The New Zealand Policy Environment for the Development of SMEs

By Claire Massey and Coral Ingley

Preface

This report has been written as a contribution to the PECC project, "The Policy Environment for the Development of SMEs", coordinated by Dr. David Hong, Director General of CTPECC and President of the Taiwan Institute of Economic Research.

The project seeks to identify obstacles to SMEs development in Asia-Pacific economies and to develop feasible solutions and sound policies to help interested economies promote SMEs. The product of this project will be a report consisting of several policy papers, and the focus will be on SME development across industries for specific economies.

This report addresses the issues in New Zealand. It has been prepared by Professor Claire Massey, Director of the New Zealand Centre for SME Research at Massey University and Associate Professor Coral Ingley, Senior Lecturer at the Auckland University of Technology. Research assistance was provided by Tanya Jurado from the New Zealand Centre for SME Research.

While various individuals were consulted in the process of writing the report, the views expressed and the conclusions drawn are those of the authors alone.

Introduction

New Zealand is a small developed nation located in the South Pacific that is inhabited by just over 4 million people. The New Zealand economy has sizeable industry and service sectors and a significant primary sector. The economy is currently enjoying low unemployment, and some economic growth. Areas of concern for the government as far as small and medium enterprises (SMEs) are concerned revolve around New Zealand's low productivity rates compared to other OECD countries and low volumes of exports. New Zealand has a good overall infrastructure, a sophisticated banking system and a developed transport system.

The globalisation of the economy has affected the way all New Zealand businesses operate, and no less so SMEs. Whereas once access to overseas markets would have been limited, information and communication technologies, such as the internet, have made it more viable to access other markets. However competition is also greater than ever before and New Zealand businesses must also overcome the challenge of distance and size in order to expand their markets overseas.

These new pressures of competition have had an impact on what areas of industry are thriving. They have also influenced recent governments in their approach to policy formulation in relation to economic growth. The overall approach that is guiding current government policy is broadly indicated in the term "economic transformation". The key objective is to increase business performance through policies that are aimed primarily at globalisation and increased productivity. This is the framework under which government policy towards SMEs in New Zealand is formulated today.

This report outlines this approach, detailing the specific policies and programmes-against a background of the New Zealand economy.

SMEs in New Zealand

As a young economy, early New Zealand firms were typically small or medium in size until relatively recently. However along with much of the rest of the world, New Zealand become more aware of the significance of the SME sector following the landmark report of the Great Britain Committee of Inquiry on Small Firms (1971). The government responded by establishing the Small Business Agency (SBA) in 1976, an agency designed to help small firms grow.

DEFINING A SMALL FIRM

One of the first tasks of the SBA was to define a small business in New Zealand. This definition was contained in legislation, which stated a small business was one employing fewer than 50 FTEs in the manufacturing sector, fewer than 25 people in the wholesale and retail sectors and fewer than 10 people in the service sector (Bollard, 1988). At the time the term "small and medium enterprise" was not as commonly used as it is today, and no definition was provided for an SME. With the closure of the SBA in 1987 the definition of a small firm fell into disuse and since this time New Zealand has lacked an 'official' definition of a small firm.

The closure of the SBA took place against the background of the economic reforms that were taking place during the 1980s in New Zealand. This followed the election of a Labour government in 1984, a government that was committed to deregulating the economy - in all sectors. This period of deregulation had a major impact on many of the sectors that make up the business infrastructure - such as banking, telecommunications and transport. However the commitment to creating an "even playing field" for all business did directly lead to the disestablishment of the SBA - an event that meant that small firms temporarily fell off the government's agenda.

It was not until the 1990s that small firms were again explicitly included in government policy statements such as the Budget (where the term SME was introduced for the first time) and another attempt at a definition was made. This was led by the government department with primary responsibility for economic development; the Ministry of Economic Development (MED).

Then known as the Ministry of Commerce, in 1999 MED published the first issue of its annual publication SMEs in New Zealand: Structure and dynamics (Ministry of Commerce, 1999). This described a small firm in New Zealand as one which employs fewer than 10 full time equivalent employees (FTEs) and an SME as one which employs fewer than 20 FTEs; it also described a large firm as one with more than 100 FTEs. While not an official definition, this definition is widely used by the Ministry in its publications. It should be noted however than in some of its own research other definitions are used. For example the Business Practices and Performance Survey (published as Firm Foundations in 2002 by Knuckey, Johnston, Campbell-Hunt, Carlaw, Corbett and Massey) defines an SME as a firm with more than 6 and fewer than 50 FTEs. The MED definition is regarded by some as being problematic as it provides no categorisation for firms with more than 20 and fewer than 100 FTEs. Nor is it easy to align with other international definitions. In response to these perceived shortcomings, academic researchers have provided an alternative definition. Cameron and Massey (1999) offer a categorization that is consistent with the international definitions in use in other parts of the world and draws upon the characteristics of an SME that were identified by the committees of inquiry in the United Kingdom and Australia. This definition also makes allowance for the fact that large firms in New Zealand are smaller than large firms in other countries, such as the United States and many European countries. Cameron and Massey's definition for New Zealand firms is as follows:

- a micro-enterprise employs fewer than 5 FTEs,
- a small firm employs between 6 and 49 FTEs,
- a medium firm employs between 50 and 99 FTEs,
- a large firm employs more than 100 FTEs.

A STATISTICAL OVERVIEW

The most recent New Zealand statistics available show that in February 2006 the business frame (the term given to the central database of New Zealand firms) was comprised of approximately 346,091 'economically significant enterprises' (Statistics New Zealand, 2007)[1]. In addition there are around 65,000 enterprises engaged in agricultural production (farms) but these figures are calculated by a separate survey of agricultural production and are therefore usually excluded from official statistics. This total (of around 400,000 enterprises) represents the New Zealand business population, but it is important to remember that there are two important omissions from these statistics. Firstly, it is not known with any degree of accuracy how many 'economically insignificant' enterprises exist. These enterprises are difficult to identify, partly because of the lack of an accepted definition of 'insignificance', but in general, these are businesses that are so small in terms of sales that are not considered to be worth counting. Secondly, the underground, or black market, economy is also omitted, and it is unknown how many enterprises this diverse sector may include.

It is common for statistics on SMEs to be presented in terms of the number of individuals each enterprise employs (usually in terms of full-time equivalent employees - or FTEs). Table 1 shows the 2006 total of economically significant enterprises by their different size groups, using FTEs as the unit of data collection and the Cameron and Massey definition of the different size categories. This figure excludes enterprises which are engaged in agricultural production.

