

New Zealand Productivity Commission Statement of Intent

2014 – 2018

Presented to the House of Representatives pursuant to section 149 of the
Crown Entities Act 2004

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Contact details

Productivity Commission
Level 15, Fujitsu Tower (PO Box 8036)
141 The Terrace
Wellington 6143
New Zealand

+64 4 903 5150
info@productivity.govt.nz
www.productivity.govt.nz
Twitter: @nzprocom

The Commission at a glance

- We are an **independent Crown entity** with about \$5 million funding per year and around 15 staff. Three part-time Commissioners lead and oversee our inquiry and research outputs, and also act as a governance board.
- Our work overall looks at whether the **laws, regulations, institutions and policies** that affect New Zealand's productivity can be improved.
- **Lifting productivity is about generating more value from resources**, such as from raw materials, skills and knowledge – and, as a result, creating more options for lifting the wellbeing of New Zealanders.
- Our main role is conducting **inquiries** on topics that are set for us by the Government. Once set, we **act independently** and **engage extensively** with people interested in the work.
- We have recently completed our **fifth and sixth inquiries** since establishment looking at **the performance of the services sector and regulatory institutions and practices**.
- In addition to our inquiry work, we are also funded to **undertake research and promote public understanding of productivity issues**.
- As part of our research, we **convene a Productivity Hub** with other Government agencies to improve coordination of relevant research.
- We also have a **strong focus on developing our organisational capability** and are continually assessing our performance to ensure we are at the forefront of policy development and research related to our areas of work.

Statement of responsibility

This document constitutes our Statement of Intent as required under the Crown Entities Act 2004. The descriptions of our purpose, role and functions are consistent with the New Zealand Productivity Commission Act 2010. The contents of the document are consistent with the Minister of Finance's Enduring Letter of Expectations. The document is forward-looking and covers a four-year period between 1 July 2014 and 30 June 2018.



Murray Sherwin
Chair

30 June 2014



Graham Scott
Assurance Committee Chair

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Chair's message

This *Statement of Intent* describes how we will demonstrate progress, over a four-year period, towards our goal of lifting productivity and the wellbeing of New Zealanders. While the Commission is still a relatively new organisation (we recently celebrated our third birthday), the work we have already completed has been broad-based, evidence-driven, and has included extensive and constructive engagement with a wide range of parties. Feedback, both structured and informal, indicates that our findings and recommendations are being taken seriously.



Murray Sherwin

Placing New Zealand's productivity performance on a new trajectory requires a high level of ambition in the sorts of policy options that are considered by the Government and supported by the community. For the Commission, this means we need to undertake analysis that is grounded in evidence and well regarded by peers and critics. It also means we need to test ideas that are at the boundaries of what is currently known or considered to be possible. Integral to our success are processes of stakeholder and public engagement that provide for effective and deep community involvement in the development of our ideas, evidence gathering and analysis.

Our work is centred on three key activities. First, making recommendations through our inquiry work to inform policy decision-making. Second, developing collaborative and coordinated research and analysis to underpin and shape our advice on productivity issues. And third, publishing research and information that improves public understanding of productivity issues to highlight why they are important and to increase the likelihood that productivity improvements are made.

At the time of writing this document we have completed our fifth and sixth inquiries, on two important topics: boosting productivity in the services sector; and regulatory institutions and practices. Our surveys and focus groups to date tell us that our inquiry model is fundamentally strong, but we also continue to look for ways to improve how we run inquiries. Our focus will remain on conducting evidence-based analysis, extensively engaging and consulting with the public, and effectively communicating our work. This includes playing to our points of difference as an organisation, such as our ability to find new insights from looking across broad systems of activity, and across the typical boundaries of public, private and community organisations.

In the research area, we will continue to coordinate and support the "Productivity Hub", a cross-agency initiative to better coordinate productivity-related research, as a critical part of our focus on developing information that can better promote public understanding of productivity-related matters. As the Hub continues to develop its research agenda, pull together what is known about New Zealand's productivity issues and identify gaps where work is required to

extend our knowledge, key priorities for future productivity research will emerge and inform the Commission's work and that of other agencies.

