



Beautiful business

Submission on New Zealand firms: reaching for the frontier

Policy focus must be on technology

It was sobering to read the list of interventions – policies, agendas, conferences, frameworks, visions, plans and strategies – that have been put in place over the last 20 years to try and boost New Zealand's productivity (pages 2-3), especially when measured against the halving of annual labour productivity growth during the period 2010-2017.

Xero agrees with the Commission that improving New Zealand's productivity performance can be achieved, but that it will take consistent, focused effort over many years. While there is probably no silver bullet to solve our productivity challenges, Xero believes technology must lie at the heart of building a modern, flexible, innovative and productive economy.

Xero agrees with the Commission on the importance of clear policy to drive productivity improvements, again particularly in relation to technology. The Commission summarised this point very clearly in its *Future of Work* inquiry in 2019:

"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."

As *Reaching for the Frontier* makes clear, policy initiatives over the last 40 years have consistently failed to improve New Zealand's productivity. Xero is concerned primarily with policy that is squarely focused on lifting productivity across the whole economy. Policy to achieve this elusive objective must be bold, integrated, long-term and primarily focused on digital technology.

It is interesting that none of the listed interventions and initiatives to improve productivity attempted over the last 20 years were directly and singularly focused on encouraging uptake of technology to drive productivity. At least partially as a result, New Zealand is slipping further behind our international peers both in terms of productivity and technology uptake.

As a frontier firm itself, since 2006 Xero has helped pioneer cloud-based business technology to support small businesses. While enabling the next tranche of frontier firms and ensuring effective diffusion of technology from them to the rest of the economy is an important goal,

Xero believes more immediate policy focus is required on helping lift the productivity of smaller firms through supporting their effective use of technology.

This is where we believe policy can help realise the greatest productivity gains.

Start by enabling the small business base

Reaching for the Frontier notes that the growth of digital technologies such as cloud-based computing, e-commerce and online platforms are the most significant recent international trend that is “having a huge impact on how firms do business” but that effective measurement of local firms’ adoption of these business tools is not yet available.

Xero appreciates that as technology and its use evolves, measurement is challenging. However, over 2019/2020 Xero, commissioned the NZIER to undertake independent local research into the potential impact of cloud-based technology on productivity. We are aware that we have shared this research with the Commission before, so will not discuss it at length, but the findings reinforce Xero’s push for clear policy to incentivise digital technology take-up.

In New Zealand, small businesses account for 97 per cent of all enterprises and 29 per cent of all employees¹. It is the engine or the base of the national economy. Small businesses account for more than a quarter of New Zealand’s Gross Domestic Product - but they could be delivering much more. The report found that a 20 per cent uptake of cloud-based business tools by New Zealand small businesses could generate up to an additional \$6.2 billion in annual GDP growth, lifting household spending by \$2.6 - \$4.6 billion, increasing business output by \$4.1 - \$7.3 billion, increasing real wages by \$1.8 - \$1.9 billion and growing annual exports by between \$341 - \$618 million.

This research was commissioned pre-Covid-19 but the findings are all the more relevant as we seek to rebuild a stronger, more resilient and productive economy. The full report can be accessed [here](#).

A further piece of independent research completed by Xero in June 2020 supports a policy focus on enabling technology. More than 40 percent of small business respondents wished they had been better prepared with technology before COVID-19, with nearly three quarters of small businesses making rapid decisions to adopt technology to keep their business functioning during lockdown².

What is critical in the productivity policy context is that roughly half of all small businesses found the cost of adopting cloud-based technologies prohibitive. Additionally, one third of small businesses highlighted not having the time or the right technical knowledge as the main factors stopping them adopting cloud-based technology.

The costs of technology and a lack of capability to use it are directly getting in the way of the engine of New Zealand’s economy delivering significant productivity gains.

¹ <https://www.mbie.govt.nz/business-and-employment/business/support-for-business/small-business/>

²

<https://www.xero.com/content/dam/xero/pdf/media-release/technology-uptake-critical-to-nz-small-business-resilience-and-long-term-success.pdf>

This is where policy must focus and play an enabling role: half of all small business decision makers said they would use a subsidy to support them adopting these tools into their business. Nearly two thirds of small businesses agreed that using cloud-based technology has already helped their organisation operate more productively³.

Rather than relying on diffusion of technology from frontier firms to flow through into the rest of the economy, Xero believes there is an important and unique opportunity to implement bold policy to drive significant productivity gains through more directly accelerating the digitisation of New Zealand's small business sector.

Open data is essential

Part of enabling innovative, productive, high growth businesses to develop and thrive lies in creating the right regulatory settings, particularly right now in relation to enabling customers and consumers access to their own data.

