NZTE Output Class 1 Evaluation

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2. Summary Report

The Summary Report can be downloaded from:

http://www.med.govt.nz/templates/MultipageDocumentTOC____43229.aspx

3. Introduction

This evaluation is the first in a series of evaluations of the output classes agreed between the Minister for Economic Development, the Ministry of Economic Development and New Zealand Trade and Enterprise. Most standard evaluations assess the effectiveness and efficiency of a single product, such as a policy or a programme, and not how a suite of programmes performs, which is the subject of this evaluation.

Analysing a single programme allows one to assess in-depth how it performs against a set of criteria, often with a view to identifying whether the programme achieves its specific policy outcomes. Looked at in isolation, such programmes may be efficient and cost effective. However, where there are trade offs or synergies with other, related programmes, these are often not fully analysed and taken into account. The main reasoning for grouping NZTE programmes into the present output classes was to enable policymakers to make decisions about trade offs and synergies. Thus, this evaluation will differ from a programme specific evaluation in the sense that there is more emphasis on the cost-effectiveness of individual programmes vis-à-vis related programmes in the same area and on trade offs and synergies. This should better reflect opportunity cost and may lead to findings and recommendations that an evaluation of a single programme would not have produced.

This report is structured as follows: Section3 introduces the output class. Section 4 provides an explanation of the rationale for public intervention. Section 5 reports on our analysis, findings and recommendations specific to individual programs. Section 6 draws together the findings of the previous sections and takes a look at the output class as a whole.

3.1 What is Output Class 1

An output class is defined as a grouping of similar outputs (Section 2, Public Finance Act 1989). In other words, it is a grouping of activities with similar objectives. Output Class 1 consists of standardised training and advisory services provided by third parties to firms on a range of business development needs, including business incubation, capital acquisition, finance brokering and exporting. It aims to deliver the policy outcome of 'improving the environment for enterprise and growth'.

3.2 Reasons for evaluating Output Class 1

It was agreed that MED would report back to Cabinet on the efficiency and effectiveness of the six output classes that were agreed between NZTE and the Minister for Economic Development and the Minister for Trade. This evaluation is the first of a series of reports evaluating these output classes.

This evaluation report is to be used primarily as an input into policy-making to aid understanding of existing programmes and to inform future decisions in this area.

3.3 Evaluation Objectives

The purpose of this evaluation is to assess the output class as a whole in terms of effectiveness and efficiency, which means its individual programmes as well as how they perform as a group. Most of the programmes in Output Class 1 have already undergone individual evaluations. Where this is the case, the findings of those evaluations have been taken as the starting point for this report in order to avoid unnecessary duplication of effort. The focus of this evaluation is on: 1) the nature and extent of the developmental issue addressed and alignment of the output class objectives with those needs; 2) whether the output class objectives and objectives of constituent programmes are achieved; 3) output class effectiveness; and 4) programme delivery efficiency. The evaluation set out to address the questions stated in Annex 2.

3.4 Design of the Output Class

As mentioned above, an output class is a grouping of activities that have similar objectives. In December 2007 NZTE outputs were restructured into five output classes to ‘enable delivery of information on the impact of groups of programs, and appropriations, toward a single outcome, enabling officials to give robust advice to ministers on choices between outcomes or classes of outputs… A new appropriation structure is proposed which will …’give greater clarity for robust evaluation, monitoring and reporting…’ (A sixth output class – New Zealand’s participation at Expo 2010 Shanghai - has since been added.)

NZTE Output Class 1: Standardised Training and Advisory Services includes Standardised training and advisory services provided by third parties to firms on a range of business development needs including business incubation, capital acquisition, finance brokering and exporting.

It aims to deliver the policy outcome of

- **‘Improving the environment for enterprise and growth’**

  and the objective of

- **‘business development providers support the capability development of firms to achieve growth and internationalisation.’**

Output Class 1 is divided into two sub-output classes:

Sub-Output Class 1.1: Development of providers of training and information

- The Biz Service: 0800 service and national network of walk-in Biz centres
- Enterprise training
- Exporter training
- Mentoring

- Incubator Support

Sub-Output Class 1.2: Development of capital information and training

- Escalator – Info services
- IRT (Investment Ready Training) programme
- Escalator training
- Escalator brokering

These programmes are briefly described in Annex 1.

3.5 Output Class Funding

Government funding for Output Class 1 amounts to approximately $16 m per annum (see table 1). This has remained more or less constant since 2004/05. The Enterprise Training Programme receives by far the largest share of about $9m.

Table 1: Budget for Output Class 1 Components for years 2003/04 to 2008/09

MED REVIEW OF NZTE PROGRAMMES: FUNDING FOR OUTPUT CLASS 1 PROGRAMMES 2003/2004 TO 2008/2009 - SIX YEARS										
Programme		**$ Ex GST**	**$ Ex GST**	**$ Ex GST**	**$ Ex GST**	**$ Ex GST**	**$ Ex GST**		Current	Previous
		2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009		Class	Class
Biz Training & Biz Info (combined)	Note 1	$11,016,000								
Investment Ready Programme	Note 2	$1,020,166								
Programme		**$ Ex GST**	**$ Ex GST**	**$ Ex GST**	**$ Ex GST**	**$ Ex GST**	**$ Ex GST**		**Current**	**Previous**
		2003/2004	**2004/2005**	**2005/2006**	**2006/2007**	**2007/2008**	**2008/2009**		**Class**	**Class**
biz Service		See above	$1,344,000	$1,344,000	$1,344,000	$1,344,000	$1,344,000		1.1	3.1
Enterprise Training Programme		See above	$8,975,111	$8,975,111	$8,975,111	$8,975,111	$8,475,111		1.1	4.1
Pre Business Training for Pacific Peoples		$266,667	$266,667	$266,667	$266,667	$266,667	$266,667		1.1	4.1
Export Training	Note 3	$694,222	$654,607	$654,728	$634,728	$634,728	$650,000		1.1	4.2
Financial Support for Mentoring Services		$488,889	$400,000	$1,200,000	$1,022,222	$1,022,222	$1,022,222		1.1	4.3
Investment Ready Training Programme		See above	$312,000	$312,000	$312,000	$312,000	$312,000		1.2	4.1
Escalator - Web/Help Desk		See above	$305,004	$305,003	$305,003	$305,003	$305,003		1.2	3.2
Escalator - High Level Training		See above	$171,556	$171,556	$171,556	$171,556	$171,556		1.2	4.1
Escalator - EDA Capability Building		See above	$44,444	$44,444	$44,444	$44,444	$44,444		1.2	4.1
Escalator - EDA Deal Broking		See above	$1,608,000	$1,608,000	$1,608,000	$1,608,000	$1,608,000		1.2	6.2
NZTE Administration (BDU Opex)	Note 4		$499,867	$499,867	$499,867	$499,867	$651,000		1.1	
NZ Business Assessment Tool			$0	$0	$0	$0	$900,000		1.1	N/a
Incubator Support			$950,000	$933,000	$393,000	$402,000	$402,000		1.1	1.5
Total			**$15,531,256**	**$16,314,376**	**$15,576,598**	**$15,585,598**	**$16,152,003**			
Incubator Awards	Note 5	$2,754,000	$2,755,000	$2,755,000	$2,755,000	$2,755,000	$2,756,000			
Grand Total			**$18,286,256**	**$19,069,376**	**$18,331,598**	**$18,340,598**	**$18,908,003**			

Notes

Note 1: The funding available in 2003/2004 for biz training and biz info had no predetermined split. $ value for combined biz training and biz info.

Note 2: The Investment Ready Scheme (deal broking & training) underwent a major revamp midway through 2003/2004. The original funding available for the scheme was

Note 3: In 2003/2004 the Output Description was described as International Business Consultancy and was inherited from Trade NZ as part of the merger. The outsourcing of what became known as the Exporter Education programme did not commence until 2004/2005 (contract covered 2004-2006 period.

Note 4: Is comprised of $499,867 & overheads of $151,133. This line pays NZTE staff salaries, travel, and unit operational expenses.

Note 5: Incubator Awards are a non-Departmental Other Expense in MED's budget, part of the Regional Partnerships and Facilitation budget line. The awards are, however, administrated by NZTE.

There is a difference between awards to firms (funded through MED non-departmental Other Expenses) and MED non-departmental funds required for NZTE operations. The NZTE operations for biz and ETP are contracts to other organisations as distinct from awards to firms. This distinction is possibly somewhat arbitrary and including all of the incubator funds in one output class may offer some benefits including simplification of the budget.

4. Intervention Rationale and Evaluation Methodology

4.1 Introduction

First we look at the policy rationale and intervention logic. We then set out the evaluation framework and methodology.

4.2 Policy Rationale

Small and Medium-Sized Enterprises, SMEs, are defined, for the purposes of this report, as enterprises with 19 or fewer employees. The Ministry of Economic Development publishes an annual report “SMEs in New Zealand: Structure and Dynamics 2008” which contains detailed analysis and discussion of SMEs in the New Zealand Economy.

At February 2007, 97% of New Zealand businesses, that is 449,835 businesses, employed 19 or fewer people. Of these 315,049 had no employees (i.e. they are sole traders or shelf companies). SMEs employed 31% of all employees, and accounted for 38.6% of the total value-added output in 2006[1]. In 2007, 60443 SME businesses were formed (and 54236 SME businesses closed).

Due to their small size and often young age (e.g. start ups), SMEs may be disproportionately affected by the consequences of market failures which do not affect their bigger competitors to the same extent. The market failures and other issues affecting the market for training and advisory services consist of information asymmetries, positive spillovers and public good characteristics. In addition there are often high transaction costs.

SMEs may have imperfect knowledge about the direct (or private) benefits of information and training. Economic theory suggests that a rational actor buys a product until its marginal benefit equals its marginal cost. However, if there is imperfect information about its benefits, it follows that businesses are likely to spend less on the product than they would if they had all the information. So, if SMEs are not fully aware of the direct (private) benefits that investing in training can give them, they will spend less on it and may forego benefits for which, if fully informed, they would normally pay.

In addition to the direct (private) benefits enjoyed by the party paying for the product, there may also be benefits to others that the paying party cannot appropriate. Consequently, it will take into account only the benefits or returns it receives directly (private benefits) when deciding how much to spend on the product and not those enjoyed by society more widely (social benefits). In economic language, the marginal private benefit (MB) is smaller than the marginal (social) benefit (MSB). This leads to suboptimal demand, here for training and information services, as the point at which

[1] SMEs in New Zealand: Structure and Dynamics 2008 published by the Ministry of Economic Development ISSN 1178-3281.

marginal benefit equals marginal cost is below that of marginal social benefit equals marginal cost, and society foregoes any wider (social) benefits that may exist.

Businesses may also under-invest in training and information if they perceive transaction costs as too high. If finding out where to get information from or what training courses exist and assessing their quality is too time consuming or financially too costly, businesses may simply not bother, even if they generally believe in their usefulness. However, the mere existence of transaction costs does not mean that a market failure exists or that government has to intervene. After all, businesses could make the investment if they thought it good use of their resources. The fact that they do not do so may be a perfectly rational commercial judgement reflecting opportunity cost. Nevertheless, government intervention aimed at reducing transaction costs may still be justified if the direct benefits to business are greater than the costs to government of carrying out the intervention.

SMEs may also under-invest in training due to high upfront costs or because of concerns that employees could leave and take their skills (and thus the investment) elsewhere. Indeed, training one's staff or manager raises their attractiveness to other firms and may make it more likely that an employee leaves. Even if everyone agrees that raising skills or increasing knowledge through training is beneficial, if the company making the investment cannot be certain that it will also harvest the benefits, free-riding may become the preferred strategy (e.g. each firm relies on everyone else to make the investment) and the demand for training will be suboptimal. This may be particularly true for SMEs that have limited scope for spreading training costs, meaning that they are faced with higher relative costs for training. It is important to recognise that this strategy may be perfectly rational from an individual firm's perspective. From the point of view of society though, this lack of coordination leads to a suboptimal outcome as it produces a general underinvestment in training and information services, with negative follow on implications for knowledge and human capital development, and ultimately productivity.

On the supply side, training or information service providers may not recognise the business opportunities that exist. This could be due to a lack of understanding of the requirements of the business community or because of (perceived or real) suboptimal demand. Some information services may also have public good characteristics, meaning that once the information has been produced, it is impossible to prevent others from using it or making them pay for it. In such instances there is no commercial incentive for private providers to produce and provide the information. Examples may include easily replicable information, especially when disseminated via the internet.

4.3 Intervention Logic

An intervention logic model is a chain of causation that links a problem definition via inputs, outputs and intermediate outcomes to final outcomes. The latter are the overarching goals of the policy. The intervention logic model depicted here is for the output class as a whole. As such, it is of a more general nature than those pertaining to the individual programmes of Output Class 1. The interested reader may refer to annex 1 for the programme specific intervention logic models.

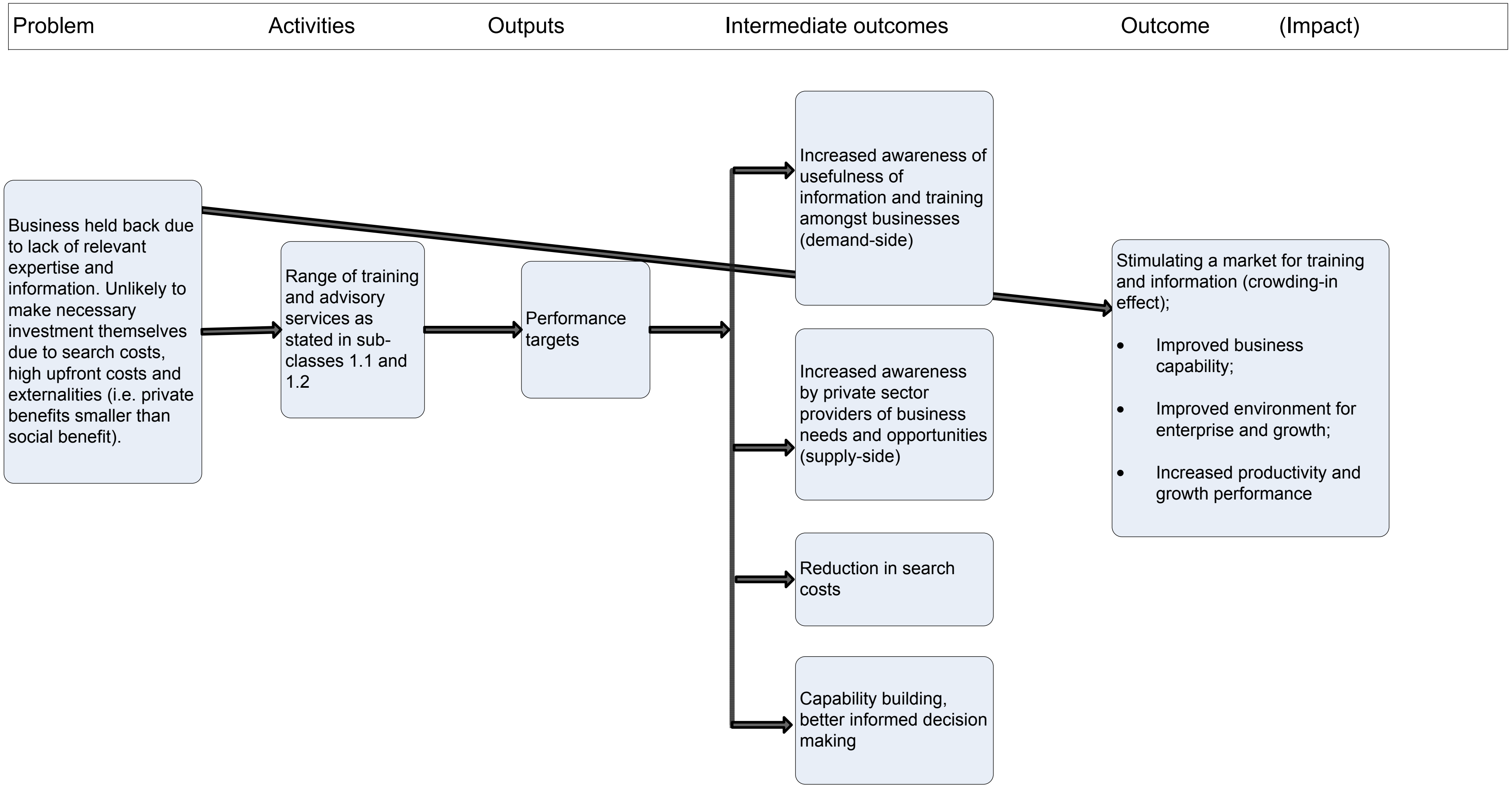
The previous section outlined the market failures and other rationales on which government interventions in the area of training and information services rest. The box headed ‘activities’ in Figure 1 lists the inputs or policy programmes used for accomplishing the intended outcomes. However, establishing causation between the policy programmes and ultimate outcomes (policy goals) is generally difficult, particularly if the outcomes are subject to many other factors which are difficult to control for, as is the case here. Even establishing an association takes time, often several years. Indicators (outputs) and intermediate outcomes help to assess whether progress is being made. Most programmes in Output Class 1 have outputs in the form of performance targets, e.g. client numbers. It is assumed that these output targets are directly linked to the ultimate outcomes and allow for an assessment of progress.

The ultimate policy goals are to increase productivity and economic growth. Improving the business environment and export performance contribute to these goals. Information and training services help build business capability, which in turn has an influence on the performance of New Zealand based businesses, including internationalisation. Moreover, the availability of these services is part of the wider business environment. The policy programmes in Sub-Output Class 1.1 and Sub-Output Class 1.2 are all aimed at increasing firms’ potential to grow and/or to internationalise. For example, the owner of a successful New Zealand based SME may be deterred from expanding overseas simply because she thinks it would be too difficult to do so and too expensive to obtain the relevant information. Exporter training may be able to help dispel these concerns, the Escalator service may be able to help with obtaining the necessary finance and a business mentor may be able to help with practical advice, whilst the biz Service facilitates access to these services.

However, capability building is a long-term process, rendering assessments of support measures in the short or medium term a challenge. Outputs in the form of performance targets can give an indication as to whether progress is underway, but they are not concrete evidence that the ultimate outcomes will be achieved. For example, the ETP has a target of 7000-8000 clients. Achieving this target means that a significant number of businesses have received information about, for instance, exporting. But one cannot infer from this that exports have or will increase as a result.

Notwithstanding these qualifications, meeting the targets will at least foster a better understanding amongst the SME community of the availability and benefits of training and information services. This increase in awareness should stimulate their demand and encourage private sector provision of training and related services. Furthermore, by participating in Output Class 1 programmes, business capabilities such as raising capital or exporting awareness should increase and directly impact on the ultimate policy outcomes.

Figure 1: Intervention logic diagram for Output Class 1



4.4 Literature Review and Experience from other Countries

Finding literature or international evaluations of training courses (and information provision programmes) that are exactly comparable to those in Output Class 1 is difficult. Countries have their own variations of our (government-funded) training programmes, which may be funded them in a number of different ways, both public and private. Thus, when surveying the literature one has to accept that findings often refer to similar but not exactly comparable training schemes.

The market failures outlined in the previous section are generally cited in the literature and policy rationales across the world as issues requiring government intervention. Not fully understanding the benefits of training, positive spillovers and high transaction costs form the premise for much research and many policies. Associations between business failure rates, lack of profitability, productivity, finance or sales, and low levels of training (and information) are sometimes treated as showing causality, or cause and effect. Macroeconomic goals of increasing productivity and economic growth require firm level improvements, making the step to concluding that if SMEs received more training *"all would be good*" a somewhat logical conclusion. Governments across the world have employed various forms of intervention to increase SME uptake of training. Consequently, the market for SME training has grown substantially. Storey (2004) estimates that in 2000 the UK market for SME training services was £ 200m.

Notwithstanding these developments, literature findings with regards to the economic impact of SME training are a lot more mixed and less clear cut than perhaps expected (Storey, 2004; Westhead and Storey, 1996;). Some studies rely on self-reporting by clients, such as course satisfaction and other ex post surveys. Although course satisfaction rates are often high, they do not say anything about performance improvements at the firm level. Analysing a particular programme Cosh et al (2001) find that while course satisfaction amongst clients was rather high, the positive impact on firm performance as measured by employment growth, sales growth, productivity growth or profit margin change was only small.

Ex-post surveys of participants a few months after the treatment may reveal some insight into the impact on firm performance, but their results are generally less robust than those obtained by having a control group. In the absence of a control gourp sophisticated econometric techniques can be applied, but this seldom happens in practice. Moreover, investing in training is often associated with other human resource policies, making it difficult to disentangle the impact of training on positive outcomes form the mix of internal HRM and related policies (Huselid, 1996; Patterson et al, 1997; and Storey, 2000; all cited in Storey 2004).

Kitching and Blackburn (2002) look at the impact of management training on employment growth, sales turnover, and profit performance. They find no link between training and any of those performance measures, arguing that *'the relationship was complex; there is no simple positive association between them'*. Cosh et al (1998) find an association between current training and past performance, but none between training expenditure and future performance, suggesting that previous performance may provide the resources for funding training.

Hansson (2006) also examines links between past performance, training and profitability. He finds that training is the most important factor influencing future firm profitability – that is apart from past profitability. Past profitability also has an impact on the number of staff trained, as do general HRM practices, but not on the proportion of the wage bill spent on training. From this latter finding, Hansson concludes that investment in training is a forward-looking activity. As firms that spend more on training are more likely to be in the top ten percent of their industry in terms of profitability, he further concludes that there is a causal link from training spent to profitability. Unfortunately, his positive finding is not evidence of government backed training programmes having such an effect. It is based on survey responses from firms in 26 countries that answered questions about their training investments and expenditures. The term training was not defined, which could have led to different interpretations amongst respondents who might have included in-house training, on the job training, apprenticeships, external training, management training, technical/skills training, etc in their responses. Crucially, no distinction was made between government funded basic training schemes and training delivered by private providers for which a firm pays and which might be of a more advanced nature.

Investigating the relationship between innovation and continuous training, Bauernschuster et al (2008) find that continuous workforce training has a positive impact on a firm's innovative ability, but not on really disruptive innovations. Moreover, it is unclear what types of training are beneficial. Training demanded by work councils or unions does not have a positive effect on innovative ability.

Tan (undated) uses data from an evaluation of Mexico's CIMO programme (Programa de Calidad Integral y Modernizacion), which provides subsidised training and technical assistance to SMEs, to analyse its impact on a number of intermediate outcomes – staff turnover rates, investment in other training, capacity utilisation and productivity. Previous evaluations compared CIMO participants to a control group made up of similar firms in terms of employment size, sector, and geographic location, but not performance. Those evaluations found that the intermediate performance outcomes had improved, but failed to detect a positive impact on levels of productivity. However, CIMO seems to attract many underperforming firms, rendering a levels based comparison of productivity of CIMO participants and the control group invalid. Tan compares productivity growth rates between the two groups. He finds that apart from CIMO's positive effect on the other intermediate outcomes, it also has a positive impact on productivity growth of firms and helps close the gap between underachieving firms and their more successful counterparts. Interestingly, the CIMO programme operates on a cost-sharing basis and includes training and consultancy services. It is similar to some of the programmes in Output Class 1, most notably ETP, BMNZ and parts of the Escalator programme.

Apart from Tan's calculations of the Mexican CIMO data, and bearing in mind that the programme attracted underperforming firms and not high growth potential companies, there is little concrete evidence of large scale SME training having a positive impact on outcomes. SMEs spend less on training than their bigger competitors, and not just in absolute terms but also relatively. Limited scope for spreading training costs, problems with internalising their benefits and staff retention are amongst the explanations given as to why they spend less on training. These reasons do not make for a convincing case as to why governments should intervene. Storey (2004) asks whether SMEs lower investment levels in training compared with large firms is due to 'ignorance' or a result of rational behaviour. He concludes SME owners may make informed decisions and act rationally when it comes to training.

4.5 Measures taken abroad

New Zealand is not unique in subsidising the provision of information and training services to small businesses. The UK has several business support programmes that are comparable to the ones that make up Output Class 1. The UK's Business Link service provides information, advice and support on a range of issues to help entrepreneurs manage and grow their businesses. It is *'a crucial part of the (UK) government's campaign to promote enterprise…'* providing online advice and information as well as face-to-face services and fast-tracking clients to sources of expert advice. It is available locally and funded through the UK's Regional Development Agencies. UK programmes such as Train-to-Gain or Coaching for High Growth are aimed at improving business performance through enhancing human capital, mentoring and other advisory services. These services are part-subsidised for SMEs, although large companies are expected to pay the full cost.

In Germany the Bundesministerium für Wirtschaft provides links to web portals with online information ranging from business start-ups to managing a business and doing business abroad. Coaching services at various stages pre and post start-up are generally subsidised to at least some extent. Other support exists in the form of subsidised software packages for running a business and developing a business plan. Moreover, Chambers of Commerce run training courses for which businesses have to pay generally between EUR 150 - EUR 500 depending on the course.

In Ireland, Enterprise Ireland provides a range of information and advisory services to firms with high growth potential, including the assignment of a Development Adviser. Advice on access to finance and some direct funding for, amongst others, research and design and training services are also available.

The Australian federal government funds a network of Business Enterprise Centres spread across the country to provide business related advice (incl. mentoring), referrals and training to the small business community. The cost of the programme is AUS$42 m over a four-year period. This money is used to subsidise BEC services but users have to pay a fee which varies depending on the service they access. Services range from business start-up advice to assistance for working out a business plan for more established firms. Through the Small Business Advisory Services (SBAS) programme an additional AUS$4 m has recently been made available in light of the global financial and economic crisis in order to improve access to information and advice.

The Australian government has also committed AUS$251 m over the next 5 years to fund Enterprise Connect, an initiative to help facilitate SME access to '*new ideas, knowledge and technology* '. Services available under this initiative include business reviews, tailored advisory services and the placement of researchers in business. Eligibility criteria include annual turnover between AUS$1.5 and 100 m, as well as being in the manufacturing sector and/or innovative. The aim is to increase business productivity and competitiveness.

The European Commission provides online information for exporting to other EU countries and to third countries. It also offers some training programmes such as the

Executive Training Programme, which is an intensive one-year training course targeted at firms wanting to access the Korean or Japanese markets. It is fully funded by the European Commission but has strict selection criteria which include the sponsoring firm's potential to engage in the Japanese or Korean markets and the candidate's own background. The programme is currently under review.

4.5.1 Conclusion

While this is not an exhaustive list of support services in other countries, it shows that various forms of government subsidised training programmes also exist abroad. Their rationales are mostly based on the same market failures as identified above. However, it has proved somewhat challenging clearly to identify their effectiveness when using additionality as the criterion. Evaluations often show that beneficiaries have found the courses useful but there seems to be only limited hard evidence of their impact on productivity, export performance, growth, turnover or profitability. Sometimes that is because the services have not been in existence long enough to allow for such an evaluation, but data availability and the absence of a proper control group are further reasons for the dearth of concrete evidence on their effectiveness.

4.6 SME training in New Zealand

Research on SME capability and performance was completed in 2002 to underpin the current set of policies. The *Firm Foundations* report suggested that SMEs under invest in business management and related skill development, stating that "no more than 2-3% of firms appear to be approaching international standards of performance on practices such as strategic planning and leadership, supplier relationships, employee performance management and benchmarking". This research, although based on a national survey, was somewhat academic in its conclusions and has not been the subject of a full 'reality test' with the business community.

Recent business research tends to be more upbeat. For example, a 2007 survey of 700 NZ firms by PWC found that 74% thought that management procedures were important to improving their firm productivity and 77% applied such procedures. (In contrast, in the same survey 78% thought that process improvement was vital to productivity improvement but only 14% had taken such action).

Robust information on SME skill development and its links to firm capability is very limited in NZ and is not the basis for public discussion to any extent. Arguably its importance to NZ development merits considerably more understanding than is currently the case. MED could be expected to facilitate better understanding of the issues affecting business skill development. Better use could be made of current basic data collection by Statistics NZ (the BOS survey) which is paid for by MED from Vote: Economic Development.

The Business Operations Survey (BOS) included questions on training in 2005 and 2008 in Part C: Business Practices. In 2005 Part C question 28, firms were asked to estimate the percentage of employees who participated in training. In question 29 the percentage of employees participating in different types of training was estimated. In 2008 Part C specific questions regarding training were asked. The 2005 and 2008 BOS questions relating to employee-training practices in firms are not directly comparable with each other (the training questions of the 2009 BOS, to be released in 2010, will be comparable with the training questions of the 2005 BOS).

From the 2008 survey the number of businesses, categorised by business size, who trained staff is shown below. (Note: The BOS only includes firms with ≥6 RME. ‘Training’, as defined in the BOS, includes ‘management/supervisory skills’.)

