

SMEs in New Zealand: Structure and Dynamics

September 2004

Contents

Summary.....	3
Introduction.....	4
Small and Medium Sized Enterprises (SMEs).....	5
Number of SMEs.....	6
SMEs Contribution to Employment.....	8
SMEs Contribution to Output.....	12
SMEs and Industry Sectors.....	13
Location of SMEs in New Zealand.....	14
Entry and Exit to Business Demographic Statistics.....	16
Survival Rates of SMEs.....	19
Transition Rates – Businesses in continued existence.....	21
Performance Measures.....	24
Ethnicity, Gender and Employment Status.....	30
Overseas Equity.....	32
SMEs Internationally.....	33
Liability.....	35
Appendix 1.....	36
Appendix 2.....	38
Appendix 3.....	40

For further enquiries please contact the Ministry of Economic Development.

Blair Robertson	e-mail blair.robertson@med.govt.nz	ph. (04) 470 2511
Hayden Johnston	e-mail hayden.johnston@parliament.govt.nz	ph. (04) 471 9847

Summary

Small and medium sized enterprises¹ constitute the majority of all enterprises in New Zealand...

- 86% of enterprises employ 5 or fewer full-time equivalents (FTEs).²
- 96.8% of enterprises employ 19 or fewer FTEs.
- 20.3% of enterprises employ 0 FTEs.³

...and the number of SMEs is increasing.

- The number of SMEs (0-19 FTEs) increased 4.9% in 2003, following an increase of 2.7% in 2002.

The average enterprise size has remained stable.

- Between 2002 and 2003 the average number of FTEs per enterprise remained relatively stable at around 5.2.

SMEs also account for a significant proportion of total employment...

- SMEs accounted for 42.3% of all FTEs in 2003.
- Small firms accounted for 22.7% of all FTEs in 2003.

...and output.

- Using value added as a measure of output, SMEs accounted for 38.1% of the economy's output in 2002.
- Small firms contributed 21.1% of total output in 2002.

Small firms play a key part in the increase in enterprise dynamic in New Zealand.

- In 2003, entries and exits of small firms on the Business Frame accounted for 93.2% and 92.4% respectively of total enterprise dynamic on the Business Frame.

SMEs form a significant component of modern economies both in terms of number of firms and their contribution to employment.

- 97% of New Zealand firms are SMEs; this proportion is similar to a number of other countries.

1 Small 0-5 FTEs; Medium 6-19 FTEs.

2 The number of full-time equivalents (FTEs) is calculated as the number of full-time employees and working proprietors plus half the number of part-time employees and working proprietors.

3 0 FTEs is defined in this report as no employees and no working proprietors. In the Treasury Working Paper 'Firm Dynamics in New Zealand: Comparative Analysis with OECD Countries', working proprietors are included in the 0 FTE grouping, which accounts for the discrepancies between the two reports (see Appendix 1 for further information).

Introduction

SMEs make a significant contribution to economies.

Small and medium sized enterprises (SMEs) are viewed as a source of flexibility and innovation, and make a significant contribution to economies, both in terms of the number of SMEs and the proportion of the labour force employed by these firms. The significance of the SME sector in New Zealand has been increasing, with further opportunities presented by globalisation and technological development.

This report provides a statistical summary of the nature of the SME sector in New Zealand, examining its significance to the economy, its financial performance, the dynamics of SMEs – entry and exit onto Statistics New Zealand’s Business Frame and transition rates – and the significance of the SME sector internationally. The population for the Business Frame is comprised of ‘economically significant enterprises’.⁴

This is the fifth such report produced by the Ministry of Economic Development and Statistics New Zealand.

⁴ An enterprise is said to be ‘economically significant’ if it meets one or more of the following criteria: has greater than \$30,000 annual GST expenses or sales; has more than two full-time equivalent paid employees; is in a GST exempt industry (except for residential property leasing and rental); is part of a group of enterprises; is registered for GST and involved in agriculture or forestry.

Small and Medium Sized Enterprises (SMEs)

There is no globally recognised definition of an SME...

...although SMEs generally share some key characteristics.

For the purposes of this report, SMEs employ 19 or fewer staff.

Definitions of SMEs differ across countries and industry sectors, and can be based on a variety of criteria, such as number of employees, invested capital and total value of sales. However, more important for policy considerations are the characteristics of these businesses, which typically include:

- Personal ownership and management
- Few, if any, specialist managerial staff
- Not being part of a larger business enterprise.⁵

These characteristics mean that employees in small firms often need to be multi-skilled rather than specialists, with expertise in a diverse range of areas such as marketing, production and accountancy. They are also constrained in the amount of time and money they can invest in searching for, and using, assistance. These factors, together with a culture of self-help and independence prevalent amongst New Zealand firms, have implications for business development policy.

The above characteristics are typically exhibited by businesses with fewer than 20 employees. Therefore, for the purposes of this report:

- SMEs will be defined as enterprises employing 19 or fewer full-time equivalent employees (FTEs) unless otherwise stated;
- Small enterprises will be defined as those employing 0-5 FTEs; and
- Medium enterprises as those employing 6-19 FTEs.

⁵ Burrell M and Lynch C (1994), *Small Business Employment*, Department of Labour, p. 2.

Number of SMEs

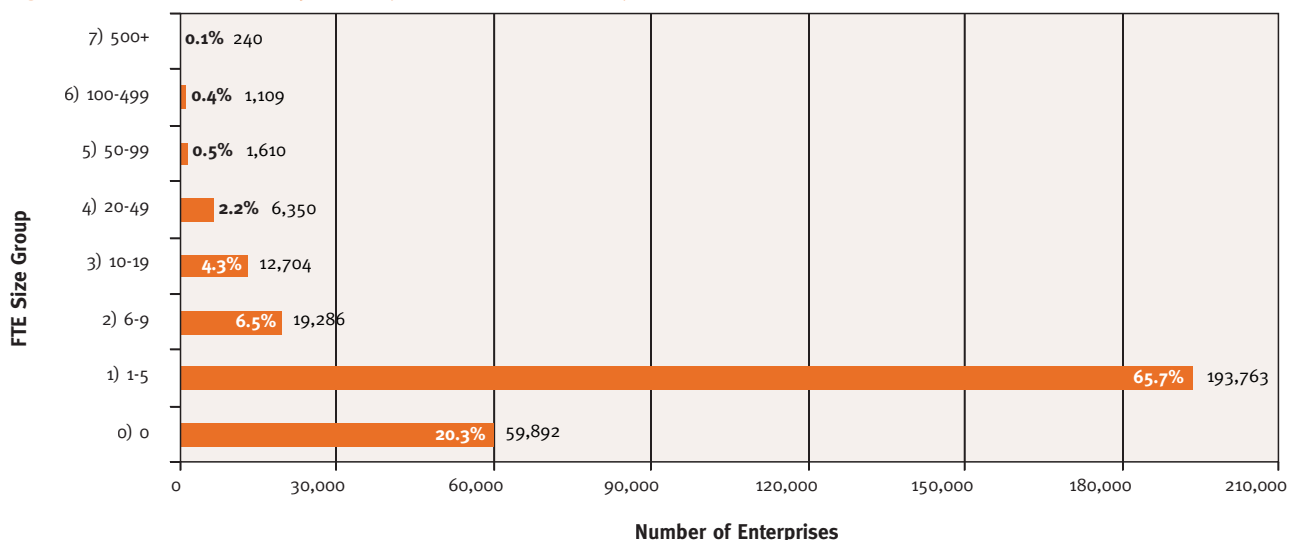
New Zealand is predominantly a nation of small firms.

Small and medium sized enterprises constitute the majority of all enterprises in New Zealand:

- 86% of enterprises employ 5 or fewer full-time equivalent staff.
- 96.8% of enterprises employ 19 or fewer full-time equivalent staff.
- 20% of enterprises do not employ any FTEs.

Given the large number of SMEs and enterprises not fulfilling the 'economically significant' criteria within the agricultural sector (ANZSIC Code A01 – Agriculture – is omitted from this report), the contribution that small businesses make to the New Zealand economy is even greater than is reflected in these figures.

Figure 1. Number of Enterprises by Size, as at February 2003



The number of SMEs increased in 2002...

...although the proportion of SMEs has remained relatively constant.

The number of SMEs increased 4.9 percent between 2002 and 2003, following an increase of 2.7 percent between 2001 and 2002. This is similar to the movements in number of firms of all sizes over the same periods. The total number of enterprises rose from 281,338 in 2002 to 294,954 in 2003.

As the increase in the number of SMEs was close to that for enterprises overall, the proportion of firms in the SME sector remained constant at 96.8 percent between 2002 and 2003.

Figure 2. Cumulative Enterprise Count by FTE Size Category, as at February 2003

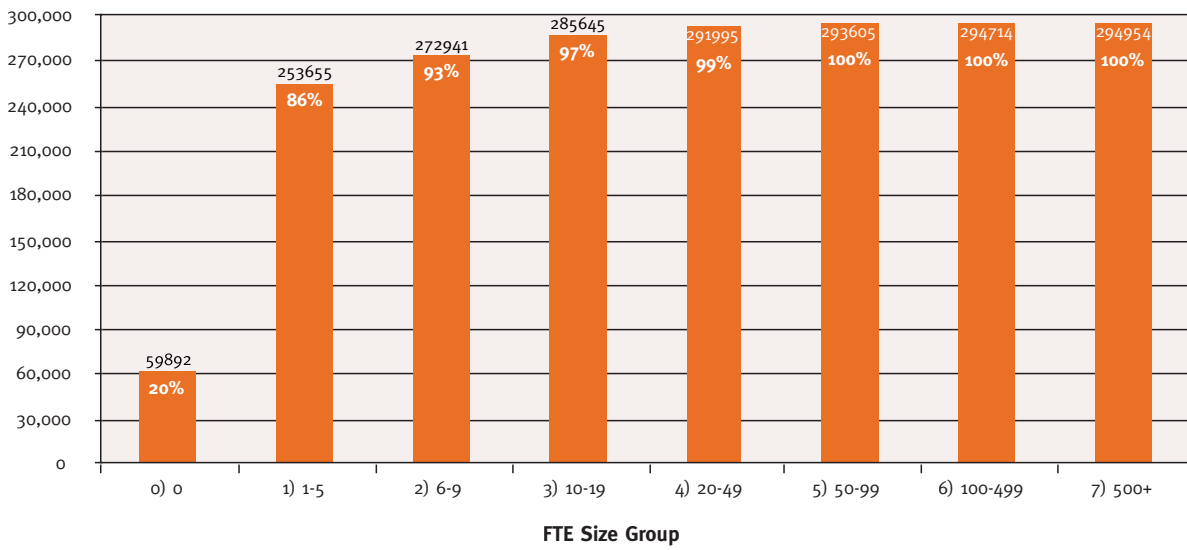


Table 1. Annual Percentage Change in Numbers of Enterprises, as at February 2003

FTEs	1998	1999	2000	2001	2002	2003	Average Percentage Change
0	20.5%	1.1%	22.8%	9.2%	9.5%	8.4%	11.9%
1-5	7.8%	0.9%	8.1%	-3.0%	0.8%	3.7%	3.1%
6-9	0.3%	2.9%	5.9%	1.7%	3.0%	5.6%	3.2%
10-19	4.1%	2.2%	5.0%	1.2%	2.8%	5.5%	3.4%
20-49	0.1%	4.6%	5.7%	0.6%	1.8%	4.3%	2.8%
50-99	2.2%	-3.1%	4.7%	-1.3%	6.4%	4.8%	2.3%
100-499	-0.2%	2.4%	-0.1%	3.5%	2.3%	-0.4%	1.3%
500+	0.9%	-3.3%	0.0%	1.5%	6.7%	7.6%	2.2%
Total	8.6%	1.2%	9.9%	-0.3%	2.7%	4.8%	4.5%

SMEs Contribution to Employment

The number of FTEs employed by SMEs increased.

The number of FTEs employed by SMEs increased by 4.7 percent between 2002 and 2003, from 617,300 to 645,700. This followed an increase of 2.0 percent in the previous year.

(FTEs) is calculated as the number of full-time employees and working proprietors plus half the number of part-time employees and working proprietors.

Figure 3. Total Employment (FTEs) by Enterprise Size, as at February 2003

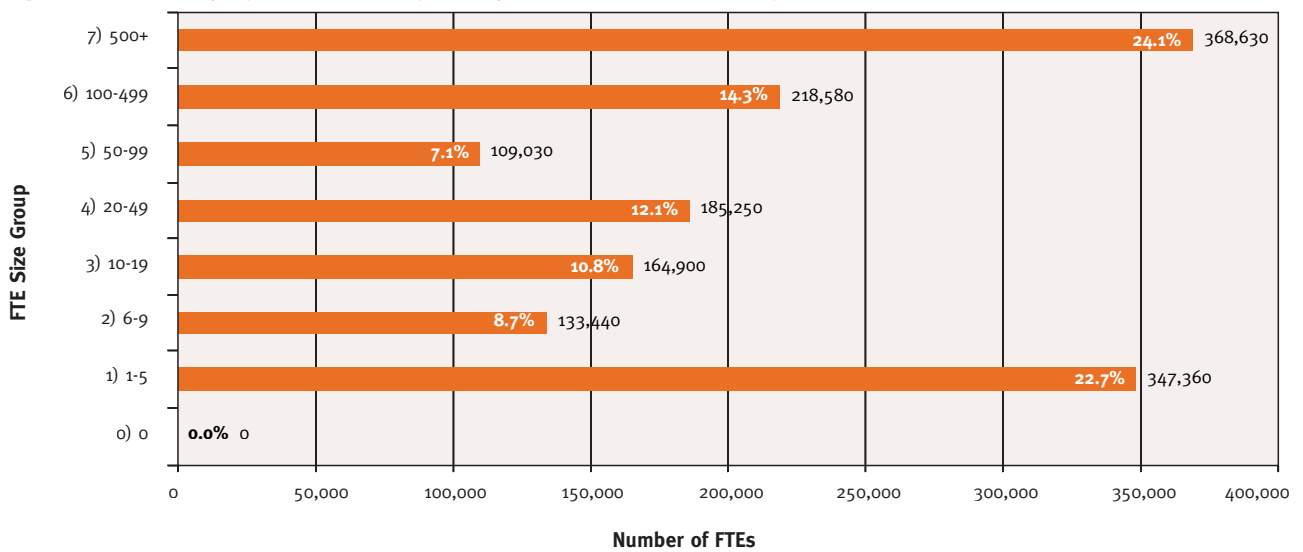


Table 2. Annual Percentage Change in Employment (FTEs) by Enterprise Size, as at February 2003

FTEs	1998	1999	2000	2001	2002	2003	Average Percentage Change
0	-	-	-	-	-	-	-
1-5	5.3%	0.2%	4.5%	-1.7%	1.3%	4.0%	2.3%
6-9	0.3%	3.3%	5.8%	1.9%	2.8%	5.6%	3.3%
10-19	3.9%	2.2%	4.9%	1.6%	2.8%	5.2%	3.4%
20-49	-0.4%	4.2%	5.9%	1.2%	1.7%	4.1%	2.8%
50-99	2.1%	-3.1%	4.1%	-1.3%	5.7%	5.2%	2.1%
100-499	-0.7%	2.7%	0.2%	3.3%	2.9%	-0.9%	1.3%
500+	1.2%	-3.2%	-0.7%	1.6%	7.0%	5.8%	2.0%
Total	1.9%	0.4%	2.9%	0.8%	3.5%	4.0%	2.3%

New small businesses create the greatest number of new jobs.

