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AUSTRALIA + NEW ZEALAND

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New Zealand Productivity Commission
PO Box 8036
Wellington 6143

Via website: www.productivity.govt.nz/make-a-submission

Dear Sir or Madam

Submission on the New Zealand firms: reaching for the frontier Issues Paper

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide a submission to the New Zealand Productivity Commission on the Issues Paper referred to above.

We have focused our feedback on those areas where we consider we can add the most value. Appendix A provides our detailed submission and Appendix B provides more information about CA ANZ.

Key Points:

- CA ANZ supports the objectives of this inquiry. Lifting productivity is crucial for securing economic and social progress and this is particularly relevant now as New Zealand's economy recovers from the effects of the COVID-19 pandemic.
- We also support the specific focus being placed on the Māori business community. We continue to encourage all businesses to learn from the Māori business community and incorporate principles such as kaitiakitanga and manaakitanga in their approaches to strategy and operations.
- In determining how best to measure productivity, we agree with the Productivity Commission's approach to use international frameworks as a starting point (particularly as this aids comparability of data across jurisdictions). We also encourage the Productivity Commission to consider multi-capital frameworks.
- The regulatory framework is crucial in encouraging the diffusion of technology, ideas and business practices as well as the appropriate allocation of resources needed to create a strong platform for ongoing productivity and prosperity. In addition, this framework can be used as a platform for encouraging trade and international business connections.

Should you have any questions about this submission or wish to discuss it, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely,

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Group Executive
New Zealand & the Pacific

Karen McWilliams FCA
Business Reform Leader
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Appendix A

General comments

CA ANZ supports the objectives of this inquiry.

Lifting productivity is crucial for securing economic and social progress. This is particularly relevant now to help the economy recover and reset following the impacts of the COVID-19 pandemic. Placing a focus on both improving the performance of frontier firms and encouraging the development and diffusion of technology (for the benefit of other firms) creates a platform from which inter-generational needs can be addressed.

CA ANZ and its members recognise the role productivity plays in raising living standards and delivering prosperity for all New Zealanders.

In addition to our responses below, we refer you to our relevant research findings and conclusions, which are summarised in the following publications:

- [*The Quest for Prosperity: how can New Zealand keep living standards rising for all? \(2017\)*](#)
- [*The Future of Trade: are we ready to embrace opportunities? \(2017\)*](#)
- [*The Future of Talent: opportunities unlimited \(2017\)*](#)
- [*The Regulator of 2030: Regulating our digital future \(2017\)*](#)
- [*The Future of Business \(2018\)*](#)
- [*Submission on the Technological Change and the Future of Work draft report series \(2019\)*](#)
- [*The 21st Century Profession \(2020\)*](#)

1. How should the inquiry define frontier firms? What data are available to enable the study of frontier firms under your suggested definition?

With respect to the first question, frontier firms should ideally be defined with reference to existing international definitions. Using international terminology helps to ensure comparability of research and data across jurisdictions. Further, doing so provides New Zealand with a tested point of reference and allows for analytical resources to be allocated elsewhere.

With respect to the second question, we note that the Productivity Commission has already identified a multitude of possible sources that could be used to identify and study frontier firms.

2. Do you think the OECD framework is useful to guide the Commission's thinking in this inquiry? Are there other frameworks the Commission should consider?

We consider that the OECD framework is useful for guiding the Productivity Commission's thinking in this inquiry.

In addition, and given the focus on raising productivity for the benefit of all, it would also be appropriate to consider the United Nation's Sustainable Development Goals (SDGs). The SDGs focus on a variety of global challenges that either influence or are influenced by productivity, and include poverty, inequality, climate action, economic growth and innovation. In this way, the SDGs represent a basic blueprint for policy objectives that connect to productivity and prosperity.

Domestically, the Treasury's Living Standards Framework may also be appropriate as a multi-capital starting point for guiding the Productivity Commission's thinking.

3. What do you think are the most important drivers of the productivity of New Zealand's frontier firms?

At a high level, we consider that diffusion of technology is particularly crucial for nationwide productivity and achieving prosperity for all. Productivity and prosperity are not currently experienced equally across New Zealand. Diffusion helps to mitigate the invisible geographical barrier present, as well as encourage a more fluid mobility of skilled labour, in a way that benefits all.

In addition, we consider global connectivity (which is itself driven by international connections and investment) is crucial in continually encouraging the adoption of innovative technologies.

4. What makes frontier firms different? What do they do differently, or have that other firms don't?

Broadly speaking, we consider frontier firms are likely to be market leaders that continually identify areas for innovation and improvement in process and supply chains, and in a way that creates and preserves value.

5. Can the success of frontier firms be replicated? For example, how much of their success is down to highly motivated and talented individuals, good timing, or even just good luck?

We consider success is likely to be a mix between highly motivated, talented individuals and a regulatory framework that encourages and helps to sustain productivity.

6. What are the most important drivers of the diffusion of technology, ideas and business practices from frontier firms to other firms in New Zealand?

Diffusion of technology, ideas and business practices is best encouraged by an underlying regulatory framework that balances the need for regulation with the need for innovation, particularly as this demonstrates the importance placed by regulators on achieving productivity across the economy.

7. How easily do resources flow from lower to higher productivity firms and vice versa? What are the most important drivers of the reallocation of labour, capital and other resources between firms in New Zealand?

With respect to the first question, we have no specific comment.

In terms of the second question, encouraging the reallocation of resources is dependent on the underlying regulatory framework and the way in which it encourages (and in some cases, rewards) parties that are making resource allocation decisions. This could include the use of labour mobility incentives and access to greater financing.