Table 2: Percentage of businesses who trained staff, by business size.

(Business Operations Survey 2008, supplied by Statistics New Zealand)

Business size(4)	number of businesses	% who trained staff
6–19 employees	26,538	78
20–49 employees	6,270	89
50–99 employees	1,779	95
100+ employees	1,485	96

All numbers have been randomly rounded to base 3.

78% percent of businesses with 6-19 employees provide staff training.

Smaller firms are less likely to be training staff. More consider that their staff are fully skilled (see table below). The 2008 BOS revealed a distinct difference by firm size in the opinion of respondents to the skill levels of their employees whereas a majority of small firms deemed their staff to be fully-skilled, just a third of large firms said the same.

Table 3: Percentage of firms who say all staff fully skilled, by business size.

(Business Operations Survey 2008, supplied by Statistics New Zealand)

Business size(4)	% of firms who say all staff fully skilled
6–19 employees	55
20–49 employees	39
50–99 employees	34
100+ employees	30

All numbers have been randomly rounded to base 3.

This result is supported by the 2005 BOS results for employee skills assessment by firm size. In 2005 survey while 40 percent of small firms engaged in skills assessments, two thirds of large firms did likewise. An insight into the ’our staff are all adequately skilled’ judgement is provided from *Firm Foundations* report which survey 3400 firms and contrasted the top 20% business performers with the bottom 20%. It found that of the former, 100% did in-house training and 95% external training and for the latter the percent businesses that trained staff were 56% (in-house) and 39% (external).

Thus, while not directly attributable, one possible conclusion is that small firms don't undertake skills and training needs assessments as much as larger firms and are consequently unaware of the true skill needs of their employees. Essentially, smaller firms may not be aware of what they don't know. This is the conclusion upon which a lot of government intervention rationales rest.

A different explanation may be that SMEs make more informed and rational decisions when it comes to training. It could be, for example, that SMEs are more specialised and therefore require a more narrow skills set from their employees. Also, SMEs may not be able to internalise the benefits of training the way a bigger firm can. This may mean that they face different opportunity costs and act rationally when investing less in training. This is not the standard view but some literature raises it as a possible explanation (e.g. G. Murray).

The following main reasons for staff not having skills were given (BOS 2008). Fewer smaller firms thought any of the reasons were relevant. Lack of experience is the main reason for staff not having the skills to do their jobs.

Table 4: Reasons for staff not having skills, by business size

(Business Operations Survey 2008, supplied by Statistics New Zealand).

% of firms	Main factors for staff not having all the skills to do their job(2)						
Business size(4)	Lack of experience	Lack of motivation	Recruitment problems	Scope of job increasing	High staff turnover	Lack of internal training and development	Inability of workforce to keep up with change
6–19 employees	31	15	12	10	9	7	5
20–49 employees	42	21	19	17	17	11	6
50–99 employees	45	21	22	25	21	14	9
100+ employees	47	20	25	29	33	15	11

All numbers have been randomly rounded to base 3.

Both the 2005 and 2008 BOS reveal that the smaller a firm is, the less likely it is to engage in training of staff. While one should remain cautious about the trends in the intervening period, due to the differences in the surveys, both surveys show a significantly higher proportion of smaller firms do not engage in training. Meanwhile, the number of large firms not participating in training is substantially smaller and appears to be declining.

The 2008 survey categorised training into the following categories (see table below). 'Management skills development' registers the largest discrepancy between small and large firms. While small firms lag behind their larger counterparts in all categories of training, smallest variances are within trade practices and numeracy and written communication skills. Numeracy and written communication skills have low participation rates across all size firms.

Table 5: Type of training undertaken by business size.

(Business Operations Survey 2008, supplied by Statistics New Zealand)

Business size(4)	Trade related	Computer	Customer service / sales	Team working	Professional / technical	Management / supervisory	Oral communication	Marketing	Written communication	Numeracy
6–19 employees	40	31	31	28	28	22	15	13	11	11
20–49 employees	48	43	39	36	37	36	19	16	14	12
50–99 employees	53	59	52	47	51	57	27	24	19	17
100+ employees	55	68	68	59	57	72	37	33	29	25

All numbers have been randomly rounded to base 3.

The NZTE Output Class 1 services we are looking at would mostly fall within the management/supervisory category. This is the category where small firms show the biggest differences to large firms.

4.7 Evaluation Methodology

Storey (2000, 2003 and 2008??) and the OECD (2007) differentiate the sophistication of evaluations based on a six step hierarchy of evaluation methodologies. Step 1 consists of easily obtainable monitoring activities such as the number of clients participating in the courses. Evaluations that analyse participants' satisfaction and their assessment of the effectiveness of the courses are considered as Step 2 and 3 respectively. Evaluations categorised as Steps 1, 2 and 3 use more or less readily available data and apply qualitative analysis to them.

The next four steps compare the performance of firms that have received the treatment with those that have not. Step 4 compares assisted firms with a (hypothetical) normal firm that did not receive the support. Step 5 assesses observable differences across assisted and non-assisted firms (matching firms). The most sophisticated evaluations according to this classification take account of selection bias by controlling for observable and non-observable differences between assisted firms and those in the control group (Step 6).

This evaluation set out to use econometrics-based techniques where possible to control for differences between assisted and non-assisted firms in order to analyse whether the programmes have an impact and lead to additionality. However, not all programmes could be analysed in this way. Some programmes were analysed to a lower level of sophistication more akin to steps 3 or 4 of the classification above.

All programmes were analysed by first establishing the precise market failure they address and by recalling the situation that prevailed prior to the introduction of the programme. Next, readily available information from previous evaluations and other sources was used to verify whether outputs such as performance targets in the form of, for example, attendance numbers had been met, and whether intermediate outcomes had been achieved.

Where evidence was available from previous evaluations or from NZTE follow-up surveys, it formed the basis for our analysis of the usefulness and effectiveness of the service (step 3 level of sophistication above) and the starting point for further analysis. A number of interviews with and surveys of various stakeholders took place. These were mainly in relation to the Biz Services and the ETP.

All programmes were evaluated by trying to establish the counterfactual – that is, the situation that would arise in the absence of the programme. Where possible, control groups of firms with similar characteristics to those that participated in the training were established. Ideally for the purpose of an evaluation, one would choose those receiving the training at random from within a pool of firms that have the same or at least very similar characteristics. Unfortunately from an evaluator's point of view, this is not how business support is normally allocated and instead we used sophisticated econometric techniques in order to strip out firm specific characteristics that could have an influence on their performance. By doing so, we were able to analyse econometrically whether the programmes produce additionality. But the analysis of the effectiveness of the programmes did not rest on econometric analysis alone and its results were complemented by qualitative analysis.

Resource constraints and data availability prevented us from applying econometric techniques to all programmes. Where we were not able to make use of econometrics, or where the likely insights gained would not have justified the substantial extra effort needed, other - less technically sophisticated - analysis such as simple performance comparisons pre and post intervention, case studies or client feedback were used. Thus, the kind of analysis applied to the individual programmes that make up Output Class 1 depended on the availability of recent evaluations, data and other resource constraints, and cost-effectiveness considerations.

5. Programme Evaluations

This chapter presents the evaluations of the individual programmes of Output Class 1. Chapter 6 brings together the findings of the programme specific evaluations and analyses the implications for the Output Class as a whole.

5.1 Sub-Output Class 1.1: The biz Service

5.1.1 Background

The biz Service consists of a telephone service (0800 number), a network of walk-in centres and an email service[2]. It provides a 'one-stop shop' for basic business information and referrals. The service itself was launched in 1998 and last evaluated in 2006. Its budget appropriation has remained constant at $1.344 million from 2004/05 to 2008/09. Other information services that are related to biz, but not part of it, are the website www.business.govt.nz and the MED Business Services Branch.

The biz-centres are divided into three tiers reflecting the level of funding they receive and regional coverage, although the standard of service or type of core information they provide does not differ. The four major centres Wellington, Auckland, Christchurch and Dunedin make up tier 1. These centres have full time employees, provide support to the other centres in their region and handle all calls to the 0800 number. The Wellington tier 1 office also handles all email enquiries. All centres deal with walk-ins, which provide the main rationale for tier 2 and 3 centres where they should be the main method of enquiry. In addition to the biz centres, there are also unstaffed biz stands in various locations around the country providing take-away copies of information material.

Biz Networks, a consortium consisting of the Chambers of Commerce and the Economic Development Agency of New Zealand (EDANZ), delivers the biz Service on behalf of NZTE. The current contract expires in June 2009.

5.1.1.1 Rationale and Intervention Logic

The biz Service was implemented as a first port of call for referrals in order to fill a gap in the provision of basic and easy-to-access information. Its main underlying rationale is to reduce the assumed high search costs associated with obtaining information on government regulations[3.] If businesses perceive transaction costs to be too high, they are unlikely to invest in acquiring the information, even if ultimately there would be a net benefit to them.

Although the existence of transaction costs is not a market failure as such and may simply reflect the alternative uses to which the resources can be put (opportunity cost), an improved understanding of running a business, regulations and compliance issues may have spillover effects on the wider economy. For example, by improving

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[2] See appendix 1 for a more detailed explanation of the service.

[3] 'Review of Information Services', Intervention Logic Model, page 16

the general understanding of what it requires to run a successful business, it is believed that the biz Service leads to more efficient businesses, fewer failures – either by preventing unnecessary failures of existing businesses or by discouraging unviable businesses from being formed in the first place – and overall contributes to a more efficient use of the economy's resources. By funding the information service government can help educate businesses about the benefits of information.

Disseminating information via the internet can also make it easily replicable. Private operators may find it difficult to charge for their services and thus not provide them.

In line with other information services, one of the original aims of biz was to crowd-in private sector provision, i.e. to establish a commercial market. While this may be appropriate if the market failure is purely informational on the part of the business community, it is a less obvious goal if the intervention addresses transaction costs, public good aspects or attempts to capture spillover effects.

5.1.1.2 Objectives

Reflecting these reasons for government intervention, the objectives of the biz Service are to:

- reduce the number of firm failures
- improve compliance with regulations, and to
- improve firm performance.

Its intermediate outcomes are to:

- increase awareness of the range of regulations businesses have to comply with
- increase awareness of non-regulatory issues that must be considered in order to run a successful business
- reduce search costs for information
- increase awareness of the range of training opportunities

Achieving these intermediate outcomes should discourage start-ups that are flawed business cases, improve business capability and lead to greater take up of training and other business advisory services provided by the public as well as the private sector.

In order to help achieve its outcomes, the following outputs and performance expectations were agreed for the period 2008/09 [4]:

- Jobs logged[5] arising from client enquiries: 15,000 – 20,000

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[4] See 'NZTE Output Agreement 2008-2009', page 9

- Referrals[6] provided to clients: 60,000 – 100,000

5.1.1.3 Funding

The budget appropriation for the biz Service is currently $1.34 m per annum, a figure which has not changed since 2004/05. It appears that the costs of promotional activities and materials are additional.

5.1.1.4 biz Service evaluation 2006

The biz Service was last evaluated in August 2006 as part of a wider review of information services[7]. Whilst that evaluation concluded that biz was an effective information service that delivered an adequate standard of service to its clients, it also identified a need to improve staff development and raised concerns about the efficiency and cost-effectiveness of some of the walk-in centres[8]. In order to raise the number of enquiries at those centres, the evaluation proposed an increase in promotional activity, the introduction of binding client targets per biz office and close monitoring with a view to reallocating funding if enquiry numbers did not improve. Further recommendations included formal induction courses for all new staff, staff competency standards and a stronger commitment to ongoing training.

The contract between NZTE and Biz Networks which came into effect in June 2006 already reflected some of these findings[9]. As part of that contract, Biz Networks was obliged to monitor activity levels in all of its centres and report back to NZTE on a quarterly basis. If activity levels remained low, the contract foresaw that Biz Networks would make recommendations for change so as to improve efficiency. Moreover, quality standards were to be introduced and training and capability building stepped up.

5.1.2 Analysis and Findings

Thus, the last evaluation identified two areas for improvement: staff training and low enquiry numbers at some biz centres, leading to cost-effectiveness and efficiency concerns. In order to analyse how its recommendations have been taken up and whether any actions in this area have led to noticeable changes, extensive discussions were held with NZTE staff and the Biz Network Manager, and an

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[5] This refers to an inquiry from a client made by phone, email, fax or personal walk-in visit that results in an action by biz Service staff and recorded on the Biz Networks database. The action would be in the form of a referral to assistance or provision of information.

[6] A referral is counted when a client is provided with a referral to another organisation/source of assistance or provided with a publication or other resource material. A client inquiry may result in multiple referrals, e.g. a client provided with 1 referral and 1 publication arising from a single enquiry would counts as 2 referrals.

[7] 'Review of Information Services', I&RD, MED, 2006

[8] See Annex X for more detail regarding these recommendations.

[9] MED, 'Review of Information Services', 2006.

electronic survey of all biz centres was carried out. The response rate to the survey was over 90%.

5.1.2.1 Staff training

According to the biz centre management, all new staff now benefit from an induction course. On-going training includes hub training for all staff at the main biz centre nearest to them - Wellington, Auckland, Christchurch or Dunedin. All staff are invited to attend these training courses twice a year. The training events always carry a SME related theme such as the role of IRD, the Department of Labour, the Escalator programme or the Icehouse incubator. In addition, the biz manager is in frequent contact with the centres and provides further training when meeting staff in person.

Responses to the survey of biz centres showed that a number of networking and training opportunities had been offered to the vast majority of biz centres staff in the last 12 months. Two centres reported that no training or networking opportunities had been offered to their staff. Almost two-thirds of biz centres said that the amount of training had increased compared with three or four years ago, while the remaining third were either not sure as they were too new in the job or felt that training had not changed over the years. Most respondents reported a marked increase in training and feedback since the appointment of the new biz manager.

Accurately measuring the impact training activity has had was beyond the scope of this evaluation. But it should be noted that staff training activities have been stepped up, as recommended by the 2006 evaluation. In the last mystery shopper survey in May 2007 the vast majority of biz centres had high average scores across a range of measures, including problem solving, product recommendation and product knowledge[10]. Only two centres, Gisborne and Manukau, achieved overall scores of below 90%. However, the survey placed considerable emphasis on customer-service-related measures such as presentation, customer service and first impression, and the very high scores throughout and across most centres do not allow for a detailed and differentiated assessment. It is noticeable, however, that scores in the categories requiring knowledge were a little lower than those obtained for customer-service-related measures.

At the time of the last evaluation there was a high degree of customer satisfaction with the biz Service, with very few respondents disagreeing with statements about the usefulness of referrals or information material. To our knowledge, this has not changed. The vast majority of biz centres reported word of mouth as being one of the most important ways for new clients to learn about the biz Service. Any dissatisfaction with the service would likely have spread to and been reflected in the number of enquiries. But enquiry numbers have increased substantially, especially in the year ending June 2009.

5.1.2.2 Marketing and Promotional Activities

In line with the recommendations made by the last evaluation, further promotional activity has taken place. At the national level, NZTE engaged a private sector

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[10] See annex XC

marketing firm in June 2008 to launch a nationwide campaign through local and regional print media. Replies from the biz centres to the survey overwhelmingly emphasised the importance of local marketing, saying that this type of activity had become even more important. A small minority of respondents, however, reported no change in marketing activity or its importance.

According to feedback from the biz manager, survey responses and Biz Network's quarterly reports, the types of local or regional marketing activities most commonly carried out were: local radio and newspaper advertising, presentations at various forums, ads placed in Chamber of Commerce and EDA newsletters, participation in expos and workshops. Biz centres who responded to the survey also said that they were generally well-known in their areas, which might be partly due to the local marketing they carry out.

Biz centres seem to have been very active in promoting their service and engaging with stakeholders. We conclude that the recommendation of additional promotional activity at the local and regional levels has been followed through. The reason for this recommendation was, of course, to increase enquiry numbers, particularly at those centres that had raised efficiency concerns.

5.1.2.3 Enquiries

Since the last evaluation, the annual growth rate of client numbers has increased from 4% in 06/07 to 12% in 07/08 and again to 59% in 08/09. This represents an average annual growth rate of 25% and means that the target number of jobs logged has been easily surpassed in each of the three time periods since the last evaluation. The service now handles nearly twice as many enquiries as it did four years ago.

Table 6: Annual Biz client numbers.

Year	Biz enquiries	% change on previous year	Average growth per annum over period
06/07	18320	4%	
07/08	20547	12%	
08/09	32754	59%	25%

Recent data shows that the impact of the global economic downturn and the introduction of the Business Health Check (BHC), which is handled by the biz centres, have led to a particularly strong increase in the number of enquiries. At the time of compiling the data for this report, the overall number of enquiries in January 2009 was 1825, nearly twice as high compared with the same month last year, and significantly above the NZTE target for that month. In February enquiry numbers rose even higher from 2042 in 02/08 to 3259 in 02/09 and exceeded their target by 1426. The table below shows that target numbers were comfortably exceeded in each of the previous 14 months. At the time of writing this report, we did not have all the figures for 08/09 but it is likely that the numbers for the remaining months until June '09 were even higher.

Table 7: Biz centres monthly performance against target from 01/2008 - 02/2009.

Month	NZTE target	Total	Above target	Above target in %
January *'08*	834	**992**	158	19
February	1833	**2042**	209	11
March	1833	1960	127	7
April	1833	2422	589	32
May	1833	2100	267	15
June	1833	2500	667	36
July	1833	2744	911	50
August	1833	2411	578	32
September	1833	2562	729	40
October	1833	2506	673	37
November	1833	2519	686	37
December	834	1844	1010	**121**
January *'09*	834	**1825**	991	**119**
February	1833	**3259**	1426	**78**

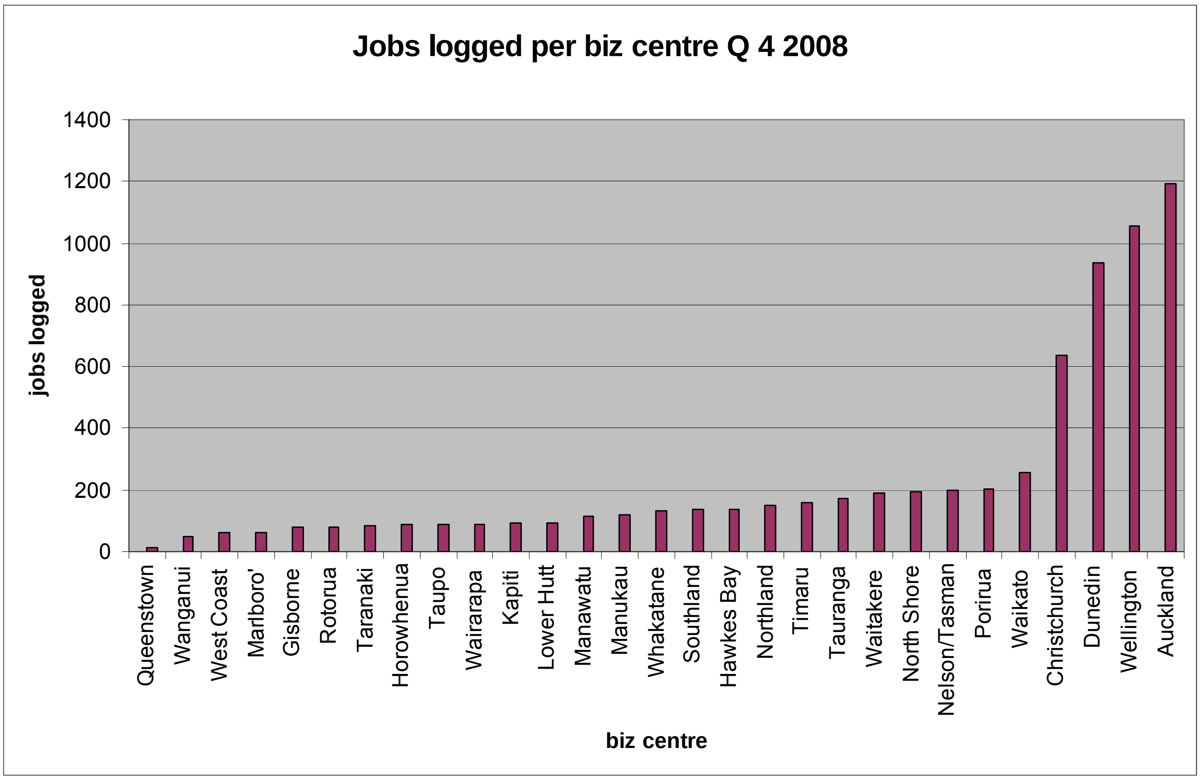
5.1.2.4 Cost-effectiveness / efficiency

We have looked at cost effectiveness of the service at the aggregate level and the efficiency of the individual biz centres. At the aggregate level, biz centres are handling a higher number of enquiries, as explained in the previous paragraphs. This increase in the number of enquiries has been particularly marked since start of global economic crisis and the introduction of the Business Health Check in New Zealand. It is our understanding that staff numbers have not changed, meaning that since the last evaluation in 2006 labour productivity (i.e. labour efficiency) has improved. This finding, however, has to be qualified somewhat as the introduction of the BHC was accompanied by some extra funding, which may suggest that the increase in labour productivity has not been matched by an accompanying increase in (cost) efficiency. We also do not know whether resources were underutilised in the past or indeed whether they are optimally utilised now. But in spite of these caveats, when looking at the performance of the biz centres at the macro level over the last three years, overall labour productivity and thus service efficiency have improved.

Note that finding does not say anything about the efficiency of the service as a whole or that of individual centres. In spite of the marketing activities and the overall increase in enquiry numbers, there remain huge differences in terms of the number of jobs logged across biz centres. Given that all 0800 enquiries go to the four tier 1 centres, their number of jobs logged is expected to be much higher than that of the other centres. But there are also significant differences in the number of jobs logged across tiers 2 and 3, and some tier 3 centres have more enquiries than at least one tier 2 centre.

Figure 2 shows the number of jobs logged per biz centre in Q4/2008. Barring a few noticeable exceptions - such as Waikato which while having been towards the bottom end in 2006 now has the highest number of enquiries except outside the four tier 1 centres - the picture is similar to the one that was presented in the last evaluation.

Figure 2: Jobs logged per Biz centre in quarter 4, 2008.



The average number of enquiries at a tier 2 centre in Q4/08 was 187, but enquiry numbers ranged from 120 in Manukau to more than twice as many (254) in Waikato. During the same period, the average number of jobs logged at tier 3 centres was 97, with a range from only 14 jobs logged in Queenstown (now closed) to 148 in Northland. Although tier 2 centres had a higher average number of enquiries, Northland, Whakatane, Southland and Hawkes Bay, which are all tier 3 centres, had more enquiries than Manukau, a tier 2 centre. Moreover, out of 29 biz centres, 12 had fewer than 100 jobs logged during the last quarter of 2008. That is, they had less than two clients per business day, or just over one per week in the case of Queenstown.

In order adequately to assess efficiency, the level of funding of each biz centre would be an obvious point of departure. However, this data is not available and we have worked with average cost figures instead, drawing comparisons based on length of time spent on dealing with an enquiry.

The overall amount of funding that goes to the biz Service is $1.34 m per annum. Based on the information available to us, the level of funding does not differ between centres within the same tier, but there are differences between the three tiers, with tier 1 centres receiving more than tier 2 centres, which receive more than tier 3 centres.

5.1.2.5 Cost per enquiry

In 2007- 08 the biz Service received 32754 enquiries. This means that the average cost per enquiry was $41. As the number of enquiries has increased over the years, this figure was even higher in previous years. Moreover, as tier 1 centres receive more calls (enquiries) than the other centres, it is likely that their costs per call are considerably lower. The flipside is that the figure for tier 2 and 3 centres is higher than the average of $41. And it is clear that with equal funding amongst centres that belong to the same tier, the cost per call in Manukau is twice as high as it is in Waikato, and 10 times as high in Queenstown (now shut) than in Northland. The cost per enquiry at tier 3 centres Northland, Whakatane, Southland and Hawkes Bay is lower than at Manukau biz centre.

Cost per enquiry = total annual funding/number of enq. = $1.34m/32754 = $41

This figure needs to be put into context. The contract between NZTE and Biz Networks sets a target of cost per call of no more than $75 – 100 including GST. This target has clearly been met and even been overachieved. However, it seems that the target is based on the number of enquiries in previous years and the amount of funding available, and not on any objective notion of cost effectiveness or an underlying strategy for improving efficiency. As such, it is not obvious why it represents an appropriately challenging target. The ease with which it is achieved may be a reflection of the target itself, rather than a sign of cost effectiveness on the part of the biz Service.

Alternative programmes that could provide a benchmark and allow for a proper cost effectiveness comparison are not readily available, but the Companies Office service can serve as a comparator as it operates in a similar area. The nature and content of enquiries to that hotline differ from biz enquiries and care should be taken when comparing cost per call figures, not least because one service may not simply be replaceable by the other. That said, the cost per call to the Companies Office line is less than $8. When compared against privately operated call centres, enquiries to the biz Service are even more costly[11]. This comparison, however, is less valid as biz thus far has not operated on a commercial basis. Indeed, it could be argued that it exists because it cannot be delivered on a purely commercial basis.

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[11] In 2003 a UK Public Select Committee said the following in the context of evaluating the delivery service of Child Benefit call centres: *'For the 73 call centres which measured both their costs and the average length of calls 44 had a cost per call minute of less than £1; 26 a cost of between £1-£5; and three had a cost per call minute of more than £5. The comparable figure for the call centre industry as a whole ranges from 40 pence to 60 pence per call minute'*. See: http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpubacc/373/37305.html

Nevertheless, these huge differences in the average cost per enquiry suggest that there may be scope for improving efficiency.

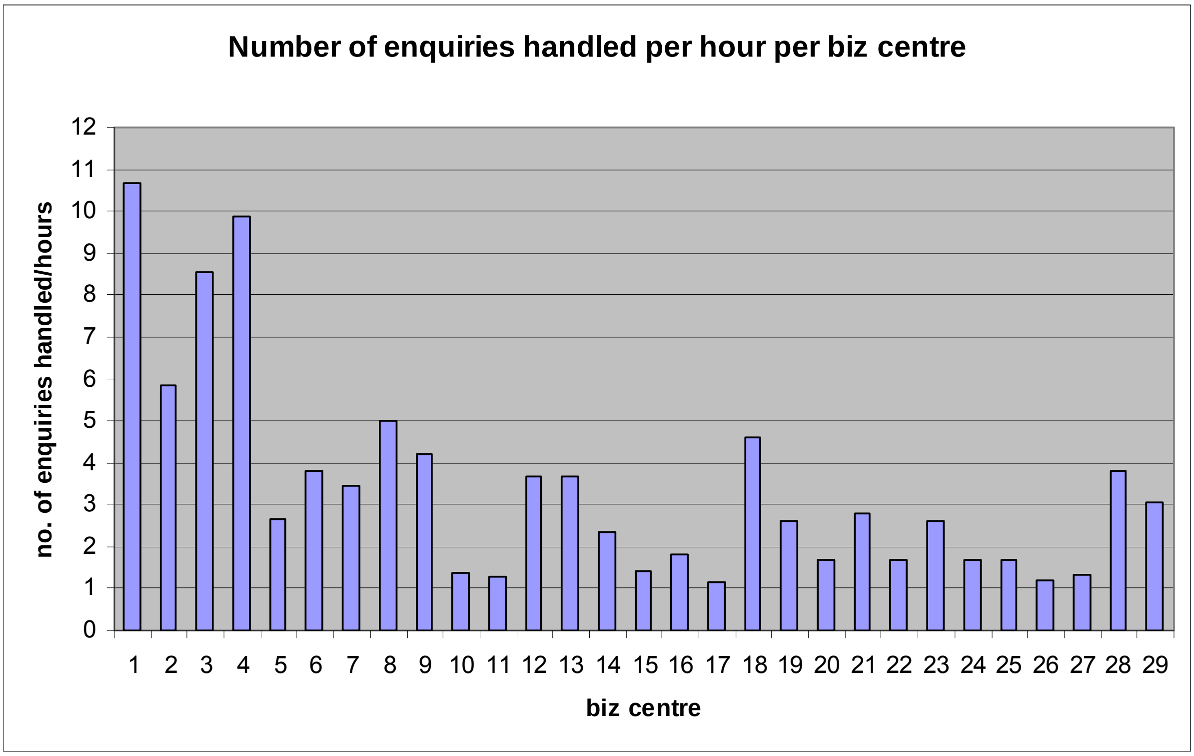
5.1.2.6 Efficiency across individual biz centres

Apart from the overall cost effectiveness of the biz Service, it is also instructive to examine biz centre productivity and thus their efficiency. Table 8 lists the average number of enquiries per biz centre for the period January 2008 to February 2009. From the survey responses we know the approximate number of hours biz centre providers engage in biz related work, which ranges from less than 5 hours a week at three centres to full time at 6 centres (note: this includes the 4 tier 1 centres which are full time centres). Figure 3 combines these two types of information and shows that there are huge difference in terms of the length of time it takes biz centres to deal with enquiries. At the bottom end there are six biz centres where it takes on average one hour to handle an enquiry, with the best performing centre being more than ten times as efficient in this regard.