Table 3 illustrates the contribution that SMEs made to job creation in the economy between 1997 and 2003. The largest single contributing group was that of new firms employing 1-5 FTEs, creating 214,280 new jobs. Of continuing businesses, more new jobs also came from small (1-5 FTEs) firms. This was, however, counterbalanced to a large extent, as small (1-5 FTEs) were the greatest contributor to employment reduction between 1997 and 2003 (a reduction of 181,310 jobs).

Table 3. Employment Creation and Reduction by Enterprise Size, February 1997 to February 2003⁶

	FTE Size Group							Total	
	0) 0	1) 1-5	2) 6-9	3) 10-19	4) 20-49	5) 50-99	6) 100-499		7) 500+
	Number of FTEs								
Employment Creation									
Continuing Business	16930	49970	20060	25590	30410	16080	42140	43580	244750
New Business	0	214280	67880	70150	57480	28980	51950	51870	542580
Total	16930	264250	87930	95740	87880	45060	94100	95440	787330
Employment Reduction									
Ceased Business	0	-160120	-45900	-47280	-46540	-26920	-55850	-56510	-439130
Continuing Business	0	-21180	-12080	-16130	-20560	-12430	-29010	-42850	-154220
Total	0	-181310	-57990	-63400	-67100	-39360	-84860	-99360	-593350
No Change⁷									
Continuing Business	0	-15	-30	-65	-20	6	-12	-1820	-1950
Net Employment Change	16930	82940	29940	32340	20790	5710	9240	-3910	193980

6 Table 3 uses 1997 as the base year for the data:

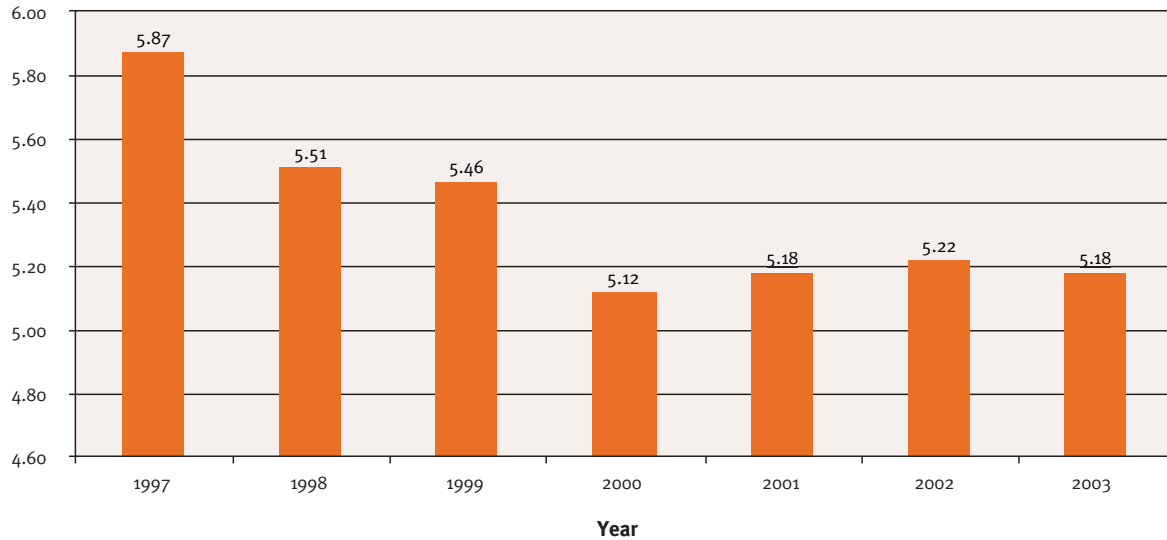
- This means that, for example, if a firm contributed to the 1-5 FTE category in 1997 but subsequently grew to employ 30 FTEs, that increase in FTEs would be attributed to the 1-5 FTE category – not to the 20-49 FTE category.
- It also means that if a firm had 0 FTEs in 1997, but then grew to employ 2 FTEs, that growth would be recorded in the employment creation column for 0 FTEs. New 0 FTE enterprise are treated as making no contribution to employment creation.

7 Businesses in the “No Change Continuing Business” row are businesses that experienced only a very small percentage change in their contribution to employment (between -10% and +10%) from 1997 to 2003. At the aggregate level, these enterprises only make a very small contribution to employment creation and reduction, as outlined in Table 3.

The average size of New Zealand firms decreased slightly in 2003.

The average number of FTEs per enterprise remained relatively steady at 5.18 in 2003, down slightly from 5.22 in 2002. The average firm size decreased from 1998 to 2000, but recorded an increase in 2001 and 2002.

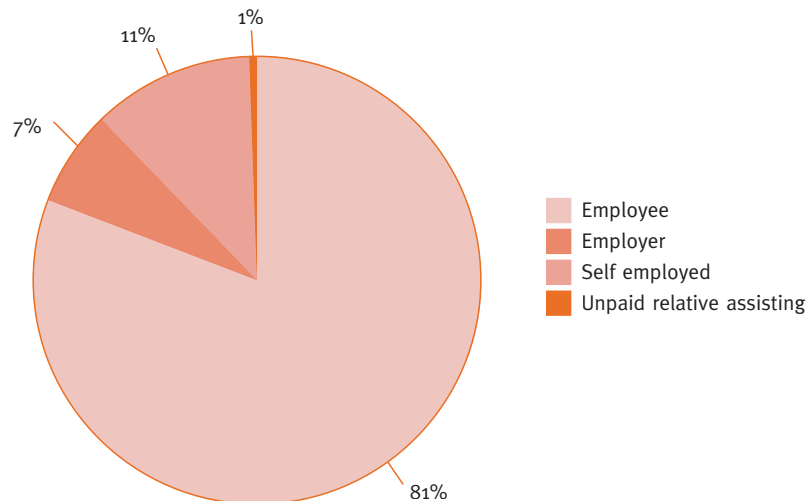
Figure 4. Average FTEs per Enterprise, as at February 2003



The majority of New Zealanders in the labour force are paid employees.

Figure 5 illustrates data from the 2004 Household Labour Force Survey⁸, showing that the largest proportion (81 percent) of the employed New Zealand labour force are paid employees, while 19 percent are self-employed or an employer.

Figure 5. Employed Labour Force by Type of Employment, 2004

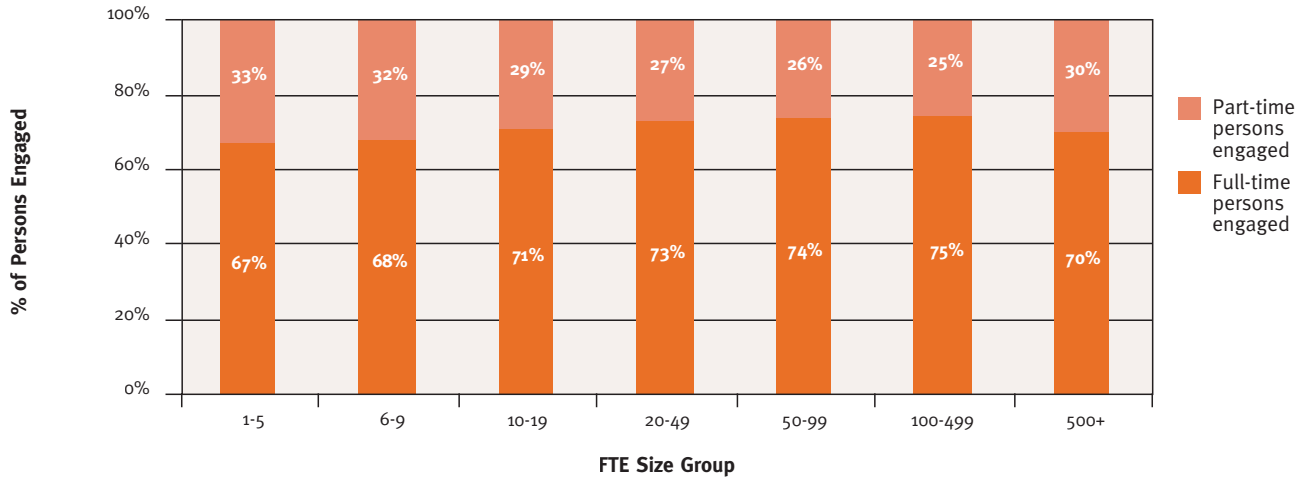


⁸ Year ending March, 2003.

SMEs utilise the greatest proportion of part-time employees.

In 2003, the average utilisation of part-time staff across all firms was 29.2 percent. Figure 7 shows both 1-5 FTEs and 6-9 FTEs had about a third of persons engaged employed as part-time staff. Whereas all other FTE groupings are below 30 percent utilisation. Firms with 100-499 FTEs had the smallest utilisation of part-time employees, at just above 25 percent.

Figure 6. Full/Part-Time Employees by Enterprise Size, as at February 2003



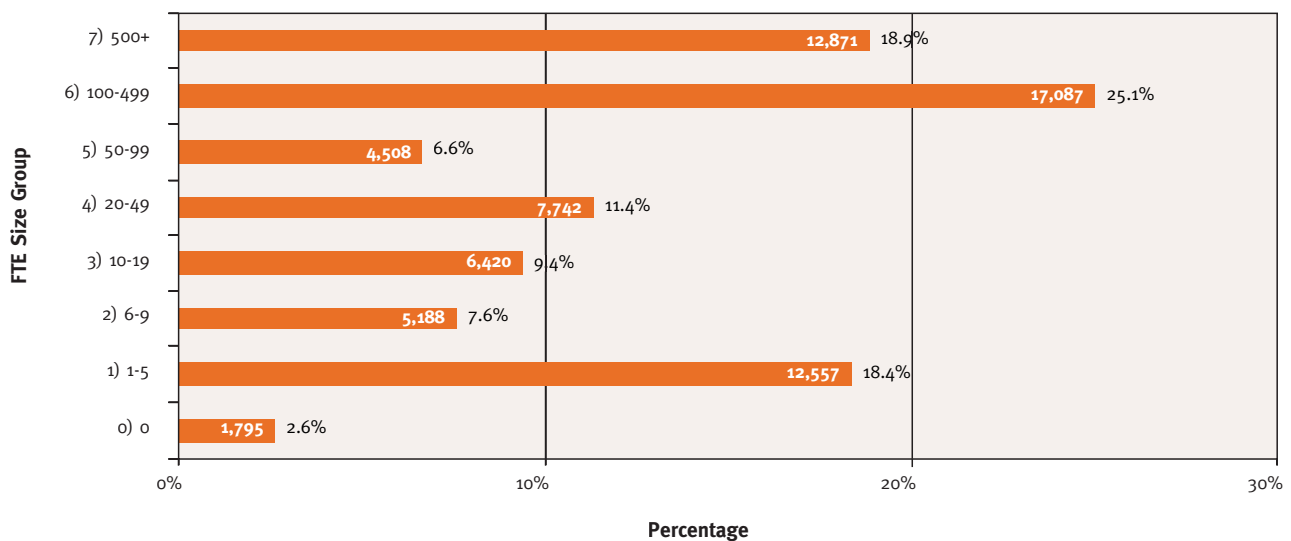
SMEs Contribution to Output

SMEs account for one third of New Zealand's output.

Using value-added⁹ as a measure of the contribution of SMEs to total output in the economy, we can see from Figure 7 that SMEs accounted for 38 percent (\$25,959m) of total output in 2002, with small enterprises making up over half (\$14,351m) of this portion.

These output figures exclude the A01 ANZSIC classification, Agriculture. The A01 classification contributed \$6,451m in value-added in 2002.

Figure 7. Total Value Added by Enterprise Size, 2002



⁹ Value-added is calculated as gross output minus intermediate consumption and is provided with the following caveats:

- Value-added is calculated as gross output minus intermediate consumption. This figure should only be seen as a proxy. While source data used for this feed into the system for National accounts from which official GDP is calculated, these data have not been through this process and therefore only provide an indicator.
- The figures have been deflated by a generic deflator which is not output specific and are not related to the QGDP figures that are published by Statistics New Zealand.
- These data are not standard output and as such are not available in any other cross-tabulations.
- Figures expressed in terms of 1997 dollars.

SMEs and Industry Sectors

SMEs constitute over 90% of enterprises in several Industries.

Enterprises with 0-19 FTEs are most predominant in the property and business services sector, with SMEs accounting for 98.9 percent of all enterprises in this sector. Small businesses constitute the majority of these, making up 94.6 percent of enterprises in this industry.

