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**NEW ZEALAND FIRMS: REACHING  
FOR THE FRONTIER - FINAL REPORT**

**INDEPENDENT REVIEW**

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2 July 2021

## PREFACE

Guy Beatson, Director, Beatson Company Limited, undertook the Independent Review of the Productivity Commission's frontier firms Inquiry.

### Beatson Company Limited

Beatson Company Limited provides strategy, public policy and implementation advice. This advice is grounded in economic and other frameworks. It reflects extensive and diverse experience in economic, environment, cultural and social sectors within government, the private sector and non-governmental organisations.

The Independent Review has drawn on experience with:

- economic and innovation strategies for two governments.
- industry and micro-economic policy for several decades.
- leadership of policy and implementation on environmental and natural resource management.
- ongoing engagement with and understanding of te ao Māori.

Beatson Company Limited brings a systemic approach to its advice tailored to client needs and helps to deliver improved outcomes for stakeholders with innovative solutions.

Beatson Company Limited is a private New Zealand limited liability company.

## ACKNOWLEDGEMENTS

This independent Review has benefited from input from the Productivity Commission staff who responded constructively to a range of questions about the frontier firms Inquiry across the full range of review areas.

Work on the Review also reflects helpful discussions with the New Zealand Treasury, the Ministry of Business, Innovation and Employment, Stephen Knuckey at MartinJenkins, and Selwyn Eathorne at the New Zealand Institute of Directors.

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# NEW ZEALAND FIRMS: REACHING FOR THE FRONTIER: FINAL REPORT INDEPENDENT REVIEW

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## EXECUTIVE SUMMARY

The frontier firms Inquiry examined the contribution frontier firms make to productivity in New Zealand in their own right and through the diffusion of productivity-enhancing technology and business practices to domestic non-frontier firms.

Following the Terms of Reference, the Productivity Commission's frontier firms final Inquiry Report:

- Classified and defined frontier firms and assessed their performance, including relativity to comparable firms internationally.
- Assessed technology diffusion to New Zealand's non-frontiers.

In addition to addressing these key elements of the Terms of Reference, the final Inquiry Report examined resource allocation to New Zealand firms, including frontier firms.

The analysis in the final frontier firms Inquiry Report meets or exceeds high policy quality standards. It is a model in terms of:

- the use of a principal analytical framework for frontier firms developed by the Organisation for Economic Co-operation and Development (OECD). The Inquiry also used the dynamic capabilities and other frameworks.
- the use empirical evidence including:
  - quantitative evidence from the New Zealand Longitudinal Business Database (LBD) and the CompNet database for small advanced economic comparison.
  - qualitative evidence from sector case studies.
- specific analysis of Māori firms with an engagement approach undertaken by people with whakapapa and specific expertise.
- extensive stakeholder engagement, despite the disruptions arising from New Zealand's COVID-19 response.
- using a range of reporting formats and publication of the range of supporting analyses, including engagement with stakeholders.
- commissioning an Independent Review (the Review) focused on the final Inquiry Report and the Inquiry process, analysis, messaging and engagement.

## Areas for improvement

The Productivity Commission should continue with some practices from the frontier firm Inquiry and improve Inquiry practice in several other areas:

## ADDRESS ANALYTICAL GAPS AND BETTER TAILOR INQUIRY RECOMMENDATIONS

- Inquiry recommendations should not generally suggest further reviews and ensure that where these are recommended, they are explicit and specific about the recommended policy prescription.
- Inquiry recommendations need to reflect New Zealand-specific conditions as fully as possible. This is consistent with the frontier firms final Inquiry Report findings that interventions need to be tailored to New Zealand.
- The focus on te ao Māori should continue and be enhanced, including through continuing to build the Productivity Commission's capability for this. This would help to commission work, understanding that work and including it appropriately in Inquiry and other research Reports.

## CONTINUE TO SEEK ETHICS APPROVAL FOR RESEARCH

- Seeking ethics approval for the governance research is important and improved the quality of the work undertaken in the frontier firms Inquiry. The Commission should continue to seek ethics approval for research undertaken by and for it.

## CONTINUE TO SEEK OUT INQUIRY PARTNERS

- As part of the Productivity Commission seeking new Inquiry approaches, partnership with key players in the area of Inquiry should continue to be sought. This reflects experience with the frontier firms Inquiry with the New Zealand Institute of Directors (IOD) partnership which was helpful for both the IOD and the Productivity Commission.

## UPDATE PROCESS AND PROJECT MANAGEMENT TO REFLECT GOOD PRACTICE

- There should be more focus on risk management. The Productivity Commission could experiment with a "storyboard" approach focused on outcomes, strategic risks, and mitigation (as opposed to a risk register/ consequence-probably approach) to improve project risk management.
- Productivity Commissioners should seek independent project quality assurance at one or key points in each Inquiry (e.g. at inception and potentially at any point where an Inquiry project plan (including timing) is significantly rescope).
- There need to be continued work to dovetail inquiry work with the relevant policy processes effectively.

## BUILD ON NEW ENGAGEMENT APPROACHES

- The Productivity Commission should continue to use and consider further innovative ways to engage with stakeholders and tangata whenua on Inquiries.
- Enough time should be included in Inquiry processes for submitters to consider reports during each phase.

## ADOPT MORE FLEXIBLE APPROACHES TO INQUIRIES AND REPORTING

- There is room to build on this and adopt more flexible approaches to Inquiries and reporting. Doing so means recognising the eco-system of Inquiry material and its power in achieving the Productivity Commission's objectives.
- As part of a new and more flexible Inquiry approach, the Productivity Commission should consider using its convening power to encourage and support more cross-agency/portfolio connections where this is required to implement Inquiry recommendations successfully.

## INDEPENDENT REVIEW FOCUS AND APPROACH

This Independent Review (the Review) of the frontier firms inquiry and final Inquiry Report evaluates the Inquiry process, analysis, engagement effectiveness and impact.

Consistent with good evaluation and review practice, the productivity Commission will publish the Review Report on its website, cite it in the Commission's statutory reporting of our performance (e.g. Annual Report) and use it to improve future performance.

The Review has spoken with a few stakeholders. These discussions and the Review sits alongside the Productivity Commission's other evaluation mechanisms, including a Focus Group and stakeholder survey.

