

**From Government to Governance:
Small and Medium Enterprise Policy
Development in New Zealand
1978 to 2008**

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Abstract

Widespread recognition of the importance of SMEs and their contribution to the economy means that successive New Zealand governments, between 1978 and 2008, placed increasing emphasis on SME policy. SME policy developed over time from being an incidental outcome of general economic policy to targeting particular SME sectors and engaging stakeholders and SMEs themselves in this process.

Few studies have examined how this policy process evolved, and this research addresses the deficit by providing a critical overview of New Zealand SME policy development between 1978 and 2008. It examines how SME policy in New Zealand developed over the thirty-year period, identifying the main influences (or inputs) in SME policy development, and what policy outputs were set in place.

The approach draws on business history methods and utilises primary sources, such as archival documentation, media reports, contemporary SME research and interviews with participants who played key roles in the development of SME policy. Historical analysis facilitates the examination of the range and diversity of SME policies used over the period under review. The research provides an overview of the external domestic and international influences that shaped and informed SME policymaking processes, and the challenges of meeting the often contradictory nature of government objectives in the socio-economic domain. It shows how over time the social cohesion policy objective, although still underplayed, became more pronounced.

Principal inputs into SME policy are found to be the economic and stakeholder contexts, both set in an overall institutional environment. Whereas in the early period the economic context was the primary input into SME policy, by 2008 the input of stakeholders (researchers, academics, industry associations, chambers of commerce, among others) was more significant. The research concludes that, as attitudes and economic thinking changed, so too did SME policy and the way policy developed. A shift to the entrepreneurship paradigm contributed to a fundamental recalibration of approaches – from direct SME support such as the Small Business Agency, to predominantly indirect contextual support. SMEs were no longer considered ‘little big businesses’ but complex and heterogeneous enterprises and the role of stakeholders became more noticeable.

Understanding how SME policy has altered over three decades assists researchers, policymakers and other SME stakeholders by contextualizing the evolution of thinking and approaches. As an outcome of this study, stakeholders will have additional clarity to help them contribute to the ongoing development of New Zealand SME policy.

Ethical approval for this research was obtained from the Massey University Human Ethics Committee Low Risk Notification 2010 (Appendix 2)

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Abbreviations

APEC	Asia-Pacific Economic Council
BDB	Business Development Board
CEDU	Community Employment Development Unit
CEG	Community Employment Group
CER	Closer Economic Relations
DTI	Department of Trade and Industry
DFC	Development Finance Corporation
DOL	Department of Labour
LEEDS	Local Employment and Enterprise Development Fund
MED	Ministry of Economic Development
MFAT	Ministry of Foreign Affairs and Trade
MOC	Ministry of Commerce
NZTE	New Zealand Trade and Enterprise
NZIER	New Zealand Institute for Economic Research
OECD	Organisation of Economic Co-operation and Development
RDC	Regional Development Council
SBA	Small Business Agency (New Zealand)
SBAG	Small Business Advisory Group
SEAANZ	Small Enterprise of Association of Australia and New Zealand
SME	Small and Medium Enterprise
USSBA	Small Business Administration (United States of America)

1. Introduction

This research spans three decades of New Zealand government policy with respect to small and medium-sized enterprises (SMEs). This is an historical analysis that draws on archival sources, scholarly research and first-hand accounts from those who participated in SME policy development to present insights into a recent historical period. In short, it seeks to cast light on the changing nature of SME policy in New Zealand since 1978. It is, therefore, a study about how the SME policy process has changed over time, and the outputs that resulted, paying particular attention to the dual goals of economic growth and social cohesion and the changing role of stakeholders as perceptions of SMEs changed over time.

1.1 Overview

Throughout the period 1978 to 2008 New Zealand embarked on a path of continued reinvention, with increasing attempts by successive governments to shift away from economic dependence on the agricultural sector towards the manufacturing and services industries (Easton, 1997). In the early years of this period, government supported New Zealand SMEs within the context of a prevailing economic policy approach that regarded ‘big business’ as the growth engine of the economy with the concept of ‘Think Big’ even becoming a familiar government slogan of the 1980s (Bertram, 2009; Evans, Grimes, Wilkinson & Teece, 1996; Gould, 1982).

New Zealand's economic policy approaches were, and are, inevitably tied to international developments. By the beginning of the twenty-first century, economic policies of developed countries had fundamentally changed. Where once the focus had been to support and develop opportunities for the advancement of 'big business' (Audretsch, 2009; Dennis, 2005; Storey, 1994; Storey, 2005), by 2008 this was no longer the case in either New Zealand (Cameron & Massey, 1999; Massey & Ingley, 2007) or other parts of the world (Acs & Szerb, 2007; Audretsch, 2009; Huggins & Williams, 2009).

Worldwide, the period under consideration saw a re-organisation of the developed world's economy with a gradual shift away from the traditional manufacturing industries which were dominated by large-scale corporations, to what has been called at different times a 'knowledge economy' and more recently, an 'enterprise economy' (Acs & Szerb, 2007; Audretsch, 2009; Gilbert, Audretsch & McDougall, 2004). By 2008, policymakers in New Zealand were aware of, and understood, both the potential that technological advances of the age of globalisation had generated, and the potential contributions to economic growth made by SMEs (De Bruin & Dupuis, 2003; Greene, 2012; Massey & Ingley, 2007; Smallbone & Massey, 2012; Proctor, 2008). In particular, the advent of globalisation had made it easier for New Zealand businesses to access distant markets. This affected both SME practices and the government's approach to developing SME policy.

To date, there have been no studies that have comprehensively examined the historical development of New Zealand's SME and/or entrepreneurship policy. Early studies attempted to lay out a policy framework for the SME sector (Harper

& Bollard, 1991, 1992) or to assess the state of SME research (Devlin, 1984a, 1984b; Devlin & Le Heron, 1977; Haines, 1991; , While there have been studies on the early days of entrepreneurial activity in New Zealand (Hunter, 2007), and on the business history of specific companies (Goldsmith, 2009) or on cities (Hunter & Morrow, 2006), there has not been an analysis of the range of influences on New Zealand SME policy development, and how SME policy changed over time. Moreover, there has been little targeted, in-depth analysis undertaken that considers SME policy approaches in New Zealand in the context of other international approaches.

It is against this background that the current study examines the development of SME policy in New Zealand during the period 1978 through to 2008. The year 1978 was chosen as a starting point because this was the year the Small Business Agency was established, the first policy output overtly directed at SMEs. The study closes in 2008 the year that marked the end of a nine year Labour government term. It was deemed appropriate to not carry the study further due to difficulty in getting willing participants to discuss their current roles, as well as the limited access to mostly confidential policy documents. It looks at changes in the broader economic environment and considers the range of influences on, and the development of, policy instruments that were used to support SMEs. Results from the study are not intended as mere historical curiosity, but to help policy makers better understand the phenomenon of SME policy, and, in particular, to assist them in their on-going project of producing clear, relevant, appropriate policy objectives that target the multiple needs of small and medium sized businesses in New Zealand. Above all, this thesis argues that while SME policy

has always mattered in New Zealand, the way it has mattered has changed significantly between 1978 and 2008.

1.2 The Importance of SMEs

This current historical account of the development of SME policy in New Zealand is an attempt to capture some of New Zealand's business history. In this way it provides a context for considering future SME policy and policy research, whilst enhancing a broader understanding of the SME component in New Zealand's business, economic and social history. A key driver is the wish to develop an understanding of how different priorities have been addressed for SMEs at different times, while throughout the period SMEs continued to play a significant role in the economy, particularly in social and economic policy-related areas (Dennis, 2011a, 2011b).

While the concept of entrepreneurship is very pertinent to SMEs, and is an important element of SME policy, this study has chosen to focus on SME policy only. This delineation draws on the well-documented contribution SMEs make to the economy. In 2012, SMEs accounted for 67% of all employment in the European Union and 58% of gross value added (Wymenga, Spanikova, Barker, Konings & Canton, 2012)¹. Similar figures apply to the Asia Pacific Economic Cooperation region, (Asia-Pacific Economic Cooperation, 2013), the United States (Office of the United States Trade Representative, 2013) and Australia

¹ Gross value added is the net contribution of the SME to the economy.

(Australian Government Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, 2013) where SMEs comprise 60 percent of employment in the domestic economic and 30 percent of exports.

While there is still no formal definition of an SME in New Zealand (Cameron & Massey, 1999; Smallbone & Massey, 2012), in 1999 the Ministry of Commerce adopted the practice of identifying SMEs as firms that employ fewer than 20 employees (Ministry of Commerce, 1999). Applying this definition to the most recent data available, and reflecting the international trend, it is estimated that over the period 1978 to 2008 about 97% of New Zealand businesses could be classified as SMEs.

Further, SMEs have been, and are, significant employers and an essential part of the social and economic fabric of New Zealand society, with businesses employing 19 or fewer people accounting for approximately 30 per cent of employment (Ministry of Business Innovation and Employment, 2014a).

The difficulties in defining an SME extended to reliable statistical data, in particular in the earlier period of this study. Table 1.1 gives an indication of the change in the number of enterprises over the thirty year period.

Table 1.1 Total Number of Enterprises (excluding agriculture) (New Zealand Year Book, 1982, 1990).