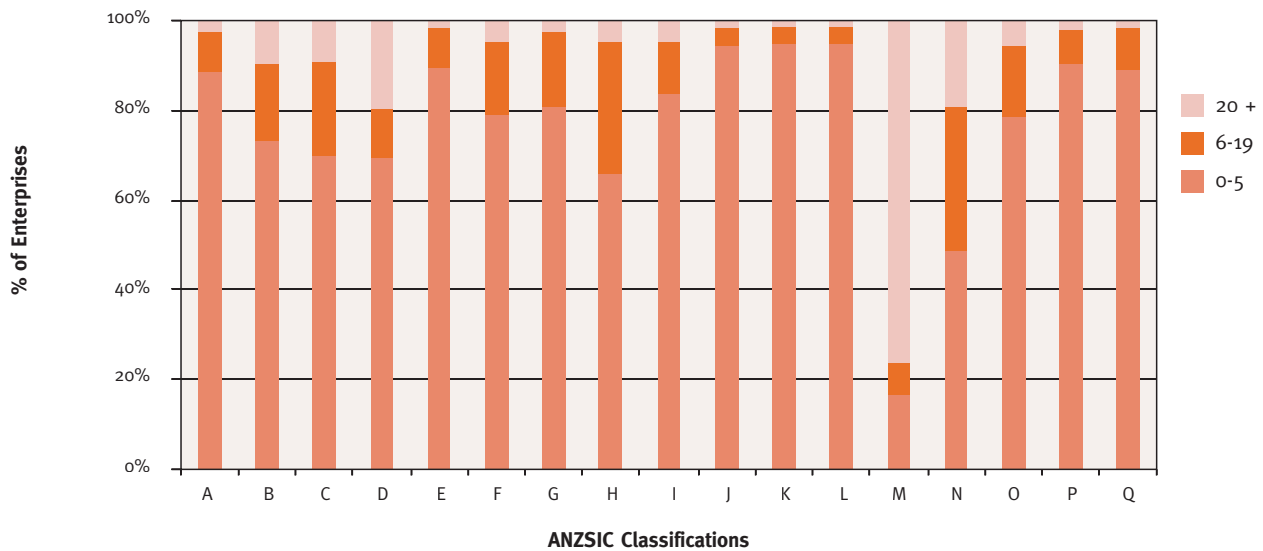
SMEs are also dominant in the finance and insurance, personal and other services, construction, and communication services industries making up at least 98 percent of businesses in each of these industry groups. Small businesses again account for the majority of SMEs in each of these sectors.

Figure 8 illustrates the significance of SMEs in each ANZSIC (Australia and New Zealand Industrial Classification) group.

Of all SMEs the majority provide property and business services.

Over a third (33.9 percent) of all SMEs are property and business service providers. A further 12.4 percent are in the construction industry and 11.5 percent are in the retail trade industry. Very small proportions of SMEs are in the government administration and defence (0.02 percent), electricity, gas and water supply (0.05 percent) and mining (0.12 percent) industries.

Figure 8. Significance of SMEs by ANZSIC Classification¹⁰



¹⁰ ANZSIC industry classifications used in this section 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.

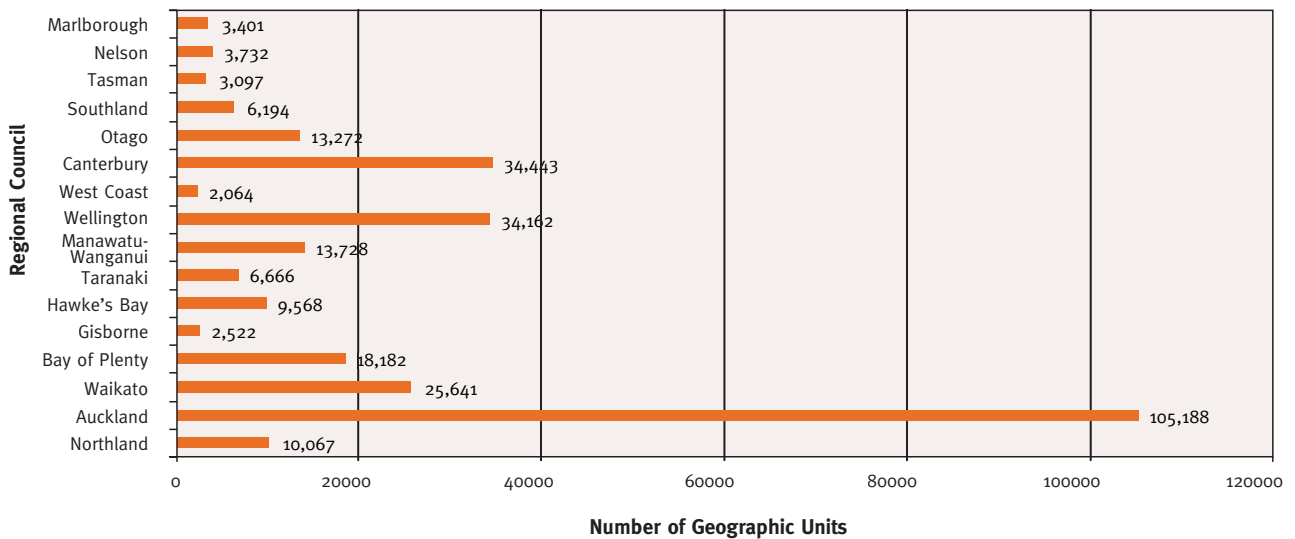
Location of SMEs in New Zealand

Most SMEs are located in the major centres...

SMEs in this section are defined as geographic units that are within enterprises and employing 19 or fewer FTEs. The graphs below give an indication of the concentration of these firms around New Zealand.

Not surprisingly, the majority of SMEs are found in the larger centres. The highest numbers of these enterprises are located in Auckland, Wellington and Canterbury, though most regions have a similar proportion of SMEs.

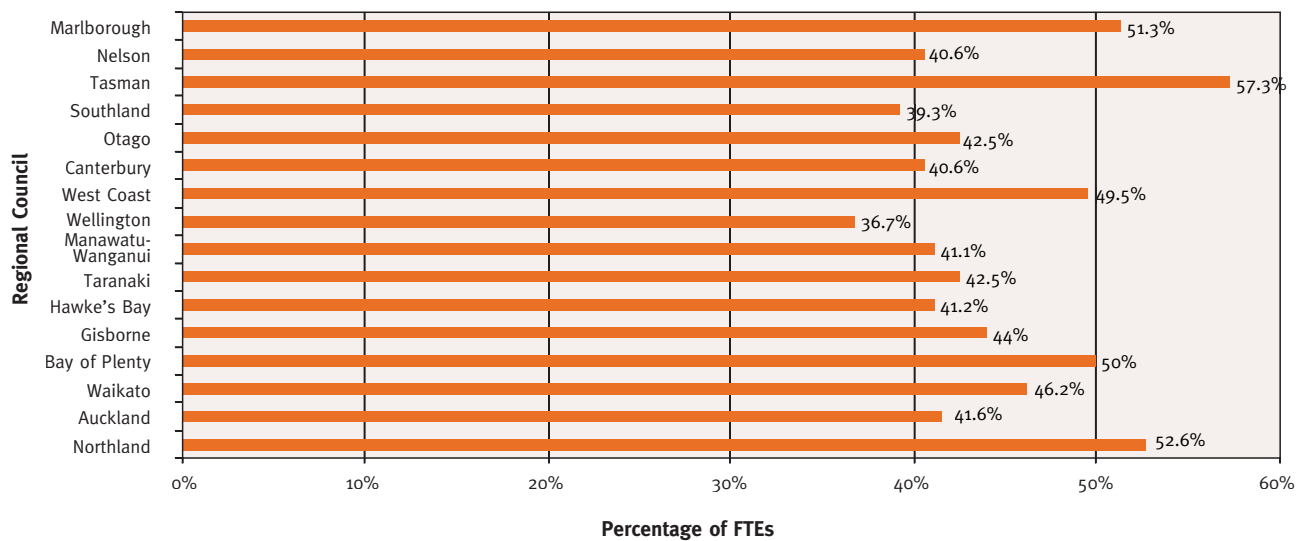
Figure 9. Number of Geographic Units with 0-19 FTEs by Regional Council Area (Within Enterprises Employing 19 or Fewer FTEs)



...though the proportion of employment generated by SMEs is greatest in Tasman and Northland.

However, the regions where the highest proportion of employment is generated by SMEs are Tasman (57.3 percent) and Northland (52.6 percent). The larger metropolitan areas of Auckland, Wellington and Canterbury show some of the lower proportions, where larger businesses employ a greater proportion of the labour force.

Figure 10. Percentage of FTEs Employed by SMEs by Regional Council Area



Entry and Exit to Business Demographic Statistics

SMEs account for the majority of all entries and exits.

In previous reports we have used the terms 'births' and 'deaths' to indicate entry and exit from the Statistics New Zealand Business Demographic Statistics (BDS). In these reports it appears that the terms births and deaths have been interpreted by many as company incorporations and business failures – this is not the case.

The population for the BDS is 'economically significant enterprises'. An enterprise will enter the BDS if it meets one or more of the following criteria:

- has greater than \$30,000 annual GST expenses or sales¹¹
- has more than two full-time equivalent paid employees
- is in a GST exempt industry (except for residential property leasing and rental)
- is part of a group of enterprises
- is registered for GST and involved in agriculture or forestry.

Enterprise exits can also occur in the BDS due to:

- Geographic transfers (location is changed but activity, means of production and market are not)
- Changes of ownership (there is a new owner but no change in activity or location)
- Temporary closures (such as for seasonal activities)
- Closure due to health or personal reasons.

To ensure that readers can easily interpret this report, we have changed the terms to Entries and Exits.

Enterprise entries and exits are dominated by firms employing less than 5 FTEs, accounting for over 90 percent of total number of entries and exits to 2003, as well as in previous years.

¹¹ The GST threshold is maintained by continually monitoring all GST-registered enterprises recorded on the IRD client registration file to determine if they meet the 'economic significance' requirements for 'birth' onto the Business Frame. A buffer zone of \$25,000 to \$35,000 has been established to prevent enterprises switching excessively between 'economically significant' and 'economically insignificant'. For example, an economically significant enterprise whose annual GST turnover drops to \$27,000 would not be reclassified as economically insignificant, but one whose annual GST turnover drops to \$23,000 would be reclassified. All non-trading and dormant companies are excluded from these statistics.

Figure 11. Enterprise Entries, 2003

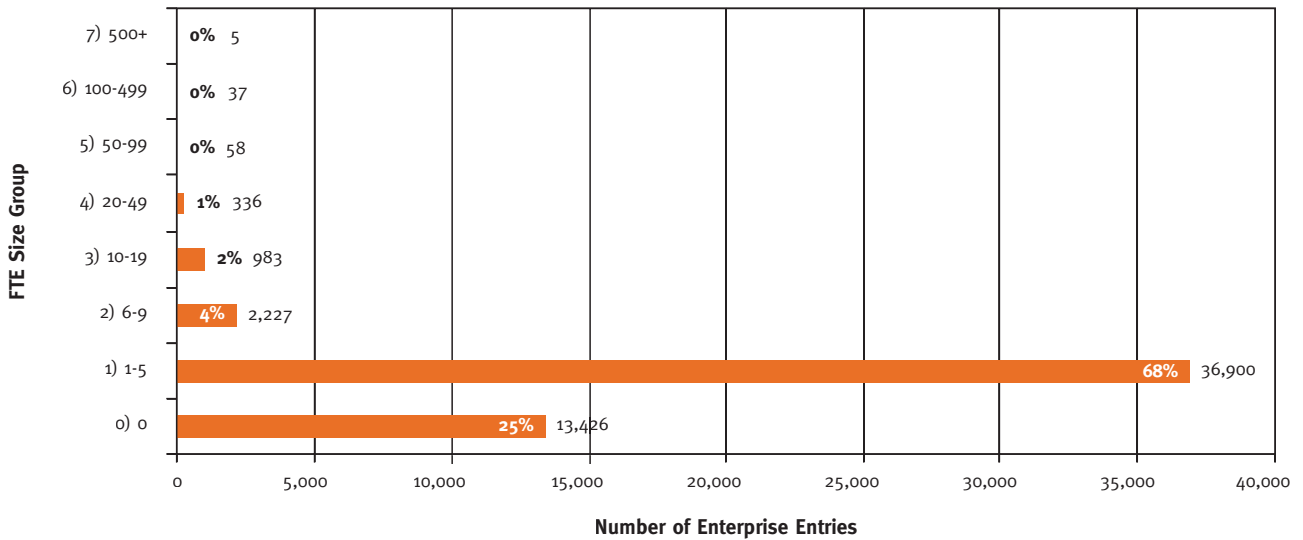
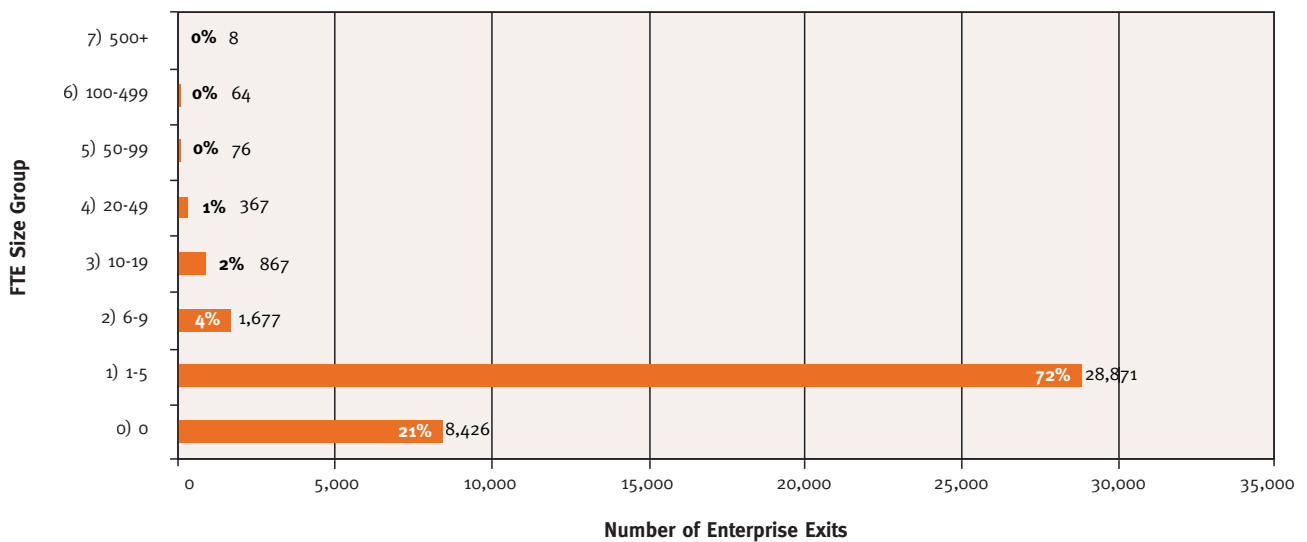


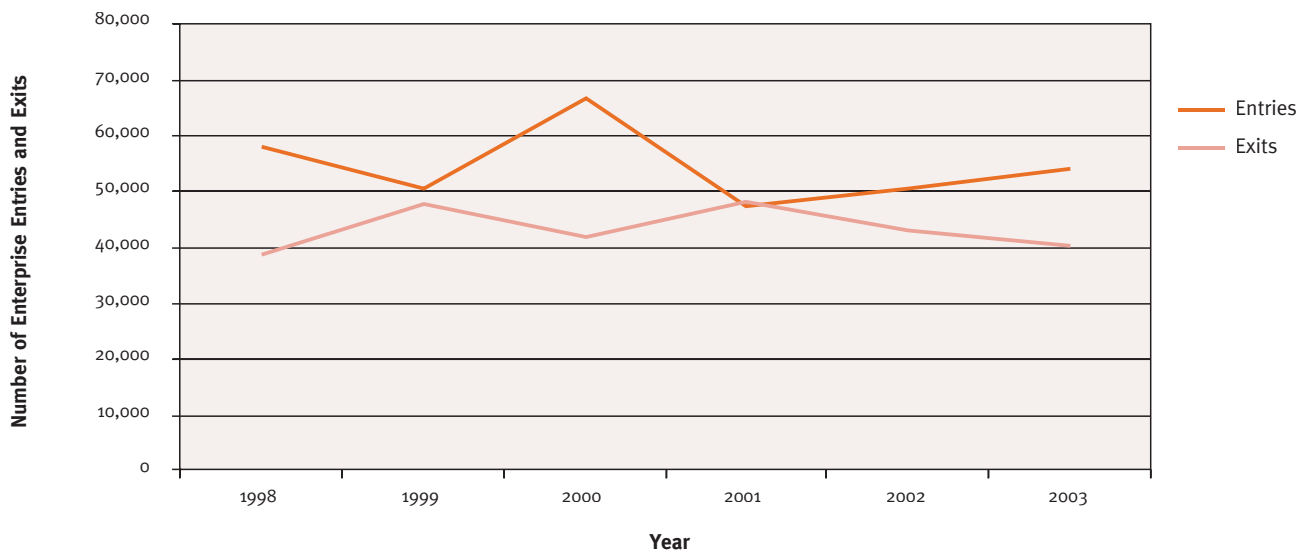
Figure 12. Enterprise Exits, 2003



Enterprise entries outnumbered exits in 2003.

