

Dr Patrick Nolan
Director
Productivity Commission

By email

8 September 2020

Tēnā Koe Patrick

Re: Auckland Tourism, Events and Economic Development's submission on the Productivity Commission's issues paper: New Zealand firms: reaching for the frontier

Auckland Tourism, Events and Economic Development (ATEED) welcomes the opportunity to make a submission on the commission's issues paper: New Zealand firms: reaching for the frontier.

ATEED is in overall support of the issues paper and its inquiry focusing on a central aspect of New Zealand's productivity performance and the economic contribution of its most productive firms.

We have a strong interest in the performance and economic contribution of New Zealand's most productive firms as Auckland contributes a significant share of gross domestic product towards the New Zealand economy and it is important nationally as it is home to many of the businesses (including Māori businesses) with the potential to develop into frontier firms.

We have consulted and gained feedback on the submission across ATEED and Auckland Council, and welcome any further opportunities to provide additional feedback as part of the commission's inquiry.

If you have any queries concerning our submission, please feel free to contact Phillip Shaw, Senior Strategy and Economic Advisor, by email: phillip.shaw@aucklandnz.com [REDACTED] or Quanita Khan, Manager Strategy and Planning by email: quanita.khan@aucklandnz.com who have compiled and authored this submission.

Nāku iti noa, nā

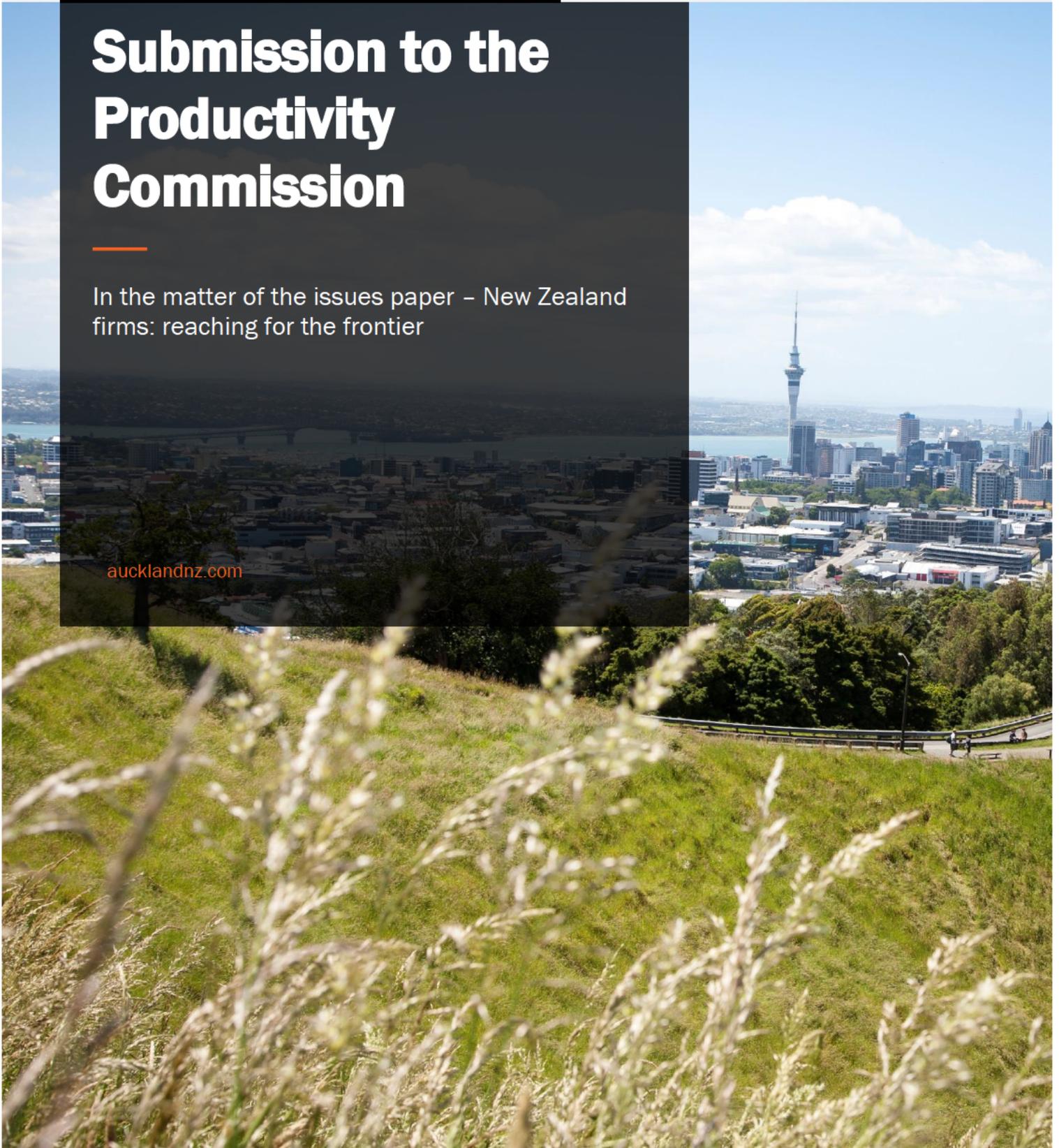
Noah Maffitt
General Manager – Strategy
Auckland Tourism, Events and Economic
Development
M +64 21538037
Noah.maffitt@aucklandnz.com

