Submission: Productivity Commission Report – Frontier Firms Draft

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The Productivity Commission's draft report provides carefully considered findings and recommendations that I broadly agree with. However, I believe the focus on attracting multinational corporations (MNCs) and our management of talent and leadership need further careful consideration. I will address both of these points below.

Multinational Corporations

The Productivity Commission refers to the need to learn from other Small Advanced Economies to help us reach the global frontier. The Commission states that "exporting at scale is the way to reach the global frontier" in particular the "exporting of innovative products at scale" and that to do this we need to learn from other frontier firms and attract "multi-national corporations (MNCs) that are knowledge-intensive, oriented to exporting and a source of spillover benefits."[1]

While I agree with the first few points, I believe that we need to carefully consider whether attracting MNCs is the right approach. They are unlikely to be easy targets unless there are clear benefits to their bottom line, which will ultimately be repatriated offshore. Here are a few other points for consideration:

- The small size of our domestic market is likely to make it unattractive for MNCs to establish their operations here. Over the years we have seen multinational companies withdraw their manufacturing operations from New Zealand, examples include Unilever and Mondelez. While these MNCs might have left a skeleton staff here responsible for sales and distribution, more often marketing, production and other functions are consolidated with operations in larger markets offshore.
- Where there is little transformation of raw materials, to add significant value to the finished product, the economics are unlikely to stack-up.
- Where large amounts of the inputs into the manufacturing process are imported, the unit economics and margins may not be viable. Consider that importing the raw materials, transforming them and ultimately re-exporting the finished product across some of the most expensive stretches of water on the globe are unlikely to play to New Zealand's competitive or comparative advantages.
- Corporate structures are likely to become more centralised over time, and any New Zealand business unit will remain at the whim of their head office.

However, there are some areas of the economy where MNCs may find value in the New Zealand domestic market, and may inform which MNCs to target:

- New Zealand as a place to test new innovative products and services for MNCs looking for a small controlled test market of sophisticated consumers. Or MNCs looking to test new products a long way from the prying eyes of competition.

[1] New Zealand Productivity Commission. (2020). *New Zealand firms: Reaching for the frontier*. Draft Report., available at: https://www.productivity.govt.nz/assets/Documents/5a581e022b/Draft-report-frontier-firms.pdf

- Where imported raw materials and the international freight costs form only a tiny fraction of the value of the finished product, the unit economics may indeed work. However even for high value New Zealand manufacturers, many have found that manufacturing closer to their key sales markets, allows them to respond more quickly to market demand and competitive pressure. This has resulted in some New Zealand companies investing and establishing manufacturing plants and offices offshore.
- MNCs in the ICT sector may find having a base in New Zealand valuable, however they are likely to face competition from other Asian market players such as India that have a steady stream of highly qualified graduates and are able to offer better unit economics.

For the reasons mentioned above, offering the opportunity to all MNCs to set up operations and to export from New Zealand is unlikely to be a viable solution. Instead, this recommendation should be worded to reflect the need to identify MNCs from specific industry sectors where there are clear benefits to both the company and New Zealand.

Talent and Leadership

Dr Teece in his report *New Zealand Frontier Firms: A Capabilities-Based Perspective*[2] refers to a study that found that "Operations management capabilities had room for improvement, but human capital attraction and retention were the furthest behind international comparative benchmarks."[3]

This was recently confirmed to me following conversations with two individuals who had arrived in New Zealand. One was a returning New Zealander following many years in the UK and the other was a French national who had immigrated to New Zealand prior to the pandemic.

The returning New Zealander learned that her CV was dismissed by the person vetting the CV's on the basis that she was overqualified for the position, and yet the applicant had significant relevant international experience that would have contributed to raising productivity for this enterprise.

The French national, similarly, had had considerable experience managing teams of up to 600 people across Europe and was told she needed to 'dumb-down' her CV or she would not get an interview let alone a role in New Zealand.

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[2] Teece, D., & Brown K. (2020) *New Zealand frontier firms: a capabilities-based perspective*. Berkeley Research Group Institute., available at: https://www.productivity.govt.nz/assets/Research/adbadb53b7/NZ-Boards-and-frontier-firms-v2.pdf

[3] Green, R., et al., *Management Matters in New Zealand – How does manufacturing measure up?*, report commissioned by the New Zealand Ministry of Economic Development, conducted by University of Technology, Sydney and London School of Economics (2010), available at: http://worldmanagementsurvey.org/wp-content/images/2010/07/Report_Management-Matters-in-New-Zealand-How-does-manufacturing-measure-up.pdf

These two examples are deeply concerning as they confirm the findings identified above by Green that there needs to be a change in human resource management practices.

As the draft report says we need migration policy settings that contribute to productivity improvements, and not human resource managers discounting candidates with international experience on the basis of perceived cost or overqualification.

Instead, policy settings must be met with a business cultural change. Being able to speak another language, having managed teams across countries, and having developed considerable commercial experience offshore, should not be perceived as a threat to existing management, but instead be embraced for the diversity of thought and experience that these individuals can bring to these companies.

Let's not perpetuate a lost opportunity in improving productivity through narrowly focussed human resource settings. We need to embrace and provide opportunities for these high value immigrants that are wanting to contribute to the New Zealand economy.

In addition to the point raised above, Dr Teece's report focusses attention on the need to build Dynamic Capability Skills at management and board level. I concur with his recommendations and would like to add that along with the development of a Dynamic Capabilities Training Programme for firms, there also needs to be a focus on developing skills on capital allocation. According to William N. Thorndike author of *The Outsiders: Eight Unconventional CEO's and their Radically Rational Blueprint for Success*[4] very few CEO's are equipped with the ability to effectively deploy capital resources to maximise the value of their businesses over the long term. Adding capital allocation training to the dynamic capabilities training programme would significantly improve the productivity and long-term value of New Zealand exporters moving them towards the productivity frontier.

Finally, providing Dynamic Capability Training will, in my opinion, lead to more immediate benefits to New Zealand companies than waiting for MNCs to diffuse their experience and expertise through their supply chain and the movement of talent across businesses.

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[4] Thorndike, W.N., Jr, *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success* Harvard Business Review Press 2012

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Kirsty Reynolds is an Edmund Hillary Fellowship Fellow (EHF Fellow), angel investor and company director with deep experience investing in startups and working with ambitious New Zealand SME businesses that are poised for international expansion. She has 25+ years of commercial experience, developing businesses internationally throughout the Asia Pacific region, across a range of industries, from SMEs to MNCs including founding her own export business which she ran for 8 years. These experiences help inform her understanding of the unique challenges faced by business owners who are invariably constrained by limited resources, thereby impacting their ability to scale their businesses internationally.

Kirsty was a member of the Auckland Executive team of Export New Zealand from 2011 to 2019; and was involved with reviewing the organisations role within the NZ export eco-system resulting in the establishment of the Excelerator - a programme focussed on building capability for emerging exporters. A judge in the 2018 and 2019 ExportNZ Awards, Kirsty was appointed convenor of judges for 2020 ahead of the global pandemic. She is bilingual in French and is the Past Vice-President of the French New Zealand Chamber of Commerce and Industry.

A member of the board of the Ice Angels since 2018, Kirsty has direct investments in 22 startups. She has a particular interest in ventures that are contributing towards the UN's Sustainable Development Goals while also contributing to building a productive and sustainable New Zealand export economy.