



The New Zealand Small Business Strategy

Empowering small businesses to aspire, succeed and thrive

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Foreword

The Minister for Small Business, Hon Stuart Nash established the Small Business Council for a term of one year to provide strategic advice on the small business sector. Our main task was to develop a strategy to enable the development of the small business sector in New Zealand. We appreciate the Minister's trust in us to complete this important work.

New Zealand is a nation of small businesses and they make a vital contribution to our economy and our communities. This strategy sets out the key areas and initiatives we believe could make material differences for small businesses in this country.

This strategy has been informed by our engagement with small businesses and information provided by private sector and government organisations that work with small businesses. We would like to thank all the small business owners who made the effort to meet with the Council and share their experiences. We are also grateful to the small business owners and managers that completed our survey. Your contributions provided the immediate real world experience that was so necessary for the development of this strategy.

We would also like to thank those that took the time to present to us and contributed to our understanding of the small business ecosystem.

Finally we would like to thank the members of our Secretariat for all their assistance and hard work in producing this strategy.

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Executive summary

The Small Business Council was established to provide strategic advice to Government for the development of the small business sector. One of the main tasks of the Council is the development of a small business strategy.

Small businesses are the lifeblood of the New Zealand economy and the backbone of our communities. They make an enormous contribution to inclusive and sustainable growth for New Zealand and their value to the economy should not be under-estimated.

The landscape in which businesses operate is in a state of constant change. From climate change to increasing population diversity to the massive impact of technology, small businesses are continually having to adapt to new ways of doing business. With small size comes agility to pivot and respond quickly to change. However, small businesses can also be vulnerable to larger forces outside their control.

The Small Business Council has spoken to many small business owners, as well as private and public sector organisations who work with the small business sector. We found that numerous private sector and government agencies currently provide information, advice and training on how to set up and run a small business. However, much of this help is not coordinated and not widely known.

Getting finance, finding and hiring the right staff, investing in training and development, keeping abreast of change, and a heavy compliance burden all pose significant challenges to small businesses. A lack of options for developing the confidence and self-belief of business owners can also create limitations for the sector.

To address these challenges, we have developed this strategy to shift the business landscape to one that enables and fosters small business success. A regulatory and business environment that empowers small businesses to aspire to be the best they can be, rewards success, and enables them to thrive will benefit all New Zealand.

The New Zealand Small Business Strategy is intended for businesses that are privately or family owned where the owner is significantly involved in the day to day running of the business.

A comprehensive understanding is needed of the experience of small businesses in New Zealand

In order to establish an environment that empowers small businesses, we must start with a deep understanding of what it means to be a small business in New Zealand.

Data is collected on and from small businesses by many different organisations for many different purposes. Yet there are still gaps, particularly regarding the experience and needs of businesses with few or no employees.

Data collection and access needs to be improved so that policy and initiatives that impact small businesses can be informed by a clear picture of the whole sector and its component parts.

Small businesses need to be able to get the right finance when they need it

Many small businesses need access to funding at some stage in their journey. Options for finance in New Zealand are limited and banks tend to be the main source. There are few alternative lenders offering finance at affordable rates and the equity and angel investment market is small.

The major banks tend to view small businesses as risky and often require property as collateral for lending. As patterns of house ownership change and new Reserve Bank capital requirements for banks potentially come into force, small business owners may find it increasingly difficult to get loans at affordable interest rates.

We recommend a package of initiatives to deliver funding to small businesses for the different stages of their development. These initiatives include a government Credit Guarantee Scheme to remove the need for property as collateral and make small businesses attractive borrowers for lenders.

We also want to see a digital lending and capital market place established to enable small businesses to rapidly search and find funding options. A start-up grant scheme will help with the costs of getting a small business off the ground and can be targeted to encourage particular types of businesses. Growth ambitions would be boosted by a dedicated Small Business Growth Fund to provide long-term funding

Removing barriers to equity investment would also help stimulate greater investment in New Zealand start-up businesses. One such barrier, identified by the Tax Working Group, is the tax loss continuity rules and their impact on expanding businesses.

People with the right capability and skills are key to small business success

We believe a key factor in the success of small businesses is owners investing in their own development as well as that of their staff. However, they have limited resources to devote to increasing their own management capability and may miss opportunities to improve their business.

We recommend a Small Business Capability and Ambition Programme to provide tailored, relevant, and affordable training opportunities to small business owners. The

development programmes need to be easy to access and delivered in a range of formats to suit the needs and locations of business owners.

Lack of appropriately skilled staff is one of the biggest challenges for small businesses. We believe the education system needs to be more responsive to the needs of the sector. Processes need to be put in place for small businesses to have a say in the form, content and delivery of training, to the people that will comprise their workforce.

Small businesses need to be able to keep pace with change and we recommend a number of initiatives to enable the sector to prepare for the future. These include a technology credit as an incentive for greater adoption of technology by small businesses. Forums and opportunities to connect with and learn from each other and technical experts will provide small business owners with better access to information and expertise.

The compliance burden on small businesses needs to be reduced

All businesses have to comply with a range of rules, practices and legal requirements and these processes can take considerable time and resource. The compliance system is currently oriented to managing and minimising risk. We believe there needs to be a fundamental shift away from a focus on rules and the needs of regulators. The system needs to be business centric and focused on outcomes.

The rules, practices and contractual requirements of large businesses also impact the small businesses they deal with. Small businesses have little bargaining power in this relationship and can be forced to accept unfavourable terms and conditions.

The cumulative impact of compliance is a significant burden on small business owners. We recommend that a specific unit be set up to identify, quantify and mitigate the burden from existing compliance measures, and future measures as they are developed.

We recommend a range of measures to protect the rights of small business owners and improve their compliance experience. We support the Tax Working Group's recommendation for a Tax Advocacy Service to assist small businesses in disputes with Inland Revenue.

A proactive approach by government agencies in detecting and responding to non-compliance with tax and legal obligations would enable early and constructive intervention.

We want to see greater recognition of, and response to, the diversity in the small business sector including language translation of key government content. Government also needs to lead the way in improving payment times to small businesses.

Small businesses often find themselves shut out of government procurement processes by unnecessarily complex and lengthy processes even for relatively low value contracts. Small businesses would have a fairer shot at government contracts if procurement practices were simple, more business-focused and with requirements and expectations that matched the size of the job.

From strategy to implementation

Small business falls within the responsibilities of multiple government agencies. To oversee and drive implementation of this strategy, we believe a dedicated cross-agency small business unit needs to be established. The purpose of the unit would be to co-ordinate, align, and oversee all small business focused work across government. A key part of the role would be to guide and monitor implementation of this Small Business Strategy.

Summary of recommendations

The Council makes the following recommendations.

Recommendation 1: Improve data collection and collation to ensure it is representative of the whole small business sector, including micro businesses, to provide a comprehensive understanding of the experience of being a small business in New Zealand.

Recommendation 2: Review the policy intent, purpose and scope of the Regional Business Partner Network to identify opportunities to extend its services to small businesses.

Recommendation 3: Government introduce a Credit Guarantee Scheme to facilitate lending to small businesses.

Recommendation 4: Government facilitate the establishment of a private sector led digital lending and capital marketplace platform to quickly and efficiently match small businesses with appropriate lenders and capital providers.

Recommendation 5: Government require capital providers that decline small businesses for finance to refer them to the lending and capital marketplace so that they can access other finance options.

Recommendation 6: Government facilitate the establishment of a private sector led Small Business Growth Fund to provide long-term funding in the form of debt and non controlling equity investment.

Recommendation 7: Government establish a small business start-up grant scheme with criteria targeted to priority groups.

Recommendation 8: Government adopt the Tax Working Group recommendation to relax the tax loss continuity rules to better facilitate investment in start-up businesses.

Recommendation 9: Government fund a Small Business Capability and Ambition Programme to provide tailored, relevant and timely capability development programmes to small business owners and managers.

Recommendation 10: The education sector establish ongoing engagement processes for small businesses to have meaningful input into the development and delivery of training to support their workforce needs.

Recommendation 11: Government introduce a technology credit to enable small businesses to purchase digital business tools and software services to drive increased productivity.

Recommendation 12: Government facilitate the delivery of a series of regional 'train the trainer' sessions to equip industry associations and regional bodies to help small businesses increase their digital capability.

Recommendation 13: Establish digital forums and link into existing regional infrastructure to enable and facilitate connections between local businesses.

Recommendation 14: Government establish a Small Business Transition Fund to support small businesses to sustain their businesses through major change.

Recommendation 15: Establish a 'Burden Hunter' unit tasked with identifying and mitigating administrative burdens, costs and other compliance impacts for small businesses.

Recommendation 16: Establish a Tax Advocacy Service to assist small businesses in disputes with Inland Revenue.

Recommendation 17: Government lead the way in recognising and embracing diversity in the small business sector and ensure compliance requirements are communicated effectively to all including the language translation of key content.

Recommendation 18: Government lead the way in improving payment practices to small businesses by:

- requiring all government agencies pay invoices promptly
- proceeding quickly with imposing maximum contract payment terms
- requiring all government agencies to be able to receive e-invoices by the end of 2020
- holding large businesses to account if necessary.