Table 8: Average number of monthly enquiries at biz centres (Jan 08 - Feb 09)

biz centre	Enq. per month	biz centre	Enq. per month
1	406	**15**	21
2	222	**16**	27
3	324	**17**	29
4	376	**18**	23
5	40	**19**	39
6	57	**20**	25
7	52	**21**	42
8	75	**22**	25
9	63	**23**	39
10	53	**24**	25
11	48	**25**	25
12	55	**26**	18
13	55	**27**	20
14	35	**28**	19
15	21	**29**	46

Figure 3: Number of Enquiries handled per hour per Biz centre.



But what accounts for these variations in efficiency? It is unlikely that they are due to differences in the nature of enquiries, as biz centres that responded to the survey gave a rather uniform picture in terms of the nature and content of enquiries. There were no marked differences between or within tiers. Most enquiries were about starting a business, followed by growing a business and general business management issues.

Another possible explanation could be the enquiry method. The four tier 1 centres deal with calls to the 0800 number. Assuming that calls can be handled more quickly, those centres may be have an advantage over other centres that have a higher proportion of walk-in enquiries. Indeed, feedback in the survey suggests that walk-in enquiries take longer to handle. The table below shows that the average proportion of walk-ins is highest at centres that belong to tier 3, followed by tier 2 and tier 1. However, the proportion of walk-in enquiries is mixed across the centres, including those in tiers 2 and 3, and does not account for the majority of enquiries at most centres. It exceeds 50% of all enquiries at only eight centres, one of which is a tier 1 centre (see Table 9). This last result is surprising as the rationale for the nationwide network of biz centres is to some extent at least based on the perceived need to provide clients with opportunities for face-to-face contact with biz staff.

Table 9: Proportion of walk in and phone enquiries per Biz centre

Centre (tier 1 & 2)	Phone	Walk-in	Centre (tier 3)	Phone	Walk-in
1	70	10	14	9	90
2	80	7	15		
3	43	50	16	40	45
4	42	12	17	50	26
Average tier 1	**59**	**20**	18	80	15
			19	50	40
5	40	40	20	50	25
6	25	35	21	20	55
7	70	25	22	25	25
8	55	1	23	13	87
9	50	40	24	30	60
10	70	20	25	25	50
11	40	55	26	60	20
12	55	35	27	35	60
Average tier 2	**51**	**31**	28	70	30
			29	40	15
			Average tier 3	**40**	**43**

The correlation coefficient is a measure of how changes in the value of one variable are associated with changes in the value of another. It ranges from -1 to 1, with -1 meaning that high values of one variable are associated with low values of the other. Thus, if a higher proportion of walk in enquiries were to be the reason for lower levels of efficiency, one would expect to obtain a correlation coefficient of significantly less than 0. In the event, the correlation coefficient between the number of enquiries handled per hour and the proportion of walk-ins is -0.38. This means that there is an association between having a higher proportion of walk-ins and lower levels of efficiency, with the causality likely to run from the former to the latter. However, this correlation alone does not explain the entire variation and there are a number of exceptions when looking at individual biz centres.

$$Correl(X,Y) = \frac{\sum (x-\bar{x})(y-\bar{y})}{\sqrt{\sum (x-\bar{x})^2 \sum (y-\bar{y})^2}}$$

Correlation coefficient (no enq. per hour, proportion of walk ins) = -0.38

When singling out five of the six least efficient centres (one did not provide the relevant information), it is interesting to note that the average split between telephone and walk-in enquiries is 51 % telephone to 36 % walk-ins, and that only two of them reported (slightly) more than 50% walk-in enquiries. This means that the enquiry methods at these centres are not fundamentally different from those at other centres and that walk-ins do not suffice as an explanation for their relative lack of efficiency.

Table 10: proportion of walk-in and telephone enquiries at least efficient biz centres

Biz centre	Enquiries/hr	telephone	Walk-in	email
Centre 10	1	70%	20%	10%
Centre 11	1	40%	55%	5%
Centre 17	1	50%	26%	24%
Centre 26	1	60%	20%	20%
Centre 27	1	35%	60%	5%

Although a higher proportion of walk-in enquiries is one of the main reasons for the differences in efficiency across biz centres, given the huge variations of enquiry methods and efficiency even within tiers, they are not the only reason. But aside from whatever other factors may be at play - none of which are obvious though - it comes as no surprise that smaller walk-in centres are less efficient than big call centres. One of the reasons for maintaining a nationwide network of walk-in centres is to facilitate face-to-face interaction, based on the notion that especially in the more remote regions there may be reluctance to using the telephone or the internet. As already mentioned, at most lower tier centres telephone and email enquiries are just as or more common than walk-ins. A number of centres also reported clients having found out about the biz Service via the internet. This suggests that people's reluctance to use modern technology or preference for face-to-face contact may not be as high as initially thought.

5.1.2.7 Action taken for dealing with efficiency and cost-effectiveness concerns

As stated above, the Biz Networks have prepared quarterly reports to NZTE. These reports suggest that their focus is on promotional activities by the individual biz centres, with little reference to monitoring of or dealing with cost-effectiveness issues.

The new biz manager has introduced key performance indicators (KPI), including individual biz centre targets. Although many of the KPIs refer to service delivery such as the availability of material at the centres and the quality of the service, the average monthly enquiry targets for biz centres are as follows:

Table 11: KPI: average monthly enquiry targets

Tier 1	300 - 400 calls
Tier 2	50 – 60 calls
Tier 3	at least 20 calls

These targets were set based on 'size and type of business community served and the capacity of each biz office'. However, they should not differ for centres in the same tier if they receive an equal amount of funding. Or, in other words, it is not obvious why the same reasoning is not applied when awarding funding to individual biz centres. Also, it is not clear how challenging the KPIs on enquiry numbers are or why reaching them would demonstrate efficiency. Table 12 shows that most, though not all, biz centre fulfil their targets. Interestingly, there are centres in each of the three tiers that do not reach their KPI target (highlighted blue).

Table 12: Enquiries per month, highlighted are centres which do not meet their targets.

biz centre (tier 1 &2)	Enq. per month	biz centre (tier 3)	Enq. per month
1	406	14	35
2	222	15	21
3	324	15	21
4	376	16	27
		17	29
5	40	18	23
6	57	19	39
7	52	20	25
8	75	21	42
9	63	22	25
10	53	23	39
11	48	24	25
12	55	25	25
13	55	26	18
		27	20
		28	19
		29	46

5.1.2.8 Action taken so far

Whilst the recommendations of the previous evaluation in terms of staff training and marketing have generally been followed up, it seems that no significant reallocation of funding away from less efficient and towards more efficient centres or activities has taken place, apart from the closure of the Queenstown office and the opening of a new office in Balclutha (December 2008). This is in spite of the NZTE-Biz Networks contract clearly stipulating that action be taken failing an increase in enquiry numbers at those less efficient centres.

5.1.3 Conclusions and Recommendations

There is no question about the usefulness of the information provided by biz (and related services such as www.business.govt.nz). However, it may be unrealistic to analyse in a meaningful way the impact the biz Service has on compliance, firm performance and firm survival rates. There is no indication of the private sector ever wanting to provide the service. There might be a case for government to provide information on legal requirements and where to go for further help, if only to lower the transaction costs associated with obtaining that information. Accepting this as the raison d'être of the service, it should be delivered in the most efficient way.

It seems that the new biz manager has had a positive impact, but she has only been in her role since July 2008. Whilst some of the recommendations made by the previous evaluation have been followed up with action, efficiency concerns about a number of biz centres in particular remain. It is unlikely that enquiry numbers at many lower tier centres could be increased by more advertising, as was proposed in 2006. Walk-ins take longer to deal with than telephone enquiries but they do not account for all the difference in efficiency across the biz centres. Moreover, the average cost of dealing with a call, $41, is high even when allowing for the uniqueness of the service. The way individual biz centres are funded suggests that there are serious variations and that cost effectiveness could be improved by reallocating funding, as proposed by the last evaluation and foreseen in the NZTE-Biz Networks contract. The figures available to us do not seem to bear out the notion that there is widespread reluctance to use the telephone or internet for making enquiries.

It is unlikely that enquiry numbers at smaller biz centres will increase, given the action already taken in response to similar concerns raised by the previous evaluation in 2006 already. The recently finalised Review of Business Assistance, which was informed by our work and analysis, also came to similar conclusions.

5.1.3.1 Recommendations

A number of options exist for improving efficiency of service delivery whilst maintaining the standard of the service. These range from reducing the number of biz centres to reflect the number of regions or TechNZ centres to providing a telephone and email service only from the four main centres (with stands displaying information and phone numbers replacing current walk-in centres).

In addition to having a service that consists of a much reduced number of centres, there may also be efficiency gains from combining delivery with that of similar services provided by government or other on behalf of government. The Companies' Office service provided by Business Strategy Branch in MED would be an obvious candidate for merger, particularly if a telephone based services is to be provided. The final report of the Review of Business Assistance, which was informed by analysis and findings of this evaluation, concluded that NZTE and the Foundation for Research, Science and Technology, in consultation with MED and MORST, should explore by 11 December 'how a potential common network for Biz providers and TechNZ Regional Partners could be implemented. This would reduce the number of biz centres to eight.

Given the ReBA recommendation to explore a merger with TechNZ Regional Partners, it is recommended to:

Substantially reduce the number of walk-in biz centres and reallocate the freed up resources this would produce outside the biz Service

This should be done by

- Exploring ways of merging the biz Service with TechNZ regional Partners. A final report should be available by 11 December, prepared by NZTE and the Foundation for Research Science and Technology in collaboration with MED and MORST.

In case of an unsatisfactory outcome of that report and/or to allow for a proper comparison between options, it should also be explored whether:

- the biz Service could be emerged with the Companies’ Office service, or
- the number of centres could be reduced to the four main centres which would provide an email and telephone service.

In all cases, existing centres should be replaced with stands, for which a rent may have to be paid, to display information and the 0800 number and email address for enquiries.

We would imagine that by the first quarter of 2010 the biz Service would be delivered based on one of these recommendations.

5.2 Enterprise Training Programme

The Enterprise Training Programme is a large financial component of Output Class 1. The main questions we wanted to address when looking at the Enterprise Training Programme were:

- Is the Enterprise Training Programme adding value to businesses and the New Zealand economy?
- Is the Enterprise Training Programme crowding-in other training providers? (i.e. encouraging other training providers to enter the market?)
- Is there a measurable effect on business performance from participation in the Enterprise Training Programme?

5.2.1 Background

The Enterprise Training Programme, ETP, is fully funded by NZTE and delivered by specialist training providers throughout New Zealand. It is aimed at motivated owners and managers of SMEs with less than 50 fte’s and the potential to grow. There are three parts to the service: a needs/capability assessment, group training, and individual follow-up coaching.

Businesses complete a capability assessment which enables them to determine their current capabilities and helps their assessor identify training opportunities which may improve their performance. Businesses can then undertake group training which includes workshops and seminars aimed at transferring skills and knowledge across a range of areas of business management. Topics covered in group training include:

- business planning,
- finance,
- managing resources,
- becoming investment ready,
- marketing strategies,
- business systems,

- exporting,
- sustainability,
- lean manufacturing[12].

One-on-one follow-up coaching may be available to workshop attendees to help implement the skills, ideas and knowledge gained in the group training.

Fifteen Enterprise Training providers have been contracted in regions, based on territorial authority boundaries. Providers are a mix of private organisations, Economic Development Agencies (EDAs), and Chambers of Commerce. Some lead providers sub-contract parts of the service to other organisations. Only very limited on-line delivery of ETP training has been undertaken (contracted to The Small Business Company).

Table 13: Contracted Enterprise Training Providers

BIZNorth	Northland
WHK Gosling Chapman	Auckland
Enterprise Central Network Inc.	Waikato
Empower Team Limited	Bay of Plenty
Turanga Ararau	East Coast
Workforce Development Ltd	Hawke's Bay
Venture Taranaki	Taranaki
Enterprise MidWest	Manawatu/Wanganui
Wellington Business Centre	Wellington
Business Development Company	Nelson and Tasman
Business Training Marlborough	Marlborough
Canterbury Development Corporation	Canterbury
Development West Coast	West Coast
Otago Chamber of Commerce Inc.	Otago
Venture Southland	Southland

[12] Lean manufacturing, promoted by Toyota, improves the flow or smoothness of work, assisting in the identification and steady elimination of waste.

In the 2008/09 Output Agreement targets of 7–8000 clients, for ETP, IRT and Pacific Pre-Business Training, training courses and 2–3000 follow-up consultations were set.

In 2007/08, a target of 12–14,000 clients accessed training courses was set. The number of clients was expected to reduce for two reasons. The number of services each client receives is increasing. There has also been a reduction in ETP budget.

The actual number of clients participating in 2007/08 was around 14,512 and for 2008/09 it was around 11,981 (of the latter figure participation in ETP for 2008/09 was around 11,173.) This indicates that the actual drop in participation has not been as severe as the target figures anticipated. While the budget drops did take place courses introduced for handling the recession were popular and had high participation rates with more workshop placed being filled than anticipated.

In July 2006[13] eligibility rules for ETP were changed. Prior to that time eligibility was restricted to firms with fewer than 20 full-time equivalent employees, ftes. After July 2006 eligibility was widen to include firms with 20-50 ftes. SMEs eligible for ETP:

- Are personally owned;
- Have few, if any, specialised managerial staff;
- Have fewer than 50 full-time staff;
- Are commercially trading;
- Are not part of a larger business enterprise.

The ETP eligibility rules exclude start-ups and most not-for-profit organisations.

5.2.1.1 Intervention logic

The Enterprise Training Program was implemented to improve the provision of management capability training services. By exposing businesses to training participating businesses both improve their management capability and recognise the value that training has for their business. They are then more likely to seek further training from external providers. (See intervention logic p?.)

Feedback from providers, researchers and other stakeholders suggests that SMEs have gained a better understanding of the benefits of training. This may be due to easier access to information on the internet, a greater sense of competition driven by globalisation, or simply greater desire for training by young people entering business.

The market failure being addressed is the lack of recognition by SMEs of the value of management capability training. Public intervention provides training free of charge thus removing one significant barrier to training uptake. Other significant barriers to training uptake include the time required and awareness of the benefits of training.

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[13] NZTE Ministerial Briefing Note File Ref 5608142

Many SMEs do not recognise the value of training (e.g. Battista et al, 2009[14]). Businesses are started based on an idea/ process/ product. Although the people concerned may have the craft/trade skills to come up with the idea/ process/ product they do not understand the way businesses operate and are either incapable or inefficient at business processes. By improving their business practice, businesses are more likely to survive and grow, and business productivity improves. This is often described as the ability of owner/managers of SMEs being able to work **on** the business rather than **in** the business.

ETP Performance measures for 2008/09 are:

- *'Training and advisory services are accessible nationally via third parties - On-line delivery; and 90% or centres (towns and/or cities larger than 20,000) have access to training and advisory services'.*

- *Training and advisory services have a broad reach into NZ business through:*

    - *The Enterprise Training, Export Training, Investment Ready and Pacific Pre-Business Training Programmes are delivered to 7000-8000 clients*

    - *3000 new capability assessments*

National delivery of services is an attempt to address the differences between services available in urban and regional areas. In New Zealand there are 16 main urban areas with >30,000 people and three other independent urban areas with >20,000 people[15]. Service delivery outside of these urban areas can be limited. Service delivery also varies depending on regional economies. Provision of non-urban (regional) services is specified in ETP contracts.

5.2.1.2 Funding

The 2008/09 budget appropriation for ETP is $8.475m per annum. This has decreased by $500,000 from $8.975m in previous years. ETP had been funded at $8.975 m for the four years from 2004/5 to 2007/8.

The ETP budget is broken down in the following table based on the value of services purchased (but not necessarily delivered). There may be small variations in what was delivered in early years, later years have been corrected.

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[14] Battista M, Coetzer A., Jurado T. Developing Managerial Capability in New Zealand SMEs A publication of New Zealand Centre of SME Research, Massey University, 24 January 2009 for Management Focus Fund.

[15] Population statistics provided by Statistics New Zealand.

Table 14: ETP budget breakdown 2003-04 to 2008-09

YEAR SUMMARY	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
#100 Start-Ups	4%	3%	3%	3%	3%	2%
#101 Pre Business Pacific	0%	0%	0%	0%	0%	0%
#200 Maori Trustee/Manager Training	6%	6%	5%	5%	4%	3%
300 Capability assessments	15%	13%	11%	12%	12%	12%
#400 One to One Business Support	1%	1%	1%	1%	1%	0%
#500 General	29%	32%	26%	29%	25%	27%
#600 Seminars	3%	2%	1%	0%	0%	0%
#700 hi impact	5%	4%	11%	11%	17%	18%
#800 follow up coaching	23%	22%	22%	21%	21%	24%
Administration Costs	11%	10%	11%	10%	10%	13%
Development Costs	0%	0%	0%	0%	0%	0%
	97.8	**92.5**	**92.6**	**92.9**	**93.3**	**100.0**
Total ETP	98%	92%	92%	92%	93%	100%
Total IRS	2%	3%	3%	3%	3%	0%
Total Exporter Education	0%	5%	5%	5%	5%	0%

(Notes: #101 Pre Business Pacific training is rounded to 0%, i.e. less than 0.5% of the budget. #500 General, the largest category, includes single workshops, #700 hi-impact services involve a series of workshops, e.g. lean manufacturing is a series of six half-day workshops.

While some small components of ETP have decreased, such as Maori Trustee Training or Seminars, the only large change in the budget distribution has been the significant increase in hi-impact courses. Hi-impact training has increased with small decreases in most other budget lines.

There is also discretion within follow-up coaching and capability assessment budget lines to target areas of training. Hi-impact training has also increased its allocation within these budget areas as well.

5.2.1.2 Previous Evaluations

The ETP was reviewed in 2005 and informed NZTE's 2006 contract tendering process. The review found that '*The ETP is generally effective in achieving its policy objectives, namely improving the perceptions among SMEs of the value of capability training and up-skilling and in generating demand for further training.*' The review made recommendations for the then upcoming contracting process and also for future policy considerations.

Questions raised by the 2005 evaluation will be further considered in this evaluation. Information from NZTE client surveys and interviews of training providers will contribute to discussion.

5.2.1.3 Client Satisfaction Surveys

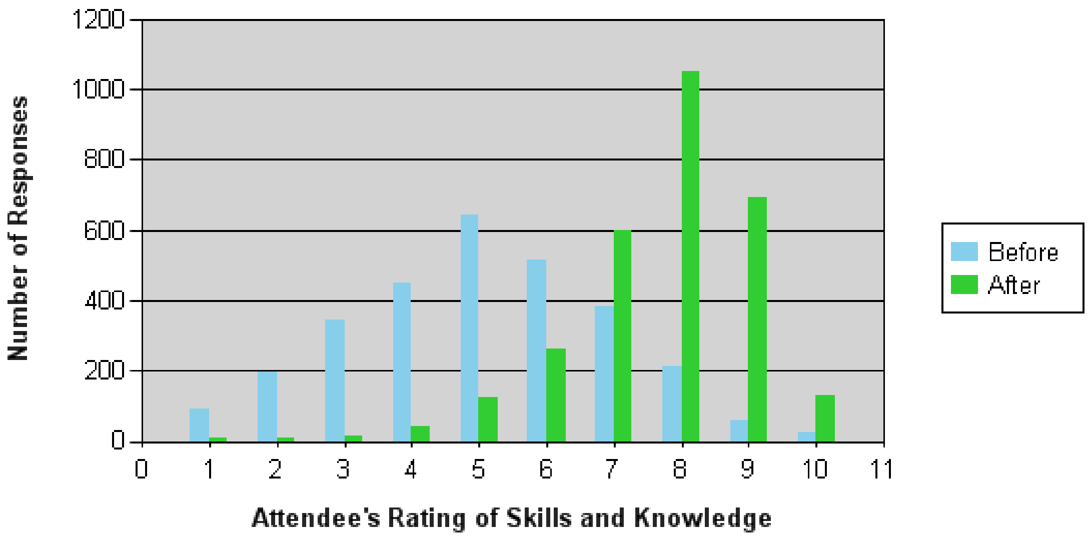
ETP providers are contracted to carry out client satisfaction surveys after each workshop. Performance measures require that '*100% of attendees rated the service as a 4 or better (based on a scale of 1(poor) to 5 (excellent))*'. These surveys are important tools for assessing presentation and material content of workshops but do not provide measures of implementation or outcomes.

5.2.2 NZTE Client Implementation Surveys

Following the 2005 ETP evaluation, NZTE have implemented follow-up surveys of ETP users. Two surveys are sent out, the first survey is sent one to four weeks after the workshop and the second two months after the first survey. Summary results for October 2007 to October 2008 have been provided for this evaluation and highlights presented below. ETP Survey 1 responses were obtained from 2928 workshop participants, 43% of the total possible responses (6775). ETP Survey 2 responses were obtained from 1929 workshop participants, 34% of total possible responses. Highlights are presented below.

Most workshops participants thought their skills and knowledge in the workshop's subject area increased through attending the workshop (Survey 1).

Figure 4: ETP attendees rating of skills and knowledge



ETP Survey 1 asks 'As a result of attending the workshop(s) what significant actions do you intend to take in your business? The response is recorded in a text box. This is followed up in ETP Survey 2 by asking, 'What progress has been made in implementing the actions?' Of the responses, 27% of the nominated actions have been completed and 58% are in progress. In only 12% of the actions has no progress been made and 3% of the actions are no longer relevant.

Survey 2 identified other actions in the following areas as a result of enterprise training. (The actions are not matched to areas of course work and we can only assume that the type of action reflects course content. Course content is quite specific. Participants may have undertaken more than one workshop.)

Table 15 :Actions implemented following ETP workshops

Number of Responses for Each Action Area		
Displays number of responses and percentages for the 1929 respondents that have taken action in the specified area		
Other Benefit	**Number of Responses**	**Percent**
Sales, branding and marketing	981	51%
Financial planning, costing, pricing, budgeting	840	44%
Business and strategic planning	843	44%
IT, e-commerce and information management systems	376	19%
Governance and organisational structure	232	12%
Human resources	299	16%
Quality control, customer/supplier feedback	455	24%
Regulatory compliance e.g. health and safety, tax, ACC, holidays	278	14%
Product design or development, or production processes	485	25%
Other	199	10%
No Action Selected	286	15%

Other benefits are also widely felt, particularly improved confidence or motivation; better understanding of the strengths and weaknesses of my business; and networking with other businesses.

Table 16: Benefits from ETP

Number of responses for each benefit		
Displays number of responses and percentages for the 1929 respondents that have benefited in the specified area		
Other Benefit	**Number of responses**	**Percent**
Improved confidence or motivation	1362	71%
Networking with other businesses	777	40%
Think more strategically about my business	1	0%
Better understanding of the strengths and weaknesses of my business	1242	64%
Other	197	10%
Increased Profitability	300	16%
No Benefit Selected	184	10%

ETP Survey 2 also asks ‘Have you undertaken any further business training, or sought further professional business advice (e.g. employ a business coach or mentor, training through industry associations, Chambers of Commerce, polytechnics?).

Table 17: Numbers doing other Training following ETP workshop

Number of Responses for Other Training		
Displays number of responses and percentages for the 1929 respondents		
Other Taining Response	**Number of responses**	**Percent**
Yes (go to question 6)	625	32%
No, but I plan to (go to end of survey)	859	45%
No, I don't plan to (go to end of survey)	392	20%
Total	**1876**	**100%**

Note: Values may not add to 100% due to rounding.

Further training had already been undertaken by 32% of the survey respondents in the 2 to 3 months following their Enterprise Training workshop. The following table shows the type and cost structure (free/paid) of training.

Table 18: Type and cost structure of training following ETP workshops

Number of Responses for Each Training Source					
Number of responses and percent out of the total respondents who answered 'Yes' to question 5. Each source shows					
Other Training Source	**Overall responses**	**Overall percent**	**Free vs Paid**	**Number of responses**	**Percent Free vs**
Business coaches or mentors	339	54%	Free	212	63%
			Paid	127	37%
Professional business advisory services e.g. accountant, business consultants	296	47%	Free	68	23%
			Paid	228	77%
Membership organisations e.g. industry or employer associations, Chambers of Commerce	220	35%	Free	93	42%
			Paid	127	58%
Academic institutions e.g. polytechnics, universities	118	19%	Free	46	39%
			Paid	72	61%
Other government training programme e.g. local council, central government	115	18%	Free	96	83%
			Paid	19	17%
Other	81	13%	Free	48	59%
			Paid	33	41%
Independent company director or other board members	57	9%	Free	46	81%
			Paid	11	19%

Enterprise Training clients prefer one-on-one training (business coaches, mentors, or professional business advisory services) to other types of training. Half of those who done further training have paid (or at least contributed towards payment) for the services.

We recommend the NZTE client implementation surveys be continued.

Further surveying of ETP clients was not considered efficient for this evaluation.

5.2.3 ETP changes since last evaluation

The 2005 evaluation of Enterprise Training concluded that 'ETP continues to fill a large and reasonably well-defined niche in the market for management training services.' Having spoken with 37 training providers it is our opinion that this statement continues to be true although the niche has changed somewhat with the trend to increasing numbers of 'hi impact' courses and changes in the eligibility rules.

‘Hi-impact’ services are considered to be a move towards a different market niche. The courses are presenting more complex, targeted material and as they are a series or 6 or more workshops represent higher-value services than the individual general courses. Some comments regarding this were made in our interviews:

- *ETP roles have changed over the last 18 months with a tendency to push into the private training area - where clients were becoming more ready to pay existing providers higher fees for more specific courses. (ETP provider)*

- *Demand -side challenges, numbers of people wanting to do courses; sector -based lean manufacturing courses were very positive and private trainers have picked up and offered similar courses; Such courses were a challenge though as a substantial investment (~$8k per business) and challenges in picking the companies to do the course. Will this be good investment for government? (ETP provider)*

The change in eligibility criteria from firms with less than 20 full-time equivalent employees to firms with less than 50 full-time equivalent employees was also stated by some as encroaching on private training providers business e.g.

- *ETP and fee-charged courses target different types of organisations; ETP clients are smaller businesses were <20 ftes and now <50ftes and new rules mean that ETP does encroach on previous fee paying clients.*

In 2008/09 the NZTE Output Agreement flagged a decline in the number of ETP, Investment Ready Training, and Pacific Pre-Business Training places from 12-14,000 to 7-8000. (The number of places reduced due to a decrease in the ETP budget and an increase in the number of hi-impact services where individual clients receive, on average, a larger number of services.) The actual number of clients participating in 2007-08 was around 14,512 and for 2008-09 it was around 11,981. The drop has not been as large as foreshadowed in the Output Agreement due to: higher numbers in each workshop, more workshops for start-ups, and more recession-orientated workshops.

A number of ETP providers commented on the challenges of meeting greater demand with fewer resources. The following responses were to a question asking for the challenges training providers face:

- *Increased demand and reluctance to pay for more advanced training;*

- *Resource based difficulties encountered in matching training to clients - demand exceeds supply;*

- *funding/budget and meeting demand one of the biggest issues;*

- *meeting demand - the sheer numbers wanting to do courses and still maintaining quality; Although minimum numbers 15 always have maximum numbers on course and harder to provide same sort of service as would to minimum in group; PR, referral marketing and sales skills courses filled within 24 hours of opening to enrolments.*

Some of these quotes may appear contradictory. However some ETP providers have different experiences to others and while some have more advanced fee-paying customers other's don't and find more resistance to the introduction of fees.

Having to limit numbers on courses means that providers are trying to target businesses participating. They are asked to target those firms more likely to become high-growth firms. This has challenges e.g.

- *NZTE see role as growing economy and now want to target businesses. This can be challenging as don't know who will be successful.*

While the capability assessment process does allow client screening it is still difficult to determine which businesses will be successful. Many factors influence a businesses success e.g. market demand and changes, exchange rates, interest rates, staff and management capability etc.

Other recommendations from the previous evaluation include:

- *'A clearly defined set of learning outcomes across subject areas should be developed and aligned with the curriculum framework.…'* This has been done both generally for ETP courses and also specifically where there may be overlaps between, for example, ETP and Escalator programmes to ensure overlap does not occur.