The Review evaluates, based mainly on the final Inquiry Report, the quality of the frontier firms inquiry against the following performance measures:

- **Right focus** – the relevance and materiality of the final Inquiry Report in meeting the Terms of Reference.
- **High quality work** – the quality of the analysis and the use of evidence, findings and recommendations in the final Inquiry Report.
- **Good process management** – the timeliness and quality of the inquiry process.
- **Effective engagement** – the quality of engagement with interested parties.
- **Clear delivery of messages** – how well the work was communicated and presented in the final Inquiry Report.
- **Overall quality** – the overall quality of the Inquiry taking into account all factors.

A range of impact measures have also been a focus for the Review:

- Policies and behaviours change as a result of the frontier firms inquiry work.
- Discussion and debate generated on the Inquiry's findings and recommendations.
- The Inquiry helps set or lift the standard in New Zealand for high-quality analysis and advice on the development, performance and contribution of New Zealand's frontier firms.
- The final Inquiry Report will serve as a resource and reference in the future.

The relatively recent completion of the Inquiry and publication of the final frontier firms Inquiry Report means that impacts are hard to assess definitively. However, the Review makes observations where there are indications of impact in these areas.

The Review is also forward-looking rather than simply being a critique of the Inquiry's analysis. It offers lessons from the overall approach to the Inquiry and makes recommendations for improvements in the Inquiry process and approach.

## RIGHT FOCUS

### Independent Review Focus

The Independent Review focuses on the relevance and materiality of the final Inquiry Report in meeting the Terms of Reference.

#### Performance Summary: Right Focus

- The final Inquiry Report and other material delivered all aspects of the Terms of Reference.
- The Inquiry extended this analysis to the allocation of resources beyond frontier firms performance and the diffusion by them of technology to non-frontier firms.
- The Inquiry delivered extensive additional outputs relevant to the Inquiry, including empirical and qualitative analysis.
- The policy and intervention recommendations can be implemented. They could, however, have been more specific, including the scope and nature of further reviews.

### Addressing significant assumptions in the Terms of Reference

From the Terms of Reference, the principal Inquiry focus was maximising the economic contribution of New Zealand's frontier firms through improved productivity.

This focus was underpinned by a set of assumptions which the Inquiry needed to test, including that:

- there the lack of New Zealand productivity growth and productivity levels are a drag on New Zealanders' living standards and wellbeing.
- there were frontier firms (and enough of them) to make a significant economic contribution to New Zealand and increase all firms' productivity.
- frontier firms are the most productive firms.
- frontier firms shape aggregate productivity.

The final Inquiry Report addresses these assumptions. It does this through the classification of frontier firms, a commentary on frontier firms' economic contribution through productivity and, by extension, the impact of productivity on New Zealanders' wellbeing. There may have been room to explore this connection more fully reflecting varying views of the importance of productivity and its impact on wellbeing (see **Analysis of Productivity and Wellbeing** below).

### Delivering a focused final Inquiry Report

Consistent with the Terms of Reference, the final Inquiry report:

- classifies frontier firms and characteristics.
- provides an empirical analysis of correlations between frontier firm characteristics and productivity (and causation where appropriate). There is a range of characteristics noted



(see page iii of the final Inquiry Report). These cover the areas the literature would suggest should be a focus (including governance).

- identifies inhibitors and interventions to lift frontier firm performance and increased innovation diffusion by frontier firms.
- has Māori firm-specific analysis.

The Productivity Commission's Inquiry extended this focus to the allocation of resources, including to the least productive firms. This important insight is explored more in **Analytical conclusions** below.

## Audience/ User Focus

A primary audience for the Inquiry analysis were the government agencies responsible for economic, innovation, internationally and industry policy. The final Inquiry Report and other supporting outputs firmly focus on this audience.

New Zealand businesses are also an audience of the Inquiry report. As outlined below in **Effective Engagement**, there was good involvement from New Zealand business and positive commentary from many business groups on the final Inquiry Report.

In addition to this core audience, audience/ users were broader than New Zealand Government. This wider audience included informing APEC Economic Committees. The final Inquiry report was delivered in New Zealand's APEC hosting year (i.e. through 2021 with Finance Ministers' meeting on 22 October and culminating in Leaders Meeting in the week beginning 8 November 2021)

While useful for this purpose, it is not clear the extent to which the analysis or findings in the final Inquiry Report and supporting research, including benchmarking of frontier firms across economies, will be used in the APEC meetings. Nevertheless, the opportunity remains for this to happen during 2021, with important meetings, including the Leaders' Meeting, which occurs in late 2021.

## Timing

The Terms of Reference required delivery of a final Inquiry Report (preceded by drafts) by March 2021.

The final Inquiry Report was delivered to the commissioning Ministers in late March 2021. Report publication followed in April 2021.

## Additional outputs

The Productivity Commission was encouraged to produce "additional outputs" to facilitate public understanding. The Inquiry process delivered a comprehensive and impressive set of additional outputs as required by the Terms of Reference, including:

- Analysis of the top 200 firms and Top 10 Māori businesses - Deloitte
- New Zealand frontier firms: a capabilities perspective - BRG Institute
- Summary - Living on the edge: An anatomy of New Zealand's most productive firms - Fabling
- He Manukura - Insights from Māori frontier firms - Mill & Millin
- Picking cherries – New Zealand Institute of Economic Research (NZIER)

- Migration and New Zealand's frontier firms - NZIER
- Benchmarking New Zealand's frontier firms – New Zealand Productivity Commission (NZPC)
- Focused innovation policy: Lessons from international experience - NZPC
- Frontier firms: Four industry case studies - NZPC
- New Zealand boards and frontier firms - NZPC
- Exporting challenges and responses of New Zealand firms – New Zealand Trade and Enterprise
- Supplementary materials – New Zealand Work Research Institute (NZWRI)
- Summary - The performance of Māori firms NZWRI
- The performance of Māori firms - NZWRI
- Frontier firms: an international small advanced economy perspective – Landfall Strategy / David Skilling
- The dairy sector in New Zealand - TDB Advisory

These additional outputs informed the final Inquiry Report analysis, deepened the understanding of New Zealand firms, particularly Māori firms, and contributed to policy advice during the Inquiry, including changes to the Industry Transformation Plans (see below).

## Implementable and "actionable" recommendations

The Inquiry was also required to deliver recommended policies and interventions that were "actionable".

The final Inquiry Report recommends policies and interventions, although these focus considerably on further reviews and may not be specified tightly enough. Some of the recommendations are too general – e.g. a range of review recommendations including those related to the science system, science system governance and industry transformation plans. There would have been less scope for a "we're already doing that" response from officials with more focused recommendations.

## HIGH-QUALITY WORK

### Independent Review Focus

The independent Review focused on the quality of the analysis, use of evidence, findings and recommendations in the final Inquiry Report.

