



Evaluation of the New Zealand Productivity Commission's Research Function

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Evaluation of the Productivity Commission's performance in regard to its Research Function

Executive Summary and Conclusion

Since the Commission was established in April 2011 the research team of the Commission has developed into a strong and credible unit that is seen to provide effective leadership and quality output. This is evidenced by:

- The number of relevant and quality Working Papers that were produced in 2013/14
- The strong and productive relationships and credibility of the Commission that has developed with outside researchers and policy makers.
- The leadership and commitment that is evidenced by the development of the Productivity Hub.

Across the five performance areas identified in the Terms of Reference performance has been rated as either Very Good or Good. This represents an overall strong performance in terms of building a team that has a clear focus and that produces relevant and quality output.

While this review of performance largely covers the period when the research function was being established the report also considers how the research focus and capabilities of the Commission might develop over the next few years.

The key thoughts relating to the future development of the research function are:

- The need to be clear about the long term research capabilities needed by the Commission. The Commission's research capability is a small one that needs to bridge the research and the policy worlds, and be credible in both. The capabilities required while overlapping to some degree will differ in some important respects from those that are critical to academic and policy success.
- Succession planning for the Commission's research capability will be important as the research team's credibility will depend to a very considerable degree on the quality and standing of the staff in both the policy and the research communities. In particular the standing of the Director in both communities will be crucial.
- The ability to synthesise and gain relevant insights from a wide range of research will be vital to increasing the Commission's impact. This will require a deliberate approach to building bodies of knowledge centred around some key themes such as those currently established by the Productivity Hub.
- To effectively synthesise the insights from a wide range of researchers will in turn require the ability to make explicit assessments of the technical qualities and policy relevance of a wide range of research.

- In relation to research undertaken by the Commission, commissioned by the Commission, published through the Productivity Hub or published through the Commission, explicit standards and for assuring quality should be established and made integral to any future arrangements.
- The small size of the Commission and its research team means that this team will need to develop, manage and sustain relationships with other researchers and research organisations. To do this successfully will require committed partners, clear prioritisation and skilled leveraging.
- The Commission will benefit from a strong and broad intellectual community centred on research into different aspects of productivity. The development of the Productivity Hub recognises this and provides a platform for building forward. Building and sustaining strong intellectual communities, though, will require considerable ongoing commitment and support.
- Intellectual communities are voluntary in nature. They need to be driven by the quality of people involved and the value that such people obtain from interacting with other researchers and policy makers.
- Four key points appear central to the building of strong intellectual communities. These are:
 1. Holding events, such as high quality conferences, which provide important opportunities for top researchers to share ideas and build relationships
 2. Creating opportunities for researchers to publish papers of good research quality under the umbrella of either the Productivity Hub or the Commission
 3. Leveraging off the relationships that researchers associated with the Commission's research team have with other New Zealand and international researchers
 4. Provision of some forms of infrastructural support for such a community
- The Hub is a good development with considerable potential. As it is still at an early stage of its development 3 key areas are important to its success. These are:
 1. Strategic leadership and shared views about its core focus and its future development
 2. There is a risk that the Commission in some de facto way becomes expected to carry a disproportionate load in relation to its operation and development
 3. The collective leadership and the support it receives from key agencies will be critical to its long term usefulness
- Looking out into the future it may be important to be open to, and consider, new ways of funding - at least in part, the Hub. This may need to include being open to working through different partnerships arrangements.

Introduction

This review is an independent evaluation of the Commission's function to undertake and publish research about productivity related matters. It reviews the approaches taken, to date, by the Productivity Commission in establishing its research function and the programme of research undertaken through the function.

This review includes a high-level assessment of the level and quality of research work undertaken by, and commissioned by, the Commission during the 2013/14 year. The evaluation also considers the Commission's work with the Productivity Hub and the effectiveness with which research is used to influence policymaking and enhance the Commission's reputation.

The Terms of Reference for this review are attached as Annex A.

This review first considers the performance of the Commission's research function in relation to five key dimensions that formed part of the Terms of Reference. A subsequent section then raises and discusses some questions that have future relevance to the longer term role and performance of the Commission's research function.

Background

The Productivity Commission was established April 1 2011. The Commission's primary purpose is to provide advice to the Government on ways in which New Zealand's productivity performance can be raised.

There are three ways in which the Commission gives effect to its mandate:

1. Undertakes in-depth Inquiries on topics referred to the Commission by the Government
2. Carries out productivity-related research that assists improvement in productivity over time; and
3. Promotes understanding of productivity issues.

In undertaking this review I have recognised that during the period immediately following its establishment the Commission was undertaking two substantive Inquiries at the same time as it was building a new organisation and attracting the capabilities it needed to undertake its role.

Approach to the Review

A range of research documents produced by the research team were reviewed. These provided a representative set of papers of the research related output from the Commission. Material on the Productivity Commission and the Productivity Hub websites also informed this review.

Fourteen people were interviewed as part of this review. Those interviewed included two Commissioners, five Commission staff and seven people external to the Commission. The external people interviewed all had some familiarity with the Commission. All had been involved with research from either policy making or academic roles. A list of those interviewed is attached as Annex B.

In undertaking the interviews two broad avenues of questioning were followed:

- How the research function of the Commission had developed and been undertaken since the Commission was established. This included seeking views relating to different aspects of its performance to date.

- Key dimensions of the future performance of the Commission’s research function. This considered how the Commission’s research role and focus might continue to evolve in order to increase the future impact and influence that the Commission, as a whole, can have on raising productivity levels in New Zealand.