We will continue to evaluate our work to make sure that we are using the most effective and appropriate methods. At the same time, we want to make sure that we are contributing to lifting New Zealand's productivity performance. We are considering long-term performance *measures* and whether it is possible to develop and adopt specific and meaningful performance *targets*. We will reflect this work in our annual performance reporting.

We welcome feedback, so please feel free to get in touch to share your views.

A handwritten signature in blue ink, appearing to read 'M. A. Sherwin', with a long horizontal flourish extending to the right.

Murray Sherwin
Chair
New Zealand Productivity Commission

30 June 2014

What we do

Our purpose

The New Zealand Productivity Commission Act 2010 describes our principal purpose and reason for existing as follows:

Providing advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society.

Our work

Our work – across inquiries, research and promoting understanding – considers whether current laws, policies, regulations and institutions best support the wellbeing of New Zealanders.

Inquiries

The Government chooses inquiry topics to ensure our work is relevant, and that our advice pertains to issues the Government has an interest in addressing. Once topics are set, we are required to act independently as we go about our work. Inquiries are big pieces of analysis, generally taking 12 months (although not linked to the annual financial cycle). The time allowed recognises the importance of engaging extensively with those with an interest in the topics, to ensure we are exposed to all points of view, get the best available information, understand different perspectives and test ideas.

Research and promoting understanding

In addition to our inquiries, we undertake research on, and promote understanding of, productivity-related matters on areas that we select.

Several organisations are active in this area – including other government agencies, universities, research institutions, business associations, unions and consumer groups – so it is critical we understand this wider landscape to maximise our own effectiveness.

Our research activity is now well-established. We will continue to publish research papers and further develop collaborative research partnerships.

As part of our collaboration, we work with other government agencies through the Productivity Hub, which we convene and chair. The Hub is a coordination and collaboration vehicle which helps to inform the research choices of each participating agency, and advance collaborative research projects. The Hub also engages with a wider research community outside Government.

Promoting understanding of productivity issues can take many forms besides our communications activity to support inquiry and research work. We regularly speak about

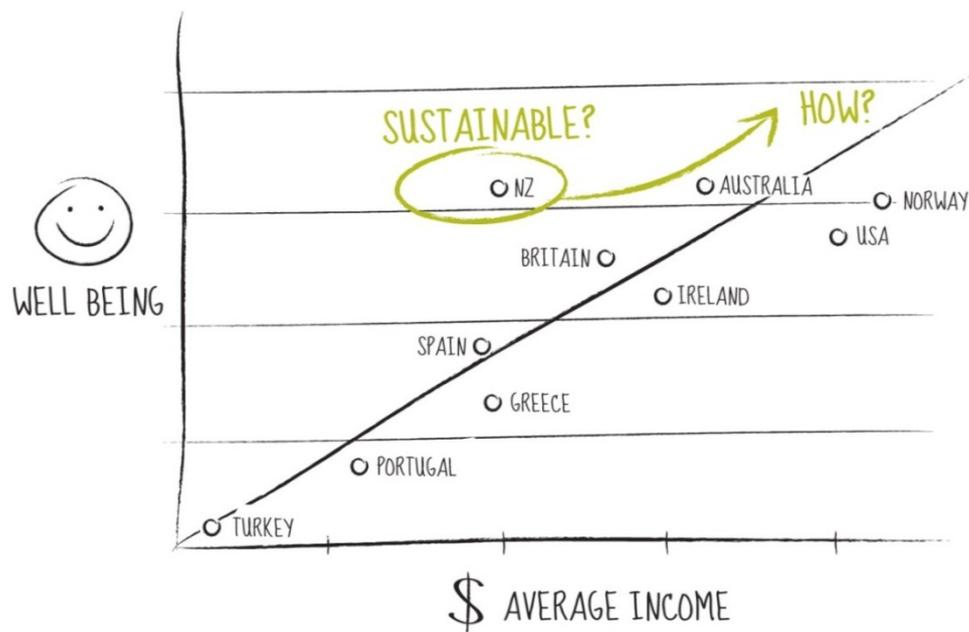
productivity issues to different sectors and are using multimedia and social media to engage with different audiences.

The importance of being independent in delivering our functions

As noted earlier we operate independently in delivering our functions. Independence means that we make our own judgements on matters based on evidence-based analysis, extensively engaging and consulting with the public, and effectively communicating our work.

