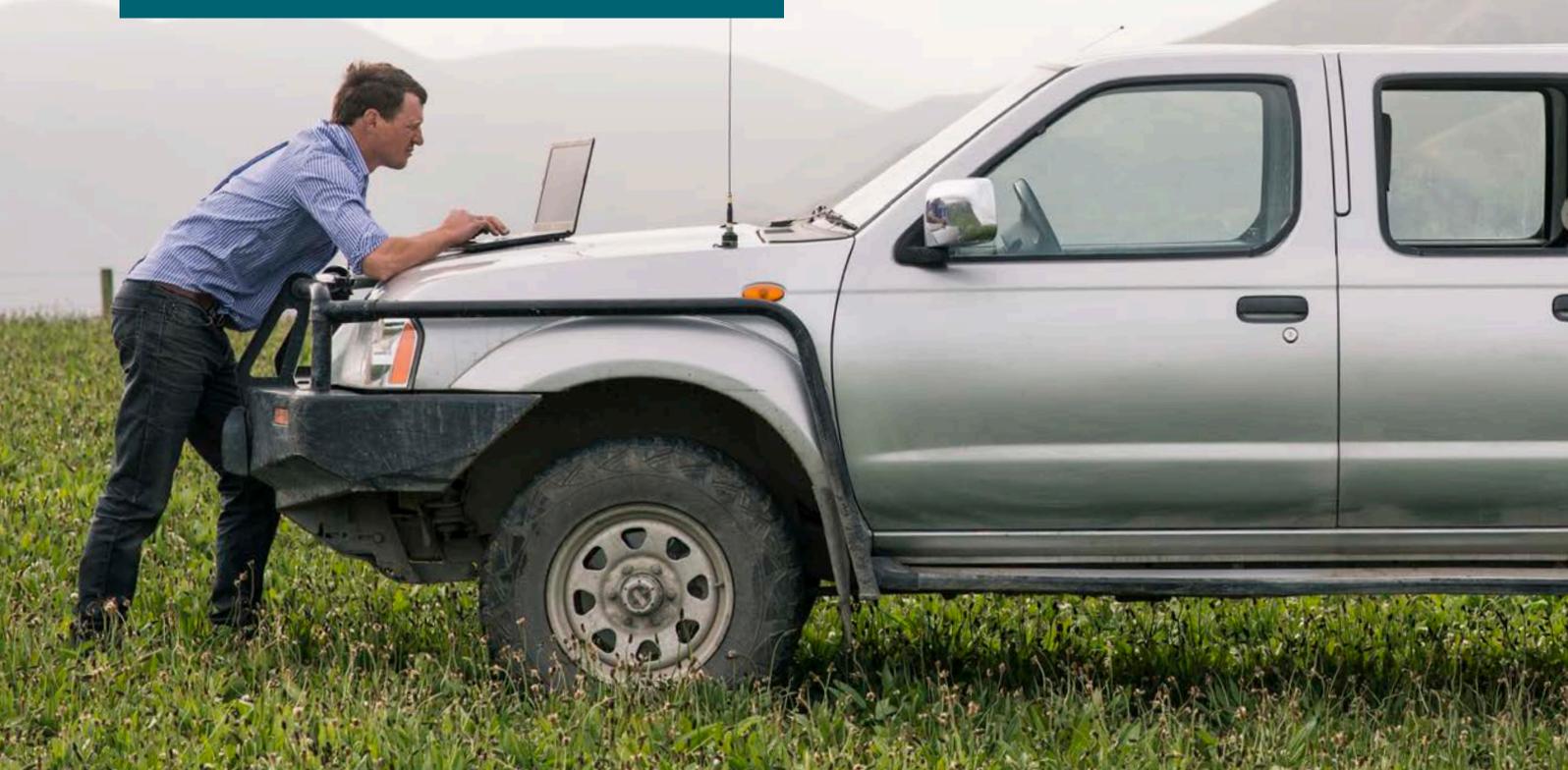


2016

Small and Medium Businesses in New Zealand

Report of the Small Business
Development Group



2016

Foreword from the Convenor

Tenby Powell

The Small Business Development Group strives to make the voice of small business heard across government. We reported to three Ministers of Small Business over the last three years: Hon John Banks; Hon Steven Joyce; and Hon Craig Foss. We have appreciated the time spent with them and found their views and suggestions very helpful.

We continue to be impressed at the efforts our small secretariat goes to, to ensure we are getting opportunities to provide our perspective on a very wide range of policy issues. Open communication, respectful exchanges of information and advice have reinforced a genuine desire from all to do our best for small business. Small businesses are a big deal for the New Zealand economy and the Small Business Development Group is a key player for government in this area. We encourage the government to ensure that it continues to fund the critical resources required to support small business at a level that reflects their importance to the economy.

In the last three years we have worked hard to ensure that the impact of policy on small businesses is taken into account. This report outlines the advice we have provided and shows the areas where our small business perspective has had an impact on the final policy decision. Based on this work, we have included a number of recommendations in this report for government to consider for our next term.

One of the most important opportunities raised time and again amongst the group is that of succession. There is enormous opportunity for growth within the small business sector as increasing numbers of small business owners seek to realise their investment and look to sell their

business. New Zealand has an opportunity to capitalise on the succession of a large number of small businesses by consolidating them into more sophisticated enterprises with more resources at their disposal to engage in innovation. The World Economic Forum has identified innovation and business sophistication as the two key drivers of the incomes of advanced economies. These could have a huge positive impact on the economy.

Other key messages include acknowledgement of Government's shift towards a more customer focussed approach whilst emphasising the importance of communicating clearly and effectively with small businesses; and the work we have done with Inland Revenue to limit the impact that the timing of tax payments has on small businesses.

I have enjoyed being a part of the Small Business Development Group and look forward to continuing our efforts over the next 18 months. We intend building on the efforts of the last three years and work towards future-proofing the voice of small business within government so that consideration of this perspective becomes business as usual for policy makers.



Tenby Powell
Convenor

Small Business Development Group

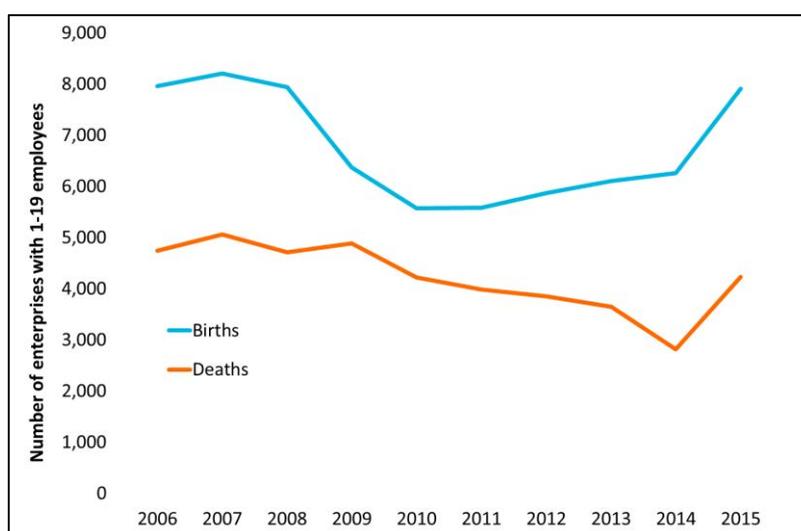
Executive Summary

The purpose of this report is to outline the work of the Small Business Development Group and the advice it is providing to Government on how best to support small businesses in New Zealand.

