



Support Structures for the Small Business Sector

Recommendations of the New Zealand Small Business Council for the Minister of Small Business

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The Small Business Council was established in August 2018 for a term of one year to advise the Government on strategic opportunities for improving the small business sector. The terms of reference for the Council state that the Council will:

- *provide advice on the ongoing purpose and functions of the Council beyond the initial twelve month appointment; and*
- *provide independent and objective advice on establishing a Small Business Institute to be located in a New Zealand university.*

This document sets out the Council's advice on these two items from the terms of reference. The views presented in this report are that of the Council and do not reflect government policy.

Recommendations

The Small Business Council makes the following recommendations to improve the way government works in the small business space and provide a vehicle to oversee implementation of the Small Business Strategy and other government initiatives that impact on small businesses:

RECOMMENDATION 1: Do not re-establish the Small Business Council.

RECOMMENDATION 2: Establish a cross-agency unit to coordinate small business focused work across government and drive implementation of the Small Business Strategy and other government initiatives that impact on small businesses.

RECOMMENDATION 3: Assemble a small group of representatives from the small business sector to participate in the governance of the cross-agency unit. The group should consist of a mix of people chosen from the existing Small Business Council and the wider small business sector. Members should be selected based on their possession of the right skills and capabilities to guide implementation of the Small Business Strategy and fulfil other tasks set for the cross-agency unit in its terms of reference.

RECOMMENDATION 4: Conduct an independent review of the cross-agency unit after a period of two years to assess its effectiveness and outcomes, and make recommendations on longer-term institutional structures to support the small business sector.

The Council's process

In developing these recommendations we initially spent time thinking about the establishment of a small business institute in a university, as outlined in the terms of reference. To form our opinion, we analysed existing institutional arrangements for supporting small businesses, identified the gaps and issues, thought about what would be needed to address those issues and developed criteria for selecting our preferred course of action. From here, we compared a range of options against the criteria to help us identify our recommended option.

Through this process it became clear to us that the issues affecting small businesses are more wide-ranging than those that could be improved through a research institute. We therefore set aside the idea of locating a small business institute within a university and widened our focus to broader institutional arrangements.

After considering the broader structures required to support the small business sector, we turned our attention to the future of the Small Business Council and whether it has a role after the Small Business Strategy and other advice has been presented to the Government. We looked at how previous Ministerial advisory groups in the Small Business portfolio have functioned, and what sort of value a refreshed Small Business Council could offer following the completion of our Small Business Strategy and in the context of the recommended new support landscape.

The small business support system

Whether it is to seek information and advice, ask for support, or to ensure compliance, small businesses are required to interact with a myriad of private sector and government organisations to get their job done. Collectively, these private sector and government organisations are responsible for ensuring that the world in which small businesses play is simple, and that small businesses are enabled to reach their goals.

When small businesses need to reach out for support or information what they find is a noisy and confusing ecosystem. Despite accounting for more than 97 per cent of our businesses, small businesses still lack profile and a coherent voice. Government policy and interventions focus on the whole of the business sector and do not always meet the specific needs of small businesses. Replication and misalignment of small business-focused work can lead to additional compliance costs for small businesses as they struggle to understand their regulatory obligations and navigate the myriad of support and services available to them.

For Government, the goal should be better outcomes – both for businesses and for the communities they are a part of. Taking a top-down approach and throwing money and additional regulations at a problem through agencies that work independently of one and other is no longer good enough. Government needs to work in a more coordinated manner, providing the services that businesses need in a more joined up and seamless way. In an environment bustling with highly-skilled intermediaries, the challenge for government is to take a strategic view of the entire small business sector, engage genuinely with small businesses, and work in partnership with the private sector to ensure that the way government interacts with small businesses is simple, flexible and that barriers to small business' success are removed.

Appendix 1 contains a full gap analysis.