In assessing the five dimensions of performance, set out in the Terms of Reference, I have used a four-point grading scale of Very Good, Good, Satisfactory, and Inadequate. This assessment centres on how well the research function has been developed during the Commission’s establishment and the strength of the platform that is now in place for the future work and impact of the Commission.

Assessment of Performance

In evaluating the Commission’s performance in delivering on its function to undertake and publish research about productivity related matters five areas were identified in the Terms of Reference for specific attention. This section provides comments and an assessment on each of these five areas.

Performance Area 1

The relevance and materiality of the Commission’s Working Paper and Research Note series in advancing understanding of New Zealand’s productivity issues, including the basis or purpose, against which current and prospective research projects are designed or commissioned.

Comments

Most of the Commission’s published research output is comparatively recent. Only one Working Paper and one Research Note were produced in 2012/13¹ while in 2013/14 six Working Papers and two Research Notes were published.

This pattern of published research output is explained by a number of factors including:

- The initial period when the Commission was getting established.
- The research team took a while to recruit. It was initially a small team of 3 people building up over the three year period to 5 people.
- The time that is needed to produce research to a Working Paper standard.
- During the first phase of its establishment the Commission was required to undertake two major inquiries. These inquiries became a significant focus for the research team who contributed a number of chapters to those reviews.
- More recently considerable effort has been directed by Commission to the establishment, and work, of the Productivity Hub.

¹ The year referred to is the Commission’s June financial year.

A full list of the published Working Papers and Research Notes is attached as Annex D.² They include papers authored by Commission staff and some papers authored by outside researchers. One paper is authored by OECD staff.

Some research papers directly relate to Inquiries being undertaken by the Commission – for example, the reports on “The Effect of Auckland's Metropolitan Urban Limit on Land Prices”; “How Integrated are the Australian and New Zealand Economies?”; and “Housing Affordability in New Zealand: Evidence from Household Surveys.”

Other papers take a broader perspective and review a range of past research relating to New Zealand's productivity. This is evidenced by Working Papers such as “The Prices of Goods and Services in New Zealand: An International Comparison”; “Structural Change and New Zealand's Productivity Performance”; and “Productivity by the Numbers: The New Zealand experience” This research contributes to building up a knowledge base, and understandings, of New Zealand's past productivity performance and the factors influencing this performance.

A third group of papers takes an international perspective. These include “The Price of Goods and Services in New Zealand: An International Perspective” and a paper by OECD staff “An International Perspective on the New Zealand Productivity Paradox”. These papers provide insights into productivity performance in different countries and New Zealand's comparative productivity performance.

Looking across the three-year period since the Commission was established, the last 18 months has seen a significant shift in the focus of the research effort and output towards undertaking a broad stock take of past research relating to New Zealand's productivity performance and its comparative performance.

The shift in emphasis from working papers to ones that synthesise a wide range of research makes considerable sense from several perspectives:

- It is important that the Commission develops a broad knowledge base about previous New Zealand research that has been undertaken and the quality and policy relevance of such research.
- The Commission needs a broad understanding about productivity in other countries and the ability to undertake comparative analysis.
- Developing broad understandings about the determinants of productivity in New Zealand is central to strengthening the Commission's role and influence. This influence relates not only specific inquiries but more broadly to the Commission's leadership in building deeper and richer understandings of the strength of different causal influences impacting on New Zealand's productivity.
- Any research that the Commission undertakes, commissions or seeks to influence needs to fill gaps where knowledge does not exist and be guided by Commission views relating to future research priorities.

Feedback from interviews commented that:

² Productivity Commission website

- The research undertaken or commissioned by the Commission was material and relevant. Such research is making a useful contribution to New Zealand’s knowledge base. It is not duplicating research that has already been done.
- While it took some time for the research function to get established this was largely to be expected given that the Commission was a new organisation that needed to be established from scratch.
- The stock take of past research is important and strongly supported. This contributes to the building up of a substantive body of knowledge. It helps to develop broader narratives relating to the different factors influencing productivity. It minimises potential duplication of past research and it provides useful input into informing future research priorities.
- The focus on developing the Productivity Hub was an important initiative and a step towards getting better alignment, co-ordination and to gaining leverage across the research effort of a number of agencies.

<i>Overall Assessment</i>	<i>Very Good</i>
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Summary of Assessment

In my judgement:

- The Commission’s Working Paper and Research Notes series are clearly relevant and material to advancing understanding of New Zealand’s productivity issues.
- Overall these publications represent a good balance of effort. They look to fill gaps in knowledge, specifically:
 - The Working Papers that directly relate to an Inquiry had an immediate relevance.
 - Those looking at past research have helped to build a general knowledge base which is important, and relevant, to the future and ongoing work of the Commission.
 - Those with a greater focus on international research are used to inform and understand judgements about New Zealand’s comparative productivity performance.
- Since the establishment of the Commission, a clearer focus for its research effort has become evident. This is seen in a shift in focus towards the synthesising of a range of research.
- The shift in focus of the research effort seems very sensible at the current juncture. The Commission with its small research team is never going to be a major producer of research. On the other hand the Commission needs to be informed by a broad understanding across a wide range of research in undertaking its Inquiries. Both a broad knowledge base and a depth of knowledge are important to its overall credibility, influence and authority. This will require a significant component of the Commission’s research capability to be involved with assessing and interpreting a wide range of research in terms of its relevance for the work of the Commission.