The Small Business Development Group (SBDG) was established in 2003 to provide a voice for small business within government and to advise government on small business matters.

Over the last three years we have worked to ensure government understands that successful small business requires access to high quality business education, financial capital and a strong base of adequately and appropriately skilled people to employ. It is only when these things come together that small businesses can confidently take on new challenges such as technology, research and development and other innovations that help them become more productive and more profitable.

Today, many small businesses are recovering from the Global Financial Crisis (GFC) amid a mood of cautious optimism. The table below shows that the number of New Zealanders starting their own small business has continued to grow over the last three years. As at February 2015, the number of new small enterprises with staff (those with 1-19 employees) was 7,900, over 1,600 more than at the same time in 2014¹.



At the time of writing, the overall number of small businesses has reached 487,602, representing 97 percent of all businesses in New Zealand. Together, small businesses employ 30 percent of New Zealand's working population and produce around 27 percent of New Zealand's Gross Domestic Product.

There are increasing opportunities, as financial conditions improve, baby boomers start to sell their businesses and innovation continues to change both the products being brought to market and the manner in which business operates.

¹ Business Demography Statistics, Statistics New Zealand, http://www.stats.govt.nz/browse_for_stats/businesses/business_characteristics/BusinessDemographyStatistics_HOTPFeb15.aspx, accessed 2 December 2015

This report draws on: the collective experiences of SBDG members who have foundations in a range of different industries throughout New Zealand; the opportunities SBDG members have had to comment on government policy making and implementation; the experiences of others gained from within SBDG member networks; and our visits to businesses in regional centres to present an up-to-date view of the issues and opportunities faced by small businesses in New Zealand today.

Recommendations

We recommend:

1. That government increase the relevance of the Business Growth Agenda (BGA) for small business by:
 - a. Ensuring that the needs of small business are considered when updating BGA actions;
 - b. Improving the communication of success indicators to clearly illustrate the benefits small businesses gain from Free Trade Agreements (FTAs), and increase momentum in signing up to new FTAs;
 - c. Prioritising better alignment of central and local government to help reduce the delays associated with regulatory compliance; for example, gaining Resource Management Act consents, or food safety regulation; and
 - d. Identifying and removing bottlenecks within the compliance and regulatory system, such as police vetting.
2. That government review employment legislation with the view to creating greater balance in representing the rights of both parties – employees and employers. In particular:
 - a. Evaluating the 90 day trial with a view to extending the length of the trial period; and
 - b. Introducing more water-tight, risk free processes that are more equitable to limit personal grievances.
3. That government consider the effects of: provisional tax timing and penalties on small business cash-flow and business cycles; and the cumulative burden of compliance costs.
4. That government provide plain English communications about the changes to health and safety legislation through mainstream media and invest in communicating more effectively to small business in high risk industries.
5. That government continue to make it easier to do business and access information and advice easily by:
 - a. Upskilling advisory services within the Regional Business Partner Network, ensuring consistent delivery across regions, and assessing which regions have a greater demand for these services;
 - b. Continuing with the 'Better for Business' (Result 9) programme that aims to reduce compliance costs for businesses and ensuring the SBDG's views inform how initiatives are developed and implemented;

- c. Improving the responsiveness of government agencies to assist complex start-ups through, for example, key account management; and
 - d. Providing further support for developing business.govt.nz to become the main channel for small business and government to interact.
6. That government provides greater clarity about anchor projects in Christchurch's central business district to provide certainty and confidence for business planning.
 7. That research is carried out into the implications of significant numbers of small business owners retiring without sound succession and exit plans.
 8. That government ensure small businesses have the right access to technology through access to ultra-fast broadband, both in urban and rural areas.

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Abbreviations Used in this Report

ACC	Accident Compensation Corporation
BGA	Business Growth Agenda
FTA	Free Trade Agreement
GFC	Global Financial Crisis
GST	Goods and Services Tax
LGNZ	Local Government New Zealand
NZBN	New Zealand Business Number
NZTE	New Zealand Trade and Enterprise
PCBU	Person Conducting a Business or Undertaking
RBPN	Regional Business Partners Network
RMA	Resource Management Act
SBAG	Small Business Advisory Group
SBDG	Small Business Development Group
SME	Small and Medium-sized Enterprise

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Introduction

This is the fourth group of business owners to represent the views of small business to government as the SBDG. The first group came together in 2003. Since then we have investigated a great number of issues, some of which we have commented on in more detail later in this report. These are some of the many topics covered in the past three years:

- ACC Levy setting
- Better use of information and communication technologies by small business
- Cyber security and small businesses
- Consumer Law on financial literacy in small businesses and the role of government
- Consumer Law Reform Retentions practice in the building industry following Mainzeal's collapse which had an adverse impact on small businesses
- Dispute resolution
- Government Procurement for small business
- Immigration – investor policy discussion on attracting more productive investment
- Immigration – long term business visa policy discussion on aligning policy with economic goals
- Immigration policy rationalisation
- Intellectual Property - the role of government in providing information and advice to small businesses
- Investment Law – new ways of funding, for example, peer-to-peer lending and crowd funding
- New Zealand Trade and Enterprise (NZTE): Better By Capital programme
- Regulators and regulatory regimes: what would good outcomes be for small businesses?
- Research and development grants
- Skills and Tertiary Education – joining up skills and education with economy growth and how tertiary education links with business
- Statistics New Zealand Business Operations Survey questionnaire
- Tariff and non-tariff barriers to export

Some of our members have also been asked to contribute to additional government and/or private consultation processes outside of our normal meeting cycle:

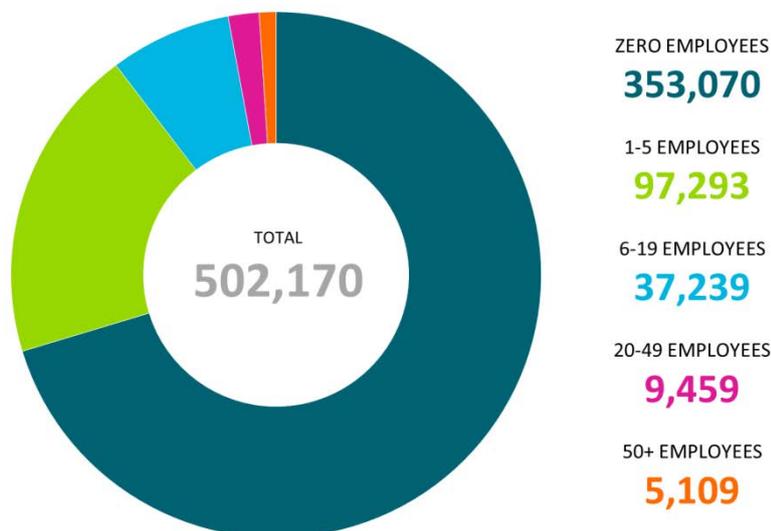
- Tenby Powell: Sector Workforce Engagement Programme, Icehouse, BE Institute, national road shows with Yellow and Google, numerous speaking engagements
- Sonia McConnachie: Government procurement 'meet the buyer', Business Growth Agenda consultation, Inland Revenue workplace assessment
- Neil Pluck: Business Mid Canterbury
- Robert Khan: Government Centre for Dispute Resolution, Auckland Advisory Board
- Jeremy Ward: Result 9 Steering Group, New Zealand Business Number Working Group, Inland Revenue Tax Conference

