SMEs in New Zealand:

Structure and Dynamics

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Ministry of Commerce

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Summary

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

- 96% of enterprises are SMEs employing 19 or fewer full time equivalents (FTEs).
- 84% of enterprises are small firms employing 5 or less FTEs.

…but after an increase in the number of SMEs over the last few years, the number decreased in 1999.

- The number of SMEs shrank 0.8% in 1999, following an increase of 30.9% between 1994 and 1998.
- This decrease was due to a fall in the number of small firms (down 1.2% in 1999) while the number of medium firms increased.

The average enterprise size has levelled out at six employees.

- The average number of workers per enterprise has fallen from seven in 1994 to just over six in 1998, remaining at this level in 1999.

SMEs also account for a significant proportion of total employment…

- SMEs account for 42% of all employees.
- Small firms account for 23% of all employees.

….and output.

- Using sales and other income as a measure of output, SMEs account for 35% of the economy.
- Small firms contribute 19% of total output.

SMEs make a key contribution to enterprise dynamic in New Zealand

- Small firms account for over 90% of enterprise births and deaths.
- All firm size categories, including small firms, experienced a greater number of firm deaths than births in 1999.

By international comparison, SMEs form a significant component of the New Zealand economy.

- SMEs are more predominant in New Zealand than in many other countries.
- SMEs account for a high proportion of employment in New Zealand relative to other countries.

Introduction

Small and medium sized enterprises (SMEs) are viewed as 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 is increasing as large firms downsize to compete in the international market, workers face less job security, and more people turn their hand to small business at retirement or as a lifestyle choice. With further opportunities presented by globalisation and technological development, the role of SMEs seems more likely to continue to increase than to diminish in the coming years.

This report aims to provide 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 – births, deaths and transition rates, and the significance of the SME sector internationally. Unless otherwise stated, the statistics contained in this report have been provided by Statistics New Zealand (SNZ). Financial data is drawn from the SNZ Annual Enterprise Survey, while the remainder of the figures are from SNZ's Business Demography Statistics, drawn from the Business Frame. This report updates the previous edition released in May 1999.

Small and Medium Sized Enterprises (SMEs)

There is no globally recognised definition of an SME….

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

…although SMEs generally share some key characteristics

- Personal ownership and management
- Few, if any, specialist managerial staff
- Not being part of a larger business enterprise.[1]

These characteristics mean that the managers in small firms 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.

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

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

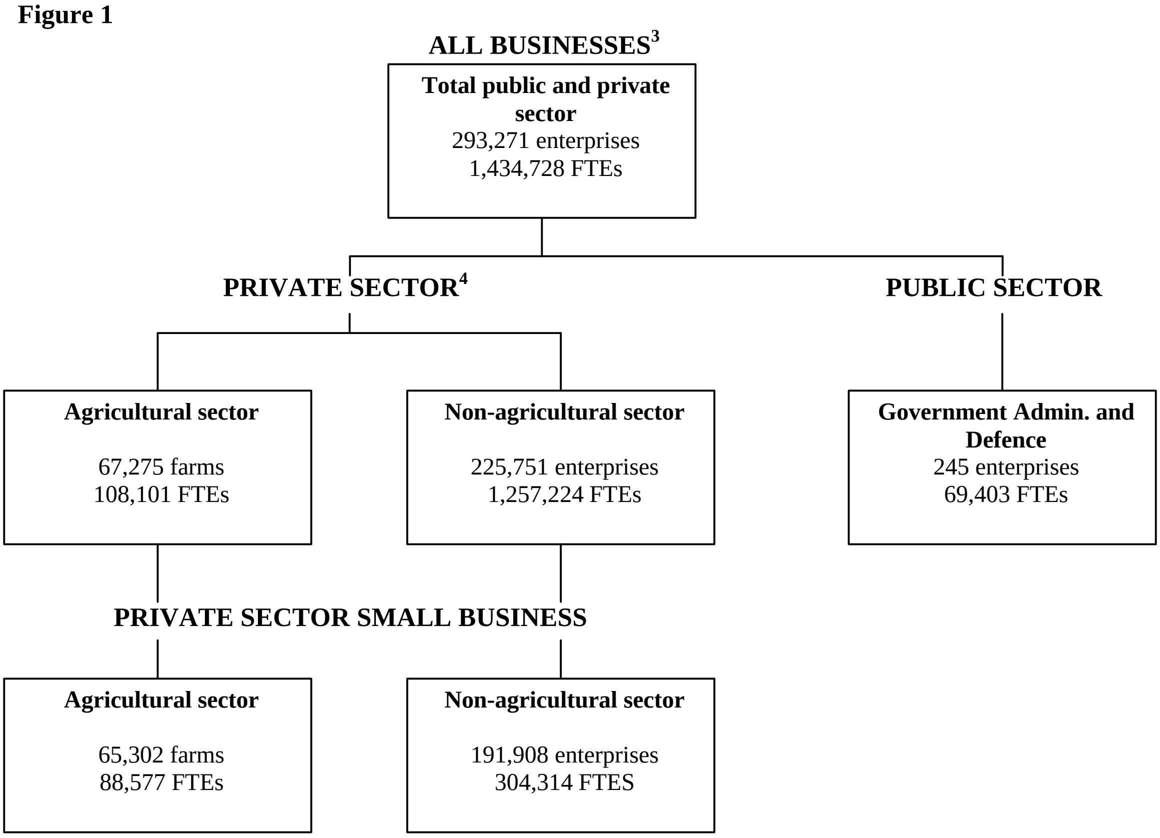
The above characteristics are typically exhibited by businesses with fewer than 20 employees. Therefore, for the purposes of this report, except where otherwise stated, SMEs will be defined as enterprises employing 19 or fewer full time equivalent employees[2] (FTEs). Within this, small enterprises will be defined as those employing 0-5 FTEs and medium enterprises as those employing 6-19 FTEs

Structure of Business in New Zealand

Agriculture still forms a significant part of the economy

Figure 1 illustrates the structure of businesses in New Zealand, highlighting the significance of the agricultural sector. 23 percent of all private enterprises are involved in the agricultural sector, accounting for 8 percent of private sector employment. The majority of these farms are small, with the agricultural sector making up 25 percent of all small private enterprises and 23 percent of employment in these enterprises.

Figure 1



[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] Statistics drawn from Business Activity 1996, Statistics New Zealand.
[4] Agriculture statistics from Agriculture Production Survey year end June 1996, Statistics New Zealand.

Number of SMEs

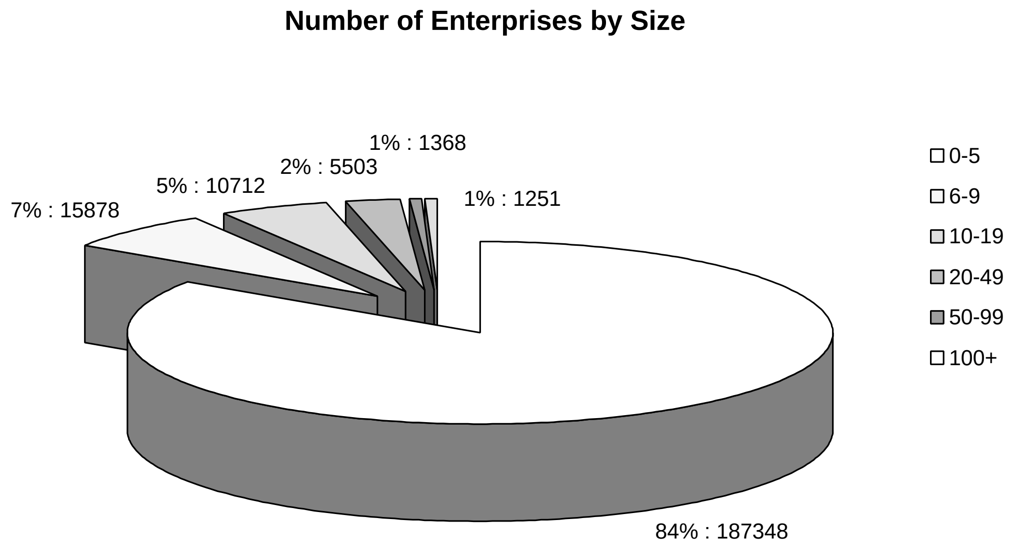
New Zealand is predominantly a nation of small firms

Small and medium sized enterprises constitute the majority of all non-agricultural enterprises[5] in New Zealand:

- 84% of enterprises employ 5 or less full time equivalent staff
- 96% of enterprises employ 19 or fewer staff

Given the large number of SMEs and insignificant enterprises in the agricultural sector (and the other sectors excluded from these statistics), the contribution that smaller businesses make to the New Zealand economy is even greater than is reflected in these figures.

Figure 2



The number of SMEs shrank in 1998…

The number of SMEs shrank 0.8 percent in the year to February 1999 after expanding 6.6 percent in the previous year. This matches the contraction of 0.7 percent in the total number of firms after an increase of 6.3 percent in the year to February 1998.

… although the proportion of SMEs remains fairly constant

As the contraction in the number of SMEs was only slightly greater than that for enterprises overall, the proportion of firms in the SME sector remained fairly constant from 1998 to 1999, falling only slightly from 96.5 to 96.3 percent.

[5] These figures (and those used in the remainder of this report) exclude most of agriculture and some industries within business, community, recreational and personal services.

