



## NORTHERN LEADING

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*THE LIGHT AHEAD*

[www.productivity.govt.nz/have-your-say/make-a-submission](http://www.productivity.govt.nz/have-your-say/make-a-submission)

I write in response to the Productivity Commission's request for submissions on its current inquiry: New Zealand Firms – Reaching for the Frontier, and on its associated issues paper.

This is an area of particular interest to me over many years. Some of my credentials include being:

Co Author Upgrading New Zealand's Competitive Advantage (Porter Project)  
Member of the Advisory Board to The Knowledge Wave Conferences  
Chair, Global Conference of The Competitiveness Institute (TCI) in Auckland  
External Adviser to the Governor of the Reserve Bank on Monetary Policy

The Productivity Commission is to be congratulated on this initiative. The thinking of the inquiry represents a bold attempt to break New Zealand out of its "productivity paradox". It is refreshing to see.

The issues paper is good as far as it goes, but in my view, it needs to go to the next level. What is now required is:

1. To identify the goal of the next phase as being to build multiple sources of sustainable competitive advantage for the identified sectors/clusters
2. To outline how a competitive bidding process would help to build those sources of competitive advantage.

I set out in the appendix more detail on how this could be achieved.

I would be pleased to assist the Commission in developing its thinking on the next steps.

Regards

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Appendix: How to build multiple sources of sustainable competitive advantage:

It is disappointing that the issues paper should refer to “comparative advantage”, rather than the more modern concept of “competitive advantage”. Competitive advantage is what successful frontier firms need to be able to compete successfully. It is far broader than comparative advantage which relates primarily to naturally endowed conditions.

There are probably a number of ways in which sustainable competitive advantage can be analysed. The Porter Diamond model provides one useful framework.

Each sector should be analysed in terms of its four broad sources of competitive advantage:

1. Factor Conditions.
  - a. Basic factors – usually the naturally endowed sources of comparative advantage
  - b. Advanced factors. These might include:
    - i. Research capabilities
    - ii. Human capital – education
    - iii. Specialised infrastructure
2. Demand Conditions – especially where these can be built on local conditions
3. Strategy, Structure and Rivalry – including the structure of the industry. This is important to ensure that the innovative capability of the sector is maximized
4. Related and Supporting Industries – this is where Skilling’s recommendation for the cluster concept comes in.

For frontier firms to succeed in the longer term, they need to build multiple sources of competitive advantage, and not just rely on a single source of competitive advantage. It is important that this work is led by the sector/cluster and not driven by government.

Each sector/cluster needs to be looked at on its own merits, and those sectors need to come up with a range of initiatives that would build those sources of competitive advantage. Those initiatives should then be processed through a competitive bidding process so that the low hanging fruit with the greatest returns are addressed first.

This is not rocket science. At the same time it will take time, needs a long term horizon, and most of all needs people involved with the experience to make it work. It is a proven method of achieving increased productivity. While the triple helix is a foundation – government, business and academia - it must be business led.

It can be done in New Zealand if the right people are engaged.