Total Number of Enterprises	1978²	1989³	1999	2008
	110,484	177,307	222,295	477,768

Table 1.2 shows the break down in terms of the percentage of firms employing fewer than 50 full time employees (FTEs). Data until the late nineties were not collected for SMEs specifically making it difficult to separate this from larger enterprises.

Table 1.2 Percentage of Enterprises Employing Fewer than 50 FTEs (Linowes & Dixon, 1992 and Statistics New Zealand, 2015).

Firm Size (FTEs)	1978⁴ (%)	1989 (%)⁵	1999 (%)	2008 (%)
0-5	22.3	82	85	89.6
0-49	88.4	98	98.8	99.4

A further break down by firm size is shown in Table 1.3 for the years 1999 and 2008. Overall the pattern is of a growth in the micro-enterprise part of the SME sector (those employing five or fewer full time employees) but a relatively stable,

² 1978 figures are for the manufacturing sector only (New Zealand Year Book, 1982)

³ New Zealand Year Book (1990).

⁴ Manufacturing sector only

⁵ Source Linowes & Dixon, 1992, p. 131.

but significant percentage of small enterprises (those employing fewer than 20 full time employees).

Table 1.3 Percentage of Enterprises by Size and Employment, 1999 and 2008 (full time employees) (Statistics New Zealand, 2015).

Firm Size (FTEs)	1999		2008	
	Enterprises	Full time employees	Enterprises	Full time employees
	(%)	(%)	(%)	(%)
0-5	85.7	23.5	89.3	11.8
6-9	6.6	8.3	4.3	7.5
10-19	3.4	10.5	3.5	11.4
20-49	4.9	12.0	1.9	13.6
50-99	1.0	7.0	0.5	9.0
100+	0.7	38.7	0.5	47

In this study the contemporary term ‘small and medium enterprise’ (SME) is imposed on an historical period, even though the term SME only gained currency in New Zealand in the 1990s. SME has now become a widely accepted ‘catch-all’ term to describe businesses ranging from micro-enterprises through to business entities that are considerably bigger (Cameron & Massey, 1999; European Communities, 2002; Hall, 2001). Prior to the 1990s, as mentioned above, discussion about New Zealand businesses that were not obviously large employers had centred mainly on a broad ranging and reasonably ill-defined set of ‘small businesses’ (Massey, 2011; Nyamori & Lawrence, 1997). A more in-depth discussion of the definitional challenges of the term SME is contained in Chapter 2.

1.3 SME Policy: Unclear Boundaries

SMEs are typically established enterprises that are owner-operated and are thought to be disadvantaged by information and market asymmetries but it also refers to businesses that are new (Bennett, 2008, 2012b; Dennis, 2011a; Greene, Mole, & Storey, 2008; Storey, 1994, 2008). When addressing these asymmetries and other perceived shortcomings, governments have developed assistance programmes that have been given various names, including enterprise assistance policy, small business policy, regional economic development policy, and SME policy.

Governments generally have focused on providing assistance to SMEs in areas such as access to finance, managerial capability, innovation and export development, among others. This is done on the assumption that these are gaps that result from market asymmetries. As socio-economic contexts change, however, so has the emphasis placed in these areas and current political priorities displace or modify these areas of assistance.

In discussion of SME policy both in New Zealand and abroad, there is a blurred distinction between SME policy and entrepreneurship policy. In the past ‘entrepreneurship’ and ‘small business’ were often treated as one related area. Today, entrepreneurship policy is generally associated with high technology start-ups with potential for high growth. The notion of entrepreneurship has also penetrated wide-ranging domains of society, with many calls for governments to encourage the ‘entrepreneurial society’ (Bonnet, Dejardin, & Madrid-Guijarro, 2012; Gibb, 1999; Minniti, 2008). This makes entrepreneurship policy a topic relevant to SMEs that does not equate solely with SME policy. The latter

encompasses a much broader spectrum of small and medium sized businesses than entrepreneurship policy.

When formulating policy to assist SMEs, governments have had different objectives in mind when compared with efforts to encourage entrepreneurs. In this latter case the overriding policy objective is to stimulate high-growth economic activity in the belief that this will bring economy-wide benefits. To this end governments have developed entrepreneurship policies such as access to venture capital, research and development assistance and business incubators. The intention is to increase competitiveness, and assistance tends to be targeted at emerging industries such as bio-technology and information technology. Conversely, governments have focused on providing SME assistance in a range of areas such as access to finance, managerial capability, innovation and export development (Blackburn & Schaper, 2012; Dennis, 2011a; Down, 2010; Storey, 2008).

As is the case with entrepreneurship policy, SME policy initiatives generally have an overall economic objective, that is, to enhance the economic competitiveness of a nation through support for globally competitive enterprises. However, SME policy can also prop up marginal ventures, or it can be used for social inclusion purposes by governments. This dual role of SME policy can cause a conflict between the social objective, which is often addressed in more immediate circumstances (such as an economic crisis causing high levels of unemployment) and a macro-economic objective of increasing the competitiveness of the national economy. So, whilst the primary focus of this study is always SME policy, the distinction between entrepreneurship and SME policy necessarily remains

somewhat blurred. While SME policy can incorporate elements of entrepreneurship policy, for instance where the aim is to increase the prospects of SMEs being able to compete on a global stage, SME policy also incorporates a social dimension into its support initiatives (Down, 2013). Because of the presence of, and occasional tension between, these two types of objectives, the success of SME policy initiatives at securing either the social and/or the economic objectives can vary.

When the SME policy objective is driven by social and political motivations, policy is commonly formulated to support most SMEs. In this situation, SME policy is couched in terms of wider policy priorities, such as regional economic development policy, diversification of the economy, unemployment, and so on. In the context of this current study, however, *SME policy refers to public policy that is concerned with supporting existing SMEs to enable them to continue to function in an economically viable way, as well as policies that encourage start-ups including those from sectors of society that can be marginally excluded, such as minorities and women.* In other words, implicit in SME policy through this categorisation is the assumption that SMEs serve a social function, as much as they serve an economic one. SME policy can, for instance, be associated with affirmative action programmes to redress historical and/or structural disadvantage. This is evident in New Zealand where specific policies exist to assist the development of the indigenous Māori population (Māori Economic Taskforce, 2011). Other examples of SME policy initiatives that have an underlying social objective include those with a self-employment component, such as targeted policies to assist ethnic minorities. Such policies are often driven by objectives

relating to social integration and enhancing the participation of minorities, using self-employment as a vehicle for this to happen. In other words, SME support policies can be “a form of social welfare; that is, encouraging the un- or under-employed to re-engage with economic activity” (Down, 2010, p. 189).

Economic and social imperatives are twin themes that pervade much public policy research (Hill & Hulpe, 2009; Howlett, Ramesh, & Perl, 2009; Shaw & Eichbaum, 2011; Whitcombe, 2008) and the tension between them is a consideration for SME policy makers. As the 21st century advances, traditional economic indicators are no longer the only measure of how ‘well’ a nation is performing. More governments are heeding calls for policies that can improve the so-called ‘happiness index’ which is measured by different studies around the world (OECD, 2013). As one of the oldest forms of social and economic interaction, it is likely that SMEs will increasingly come under public scrutiny, not only as vehicles to drive economic prosperity but for improving social well-being as well. In this setting SME policy continues to be an important component of public policy.

1.3.1 SME Policy Rationale

All economies operate in an environment that is shaped by governments and institutions (Smallbone & Welter, 2010; Wickland, Davidsson, Audretsch & Karlsson, 2011). Historically, justification for the existence of SME policy centred on market failure, in particular in relation to larger firms (Bennett, 2012a). There is widespread concern amongst SME researchers, however, that SME policy may not be serving its intended purpose effectively (Mason, 2009; Shane,

2009). These concerns were echoed by the OECD (2007, 2010) following the influential work by Storey (2002) resulting in more recent studies that build on the knowledge-base of SME policy evaluation (Bennett, 2008, 2012a; Greene et al., 2007; Lundström, et al., 2014). Similar calls have been made in the New Zealand context (Greene, 2012; Procter, 2008; Smallbone & Massey, 2012). Nevertheless, Arshed, Carter and Mason (2014) consider that the evaluation of SME policies would be better served by complementary studies into the process of policy formulation. They argue that so far the process of formulation has not been explored fully due to the fact that this stage in the policy process is made up primarily of ministers and government officials who are not easily accessible to the public. In the New Zealand context this study seeks to provide some insight into the stakeholders of the SME policy environment and their role in the formulation of policy.

It was noted above that SME policy has traditionally been used in developed countries to address market failures (Bennett, 2012a; Storey, 1994). In particular, concerns about market entry have led to government policy to facilitate SMEs to enter the economy in relation to their larger counterparts. Information imperfections are also areas of market failure, which governments have sought to address through advice on how to start, manage or grow a business. Another important aspect of SME policy has been to make the most of externalities that can be generated by knowledge spillovers and transfers, through policies such as cluster development, networking opportunities and education (Audretsch, Thurik, Verheul, & Wennekers, 2002; Greene, 2012). SME policy has also been used to improve competitiveness, for instance by imposing best practice guidelines and

encouraging the adoption of global best practice guidelines by SMEs who supply larger exporting firms.