Options for institutional arrangements

When thinking about how altering institutional arrangements could improve the way government interacts with small businesses, we looked at a range of options from a branded unit in the Ministry of Business, Innovation and Employment (MBIE) right through to a Ministry for Small Business and an Independent Small Business Institute. We weighed these options against the criteria that we developed alongside our gap analysis, leaving us with the following three options which we explored in more detail and are summarised below:

- cross-agency unit
- small business ombudsman
- small business crown entity.

Appendix 2 contains a table explaining the criteria we used.

Cross-agency unit (preferred option)

A cross-agency small business unit would work across the key agencies that impact on small businesses. The unit would be governed by the member Chief Executives (CEs) and representatives from the small business sector, who would collectively report to a Ministerial group headed by the Minister for Small Business. Implementation and delivery of the unit's work programme would happen via the agencies of the member CE's through traditional reporting lines.

The unit's dedicated programme office would play a coordinating role across agencies and provide secretariat support to the governance group. The unit's purpose would be to bring together and coordinate government agency work programmes, engage with the small business sector to enable industry-led solutions and drive implementation of the Small Business Strategy.

Council's opinion

This is our preferred option and is described in detail in the 'Preferred option' section below. We agreed that establishing a cross-agency unit would strike the right balance between magnitude of impact and the need to develop a relatively low-cost and flexible mechanism that can be quickly implemented. Bringing together Ministers and CEs from areas that deliver support and interventions to small business will ensure the substantial resources and capability that already exist in government can be retained and redeployed in a more coordinated way. In addition to improving coordination and alignment in government, the unit will be able to adapt to constantly evolving circumstances and provide a flexible vehicle to deliver the recommendations of the Small Business Strategy.

Having small business sector participation at the governance level will ensure that people with the right skills and capabilities are involved and help build strong linkages between government and the private sector. While the CEs would ultimately be accountable to Ministers for how the unit and their respective agencies spend public money, representatives from the small business sector will be able to work collaboratively with the CEs to build a shared understanding and consensus. By bringing the small business sector perspective directly into the strategic operation of the unit, implementation of the Small Business Strategy can be informed by a broader view of the existing and potential landscape.

Having a dedicated programme office that works across agencies at the appropriate level will increase the unit's profile and influence, resulting in better services for small businesses.

Involving a wider group of Ministers in the Ministerial group will help coordinate the Minister for Small Business' advocacy function with those policy levers that are important to small business but sit within other portfolios. The Ministerial group will also provide the mandate for individual CEs to enact the unit's work programme.

Small business ombudsman

A small business ombudsman headed by a person from the private sector and supported by an office of public sector staff. The ombudsman would report directly to the Minister for Small Business. It would fulfil dispute resolution and advocacy functions, and contain a burden hunter unit tasked with identifying and mitigating administrative burdens, costs and other compliance impacts for small businesses. The ombudsman could also conduct inquiries and research on issues of importance to small businesses, report annually on the 'state of the small business nation' and work with government and business to promote good business practices.

Council's opinion

While we see that an ombudsman could be an important advocate for small businesses, we do not think it would go far enough towards addressing the biggest problem for small business' interaction with government – the lack of coordination and alignment across small business-focused services. Some of the functions that an ombudsman would fulfil could also be fulfilled by a cross-agency unit. We therefore set this option aside as something that could add value for small businesses, but does not meet the criteria for improved institutional support arrangements.

Small business crown entity

The role of the small business crown entity would be to work across central and local government to provide leadership on issues important to small business, implement the Small Business Strategy, and deliver programmes that aim to enable small businesses to succeed. A small business crown entity would have a quasi-department form with its own chief executive appointed by the State Services Commissioner, with support services and oversight provided by a separate department such as MBIE. Certain functions of the small business support system would be re-located within the crown entity, but many functions, particularly regulatory functions, would remain with the administering departments. The crown entity would report directly to the Minister for Small Business. A private sector board would act as a strategic advisory body to the crown entity, helping to set direction and monitor performance.

Council's opinion

We agreed that aggregating government's small business support functions within an enduring entity that is independent from other agencies but works across central and local government would help to coordinate small business support. We also noted that a standalone entity would raise the profile of small business-focused services and expertise, removing confusion about where in government small business work is done.