#### Performance Summary: High-quality work

- Overall, the final Inquiry Report at least achieves, if not exceeds, high standards for quality policy advice.<sup>1</sup>

<sup>1</sup> See "Developing papers with the Policy Quality Framework: Checklist for reviewing papers in development", Policy Project, Department of the Prime Minister and Cabinet, June 2019, see

- The context is clear and addressed in the **Right Focus** section above, although the climate change and natural resources/environmental management context could have been better reflected.
- The analysis uses clear analytical frameworks, including in the analysis of Māori firms, uses available empirical evidence well, and the research gained ethics approval.
- There are no surprises in the analysis, and it is a useful catalogue of the thinking about industry, innovation and internationalisation policy and performance
- There are some gaps, however, notably concerning:
  - the Australia/New Zealand relationship.
  - Māori frontier firms.
  - environmental/ natural management policy (specifically regulated limit setting).
  - competition policy and regulation in New Zealand and small advanced economies
- The recommendations can be implemented but are not tight enough and could have been more policy specific.

## Context

To the extent possible, the final Inquiry Report reflects the current state of government policy, reviews and decisions (e.g. the health reforms, the research, science and innovation strategy and recent changes in the Dairy Industry Restructuring Act).

A critical aspect of New Zealand's context relates to the environment and natural resource management. There was scope to capture better some of the thinking from the Climate Change Commission (and its Interim Climate Change Committee predecessor) and the reporting by the Resource Management Review Panel.

## Analysis of Productivity and Wellbeing

The final Inquiry Report reflects a conventional view of the importance of productivity and its implications for wellbeing. Given the productivity focus for the frontier firms Inquiry, this makes sense.

Productivity is accepted as a driver of material wellbeing. However, different perspectives exist on the weight given to productivity in thinking about wellbeing and measurement. The analysis in the final Inquiry Report does not acknowledge this diversity of views, for example:

- David Skilling focuses on the centrality of productivity and the specific challenges for New Zealand.
- Michael Reddell has concerns about the policy prescription and implementation to improve productivity

- Arthur Grimes has focused on other measures and contributors to wellbeing, including net national income, rather than solely focusing on productivity.

Future Inquiries should consider and outline these perspectives if only to acknowledge them and address their relevance or otherwise to the specific Inquiry.

## Analytical Frameworks

The analysis uses a clear framework, which generally provides the logic for it. There is good use of the available evidence, including some innovative use of cross-economy data.

The OECD frontier firms framework is used extensively for Inquiry's analysis. The dynamic capabilities framework is also used with a significant focus on firm governance and capability.<sup>2</sup> This and other frameworks are also usefully explored and employed in the Jarod Haar analysis of Māori firms<sup>3</sup>.

In addition to the frameworks in commissioned work, the final Inquiry Report uses the available literature to inform its work.

Case studies support the analysis by providing a narrative to explain the empirical findings and validate them (within a qualitative framework). Using case studies helped to ground the final Inquiry Report. They help to address suggestions that the analysis is too theoretical and not "real world" enough. There is merit in looking further at the use of case studies Inquiry reports.

## Analytical conclusions supported by empirical evidence

There are no particular surprises in the final Inquiry Report. For those who have followed industry policy thinking over time, the analysis reflects the current literature – empirical and theoretical. Submissions on the draft Inquiry Report and comments made during the final Inquiry Report during the Review reflect this.

Beyond addressing the Terms of Reference requirements and assumptions, a core insight from the analysis is the continued allocation of resources to New Zealand's productivity firms. Allocation of resources to New Zealand's least productive firms on some measures was highlighted as a new insight during that review and one that extended beyond the Terms of Reference. Resource allocation requires further policy consideration alongside means of getting greater productivity from frontier firms that lag behind the international frontier firms.

The analysis makes good use of evidence, particularly the empirical evidence. The international empirical comparisons are critical. Being able to tap into the CompNet database, building on New Zealand Longitudinal Business Database (LBD), provides an important foundation for the quality of the analysis in the final Inquiry Report. Taken together, this provides a more robust empirical basis for understanding the performance of New Zealand firms, including Māori firms, than existed previously.

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<sup>2</sup> Teece, D.J. (2012). Dynamic capabilities: routines versus entrepreneurial action. *Journal of Management Studies*, 49, 1395-401.

<sup>3</sup> Haar, J. (2020). *The performance of Māori firms: A strategic management approach*. NZ Work Research Institute. Auckland, NZ. See <https://www.productivity.govt.nz/assets/Inquiries/frontier-firms/fd4afcf8d0/The-performance-of-Maori-firms-New-Zealand-Work-Research-Institute.pdf>

This is important for the quality of the final Inquiry Report and future industry, innovation and international business connection policy analysis and implementation.

Comparison to other Small Advanced Economies is a further important part of the analytical underpinnings of the final Inquiry Report is critical for two reasons:

- It permitted New Zealand's frontier firm performance to be compared in a relatively similar context, although there are clear differences in the economies, geography and other international connections among them.
- It provides ideas and a starting point for different industry and innovation policy approaches for New Zealand to consider, tailored, as the final Inquiry Report says, to New Zealand conditions.

## Gaps in analysis

There are, however, some gaps in the analysis. These are potentially inevitable given the need to ensure a concise articulation of the findings and recommendations.

However, officials and others reviewing preparing advice based on the final Inquiry Report should consider the extent to which these gaps materially impact frontier firms' performance, technology diffusion from them, and resource allocation.

### ECONOMIC AND WIDER RELATIONSHIP WITH AUSTRALIA

The New Zealand firm eco-system is tied closely to Australia in a potentially similar way to that other small advanced economies in Europe are connected to the European Union economies. This includes links through investment, finance, people and innovation (through firms and the research community).

The implications or lack of them from the close economic relationship with Australia needed more consideration in the analysis, notably because:

*"Increased economic integration expands the extent of markets, enabling countries to capture greater scale advantages and specialise in those things they do relatively efficiently. Resources ultimately shift to these activities and lower priced imports take the place of more costly domestically-produced goods and services. This is a dynamic process that encourages competition and innovation. Consumers benefit from lower prices and greater choice. The integration of labour markets — a prominent feature of the trans-Tasman relationship — opens up opportunities for people to develop and apply their skills and earn higher wages."<sup>4</sup>*

Beyond the 2012 Productivity Commission work, there was scope to consider the impact the Trans-Tasman economic and broader arrangements have on New Zealand frontier firms. These arrangements could have been contrasted with Denmark and Sweden's relationships with the European Union and the impacts of this for frontier firms in all three economies. This deserves further exploration.

