

VOTE SMALL BUSINESS

**BRIEFING FOR THE INCOMING
MINISTER 2008**

Prepared by the Ministry of Economic Development

INTRODUCTION

This briefing provides you with an introduction to the Small Business portfolio in the light of the Government's stated intentions in this area. It summarises key areas of policy and issues facing small businesses. It also lists pending actions and decisions that you may need to consider in the next three months.

The briefing is supplemented by the Ministry's broader overview brief on *Key Economic Development Opportunities and Challenges*, along with a *Guide to the Ministry of Economic Development*, which details the Ministry's role, structure, and functions.

Much of the current work under the Small Business portfolio focuses on bringing a detailed understanding of the perspectives of small and medium-sized enterprises (SMEs) into the policy-making process. Rather than being a discrete work area, the Small Business role aims to influence and coordinate work across other portfolios, to ensure they take account of the particular issues faced by small business.

It is particularly important that this work is informed by the impact of the global financial situation on SMEs in the short to medium term.

We would welcome an early meeting with you to discuss your priorities and how we can best help you achieve them.

David Smol
Chief Executive

CONTENTS

Page 2	Chief Executive's Introduction
Page 4	Overview
Page 5	Major policy and implementation issues
	<i>Page 5 Assisting SMEs through the financial crisis</i>
	<i>Page 7 Thinking small first</i>
	<i>Page 8 Reducing the regulatory burden on SMEs</i>
Page 9	Key Relationships
Page 9	Issues for Early Discussion / Decision
Page 11	Appendix 1
Page 12	Appendix 2

OVERVIEW

Small businesses are central to New Zealand's economy

1. Small and medium sized enterprises (SMEs), defined as enterprises with fewer than 20 employees, are an important part of New Zealand's economy. They:
 - make up 97 percent of our businesses
 - account for 31 percent of employment
 - generate about 38 percent of added-value production
 - are the source of much of our innovation and new products.

While SMEs benefit from policies designed to assist businesses generally...

2. For the most part, business environment policies that suit business generally also suit SMEs. These include, for example, stable macro policy, broad-based taxes, predictable exchange rates, ability to enforce property rights, respect for the rule of law, high quality regulation, excellent and fairly-priced infrastructure, availability of skilled labour and access to finance on reasonable terms.
3. Current business capability programmes largely focus on growth potential rather than size. Given the predominance of SMEs in New Zealand's industry structure, most of these programmes ultimately support and foster high-growth SMEs.

... they also have their own distinctive characteristics and challenges...

4. However, even though most general business policies take a "one size fits all" approach, SMEs have significantly different characteristics compared to large firms. For example, SMEs:
 - tend not to have specialists who can ensure that the firm complies with regulations (or even know what regulations are relevant to the firm)
 - are time poor – the CEO/owner is primarily focussed on keeping his/her company afloat week-by-week
 - have management capability that is usually limited to the knowledge and experience of the founder (who is often a technician with a good product but little else to offer the business)
 - can have difficulty getting the finance they need because they are asset poor and often lack the ability to build their case for additional funding
 - have financing that is often limited to owner funding and re-investment of profits
 - have fewer owners who have formal tertiary or technical degrees and diplomas, either in business or in their area of technical expertise, than executives in large organisations
 - have owners who are less likely to use formal planning or management techniques
 - have owners for whom the goal is only to have a successful business, not to constantly grow it.

...which we seek to understand and address under the Small Business Output class...

5. Work under the Small Business Output class is aimed at understanding these characteristics and their implications, and at influencing policy and regulation to help SMEs improve their innovation and productivity.
6. The Small Business Output class is part of Vote: Economic Development. The Minister for Economic Development is responsible for that Vote and the outputs in it so the Minister for Small Business requires that Minister's agreement to the small business outputs and appropriation.
7. The annual appropriation in the small business output class is \$1.646 million. As such, the funds available to support the work of the Minister for Small Business represent a very small portion of total government expenditure on support for SMEs (most of which is contained elsewhere in Vote: Economic Development).
8. The way that funding is structured under this output class means that the Small Business role is largely one of co-ordination of, and influence on, work across a range of other portfolios.
9. Work in the Ministry is largely undertaken by the SME Unit within the Effective Markets Branch. The key Ministry personnel in the Small Business area are:
 - **Liz MacPherson**, Deputy Secretary, Effective Markets Branch
 - **Roger Wigglesworth**, Director, Effective Markets Branch
 - **Jo Doyle**, Manager, Business Impacts and Regulation Team.