Table 1. Annual Percentage Change in Numbers of Enterprises (years to February)

	1996	1997	1998	1999
0-5 FTEs	3.7	6.0	7.4	-1.2
6-9 FTEs	2.2	0.7	-0.7	2.7
10-19 FTEs	1.8	1.9	3.4	2.0
20-49 FTEs	5.7	1.8	-0.4	4.4
50-99 FTEs	3.6	0.3	1.6	-3.7
100+ FTEs	3.6	1.8	-1.1	0.9
Total	3.6	5.2	6.3	-0.7

SMEs Contribution to Employment

The number employed by SMEs continues to rise

Despite a decrease in the number of SMEs in the economy, the number of employees hired by SMEs increased over 1998. This was generated by an increase in the number employed by medium sized firms, outweighing a decrease in the number employed by small firms.

The number of workers employed by SMEs in total increased by 0.2 percent in the year to February 1999, following an increase of 3.2 percent in the previous year. The proportion of total employees hired by SMEs has remained fairly constant over the last few years.

Figure 3

Number of Employees by Enterprise Size

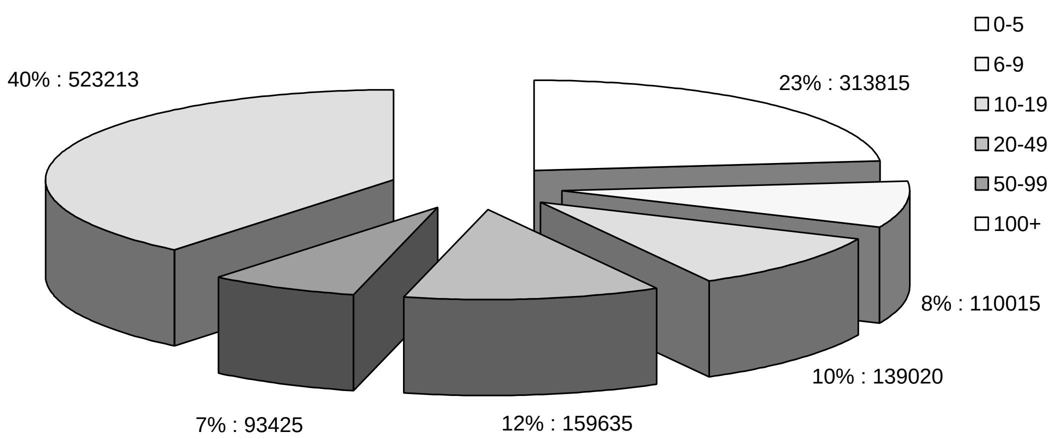


Table 2. Annual Percentage Change in Number of Employees by Enterprise Size (years to February)

	1996	1997	1998	1999
0-5 FTEs	2.7	3.9	4.3	-1.3
6-9 FTEs	2.6	0.5	-0.6	2.9
10-19 FTEs	1.8	1.5	3.5	1.6
20-49 FTEs	6.2	1.8	-0.9	4.0
50-99 FTEs	3.9	-0.2	1.7	-3.9
100+ FTEs	2.4	2.7	-0.5	-1.9
Total	3.0	2.3	1.1	-0.5

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 1995 and 1997. The largest single contributor was new firms employing 0-5 FTEs, which created 103,000 new jobs. Of continuing businesses, the greatest number of new jobs came equally from small and large (100+ FTEs) firms. While small businesses were also the cause of the greatest employment reduction, this was outweighed by the jobs they created, giving a net employment change for all small firms of 56,000 between 1995 and 1997.

Table 3. Employment Creation and Reduction by Enterprise Size February 1995 to February 1997

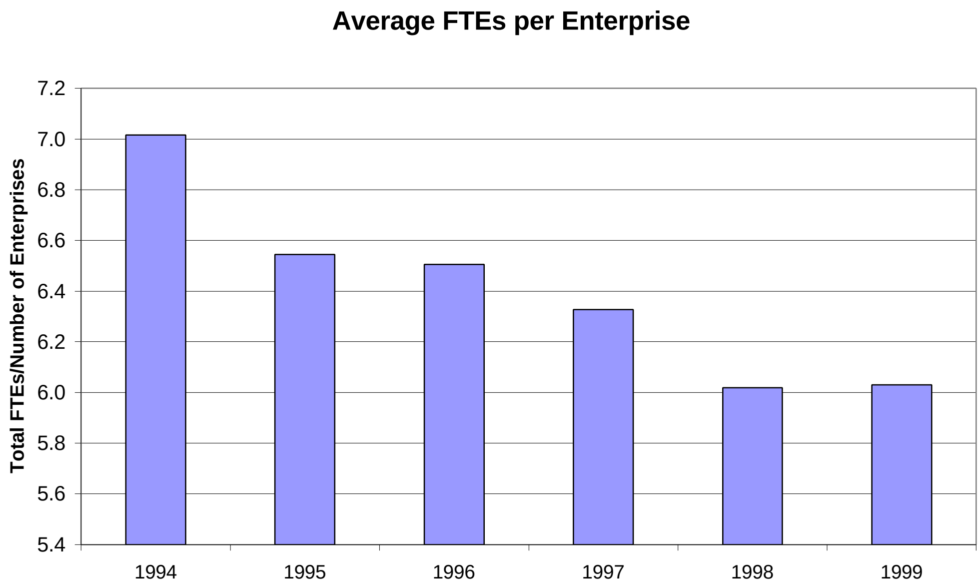
	Business Size				
	0-5	**6-19**	**20-99**	**100+**	**All Businesses**
	Number of FTEs				
Employment Creation					
Continuing Business	53763	29580	29754	52725	165822
New Business	102946	42187	24664	19315	189111
Total	156709	71767	54418	72039	354933
Employment Reduction					
Ceased Business	-81460	-40329	-28139	-34716	-184644
Continuing Business	-19101	-24851	-22469	-36062	-102482
Total	-100561	-65180	-50607	-70778	-287125
No Change					
Continuing Business	-15	-73	74	-56	-71
Net Employment Change	56133	6514	3885	1206	67737

Source: Business Activity Statistics 1998, Statistics New Zealand

The average size of New Zealand firms has levelled out at six

After a reduction in the average number of employees per enterprise over the last few years, it levelled out in 1999. The average number fell from seven workers per firm in 1994 to six workers in 1998, and remained steady at six workers in February 1999.

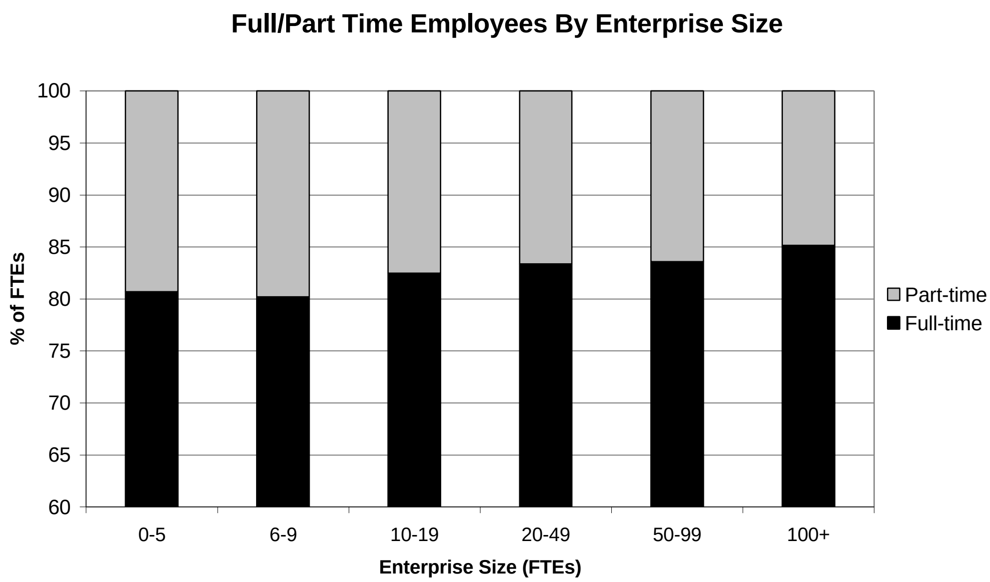
Figure 4



SMEs utilise the greatest proportion of part time employees

Figure 5 shows utilisation of part-time employees decreases as firm size increases, ranging from 19.3 percent utilisation for firms employing 0-5 FTEs, to 14.9 percent for firms employing 100+ FTEs. Over the decade to 1999, utilisation of part time employees has increased across all size groups. This increase has been most apparent amongst larger firms, with 100+ FTE firms increasing utilisation from 9 percent in 1989 to the current level of nearly 15 percent.

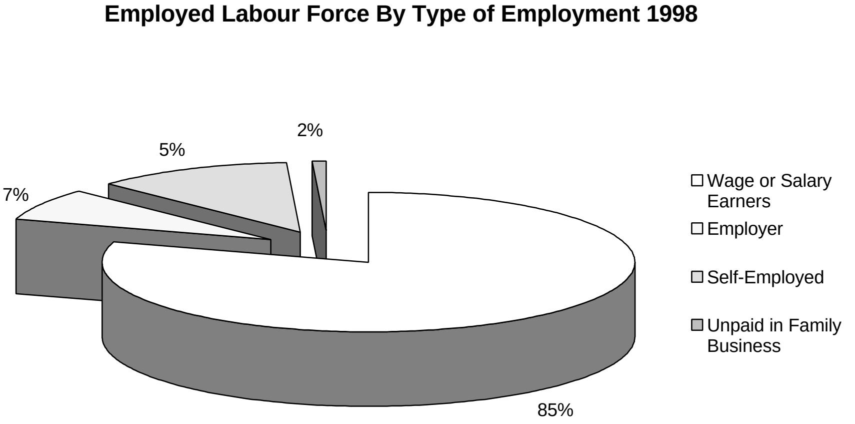
Figure 5



The majority of New Zealanders are employees

Figure 6 illustrates data from the 1998 Household Labour Force Survey, showing the largest proportion (85 percent) of the employed New Zealand labour force are paid employees, while 12 percent are self-employed or an employer.