Our review of the previous Small Business Advisory Group's (SBAG) 2011 report found that whilst good progress was made in some areas, there were other aspects that required attention. Our response to the 2011 SBAG report's recommendations is set out in the table below:

2011 SBAG Report Recommendations	SBDG response three years on
A clear strategy for New Zealand's economic direction informed by SMEs.	The Business Growth Agenda is the Government's economic strategy. Since 2011 we have observed that the BGA has changed from a 'list' of things the government has done to a more forward-looking strategy. At this stage we believe that the BGA could be further improved by clearly setting out its intended impact for small businesses.
Introducing the single business number.	This has been introduced. There are ongoing efforts to determine how best to extend it to all businesses.
Improvements to www.business.govt.nz and its marketing to small business.	We are impressed with the great tools the government provides through this website. We note, however, that the lack of awareness of its existence amongst our peers requires further attention.
The Minister for Small Business is regularly updated on the progress and achievements of the Regional Business Partner Network.	We remain unclear as to how often the Minister receives these reports (although an evaluation was carried out in 2015, the results of which we have seen).
A process that includes SME's involvement in designing regulations.	Small businesses had the opportunity to provide a submission to the Rules Reduction Taskforce this year. Work on this will continue in 2016. Updates are available on the Rules Reduction website: http://www.dia.govt.nz/RulesReduction
Creating a one-stop disaster planning kit for SMEs.	More information and advice is becoming available, including information on the business.govt.nz website and the Resilient Organisations website.
The voice of small business is heard in the Canterbury rebuild.	A former SBAG member has been on various committees representing small business interests in the Canterbury rebuild. The SBDG met with officials in Christchurch in March 2013 to discuss the issues and made recommendations to government.
Research into the changing demographics of small business owners by 2012.	There has been some research into the different areas of small business activity within our economy. We have not seen any on small business overall.

Environment for Doing Business

The three years to 2015 have seen a return to growth for many small businesses, with a 5.5 percent growth in small business activity. There are now closer to 488,000 businesses with fewer than 20 employees² compared to around 462,000 three years ago.



New Zealand has experienced three relatively good years for business. However, predicting how small businesses will fare in the years ahead is difficult. Periods of growth or prosperity are cyclical and small businesses therefore need to be resilient. Lessons learned in recent times demonstrate that sound and well-run businesses can survive crises. Those that have emerged from the GFC and the Christchurch earthquakes are now stronger and wiser. Some industries are well into recovery mode and growth has been steady. We acknowledge though that periods of success for small business vary across industries and regions and some businesses may be finding it harder than others.

We are enjoying some positive economic indicators at the moment, such as low interest rates and low inflation, but we need to walk cautiously and plan for things ahead. Government plays an important role by making it easier for business to do business through initiatives such as the reduction of ACC levies. This is a specific example of how government can ease cash flow pressures on small businesses. We encourage the government to further investigate opportunities to reduce levies for small business further through careful fund management.

Employment remains a constant concern. Finding the right people with the right skills and right attitudes and providing sufficient incentives to keep them employed is an ongoing battle. We have made some recommendations to government in this area and look forward to hearing its response.

² Business Demography Statistics, Statistics New Zealand, <http://nzdotstat.stats.govt.nz/wbos/Index.aspx?DataSetCode=TABLECODE7605#>, accessed 2 December 2015

Technology is bringing New Zealand closer to the rest of the world but it is also increasingly changing the way small businesses do business. While technology often provides new and exciting business opportunities, and can generate exciting opportunities for the national and regional economies, it can also bring unexpected challenges and costs associated with things like security, upgrades and training.

Innovation continues to be a challenge for small businesses, with many simply not engaged enough in developing new products, services and systems to address the changes going on around them. Over the past five years the percentage of businesses with 6-19 employees undertaking research and development has remained steady at around six percent.

A key question regularly asked by officials is - how can the Government best communicate with small business? We believe that in some cases, there is a lack of insight into small businesses needs and ensuring that messages get to those who need it. Government tends to build tools or introduce initiatives and then expects small businesses to come to them, with little communication or marketing. Result 9, Inland Revenue and www.business.govt.nz however are making genuine headway and we encourage other government agencies to learn from them.

We have also developed a list of channels that could be used, depending on the nature of the message, to better communicate new initiatives and or key changes to the right people within a small business. We will add to this list as we become aware of other effective communication channels:

Accountants	Inland Revenue email
Business.govt.nz	KiwiNet
Chambers of Commerce	LinkedIn
Crown Institutes	National Business Review
Economic Development Unit – Councils	New Zealand Trade and Enterprise
Engineering news	NZTech
Facebook	Regional Business Partner Network
Food innovation group	Relevant business media sources
Google	Te Puni Kōkiri
Icehouse/Start-up Incubators	Uniservices (Auckland University)
Industry organisations	Universities

Contribution to Government Policy Making and Implementation

This chapter provides an outline of the key policies we have been consulted on this term and the areas where we feel our perspective has helped shaped policy design and implementation:

1. The Business Growth Agenda
2. Employment matters
3. Immigration
4. Tax Issues
5. Health and Safety Reforms and WorkSafe
6. The Regional Business Partner Network
7. Result 9 'Better for Business'
8. Statistics New Zealand website

The Business Growth Agenda

The Business Growth Agenda (BGA) is the government's economic agenda and provides oversight of a number of themes grouped around six elements: export markets; investment; innovation; skills; natural resources; and infrastructure.

We looked closely at some of the earlier versions and have provided advice on updates to the BGA, noting in particular:

- **Relevance:** whether the BGA is relevant to small business owners and what could be done to make it more relevant;
- **Impact:** whether the specific actions in the BGA are likely to be good for small businesses; and
- **Opportunities:** where gaps in the actions might lead to opportunities to further support small businesses.

Some of the general feedback we have given to the government included:

- The overall tone and much of the content of the BGA is aimed at helping businesses become more competitive exporters. However, while we acknowledge the importance of export growth for New Zealand, most small businesses do not directly export. There needs to be greater correlation between the actions highlighted in the BGA and the improvements that domestically focused businesses or those that form part of longer supply chains should be aiming for; and
- Reports need to use more accessible language. Much of the language found in reports is not SME-friendly and its relevance to small businesses is not always clear.
- Engagement with small businesses could be improved to help these businesses understand how new policies affect them and the opportunities available to them.