- It is good to see some non-Commission staff authoring Working Papers. This is something to be encouraged as part of building up a body of relevant and quality knowledge. It also contributes to the standing of staff in both the academic and policy worlds.
- Feedback from interviews confirmed the relevance and materiality of the Commission’s research. It confirmed that research undertaken or commissioned by the Commission looked to plug gaps in knowledge and not repeat research that had already been undertaken.
- Feedback was also very supportive of the priority being given to undertaking a stock take of previous research of relevance to productivity.

Performance Area 2

A high-level assessment of the quality of the Commission’s research work and the procedures in place to ensure high quality.

Comments

The Commission produces several different types of research and research papers. These include:

- Working Papers.

These are high quality research papers. They have been independently peer reviewed by good researchers.

- Research Notes.

These are shorter pieces that summarise research undertaken or a more technical summary of research that is not intended to be produced to Working Paper standards. Often these notes provide background or input to inform an Inquiry. They are primarily of interest to other researchers and policy makers.

- “Cut to the Chase”.

These are written for more general audiences. They provide short summaries of major reports and pieces of research.

Discussions with Commission staff indicated that clear and consistent understandings exist regarding the nature and the qualities associated with these different papers.

External feedback indicates that the Commission’s research staff were respected for the quality of their work and their knowledge.

The commitment to public release or the public availability of Working Papers and the public availability of Research Notes enables assurance to be gained by the opportunities for public criticism or academic critique of the Commission’s research and research related output.

Additional assurance is also obtained by the presentation of papers at conferences, workshops, as well as exposure to those associated with the Productivity Hub.

Overall Assessment	Good
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Summary of Assessment

- I consider that people can have confidence in the quality of the Commission’s research output.
- The sample of papers I read were accessible. They raised relevant questions. Conclusions are drawn in ways that provide interesting and policy relevant insights. In doing this the authors were careful not to draw conclusions that go beyond what can be justified by the research or cross into the realm of policy advice or advocacy. This understanding of the boundaries between research and policy advice is important in maintaining the integrity of the research.
- Discussions with both staff and external people all reinforced a strong understanding of the rigour that needs to be associated with how research is interpreted in terms of its policy relevance or the strengths of any conclusions that can be drawn from research.
- The recent relationship that has been developed with Motu Economic and Public Policy Research. This will add considerable strength to the quality of research associated with the Commission as well as the research undertaken by Motu informing Inquiries. The relationship with Motu will not only leverage off Motu’s knowledge and expertise but also off Motu’s national and international reputation.
- The commitment to peer review and open access to research papers adds confidence in the quality of work and would be consistent with good practice by other research organisations and researchers.
- While common understandings were evident in terms of the processes to assure research quality, I did not see any documented standards relating to the different kinds of research papers. Nor did I see any formal documentation relating to the peer review of Working Papers.
- Developing more explicit standards and/or more clearly documenting the quality assurance processes is something that should be considered. I think this is important for several reasons, namely:
 - Increasingly Commissioners will rely on the interpretation and assessment of research to make critical judgments.
 - By having the processes documented they are easier to audit and their rigour is more assured. It signals clear expectations to potential authors about the standards expected.
 - Comments from peer reviewers are also important in forming judgments as to whether a Working Paper meets an acceptable standard. Different skills are required

to provide effective peer review for different papers. For example, to assess the application of highly sophisticated econometric techniques or to ensure that causal relationships are not being attributed to correlations.

- Over time, quality assurance through clear processes and adherence to them will become more important as more research is commissioned and if more research is published through the Commission.
- Clearer standards will have useful signalling value to a public sector whose research output is not commonly associated with clear and consistent standards. The absence of such standards leads to departmental research being often being seen as variable in quality and too inclined to ineffectively draw on research to justify a policy view.
- In the future the Commission could publish a growing volume of research from a wider range of researchers. Again this argues for clear quality standards needing to be established for publication.

Performance Area 3

The ways in which research is being used to inform both NZPC reports and the NZPC's wider contribution to the debates and understandings about the drivers of productivity in New Zealand to improve productivity performance.

Comments

The relationship between the research team and the Commission's Inquiries is both direct and interactive.

The planning for an Inquiry needs to consider what research is available in the areas concerned and how it can be factored into the Inquiry. Specific issues may also arise during an Inquiry leading to questions relating to the availability of relevant research.

In finalising an Inquiry the Commissioners were clear that that the quality and understanding of the research evidence was crucial to their making key judgements. This requires clear advice about what research says and what it does not say and therefore what weight can be placed on it.

In the 18 months following the Commission's establishment the research team made a significant and direct contribution to the Inquiries by contributing chapters to Inquiry reports.

More recently, the research team is contributing to Inquiries by providing summaries and syntheses of relevant research to an Inquiry team or by providing some peer review of draft sections of reports. In the advice provided they assess the relevance, and the strengths of the insights that can be derived from relevant research. Some of this is done through discussion but the research team may develop Research Notes that support the input or views that they provide.

Three other initiatives represent ways in which research will inform Commission reports and contribute to wider debates and understandings about drivers of productivity in New Zealand. These are:

- The relationship established between the Productivity Hub and Motu Economic and Public Policy Research.

This is a contract for research that will see much greater use made of the Longitudinal Business Database (LBD). It will enable a rich source of data to be exploited for more detailed firm by firm analysis and firm-level insights. This work will also assist to build wider public sector capabilities to understand and utilise this data source.

- The work of the Productivity Hub

The Productivity Hub has agreed on the importance of developing a “Forward Looking Agenda of Research” (FLARE). This agenda has been organised around 5 broad themes:

- Theory of the Firm and firm-level productivity
- Efficiency of resource allocation
- Innovation ecosystem
- Skills migration and demographic change;
- Natural and intangible assets

This provides a useful and workable framework that can link individual pieces of research to broader outcomes and drivers of productivity. In doing this they help build useful bodies of knowledge that inform discussions and debates about causal relationships. It also assists processes to better co-ordinate research and to identify priority areas for future research.