Table 1 illustrates that approximately 86% of 'private sector' firms, (i.e. all enterprises once central and local government, incorporated trusts and societies and cooperatives are excluded) employ between 0 and 5 employees. It also shows that 99.4% of all New Zealand firms can be categorized as SMEs. These figures again exclude enterprises engaged in agricultural production.

Table 1: SMEs in New Zealand (2006)

Category	Number of employed	Enterprises		Number employed	
Micro	0-5	300,57 1	86.8%	189,810	10.8%
Small	6 to 49	41,277	11.9%	573,550	32.5%
Medium	50 to 99	2,309	0.7%	158,830	9.0%
Total SMEs	344,15	99.4% 7	922,190	52.2%	
Large	100+	1,934	0.6%	843,250	47.8%
Total	Total	346,09 1	100.0%	1,765,440	100.0%

Source: Statistics New Zealand, 2007.

Table 1 shows that most New Zealand enterprises can be classified as micro, small or medium sized, with a mere 1,934 large enterprises employing more than one hundred people. However, although this large firm category is the smallest number in terms of enterprise units, it is by far the largest employer. These data make it clear that the SME sector dominates the New Zealand economy in terms of numbers of enterprises, as it accounts for 99.4% of the entire business population.

These SMEs also employed 52% of the total work force (without taking into account the ownermanagers who are not considered as employees). A significant proportion of this group comprises sole traders and micro-enterprises. As a consequence, many are small, closely held firms that, while sharing some of the features of large firms, will be dissimilar in their legal structure, market scope and management practices.

These statistics have been drawn from the annual update of the New Zealand "business frame" - a database that includes all economically significant firms in New Zealand (with the exceptions noted above). Another perspective on the significance of the SME sector is to examine the statistics on the individuals who work in these firms, such as those collected by the Census (undertaken every 5 years) and the Household Labour Force Survey. This shows that around 81% of the employed New Zealand labour force are paid employees while 19% are selfemployed or are an employer.

These statistics also allow us to examine the characteristics of the self-employed in more detail.

Between 1996 and 2006 the number of self-employed women employed has risen from 28.4% to 32.8% of all self-employed. In 2006 men accounted for 68% of all employers (including selfemployed) and women accounted for 32% (HSLF, 2006). Further, between 2001 and 2006 the proportions of men and women in paid employment have remained consistent but there has been a 21% increase in absolute numbers for both genders.

According to the 2001 Census, the largest group of self-employed were European (90.5% of the total number of self-employed) followed by Asian (5.6%) and Maori (5.47%). Pacific Islanders only made up 1.8% of the total.

However, between 1991 and 2001 the percentage of European self-employed has decreased by 3%, while there has been some growth amongst all other ethnic groups, especially amongst Asian where the number of self-employed grew by 80.6% (from 3.1% to 5.6%) (Census, 2001). The latest official statistics from the 2006 Census for this category are not yet available but the pattern is unlikely to have changed.

BUSINESS PRACTICES IN NEW ZEALAND SMEs

The statistics paint a picture of the New Zealand SME sector as one which is dominated by micro-enterprises and where the category of self-employed individuals with no employees (as opposed to those individuals whose enterprises do employ staff) is in the majority. This has significance for the way in which the owners and/or owner managers operate their firms. A fundamental point of difference between the management practices of SMEs and that of large firms is the level of informality in relation to management and organisation. For example, in small firms it is typical for there to be a high degree of informality, as the owner-manager establishes systems that are appropriate for the type of firm - without reference to the practices of other firms. This approach to the development of systems that are situation specific is a particular feature of new firms, which tend to develop unstructured, reactive, flexible responses to situations that are often being encountered the first time. This lack of formalisation can be an advantage - as it can be a strength that can assist the firm to be innovative. As the firm gets larger, the degree of formalisation in terms of practices and processes changes - with most successful firms developing more structured and/or formal practices.

This can be seen as an increase in the capability of the firm - and "firm capability" has been an interest of the New Zealand government for some time. In 2000 the New Zealand Ministry of Economic Development established a project in an attempt to increase its understanding of the business practices of New Zealand firms: the survey of Business Practice and Performance. Underlying the study was the idea that excellent business practice (in terms of six core areas) leads to a high level of results for the firms (as measured by outcomes such as competitiveness and innovation).

The project used a model of business practice that was adopted by the Australian Manufacturing Council for their 1994 study and this model was based on a review of international best practice models, including the Baldrige National Quality Award Criteria for Performance Excellence (CPE), the European Foundation for Quality Management Excellence and the Canadian Framework for Business Excellence.

The survey instrument was refined for the second survey which was carried out in 1997 and revised again before being used for the third time in New Zealand in 2001. Statistics New Zealand was responsible for administering the survey using a mandatory mail questionnaire, (the Business Practices Survey) to the target population for the questionnaire (all private sector firms operating in New Zealand).

All industry groupings and all firm sizes were represented. For the purposes of this study, 'small' firms were defined as those with 6-19.5 FTEs, 'medium' firms were those with 20-49.5 FTEs and 'large' firms were those with more than 50 FTEs. The questionnaire was sent to 3,378 enterprises, (813 large, 1,116 medium and 1,449 small). Responses were received from 2,756 enterprises (679 large, 921 medium and 1,156 small). The firms that responded were located in agriculture, manufacturing and service sectors and were spread across the whole country. The survey examined business practice in terms of six key elements: leadership and planning; customer focus; information and benchmarking; employee practices; quality and supplier focus and innovation and technology.

Results from the survey were published as Firm Foundations in 2002 (Knuckey et al, 2002). Key findings were that while a good number of New Zealand firms have built a firm foundation of effective practices, several key areas were highlighted as needing further attention. Areas of particular concern were strategic planning; environmental management; staff performance management; supplier relationships and research and development activity.

This survey provided important new knowledge on the way in which New Zealand managers operate, and some key questions from the survey are now integrated into the annual Business Operations Survey administered by Statistics New Zealand.

The New Zealand Infrastructure

At a national level, New Zealand's infrastructure is in reasonable condition as ascertained by a recent stocktake (PricewaterhouseCoopers, 2004). Subject to an ongoing appropriate level of investment, the current infrastructure should not pose a barrier to the government's growth and sustainable development objectives. However, there are significant local and sector-specific issues, which may have significant impacts, both locally and nationally. Of particular note are:

- Land transport, particularly roads in the major cities and deferred maintenance of the rail network;
- Water and wastewater:
- Security of potable water supply in drought-prone areas,
- Water supply and wastewater treatment in smaller communities with large tourism-driven seasonal fluctuations in population; and
- Competing demands for water supply (particularly agricultural and commercial/industrial).
- Fuel for future electricity generation and certainty of supply in dry periods.