SEPTEMBER 2020

Submission to the Productivity Commission

In the matter of the issues paper – New Zealand
firms: reaching for the frontier

aucklandnz.com



Mihimihi

Ka mihi ake ai ki ngā maunga here kōrero,
ki ngā pari whakarongo tai,
ki ngā awa tuku kiri o ōna manawhenua,
ōna mana ā-iwi taketake mai, tauivi atu.
Tāmaki – makau a te rau, murau a te tini,
wenerau a te mano.
Kāhore tō rite i te ao.

*I greet the mountains, repository of all that
has been said of this place,
there I greet the cliffs that have heard the
ebb and flow of the tides of time,
and the rivers that cleansed the forebears of
all who came those born of this land
and the newcomers among us all.
Auckland – beloved of hundreds, famed
among the multitude, envy of thousands.
You are unique in the world.*

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Ko te tāpaetanga o ATEED

Auckland Tourism, Events and Economic Development Submission September 2020

Taitara

Title

Submission on the issues paper: New Zealand firms, reaching for the frontier

This submission is to the Productivity Commission.

Whakarāpopototanga matua

Executive Summary

1. This submission is from Auckland Tourism, Events and Economic Development (ATEED)¹ an Auckland Council Controlled Organisation under the Local Government Act 2002.
2. ATEED is in overall support of the Productivity Commission's issues paper: *New Zealand firms, reaching for the frontier*, and its inquiry focusing on a central aspect of New Zealand's productivity performance and the economic contribution of its most productive firms.
3. We have a strong interest in the performance and economic contribution of New Zealand's most productive firms as Auckland contributes a significant share of gross domestic product towards the New Zealand economy and it is important nationally as it is home to many of the businesses (including Māori businesses) with the potential to develop into frontier firms.
4. The mechanisms the commission is looking into that may potentially lift productivity, tie-in well with ATEED's vision for Auckland's economic development, set out in the Auckland Plan 2050 and its strategy (included in its Statement of Intent) noting that productivity of firms and workers is the key driver of prosperity and increased living standards across Auckland (and New Zealand).
5. This appears to be commensurate with the long-term objectives of Government in achieving wellbeing – financial, human, natural and social capital² – for New Zealanders with its implemented social procurement rules being one instrument to help such outcomes to be reached.
6. We recommend the inquiry notes the further work that might be undertaken to understand New Zealand's uniqueness in terms of its productivity capabilities and our policy suggestions outlined in this paper that may help New Zealand firms push towards reaching for the productivity frontier.

¹ ATEED is also known as the Auckland Economic Development Agency.

² MBIE, 2019.

7. In light of the pandemic, recovery of Auckland's economy may take longer and require greater transformation in accommodation and food services, retail and related wholesale sectors and activities linked to international tourism, and the international education sector as well as the creation of productive, inclusive and green jobs across the region.
8. We welcome any further opportunities to provide additional feedback as part of the commission's inquiry into New Zealand's productivity performance and the economic contribution of its most productive firms.

Whakataki

Introduction

9. ATEED is an Auckland Council Controlled Organisation under the Local Government Act 2002.

Tūnga whānui

Overall Position

10. ATEED supports the commission's approach in discovering how New Zealand's firms might be able to increase overall productivity to reach for the productivity frontier.
11. We have a strong interest in the inquiry because Auckland:³
 - i. Is the most populous region in New Zealand. Over the last 10 years, its population has grown by approximately 2 per cent per year. Resident population in Auckland is approximately 1.7m and its working age population is approximately 1.35m.
 - ii. Comprises 38 per cent of New Zealand's total GDP, with an annual GDP of \$107,754m and a compound annual growth rate of 7 per cent per year (compared to the national growth rate of 6 per cent per year) over the past ten years.
 - iii. Is home to nearly a quarter of New Zealand's Māori population, 65 per cent of New Zealand's Pasifika population, and 60 per cent of New Zealand's Asian population. Māori in Tāmaki Makaurau comprise 19 Post Settlement Governance Entities (\$9b), and large populations of Taurahere and Mātāwaka.
 - iv. Accounts for 55 per cent of the national Māori asset base, 27 per cent of the Māori economy and Māori contribute \$4b to the city's GDP. Estimated overall size of the economy in New Zealand is \$50b, with 30 per cent of this held by Māori groups, such as land trusts and incorporations.
 - v. Is headquarters for two thirds of New Zealand's top 200 companies and has a critical mass of public and private research institutes. The region also comprises a hierarchy of urban centres and industrial hubs, each playing different roles in the Auckland economy.