Recommendation 19: Government agencies adopt a positive, early intervention approach to non-compliance by small businesses with the aim of resolving issues constructively and quickly.

Recommendation 20: Ensure government procurement processes and practices are commensurate with the complexity and value of the purchase and encourage participation of small businesses.

Introduction

Small businesses are the lifeblood of the New Zealand economy and the backbone of our communities. From our sole-traders to the next high-tech innovative start-up, small businesses provide the drive that keeps New Zealand growing. The contribution that small businesses make to inclusive and sustainable growth for New Zealand should not be under-estimated.

The world is rapidly changing and facing unprecedented challenges. Climate change, dwindling environmental resources, increasing population diversity, and the increasing dominance of technology all mean the way we do business has to change. Because of their size, small businesses have the agility to swiftly adapt their business models to respond to these changes.

A thriving small business economy is good for New Zealand. Small businesses play a vital role in sustaining communities, particularly our regional and rural communities, and they provide meaningful opportunities for people to engage with the economy.

Our small businesses achieve great things with very little and, with the right environment, they can aspire to even more. A supportive system dedicated to empowering and enabling small businesses will see the sector grow in confidence, develop in capability and continue to represent New Zealand on the world stage.

Our business environment has an enviable international reputation with the World Bank ranking New Zealand number one in the world for ease of doing business. It is easy to start a business here and our regulatory environment is favourable for operating a business in New Zealand. But we can do better to reduce costly compliance and red tape that slows small businesses down.

People start businesses for a variety of reasons, whether it is to follow a passion, be their own boss, escape the 9 to 5, make a living or make a fortune. Most small business owners start with a dream, however, many find that it is not plain sailing and the dream may not match the reality. By their nature, small businesses can be vulnerable to larger forces outside their control. They will invariably face obstacles and barriers that will test their resolve, but, backed by a business environment that supports success, they can thrive.

The New Zealand Small Business Strategy recommends a government strategy for empowering New Zealand's small businesses to be the best business they can and want to be. It sets out a framework for transforming to an enabling environment that can inspire the sector to even greater performance over the next 10 years and beyond.

Who is this strategy is for?

There is no official definition of small business in New Zealand nor is there an internationally recognised or universally used definition. What constitutes a small business varies widely between countries depending on the size of economy, relationships to other markets, and the size profile of businesses in that country.

In New Zealand and Australia, small businesses are generally understood to be those with fewer than 20 employees. Those with fewer than 6 employees are often referred to as micro-businesses. Medium sized businesses are considered to be those employing 20-49 people. Businesses employing 0 to 49 employees are collectively categorised as small to medium-sized enterprises, or SMEs. Businesses that employ 50 or more people are generally described as large.

These traditional categorisations reflect different levels of management, ownership and business operation processes that commonly come into play as a business gets bigger. However, a degree of flexibility in defining different categories of business is important to ensure the target group is identified correctly for the purpose of the particular discussion or intervention.

This strategy is intended for businesses that are privately or family owned where the owner is significantly involved in the running of the business. Small business is not further defined in this strategy so that implementation of the recommendations can be targeted to the best effect.

About the Small Business Council

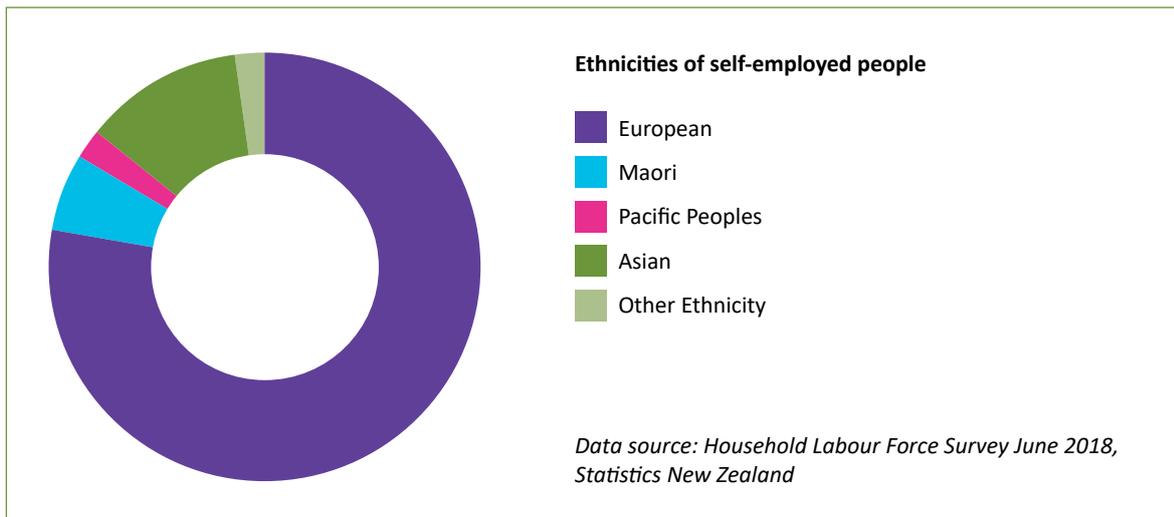
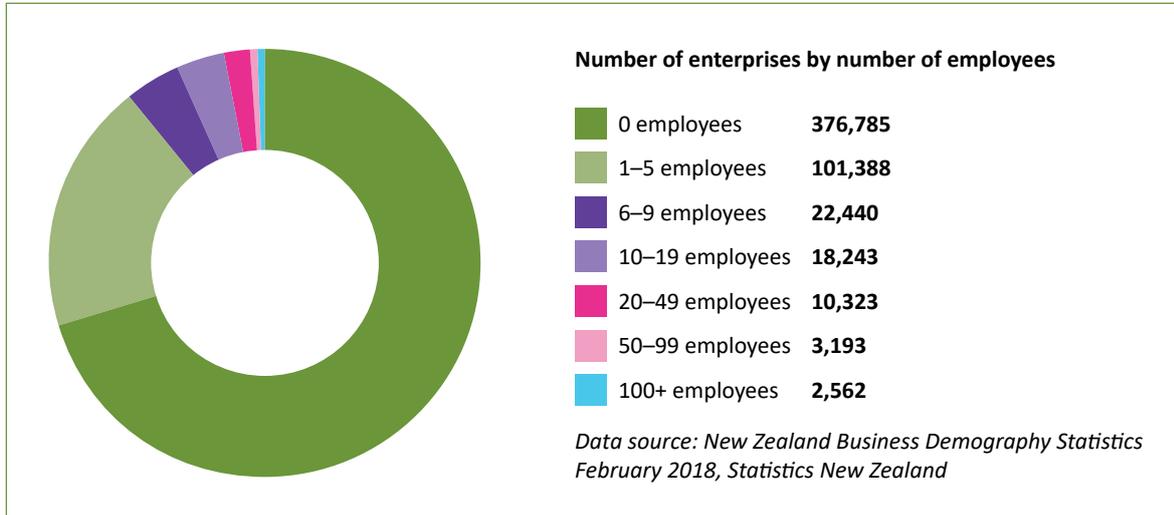
The Small Business Council (the Council) was established by the Minister for Small Business in August 2018 for an initial term of one year. The role of the Council is to advise the government on strategic opportunities for supporting and developing the small business sector.

The Council consists of 13 members from across the New Zealand business world that work closely with the small business sector. Along with small business owners, the Council includes members from business representative and service organisations, sustainability and tax experts, financial institutions, academia, and education providers. There are also four government advisors from the Ministry of Business, Innovation and Employment (MBIE), Inland Revenue, the Ministry for Primary Industries, and New Zealand Trade and Enterprise (NZTE).

Council members were appointed on the basis of their experience and expertise in working with the small business sector rather than as a group representative of the sector. As a result, we acknowledge that some voices may not be well represented in the work of the Council, for example youth and other population groups, social enterprises, and regional businesses.

The primary task of the Council was the development of a small business strategy for New Zealand. We engaged directly with small business owners to hear about their issues and ideas for how the business environment could be more empowering to the sector. We conducted a survey of small businesses, which received over 1,000 responses, and we met with small business owners as part of our regular meetings. In developing this strategy we heard from a wide range of organisations with an interest in small business, including private sector organisations, government agencies, the Tax Working Group, the Productivity Commission, the Prime Minister's Business Advisory Council and diversity experts. From these discussions we gained valuable insights on the issues affecting small business and the range of initiatives underway to provide a more supportive environment for the sector.

The shape of the New Zealand small business sector



There are a total of 534,933 businesses in New Zealand and 97 per cent (or 518,856) are small businesses with fewer than 20 employees.

Small businesses contribute over \$66 billion to our Gross Domestic Product (GDP) and are a significant force in the economy.

Small businesses employ 29 per cent of employees in New Zealand. 376,785 businesses, or 70 per cent of all businesses, have no employees.

Demographic information on small business owners is not readily available. However, there is data for self-employed people from the Household Labour Force Survey.