We also gave the government ideas and feedback on specific ways it could be more relevant to small-business:

- We endorsed the Result 9 initiatives to improve the interaction between Government and small businesses and are committed to assisting the Result 9 team to achieve its goals;
- We supported the 'Better by Capital' initiative and wish to continue to represent small business interests in this area.
- We fully support improved access to international markets and recognise the critical importance of Free Trade Agreements (FTAs) to business growth at all levels. We have suggested government look at ways to improve small business understanding of how they benefit from FTAs;
- We provided specific feedback on the cost of compliance delays. Of particular concern for many small businesses are the delays in the Resource Management Act (RMA) consenting process. We suggested that aligning central and local government compliance requirements under the RMA would help reduce those delays. Other areas of compliance that we believe could be improved include the delays associated with police vetting;
- We continue to support the UFB rollout. Rural broadband is particularly critical to small businesses because it can enable major productivity improvements such as better access to information across supply chains;
- We recognised the potential for tertiary education to be strengthened to reduce the time small businesses owners might need to spend teaching new staff; and
- We have supported granting employees the right to request flexible working arrangements, and allowing parties to agree, without having to go through a formal process.

We note that the updated chapters of the BGA have incorporated many of our suggestions. We continue to encourage the government to take into account the needs of small business when setting the direction of the economy.

Recommendation

1. That government increase the relevance of the Business Growth Agenda for small business by:
 - a. Ensuring that the needs of small business are considered when updating BGA actions;
 - b. Improving the communication of success indicators to clearly illustrate the benefits small businesses gain from Free Trade Agreements (FTAs), and increase momentum in signing up to new FTAs;
 - c. Prioritising better alignment of central and local government to help reduce the delays associated with regulatory compliance, for example, gaining Resource Management Act consents, or food safety regulation; and
 - d. Identifying and removing bottlenecks within the compliance and regulatory system, such as police vetting.

Employment matters

Dismissals process

Employees are often our greatest asset but sometimes things do not work out. When this happens, while there is legislation that provides for fair and safe workplaces, we believe the perspective of the employers is not always fully considered. The area of employment law related to dismissals needs to be reviewed to give greater balance to reflecting the views of both parties – employee and employer. We remain concerned that dismissal for issues other than misconduct seems to be extremely complex and long.

Employee attitudes

Another area of employment law that requires careful consideration is that of employee attitudes. In a small business, employees work closely together and the success of the whole business depends on positive employee attitudes. It remains very difficult to dismiss someone with a poor attitude where that attitude is directly affecting the overall performance of a small business team. We have considered a number of options by way of a solution to this, including establishing a register for those who are dismissed often for their attitude. Privacy laws may prevent this, but hiring poor employees costs businesses.

Length of the 90 day trial

We believe the 90 day employment trial needs to be extended. It has been well received by the sector but it does not always provide enough time to fully assess if an employee is the right fit for a business. An extended 90 day trial would also provide small business owners with options for managing the problems outlined above.

Mediation unfair to small business

We would like the government to review the employment disputes mediation process. In mediation, for example, small businesses are being treated as large, and assumed to have lots of resources, but this may not be the case. Small businesses do not always have the time or capacity or knowledge to effectively front these situations. To limit personal grievances, we recommend that government review legislation to ensure more water-tight, risk free processes that are more equitable.

Employment agreements

We believe that government could provide additional support for small businesses by assisting them to develop employment agreements (not just providing a template). Customised employment agreements designed to suit specific industries, could mitigate avoidable employment costs and disputes..

Parental leave

Paid parental leave continues to place cost and skill shortage pressures on small businesses, particularly in provincial New Zealand. Small businesses in provincial areas report that it can be near impossible to find temporary staff with the right skills and it is often difficult to hold jobs open. Small businesses need the right staff at the right time to keep operating. Casual and fixed-term contracts could be considered less problematic for small business owners. However, we acknowledge that there are long-term issues with this approach.

Recommendation

2. That government review employment legislation with the view to creating greater balance in representing the rights of both parties – employees and employers. In particular:
 - a. Evaluating the 90 day trial with a view to extending the length of the trial period; and
 - b. Introducing more water-tight, risk free processes that are more equitable to limit personal grievances.

Immigration

Migrant workers

The small business sector relies on a smooth functioning immigration system to supply labour with particular skills or to fill seasonal demands in the business cycle. At times the sector is frustrated by the bureaucracy that prevents the hiring or re-hiring of good workers. While there is strong advocacy from within central government that positions should be filled by New Zealanders first, the reality is that this is not always possible, particularly in areas of high employment where it can be very difficult to train New Zealanders. We believe, and have advised, that government needs to be more aware of the different seasonal and regional requirements and the varied industry requirements when creating policy settings.

Immigration Investor Policy

We support the notion that attracting more productive investment from migrant entrepreneurs will provide opportunities for New Zealand businesses. However, we believe there should be clear and acceptable standards of business practice/profitability/ability to generate jobs and exports.

We consider the market should determine what businesses or industries are needed, and the government's role should be to fine-tune criteria to meet other specifications such as, income or experience. Government needs to interpret the market and provide prospective migrants with clear messages about exactly what industries and businesses are needed in a 'real time' mechanism, much in the same way that skills lists are produced. We think it likely that investors are not aware of opportunities open to them.

One option could be to allocate more 'points' in the selection process to those wishing to set up their business outside of Auckland to ease the burden on that city's infrastructure and housing and provide a boost to regional areas. In light of this, we were pleased to see the changes to the Immigration Act earlier this year aimed at supporting regional development, particularly the change that doubles the points from 20 to 40 points for entrepreneurs planning to set up businesses in the regions under the Entrepreneur Work Visa. We also support the change to allow immigrants who have lived and worked in regions for several years to gain residency to settle there even though they would not otherwise have enough points to qualify as residents.

We discuss the looming issue of succession amongst retiring owners of SMEs elsewhere in this report. There is a real opportunity for baby-boomers in New Zealand to sell their businesses to migrants as part of their exit strategy. We note that Economic Development Agencies are now working actively to source capital for expanding businesses. We believe that introductions should be made to appropriately skilled migrants.

Tax Issues

We have consulted regularly with Inland Revenue (IR) over the design and implementation of their Business Transformation Project. IR is making improvements to its systems, processes and technology to make it faster and simpler for small businesses to interact with them. We have provided feedback on ways to make it easier for small businesses to comply, such as the timing of provisional tax payments.

Tax compliance costs – a disproportionate burden

We note that the compliance burden on small business can be disproportionately high. We have suggested a number of ways that IR could make it easier for these businesses such as: the timing of payments; the frequency of payments; clear communication on the basis for calculation; and application of penalties.

Holiday pay

We have provided feedback on Holiday Pay Calculations which we believe to be unnecessarily complicated. In many instances, we have found, employers are unaware that there has been a mistake until the matter is raised with them by an employee.

GST on online shopping

We have had a number of discussions with IR about GST collection and online shopping. We note that whilst there will be some small businesses advantaged by the introduction of collecting GST others will be disadvantaged. We advocated for online shopping changes to GST collection and are pleased to see changes in this domain.