... with a particular focus on three key current challenges.

10. The key current policy challenges are:
 - assisting SMEs through the current credit crisis
 - ensuring that policy and regulation making processes are well informed by a small business perspective
 - ensuring that current regulatory requirements do not impose excessive or unnecessary compliance costs on small business.
11. These issues are discussed further in the rest of this briefing.

MAJOR POLICY AND IMPLEMENTATION ISSUES

Assisting SMEs through the financial crisis

The current global financial situation is likely to impact heavily on SMEs

12. Cashflow and credit are the life-blood of small businesses. But the current credit crunch is making it increasingly difficult for them to access credit from the banks (who themselves are having difficulty getting credit on international

markets). Combined with restricted consumer spending¹ and increasing delays in business to business payments², many³ small businesses are reportedly finding it difficult to fund commitments such as salaries and wages, contracts, and purchase of materials.

13. Impacts on employment will include decreasing use of casual staff, businesses not replacing staff that leave, and redundancies⁴.
14. Many small business owners face losing not only their business but also their house and other personal assets if the business fails, since they have extended their mortgages or given personal guarantees for business funding.
15. At the same time, we could also see an increase in business start-ups if the financial situation leads to widespread redundancies and those made redundant seek to use their skills through self-employment. There could be a case for changing eligibility for the Enterprise Allowance administered through the Ministry of Social Development to support these start-ups.

There are a number of ways to help SMEs manage through these difficulties

16. Initiatives such as your planned tax cuts and no-fault probationary period will help SMEs through the crisis. Many jurisdictions have also introduced or are developing measures focused specifically on easing the credit pressure on SMEs. A number of such specific SME initiatives could be considered, including:
 - introducing new, or adapting existing training programmes to include advice on how to survive through the crisis with a particular focus on managing cash flow
 - making it easier for small firms to access personalised advice for maintaining and growing their business

¹ StatsNZ Retail Trade Survey Aug 2008 "The total retail sales trend has been flat since December 2007. Before this flat period, the sales trend had been positive since May 1998. The trend in core retail sales has been rising since September 1995. From September 1995 to April 2007 the trend rose an average 0.4 percent per month. Since April 2007 the average monthly increase has slowed to a relatively flat 0.1 percent."

² Dun & Bradstreet, 21 Oct 2008 "Small businesses are showing signs of cashflow pressure by holding onto their cash for longer. Businesses with up to five employees took 50.1 days to settle accounts in the September 2008 quarter, the only category to take more than 50 days to settle accounts. This was an increase of 5.7 days as compared to the September 2007 quarter and was the biggest increase of any category."

³ Just over 70 percent of small to medium business (SMEs) owners have concerns about the effect New Zealand's economic future will have on them in the coming year. The current economic climate is causing cash flow issues for many SMEs, as evidenced by the 41 percent of businesses that note their debtors are taking longer to settle accounts compared with a year ago. In addition, 26 percent of businesses are finding their own debt levels harder to service that a year ago, with eight percent admitting to having real difficulty managing business debts.
Source: Veda Advantage

⁴ NZIER Quarterly Survey of Business Opinion Oct 2008 "A net 7% of firms intend to decrease staff over the next three months. This compares with a net 6% of firms that planned to decrease staff in the last survey, and a net 11% that actually have in the past three months. ... The net balance of firms reporting it had become easier to find unskilled labour rose from 6% in the June survey to 16% in the September survey, which was the highest since December 1998."

- introducing a late payment requirement for all government agencies that sets an expected time period for payment, and allows SMEs to charge interest if payment is not made within this time
- specifically exempting SMEs from some newly introduced legislation such as payroll giving (direct deduction from payroll to employee's charity of choice)
- developing a credit guarantee scheme for SMEs that meet bank lending criteria in all aspects except collateral
- making sure that no new unnecessary additional costs are imposed on SMEs through new regulation by requiring that all Regulatory Impact Statements that are submitted with Cabinet papers include specific consideration of the impacts on SMEs, with the Business Cost Calculator (discussed in more detail later in this paper) being used to analyse and present this information in a consistent manner.