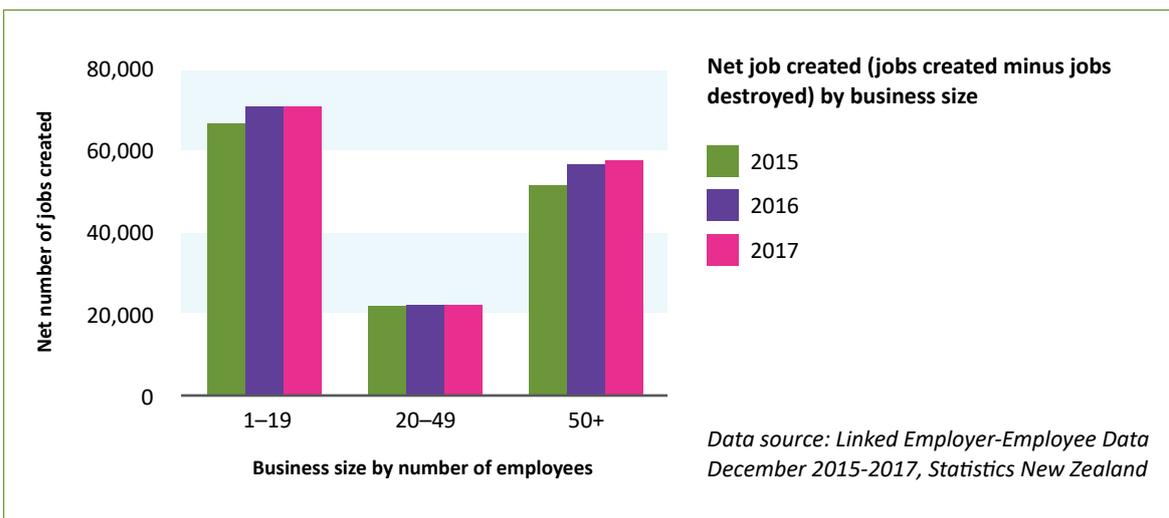
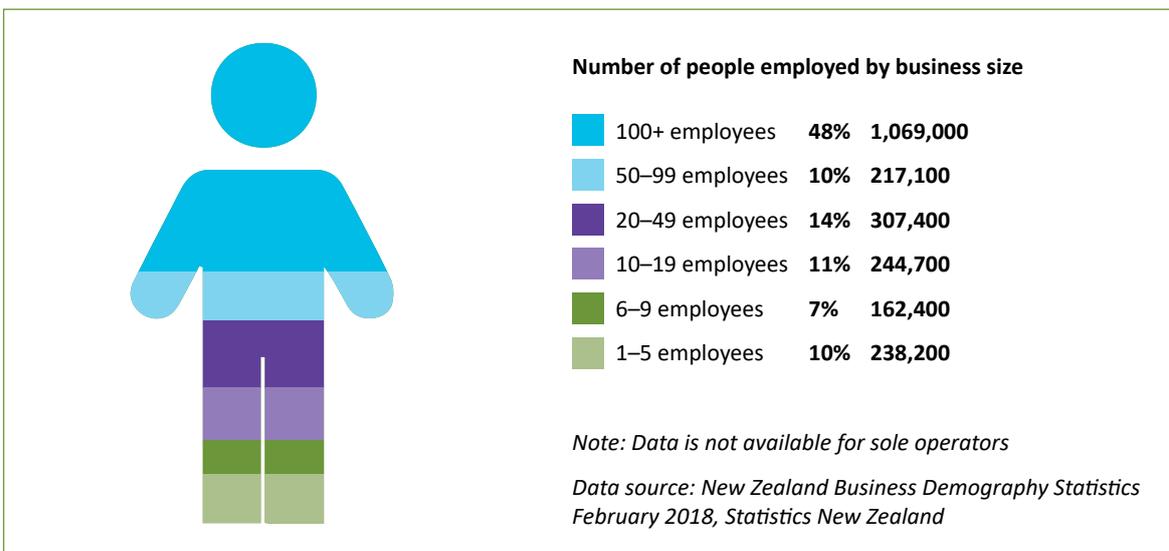
In terms of ethnicity, 77 per cent of self-employed people identify as European, 12 per cent as Asian, 6 per cent as Maori and 2 per cent as Pacific Peoples.

More men are self-employed than women, at 62 per cent and 38 per cent respectively.

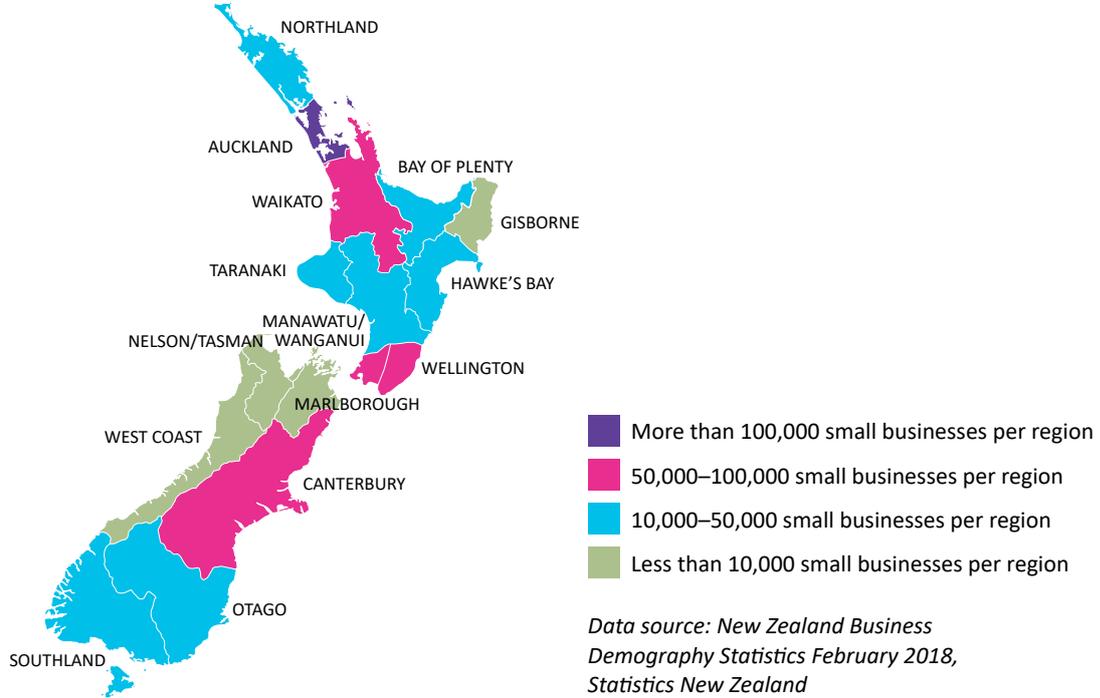
The small business sector is by far the biggest net creator of jobs in New Zealand. In 2017, the sector produced an additional net 71,220 jobs. The small business sector (1-19 employees) created net 13,290 jobs more than businesses with 50 or more employees in 2017.

The number of small businesses per region tends to reflect the population size. Auckland has the highest number of small businesses with over 100,000. Gisborne, Marlborough, Nelson/Tasman and the West Coast have the lowest number of small businesses, with less than 10,000 in each of these regions.

Small businesses are spread across all industries and the top ten are shown below. The biggest industry by number of small businesses is rental, hiring and real estate, followed by agriculture, forestry and fishing.



Number of small business locations per region



Challenges and opportunities facing small business

Despite their differences, our small businesses face common challenges and opportunities. Some of these are size-related and shared by small businesses across the globe, and others are due to New Zealand's distinct business environment, size of market and geographic position far from all other markets.

Small is different

Small businesses experience the world very differently to their larger counterparts:

- Small businesses can struggle to compete with larger businesses and multi-nationals, affecting their ability to get and keep market share, and attract good employees.
- Many costs associated with running a business, including compliance and regulatory costs, are not scaled for business size and can have a disproportionate impact on small businesses.
- Many small businesses do not invest in capability development and are slow to seek advice. This can impact their regulatory compliance, growth aspirations and preparedness for change.
- Small businesses typically focus on domestic markets and do not plan for exporting.
- Small businesses can have limited capital and cash flow, and more difficulty accessing finance on reasonable terms. Limited cash flow results in a focus on the short-term and can be a cause of stress and poor mental health outcomes for owners.
- Small businesses have less time and resources to consider and plan for wider environmental and economic drivers and processes such as the changing nature of work, climate change and the transition to a low emissions economy.
- New Zealand is in a labour productivity slump with average income around 30 per cent lower than the OECD average.
- Due to high real interest rates and small insular markets, New Zealand small businesses tend to invest less in new technology and other productivity enhancing assets¹. As a result businesses can be slow to embrace new technology. It can also compound the difficulties that small businesses have when accessing international markets.
- Big businesses in New Zealand can easily disadvantage small businesses with unfavourable trading terms and control of the market. Small businesses typically have little bargaining power and resources to negotiate.