However, as we thought about these benefits we realised that creating a standalone entity would involve some trade-offs. There is potential for this approach to lead to marginalisation of small business issues as agencies may neglect their responsibility to small businesses on the assumption that the entity is taking care of things. This means that any such entity would need a particular focus on proactively working across central and local government to ensure that the small business lens is considered and applied when appropriate. We also took into consideration the length of time that it would take and the costs involved in setting up something of this magnitude, and concluded that the issues faced by the small business sector are too pressing. We therefore set this option aside as something that should be investigated further should the cross-agency unit not be able to deliver the desired outcomes.

Preferred option

Our recommended course of action is to establish a cross-agency unit spanning key agencies that impact on small businesses. The unit would operate at three levels: Ministerial; governance; and implementation.

Below is a summary of how the proposed unit would be structured and operate. *Appendix 3 contains a diagram showing structure and reporting lines.*

CROSS-AGENCY UNIT STRUCTURE	
MINISTERIAL	The Ministerial group would consist of Ministers from the agencies that the unit spans. The Minister for Small Business would chair this group. The Ministerial group’s role would be to set the direction of the unit’s work programme and oversee progress.
GOVERNANCE	<p>The unit would be jointly governed by the CEs of key agencies that impact on small businesses and representatives from the small business sector that have the right mix of skills and experience to represent the sector. The governance group would report directly to the Ministerial group.</p> <p>Private sector members of the governance group would work collaboratively with the CEs to provide the small business sector voice and ensure that the unit leverages existing expertise and capabilities in the private sector. The governance group could also appoint a subordinate technical advisory group to obtain more technical or sector-specific advice as needed.</p> <p>The governance group’s role would be to:</p> <ul style="list-style-type: none"> • agree on a work programme informed by the Small Business Strategy • engage with the small business sector and local government to make sure existing capability and work programmes outside of central government are considered and leveraged where appropriate • agree how each agency is going to go about delivering on the work programme in a coordinated way • drive delivery of the work programme through individual CEs and their respective agencies.
IMPLEMENTATION	<p>The agencies represented by the CEs on the unit’s governance group would be responsible for implementing the unit’s work programme. This would be achieved via CE’s individual decision making rights through traditional reporting lines.</p> <p>The role of agencies would be to:</p> <ul style="list-style-type: none"> • implement the unit’s work programme as directed by the respective CE • work together on problems that cut across agency boundaries • take guidance from the programme office to make sure work is aligned between agencies and progressing as envisioned by the governance group. <p>The unit would also have a dedicated programme office that would be housed in MBIE but report directly to the governance group. The programme office’s role would be to provide secretariat services to the governance group, and drive and coordinate the unit’s work and engagement across agencies.</p>

The future of the Small Business Council

When considering the ongoing form and function of the Small Business Council, we first spent time thinking about the future state of the small business support system after the Small Business Strategy has been completed and a cross-agency unit has been established. Now that we have delivered on the tasks set for us in our Terms of Reference, we believe there is no further need for a strategic advisory group of the same size and composition as the current Small Business Council.

However, we are concerned that, without the Small Business Council, the loss of institutional knowledge around our strategic recommendations could lead to poor implementation of the Small Business Strategy. We therefore recommend that following the end of the Small Business Council's term in July 2019, a smaller group be assembled to form the private sector portion of the cross-agency unit's governance group. The group should consist of six members, three of which should be taken from the existing Small Business Council membership with the remaining three chosen from the wider small business sector. All members of the new group should be selected based on them possessing the right skills and capabilities to guide implementation of the Small Business Strategy and fulfil other tasks set for the cross-agency unit in its terms of reference.

Members from the new smaller group could also have functions outside their duties on the governance group of the cross-agency unit. For example they could represent small businesses on other government groups such as Better for Business.

