



Submission by

**The Employers and Manufacturers
Association (EMA)**

to the

Productivity Commission

on the

**New Zealand Firms: reaching for the
frontier**

February 2021

About the EMA

The EMA has a membership of more than 7500 businesses, from Taupo north to Kaitaia, employing around 350,000 New Zealanders.

The EMA provides its members with employment relations advice and legal services from industry specialists, an on-site training centre offering more than 600 courses, tailored in-the-workplace learning and a wide variety of conferences and events to help businesses grow.

The EMA also advocates on behalf of its members to bring changes in areas that can make a real difference to the day-to-day operations of our members including RMA reform, infrastructure development, employment law, skills and education, health and safety and export growth.

The EMA is also part of the BusinessNZ network.

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Background

Thank you for the opportunity to submit on the Productivity Commission's Frontier Firms paper. The EMA largely agrees with the findings of the paper as New Zealand's ongoing productivity lag and continual slide down the OECD rankings for productivity is an ongoing concern for an organisation with a goal of "Helping Business to Succeed".

This submission also supports the BusinessNZ submission to the productivity Commission paper.

Education System

A high-quality education system that provides opportunities to our young people, retrains our ageing workforce and supplies the business community with the skills and talents necessary to grow is critical.

For example, it is of huge concern that our youth continues to slide down international tables for literacy and numeracy and there is a clear disconnect between the education system and work readiness that impacts productivity.

A recent report by the Tertiary Education Commission (TEC) found that about 40 percent of people in the workforce do not have sufficient literacy and numeracy skills to function well in a knowledge society and information economy.

This is reflected in the EMA's own member surveys over a period of years with our most recent survey (December 2020) finding 57% our employer members believe poor literacy and numeracy has a negative impact on their business and productivity.

The same survey found 32% of employers are dissatisfied with the work readiness of school leavers joining the workforce with common issues around soft skills highlighted frequently by employers.

The EMA also has a concern, exacerbated by the recent Covid-19 pandemic impact, that too much of our education and training system is focused on the younger end of the market and held within our bricks and mortar institutions.

Our view is that more emphasis should be given to on-the-job training, micro credentials or short blocks of training/education off-site to upskill or retrain new workers and existing staff who may in danger of losing their current roles as technology develops. With our ageing demographics New Zealand must retrain and upskill its older workers, particularly if access to the immigration skills pool remains limited.

The review of Vocational Education (RoVE) and the new Workplace Development Councils (WDCs) have a critical role to play.

Innovation Funding

Despite recent changes to the innovation funding system, feedback from our members indicates that it remains too prescriptive and difficult to access.

Since its inception accessing Callaghan Funding has been a challenging process particularly for SMEs while the recent R&D tax credit is also proving complex to access. As our BusinessNZ network partners have indicated, even major companies use outside assistance to help get them through the process.

We are aware of one of our members having spent \$30,000 for assistance on an application to access Callaghan funding only to abandon the process as “too hard.” Callaghan has tried to address this issue but the perception remains that it is a difficult and complex process.

One of the main issues raised, and this also applies to seeking the 15% R&D tax credit, is that the definition of what constitutes R&D is too narrow. In New Zealand the bulk of R&D tends to be in the development phase but the funding is focused on research that is that is new to the business and development has little support

There are understandable concerns that widening the definition may lead to the temptation to game the system. But widening the definition, especially in post-Covid transformation environment, will encourage more businesses to innovate and become more productive.

Despite recent increases in R&D activity, New Zealand’s expenditure remains well below the OECD average. However, in 2019 Business R&D expenditure reached \$2.4 billion, twice that spent in 2012 and the number of businesses performing R&D increased by 17 percent from 2012.