These concerns are detailed below:

Energy: Electricity

- The condition of the existing generation plant does not inhibit its ability to operate at acceptable levels of reliability.
- Some transmission constraints exist.
- New generation capacity is clearly required in the near future, but uncertainty in a number of areas is inhibiting investment:

- Kyoto Treaty and carbon taxes (which will affect the relative costs of fuel supplies),
- Regulation and the role of the Electricity Commission,
- Coordination of generation and transmission investment.
- The changing mix of generating fuel also creates uncertainty (compounded by the potential impact of carbon taxes).
- Given the preponderance of hydro generation, the overall level of emissions from electricity generation is relatively low, but is highly sensitive to the choice of fuel supply at a few key assets.
- Market-based risk management tools offer opportunities to improve demand management.
- There is a consensus that changes to household and workplace practices could reduce electricity demand. It is an open question as to whether education and persuasion are likely to be able to influence such practices.

Energy: Gas

- Processing and transmission infrastructure assets are relatively new assets. Their condition does not inhibit their ability to operate at acceptable levels of reliability.
- Sources of natural gas supplies remain an issue.
- There is concern as to whether current exploration and discovery levels will be sufficient to ensure gas supplies are secure.
- Without secure gas supplies, thermal generation capacity in New Zealand will need to rely on coal or imported LNG.
- Major discoveries outside the Taranaki region would require substantial infrastructure investment (processing and transmission), affecting the

economics of exploration and commercialisation, or major new gas consumers to be located nearby (e.g. electricity generation).

- Consumption of gas in the home is generally the most efficient use of fossil-fuels energy (particularly compared to conversion to electricity). A number of commentators have indicated that there appears to be little expansion in domestic gas usage, although the reasons for this are unclear.

Water Supply

- The quality and security of supply of residential reticulated water is generally at a level necessary to meet demand (although there are exceptions).

- There has been substantial investment in treatment plants over the last 10 years.

- There are issues with competing demands for water (particularly between agricultural and industrial users);

- The current mechanisms for water allocation, via the Resource Management Act (RMA)[2], have limited ability to prioritise competing water uses; although the creation of integrated water management plans can assist with allocation processes (essentially by preempting a large part of the debate over the priority of use).

- Water allocation processes, undertaken at local or regional levels do not contain incentives to balance local and national benefits and costs in the allocation of local water rights.

- Few market mechanisms are in use in the water sector: there is no charging for water abstraction and charges to end-users are most often via the rating system. There is very little residential water metering.

- In the absence of pricing signals, demand management is confined to rationing or regulation (e.g. the Building Act requiring use of water-efficient systems). Lack of pricing signals also has implications for determining the optimal level of investment (within the requirements of health regulations).

- Small communities servicing comparatively large tourism activities may be faced with the need for, but not have the rating base to support, necessary investment in processing plant and systems (or such investment may consume a disproportionate amount of a rating base, diverting expenditure from other activities). These issues are likely to become more acute with the projected growth in tourism.

Wastewater

- As for water supply, the condition and capacity of wastewater assets is generally at a level to meet demand. There has been substantial investment in treatment plant over the last 10 years.

- The RMA provides considerable flexibility for treatment processes that are appropriate to given regions.

- However, there are no national benchmarks on the level of discharges into the environment, which makes an assessment of the environmental impact of wastewater treatment difficult across the country.

- There is anecdotal evidence that some wastewater treatment systems are in breach of their RMA consents.

- As for water supply, tourism activities heavily influence effluent output in some small communities that may lack the rating base to make the necessary investments.

Transport: Road

- Transit NZ's measures of road condition indicate that, overall, the condition of roading infrastructure is generally good, although there are exceptions.

- Congestion affects the Auckland region to the greatest extent. There are some issues of congestion in other parts of the country.

- The structure of road use charges is such that there are few pricing signals that affect driver behaviour and, likewise, investment decisions cannot be based on pricing signals sent by road users.

- Use of the roads gives rise to a number of environmental and other impacts including noise, emissions, contaminated water run-off, accidents, congestion etc). A study is underway to estimate the costs associated with these impacts and the extent to which they are factored into existing charges for using the road network.

- Governance arrangements, particularly in Auckland, have been raised as an issue in terms of the responsiveness of planning and investment to growing road and other land transport issues.

- Funding of roads projects is essentially on a pay-as-you-go basis.

- This inevitably constrains the volume of investment within a given period, particularly when facing investment "humps".

- Without some other source of revenue (e.g. tolls) or funding (e.g. Crown contributions), borrowing allows optimised scheduling of projects. Within a fixed budget and time horizon, borrowing to fund more current investment inevitably constrains future investment. However, it would be assumed that the decision to bring forward investment would be based on cost: benefit analysis that concluded in its favour, as indicated in the previous section of this report.

- There is a growing acknowledgement of the need for integrated planning and transport management, particularly in urban areas, so as to mitigate the potential for increasing traffic volumes.

Transport: Rail

- The rail network is suffering from low and declining levels of asset replacement. This has implications for the quality and reliability of services.

- Despite increasing productivity in the mid-1990s, the rail business has not been able to recover its cost of capital.

- The quantity of freight carried on rail is increasing.

- Parts of the rail network, usually tunnels, are not capable of taking the longer or higher containers that are increasingly used internationally.

- The proposed government investment in the railway network is expected to reduce the level of deferred maintenance. Two particular issues arise for policy in this area:

- The basis of allocation of investment to specific lines; and

- The access charges regime for use of the network.

- The historical layout of the rail network does not favour commuter services, particularly in Auckland.

- The negative externalities from rail are generally lower than negative externalities from road. This needs to be balanced against the lack of door-to-door flexibility of rail compared to road transport.

- The Alternative to Roading framework for funding rail investment focuses on benefits to road users, rather than wider national benefits.

Transport: Ports

- Generally, there is excess capacity in the sector, and there has been significant investment undertaken over the last ten years (particularly to accommodate the containerisation of trade, but also driven by growth in dairy and forestry industries).

- Assets are generally maintained to meet commercial demands and previous issues of under-maintenance have generally been remedied over the last 10 years.

- Many ports do face constraints on their operations or ability to expand:

- The availability of land affects most ports to some extent.

- As trade grows, transport links are increasingly important, with consequential difficulties arising from the location of most ports on central urban waterfronts. To some extent this can be ameliorated through management of deliveries and the development of inland ports.

- Internationally (particularly in the container trade), there is a steady trend towards fewer, larger vessels, making fewer calls at fewer ports. Many ports face constraints (in berths, or channel draft or width) in being able to accommodate these larger vessels.

- In the long term, this could imply that international (particularly inter-continental) trade will consolidate increasingly on fewer ports, although this is uncertain and there is a range of views on the matter. If such hubbing did occur at a few ports, the impact on other ports will be site-specific, depending on the relative economics of coastal shipping, road and rail transport.