More flexible penalty system

We also discussed the issue of penalties for those who do not pay tax when it is due. We believe that there should be more flexibility to address the differences in circumstances and attitude between those who *will not* pay, and those who *cannot* pay. While we believe there should be consequences for not paying taxes due, our view, pragmatically, is that receiving some of the money owed is better than receiving nothing. Details of those who continually benefit could be made available in a similar manner to how organisations such as Veda provide details of bad debtors.

Recommendation

3. That government consider the effects of: provisional tax timing and penalties on small business cash-flow and business cycles; and the cumulative burden of compliance costs.

Health and Safety Reforms and Worksafe

New Zealand's workplace health and safety system has had a number of major changes following the work of the Independent Taskforce on Workplace Health and Safety and the Royal Commission on the Pike River Coal Mine Tragedy. The new system is based on the Australian Model Work Health and Safety Act, with variations to take account of differences in the New Zealand environment.

We wish to acknowledge the contribution of Bryan Nunweek, a former member of this group who represented the SBDG on the Workplace Health & Safety Taskforce, and subsequently on the Guidance Groups for the General Concepts and Worker Participation Regulations.

Key aspects of the reforms include:

- replacement of the Health and Safety in Employment Act with a new Health and Safety at Work Act;
- establishment of a separate and independent regulator (WorkSafe);
- a broader definition of those covered under the Act and a clear definition of their duties; and
- a greater onus on the business owner (the Person Conducting a Business or Undertaking or the PCBU) to show they have met their obligations under the Act..

We were consulted by Worksafe on a regular basis. At our meetings we outlined the need for clear communication about the key changes to the Act that would affect small businesses. We remain concerned about the adverse consequences that could arise from a poorly informed small business sector. Among the issues we raised:

- the burden of proof appears too high – it will be difficult for small businesses to show that they have all the right procedures in place;
- concerns about managing 'errant employees' who refuse to comply. We suggested there may be a need for guidelines for managers on how to best interact and engage with staff around safety;
- the material relating to volunteers is not clear;
- the impact of Director Liability and responsibility. We are concerned that businesses may lose directors' expertise if they do not fully understand changes to their responsibilities; and
- the levels of liability in circumstances of human error.

We note that the Business.govt.nz team collaborated with Ministry of Business, Innovation and Employment, WorkSafe and ACC to prepare 'myth-busting' articles on how these changes will affect small business. Whilst these were well-received by the small business sector we believe the messaging could have had a much greater reach if more mainstream media options were used. We recommend that government continue to provide articles and other communications to further explain the changes.

Recommendation

4. That government provide plain English communications about the changes to health and safety legislation through mainstream media and invest in communicating more effectively to small business in high risk industries.

The Regional Business Partner Network

The Regional Business Partner Network (RBPB) is made up of 14 regional organisations that provide information and advice to New Zealand small and medium enterprises (SMEs) that have growth intentions. We were asked to comment on small businesses' awareness of, and the effectiveness of, the RBPB.

We consulted our networks specifically about:

1. Whether SMEs in growth mode are aware that there is a government-funded mechanism known as the RBPB established to support small business owners in this area;
2. Whether any had used, or heard of other small business owners using the service; and,
3. What did they think about the quality and timeliness of the advice/ support they had received from the RBPB.

We found out that:

- Very few small business owners we interviewed had heard of the RBPB. However, those that did consider assistance from the RBPB would be useful also thought that:
 - they might not be eligible; or
 - they would not go to the government for business advice and support..
- Those who were aware:
 - tended to be service providers who are contracted by the RBPB to provide training under the voucher scheme;
 - were reasonably well-connected into SME networks such as Chambers of Commerce or other industry association-type organisations;
 - tended to also be businesses that are vetted for NZTE funding;
 - commented that the RBPB only provided services for export-orientated firms;
 - were aware that the RBPB provides successful events that are well-publicised.

Our investigation also identified that:

- There was a lot of confusion around titles and functions of various business support entities, for example, Business Mentors, NZTE, Economic Development Agencies, local councils and Chambers of Commerce.
- Members of the LinkedIn SME Network had greater awareness of, and dealings with the RBPB. Additional comments from this group included:
 - there was a lack of awareness of the different functions of NZTE and Callaghan Innovation;
 - there were issues about finding people named on websites and finding the correct links; and,

- the application and eligibility criteria for funding under the NZTE 'Focus 700' scheme is unclear and this leads many to not bother applying for assistance. and
- There was some knowledge about the provision of training vouchers, but not the name of the organisation that co-ordinated these activities.
- Some intermediaries (who we considered to have good knowledge about the network) had not heard of it. We believe this may be because they did not recognise the name of the organisation even though they knew about the services offered.

From within our networks, those who had heard of the RBPN services identified a misalignment between the advice and support needed by small businesses and that offered by the RBPN. Other points they noted include:

- the need to review the administration costs as they are, in many instances, greater than the financial assistance granted;
- service provision across the country varied. They noted for example that the Canterbury Development Corporation and Venture Taranaki are doing a great job and as such provide sound exemplars of appreciated service delivery; and
- appreciation of the type of opportunities available to SMEs in relation to access to training and grants that would otherwise be invested in.

So, small business owners are unaware of the existence of the RBPN and those who are aware, do not recognise the differences in roles and functions between the RBPN, NZTE and Callaghan Innovation.

While recognising that the Government has to prioritise its spending, and cannot help every business, investing in accessible information about the RBPN scheme could greatly benefit and grow SMEs. We also suggest that, alongside any work on designing a clear and accessible communication strategy, government also conduct a branding exercise that focuses on understanding what SMEs want and need from the RBPN.

Quality business education is fundamental to the success of small businesses. It ensures that business owners are aware of their compliance obligations and can establish robust processes in areas such as finance, human resources or health and safety. We consider the RBPN and the Economic Development Agencies to be an important source for this education and would like to see a greater number of SMEs making the most of these opportunities.

The RBPN has created competition amongst service providers. A more competitive environment in this area (or these areas) has enabled a greater number of business opportunities for small business owners. However, these business owners also report that they have no personal knowledge of the service providers on offer and no way to assess the aptitude of one provider against another without a quality assurance process. It is also challenging for small businesses to navigate the information about what government funding is available.

We believe the economic well-being of New Zealand is best served by well-designed business advice and financial assistance targeted to the specific needs of all businesses at whatever level they operate at. We understand that that the target for the RBPN has shifted away from purely exporting companies to all companies with growth aspirations. This message needs to be clearly delivered to both RBPN advisors and to businesses. We look forward to continuing to provide assistance and advice to the relevant government agencies on this matter.

Recommendation

5. That government continue to make it easier to do business and access information and advice easily by:
 - a. Upskilling advisory services within the Regional Business Partner Network, ensuring consistent delivery across regions, and assessing which regions have a greater demand for these services.

Result 9 'Better for Business'

'Better for Business' has consulted widely with us since its inception. This cross-government programme aims to make it easier for business to interact with the government and reduce business compliance costs by 25 percent by 2017.

The most important result so far has been the introduction of the single business number or the New Zealand Business Number (NZBN). We acknowledge the work of the previous SBDG and its efforts in encouraging the government to pursue this initiative. Their advice focused on allocating numbers, communicating with small business owners, privacy issues and streamlined services. The present SBDG is looking to provide advice on ensuring that third parties have access to the business/government dashboard so that intermediaries or staff can interact with government on behalf of a business. Such a dashboard would allow businesses to see all their transactions with government agencies on one page. We are keen to discuss this further.