Figure 6

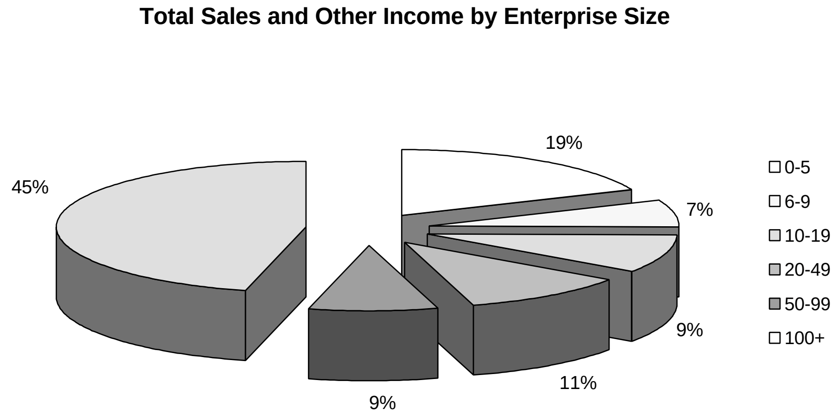


SMEs Contribution to Output

SMEs account for one third of New Zealand's output

Using sales and other income as a measure of the contribution of SMEs to total output in the economy, we can see from figure 7 that SMEs account for 35 percent of total output, with small enterprises making up just over half of this.

Figure 7



SMEs and Industry Sectors

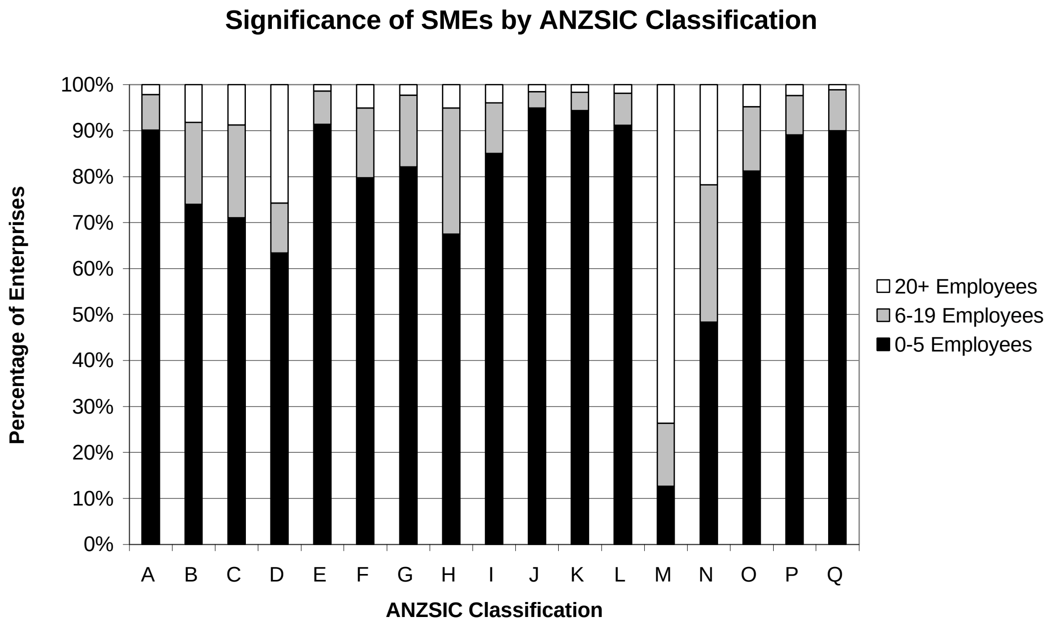
SMEs constitute over 98% of enterprises in several industries

Businesses with 0-19 FTEs are most predominant in the personal and other services sector, accounting for 98.9 percent of all enterprises in this sector. Small businesses constitute the majority of these, making up 90 percent of enterprises in this industry.

SMEs are also dominant in finance and insurance, construction, property and business services, and communications services sectors, making up over 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 (Australian and New Zealand Industrial Classification) group, highlighting the importance of smaller enterprises to the economy.

Figure 8[6]



Location of SMEs in New Zealand[7]

Due to reasons of data availability, SMEs in this section will be defined as geographic units employing 9 or fewer FTEs. The graphs below give an indication of the concentration of these firms

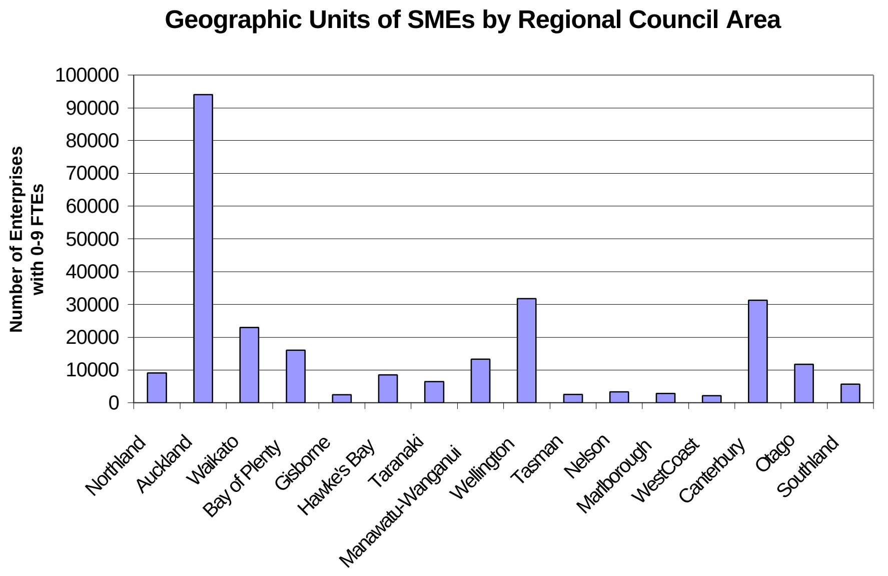
[6] ANZSIC industry classifications are:
A – Agriculture, forestry and fishing, B – Mining, C – Manufacturing, D – Electricity, gas and water supply, E – Construction, F – Wholesale trade, G – Retail trade, H – Accommodation, cafes and restaurants, I – Transport and storage, J – Communication services, 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.

[7] Statistics drawn from Business Activity Statistics 98, Statistics New Zealand. Figures are as at February 1998.

Most SMEs are located in the major centres

around New Zealand. Not surprisingly, the majority of SMEs are found in the larger centres, with the greatest numbers located in Auckland, Wellington and Canterbury.

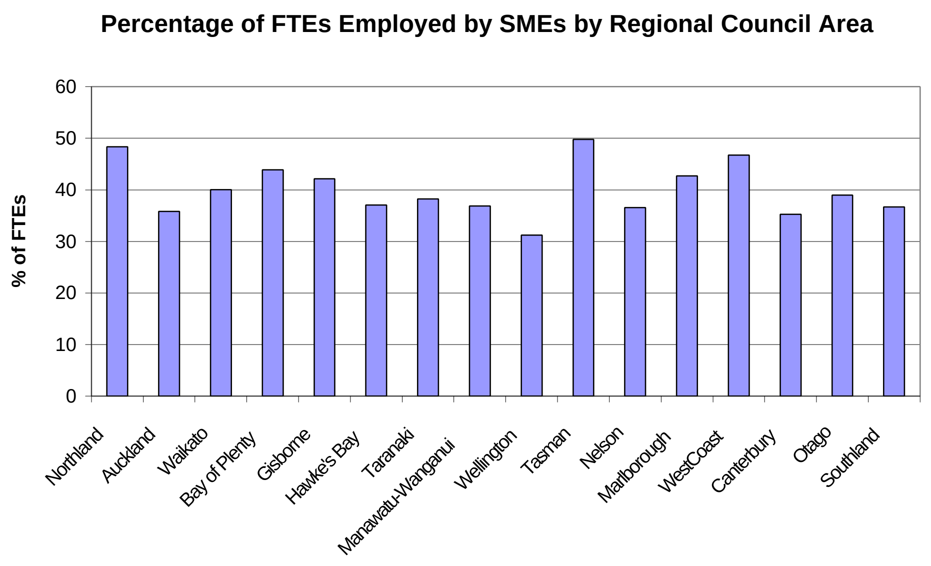
Figure 9



Employment generated by SMEs is greatest in Tasman and Northland

The regions where the highest proportion of employment is generated by SMEs are Tasman (50 percent) and Northland (48 percent). The lowest proportions are observed in the larger metropolitan areas of Auckland, Wellington and Canterbury, where larger businesses employ a greater proportion of the labour force.

Figure 10



Births and Deaths

SMEs account for the majority of all births and deaths

As would be expected, enterprise births and deaths are dominated by firms employing 5 or fewer FTEs, accounting for over 90 percent of the total number of births and deaths, both in 1999, as illustrated below, and in previous years.

Given that new small businesses were the single greatest contributor to job creation over 1995 to 1997, a high rate of enterprise births amongst small firms should be encouraged. In addition, a high number of deaths is not in itself cause for concern, as long as deaths of economically viable firms are minimised.