Transport: Airports

- Over the last 10 years, the number of international airports has increased from three (Auckland, Wellington and Christchurch) to seven (adding Dunedin, Hamilton, Palmerston North and Queenstown). Other airports also have plans to offer facilities capable of supporting services. Only Auckland and Christchurch are currently used for intercontinental services (excluding trans-Tasman travel as intercontinental).

- Of the airports included in the study, Auckland and Wellington face the greatest constraints on aircraft movements. Auckland has far greater capacity to expand capacity, with land for a second runway.

- The ability of the sector to accommodate growth in passenger capacity depends in large part on the airlines:

- Being able to schedule international/intercontinental services outside of busy periods (not a simple task, as New Zealand is generally a schedule-taker);

- Increasing plane sizes on domestic routes. The trend has been to use smaller planes and more frequent flights. Overall using larger planes could increase seating capacity on some routes.

- There is considerable ongoing investment in the sector, with terminal expansion planned at Auckland, Hamilton, Christchurch and Dunedin. Other smaller regional airports would benefit from terminal expansion and runway extensions.

- Most new terminal developments are specifically designed for (relatively) simple modular expansion.

- Terminal expansion can be expected to trail passenger numbers (airports and airlines want the greatest possible utilisation of current assets before further investment is undertaken).

- New Zealand has an array of smaller regional airports that play a key access role. Maintenance investment in these will be a continuing requirement.

- Airports must operate within noise constraints set out district plans. Some (e.g. Wellington) operate under a curfew. Airports report that they can continue to operate within current plans for the foreseeable future, but tightening of controls (particularly the imposition of curfews) would cause significant problems.

- The air traffic control system (oceanic and domestic) has considerable capacity (including high levels of redundancy in the system). The system is also generally scalable to allow operation of a larger number of airtracks if needed.

Telecommunications

- Telecommunications has a number of characteristics that are different from the rest of the sectors, not least as these systems tend to be far more flexible and scalable than other infrastructure. This is not to underestimate the complexities of upgrading and managing a telecommunications network: it is just that by comparison, it is likely to be subject to fewer external constraints than, say, building a new power station or motorway.

- New Zealand avoided the excesses of the recent telecommunications boom and its consequent losses. A corollary is that New Zealand does not have the vast quantities of unlit or barely used fibre that are reported elsewhere in the world (particularly the US).

- Uptake of advanced services (broadband), particularly by households, is low by international standards. This would appear to be attributable to pricing structures and relatively low-cost dial-up internet access, rather than the availability of infrastructure.

- Competition in infrastructure provision appears to be increasing, with the roll-out of wireless services in particular. This has been assisted by Project Probe. It is too early to say whether this increase in competition will prove sustainable.

- Regulation can be expected to continue to play an important role in the sector, both in relation to interconnect, but also the potential unbundling of the local loop ("LLU").

- The issue of LLU is highly contentious, not just with Telecom New Zealand ("TCNZ"), but also with those companies that are investing in wireless networks that bypass TCNZ's local loop.

- Mobile services cover approximately 97% of households, plus central business districts, major business areas and major transport corridors. Third Generation Mobile (broadband for mobiles) has been introduced but the two operators (Vodafone and TCNZ) were unwilling to disclose details of roll-out plans.

Summary of infrastructure issues

Each of the infrastructure sectors raises particular issues. Some themes can be drawn out that often cross sector boundaries. Some issues tend to be apparent in publicly owned and managed infrastructure. The government's ability to affect or influence infrastructure varies across sectors due to the difference in ownership and varying control over funding regimes: central government (State Highways; State-owned Enterprises in the energy sector; participation in some airports; likely to now extend to the rail network), regional or local government (local roads, water and waste-water infrastructure, ports and airports) and the private sector (telecommunications, energy, some ports and airports). Substantial policy efforts are underway in many sectors.

Problems in SME development

Government economic development policy in New Zealand has changed radically in the past 30 years, with small and medium enterprises taking on more and more a more central role in the formulation of this policy. As a consequence SMEs are now seen as an important vehicle for New Zealand's continued economic prosperity. However, many consider that for SMEs to contribute to the economy in a genuine way there needs to be a greater understanding of the barriers to development faced by SMEs. These barriers are primarily linked to the special characteristics of SMEs, in particular to the fact that most SMEs in New Zealand are owner operated, with characteristics that set them apart from bigger firms. These include less time, difficulties in accessing expert advice, and fewer resources. These characteristics create a situation where development - both for the individual owner manager and for those charged with development at the level of the economy - is challenging. This section lists a range of issues that are frequently cited as being barriers to SME development in New Zealand. Where relevant this section also discusses the various government responses to these issues - the government's response to the sector overall is addressed in the next section.

ISSUE 1: COMPLIANCE

One of the most common complaints of SME owner managers revolves around the difficulties they have meeting the various government regulations and requirements. These complaints (which are regularly voiced through a range of business surveys and/or in reports from the Small Business Advisory

Group) revolve largely around time constraints and a perceived excess of "red tape".

This view is challenged by some empirical evidence, such as the OECD study (OECD, 2001), which compared the cost of compliance in eleven different countries., This study made a distinction between "administrative compliance costs" (filling in forms etc), "capital costs" (capital investments needed for compliance purposes), and "indirect or efficiency costs" which arise when regulations reduce productivity and innovativeness. The study excluded firms with no employees and suggested that in New Zealand the direct cost of compliance is low by comparison with other OECD countries. This provided important information to the government agencies that are charged with reducing the negative impact of compliance in New Zealand and a number of government initiatives have been established to address these issues directly.

The Ministerial Panel on Business Compliance Costs was established in December 2000 to provide advice to the government on ways to reduce unnecessary or over-burdensome compliance costs to business arising from central and local government regulation. The Panel identified a number of concerns that are held by New Zealand firms, and the various reports that were produced as a result of the Panel's work provided the platform for further work by the Regulatory and Competition Policy Branch of the Ministry of Economic Development (MED). More recently the government has shifted its focus from reducing compliance requirements to focussing on the quality of its interaction with businesses. To this end it set up a Quality Regulation Review which seeks to make it easier for businesses to comply with these requirements. Recently the government announced a Regulatory Impact Analysis which will look at the impact of legislation on the ability to do business. The work of this is review is heading into its final stages and should be completed by July 2007.

ISSUE 2: MANAGEMENT CAPABILITY

It is clear that most SME owner managers operate their business, especially in the early stages, almost on a survival basis. As a consequence, the New Zealand government has the development of "management capability" as a key tool in the development of effective firms - particularly those that are small or medium in size. One theme of this work has been to adapt best practice programmes developed in the context of big business to SMEs (e.g. the Criteria for Performance Excellence - more commonly known as the Baldrige criteria). Given the unique nature of SMEs these are usually not adequate or practical for SME owner managers to use. Another theme has been to study the supply of, (and demand for) "management capability building" initiatives compared to "business capability building" initiatives.