During our term the NZBN has been applied to all companies on the Companies Register. We would like to see the NZBN further developed into a tool to improve productivity. Our contribution to its design has been to ensure that it suits a range of consumers. We note that the NZBN can give businesses credibility, particularly in international markets, by using an identifier that is recognised internationally. We note though, that to be successful, it needs a critical mass of people using it. We would like to see this initiative work and are interested in maintaining our involvement in this process.

We would like the Better for Business programme to consider recommending one point of contact within government for businesses. This is particularly relevant for complex business start-ups with high-growth potential, for example those in the food technology sector, because of the challenges they face navigating their compliance obligations across government. Providing businesses with key account management would further help streamline the process and make it easier.

One vehicle for delivering Better for Business initiatives that we have seen grow and improve over time is the government website for business, www.business.govt.nz. This is a resource specifically targeted to small businesses to help them with compliance and management. It provides tools and information that are relevant, timely and user-friendly. Business.govt.nz is doing good work. We encourage all small businesses to use it and to subscribe to the newsletter. The site could benefit though from making the impact of its work clearer for small businesses. We see this as an area that requires continued government support.

Recommendation

5. That government continue to make it easier to do business and access information and advice easily by:
 - b. Continuing with the 'Better for Business' (Result 9) programme and ensuring the SBDG's views inform how initiatives are developed and implemented;
 - c. Improving the responsiveness of government agencies to assist complex start-ups through, for example, key account management; and
 - d. Providing further support for developing business.govt.nz to become the main channel for small business and government to interact.

Statistics New Zealand Website Assessment

The Minister for Small Business asked us to assess the Statistics New Zealand website and to offer some feedback on its usefulness from a lay business person's perspective.

In particular, we looked at:

- i. What information is available to assist small businesses;
- ii. How easy is this information to access;
- iii. Whether this information and the way it is presented is useful to small businesses; and
- iv. What information is not available that would be valuable to small businesses.

We were generally able to find information that could assist small business on the website. We identified a range of business specific data and non-business related data that we found useful including visitor arrivals data, migration data and demographic information.

Those of us who were not familiar with the website found it more difficult to access useful information. Navigation of the site became easier though over time. Ease of access was also dependent on knowing what you were looking for. General comments about accessing business data included:

- "It's daunting to access the first time"
- "It is not immediately obvious that the tools section was for business use"
- "It would be convenient for small business to have a tab where relevant data is located"
- "The site could be promoted better to small business"

We found that the information is not targeted at the average small business. It requires time that small business owners would say they did not have to become familiar with the site and sift through the available information. Additionally, many small business owners may not have the expertise to analyse the available data. We also raised questions about the age and usefulness of some of the content leading some of us to query the regularity of website content management.

We made a number of recommendations to Statistics New Zealand:

1. Design a sub-site specifically for small businesses.
2. Present the information, data and tools in easily understood language that does not require specialist knowledge of statistics.
3. Promote the benefits of good statistics to the wider small business audience.
4. Provide case studies of how statistics are being used by businesses which will resonate more with business owners.

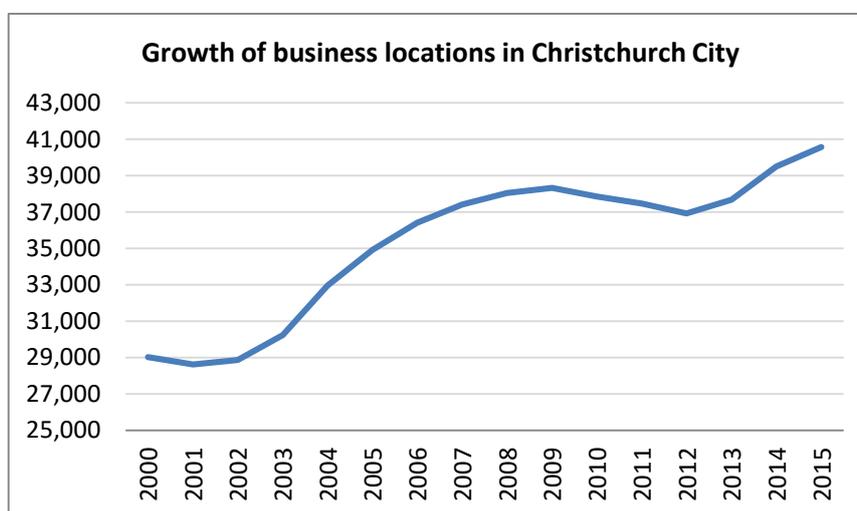
Some of these recommendations have been implemented already and we applaud the efforts of Statistics New Zealand to improve customer engagement. While we still think there is work to be done around the usability of the tools on the website, we have found their customer support services to be excellent.

Regional visits

During our term, we made two visits to the regions to enhance our understanding of the challenges being faced by small businesses outside of our own industries and home towns. The first of these visits was in March 2013, to Christchurch, to gain some insight into the operation of small businesses following the devastation of the earthquakes. The second visit was in April 2015, to Hawke's Bay, to explore the opportunities and challenges faced by businesses in a provincial centre.

Christchurch – March 2013

For many of us, the visit to Christchurch was our first since the earthquakes and while we were shocked and saddened by the change in the city, it was a heartening reminder of the strength and courage of New Zealanders. The visit showed evidence of a new strong, innovative business community arising from the devastation.



We had an opportunity to meet with representatives from Canterbury Earthquake Recovery Authority who described the various challenges of rebuilding a business environment. By learning about the vision for Christchurch, we gained a real appreciation of the size and scale of the rebuild and the importance of this to the New Zealand economy.

We were also fortunate to visit EPIC Innovation. This organisation is an innovation hub where leading high-growth companies are co-located and share facilities and resources. It was great to see the benefits of these types of centres for small business owners:

- Economies of scale creating more competitive environments;
- Better, smarter businesses that produce goods and services on a more cost-efficient basis;
- More opportunities for knowledge-transfer between businesses;
- More opportunities for new revenue streams with collaborative approaches to projects.

Small businesses are not as well placed as big businesses to recover and grow following disruptive events such as natural disasters. Christchurch highlighted that many small business owners did not have access to good advice and information about risk management. We are pleased to see more information and advice becoming available. Examples include material on the business.govt.nz website (<http://www.business.govt.nz/laws-and-regulations/health-safety/crisis-management>) and the Resilient Organisations website (<http://www.resorgs.org.nz/>).

We visited the central business district and were encouraged by the enthusiasm of business owners who had returned as tenants, determined to make this move work. They have taken a risk that the critical mass they need (in both supporting businesses and customers) will develop quickly enough for them to run a viable business. While there has been a lot of progress since our visit, we have seen delays in getting small businesses back into the city. We would like to see government provide small businesses with the certainty and clarity they need around anchor projects, particularly around timing, so they can plan with confidence.

Recommendation

6. That government provides greater clarity about anchor projects in Christchurch's central business district to provide certainty and confidence for business planning.