The period 1999-2003 was a time of unusual activity for enterprise entries and exits. In 1999, the number of entries fell, almost matching the number of exits, before increasing sharply in 2000 when exits fell slightly. In 2001, the number entries fell again as exits increased, resulting in a net decrease in the number of enterprises operating. In 2002 and 2003 the series diverged resulting in a net increase in the number of enterprises.

Figure 13. Enterprise Entries and Exits, February 1998-2003



Survival Rates of SMEs

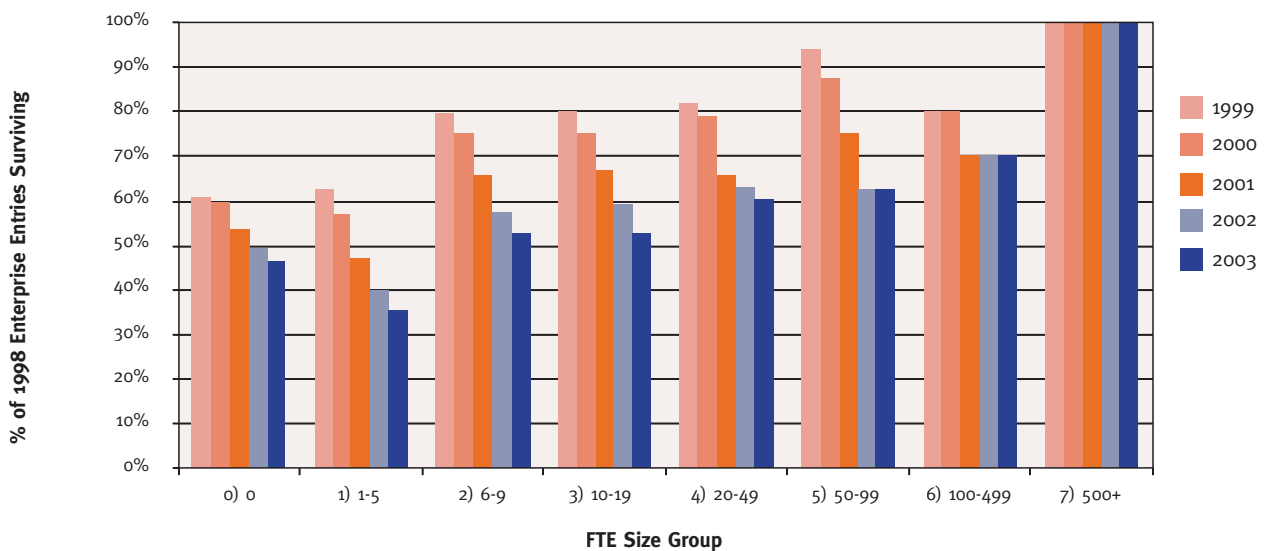
SMEs have a lower survival rate than larger firms.

Survivors are identified by matching the business reference numbers for entries in one year, with those of future years.

Survival rates are generally perceived to be lower for smaller enterprises. Figures 15 and 16 show that this is true for enterprises that entered the Business Frame in 1998. Of all small businesses started in 1998, 57.4 percent were still on the Business Frame in 2000, 48.6 percent in 2001. By 2003, 37.9 percent of these businesses were still active.

Appendix 2 provides information on the survival rates of enterprises, by FTE category and ANZSIC classification, that entered the Business Frame in 1999 and 2000.

Figure 14. Survival Rates of 1998 Enterprise Entries by FTE Category

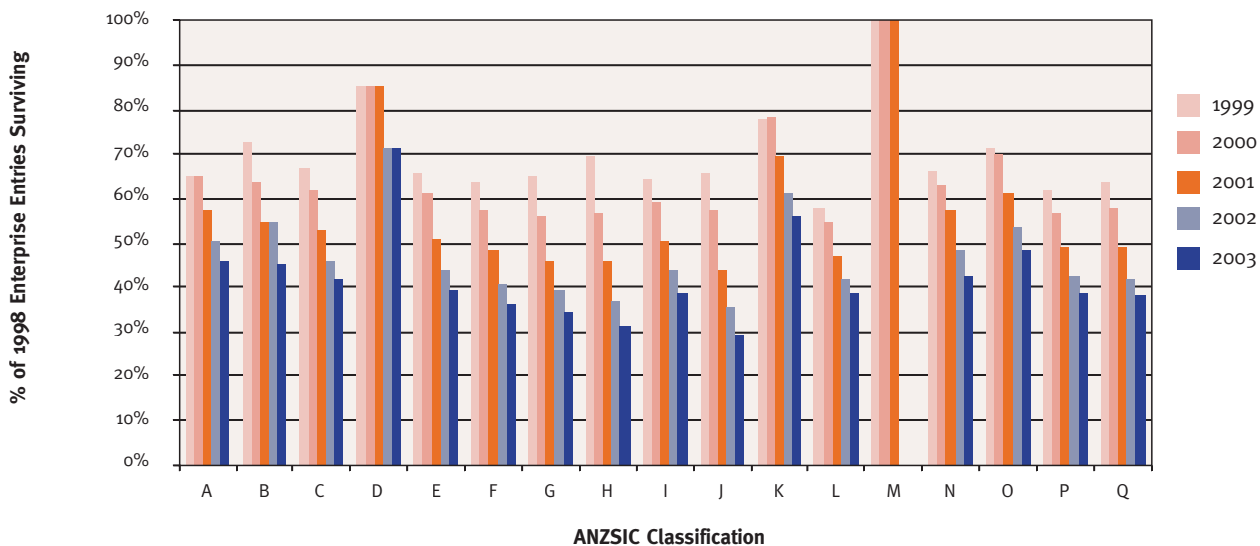


Survival rates for enterprises established in 1998 for each industry sector¹² are illustrated in Figure 15.

¹² See footnote 10 for industry classifications.

Figure 15. Survival Rates for 1998 Enterprise Entries by ANZSIC

(Note: Survival numbers can increase, due to use of random rounding to maintain confidentiality.)



The 1998 industries with the highest survival rates into 2003 were electricity, gas and water supply; and finance and insurance. The finance and insurance industry also featured when analysing survival rates into 2003 for 2000 businesses, with enterprises in the education industry also having a high rate of survival.

The lowest survival rates were in the sectors of accommodation, cafes and restaurants, and communication services. Both of these sectors have an average sized proportion of SMEs.

Survival rates do not necessarily reflect the number of enterprise failures.

However, evidence suggests that these survival statistics present a situation significantly harsher than reality. As noted in the entry and exit statistics, exits from the Business Frame can signify a variety of other events.

Transition Rates – Businesses in continued existence

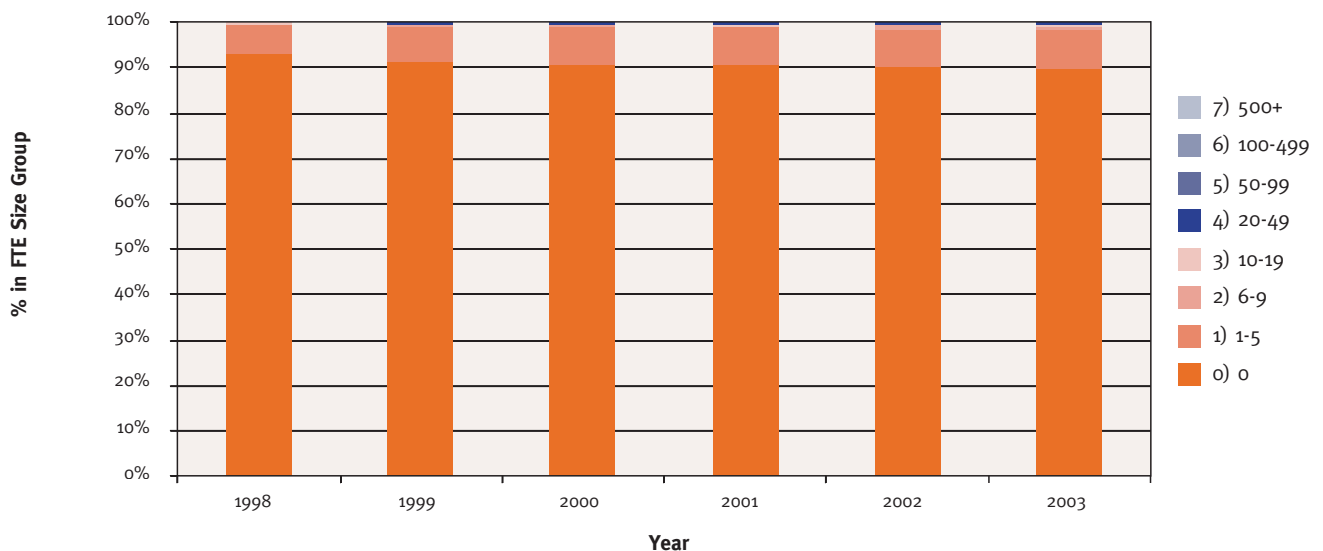
Only a few small firms graduate into larger size brackets each year.

The following series of graphs illustrate the transition of enterprises from their initial size in 1997 through to 2003. For example, the first graph shows the transition in size of all firms that had no employed FTEs in 1997, giving the proportion that then fell into each of the eight size categories in the years 1998-2003. Only enterprises still operating in each year are included in the statistics.

For the transition rates of firms with 20 or more FTEs, see Appendix 3 at the back of this report.

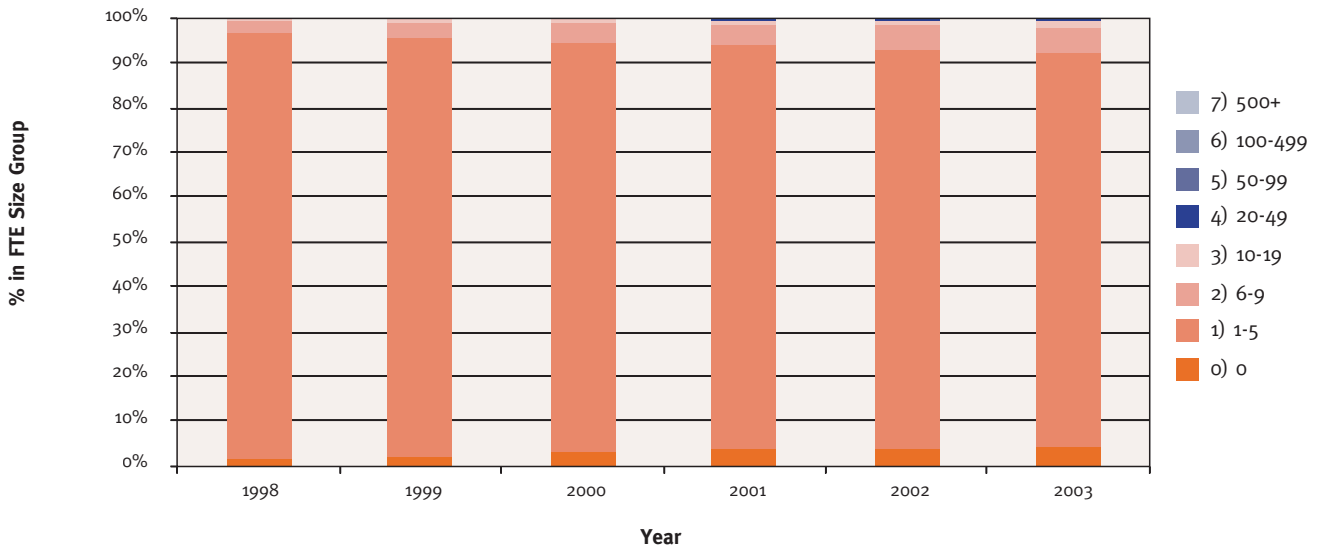
Of those employing 0 FTEs in 1997, only a small proportion graduated into larger size brackets, with 90.8 percent of these firms still employing 0 FTEs in 2000, and 89.5 percent by 2003. Just under 9 percent were employing 1-5 FTEs, and just over 1 percent were employing 6-19 FTEs by 2003.

Figure 16. Transition Rates – Enterprises with 0 FTEs in 1997



Of those employing 1-5 FTEs in 1997, 88.4 percent were still employing 1-5 FTEs by 2003.