This research found that whilst business capability building initiatives are widely available, the provision of management capability building is not as prevalent (Massey, Gawith, Perry, Ruth, & Wilson, 2005, p.73). More importantly, in direct conflict with current government's focus on growth through internationalisation, this study found that what SMEs value as management and business capability does not align itself with growth and internationalisation. Furthermore the ability for owner managers of SMEs to participate in any of the capability building initiatives that the government offers are hindered by lack of time and/or by lack of resources. This study on capability in New Zealand concluded that unless confronted by economic forces such as increased competition, there is no real incentive for owner managers to engage in capability building.

Government attempts to address this problem include the Enterprise Development Grants Capability Building (EDG-CB). This initiative allocates funds to projects to improve capability, profitability and international competitiveness. It not only addresses the issue of management capability but also business capability. Evaluations of these grants have shown that the best results were achieved through the provision of direct advice (through mentoring, expert assistance or training). Furthermore, firms that undertook activities associated with the development of management capabilities, as opposed to business capabilities, reported better results. This reinforces the need for a focus on owner-manager initiatives when it comes to SME policy development.

ISSUE 3: ACCESS TO FINANCE

Access to finance is one of the problems facing SMEs in New Zealand which appears to be more of a perceived problem that an actual one. As with the issue of compliance noted above, the government has devoted considerable time to researching this issue and has consistently found that in fact this problem is more perceived than real. One of the first studies done on this by the Ministry of Economic Development was done more than 10 years ago (Austin, Fox & Hamilton, 1996). This has developed into a yearly business survey of Business Operations carried out by Statistics New Zealand. The latest of these surveys found that a third of SMEs sought debt financing and 90% of these were successful (MED, 2007).

ISSUE 4: PRODUCTIVITY

The government's overwhelming focus for business development is on increasing New Zealand's role in the global economy and in radically shifting the way New Zealanders traditionally do business. New Zealand's low productivity rate, as compared to other OECD countries, is considered a key problem which needs to be addressed through a series of measures. These include stronger international links, better workforce skills, enhanced management and leadership capability, innovative workplace cultures and greater business and infrastructure investment, more effective business collaboration and networks, and a supportive economic and social environment (MED, 2006b). The government's focus on these issues, in particular the forging of closer international links and the development of innovative workplaces could mean that many SMEs are excluded from the process of growth.

For the government an increase encouraging productivity appears to go hand in hand with encouraging the growth of globally competitive firms. This policy of growing globally competitive firms operates on two levels: to improve the general business environment for all firms in New Zealand and to focus on those firms that have potential to become global. In actual fact the government is pursuing the latter approach more actively, focussing on high growth firms which in many cases are in industries which are likely to access global markets. It also assumes that SMEs should grow and reach the point of internationalisation at some point, which is not always the case (depending on the industry and the owner-manager).

Innovation has been identified as another key to New Zealand's growth by the government policy makers. Innovation implies the need for firms to re-invent themselves continually - both from a production and a marketing point of view. Innovation needs to be supported through the cutting back on regulations that make this harder for businesses to do. And innovation is also very closely linked to research and development and close collaboration between researchers and firms. Currently there is very little collaboration between the vast majority of SMEs and researchers.

ISSUE 5: ENERGY, TRANSPORT AND COMMUNICATIONS

The provision of local infrastructure, including telecommunications, is critical to economic development and has been identified by the Small Business Advisory Group (SBAG) as being key to economic growth. Being connected by broadband is a key element of this provision. Fast, reliable and effective communication is increasingly important for business growth, particularly outside the main cities and towns. However, New Zealand SMEs perceive the New Zealand infrastructure to be wanting, in particular when it comes to broadband. The government is trying to address this problem by implementing a five year plan to improve New Zealand's performance in the information and communications technology as compared to other OECD countries. To this end it has launched the Digital Strategy, to "enhance the contribution ICT makes to New Zealand's overall business productivity" (www.digitalstrategy.govt.nz).

A range of initiatives in the government's recent telecommunications package include unbundling the local loop and encouraging investment in alternative infrastructure such as fibre, wireless and satellite networks. The aim is to provide faster, cheaper broadband for New Zealanders and their business ventures.

The government has also established the Broadband Challenge, a $24 million contestable fund intended to provide seed funding to encourage building very high speed (1Gbps) urban fibre networks. Funding is also available to provide for lower speed networks in remote and underserved areas and is intended to stimulate interest from communities and local authorities to build open access networks. The Digital Strategy secretariat is also working with Local

Government New Zealand to take open access conduit and fibre requirements into account when developing District Plans.

Developing the SME Sector

During the protectionist era of the 1970s assistance to SMEs in New Zealand was developed in the context of the prevailing economic orthodoxy - that growth was both desirable and achievable[3]. During this period overall goals were established for the economy that focused to a large extent on expanding the manufacturing sector and expanding the range of exports. To achieve these goals, New Zealand governments in the two decades before 1984 chose to guide the economy by using a mix of policy instruments, with a focus on import and export licensing, price and wage controls, subsidies, taxation and controls on the financial sector.

CENTRAL GOVERNMENT INITIATIVES

This approach to intervention was the government's belief that the full potential of the small business sector could not be achieved in the face of big business and overseas competition without the intervening hand of government. The main vehicle for assistance was the Small Business Agency (SBA), established in 1978.

When the Fourth Labour Government was elected in 1984, a significantly different approach was taken to the economy in general and SME assistance in particular. The new government undertook a massive reform programme, through deregulation, corporatisation, and privatisation. By 1996 thirty-two State Owned Enterprises (SOEs) had been privatised and sold. As a result of the massive redundancies that ensued, there was pressure on the government to strengthen its assistance to SMEs. Instead of increasing support to SMEs, however, the government proceeded to dismantle the framework of programmes that had been in place to support growth in regions that were seen as disadvantaged. 'Small business' was henceforth discarded as a term for government assistance.

The 1987 stock market crash coincided with rising unemployment, partly as a consequence of the restructuring process, and partly as a reaction to international economic trends. The period 1989/90 saw a focus on developing a range of new measures that provided assistance to SMEs through the mechanisms of community-based initiatives. However, 'small business' was not the focus; rather it was 'employment creation' through the establishment of SMEs.

Assistance to SMEs was further boosted in the year leading up to the 1990 election. Here the view prevailed that as large business and government departments were shedding labour, only small businesses offered jobs. SMEs were an attractive policy target, due to an assumed modest requirement for resources, and the ease with which programmes focusing on small firms could be implemented. There was a feeling that small amounts of assistance could be given (in the context of employment creation rather than SME support) without detracting from the overall policy approach of non-intervention.