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<sup>4</sup> Australian Productivity Commission and New Zealand Productivity Commission 2012, Strengthening trans-Tasman economic relations, Joint Study, Final Report. See: <https://www.productivity.govt.nz/inquiries/strengthening-trans-tasman-economic-relations/>

## MĀORI FRONTIER FIRMS

The final Inquiry Report would have benefited from more analysis of Māori frontier firms and the general implications for firm productivity in New Zealand.

The analysis, findings and recommendations in the final Inquiry Report focus on Māori firms generally, rather than Māori frontier firms. In addition, questions remain about the long-standing issues with the lack of significant progress on WAI 262 (related to intellectual property) and Te Ture Whenua Māori. They are undoubtedly important, yet beyond a desire to see these addressed, the findings and recommendations do not provide the context for the lack of progress or ways to make progress, specifically for Māori frontier firms. That said, the Haar analysis shows that Māori frontier firms have the resilience to overcome these hurdles even if they were to continue.

## GOVERNMENT PROCUREMENT FOCUS TOO BROAD

There is no doubt that a more strategic approach to Government procurement, including a more comprehensive view of the outcomes, could support frontier firms, including Māori frontier firms. However, the final Inquiry Report recommendations on government procurement are relatively general. A general preference for New Zealand firms in government procurement could result in more New Zealand firms supplying more goods and services and increase their incomes. However, without greater specificity about the outcomes, including improving productivity, technology diffusion and innovations, the general approach suggested in the final Inquiry Report could further support non-frontier domestic firms and exacerbate misallocation of resources to non-frontier firms.

## NARRATIVE ON SPECIFIC FRONTIER FIRMS

A better narrative about specific New Zealand frontier firms should have been possible, even within the scope of the sector analysis included in the final Inquiry Report. There are so few of these firms that it should have been possible to highlight these specifically.<sup>5</sup> Such an approach in future Inquiries might require less time than a wider sectoral analysis because it is more focused. It might also produce a richer story about these firms.

## ENVIRONMENTAL LIMITS

The final Inquiry Report makes a range of references to environmental limits, particularly concerning climate change. While this is an obvious environmental limit and will likely put pressure on New Zealand firms to increase productivity, the analysis in the final Inquiry Report is limited and does not extend fully to other aspects of the environment or natural resources. The Resource Management Review Panel report in June 2020 provided a commentary on the issues with not setting regulated resource management limits, the lack of flexibility and responsiveness in the current resource management system, and signalled a direction for addressing this. Progress with environment and resource management limit setting in the resource management legislation, regulation and on the ground will profoundly impact New Zealand's natural resource-based firms and require many to improve their productivity. This is an area that the final Inquiry report could have explored further, particularly given the likely impact on resource allocation.

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<sup>5</sup> There is a challenge with using anonymised data for powerful data sets such as the Longitudinal Business Database (LBD) to develop empirically robust overall insights about New Zealand firms while also seeking to illustrate and ground the quantitative analysis insights in a more tangible way with case examples. Ongoing attention to this trade-off is required by the Productivity Commission and other users of this data.

## IMPACT OF COMPETITION POLICY AND REGULATION ON FRONTIER FIRMS

Apart from the specifics of the case studies, notably for the dairy sector, the final Inquiry Report is remarkably silent about the impact of competition policy and regulation on frontier firms. This lack of focus is despite identifying lack of domestic competition as an issue for them and other domestic firms.

On this front, the final Inquiry Report also notes that many of the small advanced economies with frontier firms that outperform New Zealand's "rank significantly lower than New Zealand on several measures [of policy settings]". These policy settings include competition policy, ease of doing business, labour market settings and other regulatory arrangements for products/services and foreign direct investment. The final Inquiry Report notes that "this raises the question of whether some standard OECD-recommended policy settings might be less appropriate or matter less in [small advanced economies]".

There is an argument that earlier Productivity Commission Inquiries on urban planning, land for housing, regulatory institutions and practices and better local regulation cover this ground comprehensively. This is true from the perspective of overall productivity. However, with uncertainty about the productivity-enhancing policy mix for small advanced economies and the specific focus on frontier firms, the analysis could usefully have explored this further.

### Ethics Committee Approval

The Productivity Commission followed good practice and sought Ethics committee approval for its research, including interviews with company boards and others stakeholders.

In the absence of a specific ethics committee, the Productivity Commission used the New Zealand Ethics Committee (operated for New Zealand Ethics Limited<sup>6</sup>) to review the research approach from a research ethics perspective. This process strengthened the research approach and ensured researcher and research participant safety.

## GOOD PROCESS MANAGEMENT

### Independent Review Focus

The independent Review focused on the timeliness and quality of the inquiry process.

#### Performance Summary: Good process management

- Good process project management, supported by clear documentation, saw the final Inquiry Report delivered in the expected timeframe.

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<sup>6</sup> "The New Zealand Ethics Committee is an ethics advisory committee serving any social researcher not eligible for ethics review from the standing ethics committees for tertiary institutions or the health and disability sector. Many research projects from professional, community and government researchers fall outside this narrow realm of university or health research." See: <https://www.nzethics.com/> .

- The inquiry process and approach accommodated the constraints and limitations of the COVID-19 response well, although further consideration should have been given to the final Inquiry Report timing.
- The Productivity Commission's project management approach would benefit from a greater risk management focus (including key personnel changes and significant external disruption) and independent project management quality assurance for the Commission.

## Inquiry process faced significant challenges

Irrespective of the process adopted, the frontier firms Inquiry faced challenges not encountered in any previous Inquiry.

Primary among the challenges were the restrictions of New Zealand's COVID-19 pandemic response. These arose early in the Inquiry process and continued in some form almost through to its completion.

The COVID-19 disruptions and constraints required process innovations, including connecting to stakeholders by video conference. **Effective Engagement** comments (below) address this further.

## Project Management

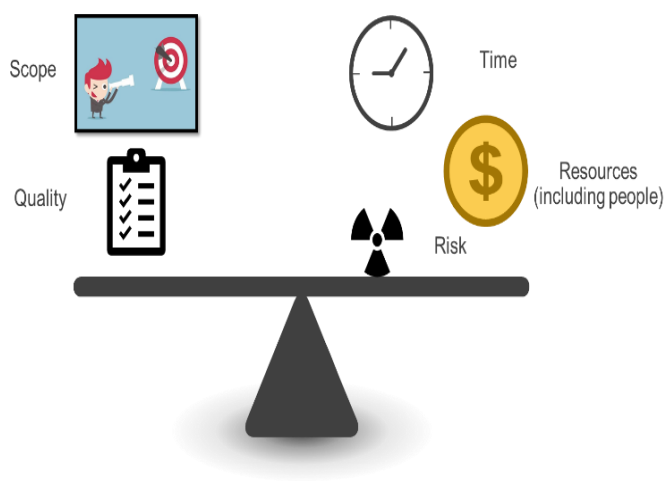
Each Inquiry is a project, and the Frontier Firms Inquiry process is no different.