Opportunities for small businesses

Small businesses benefit from policies that suit all businesses, such as comparatively high quality regulation, availability of skilled labour, stable macroeconomic policies and good infrastructure. By comparison with other countries New Zealand stacks up well across all of these measures – we are ranked first in the world for ease of doing business, first equal for least corrupt country, fourth for transparency and thirteenth for competitiveness. Our business environment provides opportunities for small businesses and, with the right environment and incentives, New Zealand's small businesses can be the best in the world.

The New Zealand business environment presents a unique mix of opportunities for small businesses:

Being small in New Zealand is different

Our small businesses face a specific set of challenges that are unique to operating in New Zealand:

- The physical distance between New Zealand and other markets restricts knowledge and technology transfer, makes exporting physical goods difficult and reduces competition.
- Our small and insular domestic markets limit businesses' opportunities to specialise and develop economies of scale.
- While our small businesses are good at innovation, many lack the resources and knowledge to commercialise their innovations and take them to market at scale.
- Many small businesses in New Zealand struggle to recruit and retain staff and rely heavily on migrant workers.
- The can-do kiwi approach sees small businesses solve their own problems and make their own opportunities.
- There is significant scope for many small businesses to lift their performance and productivity by increasing investment in new technologies and human capital.
- Technological advancements mean that small businesses are becoming less constrained by distance from other markets and have more opportunity to scale up and, for some, internationalise. This is particularly true for weightless exports.
- There continues to be opportunities for New Zealand's small businesses to focus on value-add.
- New Zealand's clean green reputation gives exporting businesses, such as tourism and agriculture

¹ Conway, P. (2018). *Can the Kiwi Fly? Achieving productivity lift-off in New Zealand*. International Productivity Monitor, Centre for the Study of Living Standards, vol. 34, pages 40-63, Spring.

businesses, a competitive advantage internationally.

- The transition to a productive, sustainable and inclusive economy has the potential to help remove some of the barriers around the diffusion of technology, knowledge and human capital both to and between small businesses.

Small Business Survey

Any strategy for developing the small business sector should be informed by the experience and views of small businesses. The Council talked with many small business owners in the course of developing this strategy. We also ran a survey of small business owners and managers to get a deeper understanding of their issues and thoughts on the future.

Over 1,000 people responded to the survey and, while not representative of the small business sector as a whole, the results revealed they were overwhelmingly positive in their views on the success of their business and their satisfaction with being a small business owner.

Nearly two thirds of respondents (64 per cent) planned to grow in some way over the next five years, particularly through growing their customer base and expanding production, services or equipment. Only 36 per cent were intending to seek finance in the next five years, mostly through a bank loan.

Half of the respondents that employ staff found recruitment a problem, particularly finding people with the right skills, training, aptitude and experience.

Almost all respondents (96 per cent) were confident in their business management skills but only 36 per cent had done any form of management training. The main reasons for not doing business management training was that respondents did not think they needed it or they did not have enough time to do it. Digital and technical resources, business and strategic planning, and growing the business were the areas of most interest for training.

Only 40 per cent of respondents reported no problems with compliance. For the remaining 60 per cent of respondents, the main difficulties were long and complicated processes and information being hard to find.

Most respondents reported that they use some technology with accounting software, a business website, social media and cloud computing being the most common. However, the proportion of respondents reporting use of each of these tools individually was 20 per cent or lower. Understanding how technology would improve their business and having time to learn how to use it were the factors most likely to encourage respondents to use technology.

Small business support system

Small businesses do not have to face their challenges and opportunities alone. Both the private and public sector provide advice, guidance and practical support to help businesses navigate the business world and perform at their best.

Private sector

When looking for advice and guidance, small businesses will often first turn to organisations they deal with regularly. These are mostly located in the private sector.

Industry Associations

Many small businesses belong to a trade, industry, or business association that represents and promotes their particular industry and the interests of members. These associations typically provide members with a range of services including training, information, resources, networking events, mentoring programmes and connections with other businesses in the industry.

Chambers of Commerce and Employer Associations

Chambers of Commerce are a national network that promote, support and encourage sustainable, profitable business growth. They keep members informed of issues and events relevant to the business and economic environment. They also provide members with training, advice, and information and advocate on their behalf. They host business events and provide networking and promotional opportunities. The international Chambers network helps businesses seeking to export or internationalise.

Service providers

Many companies that provide services to small businesses also provide tools and resources to help their clients succeed. These include banks and accounting firms.

Government support initiatives

As part of the process of developing this strategy, we learned about the myriad of government support for small business. We were surprised and impressed with the breadth and quality of these programmes, but disappointed that they are not more widely known and utilised. It was also apparent that initiatives to enable and support the development of small businesses are fragmented across multiple agencies and multiple teams within agencies.

Better for Business

Better for Business is a behind the scenes programme that focuses on improving the business experience with government. It coordinates across the 10 government agencies that have the most interaction with business to develop easier, more integrated ways to deliver services.

The New Zealand Business Number (NZBN)

The NZBN has been introduced as a globally unique number for every business in New Zealand, which links to the information businesses are most often asked to provide – such as trading name and physical address. Using the NZBN means that businesses will not have to repeat the same information over and over with each new customer, supplier, or government agency.

Business.govt.nz

Business.govt.nz is a free government online resource dedicated to helping small businesses. It provides a wide range of information, tools, videos, and resources on all aspects of starting, running, growing and closing small business. It is a one-stop-shop for information and practical tools to save time and make business easier.

Regional Business Partner (RBP) Network

The RBP Growth Advisors help business owners connect with the right resources and experts to build capability and grow. Growth advisors also help with access to business mentoring services, management training, innovation services, and grants.

New Zealand Trade and Enterprise (NZTE)

NZTE provides customised services and support to New Zealand businesses looking to go global. It provides information, resources and connections to help businesses to build their capability and global reach. With offices throughout the world, NZTE seeks ways to diversify and enhance the value of New Zealand goods and services internationally and attract smart investments into the country.

Callaghan Innovation

Callaghan Innovation supports hi-tech businesses to grow faster through a range of innovation and research and development services. It connects businesses to experts, incubators and accelerators to help businesses turn their idea into a commercial reality. Callaghan Innovation offers a range of programmes and workshops to help businesses build their innovation capability and grants to help businesses with research and development.

Strategy for empowering small businesses to aspire, succeed and thrive

There is no shortage of information on how to set up and run a small business and there is help to grow for those that meet the qualifying criteria of particular programmes. However, the information and guidance can be hard to find and access, or does not meet the needs of many small businesses. As a result, businesses that are starting out may not know what is available or where to go.

It is hard to find and get practical advice and support for the fundamentals of running a business. This includes matters such as getting finance, increasing management capability, getting the right staff, and complying with rules and regulations.

This strategy seeks to redress the balance. The strategy focuses on the following key areas that are vital to the success of the small business sector:

- understanding small businesses and their needs, now and in the future
- ensuring there is access to affordable finance and capital
- building capability and skills and getting the right staff
- shifting the government focus from risk and rules to enabling and easing compliance.

Underlying themes of the strategy

New Zealand is changing and this strategy seeks to reflect not just the way we are now, but the way we will be in the future. Our population is becoming increasingly diverse and this will be reflected in the small business sector. The way we do business is changing rapidly. Those businesses that adopt digital tools and sustainable business practices are more likely to succeed into the future.

Other themes that have been central to our thinking in developing this strategy are lifting productivity, developing the mindset and aspiration of small business owners, the future of work, the importance of the regions, and increasing the number of small businesses competing internationally.

Engagement with Iwi is an important part of regional development and this is true for driving and growing small businesses in the regions. The holistic approach of Iwi serves to nurture small business as an integral part of communities and regions.

Implementation

We have developed these strategies with a view to three time horizons:

- Horizon 1 - the next 5 years
- Horizon 2 - 5 to 10 years
- Horizon 3 - beyond 10 years

All of the recommendations can be implemented or tested within Horizon 1. The effectiveness and impact of implementation would be reviewed in Horizon 2 and improvements made. Horizon 3 would see the outcomes achieved which would then form the basis for developing further initiatives.

We have chosen not to be prescriptive about who should be responsible for implementing a number of the recommendations of this strategy. This is to ensure that initiatives are developed and delivered by the agency or agencies that are best placed and most qualified to do so. In some cases this may be government but in others it will be the private sector.

Government needs to facilitate the implementation of the recommendations and maintain accountability for the delivery and quality. Where private sector service providers or other intermediaries are capable of delivering on the recommendations, government should encourage them to do so.

The small business landscape is constantly evolving and new players may emerge in the coming years with expertise to contribute to implementation of initiatives. A number of recommendations will require an iterative development process involving design sprints, testing, review and repeat. Design processes will enable the needs of small businesses, and current programme offerings, to be clearly identified and recommended initiatives can then be tailored accordingly. In some cases the best results may be achieved by leveraging existing expertise and programmes rather than developing new interventions that actually duplicate initiatives already in place.



The Living Standards Framework

In developing this strategy, the Small Business Council has used the Living Standards Framework to underpin our thinking. The Living Standards Framework was developed by government as a high level way to analyse and measure intergenerational wellbeing.

A core element of the Framework are the four future wellbeing capitals:

NATURAL CAPITAL: all aspects of the natural environment needed to support life and human activity.

