

Xero submission on Productivity Commission's reports: *Training New Zealand's Workforce and Technological Adoption by Firms*

Further to our last submission on the link between technology adoption and improving productivity, Xero has welcomed the draft reports under the Commission's *Technology Change and the Future of Work* programme.

If it ultimately drives policy in favour of technology uptake and educating our future workforce, this programme has the potential to be highly significant for New Zealand and its approach to driving improved productivity.

As we said earlier, Xero has been increasingly concerned with the absence of technology considerations from the national productivity conversation and we have been very pleased with the clarity and strength of recognition from the Commission as to how critical more technology is to improving New Zealand's productivity rates and standards of living.

In this context, Xero welcomes the Commission's focus on the vital role of effective policy in enabling technology adoption, particularly in light of New Zealand's constraints around market size and geographic isolation, as identified in the reports. Effective policy to drive productivity via technology is an area in which Xero is also currently undertaking research and we look forward to sharing what we learn with you over the coming months.

This short submission covers the Commission's draft papers number four and five: *Training New Zealand's Workforce and Technological Adoption by Firms*. Both of these areas are of keen interest to Xero and we look forward to the Commission's final report and continuing to work with the Commission in service of improved national productivity.

In the *Technological Adoption by Firms* report in particular, Xero supports the identification of open banking and regulatory reform as crucial mechanisms for improving technology uptake and productivity, while delivering significant consumer value.

This is an area in which Xero has been frustrated by the pace of industry change and sees a role for clear government direction and / or policy in order to ensure the benefits of open banking are realised in a timely way.

We also welcome the Commission's point around the need for enhanced leadership / management capability in effectively harnessing the power of technology change. This is a gap in the New Zealand small business sector that we know Government is committed to closing through education (including via business.govt.nz). Xero also supports the view that bringing large-scale, innovative technology companies into a geographic location is likely to have an impact on regional technology uptake, as is mandating technology adoption at scale.

The policy of 'Making Tax Digital' in the UK provided one such mandate - for businesses earning over a certain threshold to file tax returns digitally. The productivity gain for small businesses in the UK from this relatively simple policy initiative has been projected

at approximately 50 billion pounds over five years. The scale of the opportunity determines who turns up to participate in it.

As we have said in an earlier submission, this is an example of the scale of policy that New Zealand must now begin to design and implement. We must attract best-practice, world-class technology solutions to New Zealand through our policy and regulatory environment.

Requiring businesses to run certain business processes using technology – e-invoicing is an example – might be uncomfortable for small parts of the economy which may well need assistance to manage change, but policy at this scale recognises that this change is inevitable and the sooner the change is made, the better for our economy and productivity.

The report makes the point that there are four ways of improving productivity: through low productivity firms ceasing to operate; new, more productive firms setting up business; firms improving their productivity; and highly productive firms gaining market share at the expense of less productive firms. The challenge for the Government is to introduce significant policy to incentivise technology uptake at scale while preserving and protecting this competitive dynamic.

Policy can and should accelerate this transition but, as noted in the report, innovative industries are more sensitive to poorly designed and targeted competition and market regulation.

Though it is an easy thing to say and almost certainly a very challenging thing to implement, Xero believes a whole-of-government approach to regulation and competition policy is needed. Such a commitment should incentivise technology uptake, keep barriers to both entry and exit of any market or industry low and ensure future regulations and competitive market settings are appropriate for a digital economy. Such a commitment would ensure consistency across government and constantly encourage firms to adopt productivity-enhancing technology.

Xero supports the thrust of the report that policy stability; an open, market-based economy; receptiveness to international investment; and a willingness to increasingly foster innovation at a national level all work in service of lifting national productivity.

Though slightly outside of Xero's core business, Xero is committed to building a zero emissions global business through its programme - Net Zero @ Xero. As such Xero supports the commitment in the report to allow the price of emissions of carbon dioxide to rise in order to incentivise low carbon technology and investments.

One of the areas in which Xero was surprised not to see a focus in the report is around how the Government might use the tax system to incentivise technology uptake. As mentioned earlier, Xero is currently working on a piece of research on how policy can drive technology uptake. While this is not complete, one of the things Xero would like to better understand is the possibility of using tax rebates for technology investments in the small business economy.

Xero is not an expert in education or training, but is none-the-less impacted by the 'outputs' of our education system. This makes Xero a highly interested party. Our

current context is also sharpening our focus on the challenges on accessing a highly skilled digital workforce – this year alone, Xero in New Zealand has approximately 500 vacancies for senior-level software developers, programmers and engineers that we are finding it difficult to fill.

There is a chronic talent shortage for people in New Zealand with digital and technology-based skills, experience and qualifications. Xero expects there are other technology companies in New Zealand in exactly the same position and this is proving to be a significant handbrake on the development of an increasingly digital, technology-based economy.

For this reason, Xero is again pleased with the Commission's focus on this area. Addressing the skills gap must be an absolute priority for policy makers if we are to improve rates of technology adoption and national productivity and wellbeing.

As the report notes, a highly skilled, technology-capable workforce also ensures that firms can introduce new, emerging technology much more efficiently and with confidence. With the length of time spent in the workforce increasing, the ability to retrain into increasingly relevant fields is also important both for the future of the workforce and the wellbeing of the individual.

Xero is, generally, less interested in formal qualifications than it is in capability and the ability to learn. For this reason Xero supports the Commission's recommendation that a more responsive training and education system be less concerned with traditional on-campus training and increasingly open to learning through work, more targeted 'sprint' style training programmes and learning online.

As the workforce continues to rapidly evolve, it follows that so too must the way in which people choose to learn. Very generally, Xero supports funding and policy decisions that build a highly flexible, modern education and training sector that focuses resources and efforts on technology-related training and enables rapid and easily accessed re-skilling opportunities.

Xero believes the Commission is to be congratulated for its clarity of focus on the critical role of technology adoption in improving New Zealand's productivity and social and economic wellbeing.

Throughout the Commission's five draft reports, Xero has particularly welcomed two quotes which go to the heart of the current opportunity New Zealand faces. These are worth repeating:

"New Zealand's problem has not been too much technological change and progress; it has been too little. By failing to pick up and spread the world's best technologies, New Zealand has lost opportunities to gain higher living standards. The path to greater wellbeing lies with more technology adoption and diffusion..."

"Well-designed and coordinated government responses could allow New Zealand to fully realise the potential of disruptive technologies for economic productivity and social prosperity."

Thank you for this work and the opportunity to engage. We look forward to the final report and, most importantly, to the policy that flows from it.

Yours sincerely,

Craig Hudson
Managing Director - New Zealand & Pacific Islands
Xero