Taken together, this research contributes to our understanding of the multiple objectives of SME policy by examining and analysing how SME policy was developed in New Zealand over the period of 1978-2008 and identifies key outputs.

1.4 Aim of the Study and Historical Perspective

The overarching purpose of this study is *to examine the development of SME policy in New Zealand between 1978 and 2008*. The study is primarily about the evolution of that policy process and the outputs that resulted – it is *not* a study about policy outcomes, therefore it does not seek to evaluate how effective these policies have been. It is important to note that during the course of this research the theme of social cohesion became more evident in the latter two periods, and is therefore not explored to the same degree in the earlier period. When examining SME policy the scope of the research was limited to grouping disadvantaged social groups such as women, Māori and migrants as one group under the SME general grouping.

Recent calls for taking history into account within business studies research serve to highlight the relevance of adopting an historical approach to assist understanding of how various priorities have been addressed through and for New Zealand SMEs at different times. For instance, in the complementary area of entrepreneurship, Lohrke and Landström (2010) have argued that it is crucial to understand the historical underpinnings of entrepreneurship research to inform

future research. In the broad field of business history, Friedman and Jones (2011) have stated that “there has rarely been a moment when the view that ‘history matters’ has been so widespread” (p. 1). By undertaking a historical account of the development of SME policy in New Zealand, this study provides a context for how these policies were developed in New Zealand and which specific outputs these delivered, as “history teaches us to challenge the present” (Lohrke & Landström, 2010, p. 2).

1.5 The New Zealand Context

The period 1978 to 2008 was a time of considerable political, economic, and social change in New Zealand (Bertram, 2009; Easton, 1997; James, 1986, 1992; Kelsey, 1995; King, 2003). The ensuing section seeks to contextualize this study by providing a brief summary of relevant political and social circumstances of the time⁶.

1.5.1 General Background

New Zealand is a constitutional monarchy with one legislative house. The indigenous Māori population makes up approximately 15 percent of the 4.5 million New Zealanders. The majority of New Zealanders (75%) are of European descent, with significant and growing populations of Asians (12%) and Pacific Islanders (7%) (Statistics New Zealand, 2014). The economy has a large primary

⁶ Appendix 1 sets out a chronology of defining historical events in the evolution of New Zealand SME policy

sector based on agricultural products, mostly wool and dairy production. Increasingly the tourism, film and winemaking industries are significant contributors to the economy (Statistics New Zealand, 2014). New Zealand is characterized by the small size of its domestic market and is heavily reliant on international trade despite the attendant challenges of exporting from a faraway geographical base. Also known as the ‘tyranny of distance’, New Zealand’s remoteness remains a constant that is factored into economic policy development.

The electoral cycle is of three years and until 1993, political power was shared between two major parties by way of a first-past-the-post electoral system. Governments alternated between the National Party, a conservative party with traditional constituents in the rural areas and the business sector, and the Labour Party, a liberal social democratic party with constituents in urban centres and links to the trade unions. In 1996, following a referendum on the electoral system, the first election was held under a proportional representation system called mixed-member-proportional (MMP). Since the introduction of MMP no party has been able to govern without forming a coalition with minor parties, but the traditional major parties continue to be the dominant members of the coalition.

1.5.2 The Collapse of Protectionism, 1978 to 1983

The National Party, led by Prime Minister Robert Muldoon who had been governing since 1975, dominated the period 1978 to 1983. This government represented a last ditch effort to try and retain New Zealand’s status as one of the richest countries in the world while at the same time continuing with heavy state intervention in all aspects of the economy (Gustafson, 2013). By 1978, a series of

global economic developments had had an impact on New Zealand and severely undermined its prospects of sustaining its status. Two of the most influential developments were the United Kingdom taking up membership of the European Economic Community in 1973 and the twin oil shocks of 1973 and 1978-9. To address these major global changes, efforts were made to re-orient the New Zealand economy away from being so dependent on the agricultural sector, and on the British market, to a more multi-faceted and independent economy with a more diverse range of export destinations (Easton, 1997; Evans et al., 1996; Hawke & Lattimore, 1999; McAloon, 2010).

Economic indicators for this period reflect historically high levels of inflation, stagnant growth and rising unemployment (Easton, 1997). The public policy response to poor economic performance was to insulate the economy, and to invest in 'Think Big' initiatives in large-scale industrial projects, which were intended to break the dependency on global energy markets (Gustafson, 2013). Key areas of the economy, such as agriculture, were also heavily subsidised and import licensing, price and wage controls, tariffs, tax incentives were introduced or increased and the signing of the Closer Economic Relations agreement with Australia and the wage and price freeze of 1982 (Easton, 1997; Gustafson, 2013). In the mean time, businesses were sheltered from external competition, largely through import licensing which made it virtually impossible for competitors to enter the market.

1.5.3 The Consolidation of Market Forces, 1984 to 1999

By 1984, the New Zealand economy was over-regulated, with a heavily subsidised agricultural sector, soaring unemployment, high levels of inflation, and economic stagnation (Easton, 1997; James, 1986, 1992). After a snap general election the newly elected Labour government instigated a series of rapid moves where the currency was floated, banks deregulated, farming subsidies removed and industry assistance and import protections reduced or eliminated (Bollard, 2005). The reforms were endorsed and driven by the powerful big business lobby group, the New Zealand Business Round Table (Kelsey, 1995). Small business was neither a driver nor a focus of those reforms. Efforts, driven by business lobbyists and Treasury officials, were made to deregulate the economy and the reality of the stagnant economy gave credence to the notion that deregulation represented a better way forward. Indeed, the urgency of the need for radical change was summed up by the acronym TINA ('there is no alternative') and reforms were instigated at a considerable pace (James, 1986).

The consequences of the reform and the opening up of the economy were manifold and the impact on New Zealand society as a whole cannot be understated. In part, the reforms brought New Zealand out of a period of complacency and high levels of protectionism, which have been described as the 'Polish shipyard of the South Pacific' (Goldfinch & Malpass, 2007). The existing paradigm had been to have heavy state intervention in every aspect of ordinary people's life, famously described by a former prime minister as 'from the cradle to the grave' (Ministry for Culture and Heritage, 2014). This was overturned in a very short period of time bringing about a period of transition that lasted until the

early 1990s, where the private sector took on a bigger role and the government retreated from directly intervening in the economy. The underlying government philosophy of this era was that the market should regulate the economy and businesses should operate in a market environment with limited government intervention (Easton, 1997).

By 1990 the strains of extensive economic reform were beginning to have an impact on the electorate causing Labour Party divisions leading to the victory of the Fourth National Government (1990 to 1999). Key policies in this period continued the liberalization of the economy as introduced by the previous Labour Government, with the sale of state-owned enterprises, the liberalization of labour laws, through the Employment Contracts Act (1991), and further cuts to social welfare spending. In terms of SMEs the Consumer Guarantees Act of 1993 had an impact on how businesses competed.

1.5.4 The Knowledge Economy and Beyond, 1999 to 2008

The end of 1999 saw the election of a centre-left Labour Party administration, which continued to hold office until 2008, the final year of this study. The government proceeded to consolidate the economic reforms implemented since 1984. It also targeted what it considered under-performing and under-represented sectors of society (such as Māori, Pacific Islanders, women and young entrepreneurs) by increasing assistance to these groups. The economic reforms of the late 1980s had already resulted in the rise of a service industry that challenged a long-standing dependency on commodity exports (Bertram, 2009). New Zealand's shift in this regard reflected what was happening in other OECD

countries, as well as the economic theories that identified the growth potential of the ‘knowledge economy’ (Acs & Szerb, 2007; Gibb, 1999). Along with this new emphasis, New Zealand continued to seek to diversify its economy. Notable features of the period include the rise of the film and biotechnology industries (Statistics New Zealand, 2012).

Moreover, debate as to where to focus resources in New Zealand widened to include the emphasis of education as an intangible resource with economic multipliers. The linkages between science, innovation and entrepreneurship also continued to be widely debated. In this regard the *Catching the Knowledge Wave Project* spawned a 2001 conference by the same name sponsored by Auckland University in partnership with the government. The need to ‘re-invent’ the New Zealand economy within global developments was as pressing as it had been in the 1970s. On the world trade arena, indications that the World Trade Organisation Doha Development Round were stalling resulted in an acceleration of successful bilateral and multilateral trade negotiations between New Zealand and, among others, China, South Korea and the ASEAN countries (Ministry of Foreign Affairs and Trade, 2015).

Overall, during the period 1978 to 2008 New Zealanders experienced momentous changes to the social and political fabric of their country. Economically speaking, New Zealand changed from being one of the most protectionist economies of the post-World War II years, to being one of the world’s least regulated economies (World Bank Group, 2015). It is against this backdrop that the current historical analysis of SME policy takes place.

1.6 Structure of the Thesis

Chapter 1 has highlighted some of the challenges encountered when attempting to delineate the phenomenon of SME policy from the closely aligned, and somewhat overlapping concept of entrepreneurship policy. Here I also explained why the research adopts the currently prevailing term SME to encompass earlier, relevant, terminologies used in both scholarly publications and policy discussions. In broad terms, Chapter 1 is a contextual chapter that, in addition to the definitional aspects, also provides insight into some of the major features of the New Zealand economic and political scene in the period under scrutiny. It is here that the rationale for the choice of historical period becomes clear. In essence, New Zealand moved through a ‘quiet revolution’ (James, 1986) in the 1980s from a protectionist economy to a highly deregulated one. The ensuing period saw SMEs subject to a range of often new and changing external and internal influences, with SME policies both reflecting these changes and affecting SMEs. Consideration has also been given in this introductory chapter to the institutional environment in which SMEs operate, and to the economic, legal and cultural aspects of New Zealand throughout the period of study.