FINANCIAL AND PHYSICAL CAPITAL: the country's physical intangible and financial assets that have a direct role in supporting incomes and material living conditions.

HUMAN CAPITAL: People's knowledge and physical and mental health that enables them to fully participate in work, study, recreation and society.

SOCIAL CAPITAL: The social connections, attitudes, norms and formal rules or institutions that contribute to societal wellbeing.

All four capitals touch small businesses in some way. They are reflected through the connections between small businesses and the communities they work in, the staff they employ, their contribution to the nation's GDP, and their environmentally sustainable practices.

1. Understanding the needs of small businesses

An environment that empowers and enables small businesses to succeed can only be purposefully created from a deep understanding of the sector and the needs of businesses.

Understanding small businesses

There is a huge amount of data collected on and from small businesses by various organisations for a variety of different purposes. However, there is a lack of accessible, authoritative official data for the specific purpose of understanding who our small businesses are, their experience of being a business in New Zealand, and their needs.

Statistics New Zealand's Annual Enterprise Survey provides statistics on the financial performance and position of businesses, including small businesses. The Business Operations Survey collects data on the behaviour and performance of businesses. It provides official statistics for policy and research on the New Zealand business environment but only covers enterprises with six or more employees. This misses the micro-businesses, which make up 90 per cent of all businesses in New Zealand. The Business Operations Survey is a core component of the integrated Longitudinal Business Database and the absence of micro-businesses is a major data gap.

Extensive data on small business is also collected in the private sector. Industry and business organisations, banks and service organisations such as Xero and MYOB have in-depth, up-to-date information on the business operations and experience of their members and customers.

RECOMMENDATION 1:

Improve data collection and collation to ensure it is representative of the whole small business sector, including micro businesses, to provide a comprehensive understanding of the experience of being a small business in New Zealand.

A detailed overview of all available data on the small business sector is the first step in getting a better understanding of the nature, workings and needs of the sector. Agreements then need to be put in place for access to the data held in the private sector.

Improved data collection requires the inclusion of a representative sample of the 372,000 micro-businesses in the Business Operations Survey. This will come at a cost but government cannot make informed policy for small businesses without understanding the largest part of the business sector.

Review small business support

The Regional Business Partner (RBP) Network is administered by NZTE and Callaghan Innovation. The network was introduced in 2010 to foster and grow the business support system. Since its establishment, RBPs have become one of the government's main providers and funders of specialist advice, support and funding to improve business capability.

It is timely to review the RBP programme, the consistency and visibility of service delivery across the country, and how it can be extended to small business.

RECOMMENDATION 2:

Review the policy intent, purpose and scope of the RBP Network to identify opportunities to extend its services to small businesses.

Horizon 1: Comprehensive, reliable data on the whole small business sector is available and used in policy development. Findings and recommendations of the review of the RBP are implemented.

Horizon 2: Supports for small businesses are well-known and widely used.

Horizon 3: The small business support ecosystem is constantly evolving and predictive, providing personalised tools and resources as and when needed.

2. Easier access to finance

Finance is one of the essential fuels that gets businesses started, drives them forward and enables them to grow. Official data from the 2018 Business Operations Survey showed that businesses with 6 to 19 employees have little trouble getting finance on acceptable terms when they want it. While only 23 per cent of businesses this size sought finance in 2018, 90 per cent of them succeeded. This survey does not collect data on micro-businesses.

Other surveys report different results. The 2018 Asia-Pacific Small Business Survey reported that only 51 per cent of New Zealand small businesses found it easy or very easy to access external finance².

Micro-businesses with 0 to 5 employees, which form the vast majority of New Zealand businesses, appear to have a harder time getting finance. Research conducted by MBIE in collaboration with Duke University found a third of respondents reported access to finance was limiting their growth³.

Options for finance are limited in New Zealand and the major banks are the main avenue. There are few alternative lenders offering funding at affordable rates and the equity and angel investment market is small.

A lot of due diligence steps are involved in the assessment of bank loan applications, which can make the process time-consuming. The assessment and decision procedures are similarly resource intensive and lengthy. Businesses are often left waiting on the outcome of approval processes and they may miss opportunities to develop, grow and reach their potential.

Small businesses require access to the right kinds of finance quickly when they need it, at affordable rates and for the right reasons. There is no one solution that will achieve this but there are opportunities for innovation in finance offerings. Therefore we recommend a package of proposals to help address the situation.

Fuelling small businesses with affordable finance

Micro-businesses primarily seek bank loans for finance rather than ceding some ownership of the business with equity finance. Banks consider small businesses risky and often favour lending against property as collateral. As patterns of house ownership change and new Reserve Bank capital requirements for banks potentially come into force, small business owners may find it increasingly difficult to get loans at all, let alone at affordable interest rates.

Micro-businesses often have shorter financial histories, less sophisticated financial records, and less financial

capability than larger businesses and their personal and business finances are more likely to be intermingled. As a result, they are often unable to present a strong case for a bank loan.

Measures need to be taken to make small businesses more attractive borrowers for lenders and remove the need for property as collateral. This includes upskilling business owners on preparing business cases for finance. There also needs to be more options available for small business owners to access funding.

RECOMMENDATION 3:

Government introduce a Credit Guarantee Scheme to facilitate lending to small businesses.

Internationally, credit guarantee schemes (CGSs) are the most common business support arrangement for SMEs in response to the perceived market failure in credit provision⁴. CGSs share the lending risk by the government guaranteeing a proportion of the loan in the event of default by the borrower. It reduces some of the administrative costs of assessing the creditworthiness of small businesses relative to the expected rate of return and removes the need to require property as collateral.

A CGS would assist small businesses that lack adequate collateral but are otherwise creditworthy to obtain a loan at a reasonable interest rate. It would also enable businesses that would otherwise be excluded from the lending market to establish a repayment history and reputation for future financing. Indirectly, participating in a CGS would help small businesses gain experience in the lending market and develop their financial capability.

The design of the CGS needs to share the lending risk between the lender, the borrower and the government guarantor. The level of government security needs to be sufficient to act as an incentive to lenders but not so high that it encourages borrowers to default. The OECD suggested rates of between 60 per cent and 80 per cent of the loan value are high enough to encourage lender participation and low enough to avoid deliberate default⁵.

² CPA Australia Ltd, 2019. *CPA Australia Asia-Pacific Small Business Survey 2018: Tenth annual report on small business issues and sentiment across ten economies in the Asia-Pacific*.

³ MBIE Occasional Paper (in press). *Access to Finance in New Zealand: A Deep Dive into Small Businesses with 0-6 Employee Population*. MBIE and Duke University Fuqua School of Business

⁴ OECD, 2017. *Evaluating Publicly Supported Credit Guarantee Programmes for SMEs*.

⁵ OECD, 2010. *Facilitating Access to Finance: Discussion paper on credit guarantee schemes*.

The government already operates a form of loan guarantee for New Zealand exporters through New Zealand Export Credit based in the Treasury. This provides an existing capability and infrastructure from which to explore developing a broader CGS. Administration costs of the CGS would be funded by fees paid by borrowers and lenders.

A digital lending and capital marketplace for fast access to finance and financial information

In New Zealand there are few alternatives to major banks for debt finance. We lack a developed secondary lending market or brokers to help businesses access finance. While some alternative non-bank lenders are emerging that offer cash flow and/or invoice financing, they come with high interest rates.

More needs to be done to develop a well-functioning, competitive financing market for small businesses. As a first step, second tier finance lenders could be encouraged to take a more active part in lending to small businesses.

There are a myriad of other funding options but they are not readily apparent and finding alternatives may be a matter of good luck rather than informed choice. Technological advances such as open banking, artificial intelligence and application programming interfaces can transform the current outdated and cumbersome processes into a real time digital platform fit for the future.

RECOMMENDATION 4:

Government facilitate the establishment of a private sector led digital lending and capital marketplace platform to quickly and efficiently match small businesses with appropriate lenders and capital providers.

A digital marketplace platform would use technology to rapidly search the market to find appropriate funding options for businesses. The platform would match businesses with trusted participating lenders and/or capital providers to provide the right finance to suit specific needs. The platform would be able to search a wide range of business finance, such as short and long-term loans, peer to peer loans, invoice finance deals, growth funding, grants, equipment leases and capital investment.

Open banking is a pre-requisite for the successful operation of the marketplace as small businesses would need to be able to consent to the sharing of their financial data with a third party. This would enable fast (same day) credit decisions and, in some cases, pre-approval on the platform.

A lending and capital marketplace would provide greater transparency of available sources of finance and lending criteria, making for a level playing field for small

businesses. It should also create greater competition amongst finance providers which would improve outcomes for small businesses seeking funding.

It is important that small businesses in search of finance can find the marketplace. A mandatory referral system, whereby capital providers that are unable to provide finance to a small business must refer the applicant to the marketplace, would ensure they get the funding they need.

RECOMMENDATION 5:

Government require capital providers that decline small businesses for finance to refer them to the lending and capital marketplace so that they can access other finance options.