- *'A standardised national system of data collection should be implemented post-intervention focusing on the implementation of learning. …"* Results from NZTE client implementation surveys are now collected regularly, a 1 and 2 months following participation in ETP course. (Some of the results are provided in previous section.) These surveys do provide useful data on implementation within businesses and we recommend that they should continue.

- *'Sector distribution of ETP firms is difficult due to data constraints. NZTE is working on a new system.'* Sector data is still not available for firms participating in ETP however NZTE is working to improve its data collection and hopefully sector information will be available in future.

- More work be done prior to contracting *'to identify the specific problems with the current content and/or delivery structure of the MTT programme*.' The delivery of MTT programme is now contracted on a case by case basis as needs arise and this has improved delivery. The amount of MTT training has declined from 6% of the ETP/IRS/EE budget in 2003/04 and 2005/06 to 3% in 2008/09.

The two policy questions raised in the last evaluation were addressed as part of our survey of training providers:

- *'How should the government continue to encourage the development of the management training market, particularly in those regions where private provision is limited?'*

- *'Where the market is maturing, how could or should the government transition out of direct provision of training services?'*

We also considered whether ETP was crowding-in (as implied by the output class intervention logic) or crowding-out other providers.

5.2.4 Survey of training providers

Thirty-seven interviews with training providers were undertaken. Sampling for, and information gathered in, the interviews are summarised and available in Annex 2. The organisations interviewed included both providers of NZTE services, and training providers who do not provide NZTE services. Organisations belong to a range of categories as shown in Table 19.

Table 19: Interviewed training providers by category and NZTE services delivered.

Provider of: Code Nature of business	ETP	other OC1	No NZTE services	Total
Chamber of Commerce	2	3		5
Industry/member association			5	5
Not-for-profit (inc.council/EDA)	5	2	1	8
Polytechnic or Uni			5	5
Private trainers & consultants	6	1	7	14
Total	13	6	18	37

Only a selection of relevant material from the survey of training providers follows. We note that in places we quote different interviewees. At times these quotes may be contradictory. Opinions on some issues were quite diverse, on other issues they were almost unanimous. We try to select quotes which illustrate the issues to hand. Interviewee quotes are identified by italics and a bullet point.

The following questions were asked of all interviewees, both ETP and other Output Class 1 providers and providers who do not deliver any NZTE services.

5.2.4.1 Government role in SME management training market

Nearly all training providers interviewed think that either the current level of government subsidisation, or at least some government subsidisation, of training courses for SMEs is desirable.

Providing training to SMEs, particularly micro enterprises, has high overheads as a large number of organisations are needed to fill a workshop. Each organisation will need to be engaged by marketing and convinced of the value for money and time invested. The fewer organisations participating the higher participants costs will be but the providers costs will be lower.

The ETP programme addresses some of these costs. The course is well known and well recognised. Evidence for this includes

- For the from the survey of training providers 83% of non-Output Class 1 providers were aware of ETP services and 28% referred clients to those services

- ETP providers said it improved the profile of their businesses or organisation

- Providers saying they wouldn't try and compete with the service (although it is difficult to compete with a free service if it was not successful in any way then competition would be there.)

Currently the cost barrier is removed by fully funding provision reducing the need for marketing.

A number of non-ETP providers interviewed indicated they had unsuccessfully tendered to be ETP providers. One private provider noted:

- *that becoming a provider for a government-subsidised course significantly simplified your business. You didn't need to spend so much time tendering for smaller jobs or providing information free-of-charge to prospective clients. It gives you more time to establish the organisational aspects of your business.*

Providers of Output Class 1 services were asked 'Are there any further benefits to your organisation from providing these services? 'Both private trainers and others said that being ETP providers '*gave their company brand a high profile'*. Other comments included:

- efficiencies of scale

- networking opportunities are good. Enables close communication with Chamber of Commerce and other providers

- a (in some cases high) proportion of clients either go on to do other training courses or become members of organisation

- ETP services are integral with wider organisation functions

- allows organisation to refer businesses to the appropriate professionals and other training sources.

Providers interviewed were asked, 'Do you see the current mix of public and private training for SMEs as the most appropriate?'

There was a wide range of opinions however most interviewees thought there should be a mix of government incentivized and private sector courses. Some specifically said the current mix was good,

- 'Good mix of training providers (both public and private) available in our region.'

Some respondents from regional areas, where there was little or no private provision of SME training, thought government intervention was necessary.

- The following issues were raised by a number of interviewees:
- Some public/ private balance required
- Current public/ private balance working reasonably well
- Selecting the right course can be a challenge for SMEs. There is scope for rationalisation of the courses in this area.
- Training shouldn't be free; businesses should pay something
- Government assistance should be more widely available. This included a number of issues from eligibility for ETP (non-profit organisations are excluded) to funding demand side rather than supply-side.

5.2.4.2 Barriers to training

Interviewees were asked, 'Can SMEs get the training they require (in your area) either from private or public providers?'

Most training providers answered 'yes' to this question although some qualified this by saying sufficient generic training was available but specialised courses were more difficult.

Given that there is management training for SMEs available the question arises as to what stops SMEs from taking up training opportunities. The greatest barriers to training for SMEs are the time and cost.

Interviewees answers to this question were coded into:

Table 20: Barriers to Training for SMEs

lack of time	23
inability to be away from business	18
lack of money	15
unaware of what's available	12
no advantage to self	5
geographic barriers	6
no advantage to employees	2

The greatest barrier for SMEs to undertake training is finding the time to do it. This is followed closely by the inability to be away from the business for the time required for training. (These two barriers are very similar.)

The third largest barrier to SMEs undertaking training is the cost. This result may reflect the non-random sampling of interviewees. Approximately half of interviewees are ETP providers and ETP courses are free, thus ‘lack of money’ may be a greater barrier if charging were introduced for ETP.

Geographic barriers exist in particular areas eg West Coast, East Coast, and less so in other areas such as Hawkes Bay. These are real and continuing issues outside urban areas.

These are similar to other results. Battisti et al. (January 2009)[16] surveyed 25 firms and found the top three barriers to participation in management training courses to be time, cost and a perceived lack of relevance.

5.2.4.3 SME development needs

Interviewees were asked, ‘What do you consider are the greatest skill development needs of people who manage small businesses in New Zealand?’

Replies were coded by interviewers where possible. Care is needed in interpreting these answers as in some cases answers reflected the specialised area in which the training provider worked. Training providers are interacting with SMEs who need training in the areas in which they work. They are not seeing SMEs who do have skills in this area.

Some answers could be coded and the following areas of training needs were mentioned more than once. The numbers indicate the number of respondents who mentioned this as a development need.

Table 21: Training needs for SMEs

business planning (incl. strategic thinking)	20
financial management	19
Marketing	16
HR (incl. leadership)	13
time management/ time for training	6
sales skills	5
succession planning, exit strategies	2
regulatory, legal	2

[16] Battisti Martina, Alan Coetzer and Tanya Jurado, *Developing Managerial Capabillity in New Zealand SMEs*, New Zealand Centre for SME Research

Conclusion

There is a role for government in provision of business training for SMEs. The rationale for government intervention includes the high costs of training, particularly for micro enterprises, the lack of information about the benefits of training, and difficulties selecting appropriate quality courses.

5.2.4.4 Competition from NZTE services

Training providers were asked, 'Do NZTE services compete with or complement your services?' Eleven organisations said NZTE services competed with their services. Seventeen organisations said NZTE services complemented their services. Not all interviewees answered this question or their answers could not easily be coded. Some said NZTE courses both compete with and complement their own courses.

Table 22: Number of organisations saying NZTE Output Class 1 services complete with or complement their services?

	compete	Complement
Chamber of Commerce	1	2
Industry/member association	2	1
Not-for-profit (inc.council/EDA)	2	6
Polytechnic or Uni	2	3
Private trainers & consultants	4	5
Total	11	17

Some organisations identified more than one service as competing. The services identified as competing were:

Table 23: Numbers identifying Output Class 1 services as competing with their services

biz Service	4
Enterprise Training	9
Escalator	1
Exporter Education	1

Some organisations specifically stated that they had chosen their market niche so as to complement NZTE services. In some regions there is a lot of consultation between market providers to ensure that they do not overlap their services. In other regions there is little or no consultation between providers.

While some organisations may have wider interests in the business community, such as Chambers of Commerce or Economic Development Agencies, some private training providers and consultants have more commercial motives.

Clients of non-ETP providers tend to be larger businesses, ie businesses with >20ftes. This reflects a number of issues:

- ETP training has existed for a number of years (in some form since 1999). It is free and of reasonable quality. The ETP market niche is occupied and thus there is no incentive to move into that area. i.e There is some evidence that ETP is crowding–out the market.

- All companies prefer tailored courses to suit their specific needs. This is reflected in:

    - private providers offering in-house training and it comprising a significant part of their business;

    - SME's own preference for one-on-one coaching (as evidenced in NZTE ETP implementation survey);

    - ETP inclusion of capability assessment and one-on-one follow-up training, and their popularity with SMEs.

5.2.4.5 Market changes over last 3 or 4 years

Providers were asked 'How has the market for training services changed in the last 3 or 4 years?

While some interviewees had not been in the market long enough to comment, many thought the market had been steadily enlarging. For example:

- *The past four years had been a boom-time for the training services market. Service providers have built their business during that period. Lots of providers had come and gone (especially Australian and US franchise holders)* ***but a core of local providers had built successful businesses.***

- *Management capability has increased and changed attitudes are apparent - businesses* are increasingly sending staff on courses.

The description of the training market as 'mature' is appropriate.

5.2.4.6 Economic Downturn

All training providers were asked what impact the economic downturn was having.

Most comments were grouped into the following categories:

- changes in demand during recession;

- increase in demand during recession;

- decrease in demand during recession;

- no significant effects seen yet;
- different requirements now;
- geographic variations;
- jobs summit actions.

The following quotes from the category ‘changes in demand during recession’ effectively sum up the responses:

- *Demand for training is a balance of time and money. When business is really busy SMEs often don't have the time to do training. When business is really bad SMEs won't have the money. Last year (2008) was a record year and (the provider) made huge profits. This year numbers in some programs have increased as people who have been laid off decide to do training. This year is slower than last year. (non-OC1 provider)*
- *The recession is obliging businesses to look carefully at training expenditure. However a tighter labour market may lead to a greater focus on training.*
- *To date the changes have not been huge. However we are now on the brink of major changes. The market for training has reached a down side. Supply will exceed demand until the former drops off and a new equilibrium is reached.*

5.2.4.7 Efficiency and effectiveness of ETP

Thirteen ETP providers were interviewed including 11 of the 15 main contractors and 2 other sub-contractors. The following questions were asked only of ETP providers.

Capability Assessments

ETP providers were asked, ‘How useful is the capability assessment, CA, process? Could it be improved? How?’

There is a clear and distinct difference between the Capability Assessment, CA, and the Business Assessment Tool, BAT. CAs have been carried out as part of ETP training since its inception. The CA ‘assesses the business’s needs, identifies the management skills required, and develops a plan for the business to acquire those particular skills’. The BAT, introduced in late 2008, is a tool which can assist in this process. This question was seeking information about the CA.

It was widely noted among providers that the capability assessment:

- Is very useful.
- Ensures right clients are participating in the right workshops
- Allows providers to forward plan which ETP courses may be most in demand or most useful.

One interviewee noted:

- *The CA process has changed significantly over the last few months. In Oct 2008 NZTE introduced the BAT which people did not like. Clients didn't like*

    - *having to use the computer;*

    - *technical problems with implementation of BAT;*

    - *committing financial information into the system.*

- *People were put off and found it too hard. Some pulled out of the training because of this process. A couple of weeks ago NZTE said we didn't have to use computer based system if people didn't want to. We could either use it or do CAs the old way, face to face. The computer system (BAT) was followed up by shorter face-to-face discussion.*

Nine of the 11 ETP providers commented, unfavourably, on the BAT.

NZTE has clarified the requirements regarding BAT usage. The BAT is not applicable if the person being trained is not the owner of the business. The person being trained may be a manager or another employee. If the person being trained is the owner then they still must complete the BAT.

Suggested possible improvements in capability assessments included:

- *would be better if capability assessments were carried out on site in the clients business. It would give a better picture.*

- *have two possible stages – a shorter capability assessment is adequate for some, particularly early stage, businesses and a longer more in-depth process, similar to that currently carried out, for more mature businesses.*

- *Would* be useful if it could filter out non-attendees. (While it may be a challenge for the CA to do this many suggested the introduction of some fees would help with no shows.)

Capability assessments were not seen as a way of screening companies to determine which companies were most likely to grow and contribute more to the economy. At least one provider noted the difficulty in picking such winners.

Development of the BAT will continue and NZTE has contracted its administration and development to a third party. (See Section 5.8 Business Assessment Tool)

Follow-up sessions

ETP follow-up sessions are the jewel in the crown.

- *The area where people get the most benefit when applying training to practice. Should be more follow-up sessions.*

Targets

ETP providers were largely happy with the way NZTE was managing the service targets.

Possible introduction of ETP fees

Providers were asked what the impact of introducing fees for ETP courses might be. A number of comments were made including:

Decrease in demand:

- *charging fees would lead to a drop off in demand,*
- *attendance numbers would drop in the 1-5 staff category. Partial subsidisation would make continued workshop attendance feasible at that level.*

Charging would be more acceptable for hi-impact courses:

- *Higher accelerator level courses might benefit from fee charging - ensuring commitment to training in an area where lack of awareness is still general.*
- *possibly charge for courses involving a series of 6 or more workshops.*

Charging may increase administration costs:

- *More administrative resources would be needed by ETP.*
- *administration fees might exceed the $50-100 charges that were likely.*
- *No administration problems if fee paying became norm - provider already has good admin processes in place for existing fee paying courses.*

Reduction of 'no-shows':

- *Charging fees would ensure fewer no-shows and greater commitment among participants.*
- *A different type of clientele would be attracted. Fewer no-shows if actually paying. Fees of $20-100 would, however, discourage some clients.*

5.2.5 Profile of ETP recipient firms

ETP activity

Data source: NZTE administrative data from Pivotal

Information was extracted from the Pivotal database in January 2009. The database contains information on the number of firms that have accessed ETP services since 2001.

The firms described as ‘ETP firms’ include firms doing ETP, Exporter Education, and Investment Ready Training. The database includes clients from all three programs. In the following results firms of the three programs are described as ‘ETP firms’. Exporter Education is less than 10% of the total ETP plus Exporter Education plus Investment Ready Training.

Each ETP service was assigned to a year (April through March) based on the delivery date of the service.

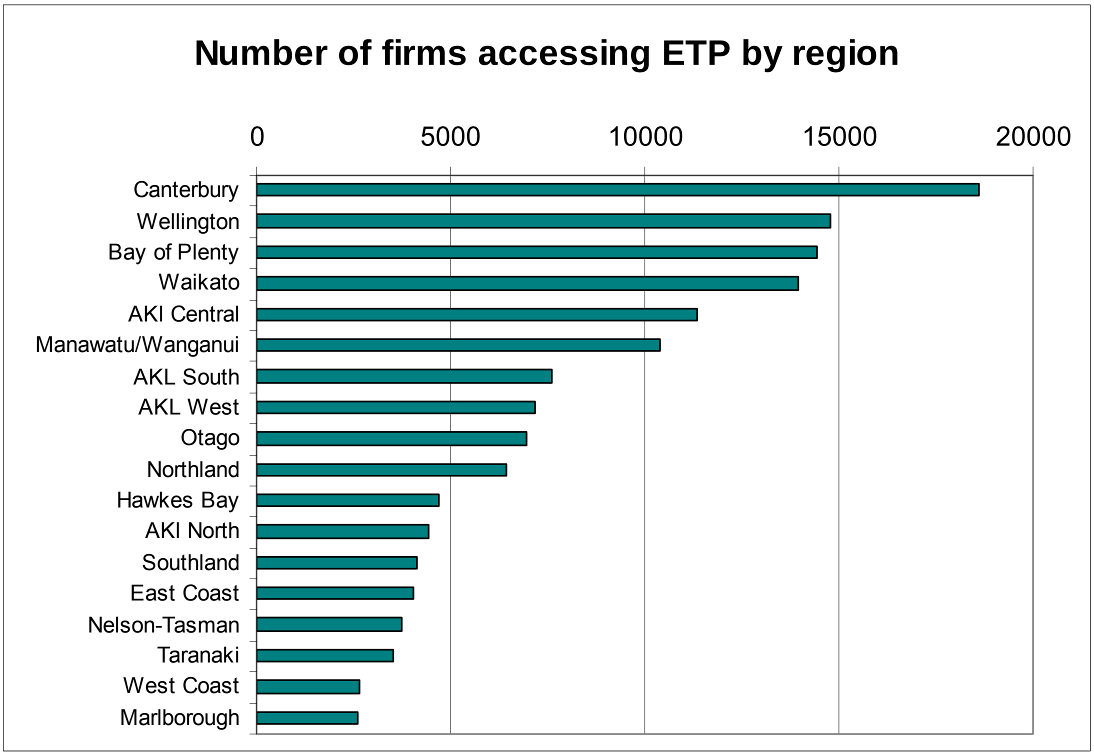
All individual records for each firm were aggregated by year. The Pivotal database also contains limited demographic information including the location of the firm (or head office). This information was used to produce Table 26 and the Figure 4 which shows the distribution of services across the country.

The number of firms accessing ETP services peaked in the year ending March 2003 (14,182 firms). There has been a reduction in the number of firms accessing ETP since then (12,581 in year ending March 2008).

Overall, the Auckland region[17] had the highest share of firms receiving ETP services (22% of total firms) followed by Canterbury (13%).

[17] Split into four sub-regions for the graph

Figure 5: Number of firms accessing ETP by region



A total of 60,194 firms and 83,185 people have received ETP services since the scheme began in 2001.

Each ETP service was classified by type of service into 4 broad categories. The table below shows the number of firms accessing each type of service since the scheme began. A firm may receive more than one type of service. The most common types of service provided to firms are workshops, seminars or courses (83% of total) and capability assessments (75% of total). Very few firms (1% of total) receive one on one business support.

Table 24: Numbers of firms receiving different types of ETP services

Type of ETP service	Number of firms receiving service	Share of total
Workshops/Seminars/Courses	50044	83%
Capability Assessment	45344	75%
Follow Up Coaching	23325	39%
One on One Business support	855	1%
Total number of firms	**60194**	

The degree of interaction with ETP varied between firms. The majority of firms have only used ETP services a few times since the scheme began. This can be seen in the table below, which shows the number of ETP interactions per firm since 2001. An interaction is defined as one person from a firm accessing any type of ETP service. For example, a count of 4 could mean that one person from a firm received 4 different types of ETP services or it could mean that 4 different people from one firm received one ETP service.

Table 25: Number of ETP interactions per firm

Number of interactions per firm	Number of firms	Share of total	Cumulative share
1	14123	23%	23%
2	9215	15%	39%
3	6809	11%	50%
4	6112	10%	60%
5	3768	6%	66%
6 to 10	10627	18%	84%
11 to 20	6375	11%	95%
21 to 50	2833	5%	99%
Over 50	329	1%	100%
Total	**60194**	**100%**	

Nearly a quarter of all the firms only had one interaction for the whole period and half of the firms had quite light engagement with ETP with 3 or less interactions. A small number (1%) had over 50 interactions, presumably involving large numbers of people from one firm receiving multiple ETP services. (e.g.Maori Trustee Training involves numbers of workshops for numbers of people from a single organisation and will account for some of these outliers.)

Most firms had only one or two people receiving ETP services -see the following table which shows the total number of attendees for each firm since 2001. The maximum number of attendees for any one firm was 62.

Table 26: Number of ETP attendees per firm

Number of attendees	Number of firms	Share of total	Cumulative share
1	45739	76%	76%
2	10809	18%	94%
3 to 5	3105	5%	99%
6 to 10	417	1%	100%
11 to 20	105	0%	100%
Over 20	19	0%	100%
Total	**60194**	**100%**	

Table 27: Number of firms accessing ETP services by year ending March and region

Region	2002	2003	2004	2005	2006	2007	2008	2009(incomplete)
AKl Central	498	1080	1063	1031	962	1084	968	809
AKl North	250	439	326	414	494	413	343	245
AKL South	357	982	966	898	936	539	408	309
AKL West	608	959	656	729	530	505	561	522
Bay of Plenty	1000	1516	1037	1220	1317	1321	1316	861
Canterbury	1060	1580	1500	1828	1659	1647	1849	1159
East Coast	174	477	444	407	355	341	394	168
Hawkes Bay	139	509	390	522	357	373	516	317
Manawatu/Wanganui	754	1003	992	1074	1034	792	825	632
Marlborough	132	263	235	255	198	206	243	206
Nelson-Tasman	292	427	436	389	341	281	274	199
Northland	287	511	559	623	558	684	649	340
Otago	214	639	505	743	687	621	711	415
Southland	132	277	299	380	332	361	510	307
Taranaki	138	313	431	391	322	338	303	149
Waikato	924	1598	1479	1393	1097	1081	1184	908
Wellington	692	1439	1268	1523	1449	1205	1286	986
West Coast	118	165	217	263	261	242	238	191
Total	**7771**	**14182**	**12806**	**14089**	**12892**	**12036**	**12581**	**8723**

5.2.6 Characteristics and performance of ETP recipients

Data source: Statistics New Zealand's prototype Longitudinal Business Database (LBD)

Disclaimer
The opinions, findings, recommendations and conclusions expressed in this report are those of the Ministry of Economic Development. Statistics NZ take no responsibility for any omissions or errors in the information contained here. Access to the data used in this study was provided by Statistics NZ in accordance with security and confidentiality provisions of the Statistics Act 1975. Only people authorised by the Statistics Act 1975 are allowed to see data about a particular, business or organisation. The results in this paper have been confidentialised to protect individual businesses from identification. The results are based in part on tax data supplied by Inland Revenue to Statistics NZ under the Tax Administration Act 1994. This tax data must be used only for statistical purposes, and no individual information is published or disclosed in any other form, or provided back to Inland Revenue for administrative or regulatory purposes. Any person who had access to the unit-record data has certified that they have been shown, have read and have understood section 81 of the Tax Administration Act 1994, which relates to privacy and confidentiality. Any discussion of data limitations or weaknesses is not related to the data's ability to support Inland Revenue's core operational requirements. Statistics NZ protocols were applied to the data sourced from the New Zealand Customs Service; the Foundation for Research, Science and Technology; New Zealand Trade and Enterprise; and Te Puni Kōkiri. Any discussion of data limitations is not related to the data's ability to support these government agencies' core operational requirements.

About the database:

- The demographic data presented below were taken from Statistics New Zealand's prototype Longitudinal Business Database (LBD). The LBD covers all economically significant New Zealand firms, which allows firms receiving ETP services to be compared with the broader business population. LBD data are described in detail in SNZ (2007) and Fabling *et al.* (2007).

- The LBD is a collection of administrative (IR and Customs) and survey data.[18] It also includes information on firms' receipt of business assistance from some government agencies. At the time of analysis business assistance data covered the period from 2000 to 2007. Data are provided at the enterprise level, which is

[18] The database has been developed under the project name *Improved Business Understanding via Longitudinal Database development.*

defined as a business or service entity operating in New Zealand. We restricted our population to economically active firms in the private, for profit, sector.[19]

- The LBD includes scheme data from NZTE. We were able to identify firms that had received ETP support and compare the aggregated characteristics of those firms with broader business populations. Unfortunately, the matching rate of firms receiving ETP services to firm records contained in the LBD is low (around 30%), due to the high number of unregistered companies receiving this type of assistance. This means that ETP firms that are matched to LBD are more likely to have higher values of sales, employment and other performance measures and this will positively bias any aggregated statistics for ETP firms. ETP firms include firms doing Enterprise Training Programme, Exporter Education, and/or Investment Ready Training.

- The spine of the LBD consists of the Longitudinal Business Frame (LBF), to which are attached data sourced from Goods and Services Tax (GST), financial returns (IR10) and aggregated Pay-As-You-Earn (PAYE) returns provided by the Inland Revenue (IR). Customs data on merchandise imports and exports are also included. All data are annualised to firms' actual balance date, and then assigned to the closest year ending 31st March.

- The LBD also records information about ownership, including the relationship of an enterprise to any parent or subsidiary enterprises. Most enterprises operate independently, however a small proportion of the population are part of a group structure sharing a common group-top enterprise with other enterprises. These groups, whilst few in number, account for a substantial proportion of total employment, value-added and exporting revenue (Fabling, Grimes and Sanderson, 2008). We exclude firms that are not independent from some of our before/after analysis to avoid misleading interpretation of results.

- Turnover information is sourced from GST data which includes information on sales and purchases of goods and services. A threshold for filing GST data exists in NZ resulting in less-than-complete coverage in the LBD of smaller firms.[20] Information on firm level employment is sourced from the LEED (Linked Employer Employee Database) from IRD. Rolling mean employment values are calculated as the number of employees and the number of working proprietors.

5.2.6.1 Demographic characteristics:

Sector: The distribution of firms by sector for the year ending March 2007 is in Table 28 and Figure 6. The number of firms is shown for matched ETP recipients and the broader population (i.e. all firms who did not get ETP assistance). The largest sector for ETP recipient firms and the broader population is property and business services (25% and 32% respectively). Compared to the broader

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[19] The data cover approximately 750,000 firms between 2000 and 2007 with over 450,000 firms active in any one year. Many of these firms have zero employment over the entire period they were active.

[20] Previously the threshold for GST was NZ$30,000, then it became NZ$40,000 and this is currently or soon to increased to NZ$50,000.

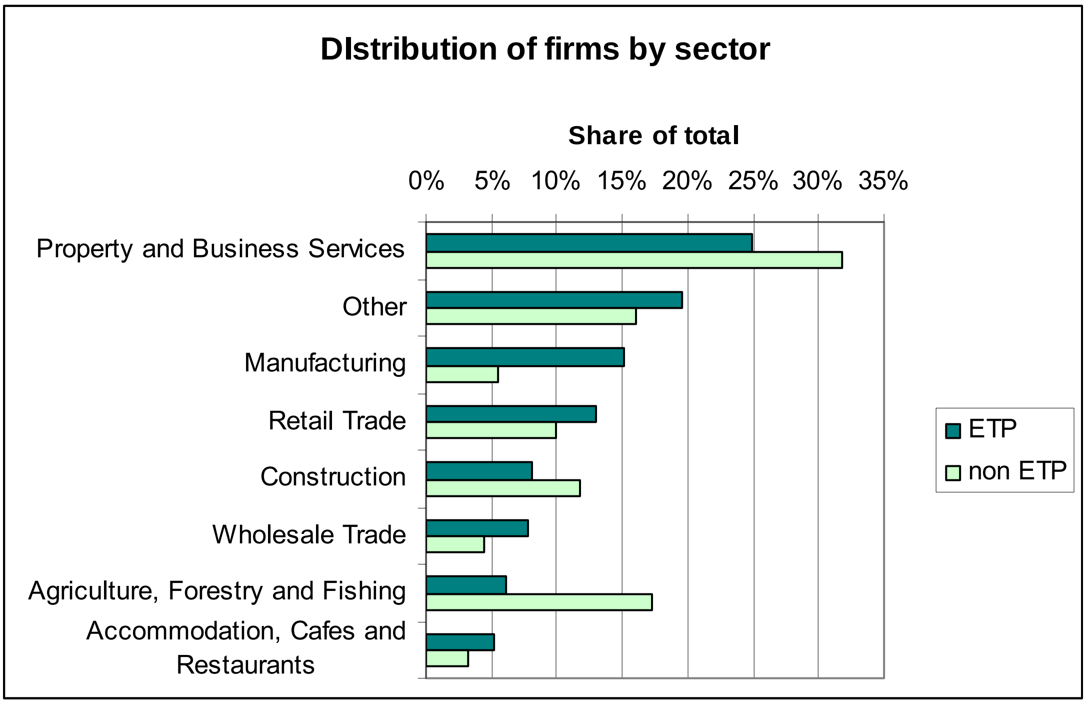
population, there are relatively more matched ETP firms in the manufacturing sector and relatively fewer matched ETP firms in the agriculture, forestry and fishing and property and business sectors.

Table 28: Number of firms by sector for ETP recipient and the broader population (2007)

Sector	ETP	non ETP
Property and Business Services	3,948	161,817
Other	3,096	81,966
Manufacturing	2,388	28,083
Retail Trade	2,052	50,403
Construction	1,287	60,198
Wholesale Trade	1,239	22,635
Agriculture, Forestry and Fishing	972	87,600
Accommodation, Cafes and Restaurants	822	16,668
Total	**15804**	**509370**

All numbers have been randomly rounded to base 3.