³ Paragraphs 10-12 are all based on: Ministry of Business, Innovation and Employment. Auckland Regional profile. Auckland Interim Regional Skills Leadership Group Presentation, 2020.

12. Auckland is New Zealand's only tier two global city. Its scale enables deep labour markets, economic diversity and specialisation. It has the greatest concentration of advanced, knowledge intensive firms nationally.⁴ Such firms provide business services to industries across New Zealand, including to agriculture.
13. The areas the commission is looking into, potentially yielding improvement in productivity across New Zealand's economy tie-in well with ATEED's economic strategy for Auckland and the Auckland Plan 2050; a 30-year spatial plan Auckland Council is required to prepare and adopt for the region. The plan has six outcome areas and a development strategy. ATEED considers this inquiry to be particularly relevant to the following desired outcomes:
 - i. **Belonging and Participation:** All Aucklanders will be part of and contribute to society, access opportunities, and have the chance to develop to their full potential.
 - ii. **Opportunity and Prosperity:** Auckland is prosperous with many opportunities and delivers a better standard of living for everyone.
 - iii. **Māori Identity and Wellbeing:** A thriving Māori identity is Auckland's point of difference in the world – it advances prosperity for Māori and benefits all Aucklanders.
 - iv. **Environment and Cultural Heritage:** Aucklanders preserve, protect and care for the natural environment as our shared cultural heritage, for its intrinsic value and for the benefit of present and future generations.
14. ATEED's economic strategy speaks to its commitment of gaining quality jobs for Aucklanders with a focus on increasing productivity and wellbeing across the economy. To this end:
 - i. Auckland must have workers who have the right skills to fill the quality jobs.
 - ii. Auckland needs more investment in quality jobs (people with future-ready skills), either attracted from offshore or grown from within the region.
 - iii. These jobs need to be accessible to those who need them – both because they are aware of them, and/or because they can reach them.
 - iv. Auckland's economy needs to be resilient and sustainable over the long term in the face of technological disruption, environmental constraints and cultural diversity.

Tūtohunga Recommendations

15. ATEED recommends that the commission's inquiry notes that:
 - i. More research on "diffusion" should be undertaken particularly in the Auckland context. Charting of the Auckland route by which diffusion occurs through empirical research including understanding business culture and what incentivises or disincentivises such

⁴ Knowledge intensive industries for the city are in: professional services sector (136,587 employees), digital technology (51.7 per cent of national and 3 per cent of regional employment), creative industries (31,082 employees), food and beverage manufacturing (internationally significant cluster) and advanced manufacturing (4550 employees).

practices would be valuable. This could later go towards informing a firmed-up policy framework supporting/encouraging faster adoption of new technologies and a way to address barriers to change.

- ii. Enhancing productivity for Auckland (and the country) by working closely with central government and supporting the proposals made by the commission will help maximise the potential to improve overall wellbeing of the economy, leading to greater impact and transformational change.
- iii. Better alignment of the tertiary education system (universities and polytechnics) in terms of an enhanced response to the demands of industry skill requirements – for example, meeting employer expectations that prospective employees are “tech savvy”. This is important, because there is a business ecosystem that enables the workforce to keep learning and the tertiary system needs to be abreast of this, otherwise individuals may seek education opportunities offshore to better meet their future needs.⁵
- iv. A better understanding of how the adoption of digital capabilities by businesses in Auckland contribute towards the region’s GDP and the barriers to uptake such capabilities would be valuable.
- v. In terms of the complexity of New Zealand’s economy it is ranked 54th out of 133 jurisdictions within the OECD with an economic complexity rating of 0.13.⁶ We consider the potential for further work to be undertaken to understand whether New Zealand is where it should be in relation to its productive capabilities including ubiquity of its products and diversity of its exports.
- vi. Research into an informative framework on how a business in a particular industry can be set up including what the competitive environment is like and what risks to look for so a decision on the viability of starting up an enterprise can be made.

Horopaki Context

16. The top three industries (by number of self-employed workers) in Auckland are Residential Building Construction (10,500 self-employed), Management and Related Consulting Services (7,300 self-employed), and Architectural, Engineering and Technical Services (6,300 self-employed).⁷
17. Auckland accounted for \$11.8b in exports in 2019, which is 18 per cent of New Zealand’s exports.⁸ About a third of Auckland’s jobs are linked to trade (Sense Partners. Memorandum: Insights from work on trade connections. July 2020), and, in contrast to the rest of New

⁵ The Government is taking steps to create a strong, unified, sustainable system for all vocational education that is fit for the future of work and delivers the skills that learners, employers and communities need to thrive (the Reform of Vocational Education (RoVE)).

⁶ Harvard University. The Atlas of Economic Complexity.