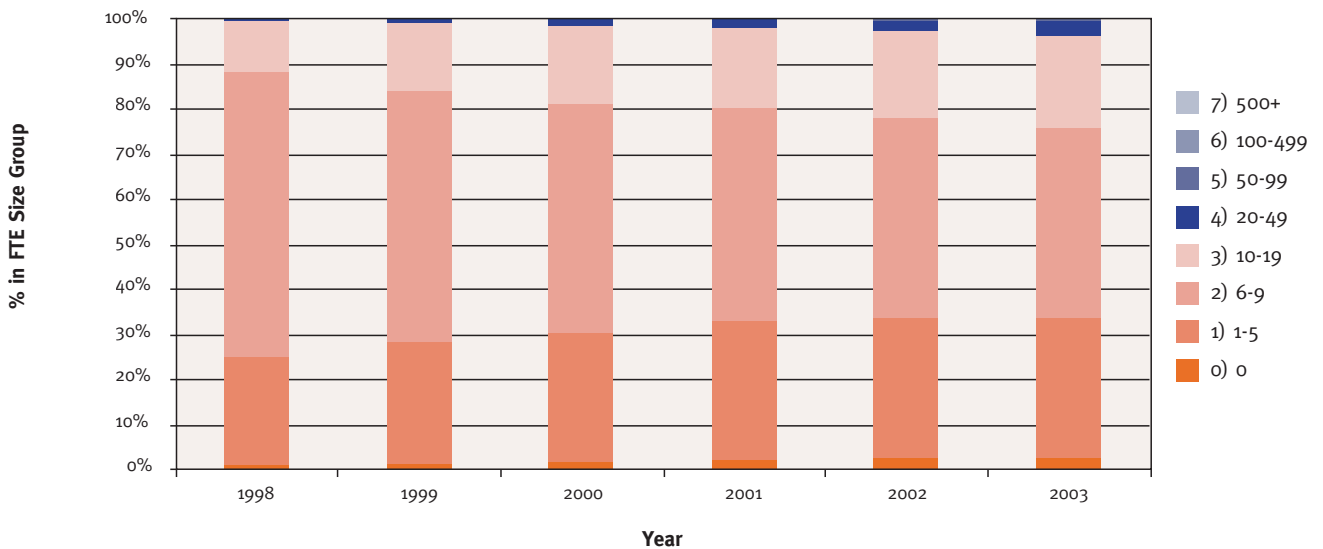
Figure 17. Transition Rates – Enterprises with 1-5 FTEs in 1997



Firms with 6-9 FTEs are the least likely to remain the same size.

Of all enterprises with 6-9 FTEs in 1997, 51.0 percent remained in the same size bracket through to 2000, while this had decreased to 42.1 percent by 2003. Of all size groups, those employing 6-9 FTEs in 1997 were least likely to remain the same size through to 2003, suggesting that this size bracket may be a transitional state for firms. Over the period from 1997 to 2003, 24.5 percent of firms expanded to employ greater than 9 FTEs and 33.4 percent contracted to employ between 0 and 5 FTEs.

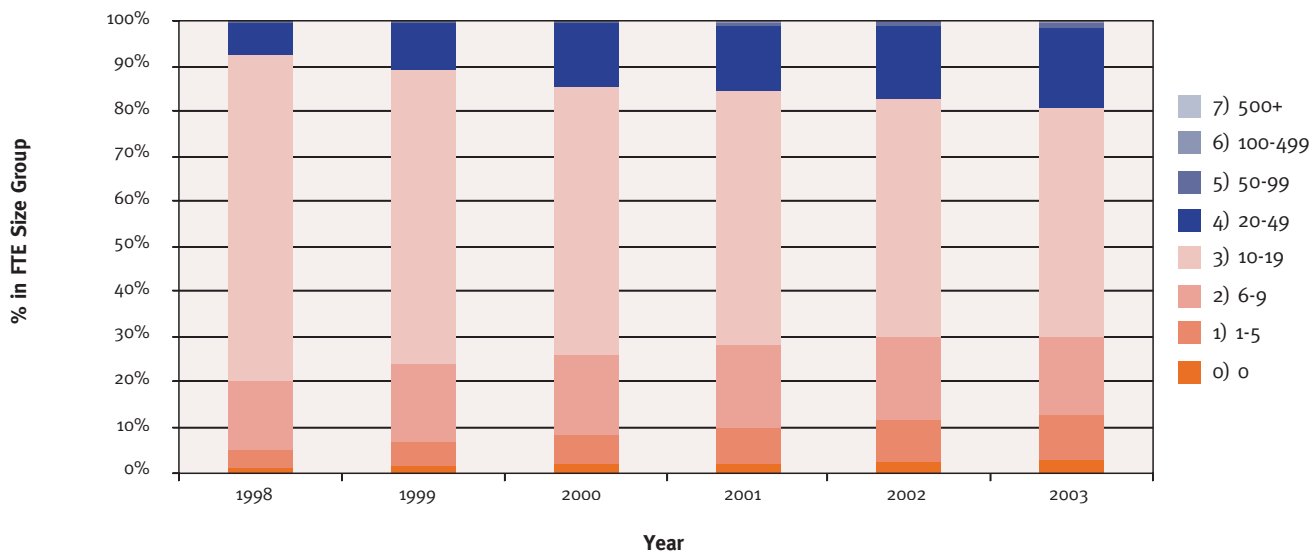
Figure 18. Transition Rates – Enterprises with 6-9 FTEs in 1997



50.8% of firms with 10-19 FTEs remained the same size.

By 2003, of firms employing between 10 and 19 FTEs in 1997, 50.8 percent remained the same size, 30.0 percent contracted and 19.2 percent expanded.

Figure 19. Transition Rates – Enterprises with 10-19 FTEs in 1997



The following table gives the proportion of those firms surviving from 1995 to 2002 that expanded, remained the same size, or contracted over the period.¹³

Table 4. Transition of Firms, 1997-2003

FTE size group in 1997	Change		
	Smaller in 2003	No change in 2003	Larger in 2003
0		89%	11%
1-5	24%	51%	25%
6-9	48%	8%	44%
10-19	50%	4%	46%
20-49	51%	2%	47%
50-99	51%	1%	48%
100-499	52%	0%	48%
500+	53%	0%	44%

¹³ Those firms that ceased to exist at any time between 1997 and 2003 are not incorporated in this table. Also note that where an enterprise grows or shrinks but remains within its size category it will be recorded as changing size in this table (whereas this is not the case with the preceding set of charts).

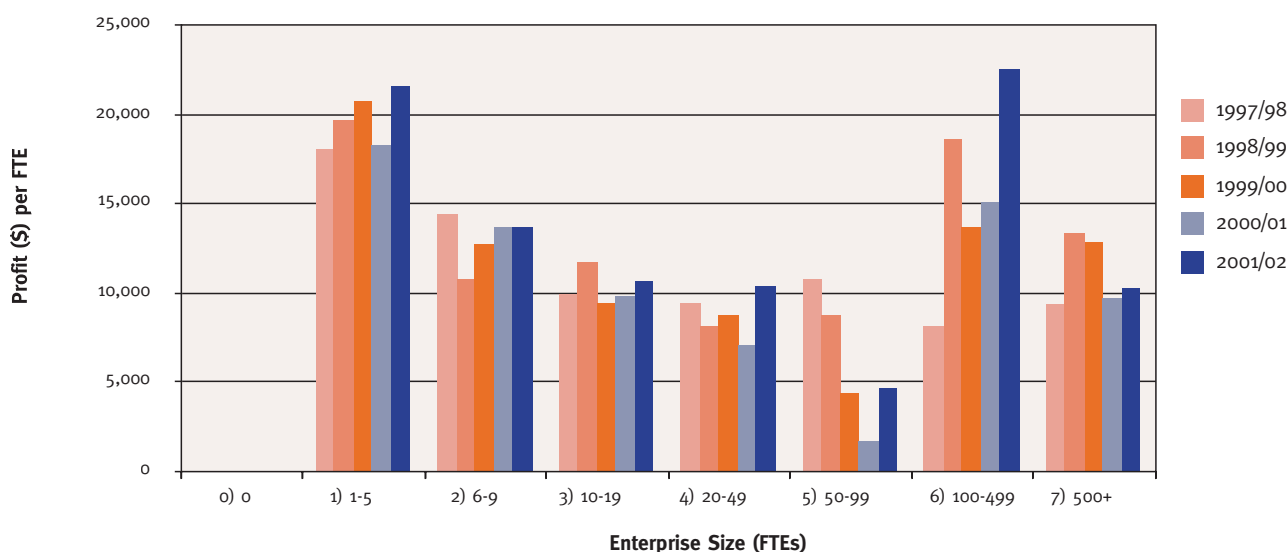
Performance Measures^{14,15,16}

Profits for SMEs increased between 2001 and 2002.

Profits per FTE for enterprises with 1-5 FTEs increased 18.0 percent in 2001/02 over the previous year. Profits per FTE remained steady for enterprises with 6-9 FTEs, and increased by 8.4 percent for enterprises with 10-19 FTEs.

Dates in the format 2001/02 refer to the financial year July 2001 – June 2002.

Figure 20. Average Real Profit¹⁷ per FTE¹⁸ by Enterprise Size



Small Businesses recorded the largest combined profits.

Due to the high number of small businesses in operation, enterprises with 1-5 FTEs recorded the largest combined profit for 2001/02. However, the average profit for these enterprises was only \$39,000 compared to an average of \$14.3m for enterprises employing 500 or more FTEs.

14 All performance statistics presented in this section have been deflated by an appropriate price index published by Statistics New Zealand. Profits and Sales and Other Income have been deflated by a four-quarter average of the Producers Price Index (output), while Salaries and Wages have been deflated by a four quarter average of the Labour Cost Index (all labour costs, all sectors combined). All real figures are expressed in terms of 1997 dollars.

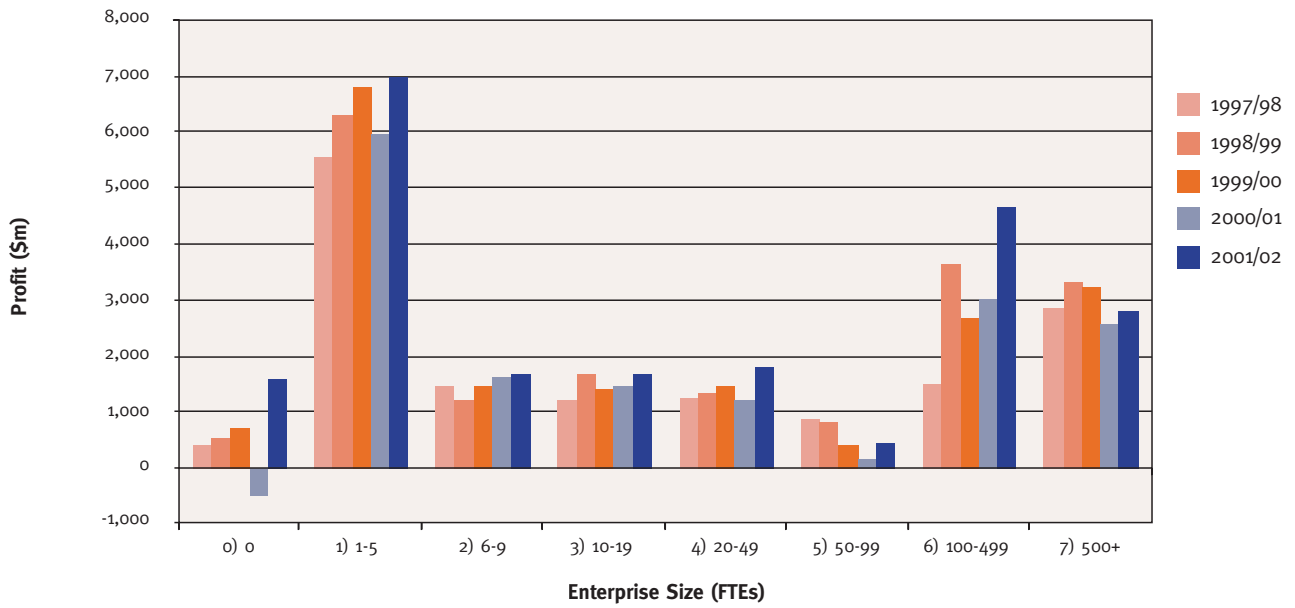
15 Statistics in this section are drawn from the Annual Enterprise Survey conducted by Statistics New Zealand. At all size categories, figures exclude ANZSIC division M: Government administration and defence; subdivision A01: Agriculture; K73: Finance; and some areas within the business, community, recreational and personal services industries, which include many SMEs and economically insignificant enterprises. The Annual Enterprise Survey was re-designed in 1999.

16 Data for 2000/01 and 2001/02 years are provisional. Data for all other years are final.

17 Operating surplus before income tax. Profit = (Total Inc. - Total Ex. + Salaries & Wages to Working Proprietors).

18 Operating Surplus deflated (total) / no. of FTEs.

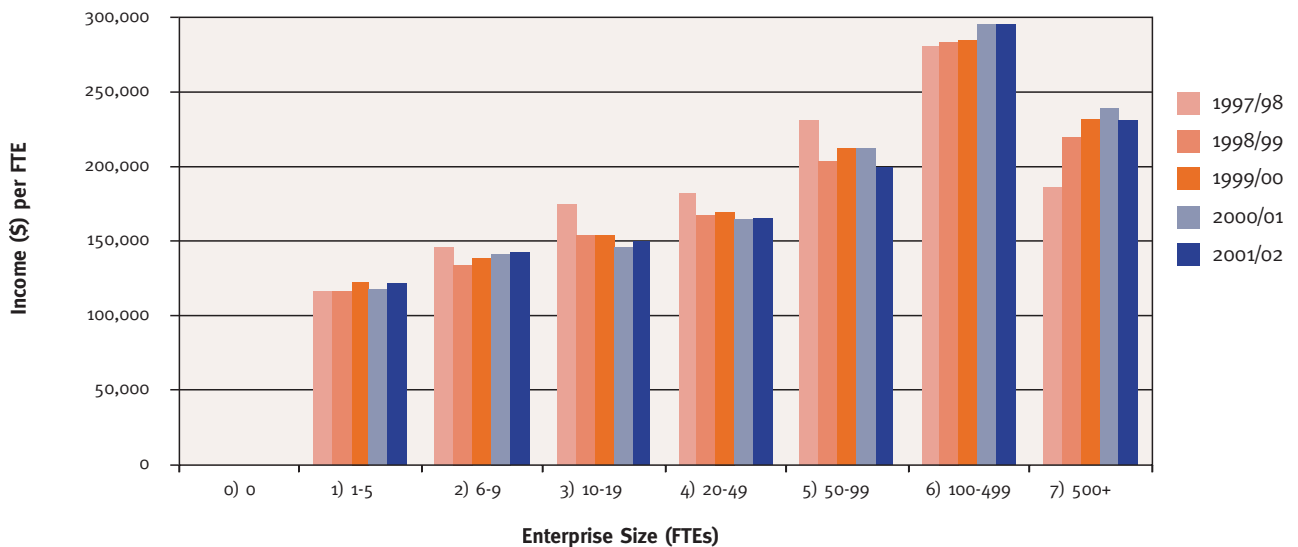
Figure 21. Total Real Profit by Enterprise Size



As illustrated in Figure 22, average sales and other income per FTE generally increases with enterprise size.

