



research
NEW ZEALAND

**Special report:
Small Business in New Zealand:
Myths and realities (Part 2)**





SMALL BUSINESS IN NEW ZEALAND: MYTHS AND REALITIES

Building a picture of small businesses

Research can help to capture the complexity of the small business sector. Research New Zealand recently investigated small businesses from the perspective of small business owners. By shedding light on the psyche of small business owners, we deepened our understanding of how small businesses operate and how best to engage and assist them.

This project comprised three stages of research: an examination of the international literature on small businesses, a qualitative study that uncovered the drivers that motivated people to go into business for themselves (as well as the trials and tribulations that they experienced)¹, and a survey of New Zealand small businesses².

Small businesses³ (enterprises employing 19 or fewer people) are a vital part of the New Zealand economy, and a key driver of growth. But successfully engaging with them can sometimes be difficult - especially for government and larger businesses.

Our first report on our project discussed a common misconception that small businesses are little big businesses, with the same drivers and goals as much larger enterprises. The report noted that it is increasingly recognised that issues facing small businesses can differ to those facing big business. Any policy interventions, therefore, need to account for the context in which small businesses operate. The previous report profiled small businesses in New Zealand and explored the motivations and expectations of small business owners when they establish their business.

This paper considers the support networks available to small businesses, and how they view key relationships with government agencies and corporate businesses, and small business owners' perceptions of the support they provide. The words of small business owners from our qualitative group discussions are used to illustrate the findings of our research.

¹ Four group discussions (each with four respondents) were held with decision-makers from businesses in greater Wellington, between September and November 2006. Group membership was largely determined by business size and the length of time the business had been established. The sample also included a mix of respondents from blue and white collar industries. This research informed the development of a quantitative telephone survey of just over 500 small business owners.

² The final achieved sample of n=501 small business owners was selected, at random, to be nationally representative of businesses with up to 19 employees. An initial sample of n=5,000 businesses was selected, stratified by business size (businesses with more than five employees were over-sampled to ensure they were adequately represented in the final sample). Contact Research New Zealand for further information on survey methodology.

³ In this report, "small business" refers to small and medium-sized businesses (SMEs). Definitions differ on what size these SMEs may be, but they are defined as enterprises with 19 or fewer employees by the Ministry of Economic Development.



Small businesses have more need of assistance in building business capability than larger businesses⁴. In particular, in the establishment phase, the small business owner may take a considerable financial risk. Where the business relies on finance provided by a bank, personal guarantees are usually sought by the lender, often in the form of a mortgage on property. The cost of failure can therefore include the loss of the owner's home.

In our previous report, we reported that two-thirds of respondents in our survey experienced some sort of difficulty in establishing their business. These difficulties included setting up or dealing with computer systems, health and safety systems, government agencies other than IRD and ACC, human resources systems, marketing and promotion, and financial systems.

Establishing the business

Is the small business generally established by the owner, or has it been inherited or bought from someone else?

Our research shows that some 58 percent of small business owners had established the business themselves, and 38 percent had bought it from someone else.

Forty-two percent of the sample had owned the business for more than 10 years. 15 percent had owned it for two years or less, and 19 percent had owned it for 3 – 5 years.

We also asked whether the small business was owned in partnership with someone else, and 56 percent of small business owners confirmed that this was the case. Having a partner provides an opportunity for at least some limited functional specialisation.

Having to be a 'Jack of all trades'

Once the business has been started, the question is who the small business owner can rely on for on-going support and advice. Generally, small businesses are started on the basis of a core skill set that supports the primary purpose of providing a product or service. The small business owner will not generally have a wider skill set that is required to manage all the business functions such as HR, finance and accounting, health and safety issues, marketing, advertising and communication. Furthermore, the small business owner will generally be focused on meeting the needs of the customer, and may not have much time left each day to manage these other functions, which then need to be carried out outside normal business hours.

In the very small business these functions are generally carried out by someone who does not have any special training or experience in the work, someone who literally has to be a 'jack of all trades'.

The breakthrough comes when the business has grown to the extent that functional specialists can be hired to focus on those activities, leaving the small business owners free to produce the goods and services that provide their income.

⁴ Small Business Advisory Group (2004).



Being in partnership with someone else often provides the opportunity for a degree of specialisation as to the functions each partner carries out. So, where the business had been established with a partner, we asked what role the business partner played in the day-to-day running of the business.

The partner is most often engaged in administration (37 percent), finance (25 percent), production of goods or services (24 percent) or marketing (19 percent), or is a silent partner (24 percent).

Exporting is another functional specialisation that is important for some businesses, but only 12 percent of the small business owners interviewed were engaged in exporting.

Who supports the small business owner?

To compensate for the isolation of being in business alone (or with little support), small business owners look to their accountant, the bank, an industry organisation, suppliers, partners and family for support. They can act as sounding boards for ideas, provide advice and assistance and help with problem solving.