However by 1996 the government reintroduced the term SME into policy statements, specifying SMEs as a particular target group. A review of enterprise assistance signalled the government's new priorities, to expand the role that local communities were already playing in economic development. To this end the BIZ programme was established in the late 1990s to build management capability amongst SME owners and managers (in this context SMEs were defined as firms employing fewer than 20 employees). The primary focus for the programme was to be the assessment of business needs and the delivery of training and seminars, one-on-one mentoring, and networking. To deliver the programme, the Ministry of Economic Development (MED) contracted appropriate agencies to offer a range of training programmes and information services, and the 46 organisations appointed to deliver management capability services included a range of non-governmental organisations.

A referral service (known as BIZinfo) was also established, provided by a national consortium through a free telephone service, a website and 34 local BIZinfo 'shops'. BIZinfo's initial focus was on developing a database of 2,500 training courses and other services (provided by some 900 organisations).

While the BIZ programme was being introduced to strengthen the capacity of existing SMEs, the government was also addressing the broader issue of enterprise and entrepreneurship, at a more conceptual level. After consulting with communities and business groups throughout the country, the Bright Future policy document was released (Ministry of Commerce, 1999). Focusing on five 'steps ahead' ("lifting our skills and our intellectual base; better focusing the Government's efforts in research and development; improving access to capital; removing the red tape stifling innovation; promoting success; and supporting creative and innovative New Zealanders"), the policy document presents quite a different set of objectives from that of the existing business development policy (which focuses on SMEs).

This important policy position resulted in the establishment of the Growth and Innovation Advisory Board (GIAB) in 2002, which developed the Growth and Innovation Framework (GIF). The various documents released by GIAB describe a set of strategies for encouraging those responsible to running New Zealand firms to become more innovative - with the assumption that this will help the firms grow.

The government's efforts to continue a more conceptual debate about these issues continued with the GIAB encouraging "a national conversation between groups and individuals about what growth and innovation mean" (GIAB, 2004, p.1). To this aim it commissioned a research into New Zealanders' attitude to growth (UMR, 2004). Interestingly, the research identified that economic growth was not a motivator for many young New Zealanders due in part to the massive economic reforms New Zealand underwent in the late 1980s and early 1990s. Therefore the concept of growth needs to be made meaningful to New Zealanders in general and SMEs in particular for businesses to grow successfully. Innovation, however, was found to be an attribute that New Zealanders could identify as part of a national trait, linked to resourcefulness and practicality.

THE ROLE OF LOCAL GOVERNMENT

New Zealand also operates a system of local government with 86 local authorities. Of the 86 councils in New Zealand 12 are regional councils and 74 are territorial local authorities. The role of regional councils is predominately planning and regulation of the environment and catchment management issues. Some of the major metropolitan regional councils have functions of urban transport, bulk water and in some cases bulk disposal of sewage. Regional councils are funded from regional land taxes (rates) based on property values, with little or no financial support from central government.

Territorial local authorities are also locally funded through land taxes, provide local services and are locally accountable to their communities. Their functions are wide ranging and include infrastructure management, recreation services, planning, and local regulation such as dog control, building control and local bylaw enforcement. In the past the functions that local authorities have undertaken have been subject to the constraints of legislation but they are now able to undertake any functions provided they have the support of the local community (Local Government New Zealand, 2007).

With reference to infrastructure, that is roading, water, wastewater, storm water and solid waste services (refuse), an exception to the local funding of local government functions that are funded locally is roading, where approximately half the funds are received from central government. The central government income for roading comes from commercial road user charges (based on truck weight and distance travelled) and from a petrol excise tax of approximately 12%.

Roading infrastructure

As approximately 50% of local government roading maintenance and construction funds are from central government, the funds are tagged by requiring that all physical works be publicly tendered. This change took place in the early 1990s where there was previously a mix of local government direct service provision and private sector provision, to now being a 100% private sector provision. The experience has been that significant reductions in cost have been achieved and since that time there has been a trend towards larger contracts (network maintenance) and longer term contracts. The extent of competition in the private sector has been of concern and the experience is that there are now only four major companies bidding for these larger contracts in New Zealand. There are, however, some concerns that competitive pressures may not be sufficiently strong.

Transit New Zealand - the government owned roading agency, maintains approximately 12% of the nation's reading network by length - the main roads and state highways. They have recently developed a procurement policy where a third of the contracts with the private sector will be for a 10 year period. These contracts are called performance specified maintenance contracts - they are not prescriptive and the contractual outcomes are very broad. To date Transit New Zealand's experience has been that significant further savings over conventional shorter term contracts have been achieved - of up to around 30%. These contracts also include the professional engineering services of project management, design and supervision.

The use of formal public/private sector partnerships in roading has been reasonably limited to date in New Zealand. The Land Transport Management Act 2003 (Transit New Zealand: Ararau Aotearoa. (2005) provided legislation to allow for public/private partnerships for roads. These provisions require partnership agreements to be for a specified term, the assets at all times will be operated under public supervision and all assets will become publicly owned at the end of the agreement. It is expected that these types of arrangements in New Zealand will be on the main roads, will be few in number, and will be associated with the introduction of toll roads. (Currently there are no toll roads in New Zealand, although there have been three instances of these being constructed in the last 40 years).

Water utilities and services

With regard to the infrastructural services of water, wastewater and storm water, this is solely provided by local government in New Zealand. Up until 15 years ago these services were provided directly by local authorities' staff but with the growing trend toward outsourcing, it is estimated that up to 50% of the maintenance of these services is now contracted out. Traditionally major new capital work has been outsourced to the private sector, typically in oneoff project contracts. However in recent years there has been a trend to adopt some of the international models - design build operate (DBO), build own operate transfer (BOOT), and design finance build operate transfer (DFBOT), particularly for wastewater treatment plants. Some of the terms of these contracts have been typically for 25 years.

Only one small urban local authority has entered into a concession/franchise arrangement for the maintenance of its water, wastewater and storm water network. The term for this contract was 30 years with the right of renewal for a further 20 years, and was reasonably controversial in New Zealand. As a result legislation[4] prohibits contracts for the management of whole systems for water, wastewater and storm water for any longer than 15 years. This would not prevent 25 year public/private partnerships for components of the system such as a wastewater treatment plant.