- The Productivity symposium

In conjunction with the New Zealand Association of Economists (NZAE), the Commission and the Productivity Hub organised a daylong symposium on Productivity. This symposium involved presentations from a number of overseas and New Zealand researchers, Commission staff and senior public servants. Conference members of the NZAE attended the symposium. This symposium provided a platform that helped strengthen the connections between top researchers and policy makers.

<i>Overall Assessment</i>

<i>Very Good</i>

Summary of Assessment

- Research is seen as important to the quality of Commission reports and the Commission’s wider influence.
- Strong communication and engagement between the research team, an Inquiry team and Commissioners was clearly evident from all Commission staff interviewed.
- The importance attached to research by the Commission is seen more broadly through the its commitment to build a research relationship with Motu Economic and Public Policy Research, its investment in the Productivity Hub and through its support of a productivity symposium.
- This all adds up to a clear and strong commitment to contributing to debates and to the building of wider policy and public knowledge of productivity issues.

- The links from research to the Inquiries and to policy makers are also strong.
- One area that could be strengthened is to be more deliberate and pro-active in identifying the potentially important future research questions that arise from Commission Inquiries. This would contribute more generally to informing future research priorities. And provide a stimulus for other research that is funded through different channels.
- The ongoing work on the 5 FLARE themes will also raise debates about research priorities. By posing questions centred on what is not known, but important for the future, the Commission can stimulate discussion and debates and influence the thinking of their wider stakeholder communities.

Performance Area 4

The Commission's effectiveness in improving the coordination and collaboration among public sector agencies working on productivity.

Comments

Feedback from all interviews pointed to strong and effective relationships having been developed between Commission staff and public sector agencies.

The establishment of the Productivity Hub is seen as the most tangible and significant example of this. The Productivity Hub is a partnership of agencies focused on better understanding New Zealand's productivity experience and the role of policy in improving productivity growth.

The Hub is chaired and supported by the Productivity Commission and represents a collaboration amongst a number of agencies most notably the Treasury, Ministry of Business, Innovation and Employment, and the Department of Statistics. It has a governance structure whose Board members comprise a senior official from each of The Treasury, Ministry of Business, Innovation and Employment, Statistics New Zealand and the Productivity Commission. The board meets six to twelve times a year.

It has an experts group who act as a catalyst for the Hub's strategic research direction as set out in FLARE and set the research agenda for the Hub's LBD research partnership with Motu. The group of experts comprises of productivity researchers from organisations represented on the Board.

Key achievements to date have included:

- The sharing of research plans across agencies with the view of ensuring no duplication and to get better alignment and leverage from the collective effort.
- The development of the FLARE framework that has seen a shift away from unconnected research to a focus on a need to develop bodies of knowledge in 5 broad areas.

Feedback from interviews included:

- Very positive views about the importance and significance of the Hub.

- The key role of the Productivity Commission’s leadership and its commitment to the Hub, and most notably, Paul Conway’s leadership.
- The Productivity Commission was ideally placed to provide leadership because it was seen as relatively independent of government and not facing the immediacy of needs to respond to the issues of the government of the day.
- The Hub was seen more as a clearing house rather than a more enduring institutional arrangement. While senior individuals in agencies were strongly committed to it, this commitment was less evident at broader institutional levels. This was seen to place most of the onus on the Productivity Commission to make sure it worked and was supported.

Assessment:	Very Good
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Summary of Assessment

- The Commission has contributed to a significant lift in the degree of coordination and engagement across departmental economic agencies.
- A strong sense of collaboration, rather than rivalry, has developed between key agencies (and particularly some key people in agencies).
- Feedback from all external interviews thought it was desirable and important that the Productivity Commission and the Productivity Hub developed into centres of excellence on productivity issues. Achieving this would support the work of many agencies.
- The leadership of the Commission’s research team in supporting and pushing for collaboration has been vital and effective.
- The work in developing the Hub and the FLARE framework provides an important platform that is supporting better information sharing and collaboration around research.
- There may be a range of issues/questions that will arise in relation to the Hub in the future. These will include how its role might/should evolve and the level of commitment that might be required to fulfil particular roles. Some of these issues are discussed further in the following section.

Performance Area 5

- *The effectiveness of the Commission’s engagement and delivery of message, as evidenced by the communications collateral around the research work.*

Comments

The ways in which the Commission’s research staff engaged with people external to the Commission received positive feedback.

The leadership of the Commission in setting up the Productivity Hub and driving the development of FLARE was viewed very positively.

Research papers were seen as relevant, accessible and informative.

There is a conscious focus on finding ways to communicate research findings to different audiences – from Working Papers to shorter and simpler “Cutting to the Chase” pieces.

There is good awareness of the different audiences with an interest in the Commission’s research that is reflected in different communications.

Care is taken not to overstate the conclusions that can be drawn from research. This was most recently evidenced with the public release of the Gemmell research. This highlighted an important finding while also being careful not to leap to a policy conclusion that cannot be supported by the research.

As the body of research grows so too will the potential to increase the range and frequency of communications. Over time the five research themes of FLARE should help to develop a more connected narrative that draws from a growing body of research as opposed to being centred on the release of a major piece of research. This will help paint a richer picture across a number of possible causal influences.

The communication of research to date has been strongly centred on influencing the thinking behind policy. Over time there will be growing opportunities to influence thinking and practices in different sectors of the economy.