The Review assessed the Inquiry's project management documentation. This assessment used applicable good project/process management standards and themes<sup>7</sup> as illustrated in the diagram.

Overall, the Inquiry process and associated project management followed an approach expected for a project of this type.

Considerable work, including ongoing and well documented key staff meetings, ensured understanding of the Terms of Reference by all involved with the Inquiry. This initial work set the framework and direction for the analysis and work then undertaken. The consistency of approach through Inquiry is impressive.

It was also valuable to revisit the Inquiry framing and direction as the work progressed. Good engagement within the team at critical breakpoints in the Inquiry process underpinned this.



<sup>7</sup> See good project management frameworks at: <https://techrish.com/six-important-characteristics-successful-project/>, <https://www.coleyconsulting.co.uk/projplan.htm> and <https://kissflow.com/project/five-phases-of-project-management/>



There was good input from various contributors through workshops and other engagements, including those outside the Productivity Commission. This ensured regular testing of staff and other contributor's thinking with changes made as a result.

However, the Commission could consider a few project management areas for improvement, including risk management, project management quality assurance at key points during an Inquiry and timeframes for submitters in some phases of the Inquiry process.

## Risk management

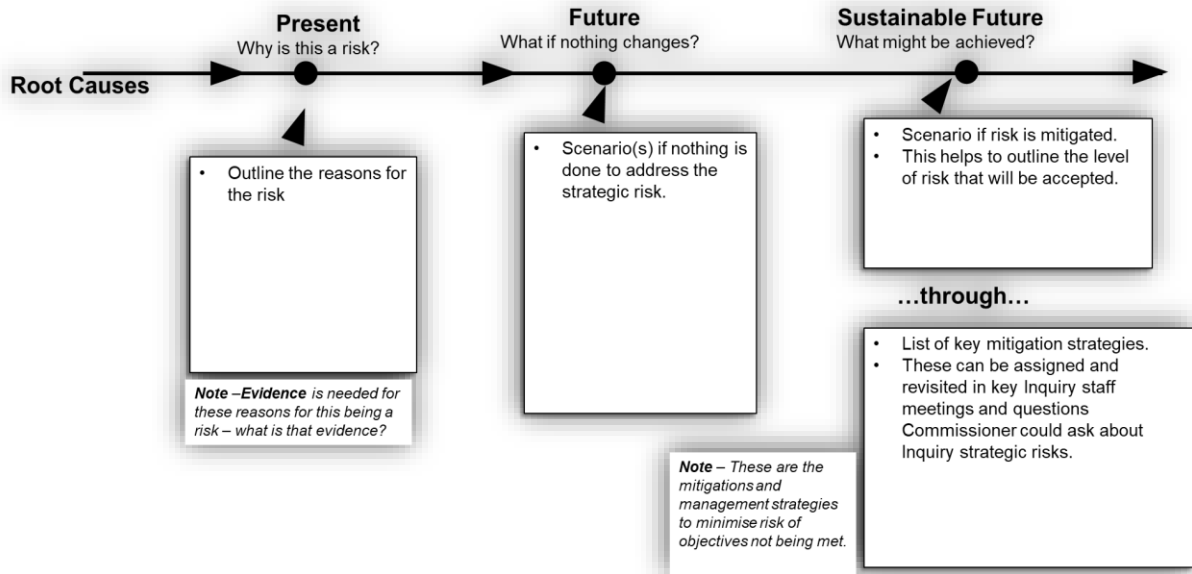
The Commission should consider a greater focus on risk management. The project documentation review showed that it gave insufficient attention to risks and their management. Attention to risk management is vital to anticipate developments that could significantly disrupt or impact an Inquiry.

For the Frontier Firms Inquiry, three key risks materialised during the process:

- Substantial disruption to the Inquiry process: It was impossible to anticipate the specifics of the COVID-19 response, but the potential for considerable disruption could have been. It needs to be in the future. Such disruptions can arise from natural disasters, as well as other events.
- Changes in Productivity Commission personnel:
  - Inquiry directors: There were three Directors for this Inquiry. A risk management approach would have seen Commissioners consider the options to address this sort of issue in advance of it arising.
  - Commissioners, including the Chair: A transition to new Commissioners and a new Chair occurred during the Inquiry. It is not clear how much impact this had on the Inquiry. Still, it may, for example, affected whether to review the timing of the Inquiry when significant disruptions occurred as a result of the COVID-19 response.
- Changes in working-level officials in the government departments responsible for overseeing the Inquiry: The Productivity Commission cannot control a risk like this. It can, however, anticipate that this will happen and put in place measures to ensure the departments and other government agencies understand the findings and recommendations and their implementation.

There are "storyboard" approaches that could assist this (instead of more traditional risk management approaches, which may be less suited to the Productivity Commission's operating approach). This type of approach could identify strategic Inquiry risks that could get in the way of the Commission achieving its Inquiry objectives and develop response scenarios should those risks materialise. The diagram below illustrates this approach.

## Strategic Risk #[x]: [Risk that contributes to objectives not being met]



Finally, as noted above, while the final Inquiry Report was delivered on time, a question remains about whether more time should have been sought for its completion given the range of risks that materialised during the Inquiry. A well-developed risk management approach would help consider this issue and provide clarity about the circumstances in which the Productivity Commission would seek an extension of time for Inquiry reports.

## Project Management Quality Assurance

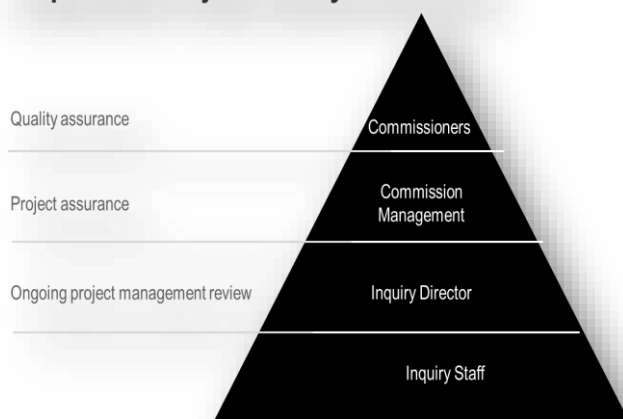
There are specific standards for quality management in projects (AS/NZS ISO 10006:2018). These provide a basis for assuring the quality of project management.