Thinking small first

Policy and regulation making are improved by taking a small business perspective

17. When designing and implementing business policies and business regulation, it can help to "think small first", given the distinctive issues that SMEs face. If policies and regulation are right for SMEs, they should also work well for larger firms. Conversely, policies designed without a sufficient small business perspective can hinder the growth of these important contributors to our economy.
18. Ensuring that this small business perspective is brought into decision-making requires a good understanding of SMEs and how regulation can support them, along with good processes for using this information to influence policy makers.

There are a number of ways to do this

19. The coordinating and influencing role you play is vital in ensuring that Ministers who hold portfolios with a potential impact on SMEs are aware of the consequences of decisions made on this important sector of the economy. You may want to consider writing to your new Ministerial colleagues to bring this focus of your portfolio and the work of the SME unit within the Ministry to their attention. If so, we would be happy to provide a draft.
20. Other ways to ensure a focus on small businesses in policy-making include:
 - the Small Business Advisory Group - a group of Ministerially-appointed small business owners from around New Zealand. The Group meets monthly and provides feedback on policy as it is being developed and implemented by government agencies. This Group is able to provide real, immediate front-line information on the potential impacts of policies on small business operators.
 - the Business Cost Calculator - a tool that allows policy and regulation developers to estimate the administrative costs to businesses of the options they are considering. A new online version of the calculator has recently been developed by the Australian government with assistance by the Ministry. The Ministry will be providing training to other agencies on its use in the first six months of 2009. One issue for your consideration will be the extent to which the Government wishes to make use of the calculator mandatory.

- the Government Consultation website. The Ministry hosts a website where SMEs can sign-up as being willing to be consulted on government proposals, where government agencies can lodge consultation documents for business owners to access, and where business owners can identify areas of regulation that cause pressure points for them.
- provision of advice on how to 'think small first', and how to consult with SMEs, to other agencies.

Reducing the regulatory burden on SMEs

The cost of complying with regulation falls disproportionately on SMEs

21. The annual KPMG-Business New Zealand survey of compliance costs shows that while the time and cost taken to comply with government regulation is reducing, it falls disproportionately on smaller firms. Key pressure points for small businesses lie in the following policy and regulation areas:
- Employment Relations Act
 - The Holidays Act
 - Kiwisaver
 - Health and Safety in Employment legislation
 - ACC
 - Local government processes
 - Taxation.

Regulatory reform is therefore essential to SMEs' success

22. The Government's planned regulatory reform programme including seeking to simplify the tax system, providing choice for accident insurance in the workplace, introducing a voluntary 90-day probation period for new employees in small businesses, and wider regulatory reviews, offers an opportunity to address some of these pressure points.
23. The Ministers of Finance and Commerce and the Minister for Regulatory Reform are the lead Ministers in driving this programme. However you will want to work closely with them to ensure that the reform programme is well-informed by a small business perspective. We look forward to discussing with you how we can best support you on this reform work.
24. The relevant expertise we can offer is our understanding of the impact of regulatory burden on business performance, levels of innovation and productivity, and the international connectedness of New Zealand firms, particularly small firms. This complements the role of the Treasury which is interested in the impact of regulation on the performance of the economy as a whole. Given this firm focus, we look at regulation for how it contributes to improving the ease of doing business. This involves four main areas of work:
- **Simplification** – this includes working with the Commerce portfolio in its development of the web-based tools for Standard Business Reporting, the Single Business Identifier, and the business.govt portal
 - **Review** - this includes cross-departmental advice, sector studies on the current stock of regulation, best practice in occupational regulation, and the annual Regulatory Improvements Bill

- **Engagement** - this includes ensuring the impacts on businesses, particularly small businesses, is better understood by regulation developers and implementers
- **Improving the knowledge base** – this includes researching the cumulative burden of regulation, benchmarking regulatory systems with other jurisdictions, and developing a better understanding of the impact of regulation and business costs on productivity and innovation.

KEY RELATIONSHIPS

25. The key relationships for the Small Business Portfolio are:

- **Minister for Economic Development, Minister of Commerce and the Minister for Regulatory Reform**
- **Small Business Advisory Group⁵**
- **Business representative groups like Business NZ and Chambers of Commerce⁶**
- **Small and Medium-Sized Enterprise (SME) owners.**

Appendix 1 lists the current members of the Small Business Advisory Group.

Appendix 2 provides more information on other key stakeholders.