Overall, Chapter 1 has established that this current study is designed to increase the overall knowledge about the way New Zealand SME policy has developed by means of historical research into the policy process and its outputs. Chapters 2 and 3 in turn provide an overview of a range of literatures relevant to the aim of the research. Through these chapters I attempt to draw together the threads of scholarship relating to the policy development process, SME theory and research,

and, in particular, to provide a picture of the evolution of SME policy research and to identify the knowledge gap that this study addresses.

Chapter 4 sets out the research design, with particular emphasis on the historical method that underlies the study and on the interviews and documentary evidence that inform it. This is followed by three ‘results and analysis’ chapters. Chapters 5, 6 and 7 describe and critically assess the development of New Zealand SME policy and the influences that shaped it during three periods: 1978 – 1983, 1984-1998 and 1999-2008.

Chapter 8 presents conclusions regarding SME policy in New Zealand (1978-2008), how it developed and where it came from. Finally, this research identifies three distinct phases in SME policy development in New Zealand – 1978-1983; 1984-1999; and 1999-2008. In each case a set of specific SME-related outputs will be identified, as well as the changing nature of the external and domestic influences and stakeholders that helped shape policy approaches. In order to better understand the dynamic nature of the change underway in New Zealand SME policy development and outputs, a stylised framework is proposed in this concluding chapter to underscore this research’s primary contribution. This is that while SME policy mattered throughout the period under consideration, the way it mattered changed, including in ways that affected particular SME-related outputs, as well as the evolution of stakeholder and other external influences on SME policy making. This chapter also reflects upon the strengths and limitations of the study and the opportunities for future research into SME policy.

2. Public Policy

Chapter 1 introduced the initial rationale for, and broad context of, the current study of New Zealand SME policy from 1978 to 2008. The fact that SME policy is positioned as a subset of public policy requires that the literature review range over both facets of the subject. Thus this chapter is the first part of a two-part literature review that presents insights into current knowledge of SME policy by providing a critical overview of relevant scholarship. The second part of the literature review is set out in Chapter 3 which provides an overview and assessment of the literature on SME policy and provides an historical overview of the evolution of SME research internationally. The following sections consider various definitions of ‘policy’ alongside a review of the literature regarding what informs policymaking. Four main approaches to policymaking are introduced before reflecting on the utility and relevance of the ‘policy cycle’ approach. Chapter 3 will provide an overview and assessment of the literature on SME policy.

2.1 What is Public Policy?

One challenge for SME policy researchers is shared with public policy researchers in general, who agree that there is no single definition of ‘policy’ (Cairney, 2012; Hill, 2013; Parsons, 1995; Shaw & Eichbaum, 2011). At its most simple, public policy may be considered as comprising “the decisions governments take, the money they spend, and the services they fund and/or provide” (Shaw, 2006, p.

257). For others public policy has an even broader connotation, as Dye (1972) famously defined it as “whatever governments choose to do or not to do” (p. 18 cited in Knoepfel, Larrue, Varone, & Hill, 2011).

Any given policy has many attributes that may include a decision, a course of action, a lack of action or even an omission (Hill, 2013). Whatever the attributes of the policy, it is usually informed by policy advice which comes from a variety of sources including officials from government departments, consultants, political advisors, interest groups, independent think tanks, individual experts, and, increasingly, public pressure expressed through the media and opinion polls (Hill, 2013; Cairney, 2012). Public policy also involves a commitment of resources and has a normative dimension; that is, a vision on how things should be (Shaw & Eichbaum, 2011).

Public policy serves several purposes; mainly regulatory, allocative, stabilisation and distributive (Shaw & Eichbaum, 2011). The first purpose of public policy is to use the legal system to regulate social and economic interactions by individuals. The next purpose is to address market failures and ensure that resources are allocated appropriately. Public policy is also used to stabilise the economy in times of crisis through fiscal and monetary policy. Finally, public policy can be distributive, as in the formulation of tax, employment, health, education and housing policy (Sefton, 2008).

It follows that, through the development of policy, governments exercise their authority in a variety of ways. Hill and Hupe (2009) identify three types of

intervention: authority, where the government intervenes to enforce regulations; transactions, where the government puts in place an institutional framework for others to operate in; and persuasion, where it attempts to influence behaviour, as, for example, in health campaigns. Birkland's (2011) definition of public policy suggests a much 'looser' understanding of public policy as: "a statement by government of what it intends to do such as law, regulation, ruling, decision, order, or a combination of these. The lack of such statements may also be an implicit statement of policy" (Birkland, 2011, p. 9). So public policy is far from being a simple phenomenon to comprehend, and SME policy development, as a subset of public policy, requires the need to negotiate competing policy imperatives and even subtly different understandings of changing, and sometimes ill-defined concepts.

Public policy is developed by two main groups of policymakers, broadly called 'government', and 'institutions'. Government includes Ministers, public servants, Members of Parliament and judges, whereas, in the public policy context, institutions include Cabinet, Parliament, the courts, government departments and other public agencies (Shaw & Eichbaum, 2011). And, just as policy is a complex and fluid concept that allows for many definitions, so is the definition of policy-maker. This analysis characterises policymakers as public servants who are influenced by other significant actors in the making of policy, including ministers, media, lobby groups, and so on.

The adoption of decisions has long been considered a central component of public policy. Policymaking as a course of action or inaction, rather than simply, or

exclusively, specific decisions has also been part of the literature for a long time (Hecl, 1972). Decisions that affect public policy, therefore, may also include decisions not to act. Others have concurred with this view: Smith, for example, defines policy as the “deliberate choice of action or inaction, rather than the effects of interrelating forces” (Smith, 1976, cited in Hill, 2013 p. 15). Thus Smith argues that attention should be given to decisions that resist change, not just to decisions that argue for change. In other words, as much attention should be given to decisions that preserve the status quo as to those that change it (Cairney, 2012). Apparently overlooked by these positions is the possibility that non-decisions (or non-deliberate actions) can have an impact on policy development.

Public policy can also be framed as the expression of the political will of a government (Althaus, Bridgman & Davis, 2013, p. 12), what policymakers choose to do or not to do about public problems (Kraft & Furlong, 2013). In this regard, policy is also considered to be a mutable and sometimes hazy process. Influenced by boundary theory, Farnsworth (2007) has usefully equated the fluid nature of public policy to Gieryn’s definition of science, which states that science is “no single thing: its boundaries are drawn and redrawn, in flexible, historical changing and sometimes ambiguous ways” (Gieryn, 1983, p. 781). In the same way public policy can be influenced by the context in which it is developed, with the boundaries drawn around it fluctuating over time.

It follows that the importance of context in the development of public policy means that it is value driven and subjective (Shaw & Eichenbaum, 2011), suggesting the possibility of less than rational processes. A key component of any

policy is the series of decisions that were made in the lead up to the policy itself. Hogwood and Gunn (1984) note “any public policy is subjectively defined by an observer as being such and is usually perceived as comprising a series of patterns of related decisions to which many circumstance and personal, group, and organizational influences have contributed” (p. 24). This underlines the point that policy is often a web of complex processes leading to decisions that, taken together, result in a common understanding of what policy is (Hill & Hupe, 2009). It also raises the perspective that policy is not only made, but it is also received: policy recipients are not passive but, on the contrary, actively interpret and enact policies (Yanow, 1996).

Importantly, policymaking is always constrained by contextual factors such as economic and political demands and “can be understood as the sum of programs and decisions that have been actually implemented” (Dery, 1998, p. 164). Breaking away from the traditional top-down bias, Lipsky (1980) defines policy in terms of the decisions made and the actions undertaken by professionals at the street-level. In his view, the decisions professionals make in crowded offices, “the routines they establish, and the devices they invent to cope with uncertainties and work pressures, effectively become the public policies they carry out” (Lipsky, 1980, p. xii). This is yet another approach to interpreting policy; this time policy is given meaning by the implementer as distinct from the policy-maker or the recipient. Thus the researcher leaves room for the informal creation, or co-creation, of policy, a position aligned with a social constructionist philosophy.

Underlining the complex nature of public policymaking and policy implementation is the fact that it involves many processes and ‘actors’. Policy can be given meaning by these different actors, depending on their role or roles in the policymaking process. In the traditional sense, policymakers (those in government or public servants) set the agenda, institutions implement policy and recipients interpret it as it relates to their needs and experiences.

Against this background, this study of SME policy adopts the wide-ranging, inclusive understanding of policy posited by Shaw (2006). Shaw says that policy consists of “the decisions governments take, the money they spend, and the services they fund, and/or provide but taking into account the important points” (2006, p. 257). These “important points” refer to those highlighted by Smith (1976) regarding the processes involved in policymaking, including both decision-making and decisions not to act (whether consciously made or not). In addition, the changing historical context for policymaking and the impacts of existing policies need to be borne in mind, as does the way in which policies, such as those related to SME policy, may be affected by broader policies, which tangentially affect SME policy both in process and outcome-related terms.