⁷ MBIE, 2020.

⁸ Statistics New Zealand. Imports and Exports: Exports for Overseas Cargo (fob NZ\$); New Zealand Port by Country of Destination, Commodity (HS2) and Period table; http://nzdotstat.stats.govt.nz/wbos/Index.aspx?_ga=2.89210845.757017901.1597615212-366998550.1581993688#.

Zealand, the majority of these are more exposed to imports.

18. The average hourly wage in New Zealand earned by Māori employees was 82 per cent of the average hourly Pākehā wage in 2017, while the average wage earned by Pacific employees was 77 per cent of the average Pākehā wage.⁹
19. Tourism makes up a significant part of the Auckland economy with expenditure totalling \$7,870m for the year ending April 2020, accounting for 29 per cent of national tourism expenditure. Over the past five years, tourism expenditure in the region has grown by an average of 4 per cent, compared to the national growth rate of 4 per cent.¹⁰
20. There are more than 201,000 businesses in Auckland, representing 35 per cent of all businesses in New Zealand.¹¹ Of these, a relatively small percentage of firms would satisfy the commission's definition of what constitutes a frontier firm.
21. Firms do tend to benefit from agglomeration in Auckland, such as the attraction of skilled workers to large cities and the concentration of more productive industries in the city. Firms in Auckland have labour productivity that is 17.9 per cent higher than firms in other cities, on average.¹² Part of this is driven by firms in high productivity industries tending to locate in the region.
22. Firms also enjoy a productivity premium of 13.5 per cent over other urban areas. Much of this remaining premium is explained by Auckland firms being more capital intensive and having access to more highly skilled labour. Even after controlling for these factors, Auckland firms still enjoy a 2.2 per cent productivity premium.¹³
23. Nevertheless, this premium is small compared to comparative cities internationally with GDP per capita at \$69,974 (2019) and the region's productivity has not improved with its strong population growth, with recent job growth being in lower paid services sectors. Leveraging Auckland's inherent scale and agglomeration to increase productivity remains an ongoing challenge.¹⁴
24. But the region performs an important role in attracting foreign direct investment and highly skilled migrants. Due to its scale, international airport, ports and its high percentage of foreign-born residents; Auckland is New Zealand's gateway and hub for international travel and trade.¹⁵
25. Like the rest of New Zealand, Auckland has not escaped the impacts of the Novel Corona Virus fallout. The city may experience a 10.1 per cent employment loss over the next 12 months, the fourth highest regional share following Otago, West Coast and Canterbury. This

⁹ Treasury, 2018.

¹⁰ Supra, note 7.

¹¹ Statistics New Zealand. Business demography statistics: geographical units by industry and statistical area; http://nzdotstat.stats.govt.nz/wbos/Index.aspx?_ga=2.89210845.757017901.1597615212-366998550.1581993688#.

¹² Motu, 2016.

¹³ Ibid.

¹⁴ Supra, note 7.

¹⁵ Ibid.

could be in the magnitude of 91,000 jobs.¹⁶

26. One group hit particularly hard will be Māori and Pasifika youth. Concerning unemployment of these individuals we expect this to be disproportionate compared to other groups.¹⁷ In terms of falling GDP for the city, in the first quarter of this year it was \$114,730m which fell to \$110,921m in the second quarter.¹⁸
27. Now is the time for Auckland to focus on its productivity, innovation (including the adoption of digital technology to enhance business performance) and exporting high-value-add products from the region on behalf of New Zealand, including adapting towards a green economy, lifting prosperity for Māori¹⁹/Pasifika and concentrating on new growth sectors.²⁰
28. Our desire is that while strengthening resilience of existing sectors of advantage such as manufacturing and construction for economic recovery purposes, this will go towards providing a basis for firms to perhaps reach for the frontier in the longer-term.

Te tātari me te tohutohu

Analysis and advice

ATEED supports the inquiry and its overall intent

29. The OECD productivity framework enabling firms to converge on the productivity frontier is useful, however as a better fit for New Zealand enterprise it would be more meaningful if it included flexibility to reflect a geographic area's (containing different industries) unique features. For instance, expecting seamless entry and exit of firms across industries may not be realistic.
30. Labour mobility becomes complicated when employees wish to reallocate to a different industry altogether, or when more productive firms within an industry are reluctant to hire workers wanting to transfer from failing firms.
31. This inquiry also presents an opportunity to reconsider the traditional approach to measuring productivity. This is important because, as a more developed economy and a more mature society, New Zealanders' preferences are changing and they have also become more interested in knowing more about how the goods they consume are produced and how the services they use are provided.
32. Changing demands and preferences for the same products and services would likely require a change in production methods which may not be as efficient as existing practices. We invite the Productivity Commission to consider a definition of productivity that recognises long-term wellbeing of New Zealanders and the country's unique characteristics that may also better reflect the principles of *Te Ao Māori*.

