

SMEs in New Zealand: Structure and Dynamics

July 2007

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Overview

This report provides a statistical overview of New Zealand firms. It has a specific focus on the country's small and medium-sized enterprises (SMEs), examining their significance for the economy, their financial performance, the dynamics of SMEs and the significance of SMEs internationally.

The intention of the report is to improve the understanding of enterprise structure and dynamics in New Zealand. The statistics themselves record aspects of the aggregate economic activity of New Zealand enterprises. Hence there are limits to what can be concluded from the data because they cannot explain *why* enterprises change (or do not change) over time. However, the data can complement other research into how the qualitative features of New Zealand firms relate to their structure, behaviour and performance. For example, the management practices, governance arrangements and growth aspirations of SMEs are generally considered qualitatively different to larger firms¹. The drivers of change, or indeed stability, are the issues of key interest. This report collects and reports the outcomes of those drivers.

This year's *Structure & Dynamics* introduces the data on aspects of firms' performance and business practices that are now available from Statistics New Zealand's Business Operations Survey. These data complement the structural statistics in the report by providing an overview of the extent to which New Zealand firms engage in key business practices and how this varies by firm size and industry sector.

This is the eighth such report produced by the Ministry of Economic Development (MED) and Statistics New Zealand.

Business Demographics at February 2006

- 96% of enterprises employed 19 or fewer people.
- 87% of enterprises employed 5 or fewer people.
- 64% of enterprises had no employees.
- The number of SMEs increased 4% in the year to 2006.
- SMEs accounted for 30% of all employees.
- Firms with 5 or fewer employees accounted for 11% of all employees.
- From 2001 to 2006, SMEs accounted for 59% of all new net jobs in the economy.
- There were 11,751 net new entries into the Business Demography dataset at February 2006.
- Self-employed people accounted for 11% of people in the labour force (at March 2007).

Business Performance in the Year ending March 2005

- SMEs accounted for 39% of the economy's total output (deflated value added).
- Firms with 5 or fewer employees had the highest average real profits per employee and increased their total real profits by six percent from 2004 to 2005.
- Average real salaries and wages per employee tended to increase with firm size.

¹ For further research on New Zealand SMEs visit the New Zealand Centre for SME Research at Massey University (<http://sme-centre.massey.ac.nz/>).

Defining Small and Medium-Sized Enterprises

For the purposes of this report, SMEs are defined as enterprises with 19 or fewer employees. However, for those wishing to use other categorisations, this report provides information broken down by the following firm size categories:

- Zero employees
- 1–5 employees
- 6–19 employees
- 20–49 employees
- 50–99 employees
- 100–499 employees
- 500 or more employees.

Enterprises in these categories correspond to tax reporting units. Enterprises represent a legal entity, which may be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, religious organisation, voluntary organisation or self-employed individual. The number of employees at the enterprise level is equivalent to the sum of employees of its associated geographic unit(s). Enterprises involved in farming are excluded.

Employment Measurement

In 2003, Statistics New Zealand changed the strategy used to maintain the Business Frame (BF), from which business demography statistics are sourced (for further details refer to Appendix 1). The main change that affected this report from 2004 onwards is the change in the measure of employment from a full-time equivalent employee (FTE) count to an employee count (EC).

The EC is a head-count of salary and wage earners and is primarily sourced from taxation data. It covers paid employees, but does not include working proprietors other than those who pay themselves a salary or wage. The EC is sourced primarily from Inland Revenue's IR348 form – the *Employer Monthly Schedule (EMS)*. This form must be completed monthly by employers and indicates the number of salary and wage earners. February is used as the reference month for business demography statistics. The employee count of a small number of enterprises is collected also by Statistics New Zealand survey.

In contrast, the FTE measure covered paid employees and included working proprietors who did not pay themselves a salary or wage. The FTE measure was updated annually in the BF by surveying employing businesses (excluding farming businesses). Some statistics in this report are expressed using a Rolling Mean Employment (RME) count. RME is a 12-month moving average of the monthly Employee Count figure.

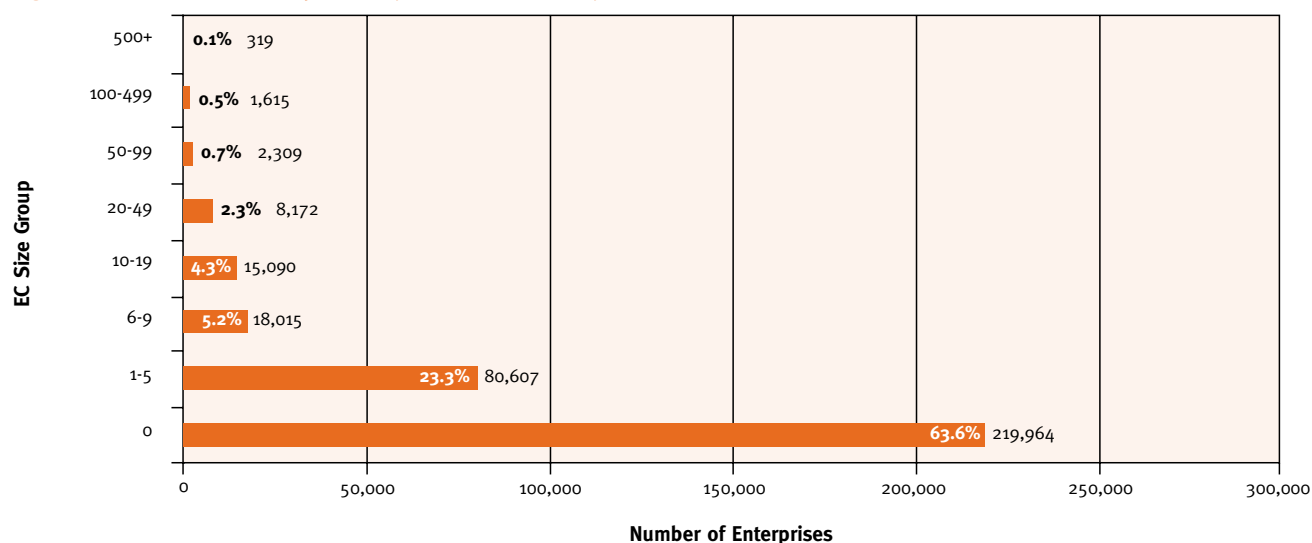
Number of SMEs

New Zealand is predominantly a nation of small businesses.

Most enterprises in New Zealand are small and medium-sized enterprises. At February 2006:

- 96.4% of enterprises employed 19 or fewer people.
- 86.8% of enterprises employed 5 or fewer people.
- 63.6% of enterprises had no employees.

Figure 1. Number of Enterprises by Size, at February 2006



The statistics in this report include both public and private enterprises, with the exception of data from the Business Operations Survey that cover only private enterprises. Public enterprises include central and local government enterprises, other local authorities and rūnanga. Private enterprises include private corporate and non-corporate producer enterprises, producer boards, private registered banks and private insurance and pension funds. The following table shows the number of enterprises in the private and government sectors.

Table 1. Private and Government Sector Enterprises by Size, at February 2006

EC Size Group	Private Sector		Government Sector	
	Number of Enterprises	Employee Count (EC)	Number of Enterprises	Employee Count (EC)
0	219,695	0	269	0
1-5	80,079	187,990	528	1,810
6-9	17,560	126,710	455	3,330
10-19	14,341	191,730	749	10,620
20-49	7,470	220,290	702	20,870
50-99	2,044	140,230	265	18,610
100-499	1,380	269,600	235	51,350
500+	221	310,050	98	212,240

The number of SMEs increased in the year to February 2006, although the proportion of SMEs remained relatively constant.

The number of SMEs increased by 3.6 percent in the year to February 2006, slightly up from the 3.1 percent increase in the year to February 2005. The total number of enterprises rose by 3.5 percent from 334,340 in February 2005 to 346,091 in February 2006.

The proportion of firms defined as SMEs was 96.4 percent at February 2006, compared to 96.3 percent at February 2005.

Figure 2. Cumulative Enterprise Count by EC Size Group, at February 2006

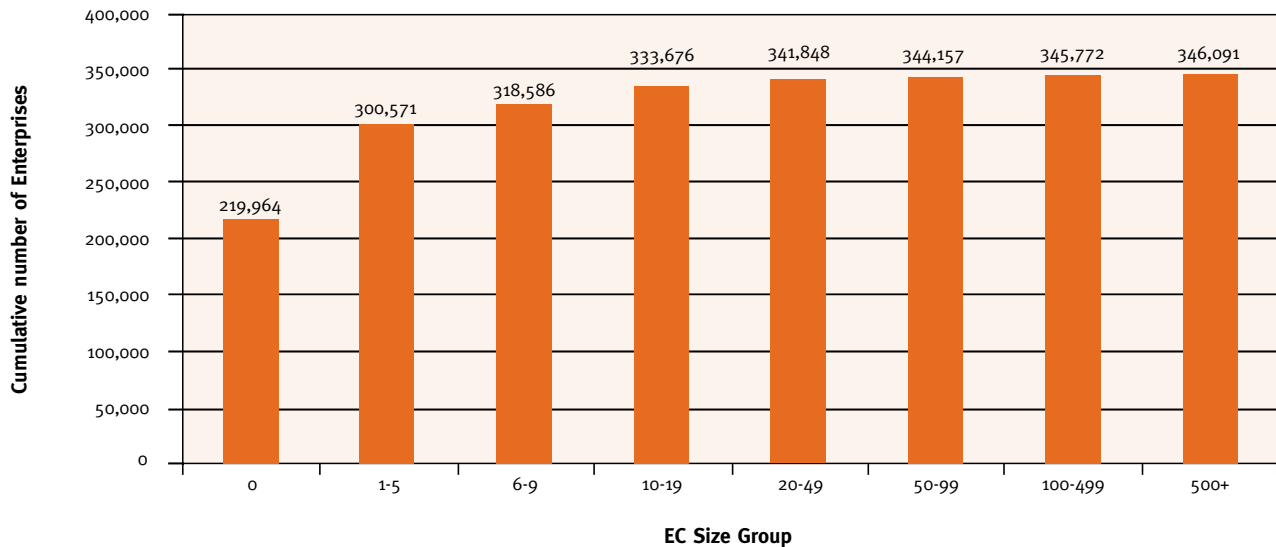


Table 2. Annual Percentage Change in Numbers of Enterprises

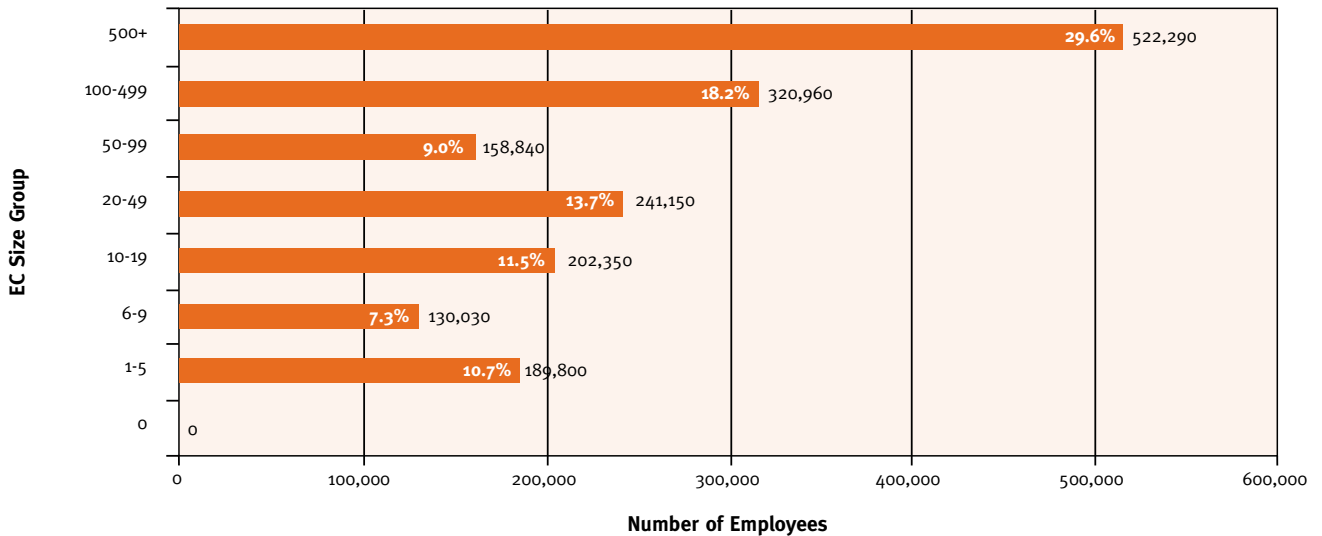
EC Size Group	2001	2002	2003	2004	2005	2006
0	-1.55%	2.74%	4.63%	14.82%	0.67%	4.16%
1-5	1.05%	2.39%	3.51%	1.64%	8.81%	3.15%
6-9	2.48%	3.45%	8.20%	1.97%	5.68%	1.09%
10-19	3.76%	3.47%	9.28%	2.50%	7.01%	1.56%
20-49	1.70%	1.97%	8.31%	3.62%	2.68%	0.25%
50-99	2.53%	2.32%	5.87%	4.33%	3.97%	-0.86%
100-499	4.58%	0.36%	1.43%	4.30%	4.87%	4.13%
500+	4.86%	7.34%	3.60%	2.43%	4.75%	3.24%
Total	-0.35%	2.69%	4.84%	9.95%	3.10%	3.51%

SMEs' Contribution to Employment

The number of workers employed by SMEs increased.

SMEs accounted for 29.6 percent of total employment at February 2006. The number of people employed by SMEs increased by 1.8 percent between 2005 and 2006 to 522,180.

Figure 3. Total Employment by Enterprise Size, at February 2006



A comparison of government and private employment demonstrates the significance of the government sector for total employment. The government sector accounts for 18 percent of employment and the private sector, 82 percent.

Figure 4. Total Private and Government Sector Employment by Enterprise Size, at February 2006

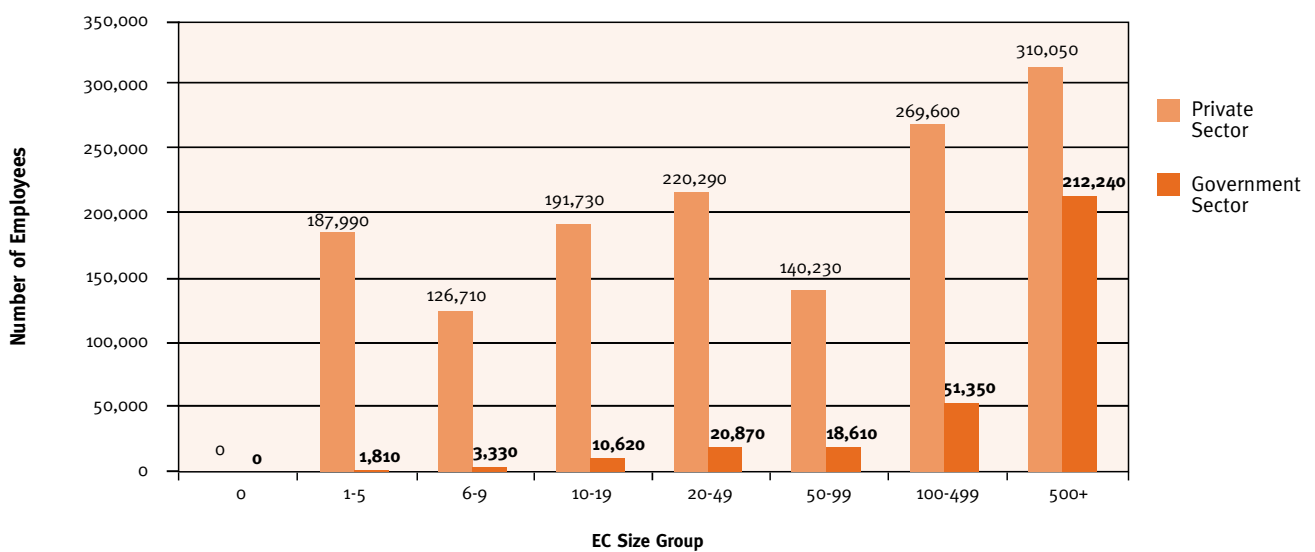


Table 3. Annual Percentage Change in Employment by Enterprise Size, at February 2006

EC Size Group	2001	2002	2003	2004	2005	2006
0	-	-	-	-	-	-
1-5	1.33%	3.45%	3.99%	1.90%	7.79%	2.87%
6-9	2.38%	3.35%	8.34%	2.08%	5.69%	0.85%
10-19	4.01%	3.27%	9.57%	2.58%	7.18%	1.48%
20-49	1.85%	1.21%	7.64%	3.09%	3.05%	-0.03%
50-99	1.77%	2.74%	6.57%	4.50%	4.26%	-1.18%
100-499	3.72%	-0.23%	2.11%	4.12%	5.17%	3.27%
500+	6.65%	3.56%	3.79%	4.19%	4.82%	3.96%
Total	3.77%	2.38%	5.26%	3.46%	5.22%	2.17%

Businesses with 1–5 employees created the greatest number of new jobs...