Figure 6: Distribution of firms by sector (2007)



Age: The distribution of the age of firms is considered below. The table shows the year in which a firm started trading for all economically active firms in year ending March 2007. Matched ETP recipient firms are younger than the average firm with relatively fewer ETP firms that started trading prior to 1997 and relatively more that started trading between 1997 and 2002.

Table 29: Number of firms by year started trading (2007)

Year started trading	ETP	non ETP
pre -1997	4,299	185,451
1997 to 99	2,193	58,899
2000 to 02	4,260	82,251
2003 to 05	4,209	126,639
2006 onwards	843	56,169
Total	**15804**	**509409**

All numbers have been randomly rounded to base 3. Year started trading is estimated from the first recorded year of activity.

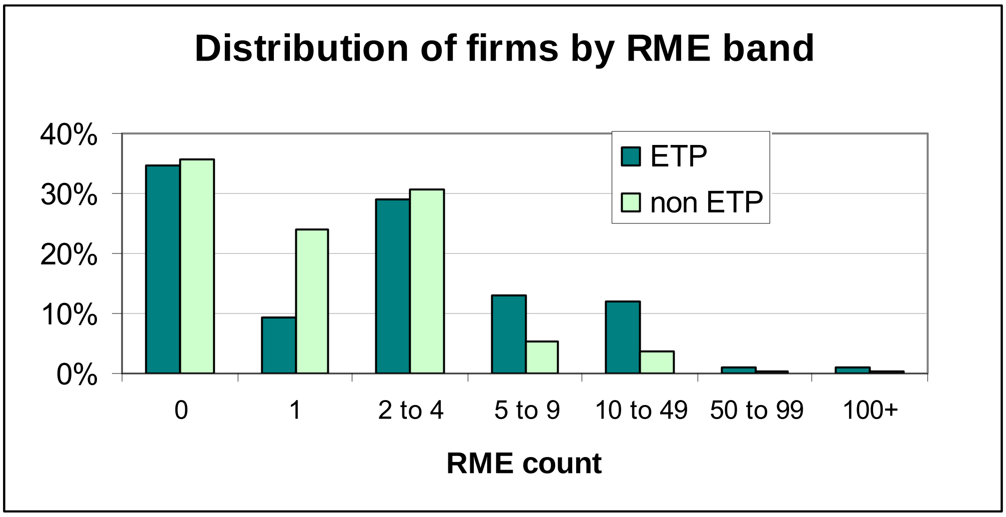
Employment count: The data show that the vast majority of matched ETP firms employ fewer than 50 staff, i.e. are small and medium sized enterprises. Comparing the data for both populations suggests that small firms (less than 5 employees) are under-represented, and large firms (6 or more employees) over-represented, amongst the matched ETP firm population. (While only firms with less than 50 ftes are eligible to do ETP, Exporter Education has different eligibility rules and larger firms can be involved.)

Table 30: Number of firms by employment count (2007)

RME band	ETP	non ETP
0	5292	177942
1	1419	120219
2 to 4	4434	153465
5 to 9	2010	25782
10 to 49	1845	17478
50 to 99	177	1614
100+	135	1293
Total	**15,309**	**497,796**

All numbers have been randomly rounded to base 3. Table excludes firms with missing RME values. RME is defined as the number of working proprietors and employees.

Figure 7: Distribution of firms by RME band



Export activity: Matched ETP firms are more likely to export or import trade merchandise than the average New Zealand firm. Around 8 % of matched ETP firms export or import trade merchandise, compared to only 2% of the general population. Unfortunately the LBD did not, at the time of analysis, include a direct measure of the export of services for all firms so we could not compare export of services for the two populations.

Value-added: The distribution of value-added is considered below. Value-added is defined as sales minus purchases. The data show that matched ETP firms have relatively higher values of value-added compared to the broader population; 83% of ETP firms had positive value added in 2008 compared to 78% for the broader population.

Table 31: Distribution of firms by value-added for year ending March 2007

Value added band	ETP	non ETP	ETP share	non ETP share
loss of over $50k	108	5,883	1%	1%
loss between $0 and $50k	2,103	102,261	16%	21%
gain between $0 to $50k	9,324	341,250	69%	72%
gain of over $50k	1,914	27,582	14%	6%
Total	**13449**	**476976**	100%	100%

All numbers have been randomly rounded to base 3. The total numbers of firms may be lower than other tables due to missing sales or purchases data.

Labour productivity: Similarly, matched ETP firms have higher labour productivity on average than the rest of the business population. Labour productivity is defined as value-added divided by employment. The data show that 69% of matched ETP firms had greater than $20,000 per employee compared to 57% for the broader population.

Table 32: Distribution of firms by labour productivity for year ending March 2007

Labour productivity	ETP	non ETP	ETP share	non ETP share
Zero or negative	999	55281	10%	17%
Between 0 and $20k per RME	2,178	79881	21%	25%
Over $20k per RME	7,140	182049	69%	57%
Total	**10317**	**317208**	100%	100%

All numbers have been randomly rounded to base 3. The total numbers of firms may be lower than other tables due to missing sales or purchases data or missing or zero employment data.

Conclusion

The ETP firms matched in the LBD appear to be higher performing than the average NZ firm. One reason for this could be that low performing ETP firms are not registered and are therefore not matched in the LBD. It may also reflect the sectoral composition of the ETP recipients: there are proportionally more manufacturers and fewer firms in the property and business services and agricultural, forestry and fishing sectors compared to the broader population. However, all of these sectors have higher than average productivity compared to other sectors[21] so the positive bias due to higher relative numbers of ETP manufacturers could be balanced out by a negative bias due to fewer firms in property and business services and agriculture, forestry and fishing industries.

5.2.6.2 Changes in performance following ETP assistance

The data indicate that the matched ETP firms are younger, larger and have higher value-added and productivity compared to the total population. They are more likely to be trade merchandise exporters. ETP recipients appear to be higher performing than the average New Zealand firm.

The question remains: are they higher performing because they are larger, have higher levels of capital or other characteristics or has ETP assistance contributed to improving their performance? To answer this question accurately, requires tracking the performance of ETP firms and a suitable control group over time.

An econometric evaluation of ETP assistance is possible with the LBD but is beyond the scope of this report. However, we can look at the changes in performance of ETP firms before and after they receive assistance. These changes cannot be attributed to ETP assistance because there is no control group comparison. There are many factors not taken into account in these before/after comparisons, including macro-economic changes which are likely to have a much higher impact on performance than government assistance.

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[21] Fabling, Grimes, Sanderson and Stevens " Some rise by sin, and some by virtue fall: Firm dynamics, market structure and performance" MED Occasional Paper, 2007.

Changes in economic activity: The LBD includes an indicator of economic activity based on a number of criteria[22]. Economic activity is one measure of firm performance and we are interested in whether the matched ETP firms are more likely to be economically active before and after assistance. Table 33 shows that the matched ETP firms are more likely to be economically active for at least 3 years following ETP assistance.

Table 33: Share of economically active firms by year since first assistance

Time to year of first assistance	Number of ETP firms in LBD	% of ETP firms economically active
3 years before	12,894	47%
2 years before	15,792	56%
1 year before	15,801	70%
Year of first ETP assistance	15,801	85%
1 year after	15,801	84%
2 years after	14,049	80%
3 years after	11,595	75%

All numbers have been randomly rounded to base 3. All data are pooled between 2001 and 2008, obscuring any year to year variability in economic activity.

Changes in employment: We use an employment growth ratio as a measure of the growth in employment following ETP assistance (SNZ, 2007). This is defined as the ratio of the change over the combined value, which provides a growth rate between -1 and 1 The comparison period is two years before a firm first receives ETP assistance and two years after[23]. The data are pooled between 2001 and 2008.

Many of the matched firms (36%) experience no change in employment count following ETP assistance. However, it is clear that more firms experience growth in employment (40%) after receiving ETP services than a reduction in employment (22%). Of course, this may have nothing to do with the fact that firms received ETP assistance. Also, a reduction in employment may be a favourable outcome if it is associated with an increase in productivity. This is investigated next.

[22] A firm is active if it meets at least one of the following criteria in a year: LEED RME greater than zero; GST sales or purchases greater than zero; IR10 total income, total expenditure or total fixed assets greater than zero.

[23] Thus if a firm receives ETP in year T then the RME growth ratio is (R(T +2) + R(T+1) – R(T-1) –R(T-2))/ (R(T +2) + R(T+1) + R(T-1) + R(T-2)).

Table 34: Change in employment following ETP assistance

RME growth ratio	Number of firms	Share of firms
-1 to -0.8	4,614	7%
-0.8 to -0.6	891	1%
-0.6 to -0.4	2,136	3%
-0.4 to -0.2	6,639	11%
-0.2 to 0.2	22,689	36%
0.2 to 0.4	6,321	10%
0.4 to 0.6	3,108	5%
0.6 to 0.8	1,866	3%
0.8 to 1	13,977	22%
	62,241	**100%**

All numbers have been randomly rounded to base 3. All data are pooled between 2001 and 2008.

Changes in labour productivity: The labour productivity growth rate is shown in the table below. This is defined in the same way as the RME growth ratio. We lose many observations because we require that a firm has sales, purchases and non zero employment data.

Many firms (60%) experience no change in labour productivity following ETP assistance. Where a change is present, there is a tendency for productivity to be higher rather than lower following ETP assistance (26% of firms compared to 13% showing a reduction).

Table 35: Change in labour productivity following ETP assistance

Labour productivity growth ratio	Number of firms	Share of firms
-1 to -0.8	198	1%
-0.8 to -0.6	300	1%
-0.6 to -0.4	867	3%
-0.4 to -0.2	1,971	8%
-0.2 to 0.2	15,111	60%
0.2 to 0.4	3,909	15%
0.4 to 0.6	1,557	6%
0.6 to 0.8	1,017	4%
0.8 to 1	312	1%
	25245	100%

All numbers have been randomly rounded to base 3. All data are pooled between 2001 and 2008.

The table below provides more detail into the change in labour productivity. The data show that a higher share of firms that reduced their employment following ETP assistance had higher rather than lower labour productivity growth, implying that their value-added remained constant or increased. (The shaded cells show the expected productivity growth category if value-added remained constant for each RME growth ratio category).

Table 36: Change in labour productivity and employment following ETP assistance

	RME growth ratio				
Productivity growth ratio	**-1 to -0.5**	**-0.5 to -0.2**	**-0.2 to 0.2**	**0.2 to 0.5**	**0.5 to 1**
-1 to -0.5	30	129	537	102	63
-0.5 to -0.2	18	159	1,578	612	111
-0.2 to 0.2	69	828	11,565	2,328	312
0.2 to 0.5	36	621	3,354	825	81
0.5 to 1	129	276	1,011	414	48

All numbers have been randomly rounded to base 3. All data are pooled between 2001 and 2008.

5.2.7 Options for Changes to ETP

In summary, triangulating feedback from various sources who are close to SMEs suggests that part of the underlying programme rationale has been achieved – there is now an improved appreciation of the benefits of training. SMEs seem to know where to go for training and they can access it in most, but not all, parts of the country. At the same time, ETP has not been able to stimulate the private sector to provide the courses, i.e. there is no noticeable crowding-in effect. Indeed, some training providers have told us that they avoid this part of the market as they see it occupied by ETP.

Under the current arrangements for ETP SMEs cannot choose the provider and have limited choice over the content of a course. When ETP was originally implemented this system might have made sense, given the information issues that existed then. But SMEs are now in a better position to decide themselves which courses to attend and what resources to invest in training. Increased appreciation of the benefits of training also means that private benefits, i.e. those that accrue directly to the firm, should be paid for by the firm. Although making firms pay for the private benefits they receive may be feasible under the current set-up, for example by introducing an element course fees, more substantial changes have to be introduced if basic SME training is to reflect progress and changes and offer clients greater choice.

Lack of time and money and an inability to differentiate a priori good from bad training courses may suggest that there continues to be a role for government support. This role could involve subsidising the demand side by giving firms entitlements for training. That would take account of the still present issues on the demand side, such as lack of money and time, and open up competition on the supply side, as other providers could offer their own courses and compete with ETP providers.

Option A No change

Option B Vouchers

Voucher schemes are one of the most obvious ways of empowering SMEs and supporting the demand side. They could also take into account private benefits enjoyed by the firm by covering less than the full cost of the training course.

But such a scheme would require more than simply sending every SME a voucher through the post. A voucher scheme would include administrative costs. Accreditation of training providers would be a crucial part of such a scheme. There may also be a case for continuing with a capability assessment process to ensure firms receive the training they need the most. This could be handled by the current ETP providers given their expertise. It would also ensure that they continue to receive some government funding.

This option would represent fundamental change at a time of economic uncertainty. On the other hand, it may lead to some savings (although that is not certain) and empower SMEs to make choices. It should also lead to more competition between training course providers driving better quality courses.

Option C Introduction of fees

The current way of subsidising the supply side continues, but the amount of the government subsidy is scaled back and replaced by some yet-to-be-determined charge that SMEs pay when enrolling on an ETP course. Fees could be used as an obvious way of ensuring that taxpayers do not fund the private benefits of firms, assuming firms are aware of them. However, collecting fees would require extra administrative effort, which would diminish any expenditure savings.

Nevertheless, the introduction of course fees could produce some savings for government and might reduce waiting lists which exist for some courses. It may also lead to 'less serious' clients not participating in training and in all likelihood have a negative impact on demand, although feedback from training providers was not unanimous on this. It might be seen as a move towards more targeted training, rather than training for everyone.

Option D Stop funding for basic SME training

Although radical, this option reflects the lack of hard evidence supporting the notion that wide scale training has a positive economic impact. Amongst researchers there appears to be an increasingly critical assessment of the benefits of SME assistance programmes, including training programmes (Gul et al, 2008; Storey 2004). Also, some very successful countries such as Denmark do not have any training programmes comparable with ETP, while others, e.g. Germany, make greater use of modern technology by providing basic information in electronic form. On the other hand, we have tentative evidence, which is not statistically robust, indicating that ETP might have had a positive impact on some firms over and above what would have occurred.

Discontinuation of ETP may lead to private providers filling the gap, but that is not guaranteed and lack of money or preparedness to pay on the part of SMEs could render this unrealistic. Moreover, the current economic climate makes such a decision all the more delicate, but a lot depends on how the freed up funding is used. There is feedback based evidence that one-on-one assistance and bespoke training are increasingly being demanded, suggesting that the money might be better invested in those support services. Indeed, some countries, e.g. Ireland, Israel and Germany, seem to place more emphasis on subsidising one-on-one advisory services.

5.2.7.1 Impacts on Providers

Some of the options for change presented above, if turned into recommendations, would have an impact on current providers (see table below). When asked about the importance of being an Output Class 1 service provider, a number pointed out that the government subsidy helped them connect with businesses and provide them with information (biz) and other services they appreciated (eg ETP, mentoring). A number also stressed the financial side, where ETP offered a safe income, allowing them to focus competitive efforts elsewhere (private providers). Most providers based in or near urban centres stated that the government subsidy (ETP) accounted for between less than 5 and 25 percent of their business. In rural areas ETP can be a much more significant part of a business, in some cases between 50-75 percent, and in at least one instance 100 percent.

It is likely that any significant reduction in the subsidy will have an impact on providers, particularly in remote parts of the country, which may trigger a reaction. This would have to be taken into account when analysing the implications of the recommendations and be weighed up in terms of benefits for SMEs and value for money considerations.

Table 37: Type of organisation providing Biz and ETP services

	Chamber	EDA	PTE	**Total**
Biz	14	2		**16**
ETP*		9	15	**24**
both ETP and biz	5	12		**17**
Total	**19**	**23**	**15**	**57**

PTE=private training enterprise

* Note that there are more than 15 ETP providers as the 15 contracted providers subcontract to other organisations so that a total of 41 providers are involved in ETP.

5.2.7.2 General Issues

An issue raised frequently by interviewees working with SMEs is that there is some confusion about the various forms of government funded SME support. One interviewee in particular criticised the perceived lack of joined up government, claiming that support programmes funded by other Ministries tend to not refer people to NZTE/MED funded programmes.

5.2.8 Recommendations

We recommend a voucher scheme, which would empower SMEs to exercise greater choice and introduce more competition on the supply side. It would also take account of a frequently cited obstacle to SME training, namely money. There are examples from around the world where voucher schemes are in operation. For example, many EU countries operate innovation voucher schemes and some countries have voucher schemes for SME and entrepreneurship training and advisory services.

A voucher scheme consists of more than simply sending SMEs vouchers. Safeguards against abuse of the system need to be in place, which will involve some administration. There may be a need for some form of certification of providers in order to ensure that training providers offer a service that is of sufficient quality and to prevent inappropriate use of the vouchers. The capability assessment of ETP is currently seen as a crucial ingredient as SMEs do not always ‘know what is good for them’ in the sense that they might not choose the most relevant training courses. It might be sensible to include such a component in a voucher scheme. We would expect NZTE to be in a position to make use of their expertise and networks to certify providers and to contract capability assessment centres.

These administrative requirements will come at a cost. Exploiting existing expertise and synergies with other programmes could reduce those costs. The costs of a voucher scheme will depend on the face value of the vouchers, the services to be covered and the number of firms eligible for a voucher. A proper cost-benefit analysis comparing a number of alternative options for a voucher scheme, e.g. criteria and administrative requirements, should be carried out in collaboration between MED and NZTE. We would estimate that such an exercise be completed in less than three months and definitely before Christmas.

Thus, it is recommended to:

- Change the structure and funding of ETP and replace it with a voucher-based scheme as of July 2010.

- Develop a cost-benefit analysis of a voucher scheme that investigates alternative options regarding scope, value of vouchers, certification and eligibility criteria. MED and NZTE should collaborate on this cost-benefit analysis.

- Develop ongoing monitoring indicators to track SME take up, private sector provision (i.e. level of competition and quality of courses) and feedback from clients.

- Evaluate the new scheme two to three years after implementation. This evaluation should have a special emphasis on the capability assessment component of the scheme.

5.3 Sub-Output Class 1.1: The Escalator Programme

5.3.1 Background

The Escalator Programme comprises Escalator (investment-ready) training and a brokering service. The main aims of the service are to prepare businesses for raising capital and to actively help the most promising ones obtain capital. The programme was established in 2003. It is delivered by EDANZ and Deloitte, who themselves hire sub-contractors.

The Investment Ready Training component of the Escalator service is mostly delivered by the Escalator manager and consists of four different half-day courses, three of which are free and open to anyone who is seriously considering raising money. The three courses are: ‘Essential Guide to Raising Capital’, ‘Power Pitching’, and ‘Strategic Partnerships Workshops’. In addition, there is a further course for Angel Investors. However, according to NZTE no Escalator funding money is spent on this course and it is entirely funded through the $173.33 (excl. GST) fee paid by participants.

Due to their more advanced nature, NZTE see Escalator courses as complementing the more basic ETP Investment Ready Training modules. However, prior attendance at an ETP course is not a prerequisite. A pre-course evaluation ensures that only those firms that are ready to benefit from the advanced course receive a place, whilst those that are not yet ready are referred to ETP.

In order to access the brokering service, firms pass through different stages - from an initial assessment and education through to deal brokering. This process acts as a filter as firms that are not yet ready may exit the programme at each stage of the process, ensuring that only those that are really investment ready, and thus stand a real chance of raising the finance, proceed to the deal brokering service. Whilst the

Escalator team does the initial assessment, brokers take over at the needs assessment stage. They receive $2000 for the needs assessment and up to $20,000 for brokering services. In addition, they may negotiate a success fee which is generally a percentage of the capital raised, e.g. 4-6%.

Step 1: Initial Assessment

Step 2: Needs Assessment

Step 3: Escalator Deal Preparation Funding Panel

Step 3B: Signing a Mandate and Deal Preparation Services

Step 4: Deal Broking Services

5.3.1.1 Programme funding

In total, approximately $2.1 m (excl. GST) is spent on Escalator each year. The money is split between the various programme components as follows:

- Web/help desk/some salary costs $305 K
- Investment ready high level training $ 171K
- Deal brokering $ 1.6 m

(incl. stages1 – 4 and some o/h/salary costs)

- EDA capability building $ 0.4 K
- Total c.$ 2.12 m

Approximately $1 m, or nearly half of the funding, is spent on the final deal brokering stage (stage 4).

5.3.1.2 Rationale and Intervention Logic

The 2006 review identified the case for government intervention as resulting from an information failure. SMEs do not know where to go for finance or how to prepare a business case that allows potential investors to assess the commercial potential and riskiness. As a result, investors are not able to identify investment opportunities and SMEs may not get the funding they need to expand their businesses.

High transaction costs are said to be a further reason requiring government intervention. Both SMEs and investors may find it too costly and resource intensive to prepare essential information needed when deciding whether to make an Investment. SMEs may be faced with high search costs when trying to identify potential investors, not least due to a lack of knowledge about raising capital and investment-readiness. Likewise, investors' costs associated with seeking out investment opportunities may also be too high. The consequence is that some deals, i.e. profitable investment opportunities, may not materialise that otherwise would if investors had the right information at their disposal.

It is believed that brokers can help reduce these search and transaction costs by matching firms with investors and by ensuring that firms can provide the information investors require. When the Escalator programme began, there were not many brokers regularly engaged in this type of work. It was felt that further professionalization was needed to increase the number of equity brokers and to improve the advice and assistance available to SMEs.

It was agreed that over time brokers should gain in experience and SMEs and investors would learn how to value their service. This would lead to a greater role for private brokering services in the market, so that government would be able to scale back its involvement (crowding-in effect).

5.3.1.3 Objectives

The overall policy objective is ‘to assist business growth by providing innovative firms and entrepreneurs who need capital to expand their business or to commercialise a new concept, with information, skills and assistance to pursue investment opportunities’. The ultimate aim is to stimulate the productivity and competitiveness of our businesses and through that the productivity and economic growth of our economy.

The escalator programme has two intended outcomes: to improve awareness of what it means to be investment ready and to raise capital for those firms that are the most investment ready.

However, there are also other government support programmes in this area and when Escalator was set up, there was a perceived need for more equity brokers in the market. A specific objective therefore was to increase the pool of equity brokers across all regions in New Zealand.

As the main problem is about a lack of awareness or information, it was felt that the need for government support would be limited in time. Once the information issue is dealt with, the private sector should be able to take over from government. Thus, a further objective is for government to stimulate the private sector and to phase out government support at the appropriate time.

5.3.1.4 Escalator was last evaluated in 2006.

The last Escalator Programme evaluation took place in 2006. Its conclusions were output based and largely positive, pointing out that the programme had a positive impact on ‘developing the market for SME finance’. The training component was improving participants’ investment readiness and the brokering service had raised more money than in the previous year. Average monthly applications had increased from 29/month in 2003/04 to 36/month at the time of the evaluation. The evaluation recommended that the Escalator Programme should carry on for another three years and be evaluated again by June 2009, suggesting that by then a more thorough analysis of its impact should be feasible.

Although the 2006 evaluation found that SMEs’ understanding of funding options had already improved, it argued that there remained a gap in the market which was making private sector provision of the service unlikely. It recommended that future evaluations should re-examine whether the gap had closed and hence assess the feasibility of reducing the government assistance.

Furthermore, the establishment of an angel investor network was seen as an important development. Better networking between angel investors would pool resources, increase efficiency, spread expertise and best practice, and produce more syndicated investments. It was hoped that these things would have a positive impact on the amount of angel investment and/or the number of firms receiving capital. The 2006 evaluation stressed that a 'more highly visible business angel network in New Zealand should enable investors and SMEs to meet, thereby enhancing direct engagement between investors and SMEs.'

The evaluation proposed the use of more stringent selection criteria for entry into the brokering stages to ensure that brokers would not have to provide generic investment readiness advice.

It also proposed increased marketing of the Escalator service, with a view to stimulating greater participation from smaller regions, and to increase the number of contracted brokers so that a wider representation from the market (and sectoral and regional spread) could be ensured and to spread expertise more widely across the country. The evaluation also recommended that NZTE continue to monitor the performance of brokers through monitoring processes to be carried out by the contractors, EDANZ and Deloitte.

In order to improve the quality of Investment Ready Training in general, it recommended better alignment with the less advanced ETP Investment Ready Training course.

5.3.2 Analysis and Findings

Sources of Information

This evaluation has used these recommendations as a point of departure. As the bulk of the funding goes to the brokering service, we have in particular sought to assess its effectiveness and efficiency.

In order to gather the information and evidence underpinning our analysis and findings, we spoke with seven angel investors and seven brokers. All of the brokers had experience with Escalator but some of them had already or were in the process of terminating their involvement with the service. However, they informed us that they would continue to work as brokers, albeit on a private basis. We also had meetings with the Escalator management, who provided very timely and useful information, and relevant sources in NZTE. Moreover, we were able to draw on the latest Escalator Client Survey of April 2009.

5.3.3 Escalator Training

5.3.3.1 Relationship with ETP and course content

According to the manager of the Escalator service, who also provides most of the training himself, a conscious effort is made to ensure that the Escalator Investment

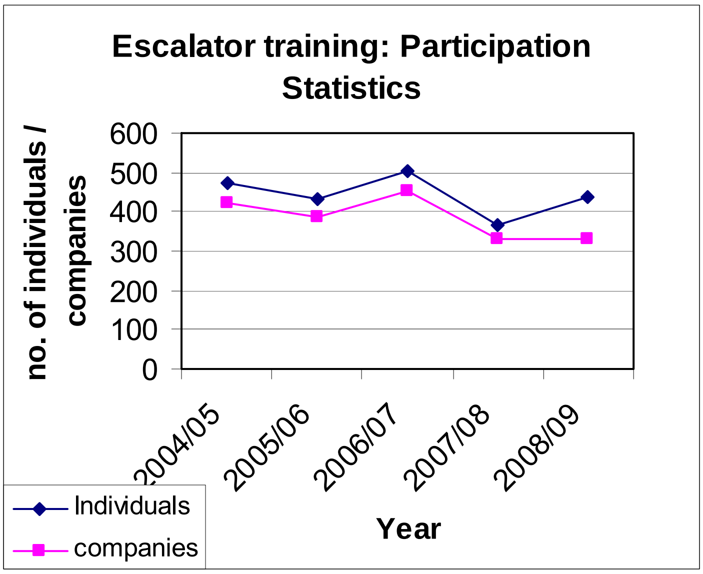
Ready Training courses and the Investment Ready Training modules within ETP complement one another. This is done by aligning the course content so that ETP offers basic Investment Ready Training, while Escalator caters for entrepreneurs who are looking for a more advanced, or ‘high impact’, course.

Judging by the two courses’ syllabuses and length, it appears that the Escalator Investment Ready Training component is indeed more detailed. ETP comprises seven modules, including ‘understanding the capital raising process’, ‘what investors look for’, ‘finding an investor’ and ‘doing the deal’. These modules are taught over two half-day workshops. The Escalator Training programme consists of three courses: ‘Essential Guide to Raising Capital’, ‘Strategic Partnerships Workshops’ and ‘Power Pitching’, each of which is a half-day course. (There is also a fourth course called ‘The Power of Angel Investing’, which is a full day course. However, it is for angel investors, who pay a fee of $173.33, and not subsidised by government.)

While participation on an ETP course is not a prerequisite for admission, pre-course interviews provide a filter to ensure that those at a more advanced stage enter the Escalator course, while others are referred to ETP.

The annual target for the Escalator Training courses agreed with NZTE is 20 courses and 150-200 participants. It appears that Escalator training numbers are fairly constant these targets are frequently exceeded. The highest number of participants was achieved in 2006-07, when 28 training workshops with more than 500 participants took place. The following year 365 clients participated in workshops, but last year the figure went up again to 439 clients (Figure 8). Although Escalator easily exceeds the KPI targets on a regular basis, it is curious that this has not led to any changes to those targets. Of course, Escalator should not be penalised for doing a good job, but it is not transparent how these targets are set or how and when they are adjusted. Thus, it is not clear what incentive they give to the provider. Note that this is not a criticism of the quality Escalator training component.

Figure 8: Escalator training Participation Statistics



5.3.3.2 Client satisfaction

Satisfaction with the workshops remains very high. In line with findings at the time of the last evaluation and feedback received during this evaluation, the latest annual Escalator Survey of April 2009 also confirms this view. Out of a sample of 50 respondents who participated in a workshop during 2008/09, 43 (86%) were either satisfied or very satisfied with the course, with a further six stating that the training was average (Table 38). Only one participant (2%) was not satisfied.