¹⁶ Ibid.

¹⁷ As part of the Government's 2020 Budget, \$1.6b will be spent on trades and apprenticeship training.

¹⁸ Infometrics, provisional regional GDP Auckland – June 2020:

<https://ecoprofile.infometrics.co.nz/Auckland/QuarterlyEconomicMonitor/Gdp>

¹⁹ In Budget 2020, Māori funding includes \$400m on Māori education, a \$137m boost to Whānau Ora, and \$200m on a Māori Employment Package targeted at the regions.

²⁰ Supra, note 7.

About the inquiry and frontier firms and economic success

33. Small economies can offset productivity disadvantages due to small geographically separated markets with strong performance in international sectors of its larger firms. Often these internationally facing sectors are knowledge intensive, innovative, and strong performance by small economies (like Auckland's) has rested on sustained investment in these areas – without these larger firms, aggregate productivity performance would usually be constrained.²¹
34. There is an assumption within an economy that relatively productive firms can enter the market, and less productive firms will probably not survive and this is a key mechanism by which productivity in an industry can be maintained or increased.
35. Such a mechanism should obviously allow for reallocation of resources from less productive to more productive sectors. Firm turnover in New Zealand is not unusual when compared with other economies. Around 60 per cent of turnover comes from the entry of new firms.²²
36. There is a scale dimension to frontier firms too, particularly in smaller advanced economies. Without international growth opportunities to get scale, there would be fewer frontier firms.²³ In reality, a mixture of firms (small, medium and large) in an economy is required, creating a competitive environment spurring on productivity.
37. Firms that export tend to have higher productivity than those that have exported in the past but are not currently, who in turn have higher productivity than those that have never exported. This implies that exporters perform better than non-exporters, although most of that difference likely existed before the particular firm started exporting. Therefore, the gap is more about self-selection than learning-by-exporting.²⁴
38. Firms do benefit from agglomeration as they can leverage off each other gaining skills knowledge in clusters in areas of competitive strength.²⁵ To this end, skilled workers are important to firm performance and some studies even suggest that returns to the firm from training could be greater than the returns to the individual trainee.²⁶
39. This makes sense, as firms invest in training to gain a return in the same way as an individual invests in their education. Therefore, industry training appears to have a positive impact on productivity.²⁷ Further, an economy that supports growth means that there are reasons for firms and skilled people to remain even if they are situated in high-cost locales.²⁸
40. Although, a high level of reliance on a limited number of clusters can introduce risk into the economy. For example, a significant macroeconomic shock [like the Novel Corona Virus] that may lead to substantial unemployment. Although, too much diversification across clusters in

²¹ Skilling, D, 2020.

²² Productivity Hub, 2018.

²³ Supra, note 21.

²⁴ MBIE, 2018.

²⁵ Supra, note 21.

²⁶ NZIER, 2004.

²⁷ Ibid.

²⁸ Supra, note 21.

the economy, [could] give rise to the possibility that some firms will not converge on the productivity frontier. This is because enough external scale economies have not reached critical mass.²⁹

41. The ability to exploit internal and especially external knowledge through a process of capturing, acquiring, sharing, assimilating and transforming new knowledge is a critical component of a firm's capabilities and constitutes its "absorptive capacity" of intangible assets (intellectual assets) which are key drivers of enterprise performance and productivity.³⁰
42. In general, those firms with the highest absorptive capacity have been: firms with overseas interests, partly-foreign and fully-foreign owned firms, firms that undertook R&D (Callaghan Innovation generally provides R&D grants and access to specialised help in developing new products), those that innovated/exported, larger firms, those employing greater relative numbers of professionals, managers, technicians and associate professional staff (and thus an overall higher stock of human capital). Finally, domestic firms have the lowest levels of absorptive capacity.³¹
43. Absorptive capacity weighs-in heavily on innovation. To boost productivity requires an "all-of-firm" innovation mind-set to lift the capability and absorb new technology and maximise benefits whereby working on the business is just as important as developing new and improved products.^{32 33}
44. However, a firm's competitive advantage rests on processes of coordinating and combining assets, shaped by its (prior) knowledge asset positions, as well as path dependencies in asset acquisition and development. Such competencies and capabilities by their very nature cannot be bought; they can only be built by the firm. That is, they cannot easily be acquired, replicated, diffused, or copied – they therefore cannot easily be transferred or built-up outside the firm.³⁴
45. Information and communication technologies (ICT) are increasingly important to the growth and diversification of the New Zealand (and Auckland) economy. MBIE has stated that in 2016 the ICT sector was made up of 11,067 firms employing 29,700 people and contributed \$3.6b to New Zealand's GDP.³⁵
46. In the Auckland context, we believe that while firms may be taking on digital capabilities to enhance their performance, for the most part this has been due to the response to the pandemic and such capabilities do not appear to have already been embedded as part of

²⁹ Ibid.