... but are also the second greatest contributors to employment reduction.

Table 4 illustrates the contribution of firms to job creation in the economy between February 2001 and 2006. The largest single contributing group was new businesses with 1–5 employees, which created 95,320 new jobs, 1,460 more than during the February 2000 to 2005 period. Of continuing businesses, the most new jobs came from firms with 500 or more employees, which created 74,610 new positions.

Between February 2001 and 2006, firms with 500 + employees were the greatest contributor to employment reduction (a reduction of 93,500 jobs) followed by firms with 1–5 employees (a reduction of 81,690 jobs). Firms of these sizes were the greatest contributors to employment reduction between 2000 and 2005 also.

Firms with 1-5 employees created the greatest net employment change, accounting for 21 percent of net employment change.

From 2001 to 2006 SMEs accounted for 59 percent of all net new jobs in the economy.

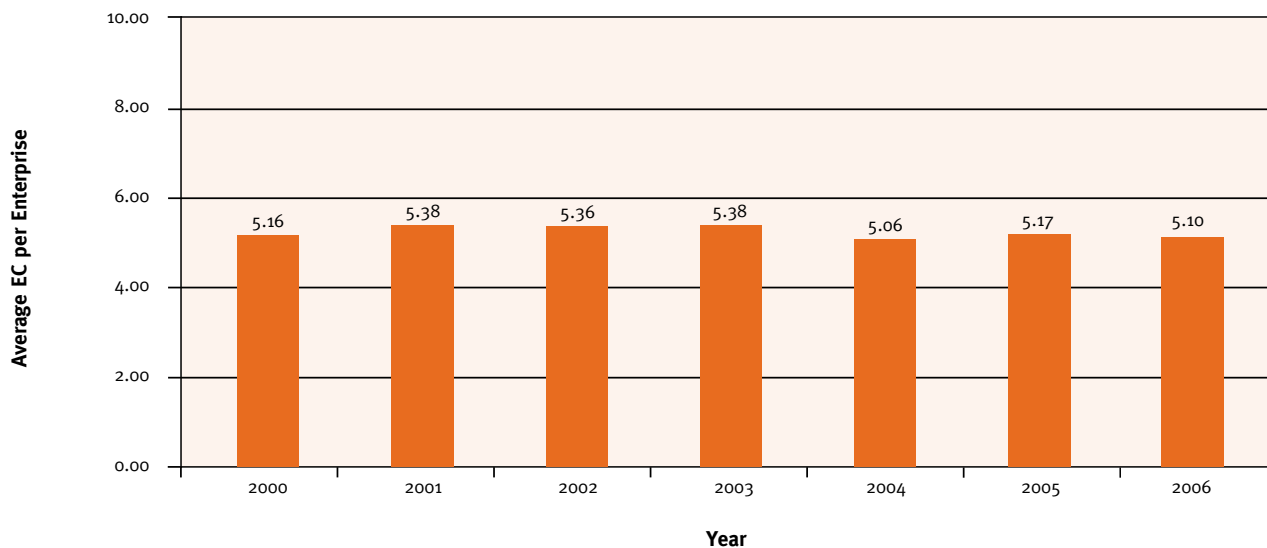
Table 4. Employment Creation and Reduction by Enterprise Size, February 2001 to February 2006²

	EC Size Group								Total
	0	1-5	6-9	10-19	20-49	50-99	100-499	500+	
EC									
Employment Creation									
Continuing business	43,590	48,100	23,990	30,900	38,520	28,980	60,880	74,610	349,570
New business	0	95,320	53,850	71,230	64,170	31,680	51,520	50,710	418,470
Total	43,590	143,410	77,830	102,130	102,690	60,660	112,400	125,320	768,030
Employment Reduction									
Ceased business	.	-22,830	-12,970	-19,220	-28,540	-16,530	-27,480	-35,450	-163,010
Continuing business	0	-58,860	-35,490	-46,080	-47,810	-25,370	-42,980	-58,060	-314,640
Total	0	-81,690	-48,450	-65,300	-76,350	-41,900	-70,450	-93,500	-477,650
No Change									
Continuing business	0	0	0	-35	-60	-60	640	1,570	2,060
Net Employment Change	43,590	61,720	29,380	36,830	26,340	18,760	41,950	31,820	290,380

The average size of New Zealand firms decreased slightly.

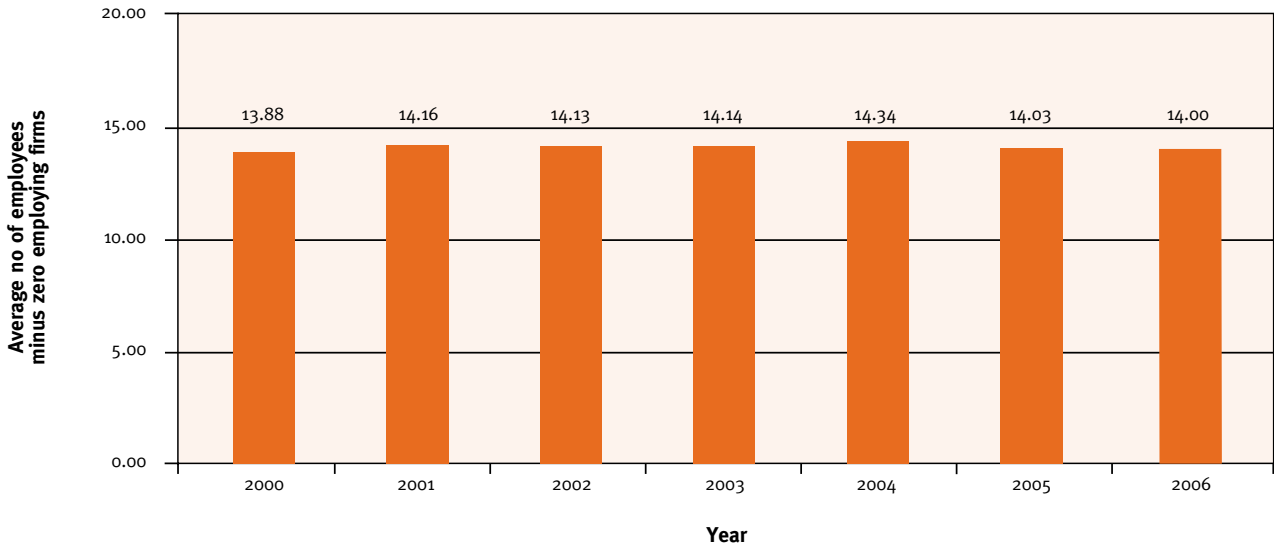
The average number of employees per enterprise at February 2006 decreased slightly to 5.1, down from 5.2 in 2005. When non-employed firms are removed, the average number of employees per enterprise in 2006 was 14.0, the same as in 2005.

Figure 5. Average EC per Enterprise, at February 2006



² Table 4 uses 2001 as the base year for the data. This means that, for example, if an enterprise contributed to the 1-5 EC category in 2001 but subsequently grew to 30 EC, that increase in EC would be attributed to the 1-5 EC category, not to the 20-49 EC category. Enterprises in the “No Change Continuing Business” row are enterprises that experienced only a very small percentage change in their contribution to employment (between -10% and 10%) from 2001 to 2006.

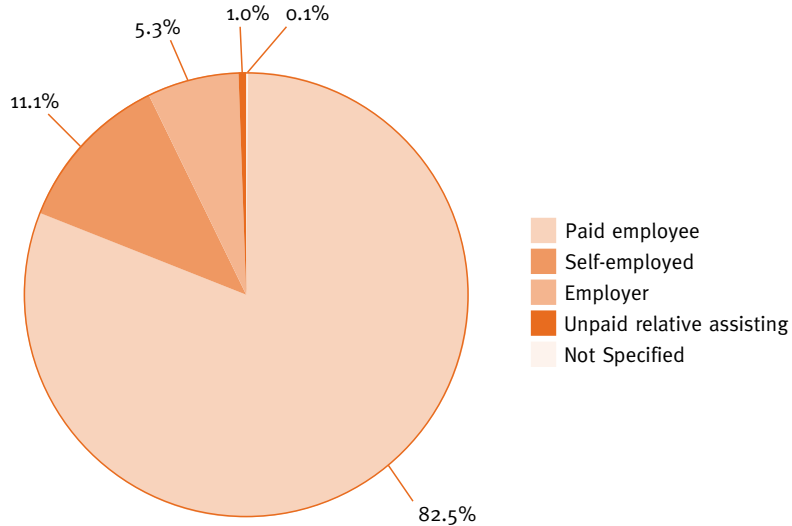
Figure 6. Average EC per Enterprise, less Non-Employing Enterprises, at February 2006



Most New Zealanders in the labour force are paid employees.

Data from the 2007 Household Labour Force Survey show that over 80 percent of people in the workforce are paid employees.

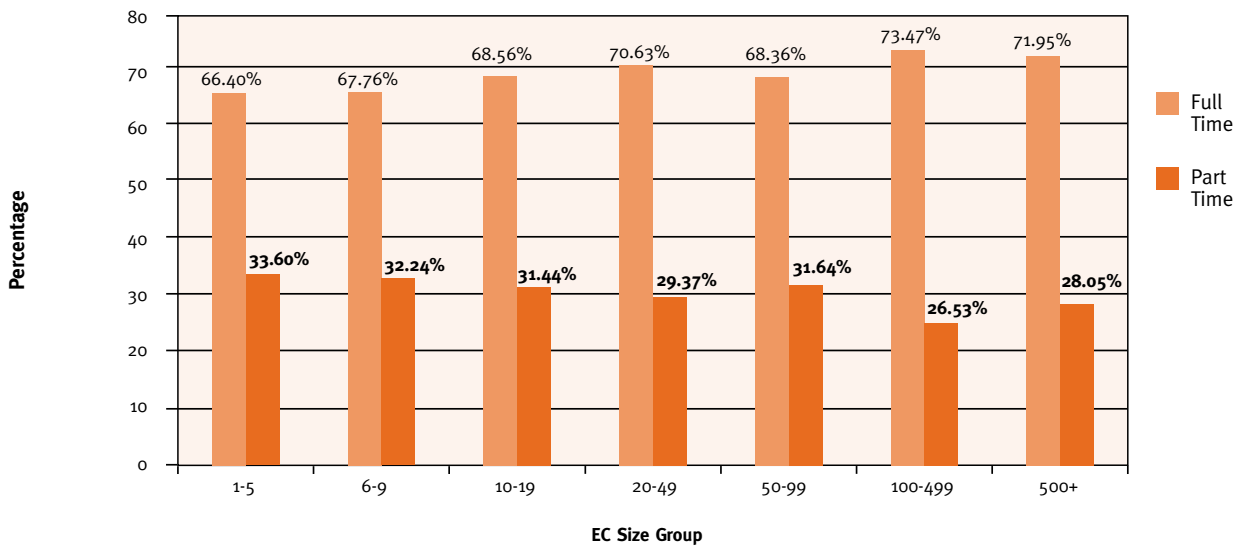
Figure 7. Employed Labour Force by Type of Employment, year ended March 2007



SMEs utilise the greatest proportion of part-time employees of all firm types.

The March 2006 Quarterly Employment Survey shows that SMEs are generally more likely to have part-time employees than larger firms. Firms with 1-5 employees employed the greatest proportion of part-time staff (33.6 percent). However, as Figure 8 indicates, the majority of employees across all firm sizes are full-time.

Figure 8. Full/Part-Time Employees by EC Size Group, at March 2006



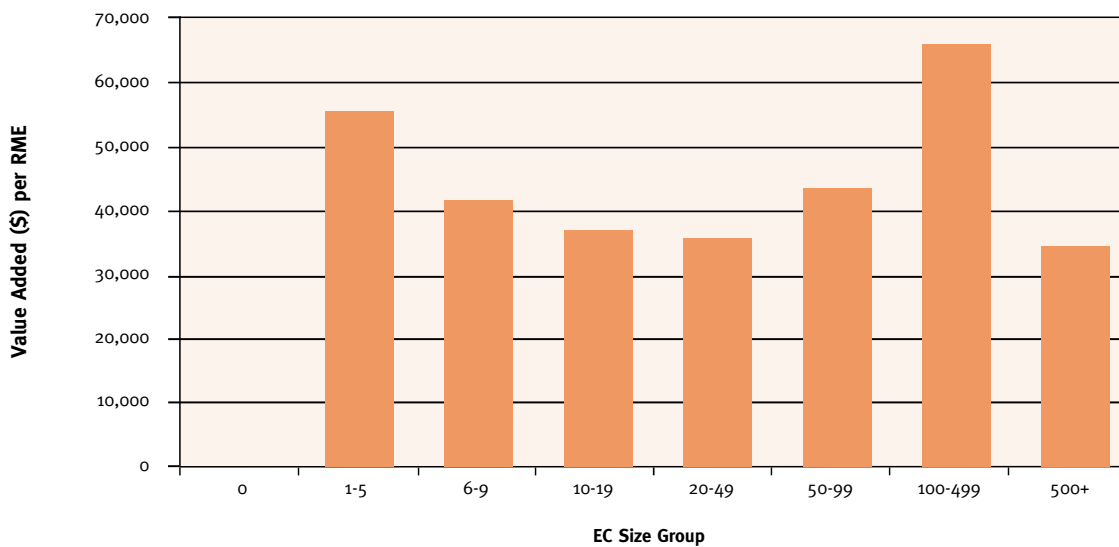
SMEs' Contribution to Output

SMEs accounted for 40 percent of New Zealand's value-added output.

Value-added is a measure of the contribution to total output by enterprises in the economy. Value-added is calculated as gross output minus intermediate consumption.³ The data used for this calculation are sourced from the Annual Enterprise Survey, which feeds into the National accounts from which official GDP is calculated. While not related to the official GDP figures published by Statistics New Zealand, total value-added by enterprise size can provide an indication of the contribution of each EC size group to economic output.

Similar to the previous year, firms with 100–499 employees recorded the highest average value-added per Rolling Mean Employment (RME) (\$66,052) in 2005. They were followed by firms with 1–5 employees (\$55,432) and 50–99 employees (\$43,588).

Figure 9. Average Value-Added Output per RME by Enterprise Size 2005

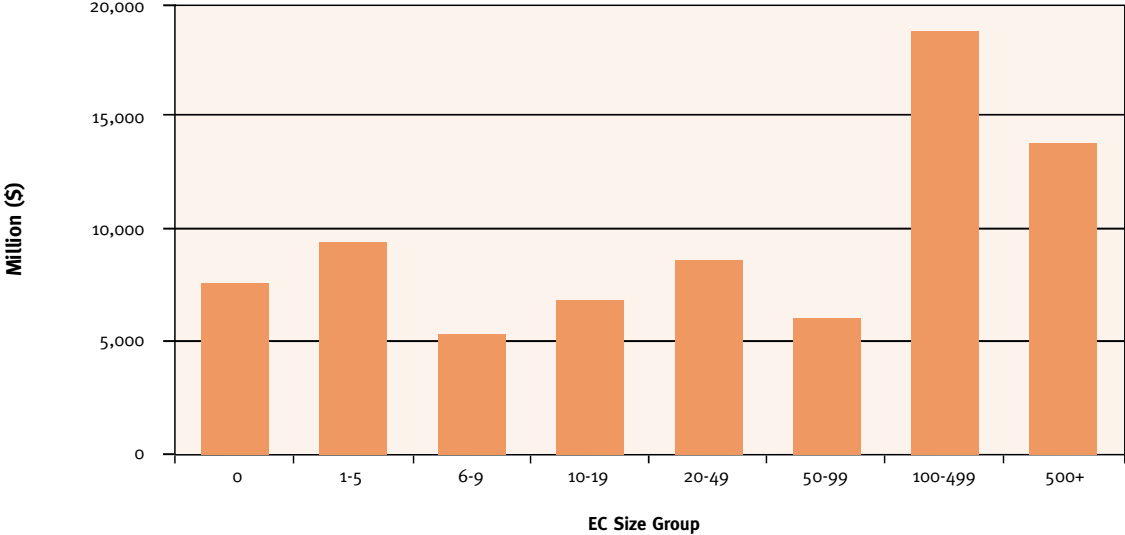


³ Value-added is provided with the following caveats:

- The figures should be seen only as a proxy. While source data used for this feed into the system for National Accounts from which GDP is calculated, they have not been through that system and therefore are provided only as an indicator.
- The figures have been deflated by a generic deflator, which is not output-specific, and are not related to the Quarterly Gross Domestic Product figures published by Statistics New Zealand.
- These data are not standard output and as such are not available in any other cross-tabulations.
- Figures are expressed in terms of 1997 dollars.