Creating an environment in which there is genuine open banking, for example, in New Zealand can play an important role in helping transform the New Zealand economy. Open banking and the rapid evolution of open data ecosystems puts consumers at the heart of decisions around how their data is used and can deliver significant consumer and economic benefits.

It also creates an environment in which companies and individuals can innovate, develop and rapidly commercialise new technology-driven products and services that add value to consumers and drive more productivity. Although impossible to predict, it's entirely possible that New Zealand's next generation of frontier firms will stem from policy changes that support open data systems as has been seen in other parts of the world.

This is another area where clear, bold and future-focused policy must be rapidly developed to create an open, competitive environment in which innovation can thrive. Currently New Zealand is moving far too slowly towards open data systems in the absence of supporting regulatory or legislative frameworks.

Xero notes that MBIE is currently consulting on a discussion paper on the subject of introducing a Consumer Data Right in New Zealand which would be the start of the open data frameworks required if New Zealand is to begin to build an innovative, resilient and more productive digital economy.

The role of leadership and wellbeing in productivity

Xero welcomes the Commission's finding that "... New Zealand has a relatively large number of firms with poor management practices" and the linking of this observation to these firms' ability to innovate and increase productivity.

This is both a simple and profound observation that goes well beyond frontier firms and much deeper issues than output-based measures of productivity; New Zealand's leadership and managerial capability requires addressing wellbeing in the workplace, workplace culture and new ways of leading people.

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<https://www.xero.com/content/dam/xero/pdf/media-release/technology-uptake-critical-to-nz-small-business-resilience-and-long-term-success.pdf>

New Zealand has an important opportunity to begin to invest in its business leadership capabilities and the way we support workers. This has historically not been an area of significant focus, particularly in the SME sector; indeed firms closer to the frontier are more likely to be investing in their leadership capability and those further from the frontier less so.

Addressing the gap in leadership capability as identified by the Commission could yield significant benefits to individual and community wellbeing and economy-wide productivity.

To demonstrate this point, in 2019 Xero conducted research into wellbeing in New Zealand which found that, among many other things, 40 percent of small business employers did not feel responsible for their teams' wellbeing. Additionally, two thirds of small business employers did not feel their staff would benefit from improved wellbeing and nearly 40 percent of small business owners said running a small business has negatively affected their health – and this was pre pandemic.

What this shows is how poor we are as a country and as small businesses at acknowledging the human factor in our businesses and in our economy. We ignore and neglect our individual and collective wellbeing at the expense of so much, including our productivity.

If the notion that the lack of empathetic leadership in New Zealand business is partially behind our poor national productivity feels a stretch too far, consider this:

- Every dollar spent on mental health services in New Zealand will repay the nation with \$3.50 in productivity gains and other savings.
- Organisations that prioritise employee engagement and wellbeing outperform the industry average by approximately 10 percent on the Financial Times Stock Exchange 100 Index.

Empathetic leadership is an approach to leadership in which people feel listened to. They feel valued. They feel like they belong. And if we can support our people to feel like this every day that they come to work, then they become more connected to the organisation's purpose and their productivity and wellbeing improves.

It is clear that more effective, empathetic leadership can materially improve productivity. What is much less clear is how policy can help drive more effective business leadership - you can't legislate for empathy. But, as a starting point, if we accept that well managed workplaces are essential to worker wellbeing, then perhaps compulsory Employee Assistance Programmes with mandatory management participation in all workplaces may be an effective start.

Addressing our leadership shortcomings is a challenging issue for New Zealand, for small businesses and for every leader of people – without exception. Xero is grateful to the Productivity Commission for singling out New Zealand's poor management and HR practices and enabling this important conversation to start at a policy level. It's never been more important.

Conclusion

Xero accepts that addressing New Zealand's poor productivity performance in a meaningful way will require gains to be made across every sector of the economy. While

Xero believes any meaningful effort to boost productivity must start with enabling the digitisation of our small business economy, we also accept we need to foster an environment in which we can enable high-growth, potentially world-class frontier firms to rapidly thrive.

While there is a clear role for policy to create an environment in which innovation is encouraged, we also caution about too much. Policy must support the initial drive towards digitisation and create the required regulatory frameworks – such as around open data ecosystems, for example – and then create space for genuine innovation to occur.

Policy must also play a continuing role in supporting wellbeing, with an increasing focus on our workplaces and empowering and encouraging our business leaders to lead in new ways.

Above all, what this discussion document has highlighted is how if we are to avoid a repeat of the last 40 years, we must collectively cause things to be very different. Genuinely innovative, courageous policy and leadership is essential if our people and our economy are to reach their huge potential.