³⁰ Motu, 2018.

³¹ Ibid.

³² To build innovation the main focus is on improving the system – making sure that regulations, funding and infrastructure support businesses to grow and innovate, and education/training systems provide people with skills and capability.

³³ Supra, note 30.

³⁴ This in part is due to the key role that learning plays both in enabling the firm to align and exploit its resources, competencies and capabilities, and in allowing it to internalise outside information into knowledge; and the way the firm learns is not acquired but it is determined by its unique 'routines', culture and its current position (Motu, 2018).

³⁵ MBIE, 2017.

business continuity plans.

47. We view the following elements as essential in facilitating increased productivity *vis-à-vis* the Auckland economy which we consider would significantly impact the New Zealand economy. Such measures would also assist Auckland firms in their recovery from the pandemic and in the longer term provide the foundations for allowing enterprise to converge on the domain of those firms already at the productivity frontier:³⁶

- **Foreign direct investment:** Foreign direct investment often brings new technology and business practices into the local economy and increases competition that catalyses innovation and capability-building among existing businesses. In a world awash with capital, Auckland has the opportunity to pursue targeted investment into emerging high-value, high-potential sectors for accelerated expansion. Demonstrating that Auckland is 'open for business' to international investors is an important part of any such strategy. Also, the uptake of new funding models, including in the public sector, may accelerate the development of much-needed infrastructure, especially in transport.
- **Mobility:** The ability of businesses and workers to move about Auckland efficiently is a fundamental determinant of the region's productivity. New traffic management mechanisms, innovative transport technologies and multi-modal infrastructure investment will underpin a new mobility model for Auckland that potentially unlocks growth, creates new business opportunities and delivers environmental benefits.
- **Innovation:** Staying ahead of the competition requires continuous improvement in many aspects of business performance. A purposeful focus on innovation can reveal new opportunities across a range of dimensions, such as business models, product design, internal processes, industry collaboration and marketing. Innovation also opens new market opportunities internationally, supporting revenue growth and employment.
- **Technology adoption:** Adoption and better use of technology can give businesses a competitive edge by driving down costs, improving business capability and innovating for new or improved products that enhance growth and profitability. Clear business strategy, good advice and investment in related capabilities, especially new skills, help to maximise the benefits of technology, while lowering risks and costs.
- **Management practice:** Effective business strategy, planning and coordination are critical to any firm's success. Firms have access to a vast selection of decision-support and business management software to improve these functions. Education and training are also critical to management capability. Decision makers at board and management level should be up to date with contemporary management practice and ensure strategy includes ways to lift productivity and competitiveness.
- **Workforce development:** Skilled workers contribute to the business bottom line through efficiency gains, waste reduction, innovation and customer retention. Competitive businesses invest in their staff with training and development opportunities that establish career pathways and foster loyalty. It is also increasingly important in a period of labour shortages and rapidly changing technology to retrain existing workers with the skills needed to implement new technologies.
- **Market development:** New technology and upskilling can give ambitious businesses the competitive edge to build market share through improved service and better products.

³⁶ All the elements in this paragraph come from ATEED, 2019.

Business prospects are further strengthened by an innovation-led competitive strategy attuned to market and product trends, including internationally, when underpinned by good analysis and investment.

The picture in New Zealand: frontier firms; innovation, diffusion, reallocation and weak drivers of these elements

48. New Zealand's economy has faced a number of long-term challenges in recent decades, including low productivity and wages, skills shortages, shallow domestic capital markets, a lack of diversification and under-investment in infrastructure.³⁷ We consider these to be some of the broader reasons why firms have not been able to converge on the productivity frontier.
49. The economy has maintained settings which has meant New Zealanders were having to work harder just to uphold their standards of living. New Zealand has consistently had low labour productivity growth and recorded negative growth on average between 2013 and 2017.
50. Since 2013, GDP growth was much higher than growth in GDP per capita and GDP per hour worked. This reflects that economic growth over the period has largely come from population growth rather than productivity growth. In terms of the complexity of New Zealand's economy it is ranked 54th out of 133 jurisdictions within the OECD with an economic complexity rating of 0.13.³⁸
51. New Zealand businesses are small in scale compared to other OECD countries; they are principally small to medium enterprises however there are a few exceptions. New Zealand Trade and Enterprise notes that very few New Zealand businesses are in the export sector. Further, the vast majority of those that are in the export sector are yet to generate strong financial positions. Many still acquire the majority of their income from the domestic market – significant portions of foreign earnings are provided by a relatively small number of total exported business.³⁹
52. Moreover, these firms have tended to hold inadequate stocks of knowledge-based intangible assets (such as management know-how and innovation capacity (absorptive capacity)) and they also have a low level of business investment in R&D (as a percentage of GDP) compared to most other OECD countries. Management capability has also been found to be underdeveloped in New Zealand (e.g., Green et al., 2011, found that there is a substantial tail of mediocre and poorly-managed firms).⁴⁰
53. Young firms and start-ups usually face capital constraints and can struggle to grow beyond their early stages. However, capital deepening is a key way in which to improve labour productivity, as workers have more capital to use in the production process (Conway and Meehan 2013). Therefore, further investment in capital is vital to enable companies and assets to achieve their potential.⁴¹

³⁷ MBIE, 2019.