ISSUES FOR EARLY DISCUSSION/DECISION

26. The following areas are those where you are likely to have to take decisions in the next three to six months.

Issue	Action	Date
Credit Crunch Impacts on SMEs	Discuss impacts and possible responses with Ministers, officials and business representatives	December 2008
Standard Business Reporting (SBR) project	When the SBR project was announced, the Minister for Small Business was made a co-sponsor of the project. A costed business case for proceeding to stage 2 of this project will be ready for consideration in December.	December 2008
Business Cost Calculator	Cabinet initially authorised a two-year trial of this Calculator with a report back in December 2008. The report back will cover the likely timetable for the delayed introduction of the tool to New Zealand. It will also include how agencies and Ministers can be incentivised to utilise the tool.	end of 2008

⁵ A full list of SBAG Members is attached as Appendix 1

⁶ A list of other key stakeholders is attached as Appendix 2

Issue	Action	Date
Small Business Advisory Group (SBAG)	Advice will be provided to you on options for engagement with SBAG and areas where effectiveness and efficiency may be improved. The annual Letter of Expectation for SBAG will be due early in 2009.	March 2009

APPENDIX 1**SMALL BUSINESS ADVISORY GROUP (SBAG)**

Name	Sector	Location
Jenny Agnew	Skin Care Products	Auckland
Paul Bayly	Financial Sector	Auckland
Lynn Currie	Fashion Sector	Arrowtown
Robyn de Bruin-Judge	Furniture Design and Manufacture	North Shore
David Eder	Horticulture	Canterbury
Deborah Hart	Photography	Wellington
John Holm	Engineer, Manufacture	Christchurch
Daphne Luke	Māori Economic Development	Otaki
Ronnie Matafeo	Quantity Surveying	Auckland
Rod Meharry	Event Signage	Rotorua
Frank van der Velden	IT and Marketing	Auckland
Claire Vogtherr	Food Sector	Hawkes Bay

The CTU and Business NZ attend meetings as special advisors to the Group.

KEY STAKEHOLDERS

Business New Zealand

Business NZ is New Zealand's largest advocacy group for enterprise, and champions policies leading to:

- international competitiveness
- balanced employment, economic and environmental legislation
- compliance and tax levels that foster growth and investment
- innovation and skill development
- an environment fostering the production of high value goods and services

Export New Zealand, a membership organisation for promoting the interests of exporting firms, recently became a division of Business NZ.

Key member: Phil O'Reilly, CEO.

Chambers of Commerce

Regional Chambers of Commerce endeavour to influence policy makers at the local, national and international level on behalf of local businesses with a view to enhancing a region's business environment. Most chambers also offer training, events and networking opportunities.

- Wellington Regional Chamber of Commerce key members: John Lumsden, President; Charles Finny, CEO.
- Auckland Chamber of Commerce key members: John Lindsay, Chairman; Michael Barnett, CEO.
- Canterbury Employers' Chamber of Commerce key member: Peter Townsend, CEO.

Employers and Manufacturers Association (Northern)

The Employers and Manufacturers Association Northern (EMA) supports its member organisations in growing and developing their business. It works in association with Business New Zealand and other regional business organisations to act as "the voice of business" for all business matters.

This is achieved through services such as:

- Employment relations advice
- Occupational and workplace safety
- Employment consultancy
- Skills training and education courses
- Events and networking opportunities
- Publications.

Key member: Alasdair Thompson, CEO.

Employers and Manufacturers Association (Central)

Key member: Paul Winter, CEO.

Otago Southland Employers Association

Key functions include:

- Providing advice, support and representation for employers on all aspects of employment related legislation, including ACC and Occupational Health and Safety (OSH)
- Delivering a comprehensive range of training and development programmes to business in the region
- Representing members' interests at a local and central government level, and making submissions on their behalf on district plans, draft legislation and other relevant matters.

Key member: Duncan Simpson, CEO.

Economic Development Agency of New Zealand (EDANZ)

EDANZ is a membership based organisation with various stakeholders who all have a role in stimulating sustainable economic development and increasing prosperity in regional and local communities. Members are the regional and local Economic Development Agencies (EDAs) throughout New Zealand and other significant stakeholders are local government and the central government agencies that influence and contribute to economic development.

Key members: Stuart Trundle, Chair; Samantha Seath, CEO.