Quality assurance of project management against these standards is common for project-driven organisations like the Productivity Commission.

The Productivity Commission should consider a form of Independent Quality Assurance (IQA) for its Inquiry Processes. As outlined in the diagram, this differs from the monthly project assurance provided to Commission managers and weekly project management review by the Inquiry Director.

The Gateway Peer Review Process describes IQA in the following way:

### Independent Project Quality Assurance



*"IQA though is most commonly used to describe the structured review of an [project's] project management processes, practices, standards and guidance, their appropriateness, and the way in which they are being applied to a particular project or programme.*

*These processes may include (but are not limited to) management of scope, costs, schedule, benefits, risks, procurement, business change, communications, and governance. It is important that these knowledge areas are reviewed in a structured way and project IQA should be scoped accordingly."*<sup>8</sup>

The Commissioners could seek independent project quality assurance after the project plan for an Inquiry is finalised and at any point where the project plan was significantly rescope. This assurance would be in addition to the more widely framed Independent Review at an Inquiry's completion. It could provide the same sort of assurance and focus on best practice that ethics approval has provided for the frontier firms Inquiry. It could also be scaled to ensure sufficient benefits relative to the financial costs and staff time involved.

## Pressure on Submitters Reviewing the Draft Inquiry Report

Early phases of the inquiry process gave submitters reasonable time to review the documents and make submissions. The Inquiry process ended up with a significantly shorter time for review and preparing submissions on the draft Inquiry Report, particularly in the circumstances last year. This shorter time potentially impacted **Effective Engagement** (see below). In addition, as noted, more attention to risk management may have highlighted this issue earlier and resulted in the Inquiry timeline being revisited. This would have given submitters having more time to respond to the draft Inquiry Report.

## Dovetailing with related policy processes

Productivity Commission Inquiries will always face the challenge of how to dovetail with policy and other work by the agencies involved with an inquiry. The challenge of dovetailing Inquiries with policy advice and decisions seems likely to become more challenging with a move to Inquiries with a tighter focus on sources of New Zealand low productivity than small advanced economies and a greater tradeable sector focus.<sup>9</sup>

For the frontier firms Inquiry, there was significant effort to ensure that the Inquiry was undertaken and delivered at a time that would support policy work and decisions on research/innovation, industry policy and internationalisation. One example of this working well was the analysis prepared for the Productivity Commission by Landfall Strategy Group, "Frontier firms: an international small advanced

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<sup>8</sup> From "The relationship between Gateway Peer Review and IQA [Archived] at <https://www.publicservice.govt.nz/resources/gateway-iqa-relationship/?e216=1524-independent-quality-assurance-of-projects-and-programmes>

<sup>9</sup> See Cabinet Paper, *Productivity Commission Inquiry into Maximising the Economic Contribution of New Zealand's Frontier Firms*, 27 November 2019 at <https://www.treasury.govt.nz/sites/default/files/2020-02/productivity-commission-inquiry-terms-of-reference-cab-19-sub-0321-4233352.pdf> and Skilling, D., *Insights from the international experience of productivity institutions*, Landfall Strategy Group, Paper prepared for the New Zealand, June 2018, Treasury, p.3 at <https://www.treasury.govt.nz/sites/default/files/2020-02/prod-comm-insights-paper.pdf>

economy perspective"<sup>10</sup> being reflected in and appended to the 24 June 2020 Cabinet paper "A refreshed Industry Strategy in Response to COVID-19".

In addition and less immediately, there are indications from Review discussions with officials that the Inquiry's analysis, including additional published work, will likely impact policy thinking and future advice about innovation/research and firm internationalisation.

## EFFECTIVE ENGAGEMENT

### Independent Review focus

The Review focused on how well the Commission engaged with interested parties.

#### Performance Summary: Effective engagement

- The Inquiry engaged extensively with tangata whenua, stakeholders (including New Zealand firms), industry/innovation policy experts and other researchers.
- There was sufficient time for responses on the issues paper, with those submissions helping to shape the draft Inquiry Report.
- Submitters would have liked more time to comment on the draft Inquiry Report. This short timeframe left an impression for some submitters that the final Inquiry Report did not sufficiently take submitters' perspectives into account.

### Comprehensive Engagement Process

The Inquiry engaged with an impressive list of stakeholders, including those with perspectives on Māori firms. It is hard to see how involvement with a wider group of interested parties could have been achieved.

Early engagement on the Terms of Reference, one-on-one engagement with a wide range of stakeholders and a significant number of workshops to share and test insights helped shape the Inquiry well.

Government agencies involved in the process appreciated the engagement with the Commission staff during the Inquiry. In addition, ensuring authors of supporting papers engaged with officials was significant because it exposed the officials to the unfolding thinking and new ideas from people with considerable expertise and insight. It also supported government agencies' parallel policy thinking.

Substantial engagement is a remarkable achievement given the COVID-19 level 4 lockdown from 25 March 2020 until 27 April 2020, with continued restrictions on movement to 13 May 2020 and a final move to Alert Level 1 on 2 June 2020 and further disruption through the remainder of 2020 and into 2021 (particularly in Auckland).

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<sup>10</sup> David Skilling, Frontier firms: an international small advanced economic perspective, Landfall Strategy Group, May 2020, prepared for the New Zealand Productivity Commission.

## Changes as a result of the COVID-19 restrictions and challenges

The advent of COVID-19 could have created significant stakeholder engagement challenges. However, the extensive use of video conferencing, webinars and virtual workshops meant comprehensive engagement on the frontier firms Inquiry at a lower cost than would otherwise have been possible.

This experience will likely see the Productivity Commission use these online approaches more fully in future inquiries.

## Novel partnership with the Institute of Directors

The partnership that emerged with the New Zealand Institute of Directors was positive for the Productivity Commission and the Institute. It resulted in the better articulation of the part governance plays in frontier firms and provided the Commission with access to senior directors provided informed perceptions of company performance and governance. There were also lessons for both organisations:

- The Institute was introduced to approaches with research ethics processes. This is described more fully in **Ethics Committee Approval** above.
- The Commission had to carefully think about its work with a stakeholder with a different focus and expertise, including research.
- The dynamic capability framework and analysis reinforced governance's importance for frontier firm performance and resilience, and poor governance and leadership capability holding back non-frontier firms' performance.