The SME contribution to total value-added decreased slightly from 39.0 percent in 2004 to 38.6 percent in 2005. Enterprises with 100–499 employees were again the single strongest performers in 2005, accounting for 24.5 percent of value-added output.

Figure 10. Total Value-Added Output by Enterprise Size 2005



SMEs and Industry Sectors

Enterprises on the Statistics New Zealand Business Frame are assigned to different industrial sectors using the Australian and New Zealand Standard Industrial Classification (ANZSIC). Statistics on farming businesses (ANZSIC A01) are removed to allow for comparison of data produced in business demography releases up to 2003 (which exclude farming). However, statistics on farming businesses (2004-2006) are available from Statistics New Zealand on request.⁴

The enterprise ANZSIC is derived from the ANZSIC and the employment levels of the geographic unit(s) belonging to that enterprise. A geographic unit (or business location) is assigned to an ANZSIC category according to the predominant business activity in which it is engaged.

ANZSIC industry classifications used in this report are:

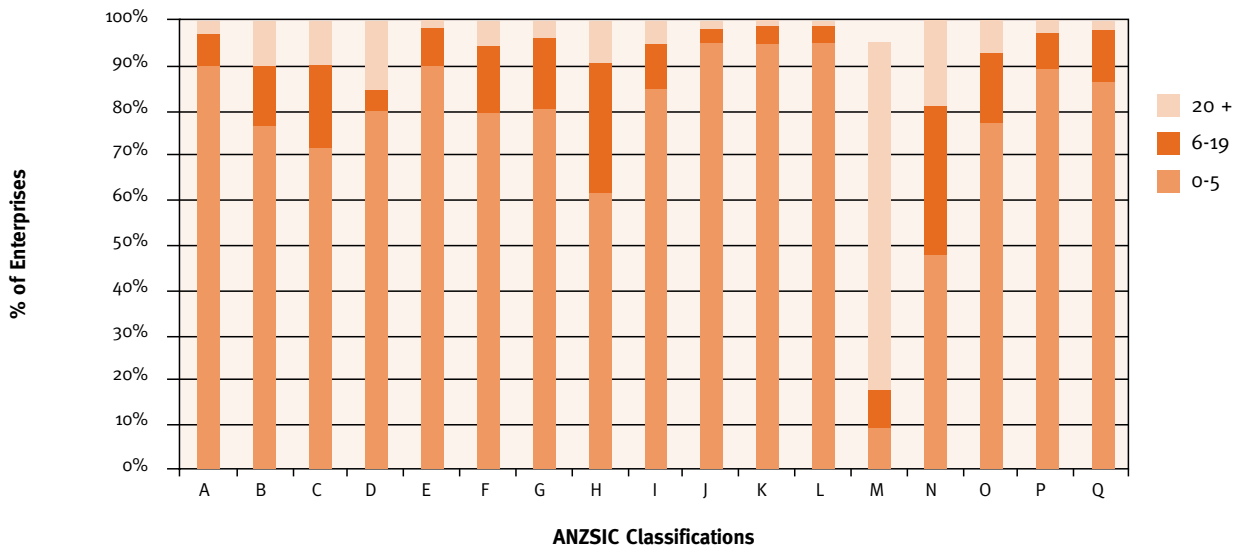
A	Agriculture, forestry and fishing
B	Mining
C	Manufacturing
D	Electricity, gas and water supply
E	Construction
F	Wholesale trade
G	Retail trade
H	Accommodation, cafes and restaurants
I	Transport and storage
J	Communication services
K	Finance and insurance
L	Property and business services
M	Government administration and defence
N	Education
O	Health and community services
P	Cultural and recreational services
Q	Personal and other services

⁴ Call the information centre on freephone 0508 525 525 or email info@stats.govt.nz

SMEs constitute over 90 percent of enterprises in most industries.

SMEs are most predominant in the property and business services sector, accounting for 98.7 percent of all enterprises in this industry at February 2006. SMEs are dominant also in the finance and insurance, construction, personal and other services, and communication services, making up 97 percent of businesses in each of these industry groups.

Figure 11. Percentage of Enterprises by EC Size Group and ANZSIC, at February 2006

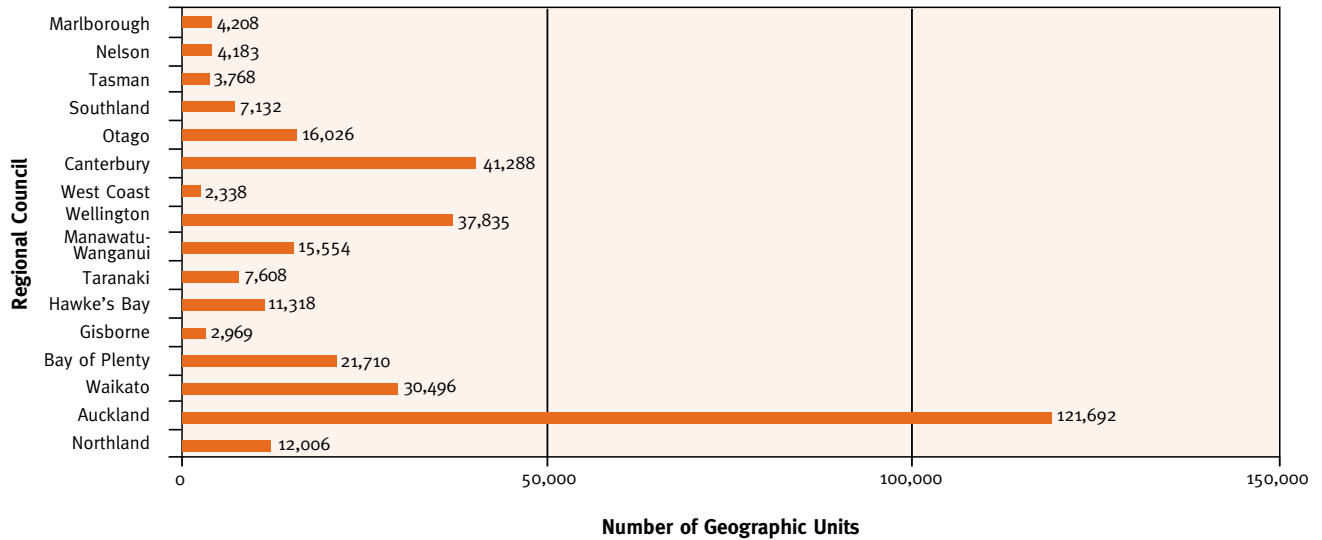


Location of SMEs in New Zealand

Most SMEs are located in the major centres.

The graphs below indicate where SMEs are concentrated in New Zealand. Most are found in regions with large urban centres including the Auckland, Canterbury, Wellington and Waikato regions.

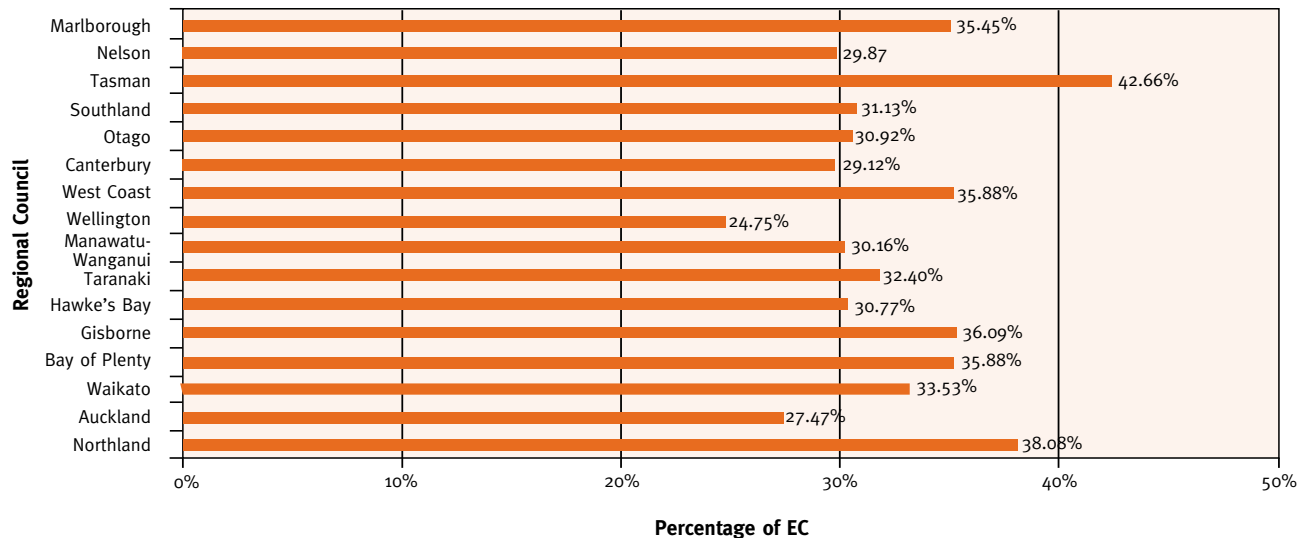
Figure 12. Number of Geographic Units with 0–19 employees by Regional Council Area, at February 2006



The proportion of employment generated by SMEs is greatest in the Tasman, Northland and Gisborne regions.

The regions where the highest proportion of employment is generated by SMEs are Tasman (42.7 percent), Northland (38.1 percent) and Gisborne (36.1 percent). The larger metropolitan areas of Auckland, Wellington and Canterbury, where larger businesses employ a greater proportion of the labour force, have lower proportions of employment generated by SMEs.

Figure 13. Percentage of Total Employees of Enterprises with 0-19 employees by Regional Council Area, at February 2006



Entry to and Exit from Business Demographic Statistics

SMEs account for the majority of all entries and exits.

Entry and exit statistics relate to the movement of firms into and out of the Statistics New Zealand business demography dataset.

The analysis of business demography is limited to economically significant enterprises (see Appendix 1), which means that very small businesses are not captured.

Entry and exit statistics *are not* start-up and failure statistics. It is erroneous to interpret them as such. Data on the entry and exit of firms include administrative changes such as restructuring and changes of ownership, as well as genuine business start-ups and closures. Statistics New Zealand has procedures in place to monitor changes of ownership, geographic transfers, and temporary closures of enterprises. However, administrative changes cannot always be identified as such.

Current work at Statistics New Zealand to emulate international best practice will improve statistics on new businesses, business closures, and continuation rates. The Longitudinal Business Frame (LBF) attempts to identify entries and exits of enterprises due to administrative churn (such as company restructuring and changes of ownership), so that genuine business start-ups and closures/failures can be better identified. An experimental series was released in May 2006, and its key results are included in Appendix 2 of this report. Once Statistics New Zealand publishes an official series based on the LBF, it will be incorporated into future editions of *Structure & Dynamics*.

Firms with 5 or fewer employees dominate entries and exits.

In line with previous years, enterprise entries and exits are dominated by firms employing 5 or fewer employees. They accounted for 94.8 percent of entries and 94.0 percent of exits at February 2006.

Figure 14. Enterprise Entries, at February 2006

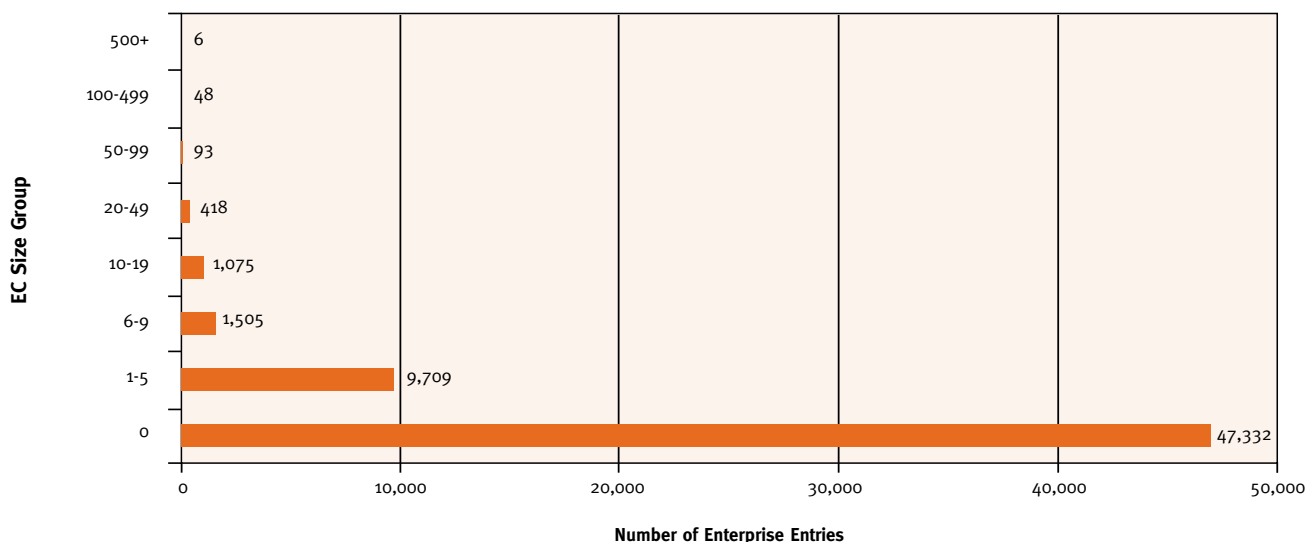
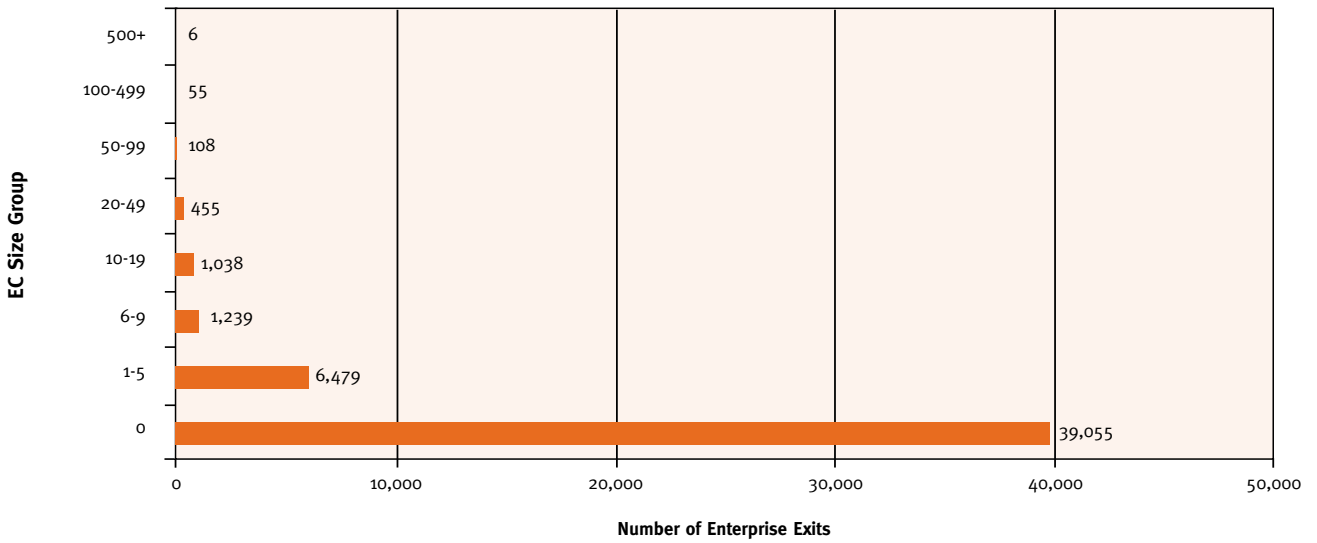


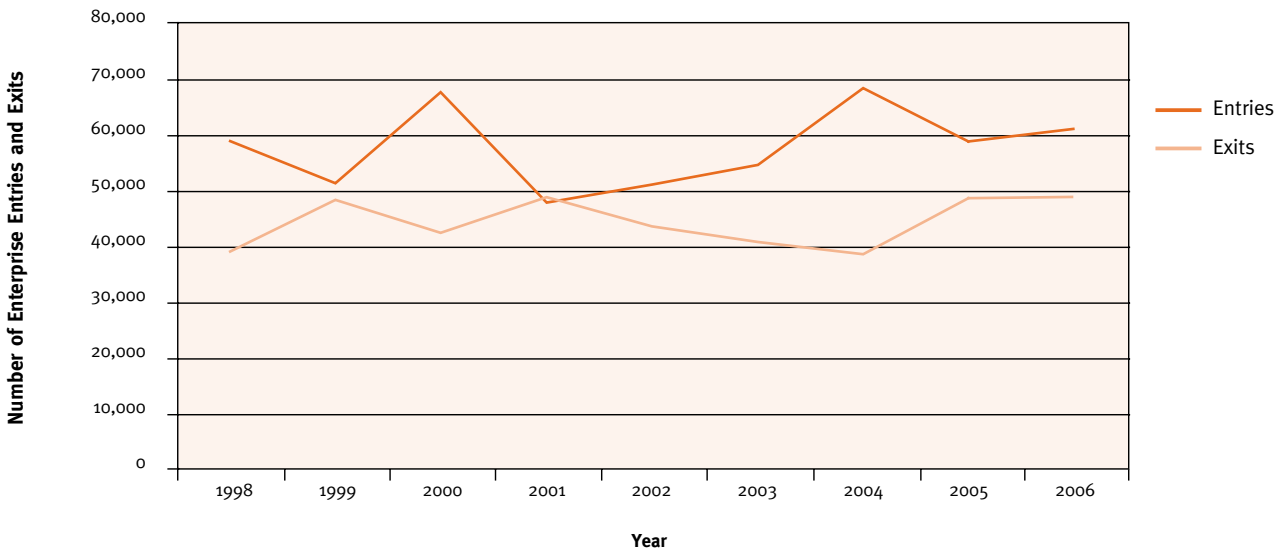
Figure 15. Enterprise Exits, at February 2006



Enterprise entries outnumbered exits.