8. In your view, what are the key ingredients that would lead to a successful New Zealand economy, and what would success look like?

As noted in responses to previous questions, we consider that the regulatory framework is key in supporting a successful New Zealand economy. Regulation should not be an impediment (or used as a means of exerting heavy control over decision-making by individuals), rather it should operate as an enabler which sets out the parameters of what success would look like.

9. Does the Commission's description of New Zealand's frontier firms and the performance of frontier and non-frontier firms seem accurate?

Yes, we consider that the Productivity Commission's description of New Zealand's frontier firms and the performance of frontier and non-frontier firms seems accurate. This conclusion is on the basis that this description is influenced by both international frameworks (as referred to in previous questions) and domestic data available.

10. To what extent do you agree with the Commission's tentative picture of why New Zealand's frontier and non-frontier firms are underperforming?

We are broadly comfortable with the Productivity Commission's tentative picture of why New Zealand's frontier and non-frontier firms are underperforming.

11. In your view, why does it appear that the productivity of frontier firms in New Zealand has not grown faster than non-frontier firms, unlike the situation globally?

No specific comment.

12. What explains the research finding of a weak connection between innovation and productivity growth among New Zealand firms?

No specific comment.

13. What are the main challenges for New Zealand firms that aspire to reach the performance of the best firms globally?

Firms in New Zealand face challenges when navigating the global trade landscape and the presence of strict trade controls implemented by other jurisdictions (particularly as compared to New Zealand's open economy). These trade barriers can also hamper diffusion of innovative technologies which are necessary to support and encourage widespread productivity and growth.

For completeness, while international trade delivers a significant national benefit and should be encouraged and facilitated, the benefits accrued do not fall evenly across society. As a result, regulators should always consider and be aware of how best to support those who are adversely affected by international trade.

14. Are New Zealand firms ambitious about growing and scaling up? If not, why not? If they are, what's getting in their way?

No specific comment.

15. How do New Zealand's frontier firms learn about, adapt and adopt cutting edge technologies and practices?

No specific comment.

16. What types of international connections make the biggest difference for diffusion from the global to the domestic frontier? What could be done to improve these kinds of connections?

Given the geographically insular nature of New Zealand's economy, it is crucial for New Zealand firms to have access to key marketplaces – both physical and online. As such, a regulatory framework that supports these firms in entering and engaging at these marketplaces is important.

17. Do frontier firms have a problem sustaining their performance? What is needed to maintain high productivity over the long-term?

No specific comment.

18. Why don't other firms follow the example of frontier firms? What's holding them back?

No specific comment.

19. How could the lessons from New Zealand's frontier firms be better shared?

Lessons could be shared both by regulators (through, for example, a central hub) and through encouraging discourse amongst members of the business community.

20. How do different types of corporate form and ownership structure affect firms' incentives to innovate, grow and internationalise?

Corporate form and ownership structures provide a way for managing risk and liability associated with decision-making. In this way, firms are both protected when making choices about seeking to implement innovative practices, but also potentially hampered in doing so quickly given the checks and balances. While we consider that these checks and balances are crucial, we encourage regulators to consider how these influence the timeline at which incentives are taken up by different types of firms.

21. What are the pros and cons of the standard corporate governance model for stimulating business growth, innovation and productivity?

No specific comment.

22. Are there particular barriers to innovation, diffusion and reallocation that the Commission should focus on?

No specific comment.

23. How should this inquiry think about and define a Māori frontier firm?

No specific comment.

24. What resources/opportunities and constraints/barriers are unique or greater for Māori frontier firms, compared to non-Māori firms?

- How do these opportunities and constraints vary by the organisational form of the Māori entity?
- How do Māori firms maximise opportunities within these constraints?
- What would help mitigate barriers or enable Māori firms to better maximise their potential?

No specific comment.

25. How are knowledge, technology and practices diffused from Māori frontier firms to other Māori and/or non-Māori firms? In what ways does this differ from diffusion from non-Māori firms? How can these diffusion mechanisms be strengthened?

No specific comment.

26. Which policy levers matter the most and would have the largest potential impact in:

- helping New Zealand frontier firms get closer to the global frontier?
- helping diffusion from New Zealand frontier firms to other New Zealand firms?
- supporting resource reallocation from lower to higher productivity firms within New Zealand?

No specific comment, although we note that regulatory frameworks should be used as an enabler and not an impediment.

27. What measures could the business sector take to help New Zealand frontier firms get closer to the global frontier, improve diffusion from frontier firms, or support resource reallocation from lower to higher productivity firms?

No specific comment.

28. Do you agree with the Commission's proposed approach to the inquiry? Where would you like to see the Commission put the most emphasis? Are there modifications to the proposed approach that would better fulfil the inquiry's Terms of Reference in your view?

We are broadly comfortable with the Productivity Commission's proposed approach to the inquiry.

29. Is there any other research underway of relevance to this inquiry that the Commission should be aware of? How could the Commission best engage with this work?

No specific comment. However, we note that Australia's Productivity Commission carries out regular reporting activities (for example, see <https://www.pc.gov.au/research/ongoing/productivity-insights/recent-productivity-trends>) which we note is likely to already be followed by the Productivity Commission.

30. What are the top three things you would like to see come out of this inquiry?

- 1) A discussion about how productivity can be measured with respect to multi-capital factors and how productivity is directly connected to prosperity. This discussion is particularly relevant now to help the economy recover and reset following the impacts of the COVID-19 pandemic.
- 2) Recommendations about how the regulatory framework can be best used to both enable the success of frontier firms and ensure that benefits flow to all.
- 3) Continuing recognition of principles underpinning Māori business practices, and recommendations about how these can be incorporated by the wider business community.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.