## Coverage of the Inquiry

The Productivity Commission delivered on the key elements of its communications plan, including using various mechanisms to raise the work's profile on New Zealand's frontier firms.

The available data on the Inquiry coverage across all media, including social media and visits to the Productivity Commission's website, suggests relatively good coverage. This was monitored at critical points in the Inquiry by the Productivity Commission's communications staff.

However, without benchmarks and performance expectations, this isn't easy to judge definitively.

While most of the coverage was constructive and often supported the analysis, some of the commentaries, for example, on the Commission staff "op-eds", were less so<sup>11</sup>. Some of these comments question the Commission's real-world experience and qualifications to investigate frontier firms (and more generally).

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<sup>11</sup> See examples at: <https://www.interest.co.nz/opinion/106147/patrick-nolan>, <https://www.interest.co.nz/opinion/108258/productivity-commission-details-ways-improve-performance-new-zealand%E2%80%99s-so-called> and <https://www.interest.co.nz/business/106887/productivity-commissions-jo-smith-says-directors-have-emphasised-importance-having>

## Short time to review the Draft Inquiry Report

Timing for submissions on the draft Inquiry Report put pressure on submitters, given it ran across the Christmas period. It effectively only gave submitters four working weeks to read a 194-page document. The stress and pressure built up during 2020 due to New Zealand's COVID-19 response compounded the short timeframe.

While the Commission may have been assumed that the material presented in the draft Inquiry Report reflected the issues paper and the submissions on it, the timing for review of it put too much pressure on the submitters/ stakeholders.

The Commission should further consider the timing of submissions at each stage of the Inquiry process to ensure effective engagement.

## CLEAR MESSAGING

### Independent Review Focus

The independent Review focused on how well the Inquiry work was communicated and presented in the final Inquiry Report

#### Performance Summary: Clear messaging

- The Productivity Commission website and supporting material have the clearest messaging about the Inquiry's findings and recommendations.
- The "Cut to the Chase" documents summarise the final Inquiry Report well, but the key messages are less succinct and clear.
- The Inquiry Reports (draft and final) continue to be large documents and have significant repetition that needs addressing.
- The final Inquiry Report contained fewer recommendations than previous reports. However, care is needed to ensure these are sufficiently precise and direct.

### Succinct articulation of final Inquiry Report conclusions

Frontier firms and microeconomic policy and performance is a complex area. The need to consider and articulate the nature and performance of the economic system and extend this into wellbeing was always a challenging endeavour. This challenge, however, is the nature of the Inquiry topics the Productivity Commission has to address.

The Commission addresses this by having a suite of documentation intended to outline its conclusions in a range of levels of detail. For the Frontier Firms Inquiry, this included:

- Material on the Productivity Commission website (see <https://www.productivity.govt.nz/inquiries/frontier-firms/>)
- Two "cut to the chase" documents – one on the overall Inquiry and one on Māori firms.
- The final Inquiry Report.

The most concise messages are on the website and supporting material reviewed for the Review.

The "cut to the chase" documents on the overall Inquiry are less concise and clear about the Inquiry findings and key messages. They need tightening to reflect the key conclusions and messages from the final Inquiry Report.

The final Inquiry Report, while comprehensive, suffers from a level of repetition. In undertaking the Review, reading the final Inquiry report had a sense of reading the same paragraph multiple times. Some of this may be inevitable. The Commission might also assume that people won't read the whole final Inquiry Report.

Nevertheless, finding ways to structure the documents to avoid this repetition would be desirable because it improves the quality of the Report overall, gets more focus on the key messages and would make the Report shorter.

## **The findings tell the final Inquiry Report's "story"**

Despite the observation about repetitiveness above, it is possible to get a good sense of the Commission's analysis and thinking from the findings. The collection of findings at the back of the final Inquiry Report tell the Inquiry "story" well.

## **Good audience understanding of the conclusions**

All of the reporting during the Inquiry and the commentary on the final Inquiry Report point to good audience understanding of the conclusions. Of course, it was less possible for government agencies involved in the Inquiry to express their view directly. It is evident from the Review discussion that officials understand the conclusions reasonably well. However, as noted above, more specific recommendations may have helped prompt a clearer and more specific response from government. The Government formal response to the final Inquiry Report will be an indicator of this.

## **Number of recommendations**

The final Inquiry Report achieved the aspiration of having fewer recommendations. However, the risk with this is that the recommendations may be too short-hand, not specific enough and not fully reflect the final Inquiry Report's depth. In the end, this should not be a question of the number of recommendations. Beyond the findings telling the story, the recommendations need to "hang together" and provide direction that Ministers, officials, and other players can respond to and implement and seek to avoid "cherry picking" issues.

## **More specific policy and other recommendations**

There are at least six recommendations for further review of various aspects of the innovation system in the final Inquiry Report. While this may be valid, the Commission needs to be careful not to create the sense that its Inquiry reporting is like other research in recommending more research.

Even if this is the best answer to the Inquiry's findings, the recommendations for further reviews of various policy areas in innovation and research need to avoid burying the policy prescriptions within the review recommendation. This will help to some degree to avoid a response that "this is being addressed already".

In addition, the terms of reference sought policy and intervention recommendations. Government policy is important to shape the environment for frontier firms. However, interventions could also extend to business groups, business leaders, and other influencers in the New Zealand community who could also shape the environment and performance of frontier and other firms. This wider view of interventions should be considered for future Inquiries.

## Helping advisers and decision-makers

Ultimately, the Inquiry and specifically the final Inquiry Report is about supporting officials to provide advice and Ministers to make decisions on economic, industry, innovation and internationalisation policy and its implementation.

The frontier firms final Inquiry Report seeks to summarise a complex subject and analysis.

While it is a significant challenge to address, there are risks that this final Inquiry Report is read only by innovation/ research, industry policy or business internationalisation practitioners. There is an additional risk that these practitioners only look at the findings and recommendations within their areas of responsibility.

While the Productivity Commission's ability to address this is limited, the final frontier firms Inquiry Report could have more strongly reinforced the connections between the core elements of the microeconomic system that will drive improved frontier and other firm productivity.

## Need to consider the "eco-system" of Inquiry material

The volume of research and analysis reflected in the range of documents produced for the Inquiry is impressive. It establishes a body of knowledge that many agencies involved with the Inquiry will draw on for many years to come. In that sense, the final Inquiry Report "ties the bow" on the Inquiry.

However, it will remain important for the Productivity Commission to continue to emphasise the "eco-system" of other work and the people who produced it. Doing so is essential to support high-quality policy advice and other research that will be undertaken due to the Inquiry.