We identify three critical factors to our independence:

- Statutory independence: we are statutorily independent by virtue of our Act and the Crown Entities Act. That statutorily independent mandate is critical to our effectiveness.
- Operational independence: In practical terms, operational independence means that we have the requisite capability to carry out our own inquiries and research work and publish our findings, as well as engage and collaborate with a wide range of parties.
- Impartiality and objectivity: We regard it as fundamentally important to act impartially and objectively as we carry out our work. Independent evaluation is also a critical dimension of our performance framework.



Strategic direction

The strategic context for our work

Ultimately we seek to influence two strategic outcomes: to *lift New Zealand's productivity* and, as a result, *lift the wellbeing of New Zealanders*. To achieve this, our work is focused on making a discernible contribution to the understanding of productivity issues in the New Zealand context.

What is productivity?

“Productivity” is about how well people combine resources to produce goods and services. For countries, it is about creating more from available resources – such as raw materials, labour, skills, capital equipment, land, intellectual property, managerial capability and financial capital. With the right choices, higher production, higher value and higher incomes can be achieved for every hour worked.

Why does productivity matter?

The higher the productivity of a country, the higher the living standards that it can afford and the more options it has to choose from to improve wellbeing. Wellbeing can be increased by things like quality healthcare and education; excellent roads and other infrastructure; safer communities; stronger support for people who need it; and improved environmental standards.

High-productivity societies are characterised by a range of important features that help to attract and retain people, ideas and capital. These features include:

- making smart choices about savings and investment versus current consumption;
- dynamic and competitive markets; openness to trade and international connectedness;
- high awareness of external influences;
- rapid uptake and smart application of new technologies, products and processes; and
- increasing demand for highly skilled and creative people.

Why does New Zealand need to lift productivity?

New Zealand has always sought to improve its productivity to improve the standard of living of New Zealanders, and this will always be an important goal.

New Zealand used to generate enviable living standards, with incomes per capita around the highest in the world. Recent decades have presented some challenges to maintaining these and per capita incomes have slipped to around 22nd in the Organization for Economic Cooperation and Development (OECD). While our productivity is much higher now than

historically, it has not increased as quickly as many other countries and our income growth has been slower. As a result, we collectively have fewer options for improving wellbeing compared to if New Zealand had been performing better.

The lag in relative productivity matters a lot over time. An estimated 700,000 New Zealanders choose to live abroad, in part because of the living standards and options offered in other countries (such as wider employment choices, higher incomes or better-quality social services).

To sustain and hopefully improve New Zealand's wellbeing, our incomes need to grow. With New Zealanders already among the hardest working people in the OECD in terms of hours worked, improving productivity is the most likely way of achieving higher incomes. Even small increases in productivity growth, if sustained, can have a big impact on income and wellbeing.

How is productivity lifted?

There is no simple formula. Lifting productivity is ultimately the result of individual and organisational decisions about what generates value. There are some general foundations for improving productivity, such as respect for the law and property rights; effective governance arrangements; and an attractive business environment, including a high-quality, low-cost regulatory environment. These foundations require ongoing attention and improvement. A large number of other factors also matter, such as:

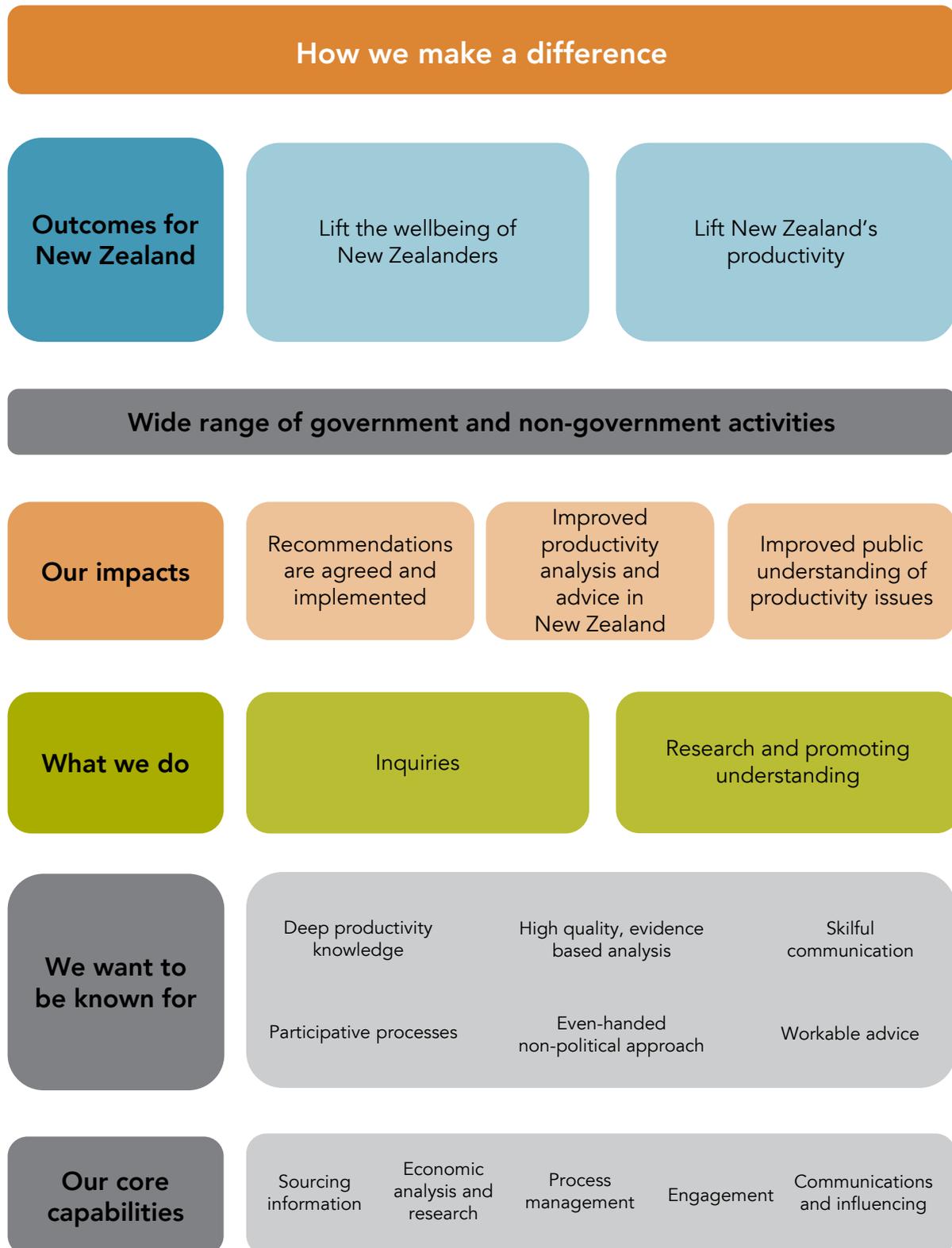
- the degree of openness and competition in markets, which is important to incentivise innovation, improve allocation of resources and achieve more dynamic performance;
- investment and other strategic choices made by organisations (eg, using new and smarter technology), which depend on the quality of governance and management;
- the attitude and effort of employees towards ongoing training, finding business improvements and helping implement beneficial change;
- the quality of education and the attitude of students towards the value of learning;
- the quality of government decisions (at all levels), in setting policy and shaping regulatory environments, and deciding where public money is spent; and
- the aspirations of individuals and families.

A country's productivity performance is also influenced by factors that governments cannot do much about, such as size, natural resource endowment and distance from global markets. Even then, successful countries develop policies and strategies to mitigate or accommodate such factors. More generally, ongoing improvement in policy and regulatory settings is essential in shaping and incentivising productivity.

DIY SMART

How we make a difference: Our outcomes

The diagram below illustrates how we expect to make a difference to our two key strategic outcomes.