Given that policy is a value driven, complex, and flexible concept, it is perhaps unsurprising that there are many ways of perceiving the notion of policy, and these are not necessarily mutually exclusive. Policy can be variously understood as a programme, an output (Shaw & Eichbaum, 2011), a theory, a process, a field of activity, a policy objective, a possible course of action, government decisions, or a formal authorisation via legislation (Hogwood & Gunn, 1984). In the case of

policy as a programme, the focus moves to governments and their agents involved in policy, either through legislation, resources, and/or initiatives that outline specific responsibilities of those implementing the programme. Conversely, policy as an output represents what has been delivered by a particular policy programme. In recent years policy has increasingly been under scrutiny in terms of outcomes, focussing on “real-world effects” (Shaw & Eichbaum, 2011, p. 14) of policy. This shift in emphasis to “what has been achieved, rather than what has been produced” (Shaw & Eichbaum, 2011, p. 14) has come about largely because of calls for more effective policy evaluation mechanisms and consequent calls for better measurement of policy effectiveness (Storey, 2002, 2004). In contrast, when policy is understood as theory, the emphasis is placed on assumptions and normative expectations of how things should be. Finally, policy as a process implies change over time, and perhaps responsiveness to conditions. Put simply, “issues emerge from a historical context, and evolve over time as economic circumstances change, as governments and Parliaments come and go, and as new evidence about successful (or flawed) interventions come to light” (Shaw & Eichbaum, 2011, p. 16).

The reality of policy development and implementation is that it is constrained by the human and financial resources allocated to it. Hence policy is influenced by the values of policymakers who will “generally pursue options which are consistent with their values” (Shaw & Eichbaum, 2011, p. 10). But, not only is public policy normative, setting out the way specific areas of human behaviour should operate, it is also embedded in the context that it is developed and

implemented (Cairney, 2012; Etzioni, 1967, 1986). It is the product of political and economic considerations that are important when the policy is developed and it involves the use of human and financial resources, backed up by a legislative framework.

2.2 Approaches to Policymaking

The policy process is a complex one (Howlett, Ramesh & Perl, 2009) and beset with similar challenges to any decision making undertaking. In a bid to simplify and explain the policymaking process, a range of different models and theories have been developed (Parsons, 1995; Cairney, 2012). Currently the four most accepted approaches to policymaking are the rational approach, the incremental approach, the so-called ‘mixed-scanning’ approach and the institutional approach (Cairney, 2012; Hill & Hupe, 2009; Hogwood & Gunn, 1984; Parsons, 1995). As the following account conveys, each of these approaches exhibits certain defining characteristics and each is informed by differing assumptions.

2.2.1 Rational Approach

The rational, or rationalist, approach was one of the first attempts to examine policymaking and is firmly rooted in positivist assumptions. Originally the economist Herbert Simon (1957) depicted policymaking as that carried out by decision-makers who had clear objectives, and were able to predict problems, solutions and consequences. In this model, the policymaking process was largely descriptive and normative, and had a strong top-down approach, where all stakeholders were expected to accept the policy developed. Others who laid down

the foundations for the rational approach to policymaking include Lasswell (1956) and Easton (1965).

While there is some consensus that rational models can be a useful mechanism to help understand the policymaking process, they have been criticised for being unrealistic (Hill, 2013), in particular in relation to the difficulty in acquiring ‘perfect knowledge’ a necessary pre-condition so that the decision-making process can be entirely ‘rational’ (Cairney, 2012). A rational model assumes that policy is developed in an ideal situation and is not able to account for either the realities of resource constraints or the ideal type of values that are required for the most rational decision to be made (Hogwood & Gunn, 1984, p. 48). Rationalist models are also largely descriptive models and as such can be affected by the issue of ‘conceptual lenses’ as identified by Allison (1971) who suggests that these conceptual lenses lead to different interpretations of events, thereby undermining the claim to ‘rationality’. Indeed, Simon’s notion of ‘bounded rationality’ (Simon, 1955) acknowledged the limits on human beings’ ability to be entirely rational.

2.2.2 Incremental Approach

The incremental approach to policymaking can be seen as a response to Simon’s ground breaking work. While Simon (1955) considered a rational approach to decision-making that is essentially linear and that relates to considering values and options together, Lindblom (1959) considered how values and objectives are themselves established and how policy is then formulated to try and correspond

with these. Lindblom delved into the notion that policy is not created in a linear, rational manner, but is, instead, a series of ad hoc decisions that take place throughout the policymaking process without necessarily following a linear path. He described this process as ‘muddling through’, a concept that was thought to reflect a more accurate description of how people, reacting to changing circumstances and evolving understandings, actually make policy.

Lindblom (1959) carried out a series of studies on real-life policymaking, which concluded that typically policymakers did not think through, or at the very least outline, their objectives. Moreover, he noted that, when existing policies were not working, remedial action taken by legislators and administrators tended to be incremental. The implication is that policymaking is ‘serial’ as “we keep coming back at problems as mistakes are corrected and new lines of attack developed” (Hogwood & Gunn, 1984, p. 53). The depiction of policymaking as the result of gradual additions to existing policy is sometimes called the pluralist approach (Bachrach & Baratz, 1962). In an incrementalist/pluralist approach, policy ends are not seen to determine policy means and objectives should not precede means because elites tend to dominate rather than stakeholders. The value of the incremental approach is the credence it gives to the notion that public policymakers must often modify and/or improve policies inherited from previous governments, to adapt to current political, economic and social considerations. Therefore, the process of policy development is, under incrementalism, “modest and pragmatic” (Shaw & Eichbaum, 2011, p.20).

Within the bounds of incremental models, Hogwood and Gunn (1984) position the ‘contingency’ approach, whereby policymaking methods are adjusted “to the circumstances and to the issue in question” (Hogwood & Gunn, 1984, p. 62). Like other incrementalist/pluralist models, the contingency approach taps into the realisation amongst policy scholars that policy is not formulated under the rationalist assumptions of ideal, sequential conditions like perfect information and ideal access to resources (Parsons, 1995). Parsons (2002) argues it is still the case that ‘muddling through’ (Lindblom, 1959) indeed conveys the reality of policymaking in liberal democracies. Further, there is considerable evidence to suggest that the tensions between the ideal and the politically expedient present inherent challenges as policy is often driven by politicians who are caught up between policy problems and solutions and political considerations (Kingdon, 1984).

Ultimately, however, SME policy will carry practical consequences for businesses and must therefore be acceptable to a range of stakeholders. Incrementalism as a conceptual model accommodates this, as, from this perspective, a good policy is one “that is agreed by all relevant parties, rather than one which achieves a predetermined outcome which may itself be the preference only of a powerful few” (Shaw & Eichbaum, 2011, p. 20). Yet, despite its intuitive appeal, there are limits to the incrementalist approach. For example, early on Dror (1968) identified incrementalism as a good option when socio-economic conditions are relatively stable, but as lacking under circumstances of instability where more direct involvement in policymaking might be needed.

2.2.3 Mixed Scanning Approach

The mixed scanning approach emerged as a response to some of the perceived weaknesses of the rational and incrementalist approaches to policymaking. Etzioni (1967; 1986) identified shortcomings in the established models to social decision-making and a detailed critique of the incrementalist approach formed a backdrop for his proposed approach to policy formation. His mixed scanning approach was intended to address both what he saw as the unrealistic expectations of rationalism and the conservative approach of incrementalism. At the heart of Etzioni's mixed scanning approach is the question: "To what extent can social actors decide what their course shall be, and to what extent are they compelled to follow a course set by forces beyond their control?" (Etzioni, 1967, p. 385). Mixed scanning, because it favours an in-depth examination of some sectors while others are given a general review (Hogwood & Gunn, 1984; Shaw & Eichbaum, 2011), differentiates between fundamental and incremental decisions (Etzioni, 1967, 1986). For the mixed-scanning approach to be successful a fundamental decision needs to be taken that forms the basis of other decisions in the policy area in question. As Hogwood and Gunn explain, "fundamental decisions should be made but exploring as many as possible of the options open to the decision-maker" (Hogwood & Gunn, 1984, p. 61) for these set the context for incremental decision-making. One of the main strengths of mixed scanning as a decision model for public policymaking is that, because of its dual emphasis on the general and the particular, it invites policymakers to take account of changing environmental conditions.

2.2.4 Institutional Approach

These three main approaches to policymaking and policy analysis have been more recently supplemented by an approach that uses institutional theory to underline the importance of social, economic and legal institutions to the process of policymaking. In particular, the institutional approach emphasises the utility of historical analysis to delineate the development of a policy over a period of time (Hill, 2013; Steinmo, Thelen & Longstreth, 1992). Under an institutional approach to policymaking, SME policy can be influenced and explained by taking account not only of past policy decisions and current internal pressures, but also of the need to adapt to institutional pressures in the external environment. Pressures include both the social demands that require SME policy to conform to certain established and accepted norms, and economic/technical demands that require policymakers to acknowledge broader social and cultural issues that might, on the face of it, be considered outside the purview of SMEs.