Figure 11

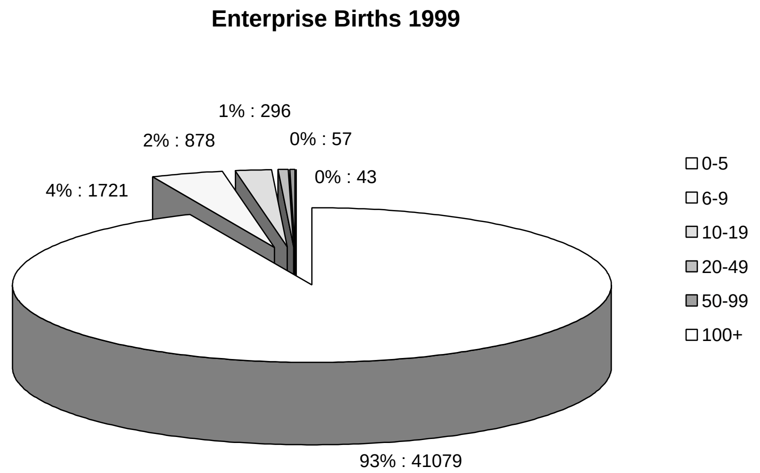
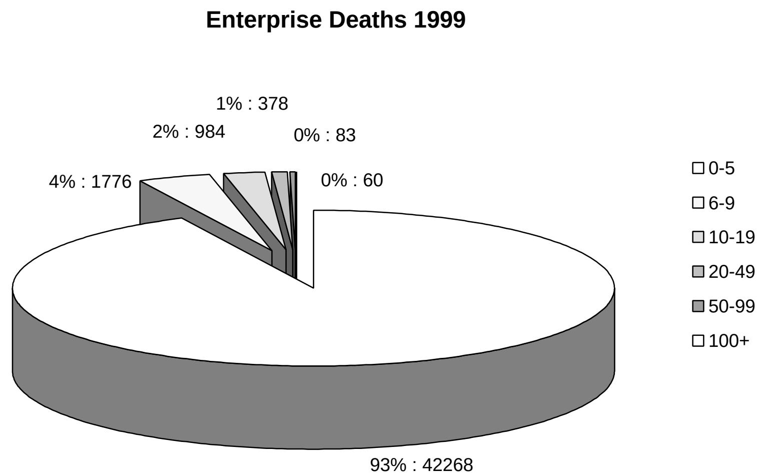


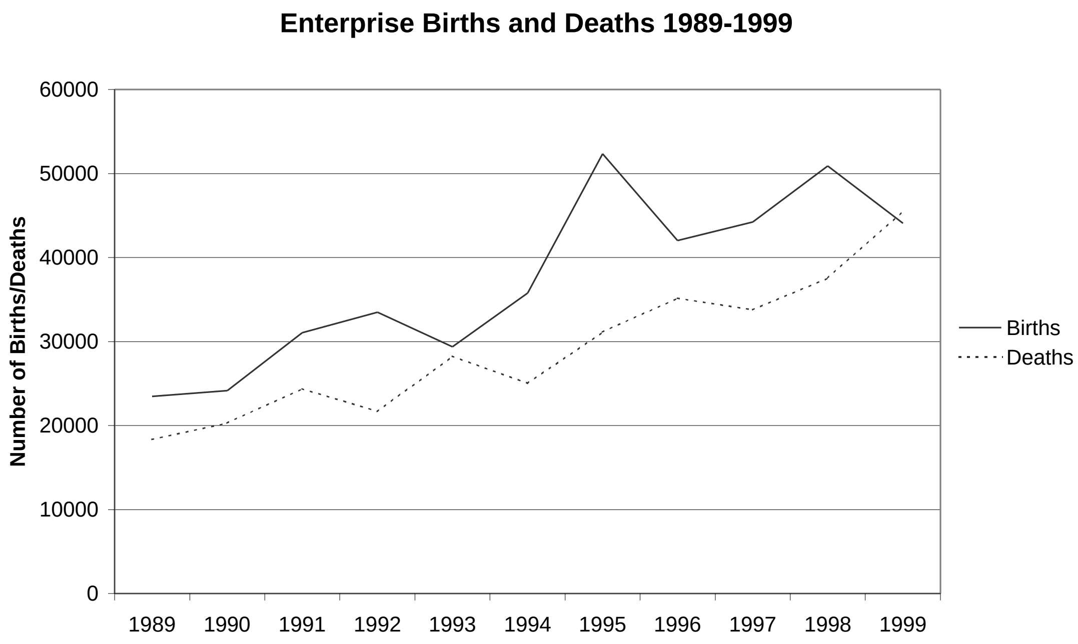
Figure 12



Enterprise deaths outnumbered births in 1999

On the back of an economic downturn both domestically and throughout the Asian region, for the first time in the last decade the number of enterprise deaths outnumbered the number of enterprise births in 1999. This was common across firm sizes, with all categories recording a net death rate.

Figure 13

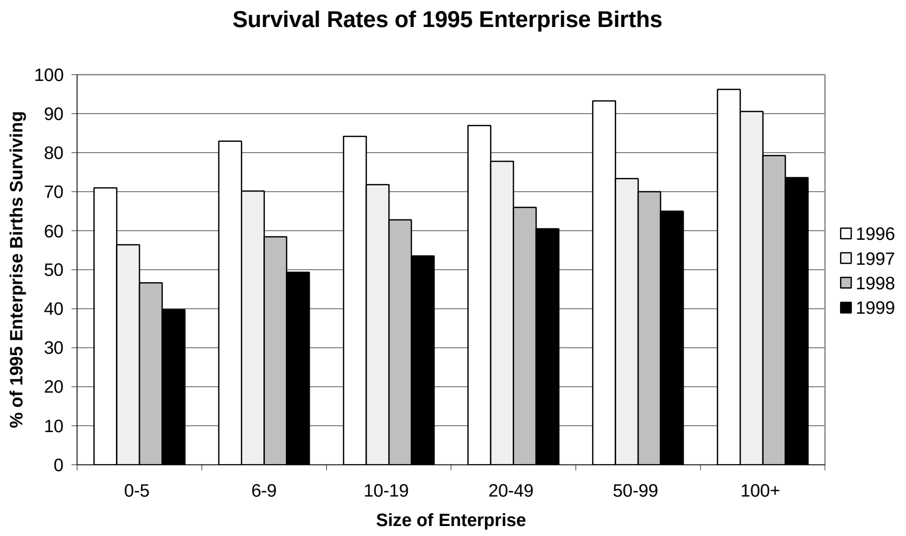


Survival Rates of SMEs

SMEs have a lower survival rate than larger firms

Survival rates are generally perceived to be lower for smaller enterprises. Illustrated in figure 14 is New Zealand data relating to the success of enterprises born in 1995, supporting this presumption. Of all small businesses started up in 1995, 71 percent survived into 1996, 56 percent survived into 1997, 47 percent survived into 1998, and 40 percent the fourth year into 1999. These results are unfortunately not comparable to data collected for 1988 births due to a change in the population surveyed by Statistics New Zealand.

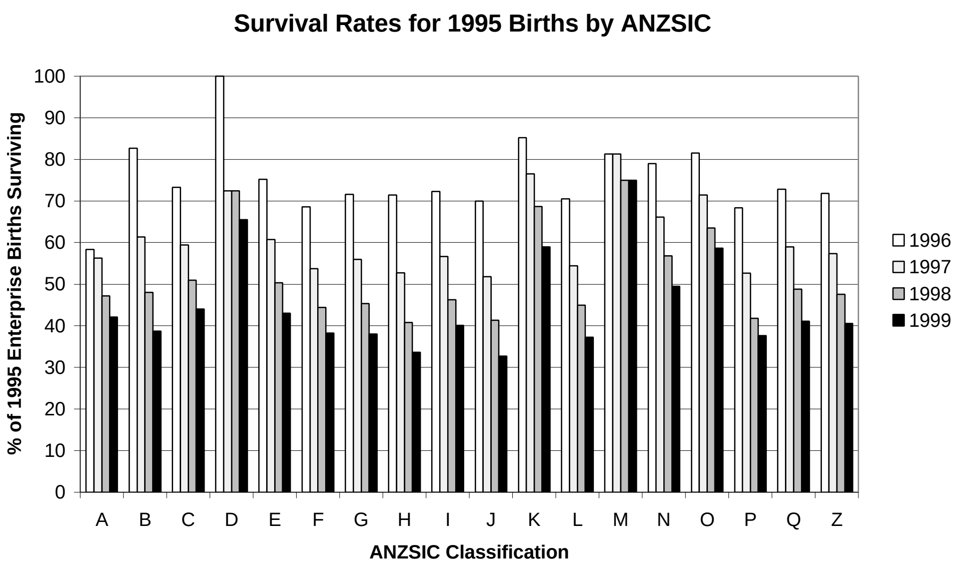
Figure 14



The total number of enterprise births in 1995 by enterprise size were: 0-5: 48967; 6-9: 2008; 10-19: 920; 20-49: 329; 50-99: 60; 100+: 53.

Survival rates for enterprises established in 1995 for each industry sector are illustrated in figure 15.

Figure 15[8]



[8] ANZSIC industry classifications 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.

Industry survival rates generally appear related to the concentration of SMEs

The industries with the highest survival rate into 1999 were: electricity, gas and water supply; finance and insurance; and government administration and defence. With the exception of finance and insurance, these sectors have a proportion of SMEs significantly below average. The lowest survival rates were shown by enterprises in the sectors: accommodation, cafes and restaurants; communication services; and cultural and recreational services. Each of these sectors has a proportion of SMEs higher than average.