“I’m not going to jump without having my hands on someone that is going to help me fly. I’m not doing it without a hang glider or a parachute! It’s your own ability to create relationships, a support network that makes it happen”.

Specifically, the organisations or persons that had been helpful in supporting the small business owners interviewed and their business were as follows:

- ◆ Accountants (24 percent) – particularly by businesses with employees.
- ◆ Industry or professional organisations (18 percent).
- ◆ The bank manager (16 percent).
- ◆ Family members (14 percent).
- ◆ Business advisors or mentors (10 percent).

Others mentioned were other small business owners (seven percent), ‘suppliers’ (four percent) and ‘customers’ (three percent). It is worth noting, however, that 26 percent of respondents felt that no one organisation or person had been helpful in supporting them.



Service providers – satisfaction and perceptions

Government and local councils

Government agencies and local councils deliver a wide range of services to small businesses, but the relationship between small businesses and government agencies and local councils can be challenging. This is not surprising since many government agencies and local councils are there to enforce compliance with laws and regulations, particularly tax and ACC levies. ‘User pays’ has also led to the need to pay for many services that once were free.

There is often also a perception that government departments and local councils do not understand the needs of small business and that some services are too complex and bureaucratic⁵. Fragmented, confusing and difficult to access services can act as barriers to the effective use of services and compliance with government regulation⁶.

Many small business owners in New Zealand have contact with government agencies or the local council. Over 75 percent of respondents in our survey reported that they had initiated or been contacted by a (national or local) government agency in the last 12 months. Those that had not had contact in the last 12 months (23 percent) were more likely to be businesses with no employees.

IRD (56 percent) and ACC (44 percent), together with respondents’ ‘local council’ (36 percent) were the three organisations that respondents most frequently identified having contact with. Small businesses with employees were more likely to have had contact with these organisations.

Levels of satisfaction with government agencies and local bodies

Our research showed that levels of satisfaction in regard to the contact with different government agencies and local councils varied significantly. The following ratings, which were measured on a 9-point scale and then telescoped into three broad satisfaction categories, apply to government agencies that SMEs had contact with in the last 12 months.

	n=	Satisfied %	Neither %	Dissatisfied %	Don't know %	Total %
IRD	303	56	29	14	1	100
ACC	236	39	34	27	0	100
Local council	210	45	20	35	0	100
NZ Customs	70	64	19	11	6	100
Department of Labour	60	47	28	23	2	100
MAF	48	69	23	4	4	100

⁵ Small Business Service (2004); Culkin & Smith (2000); OECD (2003a).

⁶ Small Business Service (2004).



From this it is clear that some government agencies do manage to obtain reasonable satisfaction ratings in their dealings with SMEs, although ACC and local councils rate somewhat lower than the others and had rather higher dissatisfaction ratings. In the case of IRD and ACC, a significant proportion of respondents were neither satisfied nor dissatisfied.

Satisfaction with private sector business services

We also asked respondents to rate some common business services, such as their main bank, their main business insurer, their main telecommunications provider and their main electricity provider. Again, a 9-point scale was used and telescoped into three main satisfaction categories.

	n=	Satisfied %	Neither %	Dissatisfied %	Don't know %	Refused %	Total %
Main bank	501	77	12	10	1	0	100
Main business insurer	501	73	14	6	6	1	100
Main power provider	501	68	22	6	4	0	100
Main telcom provider	501	67	17	15	1	0	100

Satisfaction with private sector services were generally higher than satisfaction with government agencies. Banking in particular received high satisfaction ratings at 77 percent. The fact that, with private sector providers small businesses generally have a choice, where government agencies are monopolies, may be a reason for this.



Perceptions of government agencies and private sector providers

Using a framework developed from responses to the qualitative research, respondents were asked to agree or disagree that the government agencies they had been in contact with in the last 12 months, and some private sector providers they dealt with on a continuous basis, had the following attributes⁷:

a) Appears to be an organisation that is run efficiently	f) Aims to work in partnership with you
b) Has products and services that deliver real benefits to your business	g) Has fair pricing or costs
c) Provides good value for money to your business	h) Provides you with the level of service and support you need
d) Proactively provides information that is important for your business to know	i) Is easy and straightforward to deal with
e) Has a good knowledge of <u>small businesses' needs</u>	j). Is flexible and helps me with my business needs

While the scores are of some interest in themselves, the more important question is the extent to which there is a relationship between the perceptions and the overall level of satisfaction expressed with the service provider. By linking the scores obtained from the satisfaction ratings to the scores on the attributes, and using a particular statistical technique, we were able to establish which attributes contribute most to the level of satisfaction with the services provided.

The table overleaf shows the extent to which satisfaction with the service received is related to perceptions of the government agency or private sector provider in question. The black numbers signify correlations between satisfaction and perceptions that are significant at the 95 percent level, while those in red are correlations significant at the 90 percent level. Where the cells are blank it signifies that the variable concerned was discarded by the statistical technique as not being statistically significant.