Powell and DiMaggio (1991) explain that institutions are a phenomenological process by which certain actions and relationships become fixed and are taken for granted. They argue that these become ‘conventions’ that take on a rule-like status and can affect business practices and values such as, if we consider SME policy, public attitudes towards entrepreneurs. Importantly, an institutional approach to the study of policy process involves interpretation of how policies will perform.

Immergut (1992) stated:

Institutions do not allow one to predict policy outcomes. But by establishing the rules of the game, they enable one to

predict the ways which policy conflicts will be played out (Immergut, 1992, p. 63).

This is a key distinction, since it suggests that the institutional approach provides an important frame of reference for considering and ‘interpreting’ policymaking, but cannot in and of itself be of utility in predictive terms.

The importance of institutions in relation to policy has also been influenced by economics, in particular through application of theories such as path dependency that often are reflected in the difficulty in reversing institutional arrangements (Pierson, 2000). Institutional theory serves to highlight the complexity of the system within which SME policymakers operate. This complexity impacts on the policymaking process and has implications for the outcomes of policy and for future policy developed in spite of the policy planner’s original intentions.

The outcomes of policy developed in this way are sometimes described as ‘unintended consequences’ a concept that harks back to Adam Smith and made widely known in the twentieth century by Merton (1936). Dery (1998) labels this type of policymaking as ‘policy by the way’, a policy that is entirely or primarily incidental to the making of other policies. The existence of policies that were developed as an unintended consequence in the course of the development of another policy can be especially difficult to alter because “in a crowded policy space, the task of changing a policy by the way is necessarily entangled with changing a multitude of policies” (Dery, 1998, p.175).

The ‘policy by the way’ concept is an institutional approach also closely linked to that of path dependency, which originated in the economics field of research

(Lipset & Rokkan, 1967). Path dependency emphasises that what happened earlier will have an effect on possible outcomes and events that occur at a later time (Pierson, 2000). As with policy by the way, path dependency suggests a change in policy direction is very difficult, since reversal costs of the initial choice are often very high due to “the entrenchments of certain institutional arrangements” (Levi, 1997, p. 28). Economist Douglass North has also extended the path dependence concept to the institutional level defining it as “the constraints on the choice set in the present that are derived from historical experiences of the past” (North, 2005, p. 52). Understanding these constraints and their historical settings are important to improve policymaking.

2.3 Policy Frameworks and Instruments

John (2012) observed that each approach to policy analysis has its advantages. For instance, an institutional approach is useful for examining the reasons for political stability, or to compare different countries, but it is not very good at explaining policymaking differences across sectors. He concluded that “good explanations of public policy can incorporate the contrasts between policy change and stability and understand the differences between policy sectors and countries” (John, 2012, p. 182).

More broadly, public policy generally reflects the prevailing political discourse at any given time (Hill & Hupe, 2009). This provides the context in which policy is enacted, developed and understood – and this is reflected too in the way in which institutions seek to develop policy. Policy can also be interpreted as “‘acts’ which

have meaning for individuals” (Yanow, 1996, p. 22), drawing attention to the situation in which “policies are not simply implemented to passive recipients, but are ‘read’ and interpreted” (Yanow, 1996, p. 24). Thus, policy can be considered to be actually a co-creation of those who initiate and those who are the intended beneficiaries. Establishing the ‘meaning’ of policy is a dynamic process, negotiated over time.

2.3.1 Policy as Process: The Policy Cycle

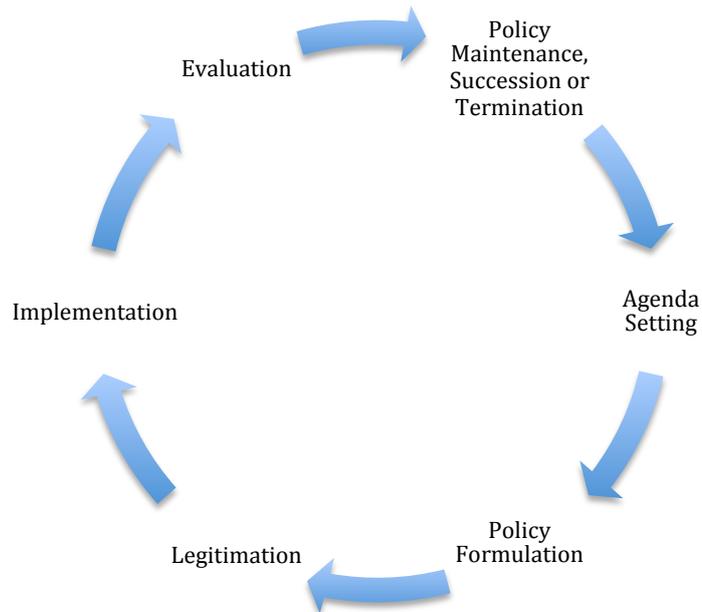
But how do policymakers, researchers, analysts and commentators conceptualise the formation and implementation of policy? Perhaps the best-known model of policymaking, and one that has been extensively referred to, is the policy cycle, first developed by Easton (1957, 1965). This systems oriented model is based on the premise that policy can be examined through a series of processes that occur within a given environment. The model consists of a series of inputs which are governed by demand and support pressures which in turn are filtered during a decision-making process undertaken by policymakers. The resulting policy outputs and the type of impact these have on society are then used as feedback to improve future policy. The perceived usefulness of this approach was that it no longer emphasised institutions or structures but, rather, the process used to develop policy (Hill, 2009). Inspired by the biological sciences, the model emphasises the notion that “political systems . . . exist in an environment which contains a variety of other systems including social systems and ecological systems” (Hill, 2009, p. 141).

Easton's political system model captured many features of an incrementalist approach, and provided a coherent conceptual framework for understanding policy creation. However, in spite of its logical appeal, the model had the shortcoming of representing a *closed* political system. This issue was somewhat addressed in the later modification of Easton's model, which presented political activity as a series of policy processes that themselves need a degree of order for the development of a coherent and relevant policy. A series of developments (e.g. Jones, 1984) led to the production of a model that is both prescriptive and descriptive (Hogwood & Gunn, 1984). Under this later model the policy process is divided into sequential stages that begin at the point where policymakers start to think about a policy problem, going through the stage of policy implementation and proceeds to an assessment of how successful the policy has been, before re-entering the process.

Figure 2.1 presents the way Easton's systems theory model developed into a stagist approach to policy process theory. Within this policy cycle model, policy is successfully implemented if policymakers agree on a common understanding of objectives; fully specify these objectives in the correct sequence; and coordinate the implementation process with no breakdown in communication (Hogwood & Gunn, 1984, p. 201). Ideally, consistent with its rationalist assumptions, policies would be well resourced, implemented as intended, supported by influential stakeholder groups, and benefit from favourable socio-economic conditions. The evaluation and maintenance stages present an opportunity for feedback and thus

represent an *open* systems approach, addressing a major shortcoming of Easton's earlier model.

Figure 2.1 The Policy Cycle. (Cairney, 2012, p. 34).



The policy cycle model has been seen as a useful mechanism to describe how policy is developed. Further it has been a useful tool to analyse the policy process, in particular the way “private issues evolve into public and political concerns, how the legislative process structures political concerns into legislative concerns, how the laws are formulated and put into effect, as well as how such policies are evaluated and may eventually change or end” (Theodoulou & Kofinis, 2004, p. 34).

The policy cycle has also been criticised for a number of reasons, and two criticisms in particular are most relevant for this current study of SME policy. First, as is the nature of models in general, the policy cycle model can be accused of over simplifying what is in fact a complex, non-sequential process that is the norm in policy development. Second, the policy cycle is also not, for the most part, useful in terms of explaining *how* policy is made. In particular, it has a top-down bias, where choices made at the top are tracked all the way to the bottom of the bureaucratic hierarchy (Cairney, 2012). The policy cycle approach, however, usefully underlines the fact that, in order to study public policy, it is necessary to consider the aims, decision and outcomes of the policy in question.

For all its strengths and weaknesses, possibly the main concern is the bias engendered by uncritically adopting a neat systems framework such as the policy cycle. Likewise, it is useful to take into account that “[all] narratives of public policy are ‘biased’ because they are based on our interpretations of a limited number of measures” (Cairney, 2012, p. 44). For this reason, and because of the innately political context of policymaking, it is important to take into account factors that affect the narrative of policy development which include questions about power – who has the formal authority, who makes and influences the most important decisions, and so on. Important factors in the policy process include, therefore, how and why choices were made, the role of institutions, the relationship between governments and interest groups, the socio-economic context and the role of ideas (Cairney, 2012; Hill & Varone, 2014).

For all its shortcomings, the policy cycle has also served as a basis for structuring the study of public policymaking. Hogwood and Gunn (1981) famously divided the types of study of policymaking into two main groups (Figure 2.2).

Figure 2.2 A Typology of Policy Studies. (Following Hogwood and Gunn (1981) and Hill (2013)).