In general, survival rates likely overstate the number of firm deaths

However, evidence suggests that these survival statistics present a situation significantly harsher than reality. The statistics are calculated on the basis that if a firm ceases to exist under exactly the same name or structure then it is assumed to have collapsed, presumably due to financial difficulties. However, these 'deaths' can signify other events, such as:

- 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.

Research suggests that actual failure rates may be two thirds of rates indicated by statistics.[9]

Transition Rates

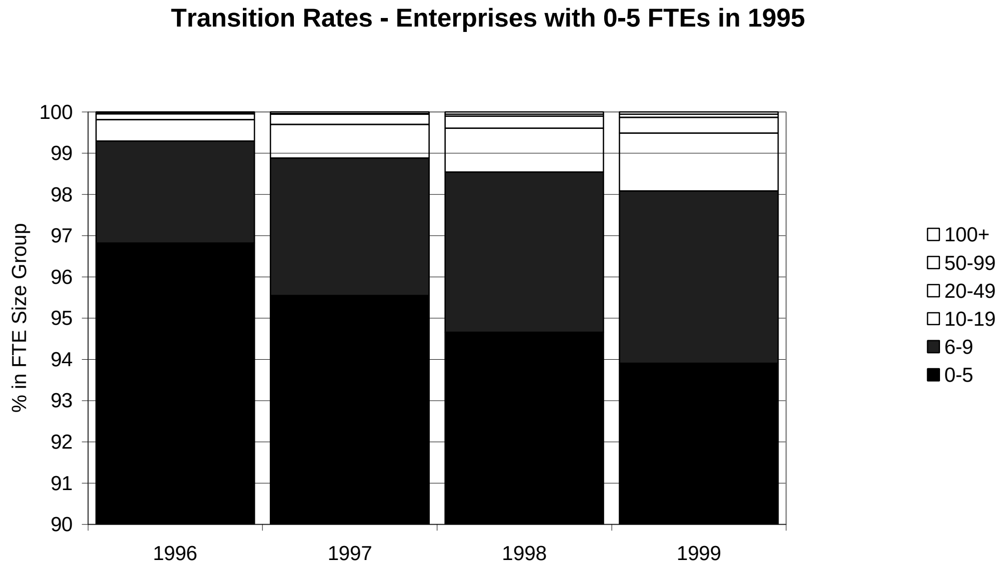
The following series of graphs illustrate the transition of enterprises from their initial size in 1995 through to 1999. For example, the first graph shows the transition in size of all firms that employed 0-5 FTEs in 1995, giving the proportion that then fell into each of the six size categories in the years 1996-1999. Five further graphs follow with the same interpretation for firms in each of the other size groups in 1995. Only enterprises still operating in each year are included in the statistics.

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

Of those employing 0-5 FTEs in 1995, only a small proportion graduated into larger size brackets, with 97 percent of these firms still employing 0-5 FTES in 1996, 96 percent in 1997, 95 percent in 1998, and 94 percent in 1999.

[9] Haines L (1991), *Small Business is Big Business*, New Zealand Planning Council, p. 20.

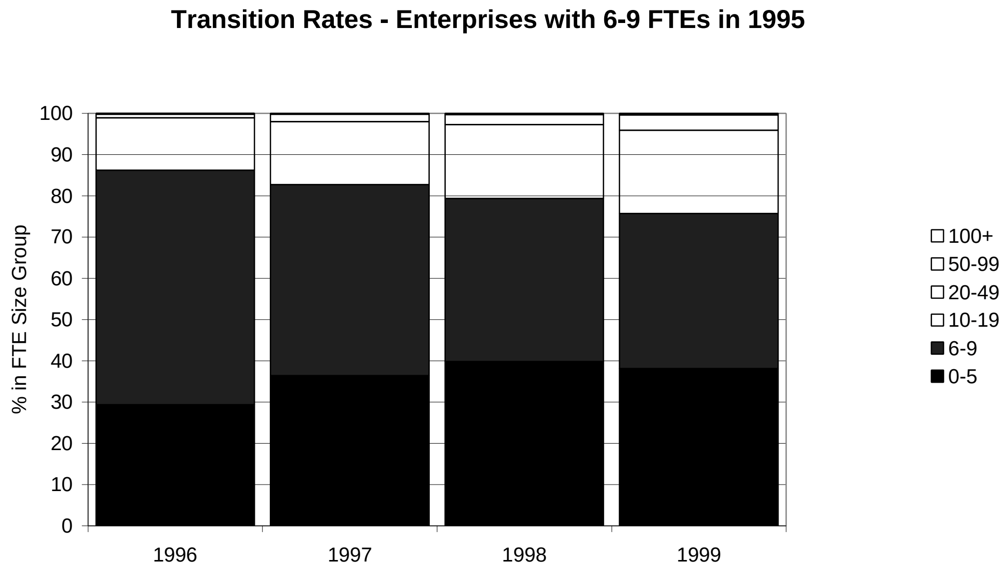
Figure 16



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

Of all enterprises with 6-9 FTEs in 1995, 57 percent remained in the same size bracket through to 1996, 46 percent in 1997, 40 percent in 1998 and only 38 percent in 1999. Of all size groups, those employing 6-9 FTEs in 1995 were least likely to remain the same size through to 1999, suggesting that this size bracket may be a transitional state for firms. Over the period from 1995 to 1999, 24 percent of firms expanded to employ greater than 9 FTEs and 38 percent contracted to employ between 0 and 5 FTEs.

Figure 17

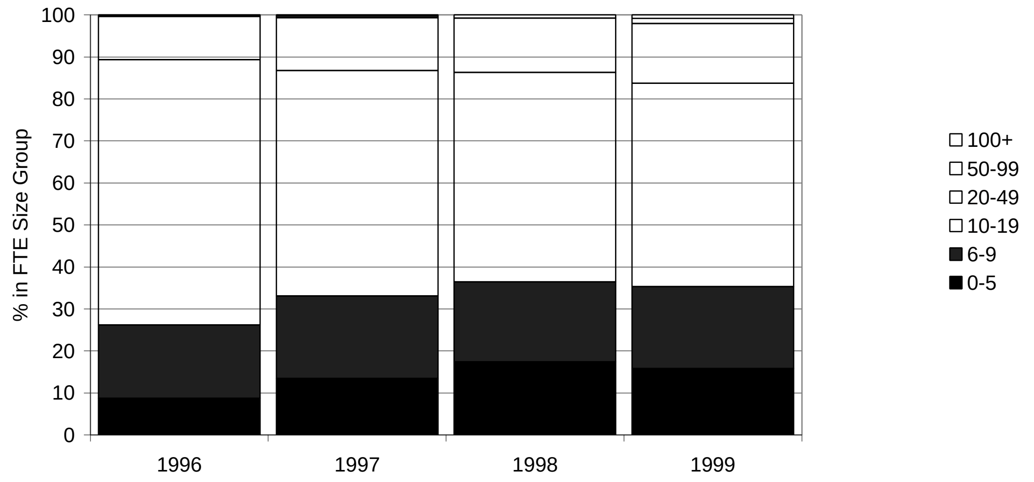


48% of firms with 10-19 FTEs remained the same size…

By 1999, of firms employing between 10 and 19 FTES in 1995, 48 percent remained the same size, 35 percent contracted and 16 percent expanded.

Figure 18

Transition Rates - Enterprises with 10-19 FTEs in 1995

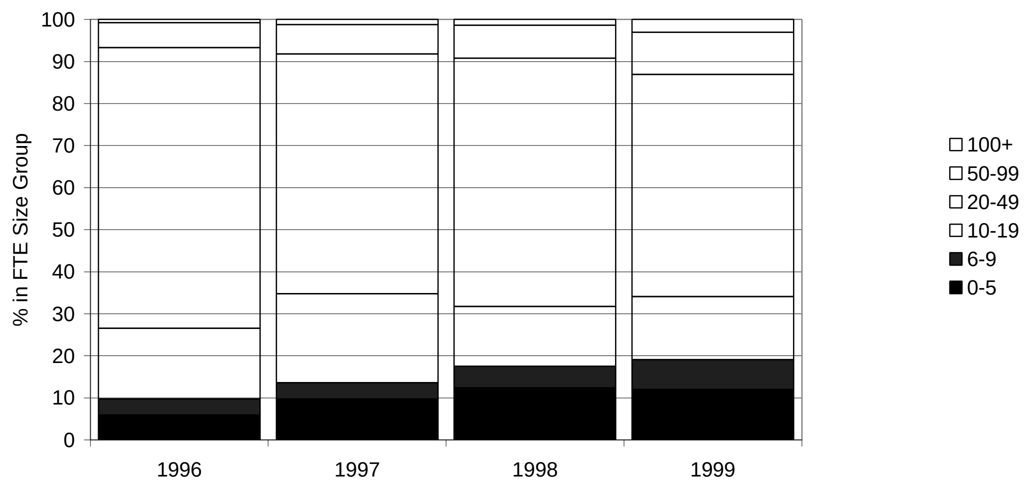


…53% of firms with 20-49 FTEs….

3 percent of enterprises with 20-49 FTEs in 1995 grew to have over 100 FTEs in 1999, while 12 percent shrank to have only 0-5 FTEs. Over the period to 1999, 53 percent remained the same size, while 34 percent contracted and 13 percent expanded.

