory factors behind this performance – providing insights into what a “Māori frontier firm” looks like



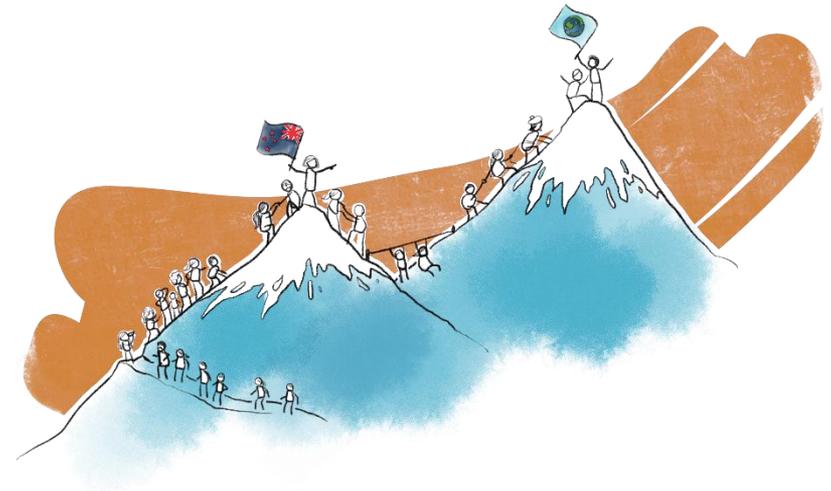
Next steps

Time	Deliver
July and August	Research projects and external engagement
1 September	Submissions on issues paper due
September to November	Write draft report
November	Publish draft report with draft findings and recommendations and call for submissions
31 January	Submissions on draft report due
March 2021	Deliver final report to Ministers

How can we and you help this inquiry add most value?

- What are the main challenges for New Zealand firms that strive to be world-leading?
- What do you think are the most important drivers of firm productivity?
- Are there barriers and opportunities that are unique to Māori frontier firms?
- How can the government help and what action can/should the private sector take?
- What are the key outcomes you would like from this inquiry?
- Are there important questions we have missed?

Thank you for attending.



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