³⁸ Supra, note 6.

³⁹ Te Puni Kōkiri, 2005.

⁴⁰ Supra, note 30.

⁴¹ Supra, note 24.

54. In general, New Zealanders are highly skilled and qualified compared to many countries and yet some regions and sectors find it difficult to get enough workers with the right skills, and others consistently fare poorly in traditional labour market measures. However, the literature is clear that industry training benefits the individual trainee (increased wages) which in turn can be seen as a proxy for labour productivity.⁴²
55. The level of foreign direct investment outward, i.e., an ownership stake in off-shore companies has been low by international standards. Comparing New Zealand with other OECD nations, including Australia, shows that New Zealand businesses have not reached the same levels of FDI outward as similar-sized nations.⁴³
56. The vast majority of businesses are focused on the small domestic market, yet New Zealand is well networked internationally. This network enables New Zealand firms to access and be accessed by international markets. Meanwhile, over the past twenty years, foreign direct investment (inward) has seen many of New Zealand's larger companies and rising businesses acquired by off-shore investors.⁴⁴
57. We appreciate the commission's inquiry focuses on establishing the right settings to encourage firms to converge on the productivity frontier. But, in terms of resilience of sectors across the economy, there is no framework clarifying capability requirements of and the competitive environment in a particular industry.
58. In Auckland the tourism sector contributes significantly to regional, and therefore national, GDP. There are no barriers to entry to start up a business in tourism and there is a "Qualmark" system that provides evidence that a particular business has been independently validated as upholding quality standards.
59. This permits consumers to make informed choices about who they may choose to engage with. However, this belies the point that there is no informative framework of what budding entrepreneurs should be aware of when considering setting up an enterprise enabling a decision on business viability to be made.

Māori frontier firms⁴⁵

60. The ultimate aim of Māori productivity is to better position Māori to build and leverage off their collective resources, knowledge, skills and leadership capability to improve their overall quality of life. Overall productivity for Māori can be thought of in terms of what benefits society generates from its various resources. But this is not only about people producing and selling things (i.e., incomes) but a much broader notion of living standards, which encompasses health, social, cultural, and environmental ideas.
61. Māori own a significant proportion of assets in the primary sectors: 50 per cent of the fishing quota, 40 per cent of forestry, 30 per cent in lamb production, 30 per cent in sheep and beef production, 10 per cent in dairy production and 10 per cent in kiwifruit production. Products

⁴² Supra, note 26.

⁴³ Supra, note 39.

⁴⁴ Ibid.

⁴⁵ Unless otherwise indicated, this section is primarily based on NZIER, 2010.

from these sectors typically face the highest tariffs in New Zealand's export markets. Now Māori benefit from free trade agreements that remove high tariffs and there is also protection of Māori interests under the Treaty of Waitangi within such agreements.⁴⁶

62. Māori productivity can also be thought of in terms of “cultural productivity” as the amount of cultural benefits and awareness of Māori history/culture that can be generated by a given set of inputs.
63. This is important for both commercial and cultural reasons. Thinking about it in another way, might there be improvements in the way that cultural traditions are passed down through whanau over generations to ensure that these values are maintained and strengthened over time? However, cultural assets are valuable, albeit difficult to measure.
64. The environment is another area where productivity becomes very important, both in terms of valued and non-valued outputs. Māori own significant amounts of natural resources that generate benefits that are not easily captured in GDP statistics.
65. However, this does not mean that such assets should be treated any differently to their other physical or personal assets – the aim should be to derive as much output and benefit from their natural resources, even if it is non-tradable.
66. Improving Māori education outcomes is likely to be positive for Māori productivity (positive impacts on expected multi-factor productivity). Although, Māori education has improved considerably there is still room for further improvement. For example, a greater proportion of Māori are leaving school with no qualification relative to other groups.
67. Māori asset productivity performance is stronger in service sectors. NZIER (2005) estimates identify education; property and business services and; health and community services as areas where Māori operating surplus per unit of asset base is higher than New Zealand averages (NZIER 2005 and SNZ Annual Enterprise Survey).
68. Tourism is another sector where Māori assets are, or have the potential to be, relatively productive. Tourism is also considered by many to have considerable productivity potential due to Māori entrepreneurship and tourist demand for authentic cultural experiences (NZIER 2003).
69. The key productivity challenge facing Māori today is shifting from increasing the quantity of Māori assets, to improving the distribution of existing human and physical capital amongst sectors, [and finding a way to manage multiple ownership of resources] in the New Zealand economy. The use of Māori assets must be diversified – based on a sound economic framework – to avoid over-reliance on any one sector.