There were 11,751 net entries into the Business Demography dataset at February 2006, 1,704 more than in 2005.

Figure 16. Enterprise Entries and Exits, February 1998-2006



Continuation Rates

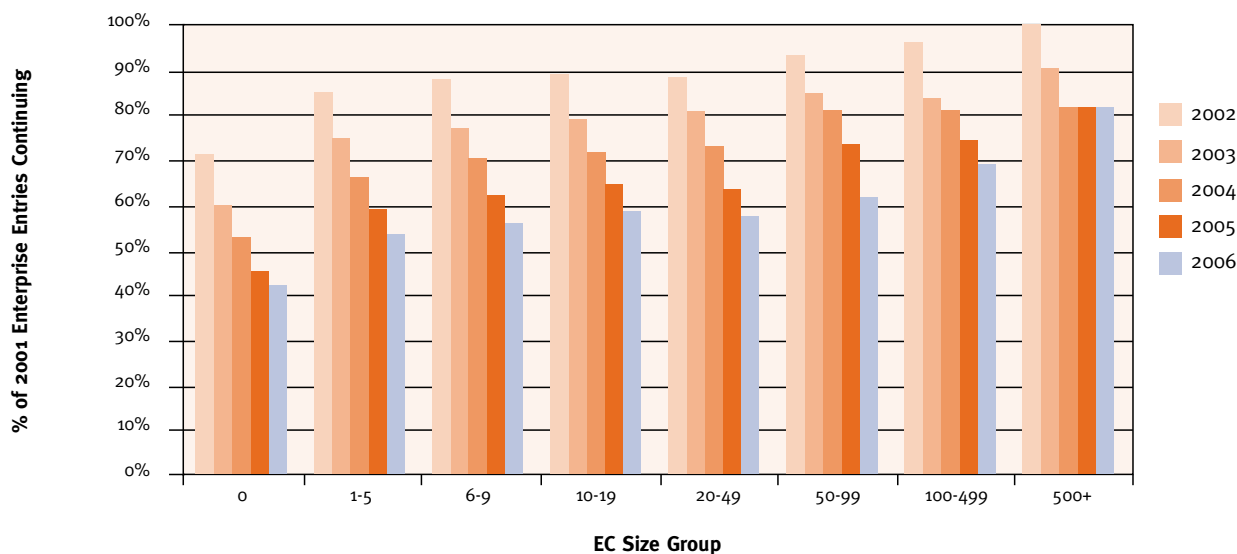
Continuation rates measure how long enterprises remain in the business demography dataset. These rates are calculated by tracking the business reference numbers for entries of one year in the population of enterprises of subsequent years. Continuation rates are generally lower for smaller enterprises, but *should not* be taken as measures of the ‘survivability’ of firms.

As discussed earlier, the LBF is able to better identify genuine business start-ups and closures, and so will be able to provide a more accurate picture of businesses’ lifespan. Refer to Appendix 2 for experimental results based on the LBF.

Larger firms remain longer in the business demography dataset than SMEs.

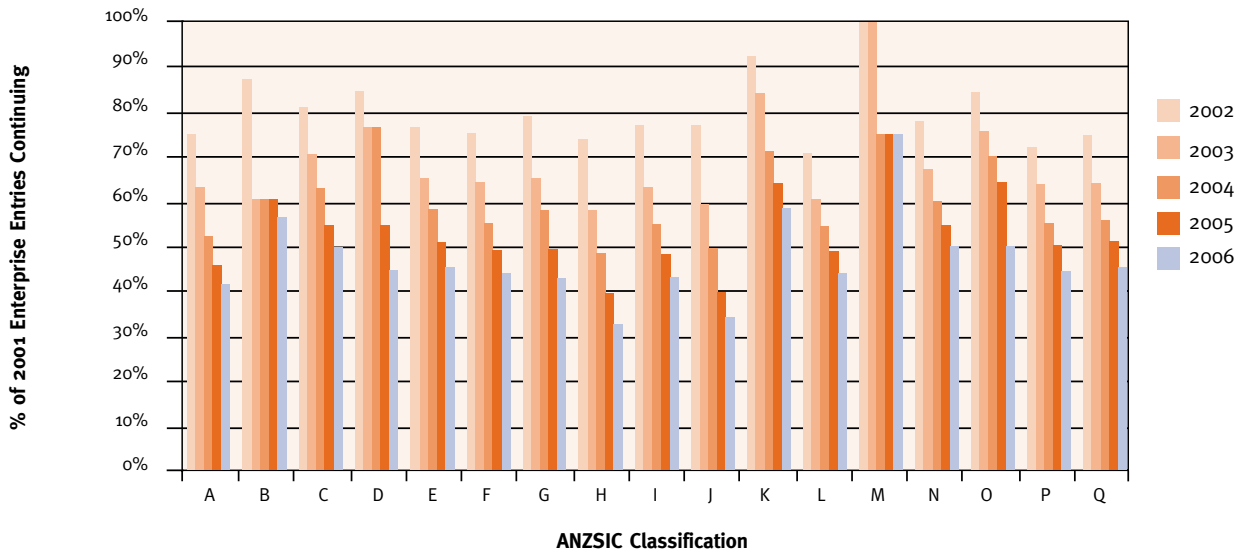
Of those enterprises established in 2001, the continuation rates in 2006 were generally higher for larger firms. Enterprises with zero employees were least likely to persist in the business demography dataset (42.2 percent).

Figure 17. Continuation Rates of 2001 Enterprise Entries by EC Size Group



Continuation rates for enterprises established in 2001 are analysed by industry sector in Figure 18. Excluding government administration and defence, the industries in 2001 with the highest continuation rates into 2006 were Health and Community Services (60.0 percent), Finance and Insurance (58.9 percent) and Mining (57.1 percent). The lowest continuation rates in the same period were in Accommodation, Cafes and Restaurants (33.1 percent) and Communication Services (34.6 percent).

Figure 18. Continuation Rates of 2001 Enterprise Entries by ANZSIC



2003 enterprises show a similar continuation pattern to 2001 enterprises.

The following figures show survival rates by EC category and ANZSIC classification for enterprises established in 2003. Overall, the results show a similar trend by firm size to enterprises that were established in 2001. The continuation rates over 3 years are lower for enterprises that started with 10-19 or 50-99 employees in 2003 than for those that started in the same size groups in 2001. By industry, the continuation rates over 3 years were higher in 2003 for mining and construction, and lower for health and community services and electricity, gas and water supply, than in 2001.

Figure 19. Continuation Rates of 2003 Enterprise Entries by EC Size Group

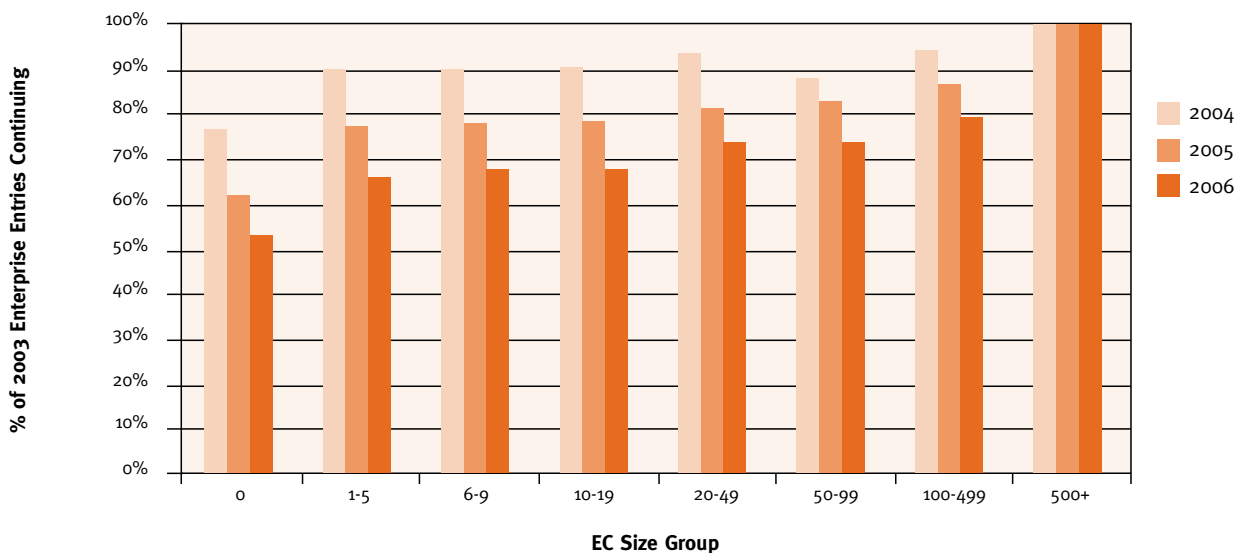
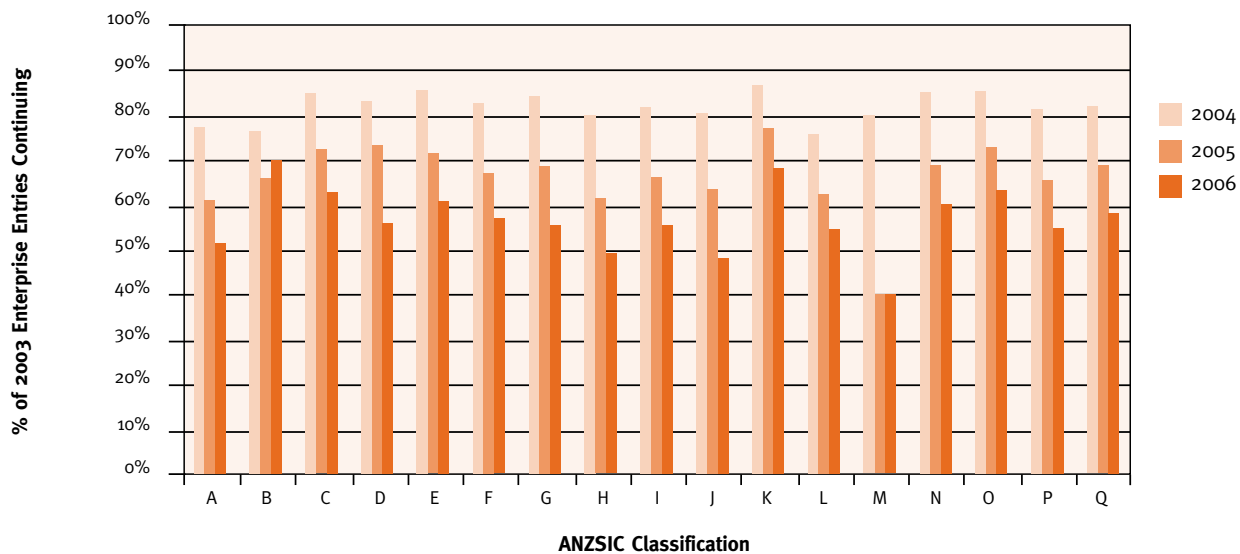


Figure 20. Continuation Rates for 2003 Enterprise Entries by ANZSIC



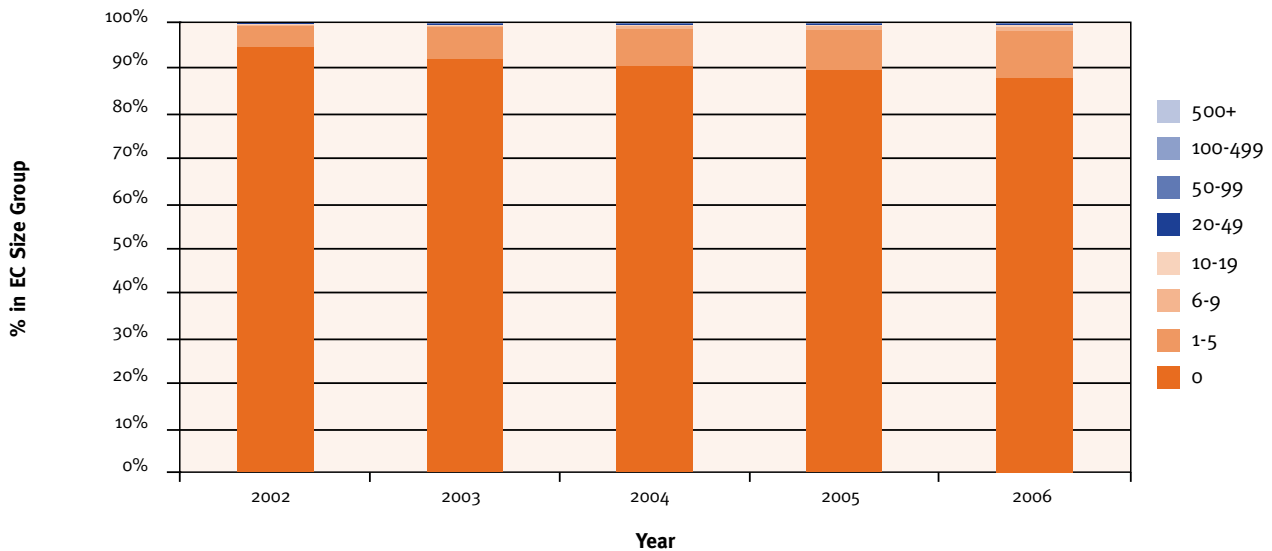
Transition Rates

Transition rates measure changes in the numbers of employees in firms over time. They can be used as a proxy measure of business growth. The following series of graphs illustrates transitions of enterprises between size brackets between 2001 and 2006. The data include only enterprises in continuous existence between 2001 and 2006.

Few firms with no employees graduated into larger size brackets.

Only a small proportion of enterprises with zero employees in 2001 moved into larger size categories – 92.0 percent still had no employees in 2003, and 88.4 percent by 2006.

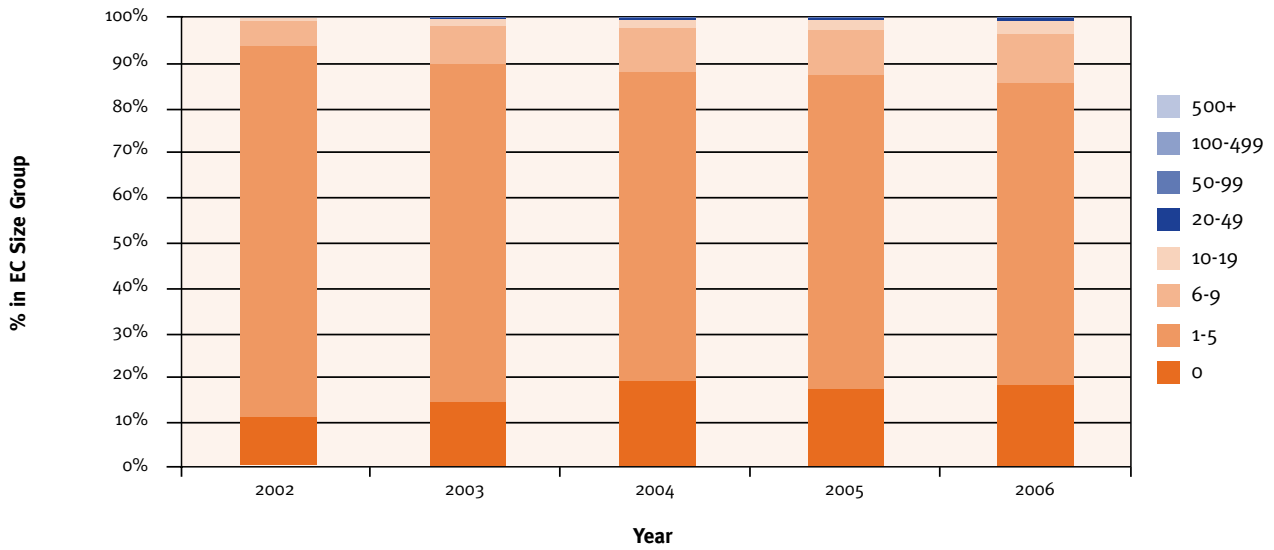
Figure 21. Transition Rates – Enterprises with zero EC in 2001



Over two-thirds of firms with 1–5 employees remained the same size.