Small firms showed an increase in annual income per FTE of 3.5 percent between 2000/01 and 2001/02. Enterprises with 50-99 FTEs had the largest percentage decrease (-5.8 percent).

Figure 22. Average Real Sales and Other Income per FTE by Enterprise Size

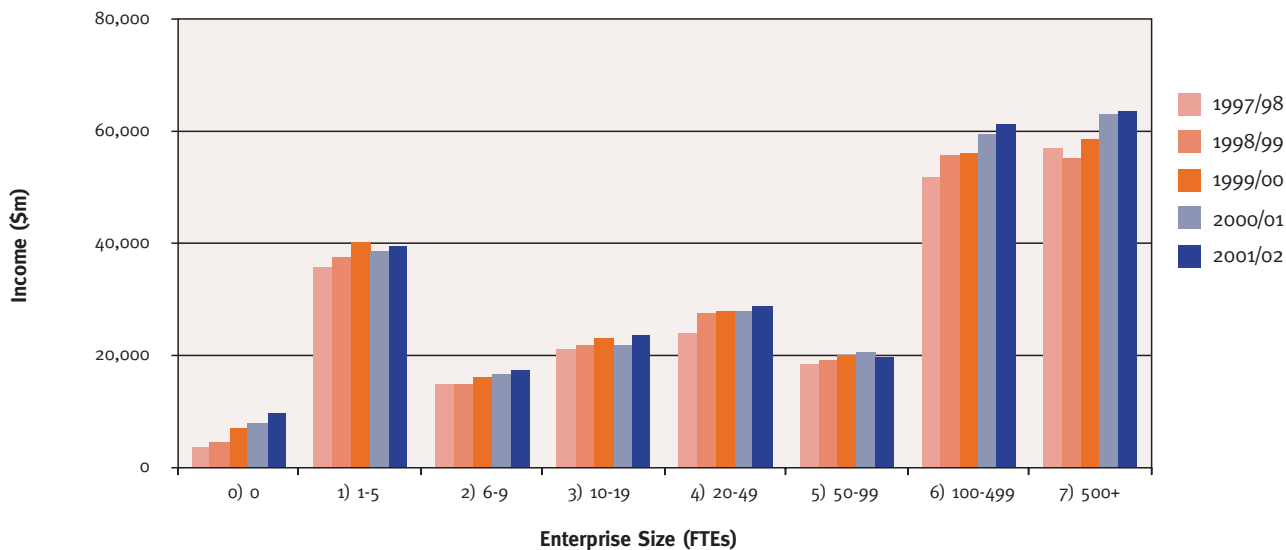


Large firms have the highest combined income.

Total sales and other income over 2001/02 were largest for the group of firms employing 100 or more FTEs, reflecting the size of the individual enterprises. Enterprises in the 100-499 FTE size bracket generated an average total income per firm of \$58m over 2001/02, enterprises in the 500 or more FTE size bracket generated \$325m per firm.

The relatively high level of sales recorded by enterprises with 1-5 FTEs reflects the large number of businesses, with each individual enterprise recording an average income level for 2001/02 of \$223,000.

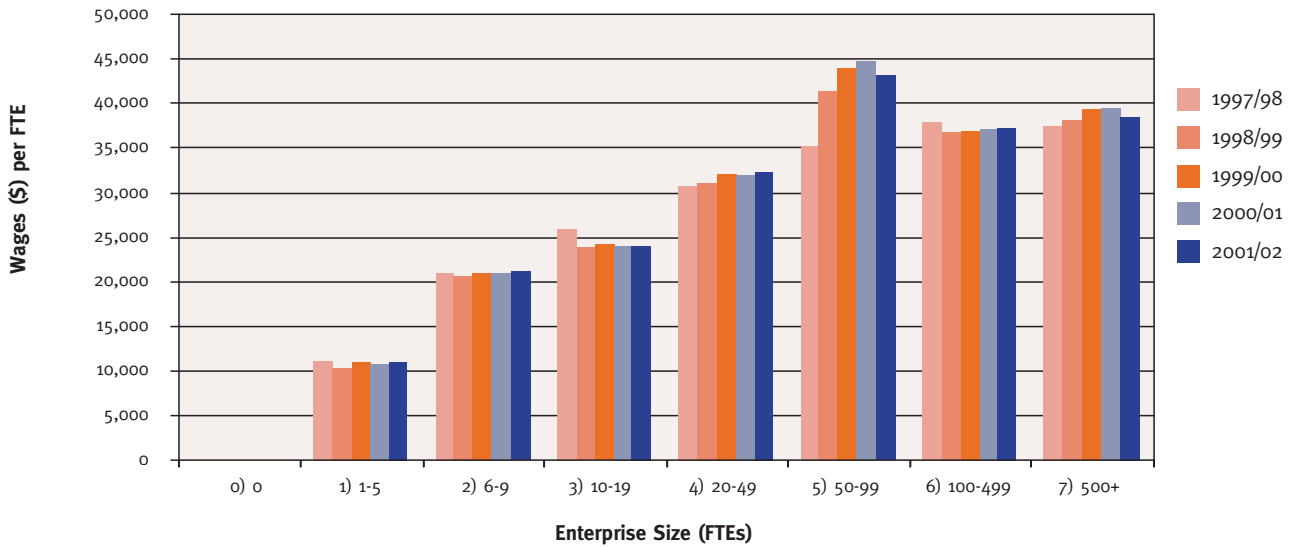
Figure 23. Total Real Sales and Other Income by Enterprise Size



The highest average salaries and wages were found in firms employing between 50-99 FTEs...

Since 1998/1999, average salaries and wages paid to employees have been greatest for all firms employing between 50 and 99 FTEs.

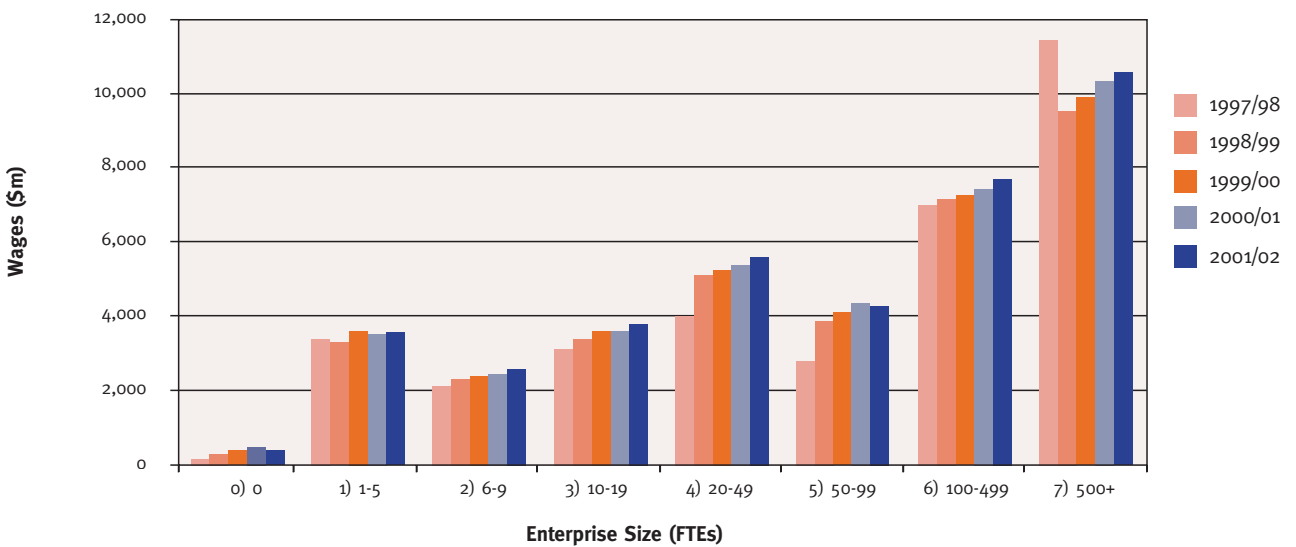
Figure 24. Average Real Salaries and Wages per FTE by Enterprise Size



...and Large firms account for close to 50% of total salaries and wages.

Total salaries and wages paid to employees are greatest for all firms employing greater than 100 FTEs, accounting for 47.4 percent of all monies paid out.

Figure 25. Total Real Salaries and Wages by Enterprise Size



Total value-added performance was high in firms with 1-5 FTEs due to the large total number of firms in this category.

Using total value-added as an alternative performance measure paints a similar picture to total sales and other income. Value-added data are shown in Figures 26 and 27.

Figure 26. Total Value-Added¹⁹ by Enterprise Size

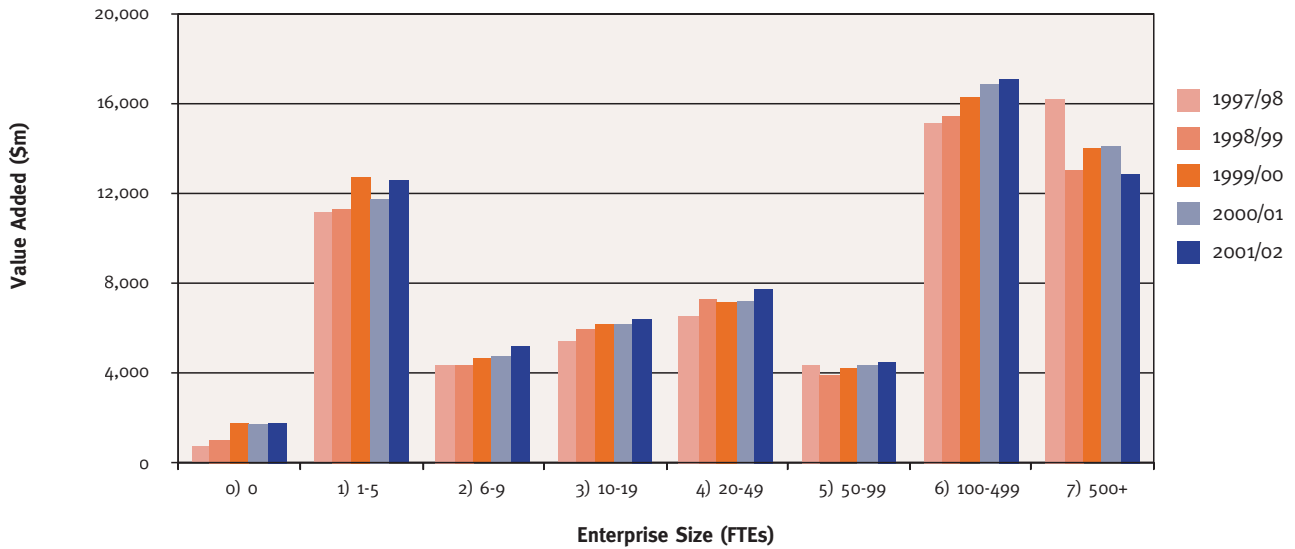
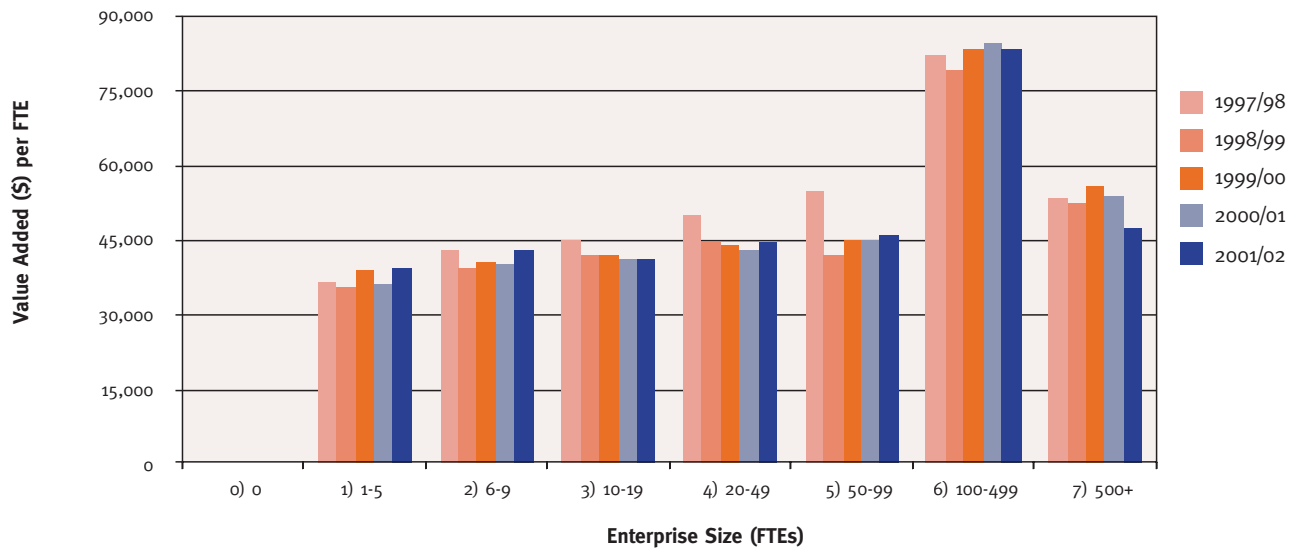


Figure 27. Average Value-Added per FTE by Enterprise Size



19 Value-added is calculated as gross output minus intermediate consumption and is provided with the following caveats:

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

Table 5 presents statistics from the 2001/02 financial year relating to the average performance of firms within each size group.

Table 5. Average Performance Measures by Firm Size, 2001/02

(Real figures presented in 1997 dollars)

FTE Size Group	Average profit per enterprise	Average income per enterprise	Average total salaries per enterprise	Average total salaries per FTE
0 FTEs	124,522	774,190	33,391	
1 – 5 FTEs	39,317	222,863	20,075	10,956
6 – 9 FTEs	94,011	986,421	145,782	21,092
10 – 19 FTEs	136,543	1,952,968	311,939	24,030
20 – 49 FTEs	302,852	4,846,507	945,095	32,297
50 – 99 FTEs	312,208	13,501,819	2,904,660	43,038
100 – 499 FTEs	4,419,181	58,402,773	7,357,429	37,246
500 + FTEs	14,338,636	324,791,568	53,994,815	38,391

Ethnicity, Gender and Employment Status

The highest proportion of self-employed are among Asian and European populations...