Table 38: Escalator training client satisfaction

	Number of Clients	Percentage
Not satisfied	1	2%
Average	6	12%
Satisfied	20	40%
Very Satisfied	23	46%

(Escalator Client Survey, April 2009)

5.3.3.3 Willingness to pay

When asked whether course participants would have paid for the course, respondents were almost evenly divided between those willing to pay a contribution and those not willing to do so. Forty-seven percent said no, while 53 percent answered in the affirmative. Of those expressing a willingness to pay, a number stated that the proposed registration fee of $100 -150 per course was too high and that they would be more comfortable with a fee of $50-75. The majority of respondents acknowledged the value of the course but cited financial constraints and a prior lack of awareness of its usefulness as reasons for why they would not have paid for it.

However, the survey did not ask clients how much in money terms they valued the course. Instead, the survey asked whether clients would be prepared to pay $100-150 and told that such a fee may need to be charged after June 2009. This wording and the threat of the introduction of fees may have affected clients' responses. It is also not clear how representative and statistically robust the survey was.

There may be different reasons for not wanting to pay for the training. It could be that clients do not value the courses sufficiently, given their opportunity cost of investing $100-150 (i.e. the next best use to which they could put the money), or because they genuinely cannot afford to pay the fee. The former is not a reflection of poor quality of the courses but might simply show that the money could be put to better use and produce higher 'returns' elsewhere. The latter reason is where the case for government support is strongest, especially when assuming that the training produces (wider) benefits that otherwise would be foregone.

5.3.4 Brokering Service

5.3.4.1 Expanding the number of brokers

In line with the recommendations of the last evaluation, the number of Escalator brokers has expanded from a previous four to circa 20. In 2004-05 the four original brokers were allocated the following percentages of all cases[24]:

2004-05 (planned allocation)

Deloitte	33.5%
I Grow	33.5%
Ignition	13.0%
Realize	20.0%

The overall target for preparing deals in 2007-08 was a total of 62. Based on this overall target, the percentage target for the individual brokers was as follows:

2007-08 (planned allocation)

Deloitte	33%
I Grow	26%
Ignition	8%

[24] The figures used in this section come from various sources, mainly the 2006 evaluation and data supplied by the Escalator team during this evaluation.

Realize	18%
Other accredited	15%

This suggests that 85 percent of deal preparations were supposed to be handled by the four incumbent brokers, with 15 percent of the deals, 9 cases, going to new brokers. In reality, 66 deals were started in 2007-08 and a slightly higher proportion of 17 percent, or 11 cases, went to new brokers:

2007-08 (actual)

Deloitte	30%
I Grow	32%
Ignition	6%
Realize	15%
Other accredited	17%

Twenty-one cases were completed in 2007-08, of which 19 succeeded in raising a total amount of equity of $14.5 m. (A further two were non-equity deals.) New brokers handled two of those 19 cases, raising $1.3m and $1 m respectively.

Latest figures for 2008-09 show that the four original brokers handle 64 percent of deal preparation cases in progress this year, leaving 36 percent to other accredited brokers (i.e. new brokers). Moreover, preliminary figures of deals completed this year show that new brokers account for about half of them. This shows that although their allocated share was initially low, it has subsequently increased and continuous to do so. .

To our knowledge, the recommendation of the last evaluation did not propose a target. But it is clear that allocating nine cases to new brokers might be viewed as too low, particularly as the four incumbent brokers were given an allocated target of 53 between them. Arguably, the Escalator team had to ensure that the introduction of new brokers would not lead to a dilution of the quality of the service, which might have affected the initially low share given to new brokers. On the other hand, all Escalator brokers are accredited in order to ensure that all brokers meet a certain level of quality.

One should also be aware that clients can self-select brokers and that this is a very common way of matching clients with brokers. The target allocation is therefore a planning tool rather than a set-in-stone prediction of who will handle how many clients. Thus, while the expansion of the number of brokers may have looked somewhat hesitant at first, it is now progressing and new brokers are handling more cases, as recommended by the last evaluation in 2006.

5.3.4.2 Capital raised[25]

After a couple of years when the amount of capital Escalator managed to raise increased quite substantially, there was a marked decline in 2006-07 (Table 39). Since then there has again been some growth in the total annual amounts raised, but they are still below those achieved in 2004-05 and 20005-06. When looking at the number of firms that have received capital the picture is roughly the same. However, it is noticeable that the considerable decline in capital raised between ’05-06 and ’06-07 did not lead to fewer firms getting capital but was due to a decline in the average deal size. The period also coincided with some changes to the programme, not least as a result of the last evaluation, which meant that activity levels were subdued for some time during that year. Although final figures for ’08-09 were not available at the time of writing this report, it seems that fewer firms are going to receive assistance this year. Given the economic recession this is probably not a huge surprise but it is noteworthy that deal sizes have increased again as more capital has been raised than in the previous financial year.

Table 39: Escalator capital raised

Year	Capital raised	No of deals Completed (based on number of companies assisted)	Capital raised target
2003-04	$ 0	0	$ 15 m
2004-05	$ 18.8 m	27	$ 25 m
2005-06	$ 23.4 m	36	$ 20 m
2006-07	$ 11.4 m	36	$ 20 m
2007-08	$ 14.5 m	27	$ 20 m
2008-09 (YTD)	$ 7.3 m	15	$ 20 m

(Source: Escalator, 2009)

However, Escalator has failed to achieve its capital raising target in most years since its inception. For some years, valid reasons exist. The target of $15 m in its first year failed to take into account the long lead times of between 12 – 18 months for raising capital. The increase in the target to $25 m in 2004-05 was probably too ambitious. When the target was reduced to $20 m it was exceeded in 2005-06. However, since

[25] The figures stated in this table do not include firms that have exited the programme prior to the final deal brokering stage and subsequently managed to raise capital. Including these so-called non-mandated clients would substantially change the capital raising figure for 2007-08 from $ 14.5 m to $ 23.6 m and add an extra $ 3.7 m to that of 2006-07. While it might be argued that these firms may have enjoyed some Escalator support in the form of, for example, the Needs Assessment, we consider it to be more accurate to only include firms that have progressed through the whole programme, particularly as the final deal brokering stage accounts for approximately 50 percent of the Escalator programme costs.

then there has been a marked decline in the annual amount of capital raised, so that Escalator continued to not achieve the target. This decline in the amount of equity raised has been particularly pronounced in the year July ’08 to June ’09 when only half as much equity was raised than in the previous year

Escalator funding has not changed since the programme’s implementation in 2003-04. Referring to the figures stated above, the ratio of capital raised per $ of programme funding is shown in the following table (Table 40). The ratios, of course, display the same ups and downs as for total annual capital raised. Unfortunately, it is difficult to find a programme with similar objectives against which Escalator could be compared. The Seed Co-Investment Fund works through a government commitment to match a partner investor’s funds for high growth start up companies on a 1 to 1 basis. As such, comparing the two programmes capital raising ratio for every $ of taxpayer’s money invested would be misleading.

Table 40: Escalator capital raising ratio by year

Year	Capital raising ratio (amount raised/$2.1m)
2003/04	0
2004-05	9.0
2005-06	11.1
2006-07	5.4
2007-08	6.9
2008-09 (YTD)	3.4

5.3.4.3 Qualitative aspects of brokering service

A purely quantitative analysis of the brokering service based on the amount of capital raised does not suffice, particularly as its aims are wider than simply raising capital. A strong element for supporting it with taxpayer’s money consists of building and spreading equity brokering expertise in New Zealand. This was also the predominant reason for opening it up to include more brokers. But there has never been a clearly defined overall target for the number of brokers needed to attain critical mass and there are no reliable figures for the number of business advisers for whom equity brokering forms at least some part of their job.

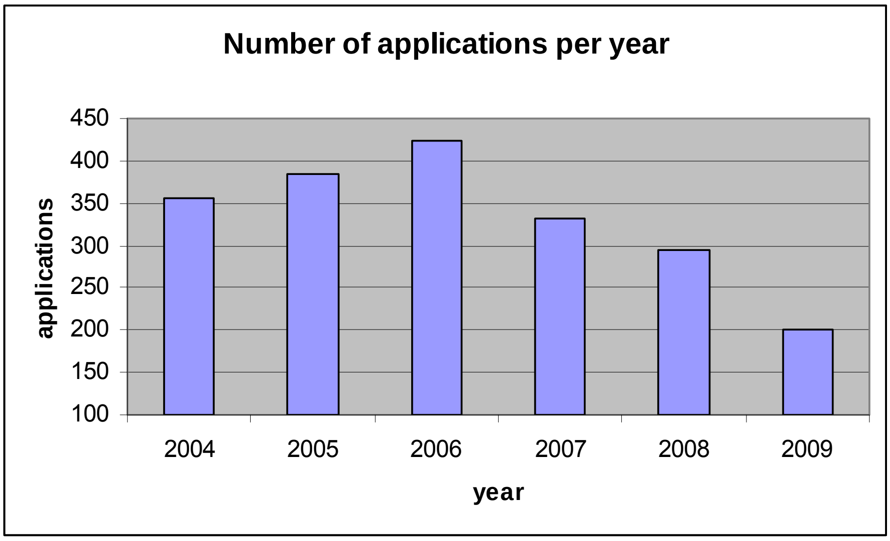
Escalator and other brokers raised a number of issues. The first concerns a decrease in the number of applications. Second, there is a perceived increase in bureaucracy of the Escalator programme. This view is held especially by some of the longest serving Escalator brokers. In addition, there are also concerns that the increase in the number of brokers has had a negative impact on the quality of the service.

The expansion of the number of Escalator brokers was accompanied by the introduction of a general manager and a more rigorous quality and performance management system. Moreover, the current position analysis was abandoned. The CPA cost $215,000 per annum and took place between the initial assessment and the needs assessment stage. It essentially consisted of a further assessment stage which was carried out by the broker who then decided whether to recommend the company for the business needs stage or to refer it to a training course. It appears that the CPA was also used for meeting with potential clients, sometimes on their premises, and for canvassing clients. Some of the longstanding original brokers argue that the CPA was useful and that its disappearance has contributed to a decline in applications.

On the other hand, the deal preparation funding panel did not exist prior to 2006 and was added not least to ensure a continuing level of quality given the involvement of new brokers. Some of the original brokers have expressed the view that the panel was too burdensome, not needed and that it does not ensure quality.

There has indeed been a decline in the number of applications to the Escalator programme (Figure 9). Applications rose between 2004 and 2006, when a record 423 applications were received. Since then applications have gone down substantially to an estimated 200 this year.

Figure 9: Number of Escalator applications per year



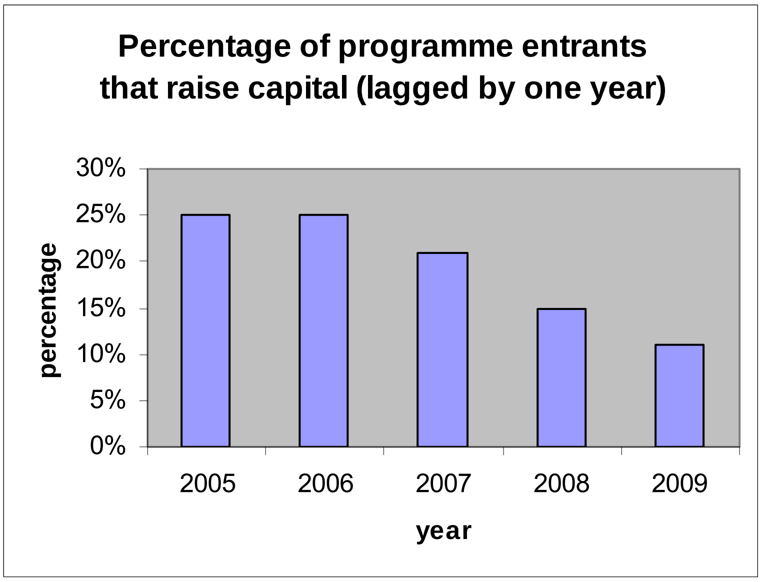
(Source: Escalator data)

However, the last evaluation recommended a better targeted approach towards those companies that are more investment ready and therefore more likely to raise capital. A decline in applications when stricter admission criteria are applied would not be out of line with this recommendation.

A more rigorous selection process should increase the proportion of completed deals of programme entrants (ceteris paribus). The percentage of total applications that result in needs assessments has increased from less than 40 percent in 2005 to more than 50 percent in 2007 and 2008, and again to around 70% this year. This seems to suggest that a higher proportion of applicants are sufficiently prepared to enter the programme's first stage.

But when taking the number of successful needs assessments carried out as the number of programme entrants, and allowing for a one year lag to reflect the lead times of 12-18 months from entry through to possible deal completion, the percentage of programme entrants that successfully manage to raise capital has declined (Figure 10). Whilst there are a number of factors that may have contributed to this decline, for example the worsening economic climate since 2007, it is of concern that the number of successful deal completion as a percentage of programme entrants has declined. If the drop in applications was linked to more stringent admission criteria, one would expect the percentage to increase over time and not to decrease.

Figure 10: Percentage of Escalator programme entrants that raise capital



(Calculations based on Escalator data from various sources)

While there may be external reasons contributing to the fall in the ratio that are outside the control of Escalator, concerns regarding the quality of some of the brokers have been raised. A decline in the quality of the brokering service could be an explanation for the drop in completed deals.

Some of the longer serving brokers expressed the feeling that Escalator was not attracting sufficiently high calibre brokers. Financial rewards and bureaucracy were possible reasons making the programme less attractive to more renowned consultancy and accounting firms.

Discussions with a number of angel investors revealed that they view one-third of brokers as good, another third as 'okay' and a further third as providing a poor service. Poor performance of a broker could be due to excessive interference during client and investor meetings, overselling and generally poor matching of clients with investors. An example of the latter was when a broker simply approaches an angel group without having done any background research into their area of expertise. An important aspect for angel investors is to get a feel for the clients, their ambitions and capability to move the business to the 'next stage'. A broker speaking on behalf of a client often does not allow an investor to form such a view. Some angel investors unambiguously stated that a poorly performing broker could be downright detrimental to a successful deal. Angel investors were further of the view that the involvement of a broker in the majority of cases does not reduce their workload (i.e. their transaction costs).

Although our sample of angel investors was restricted to those who belong to an angel investor group and may not have been representative, the fact that they have been expressed by investors that are targeted by Escalator means they ought to be taken seriously[26].

Interestingly, the latest Escalator client survey (April 2009) draws a very similar picture to that expressed by investors. Twenty-seven percent of respondents said they would not recommend their broker to other business owners, while 29 percent rated their broker's service during the capital raising stage as poor. (Note that 57 percent rated their brokers as good or excellent and 14 percent as adequate). When asked whether clients would have been willing to pay 50 percent towards the costs of the brokering service, 34 percent replied 'yes' and 66 percent said 'no'. It is worth recalling that approximately half of respondents said that they would consider paying for the Escalator training courses.

Some comments provided in the survey of Escalator clients underlined the financial constraints that new SMEs face, emphasising that they would not have been able to afford to pay a contribution. However, roughly a third of comments clearly indicated that they did not think the broker provided sufficient added-value to justify paying a contribution. Some argued for a success only fee.

This fairly consistent picture painted by various sources suggests that there are quality concerns about a significant proportion of Escalator brokers. Whilst the decline in applications per se need not be a reason for concern, it is likely that some of the decline in the number of successful deals, both in absolute as well as relative terms, may be related to the quality of some of the brokers.

Quality, however, is related to experience. It is important to recognise that expanding the number of brokers was primarily done in order to establish a greater pool of business advisers with equity brokering experience. That the introduction of new brokers may initially have a negative impact on the average quality of the brokering service might not be a complete surprise.

5.3.4.4 Going forward

There appears to be some recognition that the brokering service needs to change in order to remain viable amongst both stakeholders and the Escalator management team. It has been suggested that the brokering service should be expanded to assist firms after they have raised capital and/or be strongly aligned with angel networks, meaning that Escalator would 'certify' firms for angel investors. It important to bear in mind that the Escalator programme, and the brokering service in particular, was set up with the specific aim of establishing a pool of equity brokers that over time would become economically viable without the need for government subsidies[27]. It is not clear what in either case the rationale would be for further government involvement.

[26] The Escalator service is advertised on the Angel Association website and the Escalator general manager sits on the council of the Angel Association.

[27] See: Review of Escalator Programme, 2006

Not only could such a further assistance role interfere with the assistance often provided by angel investors, but it is also not clear at all what expertise brokers have that would qualify them further to assist firms once they have raised capital. Several brokers admitted this to us in the interviews and even stated that they do not desire such a role.

Moreover, if further ex-post assistance is required from brokers, it raises questions regarding the investment readiness of firms. Our understanding of the brokering service is that it ensures firms are ready to absorb the capital they are offered by, for example, making sure they have a business plan.

Lastly, it is in the nature of a market economy that not all businesses succeed. The risks associated with potential failures should be borne by those best placed to deal with them, which is generally the business itself and its creditors, e.g. angel investors, but not government. By offering government subsidised ex post assistance undue expectations may be raised that government cannot and should not meet.

The proposal for 'certification' of firms for angel investors is linked to the development towards more angel networks and the Angel Association. This is a very welcome development as it allows for pooling of resources, greater economies of scale, the exchange of knowledge and information and may lower transaction costs. However, not all angel investors are members of networks, nor might all of them become members, and feedback received from angel investors who belong to a network on the usefulness and the quality of the brokering service was rather mixed (see above).

There is also a question about the role of government if Escalator takes on a service role for angel networks. This would represent a significant change to its current role and require a different rationale to that upon which the programme currently rests, which is to temporarily subsidise the establishment of a pool of brokers. Indeed, if such a service is valuable, perhaps because it reduces investor transaction costs, then it is not at all clear why it should be funded by the taxpayer. And if it is not viable without government financial support, it is equally unclear what the failure is that might justify government intervention, particularly given the feedback from investors suggesting that most brokers generally do not reduce their transaction costs.

5.3.5 Conclusion

The evaluation in 2006 suggested that 'within five years, strategic government intervention should be able to significantly reduce th(e) market failure problem, and consequently allow government to withdraw from offering a training and brokering service'. It went on to say that the ability to withdraw was contingent upon several factors such as the development of business angel networks, improvements in investment readiness, the gradual phasing out of subsidies and by perhaps integrating Investment Ready Training in other NZTE business training programmes, i.e. ETP.

Although we do not have an accurate measure of the impact, or net benefit, that the Escalator training provides, course feedback is very positive, as shown above. Based on the syllabus, participation numbers and the focus of the different courses, it appears that this part of Escalator meets the needs of its targeted group. Suggestions to terminate Investment Ready Training may not accurately reflect the fact that its target group are a flow rather than a stock. While existing SMEs may have an understanding of the value of the training course based on previous experience or feedback, new SMEs looking to expand their business are likely to lack this information. This suggests that there may be a continuing need for the course. Feedback received during this evaluation strongly indicates that SMEs nowadays, including newly formed SMEs, are in a much better position to access training courses and to value them. At the same time, it has also been brought to our attention that the sheer number of different help and assistance programmes that are available for SMEs can be confusing.

Given this feedback, and recognising the positive views that exist regarding the Escalator investment-ready training courses, suggests that there is a case for incorporating the Escalator training component into a revamped government supported business training programme based on vouchers or fees. A consolidated training programme would reduce ‘product clutter’ and confusion about what is available. Secondly, increased recognition amongst SMEs of the benefits of training, including investment-readiness training, shows that the market failure has improved and the need for the taxpayer to fully subsidise these activities has diminished. It should be noted that this is a reflection of the success of the existing policy, as well as its implementation and delivery. If firms pay a contribution towards the costs of the investment ready courses, it is also likely to provide a better signal of their quality and usefulness.

The Escalator brokering service has managed to raise capital for a number of firms since 2004. After initially strong growth, there are concerns about a decline in the number of successful deals completed and capital raised. This is clearly expressed in the worrying drop of the success rate as a percentage of programme entrants. While some of this may be due to the worsening economic climate since 2007-2008, there are also concerns that it could be due to a significant proportion of brokers (i.e. about one-third) not delivering an adequate service. Suggestions for government funded activities enabling brokers to go beyond their current role do not appear to be based on sound identification of market failures or other justifications for government intervention.

One of the main aims of the brokering service was to spread expertise so that there would be more brokers in the market. The increase in the number of Escalator brokers has further broadened this expertise. The departure of some of the original brokers and discussions with brokers more widely revealed that there is ongoing commercial brokering activity, but it is difficult to gauge whether that activity is additional to, i.e. complementary, or competes with Escalator. Lastly, the number of angel groups has increased. The formation of ‘groups of groups’, such as the Angel Association, are a welcoming development.

The original idea of phasing out government support for equity brokers continuous to be right. The current economic crisis affecting the world and New Zealand means that a quick withdrawal of government subsidies could risk stoking fears about access to finance. However, there are no obvious reasons for the taxpayer to subsidise Escalator brokering in the medium to long term. Therefore, plans should be drawn up for phasing out the Escalator brokering subsidy over a period of two to three years. The resources this would release could contribute to a revamped SME support programme with more emphasis on one-to-one support, including investment readiness advice.

5.3.6 Recommendations

It is recommended:

- To continue with the investment-ready training component by integrating it into a revamped business training programme

- To phase out the subsidy for the brokering activity over a two-year period starting in July 2010. This would also coincide with the voucher-based ETP successor programme, which should include the Escalator investment-ready training component. The brokering part of the Escalator, and probably Escalator in its current form would be closed by July 2012.

    - During this period and for a period of two years after the subsidy has stopped some monitoring arrangements should be put in place to check the impact it has on firms seeking finance and commercial brokering activity. This could be done be tracking firms that participate in advanced Investment Ready Training courses and by regular surveys of angel investors, known Escalator brokers and other players in this area, e.g, accounting and consultancy firms.

    - This monitoring activity should not just report on developments but also attempt some analysis of why things are developing in the way they are.

5.4 Incubator Support Programme

5.4.1 Background

The Incubator Support Programme was established in 2001. It consists of Incubator Support delivered by NZTE and incubator awards. The awards go to individual incubators to subsidise their activities, while Incubator Support comprises a unit within NZTE which is responsible for the delivery of the programme

While the awards account for the vast majority of the funding government provides ($2.75 m until this year, now c. $4.5 m per annum), they are funded via a different budget line and are strictly speaking not part of Output Class 1. Incubator Support is funded at $402,000 from Output Class 1.

Business incubators are an economic development tool to facilitate enterprise creation and development. They offer an intensive approach to business development, nurturing small businesses through their formative years by providing premises, business advice and networking opportunities. Technology based companies in [particular, who are often characterised by a high degree of uncertainty, can be found in incubators. This makes incubators a potentially important player in moving our economy towards higher value added production.

5.4.2 Objectives

The ultimate objective is to enhance the survival and growth of high-growth, high-potential early-stage businesses.

The programme’s intermediate objectives are to

- Promote best practice among incubators in New Zealand
- Enhance networks amongst incubator managers and with interested parties and organisation (e.g. angel investors, venture capitalists)
- Enhance networking between incubators and CRIs and universities

Furthermore, the objective is to help build a self-sustaining group of incubators and then, over time, reduce and, ultimately, withdraw government support.

5.4.3 Rationale and Intervention Logic

Incubators supported through the ISP help start-up and early-stage innovative firms with high-growth potential. These firms do not have a track record and their only assets are usually ideas which are difficult to value, making it difficult for them to access capital and get their businesses off the ground. Incubators help these companies by mentoring them, giving them office space, pooling resources, offering networking opportunities and developing relationships with CRIs and universities. Thus incubators help firms through the initial stages of their development, so that they can grow and contribute towards the development and growth of the New Zealand economy.

At present, no incubators in New Zealand are self-funding. Because incubator firms are in their early stages of development, they normally lack resources to pay for the services and support an incubator offers. Incubators are currently funded through a combination of government funding, regional grants and sponsorship. Over time, however, it is envisaged that incubators adopt best practice, become more efficient and develop business models to become self-sufficient.

The ISP offers incubators financial support if they:

- Add value
- network and strive to adopt best practice
- focus on high growth companies with international potential
- have an exit strategy for residents and a financial sustainability plan in place

The Incubator Support unit assists incubators in their efforts to adopt best practice and to network, administer the awards and collect information to support the incubator industry.

The government envisages the following intermediate objectives for supported incubators:

- Adoption of best practice
- Networking with each other and other interested and relevant organisations
- Networking with universities and CRIs to encourage technology transfer and commercialisation

The ultimate outcomes are that successful incubators:

- Become commercially sustainable
- Encourage the growth of incubated high-growth businesses

5.4.4 The Incubator Support Programme was last evaluated in 2008

As there is a very recent evaluation whose recommendations are still being implemented. It would have been inappropriate to carry out a further detailed analysis in this report. Instead, we report the findings and recommendations of the 2008 evaluation and look at how they are being implemented.

Findings and Recommendation 2008

The last evaluation was generally positive on incubators, stating that the ISP was '*effective in both building appropriate incubator arrangements …and delivering …firm growth'.* Incubators had increased firm survival rates and led to incubated firms achieving higher rates of growth than their non-incubated counterparts. It was important to maintain pressure on incubators to achieve financial sustainability, but it was also important to give incubators financial security in the short to medium term.

The evaluation made the following recommendations:

- To continue support for the programme until 20014/15 and
- To move towards multiyear funding in the form of awards to incubators

And linked to this it recommended that NZTE should be directed to:

- Determine the exact mix of fixed and flexible multiyear funding. The former would ensure the retention of key staff and practices, whereas the latter should be performance related.
- Establish new funding contracts with incubators

More specifically to seek improvements at an operational level the Incubator Support unit in NZTE should:

- Reconsider the definition of high growth companies as applied to incubated companies
- Enhance the transparency of incubator awards
- Review the system of tracking company exits from incubators; and
- Socialise the outcomes of incubator projects more widely

What has happened?

A multiyear funding schedule was introduced in 2008. From 2009/10 on the annual funding will increase from currently $2.7 m to $4.5 m, while funding for the Incubator Support unit will remain at $0.4 m.

NZTE elected not to introduce a mix of flexible and fixed multiyear funding, instead allocating out almost $13 m across existing incubators for the next three years.

A new assessment matrix and scoring system for incubator awards has been established. How incubators rank in the awards rounds is to be made available to the public and stakeholders after each funding round.

The definition of high growth companies has been amended away from a metrics based one to take more account of company growth characteristics such as governance and management, financial structure, investment readiness, market development plans, etc.

NZTE is currently still exploring new mechanisms for tracking incubator graduates.

5.4.5 Conclusion

As changes to the ISP have only been introduced recently, it is too soon to re-evaluate the programme. The previous sections have shown that some of the main recommendations of the 2008 evaluation have been or are being followed through. Incubator funding will be stepped up as of this year and should be given time before analysing its impact on effectiveness and efficiency, implications for future funding amounts and long term financial sustainability.

5.4.6 Recommendation

MED and NZTE to monitor follow up to the 2008 evaluation recommendations requiring the Incubator Support team to:

- Reconsider the definition of high growth companies as applied to incubated companies;
- Enhance the transparency of incubator awards;
- Review and enhance the system of tracking company exits from incubators; and
- Socialise the outcomes of incubator projects more widely.

Also we recommend to:

- Combine incubator awards and Incubator Support in one output class.

Incubator Support should be evaluated again in 2014/15.

5.5 Mentoring

5.5.1 Background

The financial support for mentoring services comprises an annual grant to Business Mentors New Zealand, and the Institute of Accredited Business Consultants. BMNZ is funded to help it manage the volunteer mentoring service aimed at small businesses, while the government funds the IABC to manage an accreditation and registration scheme for business consultants, including mentors.

BMNZ was established in 1991 to complement commercial advisory services. According to its Chief Executive, it consists of 1600 mentors, half of whom are retired businesspeople, consultants or accountants; 30 percent are active commercial mentors; and the remaining 20 percent are employees of patron companies. The difference between mentors and other types of professional business advisers is that mentoring is more about facilitation and coaching, and not about hands-on work, whereas professional business advisers normally charge for their services, which may include drafting business plans or marketing strategies.

BMNZ offers mentors for all aspects of running a business. For example, amongst its membership are mentors who can help with marketing, raising finance or strategic planning. At any one time, c. 25% of members are unavailable due to other commitments. Matching a client with a mentor is done on the basis of client need and mentor expertise, but personal chemistry also plays a huge role. Before a client is matched with a mentor, a needs assessment is carried out to ensure clients receive the correct support from a suitable mentor. This is also done to focus clients on their key area(s) for development and to confirm expectations.

For business consultants to get IABC accreditation, they must apply and go through a process. The main minimum criteria for IABC accreditation are:

- A business or related degree and two years' business management experience, or seven years' management experience and completed IABC courses
- Three years' consulting and minimum of 400 hours of consulting work in the last two years
- Minimum of five clients and five client references in last two years
- Five management disciplines including three mandatory ones

Upon meeting the criteria, accredited consultants receive a certificate which is valid for a period of two years. Re-accreditation is dependent on whether the criteria are still met and evidence of on-going development. Accredited consultants agree to abide by the IABC code or practice. Accredited membership costs $350 plus GST.

