Too little tech, too many zombies…

There's not enough tech in NZ business, and zombie firms are part of the problem, says the Productivity Commission.

Its draft report *Technology adoption by firms* shows how new tech raises productivity in businesses and across the economy.

But there's not enough tech happening here.

The Commission says the capital required to buy new tech is not going to NZ's most productive firms.

In NZ we have the unusual situation that firms with lower productivity have a greater share of capital and jobs than those with higher productivity.

It results from a kind of a blockage within the competitive environment.

In a well-functioning competitive environment, new firms enter the market while others exit, and successful firms gain market share at the expense of less successful ones - these dynamics provide an engine room for economic growth.

But in NZ, poorly performing firms may hang on for longer than ideal.

These 'zombie' firms might be making a profit but are offering poor returns to their owners. The owners can't improve things, but nor can they find a buyer in order to exit the business. Such firms can linger on indefinitely.

Those firms are tying up resources that should go to more productive firms, allowing them to gain more technology.

What's needed to overcome the zombie problem and help more New Zealand firms adopt new technology? The Productivity Commission says:

- A more competitive environment – so productive, innovative firms can compete and succeed
- Well-functioning capital markets – allocating capital to the most productive, innovative firms
- Less regulation - especially the kind that props up zombie firms, preventing them from dying
- Flexible employment rules – providing more opportunities for firms to create jobs and people to find employment
- And in times of difficulty, more support for workers (and less for zombie firms)

The Productivity Commission points to some specific areas where government can encourage tech adoption, including:

- A strong innovation system (research institutions, R&D support, protection of intellectual property rights)
- Digital infrastructure that reduces the cost and increases the speed, volume & quality of information transfer and financial transactions
- Continued government involvement in biosecurity management, standards setting and negotiation of international trade rules
- Ongoing review of competition laws to make them fit for digital age
- Ongoing review of genetic modification rules to ensure regulation keeps up with technology
- Ongoing review of planning regulation that affects the supply and price of land, and the ability to change the use of land - and therefore the cost of business expansion and contraction
- Continued reforms supporting open banking and consumer data rights
- Investment screening that reduces the costs and risks of seeking foreign equity
- A strong training system for the skills required for new technology
- Better people-management practices to enable better use of digital technology
- Higher emissions prices to encourage investment in clean tech

The Productivity Commission's final report on Technological change and the future of work, including *Technology adoption by firms*, will be on www.productivity.govt.nz on 31 March