Figure 19

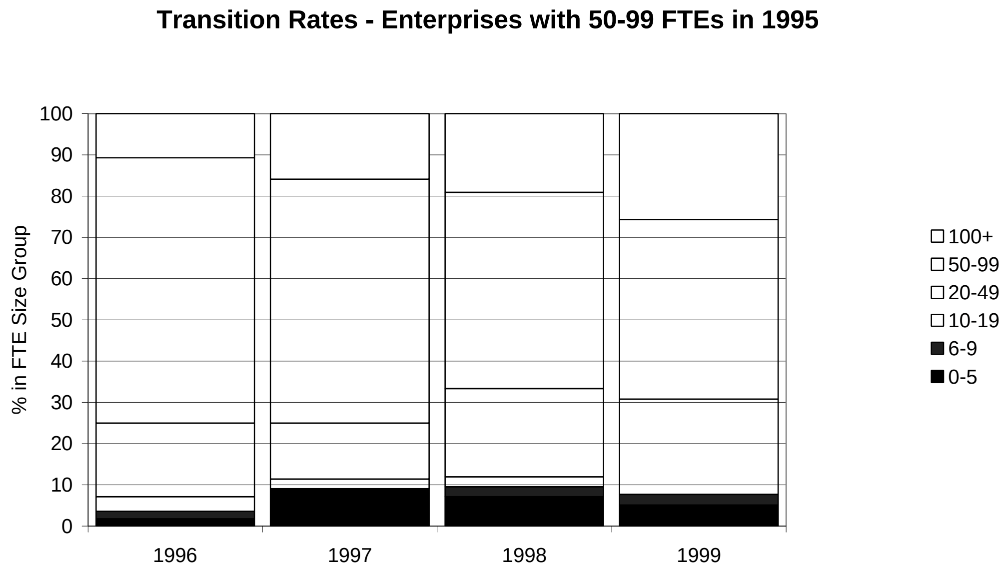
Transition Rates - Enterprises with 20-49 FTEs in 1995



…48% of firms with 50-99 FTEs…

48 percent of enterprises employing between 50 and 99 FTEs in 1995 remained in the same size bracket in 1999, while 31 percent contracted and 26 percent expanded.

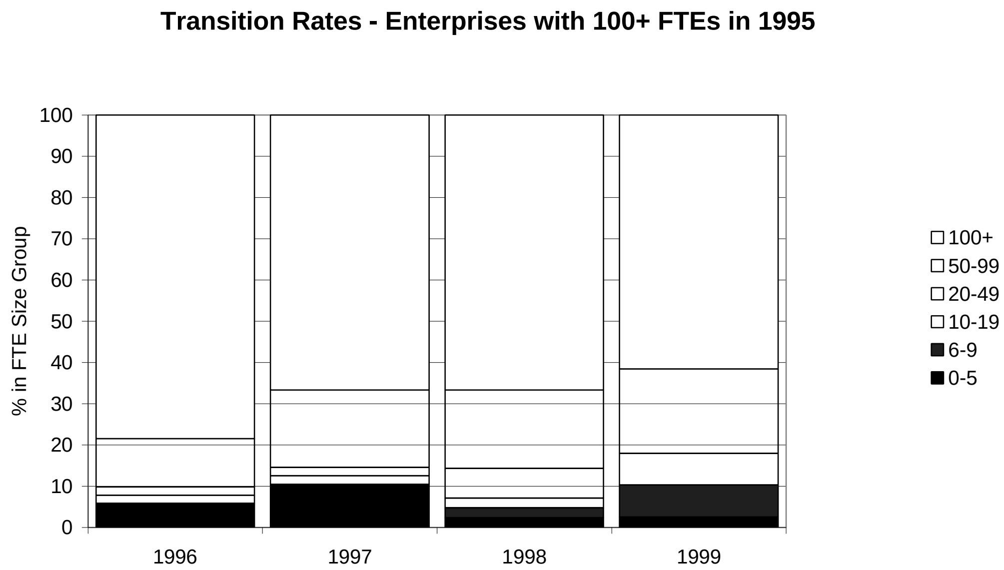
Figure 20



…and 62% of firms with 100+ FTEs remained the same size

Of those enterprises that employed greater than 100 FTEs in 1995, 62 percent still employed more than 100 in 1999. 2 percent shrank to fall in to each of the categories 0-5, 6-9 and 10-19, while 7 percent employed 20-49 FTEs and 19 percent employed between 50 and 99.

Figure 21



The following table gives the proportion of those firms surviving from 1995 to 1999[10] that expanded, remained the same size, or contracted over the period.

Table 4. Transition of Firms 1995-1999

Enterprise Size 1995	% smaller in '99	% same in '99	% larger in '99
0-5 FTEs	-	94	6
6-9 FTEs	38	38	24
10-19 FTEs	35	48	16
20-49 FTEs	34	53	13
50-99 FTEs	31	44	26
100+ FTEs	38	62	-

Performance Measures[11,12]

Profits per FTE are highest for small firms…

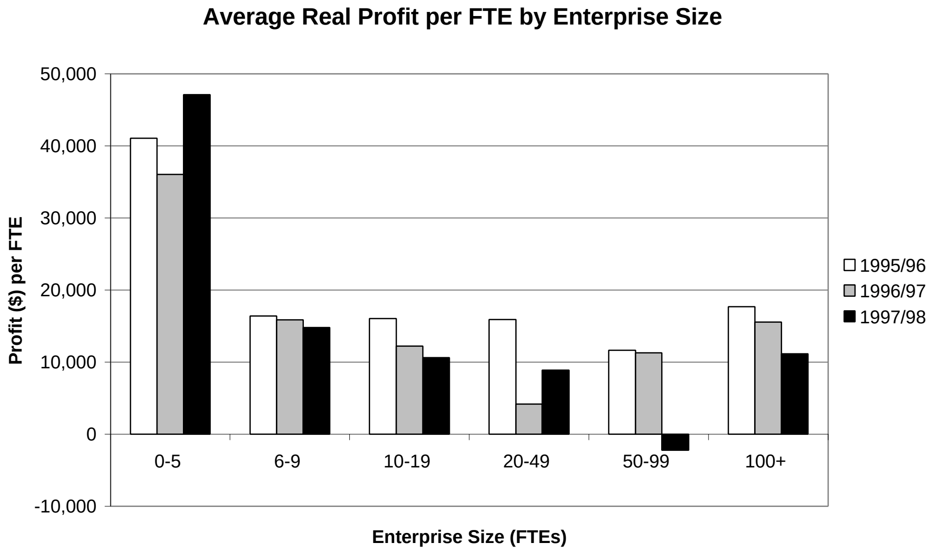
Average profits per FTE, illustrated in figure 22, are significantly higher amongst small enterprises than any other size group.

…while the 50-99 category recorded a negative profit

While the economic downturn saw profits for all firm sizes take a hit over 1996/97,[13] the 0-5 and 20-49 FTE size groups have since regained some ground. Average profits per FTE for these categories have risen 31 percent and 113 percent respectively over the year to June 1998. Other size categories have continued the downward trend, with the 50-99 FTE size group recording a negative average profit for 1997/98.

[10] Those firms who have ceased to exist at any time between 1995 and 1999 are not incorporated in this table.
[11] All performance statistics presented in this section have been deflated by a four-quarter average of an appropriate price index published by Statistics New Zealand. Profits and Sales and Other Income have been deflated using the Producers Price Index (output), while Salaries and Wages have been deflated using the Labour Cost Index (all labour costs). All real figures are expressed in terms of 1996 dollars.
[12] Statistics in this section are drawn from the Annual Enterprise Survey conducted by Statistics New Zealand.
[13] Dates in the format 1996/97 refer to the financial year July 1996 – June 1997.

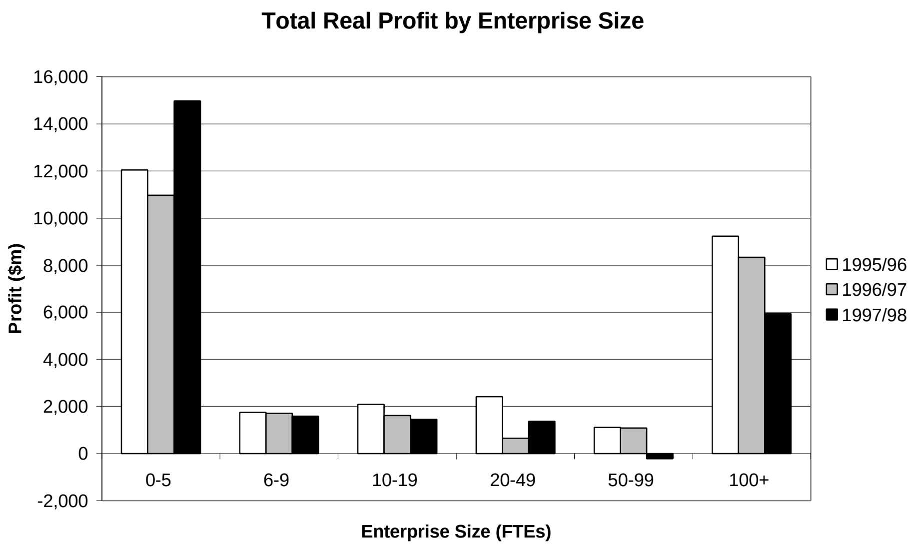
Figure 22



Small businesses recorded the largest combined profit

Due to the high number of small businesses in operation, enterprises with 5 or fewer FTEs recorded the largest combined profit for 1997/98. However, the average profit for these enterprises was only $79,000 compared to an average of $4.8m for enterprises employing 100 or more FTEs.