Also it seems possible that more could be done to identify and highlight potentially important future research questions. These could be drawn from Inquiries and centre on questions that such Inquiries identify as important outstanding issues. For example, the importance of further investigating whether low productivity in the construction sector is a result of small size or inefficient institutional arrangements; or further researching what the reasons might be behind the lower intensity of competition in the services sector relative to that in other economies. By doing this the role of the Commission to help frame debates and conversations in ways that are better focussed on the things that may be most important to raising productivity.

Assessment	Good
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Summary of Assessment

- There is a strong commitment to open and transparent communication of all research findings.
- The different forms of communication recognise the need to communicate differently to different audiences – but in ways that do not compromise the integrity of the research findings.
- As the Commission builds up its knowledge of past research, its relevance and its quality opportunities will increase to place more emphasis on the importance of identifying key forward-looking research questions to complement the focus on reporting the findings from Inquiries.

Future Focus, Roles and Capabilities of the Research Function

The previous section concluded that, since its establishment, the Commission has developed an effective and credible research capability. Over this period, the research team has developed a reputation for the quality of its work, its leadership and its relationships - especially within the public sector. This creates a solid foundation for adding greater value to the future work and impact of the Commission.

In looking ahead, the Commission's impact will increasingly depend on its ability to access, interpret, help build and utilise a growing and widening body of research. The insights from this research are less likely to come from individual research projects and more likely from the ability to draw from, and interpret, a growing and wider body of research.

Improved productivity inevitably will require changes in policy, changes in firm level and sector practices and changes in organisational arrangements within different sectors of the economy. As the Commission looks to influence such changes through its leadership, its Inquiries and its stimulation of discussions and debates, the evidence base it draws on will face increased scrutiny.

Against this backdrop the future nature and role of the Commission's research capability will be a key underpinning of many critical future judgments made by the Commissioners. This section discusses some longer term considerations and choices that arise from this review relating to the future role, focus and capabilities required of the Commission's research function. This is not arguing for a particular approach. Rather it looks to identify areas of important choices in defining and building the Commission's future research capabilities.

The Distinctive Research Capability Required by the Commission

The research capability of an organisation has a number of dimensions of capability. These include the ability to:

- Undertake research to a high standard
- Frame research questions
- Contract for research and manage such contracts
- Publish research to a consistent and credible standard

- Interpret research in terms of quality and relevance
- Build bodies of knowledge derived from the insights from a breadth of research
- Assess and interpret research findings in terms of their application and relevance to policy and practice
- Build effective relationships with the wider national and international research communities.

The Productivity Commission differs from research institutes, government departments or think tanks in some important respects. The Commission's research staff are not like academics whose career depends on the ability to publish in reputable journals. Nor are the Commission's research staff policy makers who need to respond to more immediate issues and provide advice on the need for, and nature of, government interventions.

Key Qualities

The key research qualities required by the Commission lie in two areas:

- The ability to effectively bridge the research and policy worlds.
 - Research staff need to be credible with, and respected by, both researchers and policy makers. They need to be able to engage in some depth with both groups.
 - The ability to assess the quality and relevance of a wide range of research in terms of its insights for policymakers and in terms of its relevance to the critical judgements that lie behind the Commission's advice and recommendations.
- The Commission's researchers' abilities to interpret and synthesise a wide body of research to derive insights that are policy relevant in terms of causal relationships.
 - A high level of rigour is required to recognise both the insights and the limitations associated with any research.
 - Also requiring rigour is the ability to make connections in ways that have integrity in relation to the research, and are useful to policy makers or practitioners.

Implications

Some of the implications that flow from the above for the Commission include:

- A need to be clear about the nature and mix of research capabilities needed within the Commission. These capabilities are likely to be different from those expected of top academic researchers such as the Senior Fellows at Motu and university researchers. This has implications for recruitment and succession planning.
- A need to have amongst the Commission's research staff, people with:
 - Credible research records
 - Good understandings of the requirements of rigorous policy

- The ability to connect with other researchers and their research
- Recognition that a key research output from the Commission is likely to centre more on the synthesis and interpretation of a broad body of research for applicable cross cutting insights for policy and practice
- The extent to which research staff should still be expected to be active researchers who produce some Working Papers
 - This may be important to maintaining reputation within the research community as well as providing the Commission with the capability to assess the research quality of others
 - The Commission may need to make clear its expectations for research staff to produce Working Papers. For Commission research staff the additional effort required to take a piece of research to a Working Paper may not be seen to be justified.
 - Commissioned research from research organisations, on the other hand, is likely to see the outside researchers involved being strongly motivated to be given the time and ability write up the research for publication
- A key point arising from this section is the importance of the Commission to access and leverage off top research capabilities that are in other organisations
 - The Commission will not only be dependent on the quality of research conducted by a wide range of New Zealand and international researchers it will also need to use such relationships to access the expertise necessary to provide assurance in relation to the quality and relevance of such research
 - The role of the research Director will be crucial here in terms of attracting and connecting top research people with the work of the Commission

Ongoing Development of the Productivity Hub

Areas of Development

The Hub has been an important and influential development. From interviews it is clearly a collaborative arrangement rather than something more formally constituted. While it is a collaborative venture most saw it as an extension of the Commission with its future very dependent on the Commission's commitment and leadership.

Comments from the interviews included views that:

- The Hub has led to better alignment of research effort across agencies.
- The Commission has the biggest stake in the Hub.