National and urban rail networks

Longer term public/private partnerships allow the provision of urban rail systems where the land and the physical infrastructure remains in public ownership but maintenance of the infrastructure and the rolling stock is the subject of a long term concession/franchise. Toll NZ has exclusive rights until 2070 for freight, long distance passenger operations and metro passenger services in Wellington. Urban rail is provided by Connex New Zealand in Auckland under contract to the Auckland Regional Transport Authority. Toll NZ freight and passenger rights are subject to 'use it or lose it' provisions. New operators will be able to operate long-distance passenger services on routes not serviced by Toll NZ from July 2007. Other operators can exercise their existing rights on the network and can be granted rights to line segments where Toll NZ is unable to meet its 'use it or lose it' obligations or does not take up its right to operate over new sections of the network.

2006 & BEYOND: A FOCUS ON "ECONOMIC TRANSFORMATION"

In 2006 the government launched the economic transformation agenda as a key priority for the government over the next decade. This policy seeks to address the issues that have arisen due to the globalisation of the economy, and New Zealand's position in the world as economies around the world become more and more competitive and interconnected. In the government's view internationalisation is particularly important for New Zealand given its small size and has based this emphasis on growing the economy on the premise that "export intensity will play a role in increasing our productivity levels" (MED, 2006b, p.11). The focus of this economic transformation agenda lies heavily on two key aspects, innovation and internationalisation.

Because New Zealand does not rate highly against other OECD countries in terms of productivity, the government also wants to address this issue.

The economic transformation agenda revolves around five themes:

- to grow globally competitive firms,
- to develop a world class infrastructure,
- to promote innovative and productive workplaces,
- to make Auckland an international and competitive city and
- to encourage environmental sustainability.

Within this framework, the government has several policies in place that address SMEs, in particular to encourage their internationalisation and to foster innovation. For example, to encourage New Zealand businesses to engage in the global economy, 2007 was branded as "Export Year" with a focus of encouraging SMEs to export as well as "increasing New Zealand's long term export performance" (www.exportyear.co.nz).

The government has also recently announced a new regional development policy with the creation of the Enterprising Partnerships Fund. This fund seeks to encourage regional projects that are commercially driven and to generate economic benefits to the region through partnerships between business, industry, local governments and education, training and research organisations. The overall aim is to develop and implement regional strategies that will improve the business environment with a sharp focus on increasing the numbers of internationally competitive firms.

Along with these new initiatives the government has continued to support existing business assistance programmes which focus mostly on building business and management capability. These are designed to address market failures and have four key objectives: to improve access to finance, increase internationalisation, increase innovation and support new business and provision of information (MED, 2006b). The assistance is delivered through the Biz portal in partnership with other government agencies, economic development agencies and chambers of commerce.

Addressing the needs of capability development have also resulted in the formation of the Business Capability Partnership (BCP) which is a private-public partnership aimed at enhancing business and management capability in New Zealand. This body seeks to enable enterprises to improve their management and business capability and, as a result, boost their business success. For BCP business capability has a direct impact on business success and many New Zealand enterprises have scope to improve their capability. Because in some instances the market of services that are available to enhance business capability is cluttered and confusing, and there is also a high degree of variability of quality, appropriateness and accessibility, New Zealand enterprises would benefit from: clear signposting of services available; filling gaps in delivery, and; greater shared knowledge of the drivers of business success.

Other initiatives that impact on SMEs include the Workplace Productivity Project run by the Workplace Productivity Working Group (WPWG) of the Department of Labour which seeks to improve productivity through collaboration between government, industry, firms and unions. Another project to facilitate SME business practices revolves around concerns from owner managers that they spend too much time complying with different government regulations. One of the latest surveys on this issue appears to confirm that SME owner operators find that complying with tax and employment related issues the most demanding on their time. (BusinessNZ-KPMG, 2006).

Undoubtedly today New Zealand society has evolved to the point where people's expectations about what work means have an impact on what choices they make. As found in the above mentioned study, growth on its own is not always a motivator for some New Zealanders, and this certainly appears to be the case with the owners and managers of many SMEs. Instead, other issues such as work-life balance and being 'your own boss' may motivate SME owner managers more, especially if they are micro-enterprises. Given the fact that micro-enterprises make up such a considerable part of the New Zealand economy, for government policy to be effectively implemented their unique nature needs to be taken into account.

PUBLIC-PRIVATE PARTNERSHIPS

A particular focus of the PECC project is on identifying feasible solutions to the complex topic of SME development. One of these approaches may be the establishment of public-private cooperative efforts. This section provides some examples of this type of effort in New Zealand - known generally as "public-private partnerships" (PPPs).

Typical examples of infrastructure concession agreements where a government agency awards a long-term contract to a private party to design, build and operate a facility that provides services either to the public or to the government agency, include toll roads, prisons, water treatment plants, military training facilities. There have been very few PPPs of this kind undertaken in New Zealand and there have been no substantial PPPs entered into by a central government agency. New Zealand no longer has a Ministry of Works and design and construction is almost always contracted out to the private sector.

While operation and maintenance is often carried out by the public sector, this is not always the case. For example, Transit New Zealand (the agency responsible for building and maintaining state highways) contracts out all maintenance of state highways as well as design and construction. Another example is the Auckland Central Remand prison, the operation of which was contracted out in 2000. However, in this instance the management contract was not renewed in 2005 as a result of the Corrections Act 2004.

A further example is the Auckland Indoor Arena, an entertainment and sporting events centre entered into by the Auckland City Council in May 2004. The main reason for choosing a PPP approach in this instance was that the Council does not understand, and has no experience in operating, a major events venue. The private sector partner, who agreed to build, own, operate and maintain the Arena for 40 years, has the experience and skills to run this kind of business and is responsible for operations and carries the risk. At the expiry of the contract, ownership of the building and the operating systems will be transferred to the Council.

Local Authority Trading Enterprises and joint ventures

A further variation of public/private partnerships is joint ventures that local authorities are able to establish. These are known as Local Authority Trading Enterprises (LATEs), where they have 50% or more of the shareholding. There are a number of cases where local authorities have established these partnerships to undertaking road and other maintenance contracts. Some have used this mechanism as a stage in divesting themselves of the function and have subsequently sold off their shareholding as a viable commercial entity.

Asset management planning and policy

One of the important ways that has been developed to ensure the integrity of infrastructure assets in New Zealand is through asset management planning. This has been driven through financial reporting requirements and asset valuation. Asset management plans are now in widespread use and are becoming increasingly sophisticated.

There are no specific policies, rules, or tender documents for awarding contracts to SMEs at the level of Land Transport NZ; although some may have this effect they are not structured for this purpose. Transit NZ does however have an informal policy of allowing contracts under NZ$100,000 for consultants and $200,000 for physical works to be awarded to SMEs or other new entrants without going to open tender where it is believed that this will allow them to prove themselves or develop their category ratings in order to be able to tender for larger projects. In this area risk is moved to the private sector by requiring bonds to be provided for large projects (i.e. a lending institution assesses the ability of a company to undertake the project and provides the bond accordingly).