- Regional EDA Ltd – EDA for the Wellington Region
Key member: Nigel Kirkpatrick, CEO.
- AucklandPlus – EDA for the Auckland Region
Key member: Michael Barnett, Chairman.
- Canterbury Development Corporation – EDA for the Canterbury Region
Key member: Bill Luff, CEO.
- South Canterbury Aoraki Trust – Wendy Smith, CEO (takes up position from 1 December 2008).
- Enterprise Taranaki – Stuart Trundle, CEO.

Canterbury Manufacturers' Association

The Canterbury Manufacturers' Association focuses on encouraging and supporting the manufacturing sector in Canterbury and the South Island. The Association's vision is a vibrant and growing manufacturing sector that will form the foundation of first world living standards for New Zealand.

Key members: John Errington, President; John Walley CEO.

New Zealand Institute of Chartered Accountants

The New Zealand Institute of Chartered Accountants promotes, controls and regulates the profession of accountancy in New Zealand. It ensures that the quality, expertise and integrity of members meet the highest standards. It delivers the professional education and training people need to achieve various designations and continuing professional development to assist them to maintain high standards.

The Institute works in the public interest to advocate for sound public policy in the financial, regulatory and taxation areas. Internationally, it advocates for New Zealand's interests through its membership of international accountancy bodies.

Key members: Graham Crombie, President; Terry McLaughlin, CEO.

New Zealand Institute of Management

The New Zealand Institute of Management is New Zealand's professional body for managers, which sets the standards for management education, training and development in New Zealand.

Key member: David Chapman, CEO.

New Zealand Venture Investment Fund Ltd

NZVIF is a Crown entity company that is responsible for the implementation of two programmes:

- The VIF (venture capital) programme is a venture capital 'fund of funds' that aims to invest \$160 million, alongside private sector co-investors, in a series of privately managed venture capital investment funds.
- NZVIF is also responsible for the implementation of the Seed Co-investment Fund. Through this programme, NZVIF aims to invest up to \$40 million over the next five to six years, alongside approved partners, in small- and medium-sized businesses which are unable to attract venture capital funding because of their size.

Key members: Sir John Anderson, Chair; Francesca Banga, CEO.

Pacific Business Trust

The Pacific Business Trust is a charitable trust that ensures New Zealanders of Pacific descent who are either starting a business or expanding an existing one, do so with the best possible support and financial advice available. This support covers a wide range of business services, such as mentoring, loans, financial management and advice. The Trust runs seminars and workshops to assist in planning the next business step a company can embark on.

Key member: Hamish Crooks, Chairperson; Richard Reid, CEO.

New Zealand Centre for SME Research, Massey University

Massey University has been teaching small business management and entrepreneurship since the mid 1980s and now offers a Diploma of Small Business Administration and a major in 'Enterprise Development' within the Bachelor of Business Studies.

In 1999 the New Zealand Centre for SME Research was established with the aim to enhance the capacity of the SME sector by creating new knowledge through research and undertaking a range of activities to make this knowledge available to all of those interested in the sector. Activities focus on topics of interest to SMEs in all their forms, so that they can make a sustainable economic and social contribution to New Zealand.

Key member: Professor Claire Massey, Director.

Business Mentors New Zealand

Business Mentors New Zealand delivers a business mentoring programme that is partly funded by NZTE.

Key member: Ray Schofield, CEO.

Institute of Accredited Business Consultants

The Institute of Accredited Business Consultants (IABC) provides members with internationally recognised accreditation and enhanced professional capability to facilitate the development of internationally competitive businesses.

Key members: Coral Ingley, Chairperson; Mark Groos, CEO.

New Zealand Society for Risk Management

The purpose of the Society is to improve the knowledge and practice of risk management in New Zealand.

Key member: Jeremy Bendall

Council of Trade Unions

The New Zealand Council of Trade Unions brings together over 350,000 New Zealand union members in 40 affiliated unions. The role of the CTU is to promote unionisation and collectivism through programmes of active campaigns.

Key members: Helen Kelly, President; Peter Conway, Acting Secretary/Policy Director/Economist.

Home Business New Zealand Limited (HomebizBuzz)

HomebizBuzz provides information, resources and networking opportunities to home businesses in New Zealand. Home based business is a growing sector of the New Zealand, and indeed the global, economy. This group aims to ensure they have the tools and resources to become more successful, and to help home business operators achieve greater satisfaction, less frustration and more balance in their lives.

Key members: Heather Douglas and Vicki Fowler, Directors.