Policy Studies Knowledge <i>of</i> policy and the policy process			Policy Analysis Knowledge <i>in</i> the policy process			
Study of policy content	Study of policy process	Study of policy outputs	Evaluation	Information for policymaking	Process advocacy	Policy advocacy

The first group consists of policy studies and encompasses knowledge of policy and the policy process. In this group students can study policy content, policy process and policy outputs. The second group consists of policy analysis, which involves knowledge in the policy process. It consists of evaluation, information for policymaking, process advocacy and policy advocacy. Building on the work by Hogwood and Gunn (1981) Hill (2013) observed that, in a study such as this one that examines the the historical development of policy, attention is focused on the stages through which issues pass, and attempts are made to assess the influence of different factors on the development of the issue. In other words, “analysts seek to describe the genesis and development of particular policies” (Hill, 2013, p. 5). Following this approach, this research is a study of the policy content. Studies of the policy process invariably show some concern with policy

content, but in the main they are interested in uncovering the various influences on policy formulation. While policy content forms an important part of this research into SME policy, it is also concerned with the context and setting of how New Zealand's SME policy came about. The policy process approach to policy analysis is therefore considered to be an appropriate analytical mechanism to study SME policy development during the period under scrutiny.

2.3.2 Policy Instruments

Governments use a range of techniques or instruments to implement their public policy objectives (Howlett, 1991). Thus policy instruments are the means used to deal with policy problems (Howlett et al., 2009). Policy instruments can have different degrees of government involvement ranging from very low, to mixed participation (for instance that of government agencies and private agencies) and very high involvement. The choice of instrument depends not only on the perceived likelihood that it will ensure the policy objectives are met, but also takes into account relevant political considerations. Notably, the choice of policy instruments is subject to human judgement and thus reflects the “normative preferences of decision-makers especially regarding the role of the state and the rights and duties of individuals” (Shaw & Eichbaum, 2011, p. 29). Thus the perceptions of those professionals involved with policy formulation are likely to provide rich insights into what considerations drove a particular decision process.

Three major categories for grouping policy instruments – voluntary, mixed and compulsory – relate to the level of state intervention in the process (Eliadis et al.,

2005; Howlett et al., 2009). At one extreme, those in the voluntary category encourage private market, families and communities to play a leading role in providing the policy in question, with minimal or no state intervention. The mixed category of policy instruments involves state input but also relies on citizens taking a proactive role in responding to these policy initiatives. Advantages of utilising mixed instruments include the cost savings, engendering support for a particular policy. Policy instruments of this type vary: they can be information-based; involve consultation with the community; contracting out of services to harness local expertise; subsidisation of services to decrease costs to the state and the individual; formation of public/private partnerships to spread fiscal risks; harnessing private sector expertise; and imposing user-chargers to limit individual consumption and state costs (Howlett, 2009). At the other extreme, the compulsory category of policy instrument is characterised by a high level of state involvement, compulsion and coercion. Examples of these types of policy instruments include taxation, legislation and regulation and service provision by the public sector (Shaw & Eichbaum, 2011).

The choice of policy instruments can be seen to cast light on the relationship between the government of the day, and those whom it governs (Lascoumes & Le Galès, 2007). It can also be a reflection of other influences on governments during particular periods, leading to the claim that policy can determine politics, (e.g. Lowell, 1966, 1972 cited in Howlett et al., p. 115). Following an assessment of various studies on policy instruments Birkland (2011) identified the broad categories of policy instruments used by public policymakers as: instruments that

relate to government legislation; direct governmental service provision; public spending and fiscal policy (for example social security benefits, contracting out goods and services, loans and subsidies); and suasion, to encourage desirable behaviour or to promote technology transfer, training and information (Birkland, 2011).

Howlett (2009) presented alternative groupings for policy instruments, identifying them not only in terms of the influence of a government's political orientation, but also in terms of a range of other characteristics: information-based instruments, authority-based policy instruments; treasury-based policy instruments and organization-based policy instruments. Information-based instruments include public information campaigns evident, for example, in such initiatives as tourism or trade promotion. Exhortation (also called suasion) is another information-based instrument commonly used to influence actions of society in situations such as a call to use public transport. Other information based instruments include benchmarking, commissions and inquiries. Benchmarking instruments are used to compare and learn to develop policy that addresses areas that are not meeting targets, whereas commissions and inquiries are used to gather information about an issue: benchmarking as a policy instrument typically combines academic research and general public input with the aim of building the knowledge base on the particular issue. Overall, information-based instruments are perceived to be useful. In terms of effecting policy change, however, the accepted view is that they need to be combined with some other policy instrument.

Authority-based instruments relate closely to the ‘compulsory’ category, and are generally associated with circumstances wherein authorities mandate certain performance requirements – they may prescribe direction and even require formal, standardised accountability reports. Such tools include regulation, self-regulation, and advisory committees, all of which can act as constraints upon the activities of SME operators, but which have the benefit of perceived equity across the sector. A regulation is usually the outcome of a piece of legislation that requires the compliance of certain societal groups or individuals. Regulations are administered by a government department or an agency, which has the power to penalise individuals or groups for non-compliance. Examples of authority-based regulatory instruments include economic regulations, which control specific aspects of the market economy, and social regulations, which control health, safety and societal behaviour.

Because regulations are easy to enforce, it is common for government to resort to these in times of crisis when quick changes are required. However, it is possible for regulations to promote economic inefficiencies, and inhibit competition and innovation. They also tend to be inflexible and disregard individual circumstances. Self-regulation is a type of authority-based policy instrument that roughly corresponds with the earlier mentioned voluntary category. Under self-regulation, governments encourage non-governmental organisations to monitor themselves, as in the case of professional associations such as psychologists or lawyers, who regulate themselves through membership guidelines and codes of ethics. This is a cost saving to government but has the shortcoming associated

with any self-administered adherence to standards, in that results are not consistent. Finally, advisory committees are a type of authority-based policy instrument, which are diverse in nature and potentially problematic, varying in terms of their degree of formalisation and their role in the policy process.

Treasury-based policy instruments encompass the financial resources available to government and include subsidies (in the form of grants, tax incentives and loans). This category of policy instrument overlaps with the two compulsory and mixed categories, as there are elements of choice. Conventional wisdom suggests that grants are usually issued to encourage the production of a desired good. Similarly, tax incentives are a type of subsidy intended to promote certain outcomes, as are government loans, which tend to be below the market interest rate). Subsidies have the advantage of being easy to establish and flexible, but it is hard to determine the ideal amount of the assistance as different government departments compete for limited funds. Finally, taxes and user charges act as financial disincentives for SMEs to invest in certain areas or conduct their business in certain ways. And governments use them to raise revenues and to encourage desired behaviour (Howlett, 2009). The range of treasury based policy instruments is evident in other types such as advocacy, interest group and think-tank funding, which exhibit various degrees of government intervention in this type of policy instrument.

Organisation-based policy instruments (Howlett, 2009) include direct provision where government delivers goods and services directly through government employees. These are easy to establish, have low information requirements, use of

resources, skills and information, are cost-effective. However, they are inflexible and are affected by political considerations. The range of SME-specific policy instruments is discussed in more detail in Chapter 3.

2.4 Concluding Comment

By exploring the wider notion of public policy, this chapter has highlighted the potential complexity associated with the seemingly straight-forward concept of SME policy. Indeed, policy itself is a changeable concept beset by ambiguity. Further, it has been revealed that the policymaking process is a non-rational, complex process affected by previous policy decisions – a process that is incremental and adaptive. Policy is made within environmental conditions of stability/instability and is affected by political expediency on the part of the politicians who drive it. The following chapter now puts the notions of SMEs and SME policy under scrutiny.

3. SMEs & SME Policy

It is apparent that public policy research and the associated conceptual frameworks span a range of social and economic settings and government undertakings. Small and medium enterprises, however, provide a particular set of conditions, and thus challenges, for policymakers. Building on the previous discussion of public policy, this chapter provides an overview and assessment of the literature on SME policy, including definitions of SMEs and aspects of SME-focused policymaking with the aim of understanding what SME policy is. This is followed by an historical overview of the evolution of SME research, including through an examination of published research and commentary particularly associated with the development of SME policy in the United States of America, the United Kingdom and Australia. The chapter concludes with a discussion that draws together the dominant themes and major tendencies with regard to SME policy development in New Zealand, including an assessment of the relationship between New Zealand SME policy and international knowledge and practice.

In seeking to understand SME policy, it is important to acknowledge the range of definitions for SMEs themselves. Further, New Zealand SMEs have their own unique parameters, existing within a distinctive economic and social system. The following section identifies the key characteristics of SMEs and considers SME policymaking, including in terms of the rationale for SME policy and the main types of such policy.

3.1 Defining SMEs

It is commonplace to accept that there is no universal definition of what an SME is (Bannock, 2005; Hart, 2003; Landström & Stevenson, 2005; Massey, 2011; Schaper, 2009-2010). Within individual countries government agencies and departments, national statistic offices, or SME-specific agencies can set their own definitions suitable to particular circumstances or issues meaning that there may even be different definitions of SMEs in the same country. Within a country the definition of an SME may differ depending on whether the entity is classified as existing within the agricultural, manufacturing or services sector. To overcome this complexity and to find a cross-sector definition for SMEs there has been a move to focus on the number of employees and annual turnover. The resulting multiplicity of definitions has been further expanded by international and regional institutions such as the OECD and the European Commission, which have also developed ‘working’ definitions for SMEs (European Commission, 2015; Organisation for Economic Cooperation and Development, 2000, 2007).