Investing in growth through a dedicated Small Business Growth Fund

Difficulty in getting capital to grow can dampen aspirations and constrain the mindsets of small business owners. Equity investment is the main alternative to bank loans but New Zealand's equity investment market is very small and investors often want quick returns. Equity investors generally look for well-established businesses with a strong track record and tend to require some control over the management and running of the business.

A dedicated private sector fund providing long term loans and patient equity investment would help to stimulate growth in the small business sector. Small business growth funds are successfully operating in a number of countries including the United Kingdom, Canada and Denmark. Australia is currently in the process of establishing a growth fund for its small business sector.

RECOMMENDATION 6:

Government facilitate the establishment of a private sector led Small Business Growth Fund to provide long-term funding in the form of debt and non controlling equity investment.

The fund needs to be independent of Government and operated on a commercial basis. It would offer both debt and equity financing. Debt finance would be in the form of long-term loans and would not require property as collateral. Instead they would be secured against the business assets and/or owner and director guarantees. Equity would involve the purchase of shares but would not give control over the management of the business.

As part of the overall package for improving access to finance, loans through the Small Business Growth Fund could be supported by the Government Credit Guarantee Scheme described in Recommendation 3. It would also be subject to the mandatory marketplace referral

requirements outlined in Recommendation 5. The fund would need to be large enough to provide meaningful growth capital and would therefore likely be in excess of \$250 million.

Along with funding, small business owners would benefit from advice and assistance on their growth journey. An important component of the Small Business Growth Fund would be the provision of mentoring, coaching and access to experts to maximise the benefits of the investment.

Start-up grants to get new small businesses off the ground

The more small businesses there are, the greater the number that could potentially grow to be larger businesses and the greater the benefits to the economy. While the small business ecosystem provides a lot of advice and assistance to new businesses to help them succeed, sometimes what people need is some cash to get their business off the ground.

A start-up grant scheme would provide the necessary boost for enterprising people to get their great business idea up and running.

RECOMMENDATION 7:

Government establish a small business start-up grant scheme with criteria targeted to priority groups.

Grants of up to \$25,000 would be provided to cover costs associated with setting up a business, for example equipment, securing premises, or accessing digital platforms. An assessment process and eligibility criteria would need to be developed to ensure the grants go to viable business ideas.

Targeted grants are a good way to promote certain types of businesses or entrepreneurs, particularly those that might find it difficult to get other types of finance. The criteria would initially be targeted to promote diversity, young entrepreneurs, and environmentally sustainable small businesses. The criteria must be reviewed regularly so that other priority groups can be targeted as they emerge.

The start-up grants scheme would also provide business and financial advice to recipients to maximise their success. After the initial establishment phase, the recipients would then be referred to capability development programmes for further support where needed.

Removing barriers to equity investment

As noted above, the equity investment market is small in New Zealand and does not favour investment in start-ups and small businesses because they are considered high risk and provide poor and slow returns. While small business owners tend to prefer not to share ownership in

the business, equity investors do have a part to play in the development of the small business sector.

Because their investment gives them a stake in a business, equity investors are motivated to ensure that a business succeeds. To that end, they often provide valuable management and governance experience as part of their investment in a business.

Removing barriers to equity investment would help stimulate greater investment in New Zealand businesses, particularly start-ups. One such barrier, which was highlighted in the Tax Working Group's final report, is the tax loss continuity rules and their impact on expanding businesses.

Start-up businesses typically incur tax (and actual) losses in their early years. If there is sufficient continuity of shareholding, these businesses can carry their tax losses forward and offset them against their future taxable income once the business becomes profitable. At present, the tax loss continuity rules require a 49 per cent continuity of ownership from when the loss is created to when it is used.

Start-ups, however, frequently require new capital, which can change the ownership structure of the business. This can reduce or remove their ability to carry losses forward for taxation purposes. In practice, this acts as a barrier to the recapitalisation and growth of start-up businesses.

RECOMMENDATION 8:

Government adopt the Tax Working Group recommendation to relax the tax loss continuity rules to better facilitate investment in start-up businesses.

The impact on start-up businesses could be reduced in two ways. Either, the rules could be changed to reduce the continuity percentage required, or the effect on continuity of additional shareholders could be set aside.

Horizon 1: Small businesses can find the right finance for their needs, when they need it.

Horizon 2: New Zealand has a vibrant and competitive capital and lending market for small businesses.

Horizon 3: The Small Business Growth Fund is a high performing patient investor in the small business sector

3. Building capability and skills

To aspire, succeed and thrive, business owners need to have the right mindset. This means having the confidence, knowledge and belief necessary for their business to reach its full potential.

Many of those who want to improve and develop find it difficult to access assistance and tools for their stage and scale. Small business owners have limited time to devote to increasing their own management capability and may miss opportunities to improve their business. Owners need to invest in their own development, as well as that of their employees, to ensure their businesses are as successful as they can be and are able to evolve to meet the challenges and changes of the future.

Small businesses struggle to compete for talent because they are unable to provide the breadth of opportunity, career path, and remuneration that larger companies can offer. Those in the regions can be further disadvantaged by their locations, with skilled workers gravitating to larger centres with more opportunities.

Lack of appropriately skilled staff is consistently reported as one of the biggest challenges facing small businesses⁶. Our own survey of small businesses found that just over half of those that employ staff struggle to recruit people with the right skills. Lack of training, work-readiness and previous experience of applicants are the main reasons given for not being able to recruit suitable staff.

An enduring misalignment between education and training and the needs of small business means employers struggle to recruit staff with the right skills. A further challenge often reported is that new workers are often not prepared for the workplace on completion of education or training. In particular, many lack soft skills relating to adaptability, communication and customer focus. This is not an issue unique to small businesses and these kinds of attributes are generally acquired on the job. The problem for small business owners is that they often lack the time and resources to invest in this kind of support for new starters.

We are currently in the midst of the fourth industrial revolution. Driven by a wave of rapid technological advancements and automation, our whole way of working and doing business is changing and small businesses need to be able to keep up. Digital technologies offer exciting opportunities to address the productivity problem in New Zealand but it is critical that the small business sector does not get left behind.

Encouraging small business owners to invest in themselves

One of the biggest challenges for small business owners and managers is taking the time to invest in their own development and management capabilities. While many recognise the necessity of training and development

for their staff, they do not always see the same for themselves as a priority or even necessary.

Small business owners and managers that embrace lifelong learning and continually increase their knowledge and skills are more likely to build the confidence and aspiration to take their business to the next level. It would also enable them to keep pace with change and adapt to emerging trends.

Small business owners are time-poor and, in order to actively participate in their own development, training opportunities need to be visible, relevant, affordable, and easy to access. The content, size, delivery and timing of development programmes and tools need to be varied and tailored to the needs of small businesses.

RECOMMENDATION 9:

Government fund a Small Business Capability and Ambition Programme to provide tailored, relevant and timely capability development programmes to small business owners and managers.

A comprehensive Small Business Capability and Ambition Programme, structured so that it is easy to access, would remove many of the barriers to busy small business owners and managers investing in their own development and capability. Content would be offered in a range of formats to suit the needs and locations of business owners, including ongoing programmes, bite-sized modules, one-off courses, focused micro-credentials (certification of achievement of specific skills, knowledge or experience), study groups and self-directed learning.

A key component of the Programme is to inspire small business owners to be ambitious in their goals. The content of the programme would include a focus on developing the mindset, belief and aspiration to achieve the full potential of the business.

The delivery of training would be through a range of channels and providers to suit the availability of trainees. Examples might include face-to-face classes, online, webinars and downloadable podcasts. Part of the development of the Programme would be the design and trialling of technologies such as artificial intelligence, augmented reality and virtual reality for learning and capability development.

The Small Business Capability and Ambition Programme resources would incorporate current knowledge of

⁶ ANZ Business Micro Scope, June 2017 and June 2018.

capability needs and be informed by design processes, sprints and pilots to identify gaps in existing training and development offerings. Design processes would also be targeted to provide insights on how to drive greater participation and engagement by small business owners in their own training and development.

Examples of core areas of training and development that could be included in the Small Business Capability and Ambition Programme include:

- developing an aspirational mindset
- financial literacy and management, funding options for businesses, and how to raise finance
- business management and operating systems
- workforce planning, human resources and employing staff
- sustainability frameworks and sustainable business practices
- using digital technology for better business performance and productivity
- Thinking and planning for the future.

Materials need to be available in multiple languages so that all small business owners have the opportunity to participate.

A focus on sustainability

Climate change and environmental sustainability has become a defining feature of this age. As New Zealand transitions towards a low carbon economy, many small businesses are not geared up for the changes that this will bring to their operations. The Small Business Capability and Ambition Programme would provide a means for upskilling and training small businesses specifically on sustainability.

Guidance on sustainability would include information for key sectors such as primary industries, tourism, hospitality, construction and professional services. Working in partnership with existing programmes, content could include:

- guidance on sustainability performance and reporting frameworks and tools
- practice tools for reducing the impact on natural systems
- resource efficiency using circular economy principles
- climate change including carbon accounting, adaptation, innovative low carbon solutions and business models
- social purpose and enterprise.