Hawke's Bay – April 2015

The Hawke's Bay visit was an opportunity for us to gain first-hand insights into the realities faced by provincial businesses. The visit included the newly formed Business Hawke's Bay and trips to local businesses: Furnware; Envictus; True Earth; Rokit Apples; and Te Mata Mushrooms. We had the opportunity to observe these business' operations. Some key themes arose as we listened to these owners describe their journey, their issues and opportunities:

1. Provincial vs urban businesses

There were clearly benefits to operating in a region such as Hawke's Bay, including access to ports and the quality and quantity of water supply. Our overall impression was that innovation and the development of intellectual property were key attributes of business owners in the area.

We did not conclude that provincial businesses are disadvantaged in comparison to their urban counterparts. Some of the businesses visited had shown significant growth that was not hampered in any way by their geographic location. There were some issues in relation to the supply of labour for agricultural and horticultural businesses, however labour supply issues are not isolated to provincial areas and can affect urban businesses as well, for example those in the hospitality sector.

2. The threat and opportunity of succession planning

A recurring theme was the notion of ‘family’ in family-owned businesses and an emotional attachment to the Hawke’s Bay. Accompanying this was a strong signal that businesses were not making adequate provision for succession. Inadequate succession planning can result in decisions made under duress while growth under a different ownership regime may unlock considerable value creation. This is not unique in the Hawke’s Bay. In fact, we have identified it as an area of concern across small business nationally.

3. Business Hubs – will they work?

The newly-formed Hawke’s Bay Business Hub provides a physical one-stop-shop for support for businesses. It houses a number of government, local government and private support suppliers under one roof to minimise the effort needed by a business to access information and advice, and to maximise the awareness of the range of resources available to establish a new business or grow an existing enterprise.

While we applauded the intent, we were concerned about the lack of clarity over who the intended audience is, how they intend to reach these people, and how the Hub will measure its success. The provision of hot-desks to start-ups would be beneficial for all parties. We will watch with interest as the Hub develops. If the model proves successful, we would be pleased to promote the Hub as a model for other provinces to mirror.

4. Getting a straight answer with the Resource Management Act (RMA)

We were regaled with tales about problems with the RMA. There was a belief that the legislation did not have enough balance between environmental protection and business development. Part of the problem lies in local councils across the country interpreting and implementing the RMA differently.

Overall we observed a high level of frustration with local government in the region. We recommend central government and local government work more closely together to achieve aligned economic objectives. While local government matters are outside the remit of the SBDG, as an advisory group, we intend to establish a relationship with Local Government New Zealand (LGNZ) as it is anticipated that this relationship dynamic exists in other regions. Through doing so, we look forward to providing an objective voice to central government on opportunities and barriers to economic development in the regions.

Conclusion

Our visits gave us opportunities to see how businesses operate outside of our familiar regions and industries. We look forward to making a regional visit part of our annual schedule to help inform our thinking about small businesses and to broaden our outlook to provide considered feedback to policy-makers.

Opportunities for the future

Exit planning

The next decade will see an unprecedented level of small business succession in New Zealand, as small business owners reach retirement age and look to sell their businesses. We believe it is important that as a nation we understand the impact of this for our regional communities in particular, but also for the wider economy. If nothing is done, New Zealand risks losing intellectual property, with significant potential impact on domestic and global supply chains and with possible implications for the tax take. Lack of attention to this in the years ahead, we believe, will have poor outcomes for business owners, lead to loss of skills to society and have an impact on the growth of the economy.

But these changes present a huge opportunity for New Zealand to lift businesses above where they are now into bigger and better enterprises. New owners may have greater desires and ambitions to grow the business which will bring with it new possibilities. We must work to understand the implications of this and take full advantage of the opportunity it presents.

As small business owners from the baby-boomer generation exit their businesses, it will also trigger opportunities for sector consolidation, allowing small businesses to combine their operations and streamline their offerings to serve markets better. Efficiencies of scale will mean businesses can reduce costs and prices and provide reassurance for potential investors.

Sector consolidation in New Zealand will lead to the creation of larger, more sophisticated enterprises. The World Economic Forum has identified business sophistication, and innovation, as the two key drivers of the incomes of advanced economies³. By capitalising on these changes, New Zealand will have the opportunity to significantly grow the small business contribution to the economy.

In light of this unprecedented opportunity, the SBDG recommend that a strategic goal setting study be conducted into the key supporting structures required to capture the value presented by this dynamic.

The Digital Age

As mentioned earlier in this report, the digital age presents a challenge for many small businesses. It also brings with it extraordinary opportunities. The greatest benefit will be time. Going digital will create efficiencies in a business, freeing business owners up to do other things, whether that is growing the business, or just spending more time with their families.

³ Schwab, Klaus, The Global Competitiveness Report 2015–2016, World Economic Forum
http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf

But in New Zealand, small businesses cannot be considered early adopters of technology. Many have a long way to go before they will see the benefits technology. They will need to embrace this opportunity or risk being left behind. This is not a place for government to intervene. We want government's role to be in ensuring that small businesses have the right access to technology but we are confident that the market will provide small businesses with the right incentives to adopt it. The opportunity for government here is to keep pace with technology themselves, and bring small businesses along with them.

Recommendations

7. That research is carried out into the implications of significant numbers of small business owners retiring without sound succession and exit plans.
8. That government ensure small businesses have the right access to technology through access to ultra-fast broadband, both in urban and rural areas.

Annex One: Terms of Reference

Terms of Reference and Protocols for the Small Business Development Group (SBDG)

(Revised 2012)

Purpose

To give small and medium-sized enterprises (SMEs) a greater "voice" in policy development and to advise Ministers of issues facing SMEs.

While there is no universally accepted definition of SMEs, in New Zealand it is accepted that there are some common characteristics including:

- They are typically owner-operated
- They are independent and are able to make the principal decisions
- They have fewer than 20 FTE staff members
- They are likely to have a relatively small market share

The diverse nature of SMEs means that most are unable to effectively participate and influence government policy development by traditional/normal means of consultation.

The Small Business Development Group (SBDG) will provide a means for departments and the government to take more fully into account the interests of SMEs in policy initiatives and to provide a deeper understanding of how government can work most effectively with SMEs. SBDG will also provide the means for dialogue with SMEs that go beyond individual and immediate issues.

Functions

- To promote business growth in the SME sector by identifying poorly performing laws by:
 - Identifying issues arising from current laws and regulations that impair the performance of SMEs without a self-evident good reason;
 - Identifying aspects of laws and regulations that appear to be too complex for SMEs to be able to comply with adequately, lacking the resources to do so;
 - Considering the reasons that government agencies give/have for the imposition of such burdens on SMEs, and the wider business community, accessing the relevant SMEs to an efficient degree;
 - Forming views about the reasonableness of the investigated impediments to SME performance and growth and provide suggestions for progressing any issues.