Data from the 2001 Census shows that the ethnic group with the greatest proportion classified as self-employed without employees is the Asian employed labour force (14.3 percent). The second highest proportion is recorded by the European Ethnic Group, with 13.4 percent. Similar patterns emerge with respect to the proportion that are classified as employers, with 8.4 percent of the employed European labour force classified in this category and 7.4 percent of the Asian employed labour force.

...the lowest are recorded by Māori and Pacific Peoples.

In both of these categories, Māori and Pacific Peoples record significantly lower proportions, with a greater fraction of these populations instead classified as paid employees.

Table 6. Percentage Ethnic Groups²⁰ by Status in Employment, 2001

Grouped Total Responses	Paid Employee	Self-Employed without Employees	Employer	Unpaid Family Worker
Total European Ethnic Groups	75.9	13.4	8.4	2.3
Total Māori Ethnic Group	88.1	6.5	3.1	2.2
Total Pacific Peoples Ethnic Groups	92.6	4.4	1.6	1.3
Total Asian Ethnic Groups	74.3	14.3	7.4	3.9
Total Other Ethnic Groups	80.1	12.0	5.9	2.0
Total New Zealand	77.3	12.7	7.7	2.3

A greater proportion of males are self-employed.

Data from the 2001 Census shows that almost twice the proportion of the male working population are employers, whilst a greater proportion of the employed female labour force is classified as paid employees. A far larger proportion of the male, rather than female, working population is classified as self-employed with no employees, whilst females are twice as likely to be doing unpaid work in a family business.

Data in Table 7, from the Household Labour Force Survey (HLFS) for 2004²¹, shows similar proportions.

Table 7. Percentage of Each Gender by Status in Employment, 2004

	Paid Employee	Self-Employed	Employer	Unpaid relative assisting
Male	75.6%	14.5%	9.5%	0.4%
Female	86.8%	7.8%	4.5%	0.9%

20 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 once in each applicable group.

21 Year ending March, 2004

The number of female employers and female self-employed has doubled over the last 30 years.

Data from both the census and the HLFS show that females make up a relatively small proportion of the total number of employers and self-employed. However, the difference between male and female participation in these types of employment is significantly smaller now than it once was. Between the 1966 and 2001 censuses, the proportion of employers and self-employed made up by women has more than doubled. Women have gone from comprising 9.9 percent of total employers to 29.8 percent, and have moved from 11.2 percent of the self-employed to 31.1 percent.

Overseas Equity

Over 97% of businesses have less than 1% overseas equity.

Table 8 shows the percentages of all businesses by degree of overseas equity for the years February 2002 and February 2003. The majority of businesses in both years have no overseas equity. The percentage of all businesses with more than 50 percent overseas equity was very similar in 2002 and 2003.

Table 8. Percentage of Businesses With Overseas Equity by FTE Category, as at February

Overseas Equity %	Year	FTE Size Group								
		0) 0	1) 1-5	2) 6-9	3) 10-19	4) 20-49	5) 50-99	6) 100-499	7) 500+	All
0) 0	2002	95.7%	99.0%	97.2%	94.8%	90.6%	79.7%	65.6%	52.2%	97.6%
	2003	96%	99.0%	97.0%	95.3%	90.5%	80.7%	67.0%	49.2%	97.7%
1) 1-24	2002	0.8%	0.1%	0.4%	0.5%	1.2%	1.6%	3.1%	3.9%	0.3%
	2003	0.5%	0.1%	0.5%	0.7%	1.2%	2.2%	3.1%	7.4%	0.3%
2) 25-49	2002	0.3%	0.1%	0.2%	0.4%	0.6%	1.0%	1.6%	2.6%	0.2%
	2003	0.3%	0.1%	0.2%	0.4%	0.6%	0.9%	1.3%	2.5%	0.2%
3) 50 or more	2002	3.3%	0.8%	2.2%	4.2%	7.7%	17.6%	29.6%	41.3%	1.9%
	2003	3.2%	0.8%	2.3%	3.7%	7.7%	16.1%	28.6%	41.0%	1.9%

SMEs Internationally

SMEs generally account for 95% of enterprises and 60-70% of employment in most economies.

International comparisons of the contribution of SMEs are often difficult to make due to the different methods used to collect and communicate firm-level data by central statistical agencies. Tables 9 and 10 provide information on a limited number of countries where comparable and recent data was readily available.²²

Countries also have different firm size classifications. For example, in the United States the definition of SMEs is industry specific, meaning that in some cases firms with up to 500 employees can be classified as small businesses.²³ In the United Kingdom, an SME is generally considered to be a firm with less than 250 employees.²⁴

The OECD generally defines SMEs as firms with fewer than 500 employees. Using this definition, SMEs internationally constitute around 99 percent of enterprises and account for 60 to 70 percent of employment.²⁵

For all countries represented in these statistics, except New Zealand, the number of employees determines size class. For New Zealand, the number of FTEs determines size class and the 100-499 size class includes all businesses with 100 or more FTEs.

22 SME statistics for a wider variety of countries are provided in OECD (2002), Small and Medium Enterprise Outlook: http://www.oecd.org/document/39/0,2340,en_2649_37461_2483303_1_1_1_37461,00.html. They are compiled using different parameters and they are not directly comparable to the data presented in this report.

23 Refer to the United States Small Business Administration: <http://www.sba.gov/businessop/standards/smallbus.html>

24 Refer to the UK Small Business Service: <http://www.sbs.gov.uk/>

25 OECD (1997), *Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices*.

Table 9. Percentage of Firms²⁶ by Size Class²⁷

	Year	Employment Size Class ²⁷				
		0-19	20-49	50-99	100-499	500+
		Percentages				
New Zealand ²⁸	2002	97(97)	2	1(2)	0(0)	-
Australia ²⁹	1999	96	-	3	1	-
UK	2001	97	2	1	0	0
US ³⁰	2000	97	-	2	0	0

Table 10. Percentage of Employees by Size Class

	Year	Employment Size Class ²⁷				
		0-19	20-49	50-99	100-499	500+
		Percentages				
New Zealand ²⁸	2002	42(49)	12	7(20)	39(31)	-
Australia ²⁹	1999	47	-	19	34	-
UK	2001	30	7	5	11	47
US ³⁰	2000	28	-	16	12	44

The structure of the New Zealand private business environment (shown in parentheses) is strikingly similar to that of Australia. A slightly smaller proportion of private businesses in Australia fall into the smallest size categories.

26 Defined as “an organisational unit producing goods or services which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources” (Eurostat, 1995). Non- New Zealand firms counted in this table are “continuing firms”, ie those firms which exist in the years prior and subsequent to the one specified.

27 Data derived from:

- UK data from the Small Business Service, an agency of the Department of Trade and Industry: <http://www.sbs.gov.uk>.
- USA statistics from US Census Bureau, US Department of Commerce:
Non-employed firms: <http://www.census.gov/epcd/nonemployer/2000/us/US000.HTM>
Employing firms: <http://www.census.gov/epcd/susb/2000/us/US--.HTM>.
- Australian data from Australian Bureau of Statistics (1999) *Small Business in Australia*: Canberra.
- New Zealand data from Business Demography Statistics, as at February 2002, Statistics New Zealand.

28 For all countries except New Zealand, number of employees determines size class. For New Zealand number of FTEs determines size class (100-499 size class includes all businesses with 100 or more FTEs).

29 Figures in brackets are for private firms only to allow comparison with Australia. Available size categories for Australia are 0-19, 20-99 and 100+. Data for category 20-99 appears in 50-99 column, data for 100+ category appears in 100-499 column. Note that Australian figures are for private businesses only.

30 Available size categories for USA are 0-19, 20-99, 100-499, 500+. Data for category 20-99 appears in 50-99 column.

Liability

The Ministry of Economic Development and Statistics New Zealand give no warranty that the information or data supplied contains no errors. However, all care and diligence has been used in processing, analysing and extracting the information. Neither the Ministry of Economic Development nor Statistics New Zealand shall be liable for any loss or damage suffered by the reader consequent upon the use directly, or indirectly, of the information supplied in this product.

Data provided for the years 2000–2003 are provisional only and may be revised.

Appendix 1

Sources of data

The New Zealand data in this report has been sourced from the following Statistics New Zealand reports:

- Business Demography Statistics, as at February 2003
- Annual Enterprise Survey, financial year July – June
- 2001 Census
- Household Labour Force Survey, year ending March 2004.

Terms and Definitions

SME – A Small and Medium-Sized Enterprise:

In this report, small enterprises are defined as those employing 0-5 FTEs. Medium enterprises are defined as those employing 6-19 FTEs. This is a commonly held definition of an SME in New Zealand, though it is not the only way that SMEs are defined.

Full-Time Equivalent (FTEs):

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

A firm with zero FTEs:

A firm with no employees or working proprietors

Working Proprietor:

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

How firms enter and exit the data set

A firm that enters or exits the Business Demography Database (commonly referred to as a 'birth' or 'death') does not necessarily refer to the creation of a new business, or a business closure. Company restructures and changes of ownership can result in a new GST registration being filed, even though it pertains to an existing business. GST registrations are birthed onto the database, with the business being given a new reference number.

The entry and exit of businesses is identified by matching the business reference numbers for one year with those of the previous year. Entry and exit counts in this report therefore include administrative changes as well as genuine business start-ups and closures. Entries and exits simply show the numbers of firms that enter and exit the Business Demography Statistics database.

Survival Rates:

Firm survival rates are identified by matching the business reference numbers for Entries in one year with those of future years.

Australia and New Zealand Standard Industrial Classification (ANZSIC) Codes:

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

SMEs in New Zealand: Structure & Dynamics (2004) and the Treasury Firm Dynamics Report ‘Firm Dynamics in New Zealand: Comparative Analysis With OECD Countries’ (2004) – why are there differences in the zero FTE figure?

For an enterprise to be considered a zero-FTE enterprise in *Structure and Dynamics*, it had to have both zero FTEs and zero working proprietors. In *Structure and Dynamics*, 20% of enterprises were zero-FTE enterprises as at February 2003.

In the Treasury report (specifically Tables 6 and 7, pages 32 and 33), zero-employee enterprises have zero employees but ignore the number of working proprietors in the enterprise. The report found that, on average, the number of enterprises with zero employees from 1997 to 2001 was 59.3%.

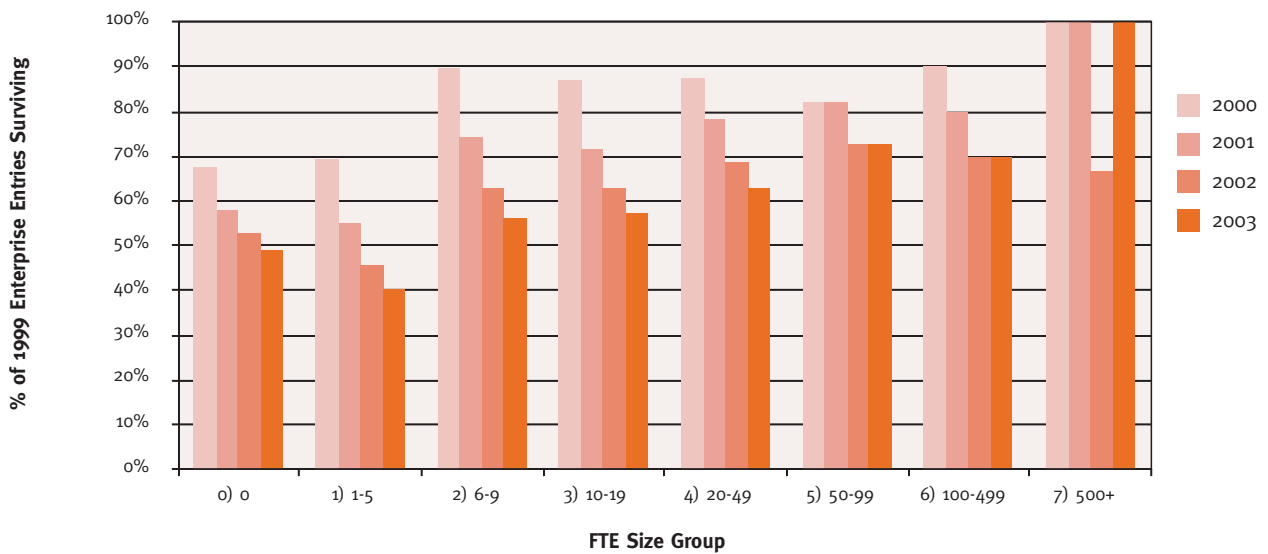
Appendix 2

Survival Rates by FTE size category and ANZSIC for 1999 and 2000 firm entries into the BDS.

1999 and 2000 enterprises show a similar survival pattern to 1998 enterprises.

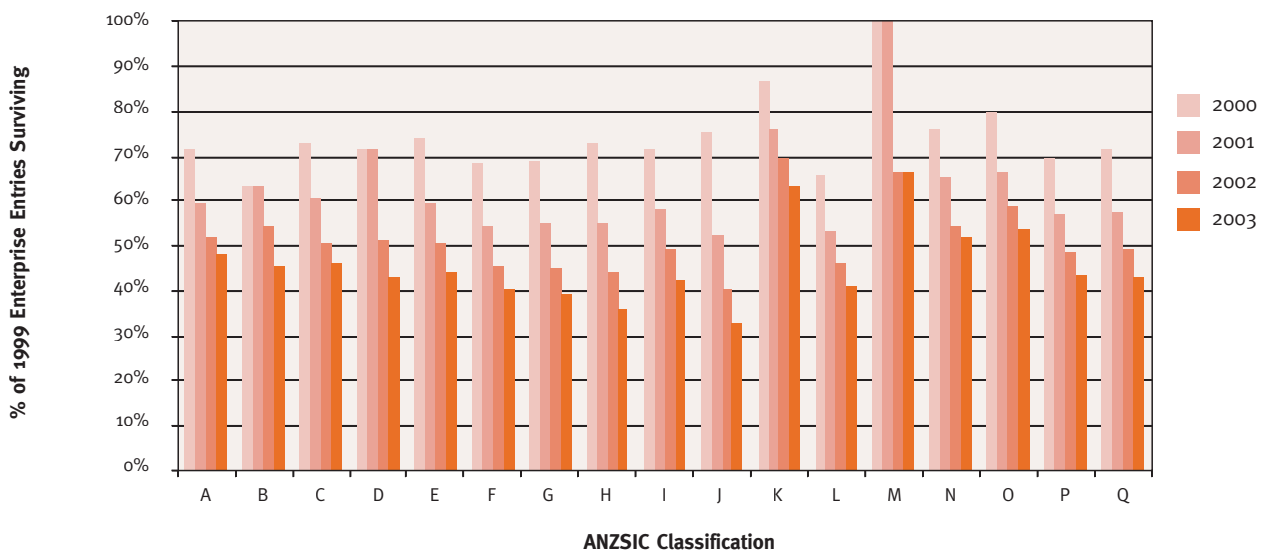
The following figures show survival rates by FTE category and ANZSIC classification for enterprises born in 1999 and 2000. As is the case for 1998 enterprises, SMEs are less likely to survive the first two to three years of operation than their larger counterparts.