- Agencies see the Hub largely as a clearing house for sharing information and ideas rather than a decision making body.
- While the people associated with the Hub are committed to it, less confidence is held in the commitment of their agencies to it. In particular individual agencies are likely to be cautious about committing beyond a certain point. This caution reflects constraints and pressures on a department's Vote; changing political priorities; internal tensions and the need to balance other research priorities specific to the agency.
- It was suggested that to gain support for any evolution of the Hub to a more powerful and influential role will require the Commission's leadership and a significant degree of engagement by Commission staff and Commissioners with different levels of agencies and the government.
- The Hub has several levels associated with it:
 - At its peak is governance which involves top public sector researchers. Beneath the governance levels is engagement centred on a range of interests and motivations in relation to productivity issues.
 - To varying degrees the Hub is seen to be contributing to the development of public sector capability. It was suggested that it could play a stronger future role in developing leadership roles amongst principal policy advisors.
- From the perspective of the Commission, the calibre of researchers associated with the Hub and its ability to be at the centre of a strong intellectual community, is very important if the Commission is to get greatest value from it.
- Both the development of the Hub and its future roles are seen to be critically dependent on the support and leadership of the Commission. In particular, at this point in time, the leadership of Paul Conway and more recently Patrick Nolan is seen as crucial.

Implications

Some implications that arise for the Commission would include:

- The need for the Commission to have a strategic view on the desirable future development of the Hub. This would include consideration of:
 - Where the Commission would gain the greatest value from the Hub. This is needed to shape the Commission's views about the desirable future role and focus on the Hub and its organisational arrangement.
 - The priority that the Commission wishes to give to the investment of its staff and resources in the Hub

- Periodic monitoring of the performance and development of the Hub - including the quality and added value associated with its different roles and its reputation
- The need to use the collective influence of the Commission with key stakeholders to shape the future of the Hub
- Assessing, and mitigating where possible, the risks to the Hub from the loss of key people from either the Commission or other agencies
 - Personal relationships are currently strong and collaborative. Changes in key people could see the Hub lose some of the cohesiveness that currently characterises it.
 - Assessing the implications of the Hub expanding the scale of its membership and/or activities as say, more departments become involved or the network of researchers associated with it grows or the functions associated with the Hub expand.
- Considering what possible future business and/or funding options may be appropriate for the Hub to support its development

Depth versus Breadth of Focus

The reality is that NZ has limited applied economic research capability and this capability is dispersed and relatively fragmented.

It was strongly argued, and I agree, that the Commission needs to bring a strong economic focus to its work. After all, productivity needs to underpin better economic and social performance.

It is also appropriate, given New Zealand's limited research capability to direct effort to a smaller area of focus and do this in depth as opposed to spreading too thinly over more areas

Implications

Some implications that flow from this section for the Commission include:

- While giving priority to two of the five themes makes a lot of sense the Commission should ensure that the Productivity Hub's Board periodically reviews the balance of effort and the priority being given to different themes.
- Consideration should be given to reviewing how the Hub might also develop connections with researchers that undertake work of relevance in the other three theme areas so that knowledge can also be built up in these areas of lower priority.
- Having the five overarching theme areas within FLARE conforms to the approaches taken by most research institutes. Overseas and New Zealand experiences highlight:
 - The importance of having the leader of each theme area as someone with external credibility

- The importance of having systems and processes in place to support the person in the role of theme leader
- The need to ensure in each theme area that a priority is given to building a wider body of knowledge and communicating the insights from that body of knowledge as it grows.
- The choice of theme areas involves somewhat pragmatic choices. Therefore theme areas may need to be reviewed from time to time to reflect both the research knowledge that has been built up and the comparative strengths and interests of the people who may be attracted to positions of theme leaders

Building a Strong Intellectual Community

Areas of Focus

In terms of achieving its desired impact the Commission will need to directly and indirectly access the research and the expertise of a number of good quality researchers.

As a small organisation with a small research capability the Commission will need to do this in a strategic and skilled way. This will place considerable demands on the Commission's research team and/or require approaches that leverage off other organisations and individuals.

The development of the Hub and the relationship with Motu represents some ways in which the Commission can gain more leverage from associations with high quality researchers.

- Research institutes provide some insights into the issues involved. A good research institute:
 - Acts as a magnet that attracts top researchers and encourages stronger and more aligned research networks to develop
 - Takes a broad and strategic view of public issues and, in doing so, effectively bridges from research to practice and from practice to research. This enables them to authoritatively lead, shape and inform public debate and to build an institute with a high national and international reputation.
 - Recognises that any association with it for most researchers will be a voluntary one as they will have more formal ties to their parent institutions
 - Recognises that the attraction for any association needs to centre on the value that individual researchers gain from an association with a research institute
 - Is characterised by the research leadership associated with it. This includes:
 - The reputation of the Director of a Research Institute as an established and reputable researcher and the ability to bridge the policy and research worlds
 - The relevance of the research themes

- The calibre of other researchers involved, including the theme leaders of specific research programmes.
- The opportunities for stimulating high quality intellectual dialogue and debate.