As noted earlier our work falls into two broad areas: (1) inquiries and (2) research and promoting understanding. Across that work, we aim to have impacts in three broad categories:

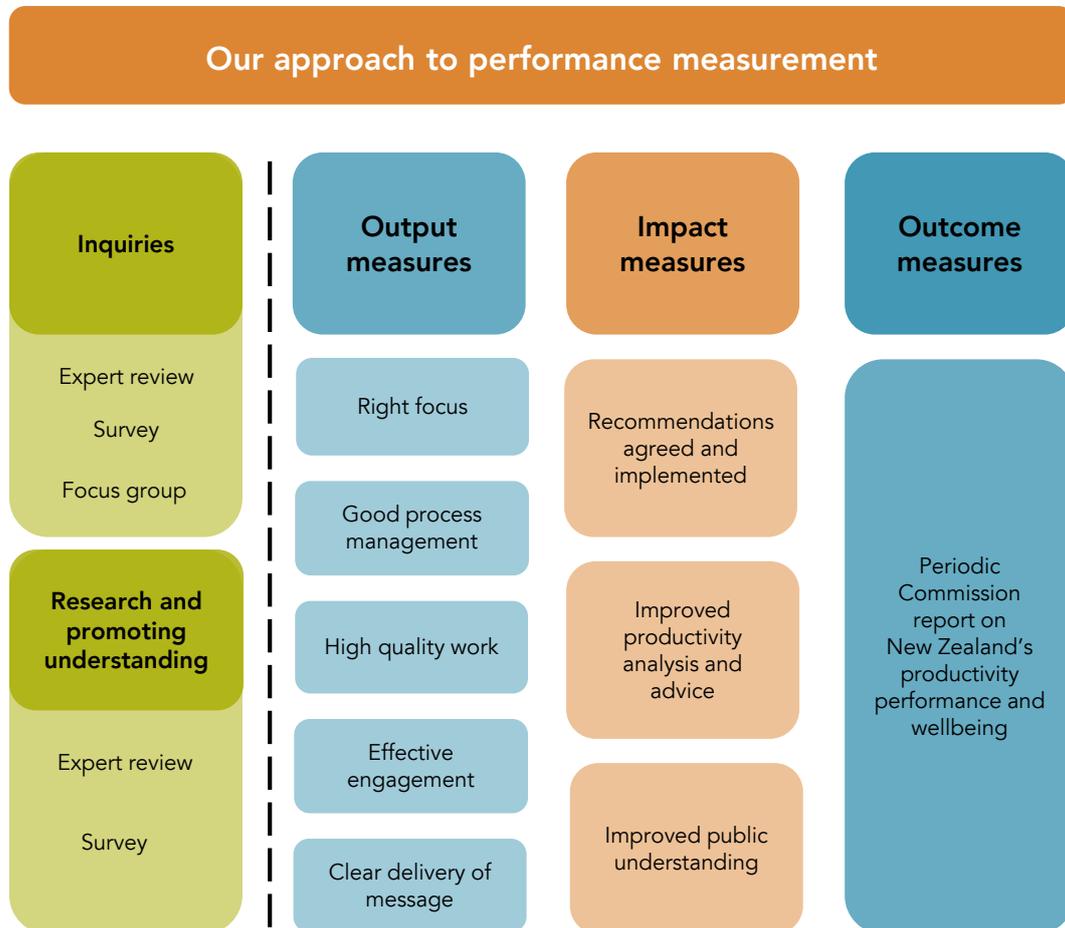
- **recommendations agreed and implemented** – as a result of our recommendations (typically through inquiry work), better decisions are made that lead to improved productivity;
- **improved productivity analysis and advice in New Zealand** – scarce resources for productivity work are better coordinated, leading to more influential and effective research outcomes; and
- **improved public understanding of productivity issues** – people and organisations gain a better understanding of what productivity is and why it is important, increasing the likelihood that productivity improvements are made.

Given our focus on wellbeing, our work also aligns with many goals and priorities pursued in other areas of the Government and other organisations. Of the Government's four overarching priorities, our work contributes primarily to *"building a more competitive and productive economy"*.



How we will measure progress

Our approach to performance measurement is summarised in the diagram below.



We measure and evaluate our performance based on three main approaches:

- **an independent expert review** by someone with significant policy and/or productivity research experience, who is sufficiently familiar with our role and functions;
- **a survey of external participants** in our work with a broad set of questions covering multiple aspects of the work, such as the quality of our analysis and the clarity of our communication. These surveys provide both quantitative data and narrative feedback; and
- in the case of inquiries, **a stakeholder focus group** of about 6-10 attendees from different backgrounds, independently facilitated without Commission attendance. Focus groups are not as well-suited to our research work, but the expert reviewer would talk to some key stakeholders in forming their views.

In addition, we monitor performance through analysis of our own administrative data, such as costs and whether or not key deadlines are met.