Of those businesses with 1–5 employees in 2001, 67.0 percent were still in the same size category by 2006. Over the same period, just over 3 percent of these enterprises had grown into the 10–19 EC size bracket, while almost 20 percent reduced their employee count to zero.

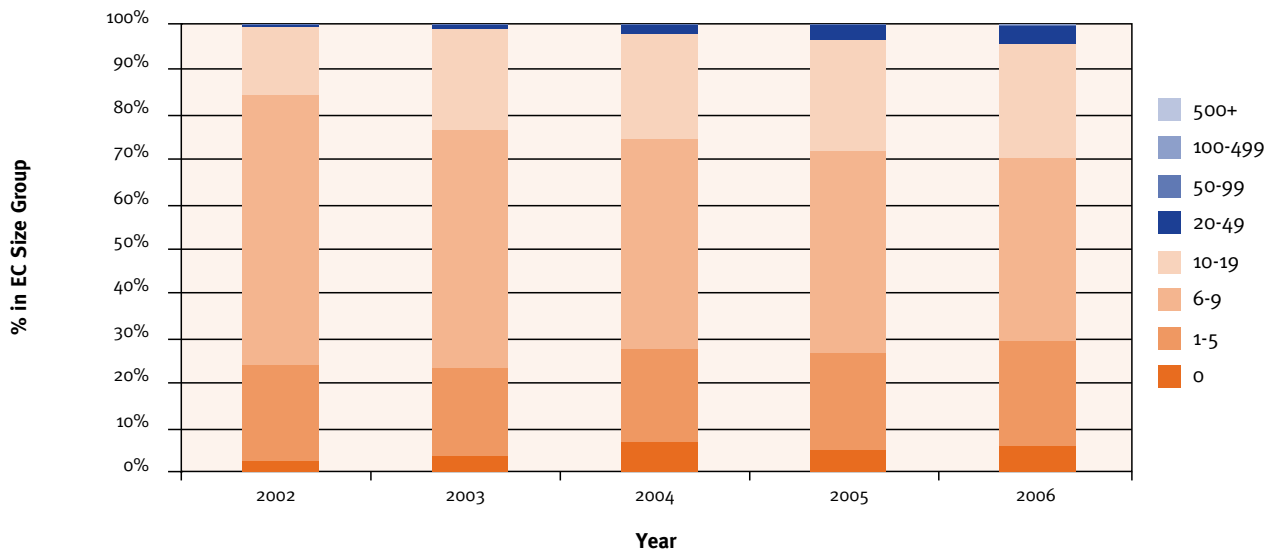
Figure 22. Transition Rates – Enterprises with 1–5 EC in 2001



Firms with 6–9 employees are least likely to remain the same size.

Enterprises with 6–9 employees in 2001 were least likely to have remained the same size by 2006. Just 41.3 percent of these enterprises remained the same size. Of the enterprises that moved out of the employment bracket, there was an equal split between those getting larger and those getting smaller.

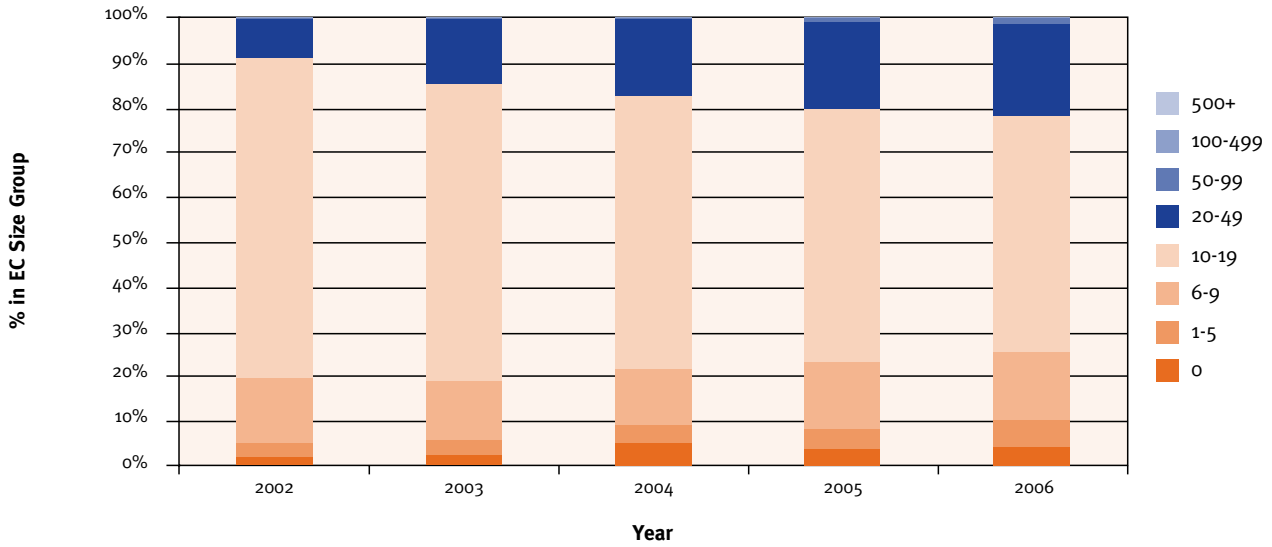
Figure 23. Transition Rates – Enterprises with 6–9 EC in 2001



Just over half of firms with 10–19 employees remained the same size.

By 2006, 52.4 percent of enterprises with between 10 and 19 employees in 2001 remained the same size. Those enterprises that moved were more likely to move into a smaller employment bracket (26.3 percent).

Figure 24. Transition Rates – Enterprises with 10–19 EC in 2001



Transition Rates for firms with more than 19 employees can be found in Appendix 4.

Performance Measures

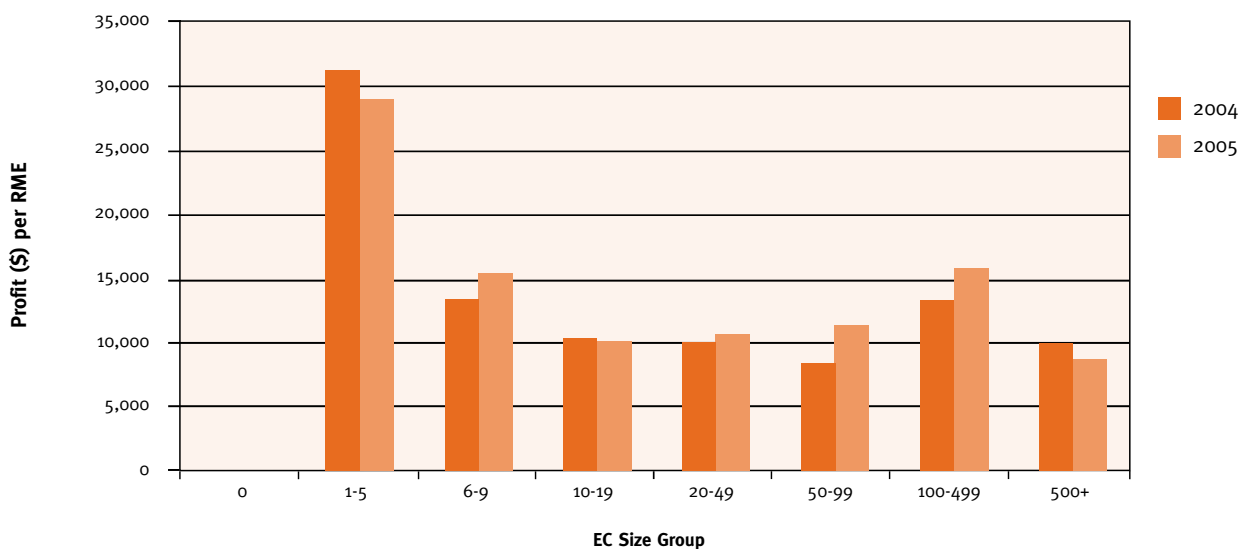
Business performance measures are sourced from Statistics New Zealand's Annual Enterprise Survey (AES). The AES provides information on financial performance and financial position, and includes variables such as income, expenditure, profit, purchases of fixed assets, and equity. The AES data also form the basis of national accounting variables such as value-added, gross output and gross fixed capital formation.

AES data are taken from 2004 and 2005 to demonstrate changes in firm performance over time.

Businesses with 1-5 employees have the highest average real profits per employee.

Enterprises with 1–5 employees had the highest average real profits per employee in 2005 of all size groups (\$29,194), although this result was lower than the previous year (\$31,169). The next highest results in 2005 were enterprises with 100-499 employees (\$16,069) followed by enterprises with 6-9 employees (\$15,601). Those two categories have reversed positions since 2004.

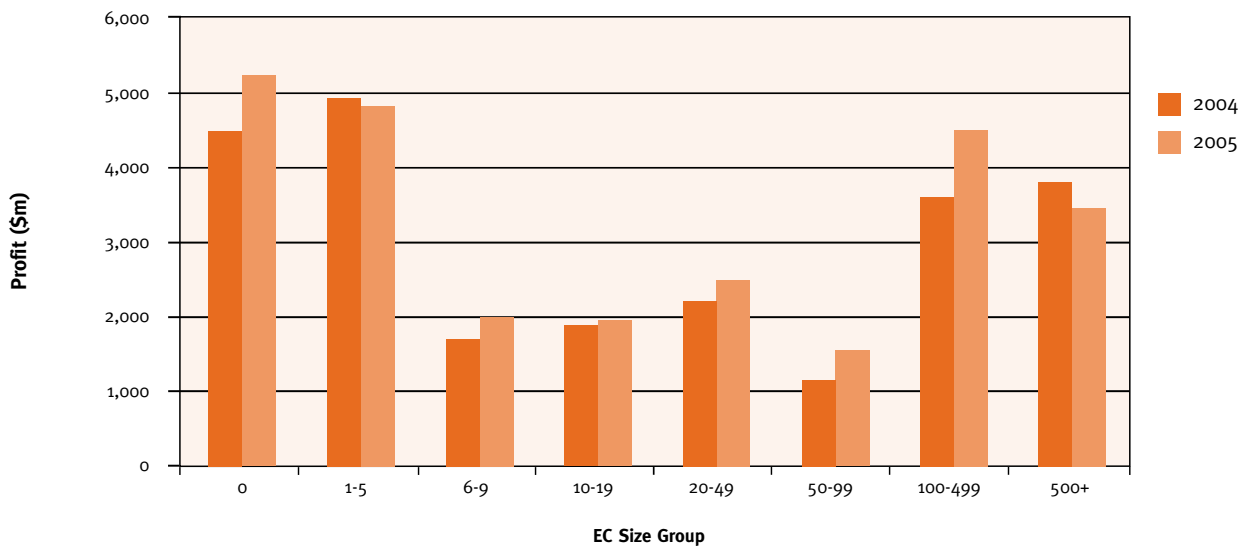
Figure 29. Average Real Profit per RME by Enterprise Size 2004-2005



Businesses with 5 employees or fewer accounted for a large proportion of total profits.

As was the case when 2003 and 2004 data were compared last year, businesses with 5 employees or fewer recorded a share of almost 40 percent of all profits in 2005. This reflects that they account for 87 percent of all enterprises, and their total profits of \$10.05 billion were up 6.2 percent from 2004. Enterprises with 100 or more employees, while accounting for less than 1 percent of enterprises, recorded 30.1 percent of total real profits. Compared to 2004, profits of enterprises in this size bracket increased by 8.3 percent.

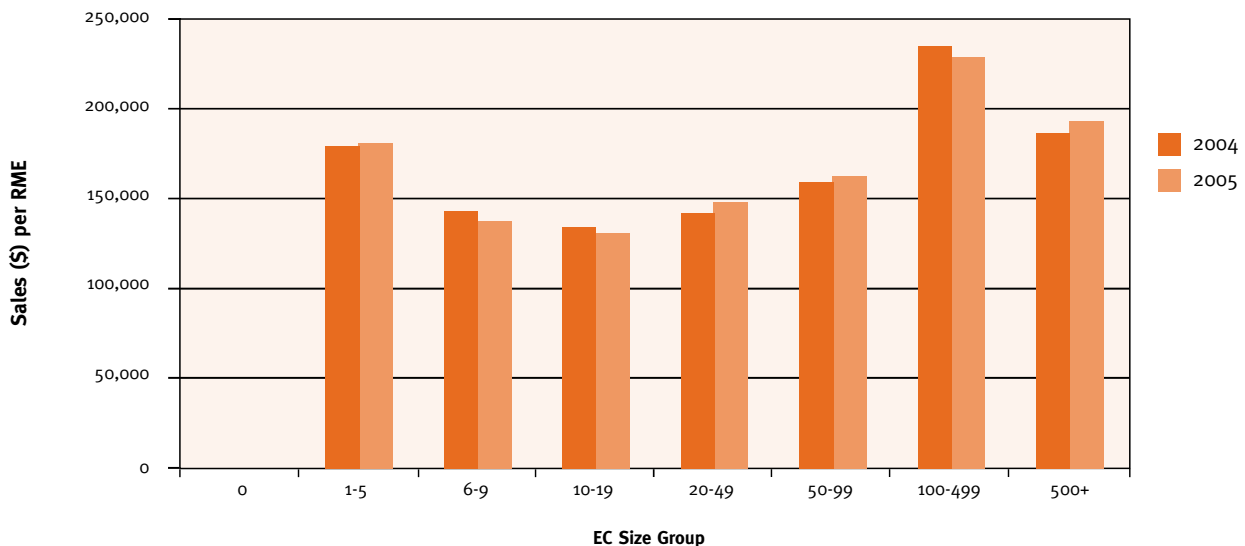
Figure 30. Total Real Profit by Enterprise Size 2004-2005



Businesses with 100–499 employees recorded the highest average real sales and other income per employee.

As was the case in 2004, businesses with 100–499 employees recorded the highest average real sales per RME (\$229,575) in 2005. Overall, average real sales and other income per RME by enterprise size remained relatively consistent from 2003 to 2005.

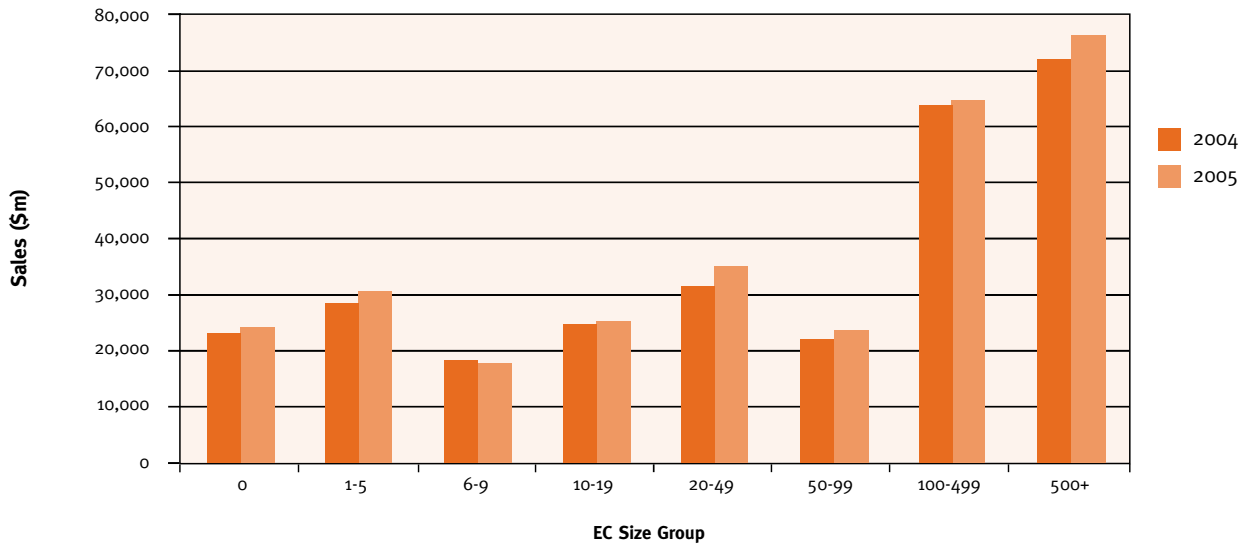
Figure 31. Average Real Sales and Other Income per RME by Enterprise Size 2004-2005



Larger firms accounted for almost half of combined sales and other income.