Implications

Some implications for the Commission include:

- Recognising the value to the Commission of there being a strong intellectual community of researchers with interests in productivity
- Recognising that an intellectual community has the characteristics of a virtual organisation rather than a physical one. As such it needs to draw on the research strengths from many other institutions in ways that support the personal motivations of individual researchers and the broader objectives of the Commission
- A key choice for the commission will be whether to centre the building of such a community from within the commission, the Productivity Hub or through a partnership relationship with a University or research organisation. Such choices need not be either/or ones.
- How to best develop and support quality national research leadership that centres on productivity as the key focal point for its wider research and intellectual community.
- How to best ensure a quality of researchers and quality of leadership that acts as a strong magnet to attract other researchers and the support of wider stakeholders.
- How to best increase participation in this intellectual community over time to include top applied academic researchers in New Zealand and from overseas
- Considering how to best support a wider network of researchers to become affiliated with the Commission and the Hub. This could include:
 - Creating and supporting opportunities for researchers to engage with the research themes and with each other
 - Supporting theme leaders in their key roles – especially to develop networks of researchers and to have a focus on drawing out wider insights from a broad range of research
 - Providing opportunities to publish research. This may require two main flagship publications - one academic and one orientated to policy and application.
 - Recognising the researchers associated with the community through titles such as Affiliate, Associate or Fellow
 - Investing in the provision of a more deliberate infrastructure that supports and encourages a wider network of researchers to work with the Commission or through the Hub
 - Building more formal partnerships with groups of researchers in other institutions

- Ensuring high quality and consistent standards are associated with any research and authoritative public role. The key “control” of all institutes seems to centre on the imperative to sustain the quality and relevance of research output while meeting the standards of independence, non-ideology and non-partisanship. This would include having:
 - Researchers with a proven and quality research record being formally (for example as Associates or Fellows) linked to the Hub.
 - Clear quality standards and expectations associated with major events and publications

The Need for Clear Quality Standards

The Commission’s impact will depend to a significant extent on the quality of research it draws on and the interpretation of that research. Having Working Papers associated with the Commission or the Hub are important in that these provide opportunities for research to be published.

It will be important to have clear standards associated with these including clear processes through which quality is assured.

Over time more Working Papers associated with the Commission are likely to be written by non-Commission staff. This suggests more formal arrangements may need to be developed relating to:

- Requiring any commissioned research to incorporate robust peer review
- Identifying peer reviewers
- Having a credible and robust editorial panel
- Being willing to reject papers that are not up to standard

Increasing Leverage

As a small organisation with a wide purpose the Commission’s research capability will be small for the foreseeable future.

Its success and influence will depend on the ability to leverage. The Productivity Hub will be one point of leverage. The relationship with Motu will be another. Over time, associations with other research or economic organisations may also be possible.

There will be a very practical limit to the number of direct research relationships the Commission can build. So a strategy may need to be based around how the inner core of the Hub or Commission can leverage off their relationship with other individuals and organisations. Such leveraging would include:

- Using relationships with other researchers or research organisations as conduits to other researchers.
- Organising periodic events such as the 2013 Productivity Symposium that attract top people.

- Finding cost-effective ways to connect into international networks.
- Using the networks and sponsors in ways that attract top researchers to sabbatical positions or even named chairs in Universities.
- Using the known networks to identify top researchers in new fields of interest.

Communicating the Message

To date the focus of communications has centred on the publication of an Inquiry or major research report.

If the Commission is to develop a more deliberate and proactive role in leading or shaping new conversations this will require a significant commitment of time from the research team – especially where the Commission is challenging current conventional wisdom and initiating new conversations.

Investment will be required to draw insights from a broad range of research in order to develop a richer story about causality and intervention logic. My analogy, from education, is the investment that was made in developing the Best Evidence Syntheses and Professor John Hattie’s research into the most powerful influences on student learning. Both areas of research involved taking a cross cutting assessment of many small individual pieces of research to obtain understandings about the factors that had the greatest impacts on student achievement. Both pieces of Meta research have had a major impact on reshaping both practice and policy.

The Commission can play an important role by framing important questions for the future. This can take different forms. These can be a more deliberate by-product from Inquiries and can contribute to the development of a wider “system” challenge to begin to think differently about the changes that might be required to raise productivity.

Terms of Reference

Purpose

Undertake an independent expert evaluation of the Commission's function to undertake and publish research about productivity related matters. This review will consider the initial approaches that the NZPC has taken in establishing its research programme. The review is primarily concerned with the approach the Commission has taken to delivering on its research function but will include a high-level assessment of research work undertaken by and commissioned by the Commission during the 2013/14 year. The evaluation will also cover the Commission's work with the Productivity Hub and the effectiveness with which research is used to influence policymaking and enhance the Commission's reputation.

Context

An independent expert evaluation of the Commission's approach to its research work programme is a key component of the Commission's overall performance measurement and a further way of identifying how the Commission can improve its performance.

Scope

Undertake an evaluation of the Commission's performance in delivering on its function to undertake and publish research about productivity related matters. This evaluation will focus on:

- The relevance and materiality of the Commission's Working Paper and Research Note series in advancing understanding of New Zealand's productivity issues, including the basis or purpose, against which current and prospective research projects are designed or commissioned.
- A high-level assessment of the quality of the Commission's research work and the procedures in place to ensure high quality.
- The ways in which research is being used to inform both NZPC reports and the NZPC's wider contribution to the debates and understandings about the drivers of productivity in New Zealand to improve productivity performance.
- The Commission's effectiveness in improving the coordination and collaboration among public sector agencies working on productivity. The effectiveness of the Commission's engagement and delivery of message, as evidenced by the communications collateral around the research work.

Deliverable

A report summarising the independent expert evaluation, in the key areas of scope above, which the Commission can publish or quote in reporting its performance (such as in any inquiry assessment the Board may publish, or in the Annual Report), and use to improve its performance.

Approach

Evaluate the Commission's performance based on the stock of research papers, key Productivity Hub documentation and communications material. Where necessary, discussion with key staff and

Commissioners may also be used in the evaluation. There will also likely be a need to consult with key external stakeholders (e.g. members of the Productivity Hub Board, Motu and academia).