Differences between inquiries and research

The way we measure performance differs slightly between inquiries and research and promoting understanding. As noted above, we only use a focus group for inquiries. The other difference relates to how independent expert review is used:

- for inquiry work, a review will take place for each inquiry once complete;
- for research and promoting understanding work, a review will take place once a year and evaluate work from across that year; and
- in some cases we will also seek independent review of research papers by a technical expert to support quality assurance of research as it is developed. These peer reviews will then feed into the annual expert review.

Broad coverage of performance measures

Each of the three approaches to performance measurement above focus on how well we are delivering our outputs and achieving our intended impacts.

The results of our inquiry and research performance assessments will be published, and recommendations will be actively considered, in order to identify both strengths and areas for us to work on.

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

- **having intended impacts** – what happens as a result of our work;
- **right focus** – the relevance and materiality of our inquiry and research 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 message** – how well our work is communicated and presented; and
- **overall quality** – the overall quality of the work taking into account all factors.

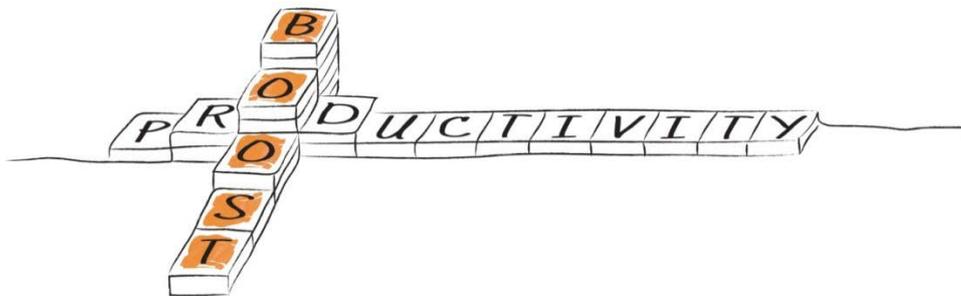
Reporting on outcomes

In addition to reporting on routine performance measurement of impacts and outputs, we will periodically publish a report that comments substantively on New Zealand's productivity performance and its implications for wellbeing. We expect to release the first of these reports in 2014/15. We see these reports being an important part of our research work over time, including to help "join the dots" between different inquiries and research projects.

Strong focus on evaluation, not targets

Our approach to performance measurement is largely evaluation-focused. Due to the nature of our work, many of our inquiry recommendations have a long timeframe. While the goal of our work is to lift New Zealand's productivity performance and increase the overall wellbeing of New Zealanders, changing this will be the result of decisions made and work performed by many different agencies. Evaluating our long-term impact can be challenging. We analyse the performance information that we generate in order to draw conclusions about our effectiveness, which feeds into the development of our organisation capability. While we have a number of performance *measures* – which generate a significant amount of information for us to consider – we have not at this time adopted many performance *targets*. We will continue to give consideration to appropriate targets, including longer-term benchmarks of our performance, during the term of this Statement of Intent.

As one example of a potential target, we are often asked what proportion of inquiry recommendations we aim to have accepted by the Government. We have not adopted a target as setting one could distort the number and type of recommendations we make. We do, however, report the number of recommendations accepted and evaluate that "hit rate" in the context of each inquiry and other markers of our performance.



Supporting our performance

Our organisational health & capability

If we are to have the impact we seek we need to be a high performing organisation. This means we need to continually look at ways to lift our performance to ensure we are at the forefront of relevant policy development and research. We aim to be an influential, innovative and respected organisation and to do this we need to employ and develop talented people. We work with and learn from others and emphasise collaboration. We focus on doing the critical things that will have the greatest impact on our outcomes. We want to be known for six qualities, as shown in our earlier performance framework. These qualities, which provide an overall guide to developing our capability, are:

- deep productivity knowledge;
- high-quality, evidence-based analysis;
- skilful communications;
- participative processes;
- an even-handed non-political approach; and
- providing workable advice.

To achieve and maintain these qualities over time, we need to have a broad focus on capability, including such things as organisation culture, governance, processes, systems, knowledge management, policies and relationships. For our operational work, the most important capabilities:

- sourcing information;
- analysis;
- process management;
- engagement; and
- communications and influencing.