As was the case in 2003 and 2004, a large share of total real sales and other income was attributed to firms employing 100 or more RME (47.6 percent), reflecting the size of the individual enterprises. SMEs had a share of 33 percent of total sales and other income in 2005.

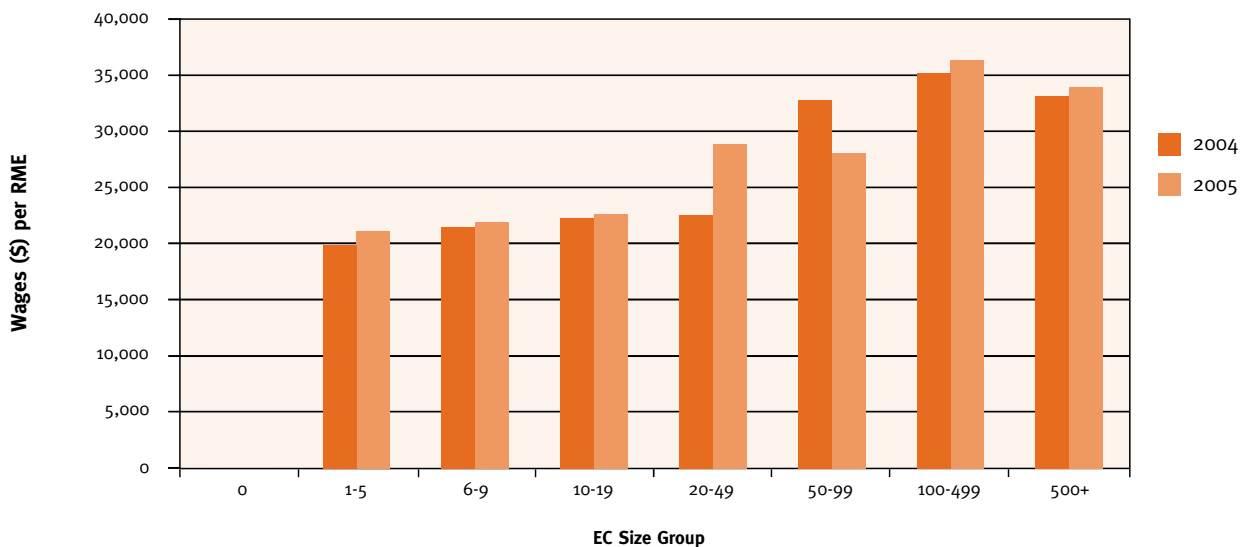
Figure 32. Total Real Sales and other Income by Enterprise Size 2004-2005



Average salaries and wages tend to increase with firm size...

In 2005, average salaries and wages paid to employees were greatest for firms employing 100–499 employees (\$36,446 per RME). The greatest increase in the average salaries and wages paid to employees by enterprise size bracket was the 20–49 bracket (25.6 percent) from the previous year. In contrast, enterprises with 50–99 employees saw their average salaries and wages reduce by 15.6 percent between 2004 and 2005.

Figure 33. Average Real Salaries and Wages per RME by Enterprise Size 2004-2005



...and larger firms account for over 50 percent of total salaries and wages.

The share of total salaries and wages paid to employees by firms with 100 or more employees was 51.7 percent in 2005, down from 52.1 percent in 2004. SMEs accounted for 25.4 percent of total salaries and wages in 2005, a similar result to the previous year.

Figure 34. Total Real Salaries and Wages by Enterprise Size 2004-2005

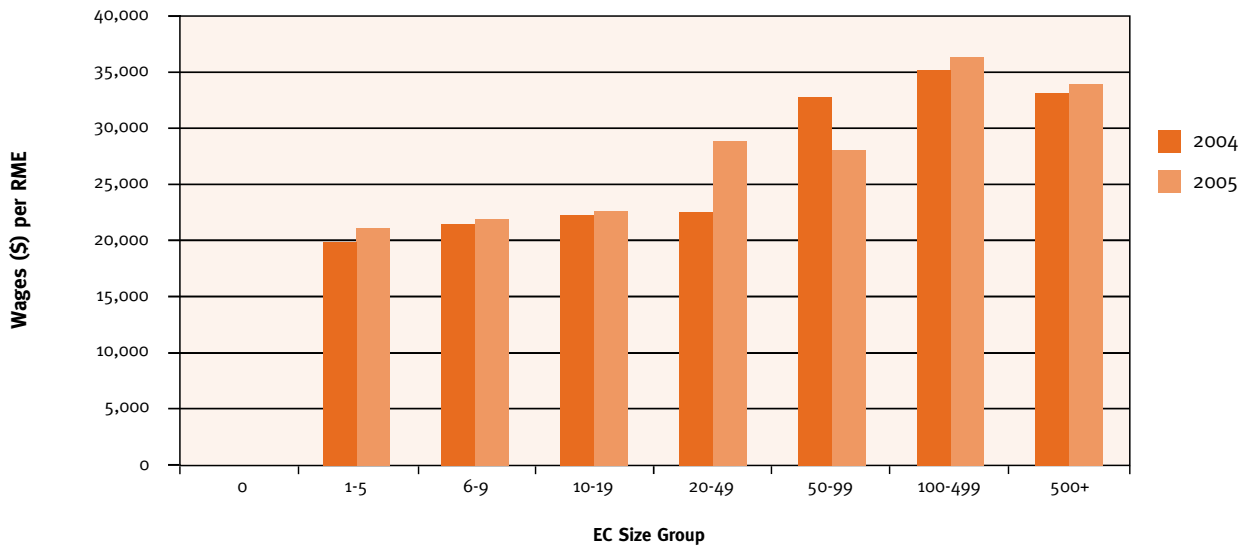


Table 5 provides a comparison of average performance measures per enterprise.

Table 5. Average Performance Measures per Enterprise by Firm Size 2005

Employee Count	Average Real Profit per RME by Enterprise Size Deflated Average real (\$) profit per RME	Average Real Sales and Other Income per RME by Enterprise Size Deflated Average Real Sales per RME	Average Real Salaries and Wages per RME by Enterprise Size Deflated Average Real Salaries and Wages per RME
0			
1-5	29194	181702	20805
6-9	15601	140119	21982
10-19	10160	133446	22888
20-49	10708	149294	28430
50-99	11445	162718	27752
100-499	16069	229575	36446
500+	8784	194044	34292

Ethnicity, Gender and Employment Status

The highest proportion of self-employed is among 'Other' and European populations; the lowest is recorded by Maori and Pacific Peoples.

Data from the 2006 Census show that the ethnic group with the greatest proportion classified as 'self-employed without employees' are those members of the labour force classified as 'other ethnic groups' (which includes the 'New Zealander' and 'Middle Eastern, Latin American and African' categories), with 13.8 percent. While this is an increase of 1.8 percentage points from the 2001 Census, Census 2001 and Census 2006 are not directly comparable. Census 2001 included the 'New Zealand European' category, which was combined with the 'European' category. Census 2006 had the 'New Zealander' category for the first time, which is in the 'Other' category in Table 6. Only the Maori, Asian and Pacific groups are directly comparable between Censuses. The Asian group had the only significant change in employment status from 2001 to 2006, with the proportion in paid employment rising by 4.5 percentage points and while falls were recorded in all other categories.

Table 6. Percentage of ethnic group (grouped total responses)⁵ by status in employment for New Zealand⁶

Ethnic group (grouped total responses)	2006 Census Employment status				2001 Census Employment status			
	Paid employee	Self-employed and without employees	Employer	Unpaid family worker	Paid employee	Self-employed and without employees	Employer	Unpaid family worker
European	77.1	12.9	7.9	2	75.9	13.4	8.4	2.3
Maori	88.3	6.5	3.3	1.9	88.1	6.5	3.1	2.2
Pacific peoples	93	4.3	1.6	1.2	92.6	4.4	1.6	1.3
Asian	78.8	12	6.5	2.7	74.3	14.3	7.4	3.9
Other ⁷	75	13.8	9	2.2	80.1	12	5.9	2
Total	78.4	12.2	7.4	2.1	77.3	12.7	7.7	2.3

Note: This data has been randomly rounded to protect confidentiality.

Individual figures may not add up to totals, and values for the same data may vary in different tables.

Most of the self-employed and employers are male. Females have the greatest proportion of salary earners and unpaid relatives providing care. For example, in March 2007 13.9 percent of males were self-employed, compared with 7.7 percent of females; while 87.4 percent of females were wage or salary earners, compared with 78.3 percent of males.

From March 2005 to March 2007 there has been a general increase in the numbers of both males and females who are providing unpaid assistance to relatives. This period also shows a decrease in the number of males and females who are employers. The number and proportion of those who are self-employed in both gender groups have remained relatively constant.

⁵ Includes all of the people who stated each ethnic group, whether as their only ethnic group or as one of several ethnic groups. Where a person reported more than one ethnic group, they have been counted in each applicable group.

⁶ All figures are for the employed New Zealand census usually resident population aged 15 years and over.

⁷ Includes New Zealander and MELAA (Middle Eastern, Latin American and African).

Table 7. Persons Employed by Employment Status (March 2005-March 2007)

	Year	Wage or Salary Earners		Employer		Self-Employed		Unpaid Relative Assisting	
		No. (000)	%	No. (000)	%	No. (000)	%	No. (000)	%
Male	2005	840	76.2	96.9	8.8	161.9	14.7	3.5	0.3
	2006	867.2	77.1	91.7	8.2	160.4	14.3	5.3	0.5
	2007	898.5	78.3	80.8	7	160	13.9	7.3	0.6
Female	2005	804.5	86.4	41.4	4.4	77.1	8.3	7.8	0.8
	2006	833.6	86.7	39.8	4.1	78.3	8.1	9.3	1
	2007	855.3	87.4	32	3.3	75.8	7.7	14.3	1.5
Total	2005	1644.5	80.9	138.3	6.8	238.9	11.7	11.3	0.6
	2006	1700.9	81.5	131.5	6.3	238.7	11.4	14.5	0.7
	2007	1753.8	82.5	112.8	5.3	235.8	11.1	21.6	1

Labour market statistics show varied results between men and women.

The Linked Employer-Employee Data (LEED) produced by Statistics New Zealand give an insight into the dynamics of the labour market.

The following tables show a selection of labour market variables relating to gender and firm size. The results are a snapshot of the December 2005 quarter. There is a general increase in all categories between the figures reported this year, and those reported in last year's *Structure & Dynamics*, which used data from the December 2004 quarter.

You can access LEED datasets and find more information at www.stats.govt.nz.

Table 8. LEED Measures by Gender and Firm Size

Male	Firm Size			
	0	1-9	10-49	50+
Mean earnings of continuing jobs	-	10,360	12,620	14,740
Mean earnings of new hires	-	8,310	9,100	11,240
Median earnings of continuing jobs	-	9,370	11,140	12,680
Median earnings of new hires	-	7,590	8,190	9,490
Total filled jobs	0	195,230	225,150	471,490
Worker turnover rate (%)	-	17.6	15.9	13.7

Female	Firm Size			
	0	1-9	10-49	50+
Mean earnings of continuing jobs	-	6,540	8,340	9,770
Mean earnings of new hires	-	5,190	6,070	7,600
Median earnings of continuing jobs	-	5,800	7,530	9,070
Median earnings of new hires	-	4,480	5,280	6,750
Total filled jobs	0	173,290	219,080	492,510
Worker turnover rate (%)	-	18.2	17.5	14.9

Overseas Equity

More than 97 percent of New Zealand businesses have less than 1 percent overseas equity.

Similar to previous years' results, very few New Zealand businesses have more than 1 percent equity owned by overseas shareholders. The largest businesses are the most likely to have overseas equity. Just over a quarter of enterprises with 100 or more employees had 50 percent or more overseas equity.

Table 9. Percentage of Businesses with Overseas Equity by EC Size Group, at February 2006

2006 Overseas Equity %	EC Size Group							Total Enterprises
	0	1 to 5	6 to 9	10 to 19	20 to 49	50 to 99	100+	
Less than 1%	98.41%	98.14%	97.24%	95.74%	92.08%	83.46%	69.13%	97.75%
1 to 24%	0.24%	0.26%	0.43%	0.60%	1.17%	2.21%	3.36%	0.32%
25 to 49%	0.11%	0.12%	0.23%	0.28%	0.45%	1.47%	2.22%	0.15%
50% or more	1.25%	1.49%	2.10%	3.39%	6.29%	12.86%	25.28%	1.77%

Note that due to confidentiality reasons the EC Size Groups, 100-499 and 500+, could not be provided in this table.

The Business Operations Survey

The Business Operations Survey (BOS) is an annual survey designed to collect data on the performance and business practices of New Zealand firms. The survey began in 2005 and two years' results are now available.

BOS collects data on businesses with six or more employees that have been in operation for more than one year. It has broad industry coverage (including agriculture).

Although it does not cover the full range of business sizes covered by *Structure & Dynamics*, it is a rich source of information on business practices and behaviours.⁸ The composition of the survey varies from year to year. In addition to the questions related to business operations that are included in each survey, the 2005 survey had modules on innovation and business practices, and the 2006 survey included modules on information and communication technology and on employment practices.

Table 10 illustrates some key results from both the 2005 & 2006 surveys.

Table 10. Selected Business Activities and Practices: Percentage of Firms Engaged

	Total number of firms – August 2006	Exporting	R&D	Innovation	International Presence	Broadband	Management & Supervisory Training
Firm Size							
6-19	25,974	12	6	50	2	73	57
20-49	6,228	21	7	57	3	86	68
50-99	1,731	28	13	65	7	91	82
100+	1,440	32	15	68	11	94	89
Sector							
Manufacturing	5,523	37	14	65	5	81	42
Agriculture, Forestry & Fishing	3,123	29	6	42	2	48	41
Wholesale Trade	3,198	34	6	61	4	89	57
Property & Business Services	5,055	13	9	50	5	91	61
Mining & Quarrying	90	13	7	44	3	67	78
All Firms	35,436	16	7	52	3	77	62

⁸ More information on the Business Operations Survey can be found at:
<http://www.stats.govt.nz/products-and-services/info-releases/business-operations-survey-info-releases.htm>

Fifty-five percent of exporters had between 6 and 19 employees.

Exporting

The 2006 survey found that 16 percent of firms generated income from exporting, similar to the 17 percent in 2005. Most of these firms were small. Fifty-five percent of exporters had between 6 and 19 employees. Further, most export sales were distributed toward the lower end, with 56 percent of exporters generating less than \$5 million in export sales. Fifteen percent had more than \$25 million of export sales, up from 12 percent in 2005. Four percent of firms had entered new export markets during the previous financial year.

The industry with the greatest proportion of exporting businesses was manufacturing (37 percent). The transport and storage industry had the greatest increase: 50 percent of its exporters had export sales of \$25 million or more compared to 28 percent in 2005.

Table 11 provides data from BOS 2006 for those sectors with the highest proportion of exporters.

Table 11. Percentage exporting by firm size in top exporting sectors, last financial year at August 2005

	Manufacturing	Agriculture etc	Wholesale Trade	Property & Business services	Mining & Quarrying	All other industries	% of exporting firms by size
6-19	20	27	19	11	7	3	10
20-49	6	2	4	2	0	0.5	2
50-99	5	1	3	2	4	0.4	2
100+	10	2	4	2	2	0.6	3
All firms in sector	41	32	30	17	13	4	17

Another perspective on New Zealand’s exports can be gained from Statistics New Zealand’s official merchandise trade data as published by New Zealand Trade and Enterprise.⁹ These are collected on a different basis to the BOS data and so the two are not directly comparable.

9 See <http://www.nzte.govt.nz/section/14631/16734.aspx>

Table 12. Merchandise Exports – Number of Exporters by Value Range & Total for 12 Months, ending June 2006

Value Range	No. of Exporters	Percentage of total exporters	FOB \$NZ	Percentage of total value
under \$10,000	4,756	37.51%	18,186,508	0.10%
\$10,000 - \$49,999	2,999	23.66%	72,967,541	0.20%
\$50,000 - \$99,999	1,042	8.22%	74,022,119	0.20%
\$100,000 - \$499,999	1,916	15.11%	435,811,558	1.40%
\$500,000 - \$999,999	507	4.00%	360,564,480	1.20%
\$1,000,000 - \$1,999,999	431	3.40%	618,672,164	2.00%
\$2,000,000 - \$4,999,999	435	3.43%	1,386,987,063	4.50%
\$5,000,000 - \$9,999,999	230	1.81%	1,625,472,815	5.30%
\$10,000,000 - \$24,999,999	205	1.62%	3,177,349,418	10.30%
\$25,000,000 - \$74,999,999	100	0.79%	4,206,064,395	13.70%
\$75,000,000 and over	57	0.45%	18,823,318,169	61.10%
Total for year	12,678		30,799,416,230	100%

These data indicate that of those businesses which exported goods, 88 percent had less than \$1 million worth of exports and altogether they accounted for only 3.1 percent of total goods exports by value. On the other hand, the 362 firms with exports exceeding \$10 million each account for 85.1 percent of the total value of goods exports.