⁷ These 10 attributes were based on the results of the qualitative study, when the frame of reference that small business owners use to assess the service and value of the service they receive from government agencies and corporate organisations was identified.



	ACC n=99	IRD n=140	Local Councils n=111	Banks n=226	Insurance n=189	Telcoms n=209	Electricity n=154
a) Appears to be an organisation that is run efficiently							
b) Has products and services that deliver real benefits to your business	2.02						
c) Provides good value for money to your business	1.61		1.79				1.7
d) Proactively provides information that is important for your business to know		0.68	1.55	0.51		1.4	
e) Has a good knowledge of <u>small businesses' needs</u>			1.94				
f) Aims to work in partnership with you		1.43					
g) Has fair pricing or costs				0.65	1.32		0.67
h) Provides you with the level of service and support you need		1.93					
i) Is easy and straightforward to deal with	2.74	1.68	2.24	4.18			
j). Is flexible and helps me with my business needs				2.58			
Ability to predict satisfaction	88%	76%	83%	86%	80%	62%	64%

The ability of this form of analysis to predict satisfaction is fairly high in the case of government agencies, banks and insurance providers. In the case of telecommunications and electricity providers the explanatory power of the analysis is rather less.

Attributes that correlated in the case of four of the providers were (d) *proactively provides information that is important for your business to know* (IRD, local councils, banks and telecommunications and (i) *is easy and straightforward to deal with* (ACC, IRD, local councils and banks).

Another attribute that correlated in the case of three providers was (g) *has fair pricing and costs* (banks, insurance and electricity providers). This suggests that prices (private providers) are rather more transparent than costs (government agencies). Generally, it is difficult to know whether the cost of a service provided by a government agency is reasonable and fair because there is no yard-stick that can be applied.

The analysis also suggests that being seen as an organisation that is run efficiently does not in itself correlate strongly with satisfaction. Clearly, efficiency at an organisational level and performance when dealing with an individual SME, are not synonymous concepts!



Improving relationships with small businesses

The results from our study demonstrate ambivalence by many small business owners towards key government agencies and corporate organisations.

“At the moment, with all the call centres, there’s never anybody who is accountable for the decisions they give you”.

Our qualitative research found that, generally, small business owners do not believe that government and corporate organisations have their best interests at heart or understand them. These relationships are often regarded as a necessary evil, over which they have little choice or control.

Small business owners want both government and corporate organisations to be more customer-oriented (like them). They believe that this would save them time and money.

Treat us as individuals, not numbers; use a personal touch and communicate accurately with us; value us as much as big businesses; make us feel special, we’re helping to grow New Zealand”.

Being more customer-oriented means making it quick and easy to do business and being reliable and consistent. This includes:

- ◆ Quick and easy access.
- ◆ Straightforward, comprehensive, and relevant information provision.
- ◆ Fast and simple systems and processes, including payment options (e.g. by enhancing electronic capabilities, simplifying forms).
- ◆ Flexible products and services.
- ◆ Accountable, knowledgeable and empowered staff.
- ◆ A fast turnaround of response to transactions and queries.
- ◆ Fair/competitive pricing.
- ◆ Acknowledgement and rewards for loyalty and good behaviour.
- ◆ Either have a named point of contact or smart and intuitive interfaces.

The potential wins for private sector providers of being more customer-oriented are increased customer acquisition, customer spend, retention and overall customer loyalty. For government, the potential wins include cost savings, and an improved public perception that they genuinely have small businesses’ best interests at heart.



References

Culkin, N. & Smith, D. (2000). *An emotional business ventures out into the big wide world – What chance government ever getting to grips with the small firm market.* (Business School Working Papers UHBS 2000-3, Marketing Paper 14). Hatfield: University of Hertfordshire.

Ministry of Economic Development (2008). *SMEs in New Zealand: Structure and dynamics 2009.* Wellington: Ministry of Economic Development.

OECD (2003a). *From red tape to smart tape: Administrative simplification in OECD countries.* Paris: OECD.

OECD (2003b). *Policy brief: From red tape to smart tape: Administrative simplification in OECD countries.* Paris: OECD.

Small Business Advisory Group (2004). *Small and medium businesses in New Zealand: Report of the Small Business Advisory Group.* [Wellington: Small Business Advisory Group].

Small Business Advisory Group (2006). *Small and medium businesses in New Zealand: Report of the Small Business Advisory Group.* [Wellington: Small Business Advisory Group].

Small Business Advisory Group (2008). *Growing competitive SMEs: Report of the Small Business Advisory Group.* [Wellington: Small Business Advisory Group].

Small Business Forum (2006). *Small business is big business.* Dublin: Small Business Forum.

Small Business Service (2004). *A government action plan for small business: Making the UK the best place in the world to start and grow a business: The evidence base.* London: Small Business Service.