Survival Rates of 1999 Enterprise Entries by FTE Category

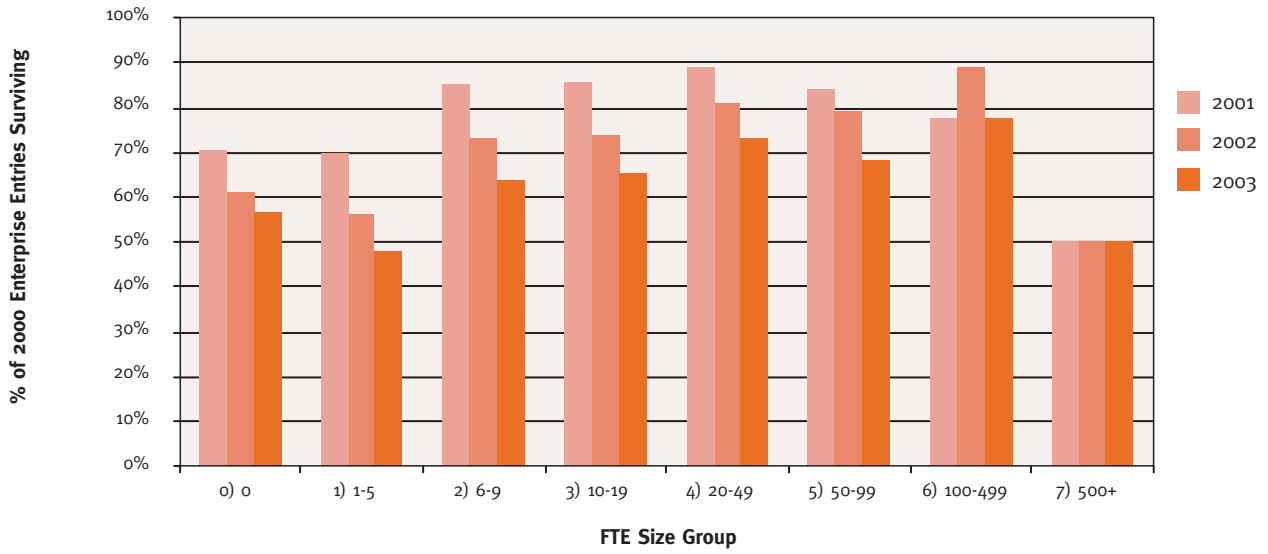


Survival Rates for 1999 Enterprise Entries by ANZSIC

Note : Survival numbers can increase, due to use of random rounding to maintain confidentiality.

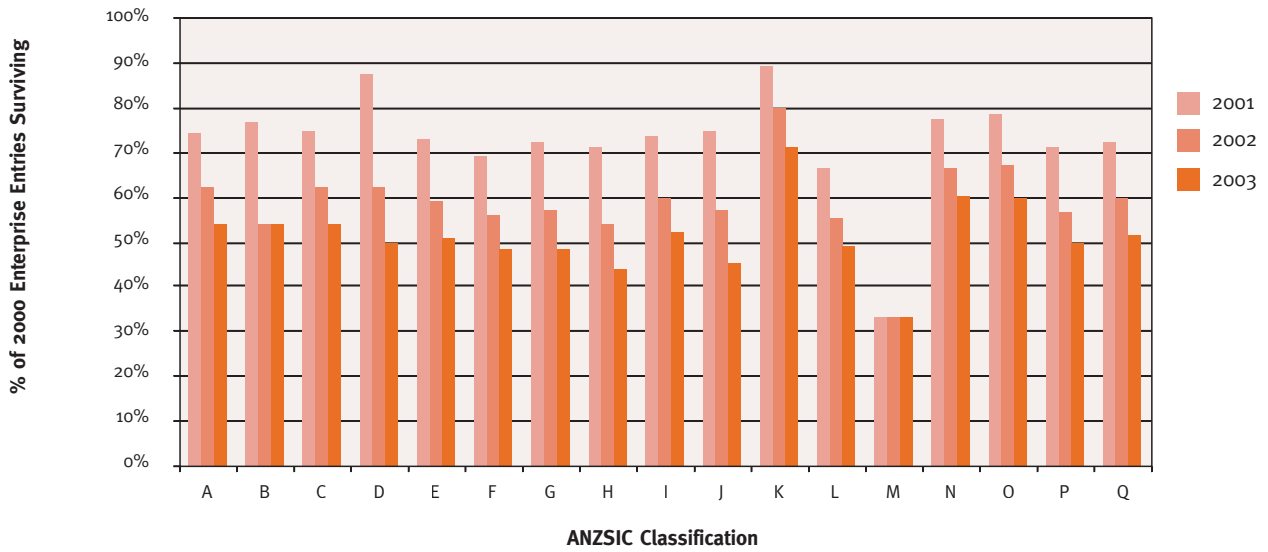


Survival Rates of 2000 Enterprise Entries by FTE Category



Survival Rates for 2000 Enterprise Entries by ANZSIC

(Note: Survival numbers can increase, due to use of random rounding to maintain confidentiality.)



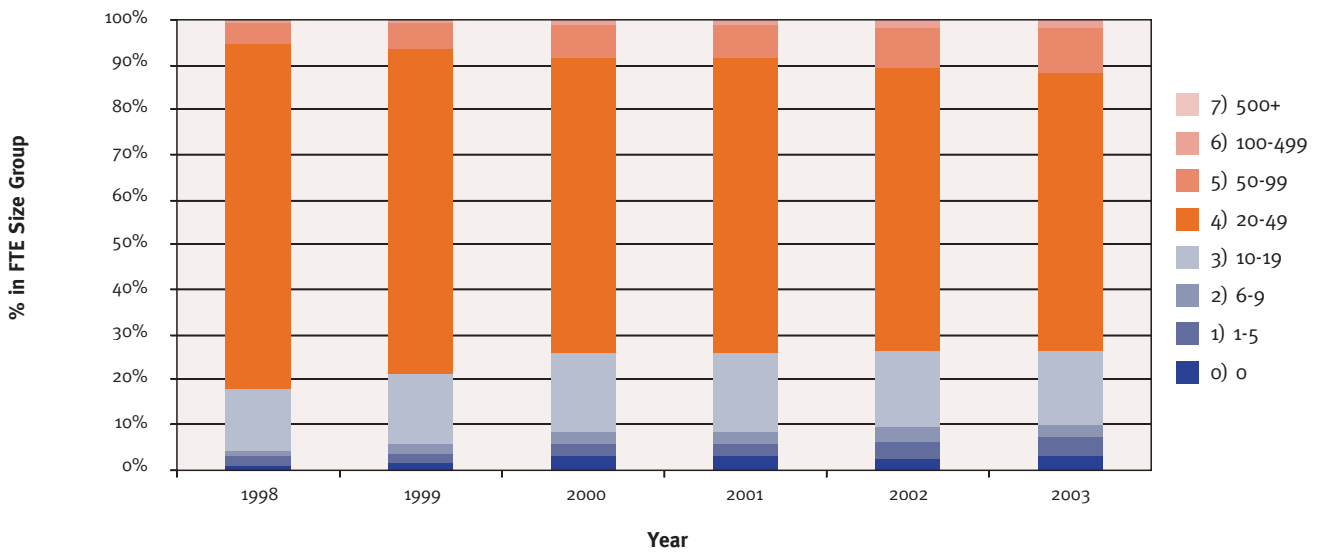
Appendix 3

Transition rates for firms employing more than 19 FTEs.

61.2% of firms with 20-49 FTEs remained the same size between 1997 and 2003...

1.8 percent of enterprises with 20-49 FTEs in 1997 grew to have over 100 FTEs in 2003, while 7.2 percent shrank to have only 0-5 FTEs. Over the period to 2003, 61.2 percent remained the same size, while 26.9 percent contracted and 11.9 percent expanded.

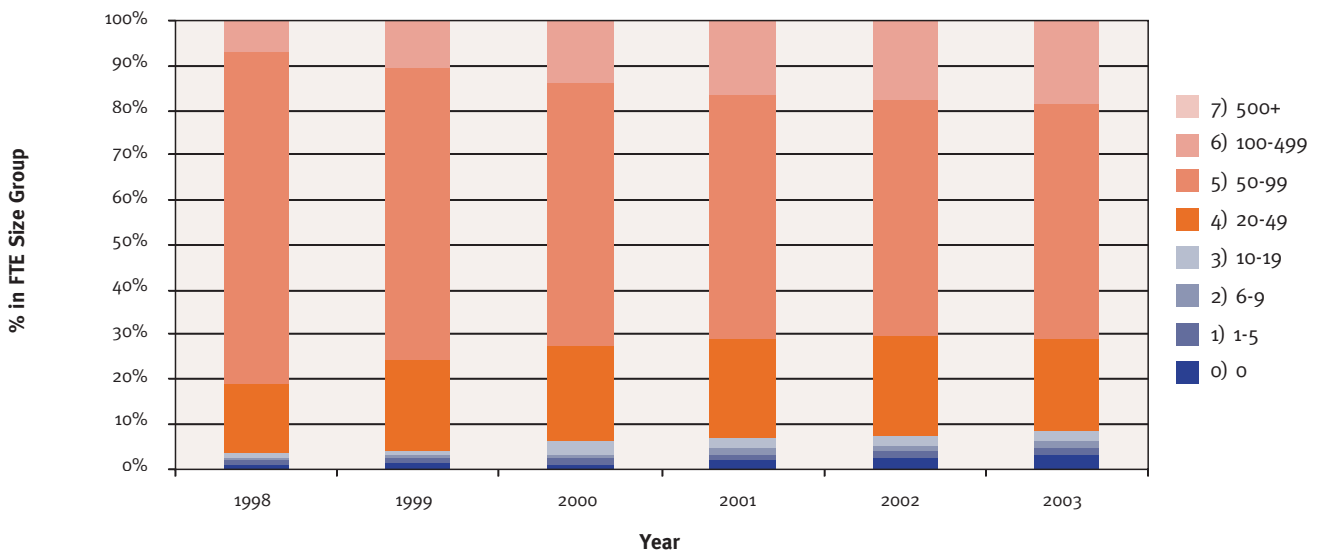
Transition Rates – Enterprises with 20-49 FTEs in 1997



...52.3% of firms with 50-99 FTEs remained the same size...

52.3 percent of enterprises employing between 50 and 99 FTEs in 1997 remained in the same size bracket in 2003, while 28.9 percent contracted and 18.8 percent expanded.

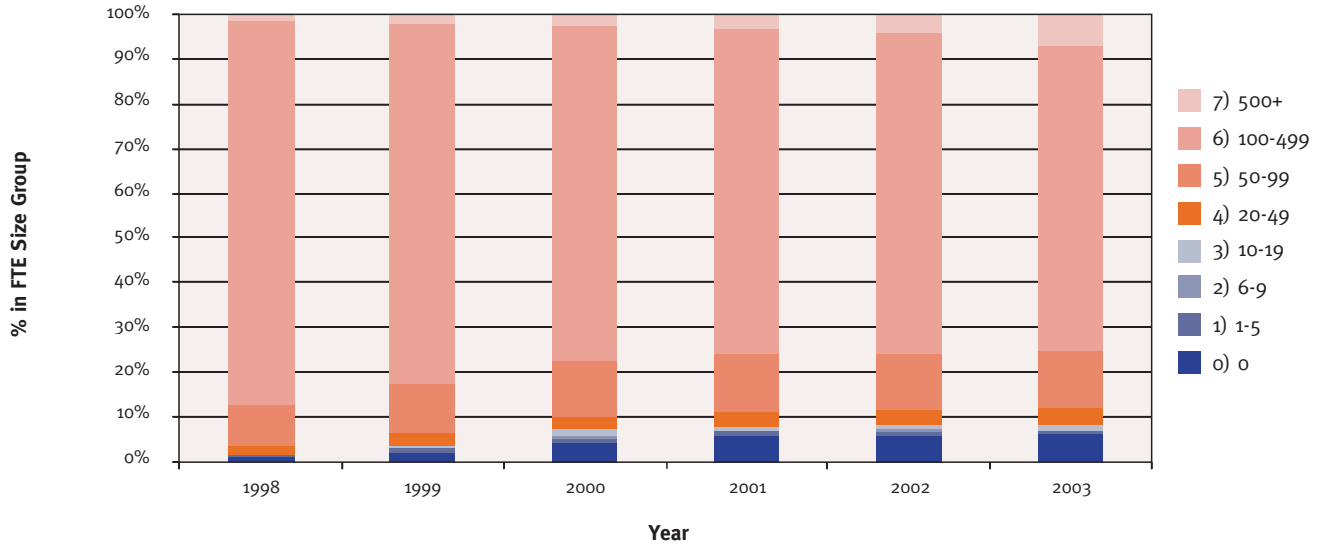
Transition Rates – Enterprises with 50-99 FTEs in 1997



...68.6% of firms with 100-499 FTEs remained the same size...

Of those enterprises that employed 100-499 FTEs in 1997, 68.6 percent still employed 100-499 FTEs in 2003. 12.8 percent contracted to employ 50-99 FTEs, while 6.7 percent expanded to employ more than 500 FTEs.

Transition Rates – Enterprises with 100-499 FTEs in 1997



...and 80.2% of firms with more than 500 FTEs remained the same size.

Of those enterprises that employed more than 500 FTEs in 1997, 80.2 percent employed more than 500 FTEs in 2003. 7.4 percent contracted to employ less than 100 FTEs.

Transition Rates – Enterprises with 500+ FTEs in 1997