The right skills for the job

People are the most valuable asset of any business. Whether it is the experience and commitment of a sole trader or the knowledge and technical skills of trained staff, it is the people that bring the competitive advantage to a business.

The economy relies on the vocational and tertiary training sectors to produce skilled graduates for the workforce. Industry and business need to be fully involved in setting the education agenda. With small businesses employing over a quarter of the labour market, the education and training sector needs to be responsive to their workforce requirements.

The Government is currently reforming vocational education and training. This process provides an important opportunity to bring a renewed focus on business and industry needs to vocational training. However, it does not stop there. The voice of small business needs to be heard in all education decisions relevant to the sector.

RECOMMENDATION 10:

The education sector establish ongoing engagement processes for small businesses to have meaningful input into the development and delivery of training to support their workforce needs.

Small businesses must have a say in the form, content and delivery of training to the people that will comprise their workforce. Education and training should be structured around the needs of businesses, industry and trainees, rather than those of the training providers. Rejuvenating the engagement processes to include a specific focus on small businesses is the only way for education and training to better respond to their employment needs.

The technology and expertise of industry and businesses could be leveraged to better effect to ensure training provides the skills required in the workplace. Course formats and delivery need to be able to quickly adapt to the changing nature of work and be ready to train for the skills required in the future. This means shorter courses, micro-credentials and more supported training in the workplace.

The secondary school system also has a role to play in preparing young people for a career in or as a small business. Giving young people an early taste of entrepreneurship and business helps promote small business and start-ups as a career option to students and their parents.

Actively engaging with small business in delivery of relevant aspects of the Business Studies subject would tap into the expertise of local entrepreneurs and small businesses. This would provide valuable real-world experience for students and exposure to the small business world. It would also enable schools to keep pace with the fast pace of change in the business sector.

Going digital

Digital capability is increasingly critical to the success and growth of businesses. The use of digital technologies by small businesses is strongly correlated with increased productivity, growth and profitability⁷.

Technology provides the potential to bridge the productivity gap between New Zealand businesses and the OECD average and to reduce our isolation from global markets. Up until recently, technological business solutions and tools have been complex, time consuming to learn, and expensive, leaving many small businesses shut out of the digital revolution.

In recent years the cost of technology has reduced and systems have become scalable to the small operator. Software-as-a-service models have enabled easier access to digital business platforms at a cost of about \$5,000 per year. The use of digital platforms reduces costs for government agencies, such as Inland Revenue, and there is a case for providing incentives to encourage greater adoption of digital technology by small businesses.

RECOMMENDATION 11:

Government introduce a technology credit to enable small businesses to purchase digital business tools and software services to drive increased productivity.

The credit would be scaled according to the size of the small business. For example, businesses with fewer than 10 Full Time Equivalent (FTE) employees would receive a discount of the full cost of software services for one year up to a maximum of \$5,000. Businesses with between 10 and 19 FTE employees would receive a 50 per cent discount for one year. The credit could be scaled down further for larger businesses.

The benefits of technology adoption are most likely to be realised when supported by the appropriate capability. Automatic access to the credit could be offered to participants in the Small Business Capability and Ambition Programme as an incentive for professional development. For others, eligibility criteria would be developed as part of the credit offering.

Cost is not the only barrier to greater digital adoption by small businesses. Other reasons include lack of digital skills, lack of time to learn how to use digital tools, and not seeing the benefit of technology to their business.

Resources exist to help businesses increase their understanding and adoption of technology. For example, Digital Journey is a social enterprise that provides a free interactive online tool for businesses to assess their use of technology and build a digital action plan. Other approaches are also needed to reach small businesses that may not be actively considering whether and how to go digital.

Between 2017 and 2019, MBIE ran a pilot programme to understand small business uptake of technology. The Business Uptake of ICT Pilot found that reliable and relevant information on digital technology was hard to find. The main sources of advice for small business owners were trusted advisors such as industry associations, business advisors, accountants and regional bodies such as Chambers of Commerce, Employers' Associations and economic development agencies. Trusted advisors also have difficulty finding information on digital technology, often do not have the digital capability themselves to help business owners, and may not see it as their role.

The Pilot found there is a shortage of independent digital experts that trusted advisors can refer their small businesses to for help with technology and automation. A train the trainer approach to prepare industry associations and regional bodies to better advise small businesses would be a way to bridge the gap. MBIE has developed online resources for this purpose, however a proactive approach to their use is required.

RECOMMENDATION 12:

Government facilitate the delivery of a series of regional 'train the trainer' sessions to equip industry associations and regional bodies to help small businesses increase their digital capability.

The Business Uptake of ICT Pilot found that small businesses like networking and learning from each other. Talking to other business owners about their experience is a valuable way of understanding the practical benefits of technology and how it could be applied to their own business.

Small businesses are often isolated, particularly in the regions, and lack opportunities and time to meet and network with each other. A range of existing place based initiatives provide an infrastructure that could be leveraged to serve as regional business hubs. These hubs might provide spaces for small business owners to work, hold meetings, attend events and generally connect with others in their region.

Online communities of interest are also a popular way to connect with people and provide fast and easy ways to ask questions and share ideas.

RECOMMENDATION 13:

Establish digital forums and link into existing regional infrastructure to enable and facilitate connections between local businesses.

The purpose of the forums and hubs is to build a community around small businesses to inspire, educate and inform on areas of common interest. The digital

⁷ CPA Australia Ltd, 2019. *CPA Australia Asia-Pacific Small Business Survey 2018*; Xero Insights, 2015.

forums would provide a means for business owners to interact as and when they want. They would have a regional focus but would also be connected nationally to link into larger programmes and content.

The hubs could host discussion groups and information resources of relevance to running a small business. Core themes could include automation, the future of work, using digital technologies, sustainable business practices, emerging global trends relevant to small business, investment, and regional business initiatives.

Sometimes small business owners just need fast answers to specific questions. Artificial Intelligence (AI) provides the technology to meet this need and would be able to evolve and keep pace with change. An AI tool created specifically for small businesses to enter questions on any aspect of business would put a world of knowledge at their fingertips.

Information and networking will help build the motivation and capability of small business owners to embark on their digital journey. However, it does not put the technology in their hands nor guide them in implementing change processes on the ground. Many small businesses will not have the resources to engage experts to guide them to automate, go digital, and implement future focused and sustainability initiatives.

RECOMMENDATION 14:

Government establish a Small Business Transition Fund to support small businesses to sustain their business through major change.

The purpose of the Small Business Transitions Fund is to provide grants to enable small businesses to start transition processes in small purposeful steps. It is not a training programme. The grant would enable business owners to engage experts for one-on-one support in key areas of change, such as sustainable business operation, digital tools, increasing productivity, and the future of work.

The fast changing nature of work poses particular challenges to small businesses in preparing for the future. Individual small businesses do not have the scale or resource to engage in or influence workforce planning for the sector. However, partnering with government would provide a means for the sector to participate in workforce planning for small business. This is an area that would warrant further investigation.

Horizon 1: The right training is available for small business owners and staff. The number of small businesses using digital technology is growing steadily.

Horizon 2: Digital technology and skills are widely deployed in the small business sector. Owners and staff regularly upskill in areas relevant to the business.

Horizon 3: Small businesses keep pace with change and seamlessly respond to emerging trends.

4. Shifting from compliance to enablement

All businesses have to comply with a range of rules, practices and legal requirements. These include health and safety requirements, employment legislation, tax rules and local government requirements such as district plans and resource consents.

The compliance system is currently oriented to managing and minimising risk. We believe there needs to be a fundamental shift away from a focus on rules and the needs of regulators to a focus on outcomes. A system that puts businesses at the centre and is directed towards enabling them to meet their obligations is more likely to be successful for all.

The rules, practices and contractual requirements of large businesses also impact the small businesses they deal with. Small businesses are vulnerable to abuse of market power by large businesses forcing them to accept unfavourable terms and conditions.

Small businesses report regulation to be one of their biggest problems along with a lack of consistency and coordination between agencies and across regions⁸. Compliance obligations, and the costs of meeting those requirements, are the same regardless of the size of business. They can therefore have a disproportionate impact on small businesses as they do not have the scale to dedicate specific resources to completing these processes.

The Tax Working Group identified a number of ways to reduce compliance costs that would benefit small businesses. These include simplifying fringe benefit tax and the entertainment adjustment along with a range of other measures. We endorse the Tax Working Group recommendations for reducing compliance costs and would like to see them progressed as a high priority.

Our survey found that most small businesses are confident in their knowledge of compliance requirements and take their obligations seriously. However, the multitude of compliance processes are time consuming and can significantly increase the work load and costs for busy small business owners and managers.

Casting a small business lens over compliance requirements

Small businesses must deal with a wide range of compliance processes and requirements imposed by multiple local and central government agencies.

While legislation and regulation are subject to formal regulatory impact analysis as part of the development process, the impacts on small businesses specifically may not be top of mind in these assessments. Impacts on small business may not be considered at all in the development and implementation of other compliance processes. Consequently, the resulting burden on small businesses may be out of balance with the object of the compliance requirements.