Emerging developments

The experience with public/private partnerships in New Zealand has evolved from traditional full public sector provision, to both mandatory and voluntary outsourcing for shorter term contracts and this is now evolving into longer term contractual arrangements. Also emerging is the development of conventional public/private partnerships such as DBO, and BOOT and

DFBOT. Joint ventures, particularly for the maintenance of infrastructure, have also been common. While there has been some disquiet over these trends, the legislative framework provides ample scope for continuation of these changes and seems generally to follow international trends in procurement.

Estimating, quantitatively, value for money delivered by these projects is subject to much debate, especially since they are in the early stages of their contracts and there is little empirical data available for analyzing the costs and benefits. It is believed, however, that PPPs will need to be adopted eventually with major capital works initiatives for expanding and/or developing key infrastructure, such as major roading projects and telecommunication networks.

This approach continues to be controversial and has been resisted by both the government and the general population, where the public perception has been that some but not all of these projects have succeeded (IPENZ, 2002) and it is unlikely that the present government will engage in major PPP initiatives. According to a 2006 Treasury policy paper (Katz, 2006), the main arguments against this approach from New Zealand's perspective are that there are other ways of obtaining private sector finance without having to enter into a PPP (and financing of such projects is not at present an issue for New Zealand); that most of the advantages of private sector construction and management can also be obtained from conventional procurement methods (under which the project is financed by the government and construction and operation is contracted out separately); that the advantages of PPPs must be weighed against the contractual complexities and rigidities they entail and which are avoided by the periodic competitive re-tendering that is possible under conventional procurement. The Treasury paper concludes that PPPs are worthwhile only if all of three conditions are met. These are that the public agency is able to specify outcomes in service level terms, thereby leaving scope for the PPP consortium to innovate and optimize; that the public agency is able to specify outcomes in a way that performance outcomes can be measured objectively and rewards and sanctions can be applied; and that the public agency's desired outcomes are likely to be durable, given the length of the contract.

The IPENZ report (2002) on the potential application of PPPs in New Zealand also highlights the small population and low population density as further reasons that fully private-sector funded PPP projects are unlikely to be as economically attractive as they are in some other countries. However, partial funding (where private sector operators compete by tendering for the lowest government subsidy or capital injection) may widen the scope.

Concluding comments

Since the 1970s, when the significance of the SME sector began to be widely recognised, a reasonably substantial literature has developed on how to create an environment that encourages development (for example Haskins & Gibb, 1987; Neck & Nelson, 1987; Van de Ven, 1993). However, given the wide variance in the way business and/or economic development is approached (in response to widely different circumstances) it has not yet been possible to develop a blueprint for best practice enterprise assistance. Those that have attempted to do so have established little common ground or have become bogged down in arguments of detail (for example see the debate between Bryson, Churchward, & Daniels, 1997 and Hutchinson, Foley, & Oztel, 1996 on the development of a typology of delivery agencies).

The result is that there is no single recipe for successful SME development that takes into consideration the differing contextual factors in each country. The situation is exacerbated by the difficulty of effectively evaluating the impact of policy, and the relative infrequency with which this occurs. Alan Gibb argues that the lack of robust evaluation research is just one of a number of factors that has led to the field of SME development being built upon "ignorance, mythical concepts, myths, assumptions, rituals and confusions" (Gibb, 2000, p13). The existence of 'fads and fashions' of policy making, and the absence of adequate analysis of the way in which the different policies have evolved have led to programme design that ignores country-specific factors. This in turn encourages fragmentation, policy and programmes that are incongruent and where the genuine learning from the experience of other countries is replaced by the indiscriminate adoption of ideas that do not necessarily fit.

This can only be avoided if policymakers (and in the broadest sense of the term this includes politicians, academics and other economic commentators as well as those working within government agencies) make a genuine effort to understand the history of policy development in their own country and attempt to assess the impact of these policies. Only when this fundamental understanding is in place can those involved correctly assess the value of the lessons learned by their counterparts in other countries.

In relation to this last comment, this paper offers a review of the New Zealand situation, and aims to make a contribution to the debate that is currently occurring on how best to encourage economic growth.

In summary, this demonstrates that over the last twenty years a substantial shift in the ideology of SME development has taken place in New Zealand. Central government is now focused on transforming the whole economy, through the means of SMEs, and there are a number of examples of initiatives where government leadership is being provided to other parties from the private and voluntary sectors.

The legacy for the SMEs of today is an economy that has, over the years, both debated and experimented with different approaches to business development. Although there has been a general non-interventionist approach by governments since 1984, the governmental response has changed over the years, and assistance for SMEs remains - and in fact has increased over the last decade. However, this assistance no longer comes directly from government, which has remained consistent to the non-interventionist philosophy established by successive governments. The key assumption of this philosophy is that a liberal economy ensures an optimum number of firms through the operation of the market. New firms are created by normal competitive market forces in industries where opportunities for profit exist, and others disappear from industries where demand has declined. If there are business opportunities that favour SMEs, in the absence of artificial barriers these will be exploited without any necessity for significant government intervention. Under this philosophy, lame ducks are not supported, and businesses must survive on their own merits.

The consequence of this way of thinking in relation to economic development is the tendency for the government to move to a more indirect approach. Instead of actively assisting firms on an individual basis, there is a focus on minimising barriers to SME progress by ensuring the economy is open and competitive. This is part of the wide-ranging programme of reform that has focused on restructuring the economy to eliminate inefficiency and promote competition.

As government has moved to a less hands-on role in business and/or economic development, an opportunity has been created for other parties to take over this role - in partnership activities. While to date there are few examples of long standing public private partnerships that have been specifically established to encourage the development of SMEs, the Workplace Productivity Working Group and the Business Capability Partnership are encouraging signs that this approach is being considered.

In the context of this project, this may be the key lesson from New Zealand.

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Notes

1. Economically significant enterprises is a term used in New Zealand to describe an enterprise which meets at least one of the following criteria: Has greater than $30,000 annual GST (goods and services tax) expenses or sales; has more than two full-time equivalent paid employees; is part of a group of enterprises; is a new GST registration that is compulsory, special or forced (this means the business is expected to exceed the $30,000 boundary).
2. The Resource Management Act 1991 (RMA) is the main piece of legislation that sets out how the environment is to be managed.
3. This section draws substantially upon Massey, C., & Jurado, T. (2005). The support infrastructure for New Zealand firms. In C. Massey (ed), *Entrepreneurship & small business management in New Zealand* (pp.17-36). Auckland, New Zealand: Pearson Education New Zealand Ltd.
4. For example the Local Government Act 2002.