These capabilities make sure that we get the right information into the Commission and publish insightful and influential analysis, findings and recommendations (having taken the right steps along the way).

Our evolving operating environment

The more we understand our evolving operating environment, the better our chances of success. When looking ahead, the Commission sees a number of important overarching factors to recognise in our work, including:

- **we are still a relatively new organisation**, which creates expectations that we will add unique insights and value, as well as demonstrate that we are impartial and evidence-based;
- while **New Zealand's short-term economic prospects are bright**, it remains vital to **improve productivity** to lock in and sustain good performance for the longer-term;
- **the increasing availability of data** – held by a wide range of organisations (including business micro data) – with potential relevance to inquiry and research work;
- **the challenge of communicating our work** in a crowded communications landscape, which requires us to find new ways to effectively convey our views and hear others' views; and
- **ongoing government funding pressures** and expectations of high value for money, necessitating an ongoing focus on providing value for money.

Valuing diversity

The Commission recognises that our thinking and actions need to be informed by a diverse range of views as this will enhance the credibility, value and effectiveness of our work. We want to understand different perspectives, constantly look for new insights and recalibrate our views in light of new evidence.

We aim to provide equal employment opportunities to make the most of the talents of all our people.

We assess our status as a good employer against the elements and criteria set out by the Human Rights Commission. Over the period of this Statement of Intent we will continue to ensure that all elements are in place and working well.

Strategic risks

The Commission assesses organisational risk on a regular basis to better understand and actively manage emerging and ongoing risks and ensure this understanding is reflected appropriately in the way we operate. At a higher level of analysis our strategic risks take into account the environment in which we operate and how we want to be known in that environment. Our identified strategic risks and responses to those risks include:

What we want to be known for	Risk area	Response
Deep productivity knowledge	Insufficient knowledge	We continue to define and develop our research function and will meaningfully act on this definition. We also make use of industry experts, share knowledge, consider how to acquire sectoral knowledge for our inquiry work and have a strong focus on staff professional development.
High-quality, evidence-based analysis	Weak analysis	We are continually looking to improve our economics and policy analysis capability by breaking down specific analytical needs, deciding when to develop internal capability and when to use external resources and maintaining a strong focus on staff professional development.
Skillful communication	Poor communications	We spend time distilling and articulating key messages. Each inquiry has a formal communication plan. As a small, ambitious entity, we continue to evaluate the level and extent of our communications resource and capability.
Participative processes	Poor process and/or engagement	We plan our engagement with key people and critical enduring relationships. As an example we will generally meet with relevant stakeholders as part of our inquiry processes. We have spent considerable time considering how to improve the quality of our engagement – particularly during inquiry processes while also taking a stronger planned approach to organising our research work programme and research-related engagement.
Even-handed non-political approach	Bias and/or loss of independence	We spend time thinking about how we will engage across the political environment. We offer briefings to all political parties when publishing inquiry reports.
Workable advice	Seen as overly theoretical & lacking practicability	We use credible industry experts (in roundtables or as individuals) to review and evaluate the quality of our work. Our recommendations are focused and tight (i.e. what, who, by when). We engage at appropriate levels of depth with implementing departments and key survey respondents, and act on valid findings/insights from these engagement processes.

Our financial outlook

Financial strategy is a key part of the Commission's overall organisational strategy. Our financial strategies include an emphasis on financial sustainability as a critical part of how we will meet organisational priorities and goals.

To ensure the best use of taxpayer funding, the Commission will continue to prioritise expenditure on areas where we can add the most value. For us this means high-quality inquiries supported by credible and useful research products.

We will continue to set realistic expenditure budgets that we are able to operate within. To ensure we have the right budgetary focus the Commission's Board reviews financial performance on a regular basis and receives regular advice on options and priorities for budget re-forecasting and rephasing.

Given that our people are our greatest single area of investment and cost we will continue to set realistic pay and employment conditions while also being mindful of retention risks. We will regularly review how our services can continue to be delivered cost-effectively and to a high standard.

Our key people

Board



Murray Sherwin, CNZM
Chair



Professor Sally Davenport
Commissioner



Dr Graham Scott, CB
Commissioner

Leadership team



Daiman Smith
General Manager



Steven Bailey
Inquiry Director



Geoff Lewis
Inquiry Director



Paul Conway
Director Economics & Research