Figure 23

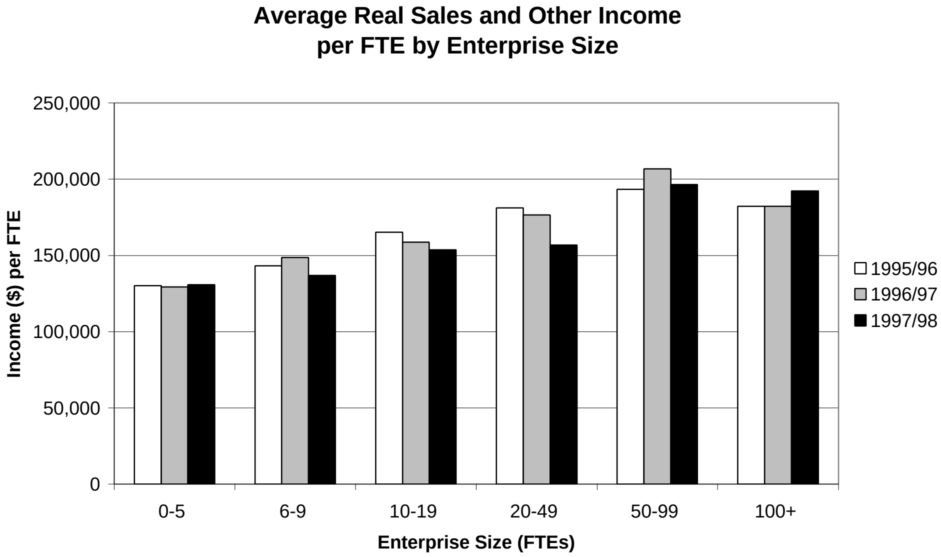


As illustrated in figure 24, average sales and other income per FTE increase with enterprise size over the first five size brackets, then decrease slightly for the group of firms employing 100 or more FTEs.

No consistent increase in annual income

No size category has seen a consistent increase in annual income, although two categories (10-19 and 20-49) have recorded a decrease in their total income in each of the last three years.

Figure 24

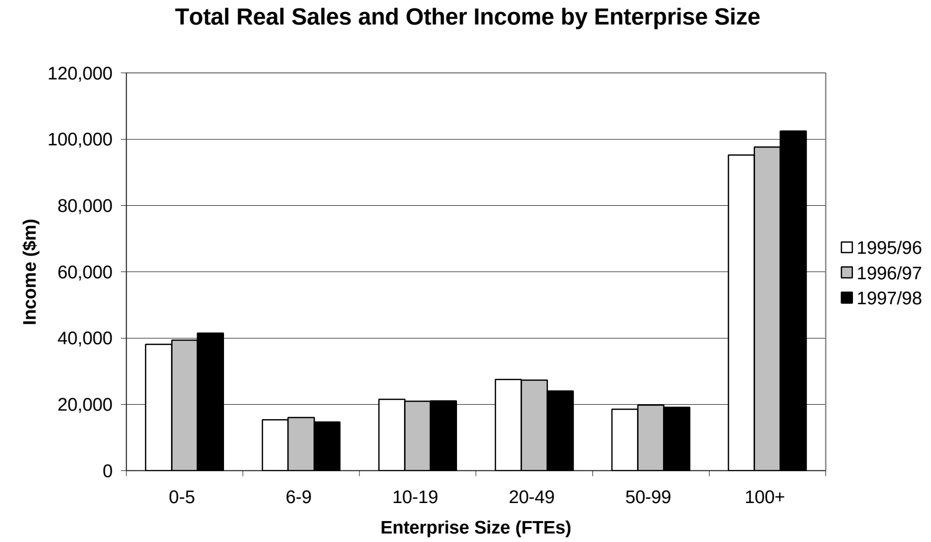


Large firms have the highest combined income

Summing figures over all firms in each size bracket, total sales and other income over 1997/98 were largest for the group of firms employing 100 or more FTEs, reflecting the size of the individual enterprises. Enterprises in this size bracket generated an average income of $83m over 1997/98. The relatively high level of sales recorded by small enterprises reflects the large number of businesses with 5 or fewer FTEs, with each individual enterprise recording an average income level for 1997/98 of only $219,000.

It is interesting to note that, while large firms show the greatest total income (and the second highest per FTE), small firms record the greatest combined profit (and the greatest profit per FTE). We would expect the opposite to be true if larger firms were taking advantage of economies of scale to produce at a lower cost than could be achieved by smaller firms. However, these figures suggest that economies of scale may not be as important as the advantages that small firms have in areas such flexibility, speed and lower management costs.

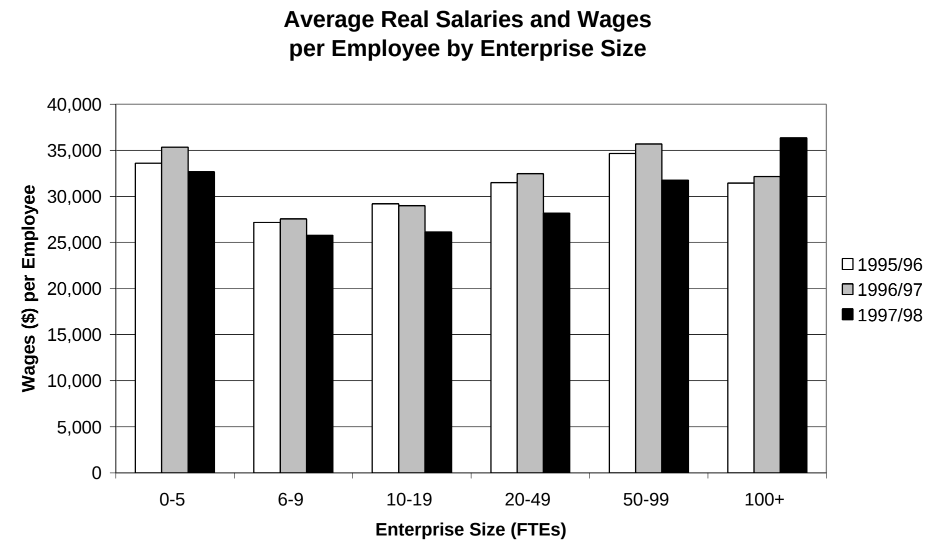
Figure 25



Average wages per employee are highest for the 100+ FTE size category

Average real salaries and wages per employee[14] were highest for those enterprises in the 100+ FTE size group over 1997/98, a change from the previous year when the highest levels were recorded by the 50-99 category.

Figure 26



Large firms account for 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 54 percent of all monies paid out. In contrast to the figures for both sales and profits, firms employing 20-49 FTEs record the second highest

[14] It should be noted that the salaries and wages considered in figure 26 are only those paid to employees (not proprietors). As such, total salaries and wages are divided by the number of employees in each size bracket (rather than the number of FTEs as in other graphs in this section).

value, accounting for 12 percent of all payments. Small firms who contribute 11 percent follow in third place, with slightly smaller payments made by firms employing 10-19 and 50-99 FTEs (9 percent each).

Figure 27

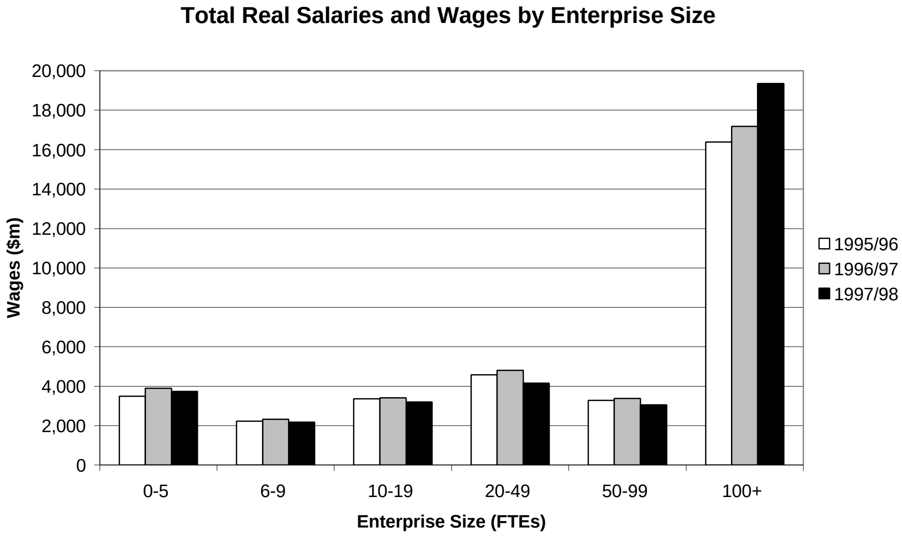


Table 5 presents statistics from the 1997/98 financial year relating to the average performance of firms within each size group, giving an indication of the relative sizes of firms in each bracket.

Table 5. Average Performance Measures by Firm Size

Enterprise Size	Average Profit ($) per firm	Average Income ($) per firm	Average Total Salaries ($) per firm
0-5 FTEs	79,000	219,000	19,700
6-9 FTEs	102,000	946,000	141,000
10-19 FTEs	138,000	2,000,000	304,000
20-49 FTEs	259,000	4,560,000	789,000
50-99 FTEs	-152,000	13,500,000	2,150,000
100+ FTEs	4,780,000	82,700,000	15,600,000

Ethnicity, Gender and Employment Status

The highest proportion of self-employed are among Asian and Pakeha populations…

Data from the 1996 census shows that the ethnic group with the greatest proportion classified as employed without employees is the Asian employed labour force (13.8 percent). The second highest proportion is recorded by European/Pakeha with 12.4 percent. Similar patterns emerge with respect to the proportion that are classified as employers, with 8.4 percent of the employed European/Pakeha labour force classified in this category and 7.3

…the lowest are recorded by Maori and Pacific Peoples

percent of the Asian employed labour force. In both of these categories, New Zealand Maori and Pacific Islanders record significantly lower proportions, with a greater fraction of these populations instead classified as paid employees.