5.5.1.1 Programme funding

Since 2006-07 c. $1 m of Output Class 1 funding is spent on support for mentoring services, i.e. BMNZ and IABC. Of that $1 m, approximately $800,000 goes to BMNZ, while the remainder supports the IABC.

For BMNZ the government financial support accounts for roughly 30 percent of total funding. The remaining 70 percent come from private sector sources in the form of patronage support and a $100 registration fee that was introduced a couple of years ago. (However, a waiver for this registration fee has recently been introduced for firms taking the government's Business Health Check.) In addition, BMNZ receives substantial patronage support in kind, for example free radio and TV advertising.

Apart from membership fees which range from $150 for associate members to $350 for fully accredited membership, the IABC is funded by government.

5.5.2 Intervention Logic and Rationale

Support for BMNZ

The overriding rationale for subsidising mentoring services is twofold: it rests on an information asymmetry and positive externalities. Entrepreneurs are often unaware of the full value a mentoring relationship can bring to their business. Thus they are not prepared to pay the full cost of employing a mentor. By temporarily subsidising mentoring services the intervention tries to help entrepreneurs gain a better understanding of the usefulness of mentoring relationships, so that with time they are prepared to pay for the service themselves.

Mentoring services provide businesses with advice to help them become more competitive and grow. Or, in the current economic climate, mentoring may contribute to helping businesses get through the recession. As businesses grow (or get through the recession) there are spillover effects on the rest of the economy. Businesses that are more successful are more likely to engage in exporting, employ more people and may buy more inputs from other New Zealand businesses. But because not all the benefits are enjoyed by the mentee, they will not take those spillover benefits into account when assessing the benefits a mentoring relationship can bring and, as a consequence, may not 'purchase' sufficient mentoring support. Government intervention can ensure that these spillover benefits are not foregone.

Support for IABC

The success of businesses consulting, of which mentoring may be viewed as a sub-part, crucially depends on the quality of the consultant (and mentor), as well as a client's expectations and understanding of what a consultant can and cannot do. But herein lies an information asymmetry, as entrepreneurs often cannot judge the quality of a consultant. As in many professions, e.g. medical doctors, lawyers, etc, government can set standards and encourage signalling to alleviate this information asymmetry. That is why government has decided to fund for a time the Institute of Accredited Business Consultants. It is expected that over time all serious business consultants become members in order to signal to their clients that they can be trusted to deliver a certain standard. It is envisaged that as more consultants make use of this signalling device because it helps them sell the service they provide, the IABC becomes more financially self-sustainable and government can withdraw the subsidy (crowding-in effect).

5.5.3 Objectives

The ultimate objective of the mentoring and business consultants' accreditation support is to enhance firms' competitiveness, both domestically and abroad. By subsidising one on one support whose quality firms can rely on, a further aim is to improve their ability to expand their businesses or get them through difficult times, to adopt new technology and innovations, and to access export markets.

More specific objectives regarding the BMNZ support are to:

- Ensure low cost access to one on one advisory services
- Improve firm performance as measured by productivity, innovation, sales, turnover, etc
- Improve firms' ability to get through the recession and become more competitive
- Encourage BMNZ to become self-funded in the long term.

More specific objectives for the IABC are to:

- Accredit business advisers and members of related professions who act as advisers
- Promote and ensure business advisers meet certain quality standards
- Signal consulting quality to clients by becoming the establish industry standard,
- Become less dependent of government funding over time, with a view to becoming entirely self-funded

No previous evaluation exists

The mentoring services in Output Class 1 have never been fully evaluated. Prior to 2005-06 less than $500,000 were spent on supporting mentoring activities. As shown above, this is no longer the case, with now more than twice as much funding going to mentoring support. However, even at just above $1 m support for mentoring activities is still a relatively inexpensive activity.

The lack of a previous evaluation means that we have to use a slightly different approach to that adopted for evaluating most of the other programmes in this output class. A fully fledged evaluation of this activity was deemed disproportionate, particularly in the context of an output class evaluation. Instead, we used some basic performance indicators and evidence from abroad to determine the efficiency and effectiveness of the Output Class 1 mentoring support.

5.5.4 Analysis and Findings

5.5.4.1 Information sources

The main sources of information have been interviews with the Chief Executives of BMNZ and IABC, as well as discussions with policy makers, training providers, other business consultants and researchers.

5.5.4.2 Business Mentors New Zealand

Effectiveness

Estimates from the Chief Executive of BMNZ suggest that BMNZ receives about 3,000 requests for mentoring assistance per year, a figure which has varied from year to year. After the introduction of a $100 registration fee there was a decline in demand for mentoring last year. However, it is not clear whether it was entirely due to the introduction of this fee. The current recession and the Business Health Check, which gives companies a fee waiver, have markedly increased mentoring demand this year.

Although the supply of mentors was good, the CE pointed out that there was always turnover with some leaving and others joining, and that at any given time about 25 percent of mentors were not available. Thus, BMNZ would be able to handle some increase in demand but there were some concerns regarding funding during the recession. There were signs of increasing pressure on 70 percent of funding that comes from private sources as private sponsors were cutting their expenditure and BMNZ had already lost some of its long-term sponsors.

BMNZ has so far not systematically tracked companies after exiting the service. In the absence of hard evidence regarding BMNZ's impact, its importance BMNZ can be illustrated by an example. Improving the export performance of New Zealand businesses is one of government's main economic goals. BMNZ reported that c. 24 percent of clients ask about exporting, while 10 percent of clients are already exporters when approaching BMNZ. Furthermore, at any given time an average of 22% of clients are exporters. These figures show that BMNZ is an important source of information for some exporting firms, in addition to exporter training and other private sources. Evidence from Israel shows that mentoring can have a positive impact on some key firm performance indicators (Box 1).

Discussions with stakeholders revealed good as well as disappointing mentoring experiences. There are stories of where a mentor has led to changes in business practice and there is positive feedback on BMNZ mentors. However, some comments from the research/academic community raised questions about the experience and quality of some BMNZ mentors, citing the bad experience of a local business as supporting evidence. Anecdotal, and therefore not statistically relevant, information seems to emphasis the need for good matching between client and mentor.

BMNZ endeavours to ensure quality by having an induction process for new mentors that involves a one-day training course followed by a series of half-day courses. About 800 of BMNZ mentors had already gone through this induction programme. As BMNZ mentors offer their time voluntarily and only get travel costs reimbursed, it would be inappropriate to expect or oblige them to get IABC accreditation, or to go through a too burdensome induction programme. On the other hand, the quality of the service needs to be ensured, not least because of the detrimental impact a bad mentor can have on a business. There are no widespread concerns about the quality of BMNZ but, unfortunately, it was beyond the scope of this evaluation to carry out a detailed analysis of the quality and impact of BMNZ.

Efficiency

As mentioned above, the annual subsidy to BMNZ is c. $850,000. This money helps to reach an average of 3,000 clients per year. In other words, government spends $280 on each client who receives BMNZ support [28]. Similarly, the Israeli mentoring programme has an average client number of 2,500 businesses per year, with an annual cost to government of US$4.5 m (NS$7 m). The cost per client to the Israeli government is $2800. It should be stressed that the two programmes are quite different and it would be grossly misleading to deduct from this that our programme was 10 times as efficient. This comparison does not take into account the scope and quality of the service. The Israeli programme is likely to be more hands-on, delivering a higher impact service. The 2,500 firms receive approximately 70,000 hours of support per year, or 28 hours per client. So without overstating the validity of the comparison, and in the absence of more appropriate comparators, it appears that BMNZ mentoring support in its current form is not an inefficient use of taxpayers money.

It should be pointed out that the bulk of BMNZ funding comes from private sources which have lately come under pressure as a result of the deteriorating economy. It may become necessary for government to increase funding if the same level of service is to be maintained, particularly as demands on BMNZ have gone up, not least due to the introduction of the Business Health Check.

The current way of supporting mentoring services in New Zealand via the direct subsidy to BMNZ appears to be an efficient way of delivering the service. It is unlikely that any other form of delivery would yield efficiency gains. But a future review of the quality of the mentoring service and the impact it is having on firms may necessitate a reassessment of this conclusion.

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[28] Calculations: Mentoring support 850000/3000;

Box 1: **Evidence from the Israeli SME mentoring programme**

The Israeli SME mentoring programme is substantially different from BMNZ. Israeli SMEs are entitled to a certain number of hours of subsidised consulting services, with bigger SMEs getting more hours than smaller ones. The government pays for 75 percent of the cost, generally thought to be US$ 65 per hour, while the SME pays the remainder.

A recent evaluation by the Israeli government used two control groups to look at the impact of the programme on key performance indicators such as profitability, number of employees, management parameters (finance, marketing and general management) and satisfaction with the programme. The first control group consisted of similar firms that had enquired about mentoring support but then decided against it. The second control group comprising firms with similar characteristics to mentored firms was taken from the general population of firms.

Prior to accessing the mentoring programme, the split between firms that were profitable, broke-even and unprofitable was as follows:

Before Programme:

	Mentoring group	Control 1	Control 2
profitable	37.6	56.9	63.9
Brake-even	42.2	30.9	26.1
loss	20.2	12.2	10

It is noticeable that the programme attracted firms whose performance was not as good as that of their peers in either of the two control groups. Upon receiving mentoring support, the figures changed as follows:

After programme:

	Mentoring group (difference after-before)	Control 1 (difference after before)	Control 2 (difference after-before)
profitable	71.7 (+34.1)	81.6 (+24.7)	67.9 (+4)
Brake-even	17.9 (-24.3)	11.3 (-19.6)	23.3 (-2.8)
loss	10.4 (-9.3)	7.1 (-5.1)	8.8 (-1.2)

Thus, the mentoring group enjoyed the strongest increase in productivity growth, albeit from a much lower base. Programme satisfaction was very high, with more than 70 percent rating it as ‘good’ or ‘excellent’. Results for the other parameters were more mixed. For example, while all groups recorded increases in employment, the mentored group marginally outperformed control group 1 and fared a little worse than control group 2. It should be borne in mind that the period between 2004-07 was characterised by strong economic growth. The mentored group also recorded higher performance improvements on some qualitative management parameters than the two control groups, e.g. managements and marketing, while it did less well on others.

Some caveats apply. These results are preliminary, they do not show productivity gains, the programme attracted more less well-performing firms and transferring results to our mentoring programme is inappropriate given the difference in the two programmes’ designs. However, they also suggest that mentoring support may be able to help especially underperforming firms close the gap to their better-performing counterparts.

5.5.4.3 Institute of Accredited Business Consultants

Effectiveness

Having been formed in 2007, the IABC is still a relatively young institution, although there was a predecessor since 2002. In its current phase, the IABC has to build a reputation and make itself known, both to business consultants as well as to the SME community. Interview feedback from stakeholders such as training providers, researchers etc suggests that while most have heard of its existence and are broadly familiar with its goals, there is still some way to go to establish the required reputation.

The IABC has established a relationship with the Institute of Chartered Accountants for accrediting accountants who want to go beyond their normal work with SMEs. The ICA also has a member on the board of the IABC.

The CE acknowledged the work to be done and the importance of gaining the reputation for excellence. There were plans for increasing marketing and the timeline for establishing the IABC was estimated between three to five years.

Efficiency

As the IABC is still in the process of establishing itself, it is still a little premature to assess its value for money. However, it is envisaged that over time the subsidy of c. $200,000 can be scaled back and ultimately withdrawn as IABC moves towards self-sufficiency. The CE of IABC mentioned a timeline of three to five years before self-sufficiency could be expected. We believe this is realistic.

5.5.5 Conclusion

It appears that mentoring support is an efficient way of reaching a significant number of SMEs. Although we cannot be certain about the impact or effectiveness BMNZ mentors have, evidence from Israel suggests that mentoring can have a positive impact on some firm performance indicators. There is also an increase in demand for one-on-one support from SMEs, as evidenced by the high regard in which the ETP one-on-one follow up sessions are held. Mentoring support for SMEs is also rightly a plank in government efforts to aid SMEs through the recession.

It is too early to properly assess the impact IABC support is having on overcoming possible informational issues to do with SMEs difficulties in judging the quality of business consulting advice ex ante. For the time being, the subsidy allows the IABC to continue to build its reputation and to accredit more business consultants.

5.5.6 Recommendations

The following recommendations are made:

- To monitor the adequacy of BMNZ funding in light of the recession;
- That a cost-benefit analysis of establishing a voucher-based training and advisory services scheme looks at the impact it would have on BMNZ;

- To assess in a future piece of work the impact mentoring services are having in New Zealand; and

- To monitor the impact of IABC on the market and its move towards self-funding.

    - To clearly restate expectations regarding self-funding and to gradually reduce funding to zero over a three year period, starting in 2012.

5.6 Exporter Training

5.6.1 Rationale and Intervention Logic

New Zealand is a small economy geographically distant from large world markets. For firms to grow past a certain size exporting is necessary. Entry into exporting requires new information, business practices and strategies. 'Despite the internet, transaction costs of trading internationally remain sizable.' (Macmillan, 2004)

It is believed that government intervention assists New Zealand firms to overcome the geographical barriers to, and transaction costs of, exporting. It is accepted that New Zealand SMEs face more or larger barriers to exporting than SMEs in other countries, particularly those in the northern hemisphere. Barriers are larger due to New Zealand's greater distance from large markets and small size of the domestic market.

Training for SMEs entering, or thinking about entering, export markets presumably improves their chances of making their entry to a new market successful. Measuring such additionality is challenging.

5.6.2 Objectives

The objectives of Exporter Education are

- to improve export competencies across New Zealand, and

- to deliver a more flexible service that better links clients with services provided.

New Zealand Exporters

When firms decide to export there is a wide range of NZTE support services that are available. ETP and Exporter Education are two focused on exporter capability development.

About 2 percent of all NZ firms have experience in merchandise exports. A much larger percent generate some overseas income such as the NZ firms that participate in tourism and other service industries. For most firms that do export, it is a small part of their business and for many it is undertaken infrequently. A MED study of all merchandise exports over 10 years found that 30 percent of the 13,758 firms exported in only one of the 10 years and that only 10% exported in all 10 years. Mean firm exports were only 10 percent of total sales.

Outside Output Class 1, NZTE tends to work with firms who are export focused (about two thirds of their 'high growth potential' clients are already exporters).

Exporter Education

In 2003/04 NZTE inherited ‘International Business Consultancy’ from Trade NZ as part of the merger. This became Exporter Education and delivery commenced in 2003/04.

Exporter Education was contracted to the private provider WHK Gosling-Chapman, in combination with the Canterbury Development Corporation, from 2004 to half-way through 2008. Courses were delivered nationally. Auckland was a major site for provision, Wellington and Christchurch medium sites, and other regional areas eg Hawkes Bay, Tauranga, Hamilton, Blenheim had specific services provided as required.

Exporter Education has worked in a similar fashion to ETP with pre-course “exporter assessments” and “follow-up coaching” after the courses. Half-day courses were specific on topics such as: Exporting to Australia, Tax Issues – USA, Book Fairs, Market Entry Strategies.

Exporter Education courses were only partially subsidized, participants contributed $180 per workshop attended.

In table below participation in Exporter Education is shown. The numbers for 2004-05 to 2007-08 are for Exporter Education as delivered by WHK Gosling Chapman. The numbers for 2008-09 are for the ‘new model’ Exporter Education and are only complete to 16/6/2009. Of the 474 companies in 2008-09 approximately 430 were involved in ETP exporter training. A company may send more than one participant to a course hence the number of individual participants is greater than the number of companies participating.

Table 41: Participants and cost of Exporter Education by year.

	2004-05	2005-06	2006-07	2007-08	2008-09
No of companies	418	589	693	513	474
No of individuals	487	728	818	610	593
Cost	$553,773	$546,244	$516,567	$542,139	$364,682

While Exporter Education was delivered by WHK Gosling-Chapman, ‘advanced ETP’ training modules also contained exporting workshops. Examples of the latter include ‘Business Growth Programme for the Wine Growing Industry’ presented in Canterbury in 2008 and ‘Export Accelerator Programme’ presented by Vision Manuwatu and the New Zealand School of Export in 2008. Numbers attending these workshops are not included above.

A decision was made to move from the single provider of Exporter Education to one where NZTE is the provider and contracts expert presenters for specific courses. It is envisaged that the ETP component of Exporter Education would be used to introduce firms to the concepts of training and refer them on to commercially provided advanced exporter training such as that provided by the New Zealand School of Export.

NZTE have not been able to provide us with documentation as to why the changes were made. They do not have demographic information on who has been doing Exporter Training. While client satisfaction surveys are completed for all ETP type courses there is no indication that Exporter Education clients were unsatisfied with the training they were receiving from WHK Gosling-Chapman.

New Exporter Education Model

A new model for Exporter Education was introduced in the second half of 2008. The programme changes were 'built on the desire to improve export competencies across New Zealand, and are being developed to enable NZTE to deliver a more flexible service that better links client needs with the services provided.'[29] The new model has four strands: enterprise training, advanced exporter, pre-market training, and path-to-market. The ETP exporter modules are still fully funded by NZTE however the 'more-advanced' strands all have $180 registration fees. The strands are outlined by NZTE as follows:

Table 42: NZTE Plan for new Exporter Education delivery

	Enterprise Training	**Advanced Exporter**	**Pre-Market Training**	**Path To Market**
Where	Nationwide	Demand dependant	Demand dependant	Main centres – clients expected to travel
How	Through current ETP providers	Expert presenters based on programme need	Presenters with in-depth and practical market experience	Expert presenters based on programme need
Why – Key Selling Point	Improve base knowledge for potential and early stage exporters	Develop export competencies of NZ companies	Prepare companies to make the most of upcoming market visits	Intensive, market specific information including market visit
Who	SME's across New Zealand	Current exporters with growth potential	Businesses looking to develop and grow their off-shore presence	Small number of capable, committed high growth clients
Need Identified by	NZTE, Enterprise Training Providers, EDA's	NZTE and networks	NZTE and networks	NZTE
Clients Identified by	NZTE, Enterprise Training Providers, EDA's	NZTE client facing staff and partners	NZTE client facing staff and local contacts	NZTE client facing staff

[29] From NZTE document 'THE FUTURE OF EXPORT FOCUSSED TRAINING'. This document was used to inform potential providers of the intentions of the new programs.

Presenters Identified and Contracted by	Enterprise Training Providers	NZTE and partners	NZTE	NZTE
Funding	Fully funded by NZTE	Client pays registration fee	Client pays registration fee	Client pays registration fee

‘Enterprise Training and Path to Market are both established programmes that (NZTE) staff and clients alike are generally aware of. The new components, Advanced Exporter and Pre-Market Training, are the additions to NZTE’s service offering.’

Exporter Education targets firms from the early stages of considering exporting (ETP Export Training) through to pre-market training for market visits for exporters or potential exporters expanding into new markets.

The new Exporter Training programme has well defined course content for ETP modules eg. ‘Export workshops delivered under ETP cannot be market specific (e.g. Exporting to the UK)’. Funding for ETP modules is allocated on a case-by-case basis as needs are identified.

To implement the ‘Advanced Exporter’ and ‘Pre-Market Training’ modules NZTE has established a database of appropriately qualified presenters for export training services. To date, June 2009, there are 43 presenters from 25 organisations registered as possible presenters. A comprehensive spread of sectors, geographical regions of expertise, and possible topics of interest are covered by the registered people.

As of June 2009, there have been two full Path-to-Market courses, 1 Pre-Market course on consultancy services, and one Advanced Export course for the aviation sector. Further courses are under development and will be presented in the near future.

NZTE has emphasized the difficulty in building interest in high-level exporting courses. They are relying on ETP providers and other networks to establish potential client lists. While there is a need for such courses there is not yet sufficient demand for training providers to drive their establishment. NZTE has been working to encourage providers to establish appropriate courses.

This ‘lack of demand’ has occurred even though activities during Export Year, 2007, highlighted export success stories, encouraged businesses to increase their export efforts, and informed businesses about training and assistance available to them. Ken Stevens, CEO of Glidepath, was appointed as business champion and hosted, or presented at, 108 events during Export Year 2007. This reached an audience estimated at over 2500 exporters. CEOs of 149 top exporters attended one or more Founders Forums across the country.

As SME clients are paying some of the costs for Exporter Education they will need to be convinced that the courses offer value for money.

5.6.3 Funding

Exporter Education has been funded at approximately $650k for the last five years. In the 2008/09 financial year the majority of this, $435k, was spent on ETP Export Training. Several Path-to-Market programmes have been cancelled due to lack of interest. Development of Advanced Exporter courses has not occurred until 2009 which has delayed their presentation.

As the programme gains traction in the market, with further courses being offered and better take up, the funding distribution between early stage and advanced courses may change.

5.6.4 Findings

Demographics for firms doing Exporter Education courses can be determined from Statistics New Zealand's prototype Longitudinal Business Database (LBD). (For a description of the database and a disclaimer see section 5.2.6 Characteristics and Performance of ETP Recipients.) The year ending March 2006 has been used to profile Exporter Education firms as, at the time of analysis, it was the latest year with complete data. The LBD matching rate for Exporter Education is more than twice the overall ETP matching rate, 30%. The results for Exporter Education are therefore more reliable and more likely to be a representative sample.

Table 43: Number of firms[30] by sector for all firms that received Exporter Education (2006)

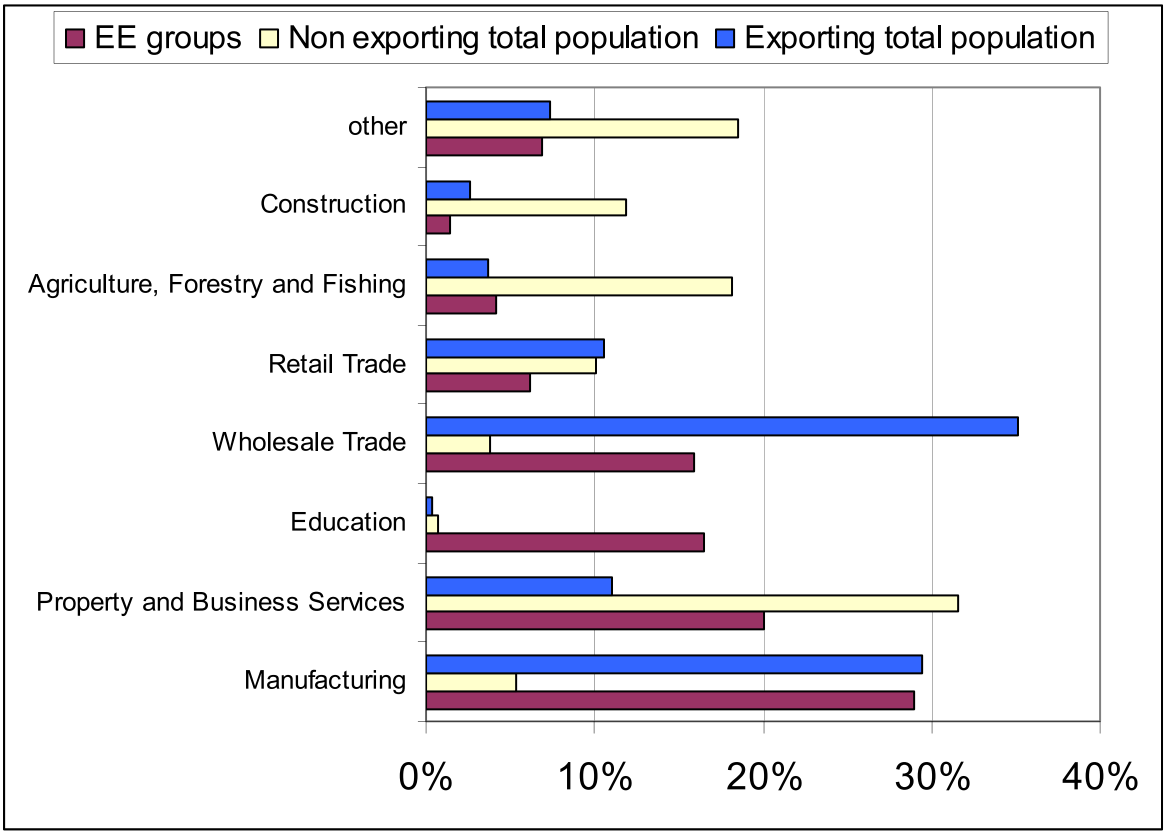
Sector	EE firms
Agriculture, Forestry and Fishing	18
Manufacturing	126
Construction	6
Wholesale Trade	69
Retail Trade	27
Property and Business Services	87
Education	72
Other	30
Total	**435**

All numbers have been randomly rounded to base 3.

[30] All firm count tables have been randomly rounded to base 3 for confidentiality reasons. Firm groups rather than individual enterprises have been counted. Most enterprises operate independently. A small proportion of the population are part of a group structure sharing a common group-top enterprise with other enterprises.

The firms doing Exporter Education can be compared with the total non-exporting business population in 2006, and the total exporting business population in 2006.

Figure 11: Sector distribution of firms doing Exporter Education, compared with the total population of firms and total population of exporting firms in 2006.



The distribution of firms doing Exporter Education is more similar to that of all exporting firms than the distribution of the non-exporting firms. Exporting data comes from customs data for trade and merchandise exports and does not include service exports. Exporter Education shows higher percentages of firms in the service sectors and lower percentages in the trade sectors than the total exporter population. This is consistent with what would be expected and *may* better represent the total exporting sector distribution.

Thirty percent of the firms doing Exporter Education are already exporting. Half of these firms are manufacturing firms and most of the others are in the wholesale trade and property and business services sector.

Looking at the age distribution of firms participating in Exporter Education it is more bimodal, with a group of younger firms and a group of older firms, than the age distribution for firms who export. There were no firms less than 3 years old doing Exporter Education although 11% of the exporting firms fall into this category.

Table 44: Percentage of EE firms by year started trading, compared to the exporting and non-exporting firm populations

Year started trading	EE firms	Non exporting total population	Exporting total population
pre -1997	43%	33%	59%
1997 to 99	12%	11%	13%
2000 to 02	45%	27%	17%
2003 to 2006	0%	29%	11%
Total number	**435**	**575598**	**11046**

All numbers have been randomly rounded to base 3.

The number of firms by sales category is similar for firms doing Exporter Education and the general Exporting population.

Table 45: Percentage of EE firms by sales category, compared to the exporting and non-exporting firm populations.

Sales	EE firms	Non exporting total population	Exporting total population
under $30k or missing	10%	44%	7%
$30k to under $280k	26%	39%	19%
$280k to $3.5m	44%	16%	47%
> $ 3.5m	20%	1%	26%
Total (number)	**435**	**575,598**	**11046**

All numbers have been randomly rounded to base 3.

Firms participating in Exporter Education have similar value-added operations compared to the exporting population.

Table 46: Percentage of EE firms by value-added categories, compared to the total non-exporting and exporting populations. (*Value added = Sales – purchases)*

Value added	EE firms	Non exporting total population	Exporting total population
loss of over $50k	0%	0%	1%
loss between $0 and $50k	11%	17%	11%
gain between $0 to $50k	88%	82%	85%

gain of over $50k	3%	1%	4%
Total (number)	**339**	**315894**	**9405**

All numbers have been randomly rounded to base 3.

Firms doing Exporter Education are more like the total exporting population however they are not adding quite so much value.

Table 47: Percentage of EE firms by labour productivity categories, compared to the total non-exporting and exporting populations.

(Labour productivity = (Sales - purchases)/RME. Does not include firms with zero or missing RME)

Labour productivity	EE firms	Non exporting total population	Exporting total population
Zero or negative	11%	18%	12%
Between 0 and $20k per RME	22%	28%	11%
Over $20k per RME	67%	54%	77%
Total	**339**	**315894**	**9408**

All numbers have been randomly rounded to base 3.

The firms doing Exporter Education are more similar to the exporting population than the non-exporting population however there are more large firms (>50 RMEs) and more small firms (<2RMEs).

Table 48: Percentage of EE firms by RME, compared to the total non-exporting and exporting populations.

RME	EE firms	Non exporting total population	Exporting total population
<2	36%	66%	29%
2 to 4	11%	26%	20%
5 to 9	11%	5%	18%
10 to 49	23%	3%	26%
50 to 99	6%	0%	4%
100+	11%	0%	4%
Total	**420**	**478,326**	**10,476**

All numbers have been randomly rounded to base 3.

Conclusion: The general exporting population of firms, compared to the non-exporting population, is larger, has higher productivity, and higher sales. While those firms doing Exporter Education also show such characteristics, they may not be quite so pronounced as for established trade and merchandise exporters.