Appendix 1 – Gap analysis of small business support system

FUNCTION	PROBLEM DEFINITION	FUNCTIONS THE GOVERNMENT SHOULD FOCUS ON
<p>POLICY AND STRATEGY <i>(Mostly happens in government and sometimes in the private sector e.g. Business NZ and Banks)</i></p>	<p>Government policy and interventions often focus on the whole business sector and do not always meet the specific needs of small businesses. They can sometimes be barriers to small business development.</p> <p>There is replication and misalignment of small business focused work within government. This leads to added costs for government and small businesses, and loss of strategic value for government.</p> <p>The pace of change is accelerating so that small businesses of the future will be confronted by a whole new set of challenges. The support system may not be able to keep pace.</p> <p>Engagement with the small business sector is light-touch and small business' views are not well-represented inside government.</p>	<p>Engage genuinely with the small business sector or the segment of interest.</p> <p>Work across government to coordinate and align small business focused work.</p> <p>Actively seek out and address unnecessary compliance costs, ensuring the regulatory system does not place undue pressure on small businesses.</p> <p>Collect comprehensive data on the whole small business sector and the experience of being a small business in New Zealand.</p>
<p>DELIVERY <i>(Happens in the private sector and government)</i></p>	<p>The support system is not business-centric. It is complicated and time-consuming to navigate, meaning small businesses do not know where to go when they need support and resources.</p> <p>Small business' experience of government is largely focused around compliance. More emphasis is needed on enablement.</p> <p>Innovation diffuses to small businesses slowly.</p>	<p>Provide small businesses with targeted and easily accessible information, resources, training and support to help them innovate, grow and internationalise. Where appropriate services and support should be delivered in partnership with the private sector to leverage existing capability.</p> <p>Provide flexible services across the country so that regional businesses are not disadvantaged.</p> <p>Facilitate increased access to finance for small businesses.</p>
<p>ADVOCACY <i>(Mostly happens in the private sector and sometimes in government e.g. the Small Business Council)</i></p>	<p>The distributed nature of the small business sector means the sector can lack profile and a coherent voice.</p> <p>Small businesses are subject to power imbalances when dealing with large businesses.</p>	<p>Ensure the interests of the small business sector are represented in government projects and programmes.</p>
<p>MONITORING AND EVALUATION <i>(Happens in the private sector and government)</i></p>	<p>There is not enough independent monitoring of initiatives.</p> <p>Results are not widely disseminated or clearly incorporated into policy development.</p>	<p>Put small business at the centre of monitoring and evaluation of government programmes to ensure outcomes reflect their experience and needs.</p>

Appendix 2 – Criteria

CRITERIA	DESCRIPTION
PRIVATE SECTOR GOVERNANCE	While ultimate accountability and responsibility for setting the direction of a government agency and making decisions around expenditure sits with Ministers and CEs, a private sector board can be involved in a range of governance tasks. For example, the board can work collaboratively with the organisation’s CE to ensure that its work programme, budget and expenditure will achieve the desired outcome. The board can also report independently on an organisation’s work programme to the Minister.
REPORTS DIRECTLY TO THE MINISTER FOR SMALL BUSINESS	Reporting directly to the Minister of Small Business will ensure direct communication at the highest level and a single authority over cross-government work.
WORKS ACROSS GOVERNMENT	Being able to work and influence across government to promote coordination and alignment of all government work will ensure a better experience of government for small businesses. The voice of small business will be better represented across government. The small business sector will have a coherent voice and its profile will be lifted.
ADAPTABLE AND AGILE	Being able to respond quickly to issues and change direction as and when needed will ensure that the small business support system remains fit for purpose into the future.
STRONG REACH INTO THE REGIONS	An ability to operate and engage in the regions will ensure that no small businesses will be disadvantaged because of their location or ability to engage in-person with government.
ENABLER	Working with government agencies to shift the focus of interactions from compliance to enabling small businesses to succeed will improve interactions with government and compliance.
POWER AND INFLUENCE	Degree to which the organisation can direct or influence government policy and programmes related to small business.

Appendix 3 – Cross-agency unit diagram