The independent expert reviewer is not required or expected to be an expert on the subject matter of the package of research work, but rather to use their experience and judgment of developing and presenting advice to Government and external audiences.

Key references

The key reference documents for completing the evaluation include:

- All research reports published by the Commission. Key documentation from the Productivity Hub, including the “Forward-Looking Agenda for Research”. Relevant communications material published by the Commission in conjunction with its research work. Internal notes relevant to the Commission’s research agenda.
- Productivity Commission performance framework and research output performance measures.

People Interviewed

New Zealand Productivity Commission

Murray Sherwin Commissioner

Graham Scott, Commissioner

Paul Conway

Lis Meehan

Patrick Nolan

Geoff Lewis

Catherine Jeffcoat

External to the Commission

Professor Adam Jaffe Motu Economic and Public Policy Research

Professor Shaun Hendy Auckland University

Professor Bob Buckle Victoria University

Professor Gary Hawke Victoria University

Roger Proctor Ministry of Business, Innovation and Employment

Phil Stevens Ministry of Business, Innovation and Employment

Girol Karacaoglu Treasury

Sample Papers

Productivity hub: What do we know about the productivity of Kiwi Firms, 29 May 2014

Patrick Nolan, Lifting New Zealand's Productivity – a research agenda; Policy Quarterly, May 2014

Productivity hub: FLARE stocktake of productivity research; May 2014

Productivity hub: FLARE a bibliography of productivity research; May 2014

David Law and Lisa Meehan, Housing Affordability: Evidence from Household Surveys, Treasury Working Paper 13/14

Alain de Serres, Naomitsu and Herve Boulhol; An International Perspective on the New Zealand Productivity Paradox, New Zealand Productivity Commission Working Paper 2014/01; April 2014

Geoff Mason; Investigating New Zealand-Australia productivity differences: New Comparisons at industry level; NZPC Working Paper 2013/02; December 2013

Guanyu Zheng: The effect of Auckland's Metropolitan Urban Limit on land prices; NZPC Research Note March 2013

Paul Conway and Lisa Meehan; Productivity by the numbers: The New Zealand experience; NZPC Research Paper 2013/01

Productivity hub, Purpose and Governance; November 2012

List of NZPC Research Papers³

This page lists Commission research papers and working papers. Research papers set out an official Commission viewpoint. Working papers contain the views of the individual author/s.

<u>Date</u>	<u>Title</u>		<u>Author</u>
05/06/2014	<u>New Zealand's international trade in services: A background note</u>	Research Note 2014/1	Lisa Meehan
05/06/2014	<u>Structural change and New Zealand's productivity performance</u>	WP 2014/4	Lisa Meehan
05/06/2014	<u>Trade over distance for New Zealand firms: measurement and implications</u>	WP 2014/5	Paul Conway & Guanyu Zheng
21/05/2014	<u>Explaining international differences in the prices of tradables and non-tradables (with a New Zealand perspective)</u>	WP 2014/3	Rodney E Falvey, Norman Gemmell, Cherry Chang and Guanyu Zheng
16/04/2014	<u>An international perspective on the New Zealand productivity paradox</u>	WP 2014/1	Alain de Serres, Naomitsu Yashiro and Hervé Boulhol, OECD Economics Department
01/03/2014	<u>The prices of goods and services in New Zealand: An international comparison</u>	WP 2014/2	Norman Gemmell

³ Source, NZPC website, June 2014

<u>Date</u>	<u>Title</u>		<u>Author</u>
19/12/2013	<u>Investigating New Zealand-Australia productivity differences: New comparisons at industry level</u>	WP 2013/02	Geoff Mason
20/09/2013	<u>Productivity by the numbers: The New Zealand experience</u>	RP 2013/01	Paul Conway and Lisa Meehan
16/07/2013	<u>Housing affordability in New Zealand: Evidence from household surveys</u>	NZTWP 13/14	David Law and Lisa Meehan
28/03/2013	<u>How integrated are the Australian and New Zealand economies?</u>	WP 2013/01	Paul Conway, Lisa Meehan, and Guanyu Zheng
28/03/2013	<u>The effect of Auckland's Metropolitan Urban Limit on land prices</u>	Research note	Guanyu Zheng

NZ Productivity Commission Performance Measures

The performance measures we have developed for our inquiries are:

- **having intended impacts** – what happens as a result of our work;
- **the right focus** – the relevance and materiality of our inquiry reports;
- **good process management** – the timeliness and quality of our inquiry process;
- **high quality work** – the quality of our analysis and recommendations;
- **effective engagement** – how well we have engaged with interested parties;
- **clear delivery of messages** – how well our work is communicated and presented; and
- **Overall quality** – the overall quality of the inquiry taking into account all factors.

Our inquiries are evaluated against these measures using three external sources of feedback:

- an independent expert's review
- a survey of inquiry participants
- An independently facilitated stakeholder focus group.

The evaluation results for each inquiry will be published (see Resources section to the right). Our current performance measures are for inquiries - our core business and largest area of expenditure. We will give consideration to whether performance measures are valuable for our other functions in the future.

There are some differences in how we approach evaluation of inquiry work versus our research and promoting-understanding work, which will be further explained in our next Annual Report when our evaluation work for the latter is first reported (some general performance commentary on this work is, however, provided below). The Commission will also periodically (about every three years) comment substantively on our outcomes and reflects on our work across a longer (multi-year) time period.

To ensure the approaches complement each other, they all consider our performance using the same dimensions (while ensuring flexibility for other feedback to be provided)