Seven percent of businesses undertook or funded R&D in the previous financial year.

Research and Development Activity

Seven percent of businesses had undertaken or funded research and development (R&D) in the previous financial year. Larger businesses tended to engage more: 15 percent of businesses with 100 or more employees reported R&D activity compared to six percent of business with 6-19 employees. The manufacturing industry had the highest proportion of businesses engaged in R&D activity (14 percent).

Innovation

The survey found that 52 percent of businesses had engaged in innovation over the last two financial years. The different types of innovation surveyed include:

Table 13. Engagement in Innovation Practices

Types of Innovation	% of All Businesses
Innovation in goods and services	30%
Innovation in operational processes	29%
Innovation in organisational or managerial processes	31%
Innovation in marketing methods	29%
Overall Innovation Rate	52%

Larger businesses were more likely to engage in innovation than smaller businesses.

Overall, larger businesses were more likely to engage in innovation than smaller businesses. Sixty-eight percent of businesses with 100 or more employees engaged in innovation compared to 50 percent of businesses with 6-19 employees. The finance and insurance industry had the highest innovation rate of any industry group (68 percent) followed by the manufacturing industry (65 percent). Sixty-two percent of businesses rated a lack of management resources (e.g time) as the biggest impediment to innovation.

International Presence

Seven percent of businesses had some degree of foreign ownership and three percent had shares in overseas businesses. These figures were unchanged from 2005. The electricity, gas and water supply industry had the highest percentage (33 percent) of businesses with part-foreign ownership. This industry also had the highest percentage (17 percent) of businesses with shares in overseas businesses. The mining and quarrying industry exhibited the biggest change between 2005 and 2006, with the proportion of firms reporting foreign ownership falling from 25 percent to 17 percent.

These data are consistent with the overseas equity data reported in the previous section of this report. Both sets of data report virtually the same proportion of firms with some degree of foreign ownership for enterprises with six or more employees.

Information and Communication Technology (ICT)

The 2006 survey indicated that ICT penetration is high, with 93 percent of businesses using computers (100 percent of businesses with 100+ employees and 92 percent of those with 6-19 employees) and 91 percent using the internet (99 percent of those with 100+ employees and 89 percent of those with 6-19 employees). The proportion of businesses using the internet has increased by 12 percentage points since 2001. Most businesses use broadband (57 percent) rather than dial-up (11 percent).

Thirty-four percent of businesses use the internet to receive orders for goods or services, although internet sales generally form a small percentage of businesses' total sales. The domestic market accounts for most internet sales: 22 percent of businesses indicated that none of their internet sales were to customers outside New Zealand, while 10 percent indicated that some of their internet sales were exports.

Businesses were asked to report how ICT helped in achieving business outcomes. The most common outcomes were improved responsiveness to customers (53 percent of businesses) and improved efficiency of work flow processes (52 percent of businesses). Only 7 percent of businesses considered that ICT was important in reducing the costs of entering new markets and shifting activities to other businesses.

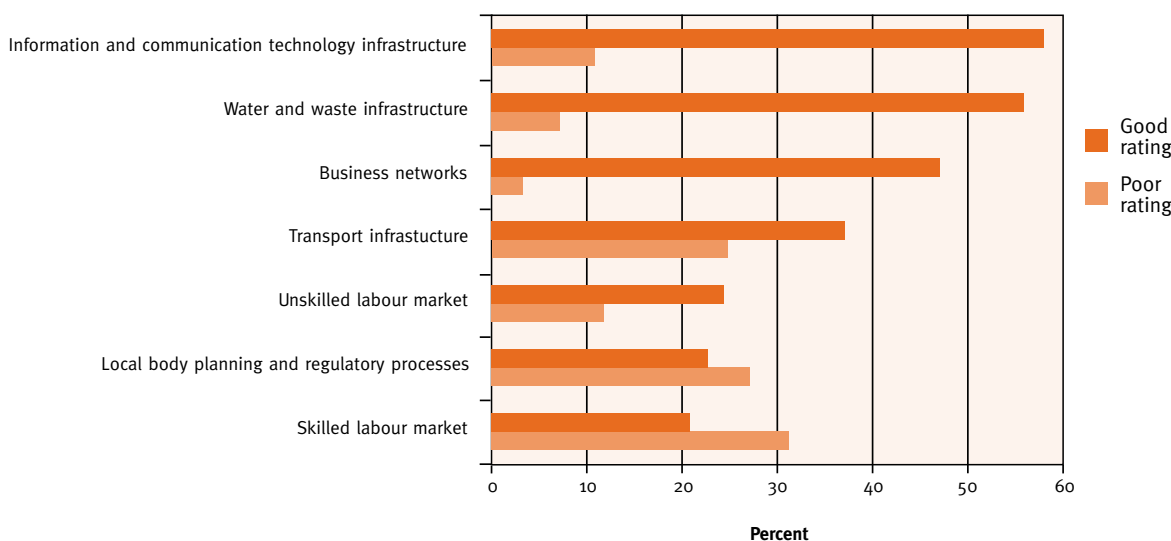
ICT penetration is seen to be high.

Firms generally rated the business environment positively.

Operating Environment

In 2006, firms were asked to rate aspects of their operating environment as being good or poor (Figure 35). Information and communications technology (ICT) infrastructure, water and waste infrastructure and business networks were considered good, with water and waste just shading ICT on a net basis. The skilled labour market and local body planning and regulatory processes fared less well. Thirty-two percent of businesses considered the skilled labour market to be poor. This was considered particularly acute by the construction industry, which had the largest percentage (52 percent) of businesses to rate the skilled labour market as poor.

Figure 35. Business Operating Environment, August 2006



Employment Practices

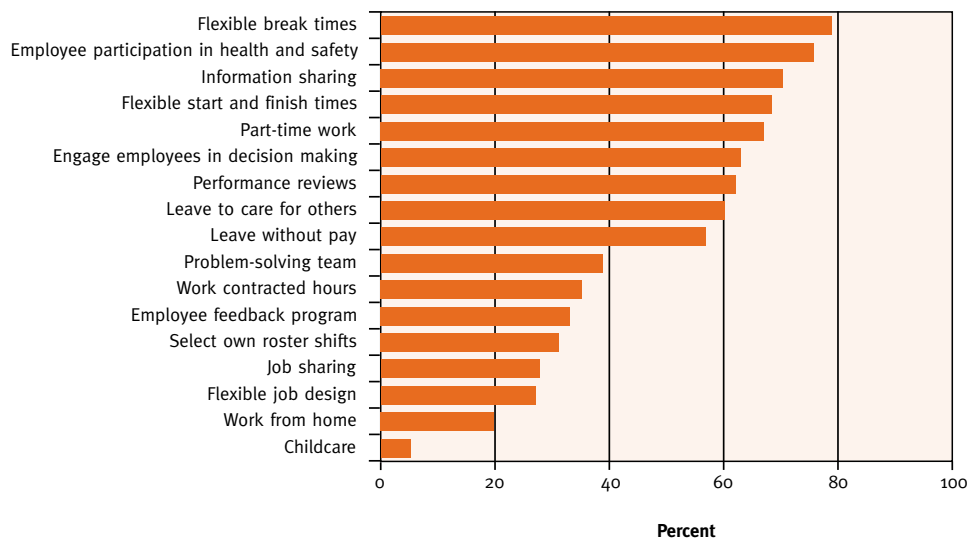
In the 2005 survey, the majority of businesses said their employees had participated in formal or informal training (or both). However, 16 percent of businesses with 6-19 employees said that none of their staff had participated in training compared to just one percent of businesses with 100 or more employees. Overall, 27 percent of businesses had three-quarters or more of their employees participating in training, and 44 percent had assessed the skills gap and training needs of individual employees.

Training is provided by a higher proportion of businesses as firm size increases.

In the most recent survey, the most commonly reported type of training was in health and safety (77 percent of businesses). Sixty-two percent trained their staff in management and supervisory related training. Management training is provided by a higher proportion of businesses as firm size increases. This is the case with all other types of training also.

The most common employee practices offered by businesses were flexible break times (78 percent) and employee participation in health and safety (74 percent) (Figure 36). Information sharing and flexible start and finishing times to deal with non-work issues were also popular. Childcare allowances or facilities was the least offered employment practice (5 percent).

Figure 36. Employment Practices, August 2006



Businesses were asked to indicate their single most important employment practice change over the last two financial years. For the 47 percent of businesses who reported changes, the most commonly cited was training (32 percent), followed by occupational health and safety (28 percent). Common reasons for the changes were to improve business performance (55 percent) and to improve internal staff relations (43 percent).

Business Practices

New Zealand businesses are now planning further ahead.

The 2005 survey found that most businesses engaged in business planning, with only 11 percent saying they had no goals set for their business. However, when looking at comparable data from the 2001 Business Practices & Performance Survey, the 2005 results suggest New Zealand businesses are now planning further ahead. Over 40 percent of businesses planned for more than one year ahead in 2005 compared to 18 percent in 2001.

Over half of businesses engaged in some form of benchmarking. Forty-three percent said they had compared their performance or processes with another New Zealand business in the same industry over the last two financial years. Ten percent said they had compared themselves with an overseas business in the same industry.

SMEs Internationally

SMEs account for the majority of firms in OECD economies.

There is no universally used definition of a SME. Internationally, firm size is measured in a variety of ways including by numbers of employees, sales figures assets and industrial classification. However, the diverse structures of economies makes adherence to a single statistical definition unworkable. International comparisons of SME demographics and performance are also difficult to make because of the different methods central statistical agencies use to collect and publish firm-level data.

Most countries use an employment measure to define SMEs. The following are examples of international SME definitions using employee numbers and the percentage of firms in each category:

	Micro	Small	Medium	Large
European Commission	<10 employees	< 50 employees	< 250 employees	-
Percentage of firms in all categories ¹⁰	91%	7%	1%	1%
UK	<10 employees	< 50 employees	< 250 employees	250+
Percentage of firms in all categories ¹¹	-	99.3%	0.6%	0.1%
Australia	<5 employees	5-19 employees	20-200 employees	200 + employees
Percentage of firms in all categories ¹²	68.5%	31.5%	9.9%	<1%

International Case Study: Small Business in Ireland¹³

Ireland is a country that has a similar population to New Zealand (approximately 4 million people). Despite the differences in the definitions we use, it still provides an interesting economic comparison to New Zealand

What is the Irish definition of an SME?

Small businesses are defined as those who employ fewer than 50 people and whose annual turnover and/or annual balance sheet total does not exceed €10 million. Within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed €2 million.

How many small businesses are there in Ireland?

Excluding businesses with zero employees, over 97 percent of businesses operating in Ireland are classed as 'small', accounting for 226,000 businesses. Using the same definition and methodology, small businesses would account for 121,884 businesses in New Zealand, also representing 97 percent of all businesses.

10 European Commission, 2005

11 Department of Trade and Industry, 2005

12 Australian Bureau of Statistics, 2006.

13 Report of the Small Business Forum: Small Business is Big Business, May 2006 <http://www.smallbusinessforum.ie/>

The number of small businesses in Ireland has grown by more than 50 percent over the past ten years. Between 1995 and 2002, the number of small businesses grew by an average of 6.6 percent a year, slowing to 2.6 percent in more recent years. In 2005, Ireland had the highest rate of new business start-ups in the European Union.

Between 1998 and 2006, the number of small businesses in New Zealand increased by 55 percent, an average annual growth rate of 5.6 percent.

How many people work for small businesses in Ireland?

In Ireland approximately 777,000 people work in businesses that employ fewer than 50 people. This represents 53.3 percent of those who are employed in the enterprise sector, and 39 percent of the Irish Labour Force. Of small businesses, those with 2-9 employees are the largest employers (accounting for 27.3 percent of employment in the sector). Employment in small businesses grew by approximately 79 percent over the ten years to 2005.

In New Zealand, excluding those with zero employees, 763,330 people work in businesses that employ fewer than 50 people. This represents 43.2 percent of those employed in the enterprise sector. Firms with 20-49 employees have the largest share (31.6 percent) of employees in small businesses.

What contributions do small businesses make to Irish economic output?

Small businesses make a substantial contribution to gross value added (GVA – the value of output produced minus the cost of intermediate inputs) in the Irish economy. In the construction sector, small businesses accounted for over 70 percent of GVA in 2003 (around €7.2 billion), while in the services sector (excluding financial services, for which figures are not available), the contribution was over 40 percent (€15 billion).

In New Zealand, firms with fewer than 50 employees accounted for half of the economy's total output (on a deflated value added basis) in the 2004/2005 year.

Liability

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The Annual Enterprise Survey data provided for 2004 and 2005 are provisional only and may be revised.

Terms and definitions

All terms as used in the document refer to New Zealand, unless otherwise specified.

ANZSIC

Australian and New Zealand Standard Industrial Classification. A geographic unit is assigned to an ANZSIC category according to the predominant activity in which it is engaged. The Enterprise ANZSIC is derived from the ANZSIC and employment levels of the geographic unit(s) belonging to that enterprise.

Business Demography Dataset

Data on the structure and characteristics of businesses in New Zealand. Business characteristics available include region, industry, institutional sector, business type, degree of overseas ownership, and employment levels.

Business Frame

A 'live' list of the individual, private and public-sector businesses and organisations that are engaged in the production of goods and services in New Zealand. Business demography data are gathered from Statistics New Zealand's annual update of the Business Frame (a 'snapshot' of New Zealand businesses at February each year).

Employee count (EC)

Head count of salary and wage earners sourced from taxation data. EC data are available on a monthly basis. The EC count used for the derivation of business demography statistics is for the February month.

Enterprise

An operating business. It can be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, voluntary organisation or self-employed individual.

Full-Time Equivalent (FTE)

The number of full-time employees and working proprietors plus half the number of part-time employees and working proprietors.

Geographic unit

A separate operating unit engaged in one, or predominantly one, kind of economic activity from a single physical location or base.

Longitudinal Business Frame (LBF)

The LBF was built by unwinding the history of the Business Frame back to 1999. It shows how attributes of enterprises and geographic units change over time; and attempts to repair broken longitudinal links between enterprises. Longitudinal links are broken when a business changes its unique identifier due to change in legal structure, restructuring, or being sold as a going concern.

Rolling Mean Employment (RME)

A 12-month moving average of the monthly Employee Count figure.

Small and Medium-Sized Enterprises (SME)

In this report, a SME is defined as an enterprise with 19 or fewer employees.

Value-added

A measure of the contribution to total output by enterprises in the economy. Value-added is calculated as gross output minus intermediate consumption and serves as a proxy measure of Gross Domestic Product.

Working Proprietor

Either a sole proprietor or partner who is engaged actively in the business, or a shareholder in a limited liability company actively engaged in its management.

Appendix 1: Business Demography Statistics

Business demography statistics are derived from Statistics New Zealand's Business Frame. The Business Frame (BF) is a list of the individual, private and public-sector businesses and organisations that are engaged in the production of goods and services in New Zealand. It provides an accurate and timely population source for economic and financial surveys, so that they produce robust economic and financial statistics. The BF is maintained using information from Inland Revenue (IRD), such as Goods and Services Tax registrations and Employee Monthly Schedule returns, as well as Statistics New Zealand survey information.

Businesses covered

In interpreting business demography statistics, it is important to take into account the coverage of businesses and the characteristics of the BF. The initial source of information about enterprises is the IRD's client registration file, which currently includes more than 575,000 taxpayers registered for GST. All GST-registered enterprises recorded on the IRD's client registration file are continually monitored to determine whether they meet the 'economic significance' requirements for inclusion into the BF. Enterprises need to meet at least one of the following criteria:

- GST expenses or sales greater than \$30,000 annually
- rolling mean employee count of greater than three
- in a GST-exempt industry (except for residential property leasing and rental)
- part of a group of enterprises
- registered for GST and involved in agriculture or forestry.

A buffer zone of \$25,000 to \$35,000 GST annual expenses or sales has been established to prevent enterprises switching frequently into and out of the BF. The enterprises maintained on the BF represent the target population from which Statistics New Zealand's economic surveys are selected.