The EMA supports the suggestions made in BusinessNZ’s submission to:

- *reduce and consolidate the number of programmes;*
- *simplify the process for firms to apply for assistance; and*
- *make it easier for firms to identify and access relevant programmes, including by providing a common platform and “front door” across programmes.”*

But we would add a further recommendation that would give a real boost to R&D spending in New Zealand and assist post Covid business transformation. That is:

- Have a temporary, 3-5 years, relaxation of the definitions of R&D funding to include development as well as new research and, given the swathes of Government funding being made available to assist Covid recovery and transformation, add significantly greater funding to the current R&D pool.

Export growth

As well as supporting BusinessNZ's suggestion for attracting high value-adding, export-oriented multinationals to New Zealand that can support and build scale through their existing networks to help build our exports, the EMA believes more can be done to assist growth of our own export businesses.

NZTE's support for its top 700 export programme and more latterly the top 1400 is an invaluable resource.

But more can be done to help grow smaller and existing businesses into larger ones as evidenced by the success of Export New Zealand's "Excelerator" programme. It uses experienced exporters to identify growth opportunities and assist in that growth pathway for exporting businesses. It's also entirely funded by business sponsors with no current government support and its national rollout of support would be boosted significantly by even a minimal amount of government support.

Foreign Direct Investment

Despite popular perceptions to the contrary New Zealand has the toughest restrictions on foreign investment in the OECD.

Given the shallow capital pools that exist in New Zealand this is a significant hindrance on investment in business and investment in the infrastructure required to support business growth and development.

With the pending review of the resource management process, widely seen internationally as a disincentive to invest because of the costly hurdles and time involved in consenting large projects, a reset of immigration policy on the back of Covid 19, and acknowledgement that the world is currently awash with cash looking for a place to invest, New Zealand must rethink its FDI restrictions. We need to encourage much needed investment and take advantage of our current international profile as a relatively safe haven from Covid-19.

As the BusinessNZ submission notes New Zealand should be supporting the opportunity for more FDI the 2019 analysis of the Deloitte top 200 companies show that overseas-owned firms outperform both NZ owned, NZX listed state-owned entities and council-owned entities by a significant margin.

We need FDI that results in highly paid jobs being created in New Zealand.

Immigration

There is much talk of our immigration settings allowing too many low-skilled, low-cost people into New Zealand on a pathway to permanent residence. There may be some validity in some sectors to those claims.

But the reality is that New Zealand continues to suffer of dearth of highly skilled people across numerous sectors and those skill shortages have been further highlighted by the closing of our borders post-Covid. Neither our education policy settings or our migration settings are addressing those skills shortages and won't in the near term.

Our current immigration system now appears to be a tool in artificially raising pay rates in some sectors while still failing to address skills shortages in critical areas to the detriment of our overall productivity.

The outdated skills classification is being phased out in favour of wage or salary thresholds for skilled migrants but that does not address the issue either, especially when tied to the fact our education system is not matching skills to jobs. The needs of business and other communities need to be tied more closely to our immigration policy.

A revised immigration policy become more critical when you factor in our rapidly ageing workforce, among the fastest three ageing workforces in the world, and the fact that at 1.7 births per thousand of population we are now below the threshold for natural replenishment of our population and workforce.

We also recommend using immigration policy to fund either or both investment in business and infrastructure.

Many wealthy migrants would welcome the opportunity to come to New Zealand's Covid free environment and would be willing to pay. At last check there was around \$3 billion waiting in the investor migrant queue to come into New Zealand.

Raise the existing threshold for investor migrants or create a new category that allows those migrants to come in the country as long as they bring \$5 million or \$10 million or more but tie that investment into buying into an existing New Zealand business that needs capital for growth or presents an opportunity for more or tie the funding to an infrastructure development fund.

Population Strategy

The EMA believes New Zealand needs to have a difficult conversation around a population strategy.

Rapid recent growth to a population of more than five million has highlighted under investment in critical infrastructure that is holding back our productivity as a country.

But a population strategy and a discussion around how heavily populated we want to become and where those people will live, is also critical to bringing together the related threads of education to meet skills, immigration and FDI.

An agreed population strategy will guide policy in all of those critical areas and provide a cohesive thread to help grow our productivity.