The policy agenda

70. In terms of potential policy settings to help firms (including Auckland firms) converge on the productivity frontier these might be:

⁴⁶ Ministry of Foreign Affairs and Trade: The Māori Economy: https://www.mfat.govt.nz/assets/FTAs-in-negotiations/UK-FTA/The-Maori-Economy_2.pdf

- i. Policy change is likely needed to develop and support competitive advantage in internationally oriented sectors.
- ii. Better matching of workforce skills to jobs may create opportunities for lifting business performance and New Zealand's (and Auckland's) productivity.
- iii. There is a need to support Māori students, workers, asset owners and businesses directly through targeted policy interventions around training and R&D.
- iv. Improving the productivity performance of lagging firms may also help to reduce wage inequality.
- v. Targeting immigration processes to deliver the workers and skills New Zealand needs and working with businesses to reduce their reliance on low-skilled migrants.
- vi. Working towards an education system that equips people with the desire and flexibility to keep learning is fundamental to the New Zealand economy's ability to successfully adapt to change.
- vii. Building stronger international connections so that New Zealand businesses get greater access to markets around the world.
- viii. Innovation is at the heart of productivity growth therefore ensure New Zealand businesses have access to R&D funding to underpin better products and ways of working.
- ix. The need for clarity about policy objectives if grant programmes are to be amended.
- x. Clarity on exactly what the characteristics of successful Māori businesses are so they can seize opportunities when they arise.
- xi. Any added legislative *requirements* will inevitably lead to increased compliance costs.
- xii. It will be important that Auckland maintains viable scale and functionality of its knowledge intensive clusters and clusters that provide national economic efficiency to continue to attract investment and growth.
- xiii. Firm turnover contributes positively to labour productivity growth in New Zealand which points to the importance of policies that do not impede firm turnover processes and faster ways of matching skills with employment opportunities.
- xiv. Better matching of workforce skills to jobs may create opportunities for lifting business performance and a region's productivity.
- xv. In terms of public policy, there has been limited policy assistance to build dynamic capabilities and thus absorptive capacity.
- xvi. Potential amendment of R&D tax rules.
- xvii. Tax incentives outside of research and development to encourage businesses to invest in capital. We note that as part of the Government's pandemic response package a business can now carry forward tax losses provided it continues to operate in the same or similar way, irrespective of a change in ownership.
- xviii. Regarding monetary policy, we note that the Government has already amended the Reserve Bank Act focusing on employment and price stability.

The role of local government (in Auckland) supporting the economy

71. Local government plays a key role in supporting businesses including through ATEED as Auckland's delivery agent for the Regional Business Partner Network which, as of June this year, provided over \$4m in business advice vouchers to over 3000 small to medium-sized enterprises.

72. Enhancing productivity for the country (and Auckland) by working closely with central government and supporting the proposals made by the commission will help maximise the potential to improve overall wellbeing of the economy, leading to greater impact and transformational change.

Ngā koringa ā-muri

Next steps

- i. ATEED agrees with and supports the focus of the commission regarding its inquiry on a central aspect of New Zealand's productivity performance and the economic contribution of its most productive firms.
- ii. We support the areas the commission has indicated as needing policy development as a way of potentially improving New Zealand's firm productivity in an effort to close the gap between those enterprises who are already at the productivity frontier and those who are reaching for this domain.
- iii. We welcome any further opportunities to provide additional feedback as part of the commission's inquiry into New Zealand's productivity performance and the economic contribution of its most productive firms. This will also assist us to better align existing work that ATEED is undertaking as part of its ongoing economic strategy development requirements for Auckland.
- iv. ATEED has undertaken extensive research as part of its economic development mandate for Auckland and in particular in the areas of: productivity, the circular economy, advanced industries, convergence and disruption, emerging knowledge capital and engaging globally with robust evidence linking to overall productivity in the region's economy.
- v. These references and other evidence is available at: <https://www.aucklandnz.com/business/economy-and-sectors/market-news-and-trends/auckland-economic-insight-series> and would be particularly important for overall planning and policy processes, especially in the Auckland context, to inform decision makers for progressing in this important area of work.

End notes

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- v. Harvard University. The Atlas of Economic Complexity:
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- xiii. NZIER. Whakawhanaketia Putanga Hua a Māori – he pepa tirohanga. Lifting Māori Productivity – a Scoping Paper, 2010
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Contacts

The following staff members at ATEED are responsible for compiling and authoring this submission.

Phillip Shaw

Senior Strategy and Economic Advisor
Auckland Tourism, Events and Economic Development

phillip.shaw@aucklandnz.com

Quanita Khan

Manager Strategy and Planning
Auckland Tourism, Events and Economic Development

quanita.khana@aucklandnz.com