- To promote business growth in the SME sector by identifying poor administrative processes by:
 - Identifying issues arising from current administrative processes that impair the performance of SMEs without a self-evident good reason;
 - Identifying aspects of administrative processes that appear to be too complex for SMEs to be able to comply with adequately, lacking the resources to do so;
 - Considering the reasons that government agencies give/have for the imposition of such burdens on SMEs, and the wider business community, accessing the relevant SMEs to an efficient degree;
 - Forming views about the reasonableness of the investigated impediments to SME performance and growth and provide suggestions for progressing any issues.
- To provide on-going advice to the Minister for Small Business on any issues affecting SMEs:
 - Identifying issues impacting the growth and development of SMEs;
 - Suggesting priorities;
 - Exploring solutions.
- To provide assistance and advice to government departments on consultation with SMEs.
- To provide, for discussion with government agencies, suggestions on ways for enhancing SME and government agency performance.
- To promote business growth in the SME sector by doing other things as from time to time agreed with the responsible Minister.

Membership

Members of SBDG will be drawn from the business community and will have a track record of establishing SMEs, growing SMEs, and will be networked. The members should be able also to represent business related issues facing women, Māori and Pacific SMEs and those seeking to start-up businesses.

Ministers will appoint the members of SBDG for a term of at least three years. Terms may be extended by mutual agreement. The size and composition of SBDG will be determined by the Cabinet following a recommendation from the Minister for Small Business.

The Group will have up to twelve members from which a convenor and a deputy convenor will be appointed on an annual basis. SBDG members may receive fees and allowances in accordance with Government guidelines. The members may be required to contribute up to

ten days per annum of their time to their role on SBDG to attend meetings, and further time for activities such as preparation time or other meetings as required.

The Group will maintain the confidence of ministers through the responsible minister.

Accountability and Reporting

SBDG will report directly to the Minister for Small Business through:

- Face-to-face meetings at least annually.
- Reports as agreed.

SBDG will be supported by a secretariat based at the Ministry of Business, Innovation and Employment, with involvement from other departments as appropriate.

The Official Information Act 1982, the Privacy Act 1993, and the Ombudsman Act 1975 will apply to the operation of SBDG. Information held by SBDG will be deemed to be information held by the Minister for Small Business.

The Group may from time to time report its findings on any matter to the responsible Minister. Any such report will be provided initially in draft format to the allow input from the responsible Minister.

Finalised reports may be published with the agreement of the responsible Minister and the Group. Published reports will not contain information supplied to the Group that has a confidential status.

Means

- Conduit - SBDG will seek input from SMEs utilising existing stakeholder groups and their own networks. They will also provide feedback on government initiatives to these same groups.
- Analysis - SBDG will use their business expertise to analyse the impacts of proposals on small business and assist the government to identify areas where further work should be undertaken. They will work with relevant government departments on the issues being investigated.
- Advocacy - SBDG will advise the government on any matters affecting SMEs
- Sounding Board - SBDG may provide advice on policy issues as they develop.

Protocols

SBDG will not publish the advice it gives to the government. However, the government may, from time to time, agree to publish papers produced by the Group.

SBDG members will need to be able to offer free and frank advice to the government while maintaining discretion about that advice in wider circles.

SBDG members will make public comments only after advising the Minister for Small Business through the Convenor of their intention to do so. The Convenor will advise the

Minister directly of his/her intention to make public comments. This injunction will apply whether the members agree or disagree with the government's actions on which they are commenting.

The Minister and the Group will operate on a 'no surprises' basis. The Group must maintain the confidence of the Minister at all times.

The Minister for Small Business will, prepare an annual expectations letter for SBDG which sets out the terms of reference, the protocols, a work programme and any other relevant expectations of the SBDG.

October 2012

Appendix 1 – Roles and Responsibilities of the Convenor and Deputy Convenor

The convenor is appointed as a member as well as into the position of convenor. The convenor's term expires on the date specified in the notice of appointment. This will normally be for a twelve month period.

The convenor will be responsible for:

- Ensuring that the Group develops and implements processes and systems to maintain its effectiveness;
- Establishing an agenda for meetings in conjunction with the Secretariat;
- Overseeing meetings to ensure they are conducted in an orderly fashion, that all members are treated evenly and fairly, and that members are encouraged to contribute to deliberations.

The convenor of the Group will speak publicly on its behalf. Group members may speak publicly on behalf of the Group subject to approval by the convenor. Any public comments will not include information provided to the Group that has a confidential status. The convenor will be supported in this role by the office of the responsible Minister. In any public statement the convenor will operate a "no surprises" manner with the responsible Minister.

The deputy convenor will assist the convenor in his or her absence, and as required from time to time.

Annex Two: Letter of Expectations 2015

Dear

As Minister for Small Business, I am writing to outline the Government's expectations for the Small Business Development Group (SBDG) in 2015.

I want to thank you for your contribution over the past two years, and I know that you will have a busy year ahead. I appreciate your commitment to provide a voice to the Government for small and medium enterprises in New Zealand.

The Government is focused on building a more competitive and productive economy, and delivering better public services to New Zealanders. These areas have an enormous impact on how a small business operates and it is vital that the Government has an appreciation of this. I look forward to your views as the year unfolds.

This year I would like the SBDG to focus on these priorities:

1. *Ensuring the voice of small business is heard in government.* The diverse nature of SMEs means that providing a unified voice in policy development is difficult. The SBDG should continue to provide robust advice to government officials on how government policy affects them in their day-to-day business lives. I would like you to keep in touch with your business community and seek feedback about factors affecting small businesses. This year I also want to turn my attention to those small businesses that operate in regional New Zealand. I have invited you to hold at least one of your regular meetings in provincial New Zealand. This meeting will help to identify some of the issues and opportunities for provincial businesses. I would like you to report to me your insights and recommendations.
2. *Ensuring small businesses can easily access and interpret government information and interact with government.* I am particularly interested in online interactions between business and government. I have asked you to assess the Statistics NZ website from a business owners' perspective and explore:
 - a. What information is available to assist small businesses,
 - b. How easy this information is to access,
 - c. Whether this information and the way it is presented is useful to small businesses, and
 - d. What information is not available that would be valuable to small businesses. regulations.

I would like you report to me your insights and recommendations based on your findings.

I would also like you to work with government agencies on how they communicate with small businesses. For example, Worksafe New Zealand will be implementing extensive changes to regulations and it is important that these changes are communicated in a form that meets the needs of small business owners.

3. *Supporting the achievement of the Better Public Services Result Area 9 : Better for Business* The Government has made delivering better public services for citizens and businesses one of its key priorities. The ten results the Government expects government agencies to deliver are making them work more closely together and become more efficient. I would like you to continue to engage with and advise the

Better for Business (Result 9 team) and the www.business.govt.nz team to deliver the support that small businesses need.

Finally, I would like you to provide me with a formal report that outlines the work you have done during your term. This report should capture the work you have done and reflect your knowledge about the small business environment and what you have learned about how government works. It should identify the issues and opportunities that you see and make recommendations to the government. I would like you to deliver this report by December 2015.

I welcomed the opportunity to meet with you last year and I hope to do so as often as my schedule permits this year. I would also welcome your attendance at any meetings I have with the small business community in your area.

Once again thank you for your input over the past year and I look forward to working with you in 2015 as we continue to provide opportunities and assistance for small businesses in New Zealand.

Yours sincerely

Craig Foss
Minister for Small Business