Limitations of business demography data

There are a number of limitations on business demography data:

- exclusion of enterprises involved in farming (Australian and New Zealand Standard Industrial Classification (ANZSIC) subdivision A01 Agriculture). However, data for the farming industry are available for 2004-2006 on request
- lags in recording businesses that have ceased trading or whose activity has dropped below the economic significance threshold
- exclusion of enterprises that fall below the economic significance criteria
- difficulties in maintaining industrial and business classifications for smaller firms using administrative data.

Data Quality

Care has been taken in surveying, processing, analysing and extracting the data for Business Demographic statistics. However, all data are subject to statistical uncertainty. Variation may result, for example, from reporting difficulties for respondents, or from mistakes in the processing of results. Statistics New Zealand aims to detect and minimise avoidable variation and eliminate mistakes, but they may still occur and are not quantifiable. At higher levels of aggregation, much of the individual variability cancels out. Business Demography data are checked at an aggregate level, by industry, institutional sector and region, to find any detectable errors and uncertainty. Where possible, affected figures are corrected or re-estimated. Business demography data may therefore be subject to revision.

Industry coverage

The coverage has changed in recent years, as more industries have been included in the population. Historically, most of these industries were excluded because they contained a large proportion of enterprises which were not registered for GST, or which fell below the threshold of economic significance. Since 1997, the selection criteria and standard published industry categories for the business demography statistics have been based on the Australian and New Zealand Standard Industrial Classification (ANZSIC). In 1996, the statistics were published using ANZSIC, but the selection criteria were based on the New Zealand Standard Industrial Classification (NZSIC).

The statistics in this report exclude agriculture production (ANZSIC subdivision A01) to ensure consistent industrial coverage from 1997 to 2006. Business demography data for the agriculture production industry are available on request for the years 2004-2006.

Availability of information

Standard outputs from the business demography statistics can be used to analyse the industrial activity, location, business type, institutional sector and degree of overseas ownership of New Zealand businesses. Data are available for any of the years 1994-2006 (economically significant enterprise basis) or 1987-1994 (compulsory GST basis). Changes in industry coverage between 1994 and 2006 can be taken into account to produce a consistent time series. Customised analyses to meet specific user requirements are available on request.

Appendix 2: Statistics based on the Longitudinal Business Frame

Business demography statistics at present are an annual snapshot (at February) of the structure and characteristics of New Zealand businesses on Statistics New Zealand's Business Frame. The Business Frame is currently maintained using information from Inland Revenue, as well as Statistics New Zealand's survey information.

The major limitations of the current Business Demography series are:

- The current methodology for identifying enterprise births and deaths from the Business Frame cannot distinguish between genuine enterprise start-ups and failures on the one hand, and enterprise entries and exits due to administrative changes on the other hand.
- The population base for the current series excludes the agriculture industry.
- Previously published statistics in the series cannot easily be updated if information relating to past periods changes on the Business Frame.

These limitations, together with international developments in business demography which have given rise to new methods for defining and recognising enterprise births and deaths, were key factors in the construction of the Longitudinal Business Frame (LBF) as an alternative source for business demography statistics.

The LBF is a larger dataset than Statistics New Zealand's Business Frame, and is updated monthly. It uses internationally recommended statistical methods to track enterprises over time and to link – if possible – new enterprise identifiers with their predecessors. Thus it is possible, to a greater extent, to separate enterprises that are continuing, dormant or reactivated from real enterprise births and deaths. The calculated firm birth and death rates align well with international results.

The first experimental results using the LBF were released in May 2006. The results showed that basing business demography statistics on the LBF is feasible and that the differences between the experimental and official series are explicable. The table below shows a comparison of the experimental and official data series, which used the LBF and Business Frame respectively (farming enterprises are excluded to give an accurate comparison).

Results of Experimental Series Compared with Official Series (excluding agriculture)

Statistics (at February 2005)	Experimental series (excluding agriculture)	Official series as published October 2005 (excluding agriculture)	Difference
Number of enterprises	369,402	334,340	+35,062
Number of employees	1,755,100	1,726,140	+28,960
Percentage of enterprises with fewer than 10 employees	93%	92%	+1 percentage point
Identified enterprise entries/births	47,875 (births)	58,144 (entries)	-10,269
Entry rate/birth rate	13% (birth rate)	17% (entry rate)	-4 percentage points
Identified enterprise exits/deaths	37,953 (deaths)	48,097 (exits)	-10,144
Exit rate/death rate	10% (death rate)	14% (exit rate)	-4 percentage points
Turnover rate	23%	31%	-8 percentage points

Statistics New Zealand will release the first official publication of business demography statistics based on the LBF by late 2007. Future editions of *Structure and Dynamics* will incorporate this data.

Results of the Experimental Series

The following table summarises the key results for business demography from the LBF. [Note: Its population of enterprises includes agricultural firms (ANZSIC A01)].

It is important to note that the number of businesses on the LBF is greater than in the Business Frame (which is the current data source for statistics in the *Structure and Dynamics* report). The difference is that the LBF series uses additional IRD information to expand the population coverage. Most of the additional enterprises are SMEs.

Results of Experimental Series (including agriculture), at February 2005

Total number of enterprises	433,089
Births	51,934
Deaths	42,283
Birth Rate	12%
Death Rate	10%
Turnover Rate	22%

It should be kept in mind that these results and those discussed in the following are experimental and may change in officially released statistics.

Births and Deaths

In the year to February 2005 there was a net increase of 9,212 businesses (*Structure and Dynamics* 2006 reports 10,047 net new businesses during this period). The business turnover rate (defined as the sum of the birth rate and the death rate) means that, according to the LBF data, in the twelve months to February 2005 around 22 percent of enterprises in the economy were affected by births and deaths. By way of comparison, the LBF results are very consistent over the period 2001-2005.

The majority of business births from 2001 to 2005 were non-employing businesses (85 percent), followed by businesses that employ one to six employees (12 percent). The experimental series found also that opportunities for employment in new enterprises are most likely to come from SMEs (70 -75 percent).

The new methodology shows that from 2001 to 2005, most enterprise deaths were SMEs (99 percent). Non-employing businesses were most likely to die, accounting for 88 percent of deaths. About two-thirds of employment losses during the same period occurred as a result of SME deaths. Such data reinforce the importance of SMEs as employers.

Survival Rates

Survival rates measure the probability that new enterprises will live beyond a given time. The results from the LBF show that 69 percent of businesses that were born in 2001 survived at least two years. Overall, 52 percent of businesses begun in 2001 were still operating in 2005.

For SMEs birthed in 2001, survivability was highest for those that began with 10 to 19 employees (71 percent survived from 2001 to 2005). Non-employing enterprises born in 2001 had the lowest chance of surviving for four years (less than 50 percent). If non-employing enterprises were excluded when calculating overall survivability for SMEs birthed in 2001, the average survivability rate jumps to approximately 69 percent. This reflects what

a strong influence non-employing enterprises have on enterprise survivability. This is because of the high proportion of these enterprises in the economy, and the fact that it is a relatively simple and inexpensive process to start and close a business in New Zealand. It is relatively common for people to register companies for tax purposes or legal reasons, or without significant long term expectations.

Another significant influencing factor on the level of firm survivability is the industry to which that enterprise belongs. Enterprises birthed in 2001 into the communication services industry had the least chance of survival until 2005. Firms belonging to the cultural and recreational services industry also had a survival rate below 50 percent. However, firms birthed into the Mining industry, the Finance and Insurance industry and Electricity, Gas and Water supply industry all recorded a survivability between 2001 and 2005 of approximately 70 percent.

Appendix 3: Business Performance Statistics 2005

Average Real Profit per RME by Enterprise Size 2005 – Deflated Average real (\$) profit per RME

	2005
0	
1-5	29194
6-9	15601
10-19	10160
20-49	10708
50-99	11445
100-499	16069
500+	8784

Total Real Profit by Enterprise Size 2005 – Deflated Operating Surplus before Income Tax (\$m)

	2005
0	5150
1-5	4901
6-9	2001
10-19	1975
20-49	2515
50-99	1613
100-499	4574
500+	3489

Average Real Sales and Other Income per RME by Enterprise Size 2005 – Deflated Average Real Sales per RME

	2005
0	
1-5	181702
6-9	140119
10-19	133446
20-49	149294
50-99	162718
100-499	229575
500+	194044

Total Real Sales and Other Income by Enterprise Size 2005 – Deflated Sales of Goods and Services (\$m)

	2005
0	24236
1-5	30507
6-9	17971
10-19	25934
20-49	35060
50-99	22926
100-499	65342
500+	77075

Average Real Salaries and Wages per RME by Enterprise Size 2005 – Deflated Average Real Salaries and Wages per RME

	2005
0	
1-5	20805
6-9	21982
10-19	22888
20-49	28430
50-99	27752
100-499	36446
500+	34292

Total Real Salaries and Wages by Enterprise Size 2005 – Deflated Salaries and Wages

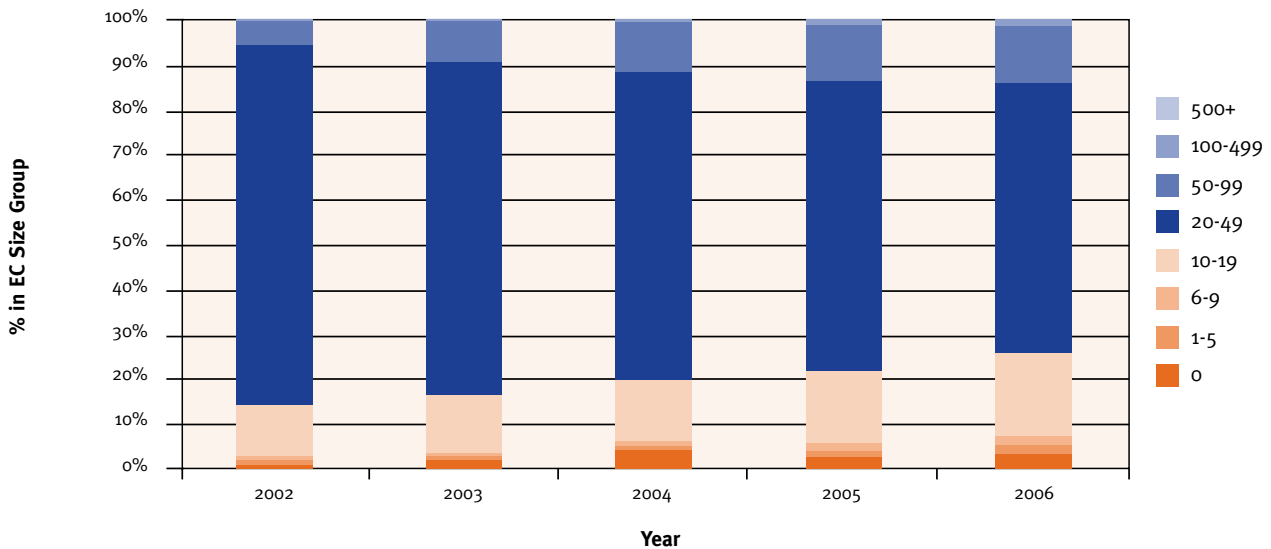
	2005
0	1042
1-5	3493
6-9	2819
10-19	4448
20-49	6676
50-99	3910
100-499	10373
500+	13621

Appendix 4: Transition rates for firms employing more than 19 employees

Nearly sixty percent of firms with 20-49 employees remained the same size.

Of the enterprises with 20-49 employees in 2001, 59.1 percent remained the same size in 2006. Just over 19 percent of the enterprises moved into the 10-19 employment bracket, while 14.2 percent grew into larger employment brackets.

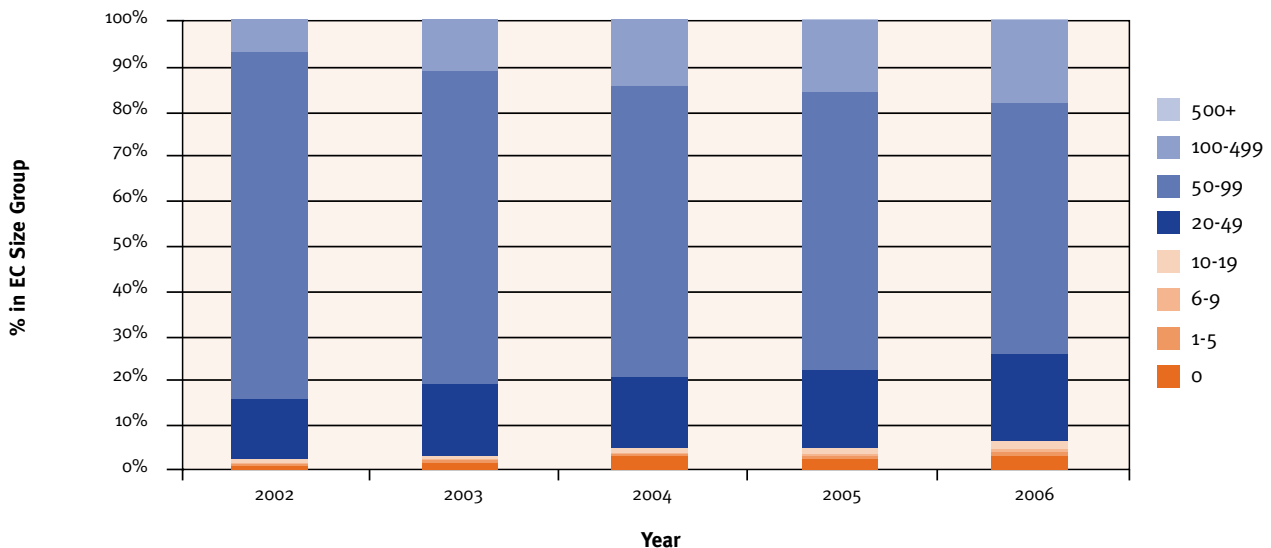
Figure 25. Transition Rates – Enterprises with 20-49 EC in 2001



Nearly twenty percent of firms with 50-99 employees in 2001 grew into a larger employment bracket.

By 2006, 54.9 percent of enterprises with 50-99 employees in 2001 remained in the same employment size category, while 20 percent dropped to the next smallest size, and 18.1 percent grew to the next largest size category.

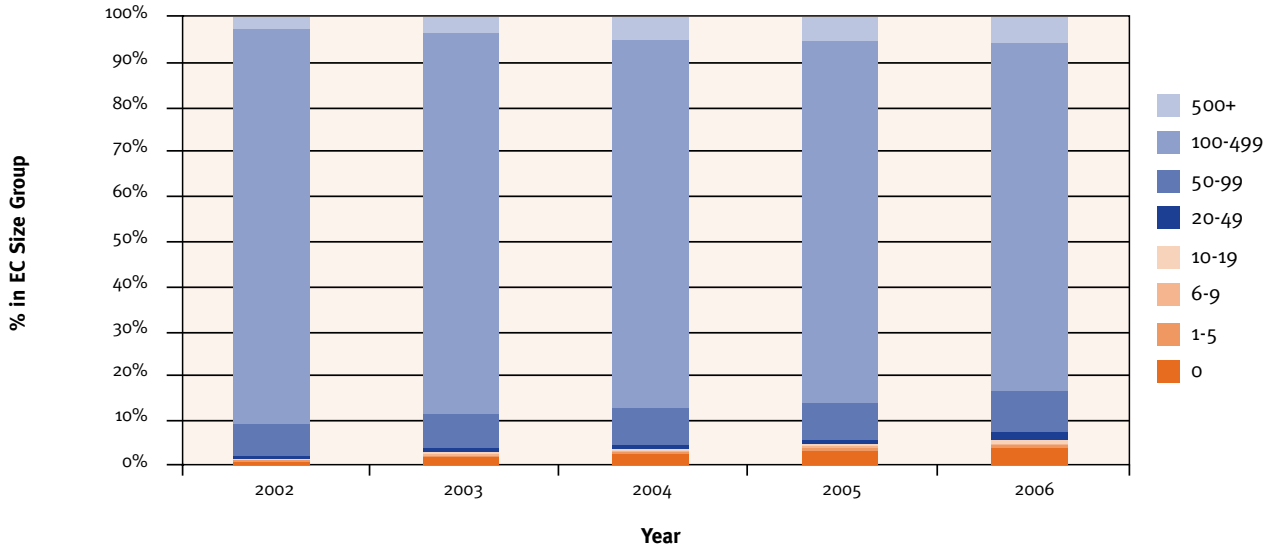
Figure 26. Transition Rates – Enterprises with 50-99 EC in 2001



Over three-quarters of firms with 100-499 employees remained the same size.

Of the enterprises with 100-499 employees in 2001, 77.7 percent remained in the same employment size category in 2006.

Figure 27. Transition Rates – Enterprises with 100-499 EC in 2001



Firms with 500 or more employees were the most likely to remain the same size.

Of the enterprises with 500 or more employees in 2001, 89.3 percent remained in this category in 2006.

Figure 28. Transition Rates – Enterprises with 500+ EC in 2001