As there have been no previous evaluations of Exporter Education, and the redeveloped programme is still being established, there is no evidence with which to assess efficiency and effectiveness.

Ideally the programme should have been evaluated prior to significant changes being implemented. No reasons why the old programme was terminated have been documented.

The recent developments in Exporter Training, which has shifted delivery from a single contracted provider to delivery by NZTE contracting expert presenters for specific courses, may encourage private providers to participate in the market for export training services. This may broaden the range of courses offered to SMEs and hopefully further develop capability of those providing export training services. This will presumably lead to more exporter training courses being available and may better address the output class objectives and rationale than the previous structure.

Training courses beyond the ETP level require significant commitment by participants and this should be reflected by partial payment for services delivered. Partial payment also encourages SMEs to value what is being provided.

5.6.5 Recommendations

- General Exporter Education should be part of the voucher training scheme
  - Targets and specific objectives should be agreed by government: and
  - Demand for Exporter Education should be closely monitored

5.7 Pacific Pre-Business Training

Pacific Pre-Business Training provides business training and information to Pacific people not yet in business. The objective of Pacific Pre-Business Training was to:

- Increase the management capability and productivity in businesses operated by Pacific people; and
- Increase the number of businesses being established by Pacific peoples.

Pacific Pre-Business Training is provided under a national contract run by Pacific Business Trust which is based in Auckland and has offices in Wellington and Christchurch. Both workshops and follow-up training are included in the programme.

The rationale for offering pre-business training to Pacific people is based on the cultural differences between Pacific people and New Zealanders. Pacific people do not have business background and do not engage with a mixed audience in a training course.

Pacific Pre-Business Training has been funded at $266,667 from 2003/04 to 2008/09.

This program was included in the 2005 ETP evaluation. No specific recommendations were included regarding PBT either for contracting or policy development.

We interviewed the provider however due to the scale of the service it was not considered worthwhile doing further work. The provider thought that there was still demand for the service as it is currently run.

While PBT could be included in a voucher scheme it is different in that it is currently the only scheme solely dealing with pre-business training. ETP also has a small number of start-up courses.

5.7.1 Recommendations

No change.

5.8 Business Assessment Tool

The Business Capability Assessment Tool provides a nationally consistent basis for the appraisal of New Zealand firms' capabilities and enables firms to benchmark their performance against that of their peers.

The Tool has been developed by the Business Capability Partnership[31] with funding from the MED's Management Development Fund. The intellectual property of the Tool is owned by NZTE. NZTE has contracted with the Business Capability Society[32] to provide the administration for, and further development of, the Tool. The funding for this was appropriated to NZTE Output Class 1 in Budget 2008. The Business Assessment Tool has been funded $900,000 in the 2009/10 Budget and is the same level in out-years.

The Tool assists both private and public providers of business capability development services to identify capability development opportunities for New Zealand firms. By allowing the manager of a firm to share its assessment data with whomever they choose, the Tool also has the capacity to reduce the need for a firm to provide the same information to all of the advisors or government agencies that they may wish to work with. .

The Tool was developed with input from a number of the ETP providers and, to date, NZTE is has used it for ETP capability assessments. It is compulsory for business owners to complete the BAT questionnaire as part of ETP capability assessments. Up

[31] Organisations represented on the Steering Group of the Business Capability Partnership are: Employers and Manufacturers Association, Chambers of Commerce, New Zealand Institute of Management, Council of Trade Unions, Business NZ, New Zealand Business Excellence Foundation, New Zealand Institute of Chartered Accountants, Economic Development Agencies of New Zealand, Ministry of Economic Development, New Zealand Trade and Enterprise and Statistics New Zealand.

[32] The Business Capability Society includes Business New Zealand (who provides a chair for the Society), EDANZ (whose CE is secretary of the Society), Institute of Chartered Accountants, New Zealand Institute of Management, and New Zealand Chambers of Commerce.

to June 2009, there have been 2,214 business questionnaires completed and 3,420 users have registered.

There has been reluctance by a number of ETP providers, see section ??, to take up the tool. Care will need to be taken to ensure it remains acceptable and useful to both businesses and other users.

It is envisaged that the Tool will be used by a number of different public and private sector organisations, including members of the Business Capability Society, as their primary assessment tool.

A similar allocation of funding the next few years will be used to further develop the site, especially the benchmarking and best practice tools, employ staff, rents and overheads, training advisers as well as marketing the tool. The Society is preparing a budget as part of the business plan currently under development.

A sustainable operating model will be required at some point in future.

5.8.1 Recommendations

- Continue implementation of the service. It is crucial that NZTE continue to contract with the Business Capability Society so that it is given time to carry out its leadership role in establishing the tool across the country.

- The Business Assessment Tool should be evaluated in 6-12 months time when core functionalities have been achieved.

6. Output Class 1 Evaluation Synthesis

The previous chapter has looked at individual programs within Output Class 1, compiled available information, and presented specific recommendations regarding those programs. We also need to look across the output class as a whole and at synergies, effectiveness and efficiencies of the whole output class, and examine possible ways of reallocating resources across the programmes.

NZTE Output Class 1 as it currently stands was formed in December 2007. The programs had all existed previously but were spread across three or four output classes. (See Section 3.4 Design of Output Class for more detail). By amalgamating these programmes into a single output class, it was expected that efficiencies could be gained and the services be delivered more effectively.

But there appear to have been few changes to individual programs following amalgamation into Output Class 1 and no rationalisation of programs within the output class has taken place.

Given that following through on some of the recommendations in the previous section would lead to the release of (financial) resources and allow for rationalisation (e.g. Escalator training and ETP successor training), the reallocation of resources needs to be addressed.

6.1 Programme developments

When the NZTE output classes were restructured in 2007 it was done not just on the basis of similarity between services, although that played an obvious role, but also with regard to whether there were accompanying common objectives to programmes and services grouped in the same output class.

As already explained, the market failures that Output Class 1 services try to address are to do with information failures, public good aspects and high transaction costs. Further common features that Output Class 1 programmes have are that they are delivered by third parties on behalf of government and that most of them are intended to crowd-in the private sector of become self-funding over time. The notable exception to the latter is the biz Service, the rationale for which is high transaction costs and possibly public good aspects, both of which would make private sector provision unlikely.

Achievement of the output class objectives has yet to be addressed. While NZTE has followed up on most of the recommendations of previous evaluations, and monitoring arrangements exist with third party providers, the overarching questions of whether market failures are alleviated or programmes are on a path to self-sufficiency could have received more attention. Whilst SMEs understanding of training services has changed, this does not seem to have impacted on overall policy goals. When designing training programmes, NZTE clearly avoid competing with private providers, so as not to crowd-out private sector activity. However, crowding-in of private sector activity has received little attention by NZTE or, indeed, MED.

Government policy and support for Output Class 1 have remained consistent for some time, and definitely since the establishment of Output Class 1 in 2007. Some significant developments have taken place at the operational level. These operational decisions, largely aimed at increasing effectiveness, have reshaped the direction of the output class, or some of its programmes. The move towards more advanced training in ETP is such an example.

As explained in the previous sections, there appear to be few strong linkages between the individual programmes within Output Class 1. Some alignment, where there is potential for overlap, has taken place. Escalator and ETP Investment Ready Training (IRT) is such an example. However, there have been few significant changes or establishment of linkages between programmes to increase efficiency. In some instances where previous detailed recommendations about efficiency improvements exist, no real changes even within a programme have taken place, e.g. the biz Service. Where programme specific changes have taken place, for example ETP content and the cessation and then restart of Exporter Education, the rationales on which those decisions were made have not always been transparent.

Where operational decisions affect underlying policy objectives, they should be backed by rigorous analysis and led by MED. Likewise, progress towards crowding-in of private providers should be better reflected in programme design and more closely monitored by NZTE and MED.

The MED policy team responsible for this program needs the resources to be actively engaged with the program development to ensure program changes address policy requirements.

6.2 Programme linkages within Output Class 1

While ETP training providers displayed a great deal of familiarity with other services in Output Class 1, with the exception of the IABC[33], the same cannot be said for non-ETP providers. Their awareness of especially the IABC and Escalator is surprisingly low. More significantly, their referral rates to all services in Output Class 1 are rather low.

[33] It should be noted that while IABC was included in the questionnaire, some other small components of Output Class 1, eg. Pacific Pre-Business Training or Exporter Training were not. This was an oversight in some cases, Pacific Pre-Business Training, and in others the differences between, for example Exporter Training or Investment Ready Training, and ETP were unlikely to be appreciated by a non-bureaucrat.

For ETP providers (n=13):

Table 49: ETP providers awareness of Output Class 1 services

	aware of	refer to	clients from
biz Service	100%	92%	85%
ETP	100%	100%	100%
BMNZ	100%	100%	54%
IABC	69%	15%	0%
Escalator	100%	77%	38%
Incubator	100%	69%	23%

For non-Output Class 1 providers (n=18):

Table 50: Non-Output Class 1 providers awareness of Output Class 1 services

	aware of	refer to	clients from
biz Service	89%	28%	11%
ETP	83%	28%	6%
BMNZ	94%	33%	17%
IABC	39%	6%	6%
Escalator	56%	6%	0%
Incubator	78%	17%	17%

There may be other efficiencies to be obtained across the output class. For instance, although 79 percent of biz centres reported that they made weekly referrals to ETP, when we asked ETP providers how many of their clients were referred from the biz Service we received the following responses:

Table 51: Proportion of ETP clients referred from biz Service

Proportion referred from Biz Office:	
<5%	3
5-10%	2
10-25%	2
25-50%	1
50-100%	2

Of the three with <5% of ETP business referred from biz none were both biz and ETP providers. Two were not-for-profit organisations and one a private provider. The two providers who had >50% of ETP business referred from biz were contracted for both biz and ETP services. While there is an obvious advantage from being the contracted party for both services, it would be worrying if the prerequisite for achieving high referral rates between the services was having a single provider for both services. It should be pointed out that some regions, eg Taranaki, have better co-operation and co-ordination between organisations providing services to SMEs than others.

On the other hand, part of the rationale for surprisingly low referral rates from the biz Service to ETP could be due to changes to the content of ETP courses. Although ETP was set up to deliver basic training courses, including start-up business training, it has moved away from this a bit by providing more advanced courses such as lean manufacturing. However, in surveying biz centres for this evaluation, 72 percent of them said that questions about issues to do with starting a business were the most frequent topic of enquiry. The shift in emphasis of ETP might have affected the referral rates. Since the start of the recession there has again been a change back towards the provision of more start-up training within ETP.

It appears that the decisions to change the course content were made on the basis of feedback from course participants stating what courses they would be interested in, and not due to a re-examination of the underlying intervention rationale (market failure). This raises the question as to what the spill-over benefits of more advanced training courses are that might justify public funding. For if the benefits were private, i.e. enjoyed directly by the participating firm, there would be no case for the taxpayer to subsidise them.

More than 40 percent of biz centres said that enquiries about finances were amongst the three most common enquiry topics they received. At half of all biz centres ‘growing a business’ was either the second or third most frequent enquiry. However, only one biz centre made weekly referrals to the Escalator service and a further eight made a referral at least once a month. This means that 19 or nearly two-thirds of biz centres never or only infrequently referred clients to the Escalator service.

6.3 Incubator

Currently Incubator Support, $402k, is part of Output Class 1 while the incubator awards, $2.756m, are part of the MED Regional Partnerships and Facilitation budget line. (In 2009-10 Incubator Awards have increased to $4.5m.) The awards are, however, administered by NZTE. There is a difference between awards to firms (funded through MED, Vote ED non-Departmental other expenses) and Vote ED non-Departmental funds required for NZTE operations. The NZTE operations for biz and ETP are contracts to other organisations as distinct from awards to firms. This distinction is possibly somewhat arbitrary and including all of the Incubator funds in one output class may offer some benefits - including simplification of the budget.

6.4 Conclusions

If the aim of grouping these services into the same output class was to realize synergies and to improve efficiency, then progress has been disappointing. The evaluation of the individual programmes has revealed where there is scope for improvement of individual programmes. Specific recommendations have been made as to what these changes could look like. There are common sense grounds for merging some programmes. For example, phasing out the brokering service of the Escalator programme makes retaining its training component as a stand alone programme non-sensical. Incorporating it into the ETP successor programme, either fee-based or a voucher scheme, would achieve the greatest synergy.

The findings of this section cast doubt on the strength of linkages between programmes within Output Class 1. Combining services under a revamped Training and Advisory Services programme with built in linkages between components, would simplify the services.

6.5 Part-Charging

Part payment for Output Class 1 services has been raised before. The 2005 evaluation of ETP discussed the issues involved with charging for ETP. This was followed by a survey in 2007 to gauge reaction to introducing ETP charges. This survey was carried out by Colmar-Brunton and included 1198 recent ETP clients and 626 non-ETP clients.

The current ETP is run on the assumption that courses are free. If courses were not free there would need to be a significant budget for marketing of programs. Without such marketing knowledge of the value of programs is absent. Asking either ETP clients, or non-ETP clients, if they would pay for something they don't know the value of is problematic.

The Colmar-Brunton survey found, that ETP clients were more likely to do further ETP courses if they were free or had a $50 charge than non-ETP clients. If the course cost $100 or more, ETP clients were less likely than non-ETP clients to think they would do the course.

Table 52: Take up of ETP services at different prices

	Free	$50	$100	$150	$200
ETP clients	57%	22%	8%	3%	2%
Non-ETP clients	18%	16%	10%	5%	2%

Source: Colmar Brunton Report, prepared for NZTE, Reference 36853300

Given that the two main barriers to training for SMEs are time and cost this could be interpreted as saying that more ETP clients think further ETP courses are worth their time (but not money), whereas non-ETP clients don't think they are worth either the time or money. But if the courses were incurred a higher fee, more non-ETP clients might be more appreciative of them, i.e. the cost of a course is some indication of its value. ETP clients, having already experienced value from a free course, know that cost is not always indicative of value.

A survey specifically investigating charging will suffer bias from people who would like courses to remain fully-subsidised.

NZTE ETP implementation survey, which also surveys ETP clients after they have participated in ETP courses have found that 32% of survey respondents had undergone further training in the two to three months following their ETP course. Half of these had paid for the further training they received. (The response for rate for part 2 of the ETP implementation survey was 34%.)

The Escalator Client survey in April 2009 also asked Escalator clients if they would be prepared to pay for/ contribute to training and/or deal costs. Approximately half said registration prices of $100 for a half day course or $150 for a full day course would stop them attending training. Of those who had had Escalator deal-preparation services only one third said they would have been willing to pay 50% towards services delivered. However a number noted that they would have been happy to pay a success fee. (i.e They would have been happy to pay a fee if the deal was successfully brokered. If there was no money raised then they are not happy to contribute to costs.)

Business Mentors New Zealand introduced a $100 administration fee in 2008. While some mentors had been reluctant for the fee to be introduced, most thought that the fee improved businesses' commitment to the process. This fee is now waived for firms carrying out Business Health Check.

The new Exporter Education programme will have registration fees for all, except for the ETP component.

Other government-subsidised courses for SMEs have registration fees. It is generally accepted in the training market that people value things more if they have to pay for them.

The Department of Labour has some courses tendered out and most have registration fees.

ACC has training courses for health and safety representatives. While there is a legal requirement for companies with 30+ ftes to train their health and safety representatives both fully-subsidised courses and those with registration fees are available. Some businesses have skill support relationships with training providers and are prepared to pay registration fees to sustain those relationships. Also businesses can be influenced by whether the courses are NZQA accredited or not. NZQA accreditation involves costs which would be/are passed on to ACC clients.

There is not a cross-government policy regarding subsidisation of training courses for SMEs.

It was suggested by a number of interviewees that registration fees have a positive impact on the number of no-shows for a training course. This is an acknowledged problem for some ETP providers.

6.6 Vouchers

The main benefits of a voucher-based scheme are to do with allowing SMEs to exercise choice, a better signalling of which courses are in demand, and the introduction of competition on the supply side which should further improve quality. The main costs depend on the face value of the vouchers, the number of vouchers handed out, and accreditation of courses vouchers can be used for. The decision as to whether a voucher should cover the full cost of the service or only a proportion of it will be important, as will be the eligibility criteria for obtaining a voucher.

There are many different ways of organising a voucher-based training programme. Administration costs vary depending on how a voucher scheme is structured. For example, one could give a general voucher of a certain face value which SMEs could then use for a range of services, or one could provide SMEs with different vouchers, each of which can only be used for a specific service, e.g. one for general management training, one for investment readiness training and so on.

The former would likely be less bureaucratic and therefore less costly to administer but some might argue that there would be risks associated with letting firms exercise too much choice themselves. Firms could spend their vouchers on services that are 'popular' at the expense of others for which they have a greater need. This is a view expressed by ETP providers and NZTE and based on experience with the ETP capability assessment. They argue that in the pre-training discussions with SMEs it often transpires that the training course they want to do is not the one most beneficial to them.

Retaining a capability assessment would add to the administrative costs but might lead to a better outcome.

Moreover, costs will be a function of the services included in the scheme. As already argued, the Escalator Investment Ready Training (IRT) component should be included. Including BMNZ might be less useful. Two main reasons speak against its inclusion. The first is that it is a voluntary service attracting substantial private sector support. The government subsidy complements this private sector support. It is unlikely that including mentoring as part of the scheme would be any more efficient from government's point of view. Secondly, by taking away the subsidy government would endanger the continuation of the BMNZ service. As one of the few services in Output Class 1 that has managed to attract and retain substantial private sector funding, such a decision would contradict one of the main goals of Output Class 1 services, namely to attract the private sector.

On the other hand, we know from ETP client feedback and other sources that firms value and prefer one-on-one training and support. The one-on-one follow up sessions in ETP are highly appreciated. Including this kind of support in a vouchers scheme might be desirable but it would require careful consideration and alignment with BMNZ and private sector activity so that it does not compete with, or worse crowd out, the latter.

This brief discussion shows that there are many things that need to be considered and weighed up. Before a voucher-based scheme is implemented a proper cost-benefit analysis exploring different options regarding the scope and value of the vouchers should be carried out. It is beyond the scope of this evaluation to do that. However, evidence from abroad shows that voucher schemes are in operation in similar related areas in many countries across the world.

As mentioned above, Israel has been operating a voucher scheme for mentoring services for a number of years. Refer back to Box 1, Section 5.5.4, for further information.

A number of European countries and regions, for example, the Netherlands, Hungary, UK regions, operate innovation voucher schemes which were first introduced nationwide by the Netherlands in 2004. An innovation voucher essentially provides an SME with a coupon that can be used for advice, expertise or research with a knowledge institution, e.g. university or research centre. The vouchers are generally not cashable, tradeable or transferable. The knowledge institution normally needs to be authorised or accredited. Vouchers are handed out in different ways, for example on a first-come first-served basis or after an assessment. Innovation vouchers are intended to reduced transaction costs and other barriers for SMEs to engage in R&D and related activities.

The Wallonia region of Belgium operated a voucher scheme for SME vocational training. A Slovenian voucher-based training scheme for SME training and information services has been in operation for a number of years and spread to other Balkan countries. Its specific aims include promoting entrepreneurship, growth and internationalisation. Its core features are easy and equal access to the vouchers, selection or approval of providers and the choice of which service to utilise for users. Eligible users include SMEs and potential entrepreneurs. Interestingly, services include introductory SMES and start-up training, business plan preparation, market analysis and Incubator Support. This scheme covers a number of the services included in Output Class 1, making it an obvious candidate for further investigation.

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Annex 1: Evaluation Plan

This document presents a plan for the evaluation of NZTE Output Class 1. The evaluation is part of a cycle of evaluations where each of the current five NZTE output classes will be evaluated once every five years.

This plan is composed of three main parts:

1. a description of the output class and the programs in that output class;

2. the evaluation scope, objectives, and key questions; and

3. the proposed evaluation methodology.

Evaluation plan
standard training (2).

Annex 2: Interviews with Training Providers

These interviews were undertaken as part of the evaluation of New Zealand Trade and Enterprise Output Class 1. They occurred between 3 March and 8 May 2009. Most were telephone interviews, a few were face-to-face interviews in Wellington.

The evaluation set out to better assess the role ETP plays in the wider training market. We also wanted to consider whether ETP was either crowding-in (as implied by the intervention logic) or crowding-out other providers. To do this we interviewed the majority of ETP providers plus a number of other training providers.

This document summarises results of interviews of training providers.

Interviews of
training providers.PDF

Annex 3: Survey of biz centres

Survey of Biz
Centres 2009.PDF

Summary of Conclusions

General

- Twenty-nine biz centres filled in the survey.
- The survey was carried out March 2009.

biz Service Marketing

Question 1: *What are the most common ways your clients find out about the biz Service in your region?*

a) Recommendation / referral / word-of-mouth (e.g. by other government agencies or chambers of commerce.

b) Internet, incl. www.business.govt.nz.

c) Media/press, incl. advertising and presentations at events.

Question 2: *How has the biz Service been marketed in your area, excluding the national advertising campaigns?*

a) Newsletters and email.

b) Ads in local media and press.

c) And also direct marketing such as presentations at business events.

Question 3: *How important is marketing and has its importance changed over time?*

a) Virtually all biz centres emphasised the importance of marketing.

b) Most responded that marketing had become more important, often by making reference to the current recession.

Nature and Methods of Enquiry

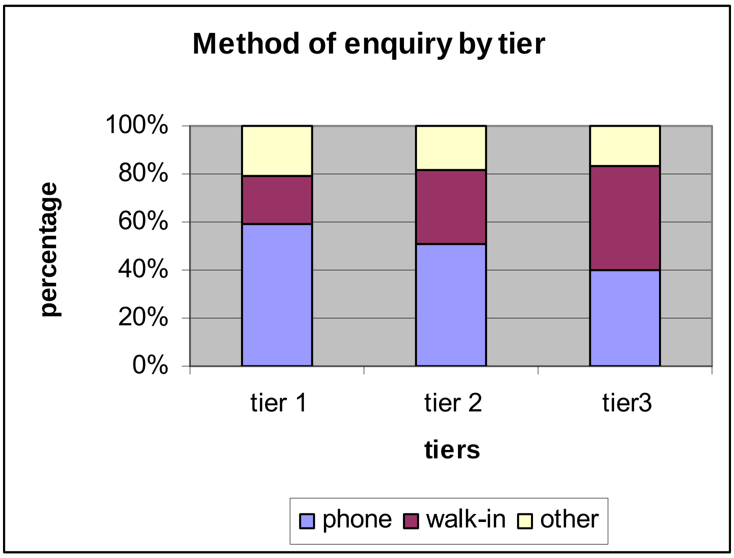
Question 4: *Please rank the following types of enquiry in order of occurrence*

a) 71% of respondents said that enquiries about starting a business were the most frequent topic of an enquiry.

b) This was followed by enquiries about general business management; growing a business and marketing.

c) Two-thirds of biz centres reported that questions about exporting were amongst the three lest frequent types of enquiry, as were enquiries about business IT issues.

<u>Question 5</u>: *Expressed in approximate percentages, how many enquiries at your biz centre are made by telephone, email and walk-in?*



<u>Question 6</u>: *Do the types of enquiry differ depending on the method used?*

a. Most biz centres said there was no major difference between walk-in and telephone enquiries.

b. Some felt that telephone enquiries were more specific while others said that face-to-face enquiries were more specific.

c. A small number of respondents said that email enquiries were often less specific and required Email enquiries clarification and follow up calls or visits at a biz centre.

d. Business start up enquiries were made by telephone as well as walk-in.

e. Some felt that if a business needed urgent help then those enquiries were more likely to be by telephone.

<u>Question 7</u>: *Has the nature of enquiries changed over time or since the introduction of the Business Health Check?*

a. A number of biz centres reported that the Business Health Check had been well-received in their area.

b. The vast majority of biz centres had noticed a change in the nature of enquiry and/or an increase in the number of enquiries.

c. Enquiries about cash flow and finances, employment and redundancy issues and starting a business had increased at a number of centres.

   i. Some said that the latter were sometimes by people who had recently been made redundant.

d. The number of referrals to training courses and BMNZ had gone up at a number of centres.

<u>Availability of Information and Training Services in Local Area</u>

<u>Question 8</u>: *How often does your office refer clients to other NZTE funded services?*

a. 22 biz centres referred clients to ETP at least once a week, and a further 4 once a month.

b. 14 biz centres made weekly referrals to Business Mentors New Zealand, and a further 9 at least once a month.

c. Slightly less than one-third of biz centres made at least one referral per month to the Escalator service and/or an incubator.

d. Referrals to IABC were infrequent or never. 4 biz centres were not aware of the IABC.

<u>Question 9</u>: *Apart from NZTE Output Class 1 services, who else provides training and information services in your region?*

Training:

- Chambers of Commerce, universities and polytechnics and private providers were listed by the vast majority of biz centres as offering training and other advisory services, e.g. marketing, in their area.

- Rural areas listed fewer providers than more populous areas.

Mentoring

- Approximately one-third of respondents to this questions stated only BMNZ as a provider of this service in their area.

- Others listed private companies and local chambers of commerce alongside BMNZ.

- Tertiary education centres and KEA (Kiwi Expat Association) were listed by less than a handful of biz centres.

- Only 1 centre listed 3 providers apart from BMNZ.

- Most stated there were only 1 or 2 other providers in the area.

Raising finance

- Most biz centres responded that local banks provided support for raising money.
- Accountants angel investors, chambers and local investment bodies were mentioned as further sources of advice and help.

General information services

- Apart from biz, chambers of commerce were the most common sources of general information.
- Other sources were various government departments (ministries), CABs, the internet and professional services such as lawyers, banks and accountants.

Marketing

- Private marketing firms, consultants, chambers of commerce and development trusts were mentioned most frequently.

Business Advice

- Chambers of commerce, consultants and other professionals, and mentors.

Exporting

- Various government funded export support activities were mentioned most frequently.
- Chambers of commerce and mentors also mentioned.

Employment Relations

- The Department of Labour was mentioned by the vast majority of respondents, followed by lawyers and HR advisers, and some also listed chambers of commerce.

Raising Finance

- Banks were mentioned by the vast majority of respondents, followed by the Escalator services and private advice.

Networking

- The vast majority of respondents states chambers of commerce.
    - A few (also) mentioned private organisers.

Education

- Mostly polytechnics and universities.

Question 10: *Please comment on the availability of these services in your area.*

- Most replies stated that the availability of these services was good.
- However, a small number of respondents mentioned problems with the availability of some services such as raising finance, mentoring and networking.

Questions related to the specific biz centre

Question 11: *To which tier does your biz centre belong*?

a. Tier 1: 4

b. Tier 2: 7

c. Tier 3: 15

d. Tier 4: 2 (?) Note: according to our knowledge this refers to a previous split of the biz centres and it is likely that these centres are tier 3 centres.

Question 12: *Approximately how many hours a week does your office or organisation spend replying to biz enquiries?*

a. Less than 5: 3

b. 10 – 20 hrs/w: 18

c. 20 – 30 hrs/w: 1

d. 30 – 40 hrs/w: 6

Question 13: *What biz Service training and networking opportunities have your staff been offered in the last 12 months?*

a. Biz hub meetings and training, and regional biz meetings most frequently cited.

b. Some centres also mentioned outside training given by private providers or chamber of commerce.

c. Internet and telephone updates.

d. One centre stated that no training or networking had been offered.

Question 14: *Has there been any change in the amount of training your staff receive compared with three or four years ago?*

a. At 6 biz centres the biz centre staff and management had not been in the job long enough to answer this question.

b. Of those who answered, the vast majority said that there was now more training and communication.

c. Four centres said that training had not changed.

d. Of those four, two pointed out that training opportunities already existed 3-4 years ago. The other two replies did not elaborate on their responses.

Question 15: *In your opinion, have sufficient training opportunities been available to your staff?*

a. 20 biz centres replied in the affirmative.

b. 2 said that training opportunities in the past had not always been very good but that they were better now.

c. 3 said ‘no’, ‘not always’ or ‘not until this month’.

d. And two made suggestions regarding improvement of training by, for example, letting staff work in different centres.

Question 16: *Have you or someone from your office been able to take advantage of all training opportunities?*

a. 23 out of 27 who replied to this question said ‘yes’.

Question 17: *How important is it for your organisation to be a provider of biz, or more generally of NZTE services? (Please quantify and/or give detailed explanation).*

a. Responses emphasised the general importance of the biz Service and the information it provides to users and underlined the expectation that clients had of the particular provider to have that information available.

Question 18: *What are the opportunities and challenges for biz Services in your region?*

a. A number of comments referred to the possibility that more funding would allow more businesses to be contacted and the need for further raising awareness.

b. Increasing demand due to the recession.