Further work on the nature and structure of and approaches to Inquiries would take an additional step with the direction set by the in the Minister of Finance's 27 November 2019 Cabinet Paper:

*"14 ...I directed the Treasury to make several changes which are now being implemented. In particular:...*

*14.2. in commissioning and undertaking future inquiries, consideration should be given to the desirability of using more flexible formats in order to maximise the Commission's impact on policy processes;...." <sup>12</sup>*

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<sup>12</sup> Office of the Minister of Finance, Productivity Commission Inquiry into Maximising the Economic Contribution of New Zealand's Frontier Firms, 27 November 2019, at: <https://www.treasury.govt.nz/sites/default/files/2020-02/productivity-commission-inquiry-terms-of-reference-cab-19-sub-0321-4233352.pdf>



# OVERALL QUALITY AND INITIAL IMPACT ASSESSMENT

## Independent Review focus

This part of the independent Review focused on the overall quality of the final Inquiry Report and the associated process. This includes the comprehensive suite of material produced for the Inquiry and its impact. It also outlines insights to inform work on future inquiries.

### Performance Summary: Overall quality and initial impact

- Overall, the final Inquiry Report (and the process) at least meets the standard expected of high-quality policy advice.
- The use of evidence, engagement and communication reflect sound policy development practice.
- An initial assessment suggests that officials and the Institute of Directors are using the final Inquiry Report and the other outputs to consider the future direction of innovation/research, industry and internationalisation policy, practice and performance measurement in relation to frontier firms.

## Overall Quality

The final Inquiry Report meets the requirements of the Inquiry Terms of Reference.

The quality of the Report reflects:

- good articulation of the international and local context within which New Zealand firms operate.
- a frontier firms framework developed by the OECD, supplemented by other relevant frameworks, including the Teece dynamic capabilities framework and re-evaluations of modern industry policy.<sup>13</sup>
- use of quantitative data from New Zealand (notably the longitudinal business database (LBD) augmented by data from other small advanced economies (using the CompNet database – see Box 3.1 – Sources of firm-level data in the final Inquiry Report).
- development of case studies in critical sectors of the New Zealand economy to augment the quantitative analysis.
- supplementing the Inquiry Reports with a wide range of analyses developed by people with significant expertise. More emphasis is needed on these as part of an Inquiry "eco-system" rather than focus overly on the final Inquiry Report.

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<sup>13</sup> See Warwick, K., & Nolan, A. (2014). Evaluation of industrial policy: Methodological issues and policy lessons [OECD Science, Technology and Industry Policy Papers No. 16]. OECD. <https://doi.org/10.1787/23074957> and Wilkes, G. (2020). How to design a successful industrial strategy. Institute for Government. [www.instituteforgovernment.org.uk/sites/default/files/publications/design-successful-industrialstrategy\\_0.pdf](http://www.instituteforgovernment.org.uk/sites/default/files/publications/design-successful-industrialstrategy_0.pdf)

- comprehensive and ongoing engagement with stakeholders, government agencies and experts to develop the Inquiry approach and test the findings. The timing for submissions on draft Inquiry Reports should be examined for future inquiries.
- a sound project management approach. This could benefit from more focus on risk management and independent quality assurance at key points in the Inquiry process.
- different forms of reporting on the Inquiry designed for different audiences, with findings that "tell the story" about frontier firms, their performance, technology diffusion, and resource allocation to firms in New Zealand well. Document size and extent of repetition in the final Inquiry Report should be looked at for future Inquiries.

To a large extent, the primary issues with the final Inquiry Report reflect the need to capture the dynamics of a complex system. However, for future Inquiries, the Productivity Commission should consider:

- continuing to refine and articulate the role that productivity plays in New Zealander's wellbeing, how it makes this contribution and the weighting of productivity and other factors in this.
- developing and articulating a more in-depth understanding of New Zealand specific conditions. For the Frontier Firms Inquiry, this included the relationship between New Zealand and Australian firms and the resource management/environment context.
- the links to policy processes and how the Inquiry work feeds into and can align with them. This challenge will get significantly greater with more focus in future Inquiries on New Zealand's principal productivity challenges. Experience with the analysis that supported the Inquiry contributing to policy processes and engaging with officials could be built on for the future.

## Initial Impact Assessment

As noted above, the Inquiry and final Inquiry Report overall impact are difficult to assess definitively because the final Inquiry Report was released three months ago, with strategy and policy work still being undertaken by officials.

There are, however, some indications of the potential medium- to longer-term impact of the Inquiry and the final Inquiry Report:

### POLICY AND BEHAVIOUR CHANGE

The initial indications are that policy was already moving to a degree in a direction consistent with the final Inquiry Report findings. While attribution is difficult, the new Immigration Policy Settings Inquiry could be seen to result from the frontier firms Inquiry's recommendation (R 9.5) to review New Zealand's migration policy.

It is less clear, beyond business group endorsement of the findings, whether the findings will see a change in firm capabilities, resource allocation, or significantly more focus in innovation, industry and internationalisation policy.

## GENERATING DISCUSSION AND DEBATE

There is no doubt that the Inquiry generating discussion and debate about frontier firms and the role of productivity for New Zealander's wellbeing more generally. Some of that discussion is less than helpful, given the nature of the commentary on various Productivity Commission op-ed pieces. Of concern in these comments is questioning Productivity Commission's "real world" credentials. In that context, for the future, the Productivity Commission should give consider further the authors of op-eds and other material and the extent to which other players (e.g. for the Frontier Firms Inquiry, leading business people) might be enlisted to provide or supplement the commentary.

## LIFTING THE STANDARD FOR HIGH-QUALITY ANALYSIS AND ADVICE

As outlined above and in other analyses, the Productivity Commission's work generally follows good policy practice. This is true for the Frontier Firms Inquiry and the reports produced.

Overall, the final Inquiry Report is generally an exemplar of quality analysis and advice prepared within a tight timeframe and in extraordinary circumstances.

## A FRONTIER FIRMS RESOURCE AND REFERENCE

Discussions with key players and the undertaking of further work, for example, New Zealand Trade and Enterprise beginning to look at the way it measures the performance of services to firms, suggest that the final Inquiry Report and supporting analysis will be a resource and reference as further policy development is undertaken and decisions made. The data, analysis and findings are particularly important for this. By contrast, the recommendations (as opposed to the findings) do not necessarily outline a prescription for future policy because they lack specificity and suggest further Review. This will become clearer when the Government's response is developed and published.