Table 6. Ethnicity and Employment Type 1996

	Paid Employee	Self-employed Without Employees	Employer
European/Pakeha	73.7	12.4	8.4
New Zealand Maori	82.4	6.1	3.4
Pacific Island	84.7	4.1	1.8
Asian	65.6	13.8	7.3
Other	73.9	11.2	6.7
Not Specified	41.1	6.7	4.0

A greater proportion of males are self-employed

Table 7 reports data collected in the 1996 census. By gender, it is clear that a far larger proportion of the male working population are classified as either self-employed with no employees or as an employer. A greater proportion of the employed female labour force is classified as paid employees.

Table 7. Gender and Employment Type 1996

	Paid Employee	Self-employed Without Employees	Employer
Male	70.1	14.3	9.8
Female	79.5	7.8	4.8

Females are almost three times more likely to be doing unpaid work in a family business

Statistics from the 1998 Household Labour Force Survey (HLFS), illustrated in table 8, show the proportion of working males that are employers is more than twice the proportion in the female working population. As well as being more likely to be working as a salary or wage earner, females are almost three times more likely to be doing unpaid work in a family business. Data from the HLFS only concentrates on an individual's main job and therefore reports slightly different figures to those collected in the census and illustrated in table 7.

Table 8. Gender and Employment Type 1998

	Wage or Salary Earner	Self-employed	Employer	Unpaid in Family Business
Male	74.5	14.8	10.1	0.5
Female	85.7	8.1	4.8	1.4

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

Data from both the census and the HLFS shows that females make up a relatively small proportion of the total number of employers and self-employed. However, the discrepancy between male and female participation in these types of employment is significantly smaller now than it once was. Between 1966 and 1996, 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 23.2 percent, and have moved from 11.2 percent of the self-employed to 23.0 percent.

SMEs Internationally

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

SMEs form a significant component of modern economies, both in terms of the number of firms and their contribution to a country's employment level. While comparable figures are not readily available due to the divergence in definitions for class size and underlying units across countries, when defined as firms with fewer than 500 employees, SMEs generally constitute around 95 percent of enterprises and account for 60 to 70 percent of employment.[15] This definition is a little large for the purposes of this report. To best allow for the size of the economies considered in this section, we instead define an SME to be an enterprise with less than 100 employees.

The following table gives a comparison between selected countries of the contribution that SMEs make to the overall level of employment.

Table 9. Distribution of Employment by Firm Size

		Employment Size Class		
	Year	**1-19**	**20-99**	**100+**
		Percentages		
New Zealand	1999	42.0	18.9	39.1
United States	1993	18.4	18.8	62.7
Canada	1992	25.5	20.8	53.7
France	1992	25.3	21.7	53.0
Germany	1992	31.3	18.2	50.5
Italy	1991	55.6	15.9	28.5
United Kingdom	1991	31.2	15.0	53.8

Note: Statistical unit - establishment except for Canada (average labour unit).

Source: OECD (1997), Small Business, Job Creation and Growth: Facts, Obstacles and Best Practice. From table 1.2 (except New Zealand statistics, supplied by Statistics New Zealand).

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

SMEs contribute a relatively high proportion of total employment in NZ relative to other countries

The highest proportion[16] of total employment generated by SMEs is observed in Italy, followed by New Zealand, with a significantly lower rate observed in the U.S. Although not considered here, SMEs[17] also constitute a large share of total employment in Japan, accounting for 78 percent of all FTEs.[18]

Table 10. Percentage of Employment in SMEs (<100 FTEs)

Country	Percentage of Total Employment in SMEs
Italy	71.5
New Zealand	60.9
Germany	49.5
France	47.0
Canada	46.3
United Kingdom	46.2
United States	37.2

Source: OECD (1997), Small Business, Job Creation and Growth: Facts, Obstacles and Best Practice. From table 1.2 (except New Zealand statistics, supplied by Statistics New Zealand).

The OECD also collects statistics on the significance of SMEs in the manufacturing sector. This sector comprises 9 percent of all enterprises in New Zealand, accounting for 18.5 percent of all FTEs.

The New Zealand manufacturing sector shows a higher proportion of SMEs than most other countries

As illustrated in table 11, the New Zealand manufacturing sector has a higher proportion of SMEs than most other countries, with 90.6 percent of manufacturing enterprises employing 1-19 FTEs. This compares with an average of 70.5 percent for the countries considered in table 11. Correspondingly, the percentage of total employment generated by SMEs in New Zealand is significantly higher than average, with New Zealand (27.3 percent) recording the second highest proportion, behind Italy (38.7 percent).

New Zealand manufacturers have the lowest average number of employees

Table 12 shows the average size of establishments/enterprises by employment size class for the manufacturing sector. The average size of a New Zealand manufacturer in the 1-19 FTE size class is the lowest of all countries considered in the table, at only 3.8. For the three larger size groups, New Zealand firms have an average size close to or larger than the average of all countries considered. However, overall, New Zealand manufacturers record the lowest average number of employees, reflecting the predominance of small firms in the industry.

[16] Of the countries considered in the OECD publication *Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices.*

[17] Defined in Japan as businesses with fewer than 300 employees (fewer than 100 in wholesale sector, fewer than 50 in retail and service sectors.

[18] Japan Small Business Research Institute (1988), *White Paper on Small and Medium Enterprises in Japan – The Need for Small and Medium Enterprises to Change and Display Entrepreneurship.*

Table 11. Size Distribution of Manufacturing Industry

		Percentage of Enterprises / Establishments Enterprise Size (FTEs)				Percentage of Employment Enterprise Size (FTEs)			
Country	**Year**	**1-19**	**20-99**	**100-499**	**500+**	**1-19**	**20-99**	**100-499**	**500+**
Australia	1994	82.0	14.1	3.4	0.4	22.3	27.5	32.7	17.5
Austria	1993	43.2	41.5	10.0	5.2	4.3	26.9	23.4	45.5
Canada	1994	50.6	37.8	10.2	1.4	7.6	27.8	39.4	25.2
Czech Republic	1995	94.9	2.9	1.6	0.5	18.0	10.3	24.6	47.1
Germany	1993	71.5	19.4	4.1	5.0	19.9	22.1	10.8	47.2
Greece	1992	59.0	34.3	6.0	0.7	20.4	35.0	27.5	17.2
Italy	1992	89.7	9.0	1.2	0.2	38.7	25.0	17.3	19.0
Japan	1994	74.3	21.6	3.6	0.5	22.4	30.9	25.0	21.6
Korea	1994	69.5	26.1	3.0	1.3	20.5	32.0	14.2	33.3
Luxembourg	1992	79.4	15.0	4.7	0.9	13.0	22.1	35.0	29.9
Mexico	1994	80.3	15.1	2.7	2.0	12.2	21.2	15.6	51.0
Netherlands	1993	78.0	17.2	4.3	0.6	15.7	24.8	27.8	31.7
New Zealand	1994	90.6	7.7	1.5	0.3	27.3	24.7	24.0	24.0
Norway	1994	40.2	47.4	7.5	4.9	9.3	34.9	18.2	37.6
Portugal	1994	85.8	11.8	2.2	0.2	23.5	32.3	27.8	16.5
Sweden	1993	44.4	40.8	12.4	2.4	6.9	23.1	35.3	34.7
Switzerland	1991	84.2	12.3	3.1	0.4	20.2	26.9	31.3	21.5
Turkey	1992	36.6	47.1	13.3	3.0	5.5	22.2	32.2	40.1
United Kingdom	1994	82.7	12.9	3.7	0.8	13.2	21.6	28.9	36.3
United States	1993	73.7	19.8	5.1	1.4	7.4	14.6	16.5	61.5
Average		**70.5**	**22.7**	**5.2**	**1.6**	**16.4**	**25.3**	**25.4**	**32.9**

Note: Statistical unit - establishment except for the United States, New Zealand, Czech Republic, Italy, Luxembourg, Portugal (enterprises). Size classes differ: Canada, New Zealand: 0-19; Mexico: 1-15, 16-100; Norway: 1-19, 20-99, 100-199, 200+; Czech Republic: 0-24; 25-99.

Source: OECD (1997), Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices. Table 1.1.

Table 12. Average Establishments by Employment Size Class – Manufacturing

		Employment Size Class				
Country	**Year**	**1-19**	**20-99**	**100-499**	**500+**	**Total**
Canada	1994	7.6	37.3	196.4	914.8	50.8
France	1992	13.3	42.8	204.7	1069.5	73.4
Germany	1992	6.6	42.7	213.8	2076.7	35.3
Greece	1992	13.5	39.9	177.2	955.2	39.0
Japan	1994	8.2	38.8	190.3	1190.8	27.1
Korea	1994	9.7	40.2	156.3	818.4	32.8
Mexico	1994	4.0	37.3	156.1	693.8	26.6
New Zealand	1994	3.8	40.3	198.2	1130.6	12.5
Netherlands	1993	5.7	40.8	184.3	1438.0	28.2
Portugal	1994	4.0	40.1	184.4	1044.0	14.6
United States	1993	6.3	41.2	182.4	2396.9	60.9
Turkey	1992	13.2	41.4	213.7	1163.8	87.9
Average		**8.0**	**40.2**	**188.2**	**1241.0**	**40.8**

Note: Statistical unit - establishment, except United States, Germany, New Zealand, Portugal. Size classes vary across countries: Canada, New Zealand: 0-19; Japan: 4-19; Mexico: 1-19, 20-99, 100-199, 200+; Turkey: 10-19.

Source: OECD (1997), Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices. From table 1.3a.