Other processes, services and interactions with central and local government also impose a compliance burden on small businesses. While the impact and costs of individual processes may be assessed, it is the cumulative impact of the multitude of compliance requirements that make up the compliance burden on small businesses.

Compliance processes cut into the time that would otherwise be spent on doing the work of the business. This reduces productivity and, when taken across the whole small business sector, impacts the wider economy.

It is not enough for impacts of compliance on small business to be considered as one item of an overall economic assessment. They need to be identified, analysed and, quantified and also assessed in the context of the overall compliance burden. The impacts then need to be mitigated before regulation proceeds to the drafting phase.

The Danish government uses this approach as part of achieving better, smarter regulation. Officials act as 'burden hunters' to search out administrative burdens and reduce red tape. Burden hunters involve businesses and end users in simplifying regulation and aim to reduce the compliance costs for businesses. The business perspective is gained through a variety of user-centred methods including interviews, observation, mapping user journeys, and service design.

RECOMMENDATION 15:

Establish a 'Burden Hunter' unit to identify and mitigate administrative burdens, costs and other compliance impacts for small businesses.

Following the Danish burden hunter model, the unit must involve small businesses in assessing and reducing the burden of compliance and regulation. Regulators need to know how rules and regulations will be implemented on the ground, and the cost to small businesses, to know if they are likely to be effective. This requires an understanding of the end user experience and all the processes and tasks that businesses would actually have to do to comply. It is by involving small businesses that simple rules and efficient processes for businesses can be developed and their costs reduced.

Businesses report the biggest issues in dealing with government are poor coordination and consistency between agencies. Another goal of the 'burden hunter' role is to achieve better co-ordination and connectedness

⁸ ANZ Business Micro Scope, June 2017 and June 2018; Better for Business, 2019 Business Insights.

across agencies. It is intended to bring about a culture change within government departments and create seamless compliance processes.

When developing new legal requirements or processes, central and local government should take a customer-centric service design approach. This is achieved through engaging small businesses from the outset and recognising that the user experience is the sum of all rules and processes, not just those under development.

The 'burden hunter' role cannot be merely advisory. In order to achieve real results it needs to have real authority over compliance processes. The unit would also monitor implementation of new regulatory measures to determine the resulting costs and impact on small businesses.

The unit needs to have a specific focus on small businesses rather than a wide remit on business in general. This is necessary because, while improvements for small businesses will invariably benefit larger businesses, the converse does not always apply.

Protecting taxpayer rights

Tax legislation is complicated and inevitably disputes will arise between small businesses and Inland Revenue regarding tax. However, the dispute resolution process, even for simple cases, requires a lot of time and effort to complete. As a result, the costs involved in disputing issues with Inland Revenue can be prohibitive. It is often more economical for a small business to concede, even when it has strong grounds.

The costs of the dispute resolution process effectively act as a barrier to access for low tax payers and undermine their rights. This power imbalance between small businesses and Inland Revenue threatens the integrity of the whole tax system.

The Tax Working Group recognised the need for a taxpayer advocacy service to assist in resolving disputes with Inland Revenue. We agree that there should be an advocacy service to help small businesses with legitimate cause to dispute their tax payable and resolve other tax related issues.

RECOMMENDATION 16:

Establish a Tax Advocacy Service to assist small businesses in disputes with Inland Revenue.

While the Taxpayer Advocacy Service may be located within Inland Revenue⁹, it should be headed by an independent appointee with a consumer rights background. Further independence would be achieved by the Taxpayer Advocacy Service reporting directly to Parliament's Finance and Expenditure Committee.

Embracing diversity

New Zealand's population is becoming more and more culturally diverse and this is reflected in the small business sector. Asian peoples are the fastest growing group and are expected to grow from 12 per cent of the total population in 2013 to 22 per cent by 2038. Māori are projected to increase from 16 per cent to 18 per cent and Pacific Peoples from 8 per cent to 10 per cent of the total population in the same period.

Compliance processes and government initiatives directed at small businesses need to be accessible to, and inclusive of, people of all cultures and languages. As a first step, more effort is required by agencies to reach business owners whose first language is not English.

RECOMMENDATION 17:

Government lead the way in recognising and embracing diversity in the small business sector and ensure compliance requirements are communicated effectively to all, including the language translation of key content.

Ensuring prompt payment to small businesses

Small businesses are vulnerable to the contracting and payment practices of larger companies and organisations they deal with. Some large companies require small businesses to accept extended payment terms, do not pay on time, and do not send their own invoices promptly.

Late payments and extended payment times can have a disastrous impact on a small business's cash flow and viability and are major causes of stress. Government has traditionally refrained from intervening in transactions between businesses. However, the power differential between large and small businesses leaves small businesses with little or no recourse to improve contractual terms and conditions if they want to retain the contract.

The use of e-Invoicing will speed up payment processes by allowing the direct exchange of invoices between the financial systems of suppliers and buyers. e-Invoicing has the potential to improve productivity and reduce the cost of doing business. It can also facilitate faster payment.

Government can influence the payment behaviour of large businesses through leading by example, providing tools to make it easier to pay promptly and by requiring it through legislation.

⁹ The Tax Working Group suggested a Departmental Agency.

RECOMMENDATION 18:

Government lead the way in improving payment practices to small businesses by:

- **requiring all government agencies to pay invoices promptly**
- **proceeding quickly with imposing maximum contract payment terms**
- **requiring all government agencies be able to receive e-Invoices by the end of 2020**
- **holding large businesses to account if necessary.**

Early engagement to address non-compliance

Non-compliance with tax and legal obligations can occur for a variety of reasons, for example a lack of information, poor understanding of requirements, temporary cash-flow issues and financial mismanagement. Most business owners want to do the right thing and do not intentionally ignore their obligations. However, failure to address non-compliance early can lead to problems compounding and business owners can find themselves in serious trouble.

The key is to act quickly and not let incidences of non-compliance get out of hand. The earlier non-compliance is detected, the earlier it can be positively addressed. This may be by helping businesses get back on track or, in some cases, closing the business before the situation gets worse.

RECOMMENDATION 19:

Government agencies adopt a positive, early intervention approach to non-compliance by small businesses with the aim of resolving issues constructively and quickly.

Promoting an enabling culture would encourage small businesses that are struggling to meet their obligations to approach administering agencies for assistance. Repeated non-compliance, on the other hand, should be dealt with quickly and firmly.

A fair shot at government procurement

The procurement process is one way that government can invest in the New Zealand small business sector. The New Zealand Government spends around \$41 billion each year on buying goods and services from external suppliers and providers. This accounts for approximately 18 per cent of New Zealand's GDP.

Government procurement rules already require that tender processes are appropriate for the size of the job, however this does not appear to be consistently applied. As a result, the processes for low value contracts can be as complex and resource intensive as high value

procurement. This favours large businesses that are able to dedicate resources specifically to procurement processes.

Procurement decisions may also be weighted towards large businesses with demonstrated track records and financial capacity regardless of the nature and risk of the purchase. As a result, small businesses can find themselves unnecessarily shut out of the process even for low risk and low value projects.

In 2018, the Government agreed to use government procurement to achieve priority outcomes. We believe this approach can be extended to foster and promote further specific objectives, for example, small business development, environmental sustainability, innovation, social enterprise, regional development and local employment.

Consistency in approach across central and local government agencies is key to a fairer procurement system. The whole economy would benefit from procurement practices that are simple, more business-focussed and with requirements and expectations that match the size of the job.

If government agencies were more prepared to engage with small businesses, particularly for smaller contracts, local companies would have the opportunity to prove themselves and develop a credible track record.

RECOMMENDATION 20:

Ensure government procurement processes and practices are commensurate with the complexity and value of the purchase and encourage participation of small businesses.

Participation and success of small businesses in government procurement should be routinely monitored and reported.

Horizon 1: Compliance processes are easy to understand and complete. Government procurement processes are simple, appropriately sized and foster business development in priority areas.

Horizon 2: Productivity is increased through fast, easy interactions with government. Small businesses across the country are routinely participating in government procurement.

Horizon 3: Small businesses report no issues with compliance and find government agencies easy and helpful to deal with. Small businesses contribute positively to New Zealand and are empowered to grow and internationalise through successful government procurement.

Implementation of the Small Business Strategy

All strategies are future focused but can be forgotten after the first year or two of implementation. To avoid this, we believe responsibility for monitoring the implementation of this strategy, and reviews on progress, need to be specifically allocated.

Small business falls within the responsibilities of multiple government agencies. This creates fragmentation and inconsistencies in approach and delivery. We believe better outcomes for both government and small business would be achieved through consolidation of work programmes and accountability.

The Council recommends establishing a cross agency unit comprised of the key agencies that impact on small business. The purpose of the unit would be to coordinate, align, and oversee all small business focused work across government. A key part of the role would be to drive implementation of this Small Business Strategy.

Another important feature of this unit would be strong small business representation at the governance level. This would build strong linkages between government and the private sector, ensuring a more joined up approach. By bringing the small business sector perspective directly into the strategic operation of the unit, implementation can be informed by a broader view of the existing and potential landscape.