



MBIE SUBMISSION TO THE PRODUCTIVITY COMMISSION - NEW ZEALAND FIRMS: REACHING FOR THE FRONTIER

July 2020

Thank you for the opportunity to provide a submission on the New Zealand Productivity Commission's April 2020 issues paper *New Zealand firms: reaching for the frontier*, and for the well-received webinar that you presented to MBIE earlier this month. We welcome the Productivity Commission's robust and independent perspective on New Zealand's most productive firms and how they contribute to our economy.

The terms of reference for the Productivity Commission's Inquiry into *Maximising the Economic Contribution of New Zealand's Frontier Firms* outlines the inquiry's purpose as: to identify interventions that could maximise the performance and contribution to the economy by frontier firms and identify practical policy levers for government to use.

MBIE has a diverse range of policy and service delivery responsibilities, with a significant influence on the economic success of New Zealand, its businesses, and the broader economic, social and environmental wellbeing of New Zealanders. Our purpose is 'Growing New Zealand for all'.

New Zealand's productivity challenges are well-known and we welcome different perspectives on how we can address these. MBIE wants this inquiry to provide rich insights and practicable policy options for government.

The issues paper

The issues paper canvasses relevant issues for frontier firms and forms a strong basis for this inquiry.

We suggest, in addition, that the inquiry stretch beyond the OECD's framework and provide a richer analysis of the socio-cultural systems that influence firm performance – moving beyond what firms do to why they do them. For instance, the inquiry could provide detail on factors such as:

- The influence of firm culture on performance, including its history, location and sectoral mix
- The diffusion of technology and business practices and firms' ability to adopt these practices
- Firms' strategies for talent attraction and retention and their attitude towards staff learning and specific skill development
- Firms' international connectedness, including the capability and willingness to pursue export opportunities.

We suggest the inquiry consider how New Zealand builds on its ambition for a productive, sustainable, inclusive and resilient economy as described in the Government's Economic Plan. This is particularly important as we face unknown territory due to Covid-19.



Such analysis would offer insights for policy makers as to how regulations could be adapted and behaviours incentivised to raise firm performance and encourage diffusion. Without in depth examination of these factors the inquiry may not provide enough direction beyond previous diagnosis and policy prescriptions. MBIE wants to ensure that New Zealand firms grow, thrive, and push the productivity frontier while also being sustainable and inclusive. For this we need clear direction about where the gaps are, what government can practically do, and detail on some bold options to achieve our goals.

Some specific pointers for focus

Definition and identification of 'frontier firms'

What is the "frontier"? Frontier infers the "extreme limit of understanding or achievement in a particular area". This could be misconstrued as only those firms at the cutting edge of research, science and technology rather than a broader set of firms that are at the "productivity frontier".

Is there one frontier or many?

While there are firms at the science and innovation frontier, there are also highly productive firms at different frontiers. For example, what are the attributes of firms that lead in international engagement and exporting practices, digitalisation, tech companies (like the TIN100), management practices, management development, development practices (e.g. tech gaming development) network and supply chain development? What about firms that lead in sustainable, social or environmental practices? How do Maori and other perspectives on performance relate to the productivity frontier?

Will the inquiry be able to provide, or recommend ways to understanding and measure frontiers and the characteristics that lead to those frontiers?

Domestic and global frontiers

There is little analysis of the role of New Zealand firms at the global frontier. The issues paper has identified that New Zealand's leading firms are not pulling away from other firms as is the case in many other countries. This seems to imply that diffusion and innovation between the national and global frontier may not be working well. Will the inquiry explore the notion that internationally oriented clusters represent opportunity for New Zealand to grow more frontier firms, and that deep clusters can support productivity growth in firms?

It would be useful for the inquiry to provide some new insights on these issues and others related to New Zealand's connection to the global frontier.

Skills and the labour market for frontier firms

What do skills for innovation in frontier firms look like? Can policies be implemented to raise managerial capability to encourage entrepreneurship and innovation skills? How? What are some international examples of excellent management capability? Are inclusive management practices important for frontier firms?

How might labour mobility be encouraged to reduce barriers to entrepreneurship and fast failures? Will the inquiry explore skills matching within frontier firms?



Predicting or improving the likelihood of success

Are there particular aspects of a firms' performance that are predictive of progressing towards the productivity frontier? Conversely, are there particular aspects of firms at the frontier that show that their performance is degrading or declining? Can these aspects be addressed through policy settings?

Productivity and sustainability

Are all traits of frontier firms desirable? The Economic Plan states an ambition for New Zealand to have a "productive, sustainable and inclusive economy." Do firms at the productivity frontier deliver on "sustainable and inclusive" goals, or do some of our most productive firms have a higher environmental cost?

Next steps

I look forward to the Productivity Commission's inquiry identifying direction on policy options for MBIE to consider to incentivise firm growth, diffusion, and to drive a productive, sustainable, inclusive and resilient economy, and our continued engagement with you on this.