

Date: Monday, 31 August 2020

Topic: Submission for the Productivity Commission on Frontier Firms

In our work as management consultants we see a huge range in performance and practices amongst New Zealand companies. We see the same correlation between improved practices and improved productivity in New Zealand companies as is internationally documented by Bloom et al in the [World Management Survey \(WMS\)](#). In our work we have anecdotally used the WMS with New Zealand manufacturing companies and have replicated this link between improved practices and improved performance. It is our experience that success of Frontier companies is (partially) due to a sustained effort to systematically drive performance improvement at all levels in the organisation.

Unfortunately, we agree with the Productivity Commission that New Zealand companies in general have poor management practices. With management practices we mean the working methods that a company has to improve the effectiveness of their work. These poor practices result in wasteful processes, with low productivity and low profitability as the end result. Companies compensate for the low productivity by putting in long hours. Constant firefighting and expediting to get the work done are other recognisable results of poor management practices.

Managers that work long hours to address the immediate problems do not have time to address the core problem of low business practice maturity. Because these problems are so widespread in New Zealand firms ranging from manufacturing to the service industry, there is little awareness that organisations can be different.

A crucial piece of the puzzle in our opinion is a lack of awareness within New Zealand firms of the significant impact that improvement management practices can have on productivity improvements. This lack of awareness is present in all levels of the firm including at board level. For example, our company is regularly asked to assist with the implementation of a capital project that will improve the output of the facility. This capital project has been approved because the current production facility is “at capacity”. However, the measurement of the true capacity and capacity utilisation of a facility is a multiplication of three factors and is often greatly overestimated, unless each of the three factors is systematically measured, documented, and taken into account when calculating the capacity utilisation. The measurement, analysis and holistic improvement activity of these factors is not straight forward and requires the well-developed management practices that so many firms are missing. Therefore, production capacity is based on a (incomplete) numbers-based estimation of the production manager. It is our experience that an operations manager genuinely believes his facility to be running at or near capacity when in fact it sits below 50%. A compounding factor is that a board that is asked to approve the capital expenditure of the production increase will generally consider the financial return of the project and customer market research but will rarely question the measurement of the production capacity. We recommend the Productivity Commission finds many alternative ways to address the lack of awareness within New Zealand firms of the significant impact that improvement management practices can have on productivity improvements. This needs to target all levels of organisations, from shop floor (e.g. include productivity awareness in apprenticeships and polytechnic courses), to management and boards.

We do agree that there is a diffusion of good practices when people from companies with better management processes such as Fisher and Paykel Healthcare move to other firms within New Zealand. However, this is an uncontrolled and slow process and it is debatable whether such an important issue as improving New Zealand’s performance culture should be left to such chance. We have seen very effective forums where the dissemination of management practice knowledge between

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firms is shared between leading and lagging firms. These are often loose networks, for example the 'Lean Manufacturing Clusters'. Their effectiveness and longevity depend on the inspired individuals organising or participating in these networks, doing this activity pro-bono, which is inherently risky and unsustainable. We recommend an investment of government so these networks can continue to deliver and expand on these learning activities.

We have seen many firms where productivity has been improved due to better management practices. In a New Zealand setting where the majority of firms are SME the support of this change often involves external professional services firms or individual consultants, rather than inhouse skills and capabilities. Several central government initiatives and programmes support SME with the implementation of improvement management practices, largely through funding. Examples are Callaghan Innovation 'Better by Lean/Design/etc' programmes and the Regional Business Partners management capability vouchers. While this funding is important, this only reaches the firms that have an awareness that their productivity is lagging. We recommend a communication campaign that is more effective in reaching those leaders and owners currently unaware of the hidden productivity potential of their firm.

In the professional services sector in New Zealand, we see many individuals offering business improvement services, often based on their experience but lacking a repeatable, proven methodology. In the professional services sector internationally, several organisations have developed methods to measure and benchmark firms' management practices. Like the World Management Survey, these programmes of proven methodology show that an increasing maturity in business practices is positively correlated with business performance. The Frontier Firms have often used proven methodologies offered by these larger international management consultancies like CCI and EY to establish their industry leading position. There are few New Zealand firms however that can afford their fees or have the internal resources to invest in these programmes. Our firm Productivity People has developed a similar methodology that is effective and affordable for New Zealand small and medium enterprises, our [Productivity Growth Programme](#). We often work with clients that have previously benefited from government supported management improvement programmes but have not sustained their improved position. We believe this is due to the previous professional services firms offering experience-only based support. We recommend a review of government supported management practices improvement programmes to ensure that a repeatable and proven methodology is delivered.

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