Arguably, the most significant factor influencing the diversity of definitions of SMEs is the context in which an SME operates. In other words, context makes terms such as ‘small’ and ‘medium’ relative, as their meaning can change between countries depending on their population or industrial base. New Zealand, a country with a very small population base of less than five million people, for instance, classifies a ‘large’ firm as one employing more than 100 employees (Ministry of Economic Development, 2011). In contrast, the USA, classifies a ‘large’ firm as one that employs over 500 employees (SBA, 2014). These definitions focus on the number of full-time employees and are quantitative in

nature. In this regard, they share this approach with other definitions that draw on criteria such as a firm's annual revenue, its assets, and so on. When it comes to defining an SME in a developing country it has been further suggested that any definition should take into account the firm's revenue relative to the economic context in which it operates (Gibson & van der Vaart, 2008).

Some have argued that the qualitative aspects of SMEs should also be taken into account (Bannock, 2005a; Bennett, 2014; Curran, 1991; Storey, 1994). Accordingly, some SME definitions explicitly take into consideration issues such as independent ownership and the management of the firm (Senderovitz, 2009). They also seek to take into account the fact that SMEs differ from larger enterprises in particular ways (Gibb, 2000a). In his seminal SME study, Storey (1994) suggests another approach and proposes other less tangible exemplifications of small firms. He identifies uncertainty as a key feature, for example, noting that SMEs are price takers and are unable to influence the price level of the market. According to Storey (1994) therefore, because SMEs tend to have a more limited customer base and are often subcontractors to larger firms, they are vulnerable to the actions of large firms. Importantly, not all small firm owners necessarily want to maximise profits, especially as performance monitoring by shareholders does not happen. There is room in such enterprises for personal, perhaps idiosyncratic, goals and in these circumstances, the priorities of the owner-manager may prevail over more general social and economic goals. The fact that the firm is owner-managed may also mean that principle/agent problems do not happen to the same degree as in large enterprises. This also gives SMEs more flexibility in terms of changing operations (Bannock, 2005a).

Innovation has also been identified as a defining characteristic of the small firm (Bennett, 2014; Penrose, 1959; Storey, 1994). This is consistent with evidence that it is common for SMEs to play a 'niche' role within an economy, offering something that distinguishes them from the standardised product or service. Although small firms are less likely to engage in research and development (R & D), they are more likely than larger firms to introduce innovations and to adapt to change.

While the discussion on SME definitions remains unlikely to be resolved, and the different approaches listed above remain current, increasing calls have been made to consider 'micro' enterprises as a separate entity altogether (for example, Gibson & van der Vaart, 2008). Notwithstanding this, it is possible to assert that SMEs share common concerns and can be viewed as a complex set of business owner-managers who possess different levels of information and resources as big businesses do. It can be argued that in niche markets SMEs enjoy enviable information about consumer preferences compared to their bigger counterpart.

Despite there being no universally agreed definition of SMEs, there is a growing consensus in the international literature that SMEs are enterprises operated by an owner-manager who face a number of challenges, including: access to finance; dealing with regulatory requirements; a lack of time to develop management capability (Dennis, 2011a; Greene et al., 2007; Minitti, 2008; Storey, 2008, 2005, 2004) and higher compliance costs (Bannock & Peacock, 1989 cited in Storey, 1994). SMEs are also typified by low levels of internationalization suggesting that, if a quantifiable contribution to a country's economic growth is a desired policy goal, SMEs will need significant help to expand their activities beyond

their country's borders (Coviello & McAuley, 1999). Recent research also draws attention to differing understandings of internationalization among owner-managed firms and this presents a further challenge to attempts to develop a single definition of SMEs (Bayfield, Dana & Stewart, 2009; Deakins, Battisti, Perry & Crick, 2013; Lamb, Sandberg & Liesch, 2011).

Further complicating the definitional question is the fact that each country has its own way of defining SMEs. Australia has its own size-related distinctions between various businesses. The Australian Bureau of Statistics, for instance, defines micro firms as those firms with fewer than 5 employees, small firms as employing 5-19 employees, medium firms as employing 20 – 200 employees and large firms as employing more than 200 (Australian Government Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, 2013).

In the United States of America, a large, sophisticated market economy, the set of criteria used to classify SMEs is comparatively complex. These include industry type, ownership structure, revenue and number of employees. Indeed, the Small Business Administration identified common standards for an SME, depending on its North American Industry Classification System (NAICS) code, where a small business was one with 500 employees for most manufacturing and mining industries, or had a US\$7 million average annual receipts for most non-manufacturing industries (Small Business Agency, 2013).

By contrast, the European Commission utilises, a more generalized approach is taken whereby SMEs are largely measured by employee numbers turnover, and/or

balance sheet total. In contrast with the US approaches noted above, the industry sector in which the SME operates is not taken into account. Table 3.1 outlines the EU’s current approach, which is currently utilized by the twenty-eight EU Member states.

Table 3.1 European Union Definition of a Small and Medium Enterprise. (European Commission, 2015).

Company Category	Employees	Turnover	Or	Balance Sheet Total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 3.2 sets out the way the definition of an SME has changed over time in New Zealand. One of the first recorded versions of an SME definition in New Zealand was in 1975 (Small Business Management Advisory Committee, 1975) followed by that cited in a Department of Trade and Industry report into the small business sector (Butler, 1976 cited in Mellalieu, 1977, p. 1). According to this, an SME employed 50 employees or fewer, had a turnover of less than NZD\$1 million, was managed by one or two people and was independently owned. This served as the starting point for those actively involved in setting up the Small Business Agency in 1978 (Devlin & Le Heron, 1977; Le Heron, 1979; Small Business Agency, 1978). Following the lead of contemporary international definitions, this definition included the caveat that there were particular characteristics of SMEs where the “owner-manager makes all manager decisions” and there is a “low

‘level of abstractness’ concerning management education” (Small Business Management Advisory Committee, 1975, p. 4).

This approach also used size and turnover criteria, which varied depending on the sector. A decade later, Bollard’s (1988) definition of what constituted a small business implicitly acknowledged the fact that there may be differences between micro-enterprises and small enterprises. Consequently, he included a separate definition for both categories. Cameron and Massey (1999) further extended the SBA definition to include medium enterprises. Table 3.2 describes these definitions below.

Table 3.2 Timeline of SME Definitions in New Zealand. Adapted from Massey (2011, pp. 10 - 11).

Source SME Definition	SME Definition
Small Business Management Advisory Committee (1975)	<50 employees (manufacturing) <25 employees (distribution) <\$200,000 p.a. turnover
	<10 FTEs (service) <\$40,000 p.a. turnover
Butler (1976) (cited in Mellalieu, 1977)	<50 employees (manufacturing) <\$1,000,000 p.a. turnover
Devlin (1977) Le Heron (1979)	<50 FTEs (manufacturing) <25 FTEs (distribution) < \$200,000 p.a. turnover
	<10 FTEs (service) <\$40,000 p.a. turnover
Small Business Agency (1978)	<50 FTEs (manufacturing)
	<25 FTEs (wholesale) <\$100,00 p.a. turnover
	<25 FTEs (retail) < \$250,000 p.a. turnover
	<10 FTEs (service) <100,000 p.a. turnover
Bollard (1988)	Very small <10 employees <20 employees (manufacturing sector only)
	Small <20 employees <50 employees (manufacturing sector only)
Cameron and Massey (1999)	Micro-enterprise <5 FTEs Small <50 FTEs Medium >50 and < 100 FTEs Large > 100 FTEs
Ministry of Commerce (1999a)	Small 0 - 5 employees Medium 6 - 19 employees SME - "a firm with up to 19 employees"

It was only in 1994, however, that the New Zealand government first used the term SMEs. This was in the context of the 1994/95 Budget where it appeared as an entry for government expenditure for the first time (Massey, 2011). By 1999 (Ministry of Commerce, 1999a), the government had issued a new definition, which continued to inform and shape the accepted definition for the following decade. Thus, in 2011 the New Zealand Ministry of Economic Development (MED) defined micro-enterprises as firms employing fewer than 10 employees, and

SMEs are defined as enterprises with 19 or fewer employees. They are generally managed and operated by the owner. New Zealand SMEs tend not to have specialist staff at management level and are not part of a larger business or group of companies with access to managerial expertise. (Ministry of Economic Development, 2011, p. 5)

The most current SME definition in New Zealand, issued by the newly formed Ministry of Business Innovation and Employment (2014a), is a departure from the previous one as it extends the definition of SMEs to be “all businesses with fewer than 50 employees” (Ministry of Business Innovation and Employment, 2014a, p. 10). This change reflects discussions on the way SMEs in New Zealand had been defined (Massey, 2011). According to this definition, SMEs are made up of micro-enterprises (1 to 5 employees), small to medium enterprises (6 to 19 employees) and medium-sized enterprises (20 to 49 employees) and a large enterprise employs 100 or more employees (Ministry of Business Innovation and Employment, 2014a).

An example of a definition that takes these qualitative characteristics into account is that of Schaper, Volery, Weber and Lewis (2012). They state, “a small

business can be defined as an independent firm that is usually managed, funded and operated by its owners, and whose staff size, financial resources and assets are comparatively small in scale” (p. 79).

This explanation captures and addresses some of the definitional challenges posed by the point highlighted above, i.e. the size of economies worldwide varies and consequently the number of employees and turnover amounts can diverge quite markedly. However, the issues facing SME owner-managers in different economies are considered to be universal (Bridge, O’Neill & Martin, 2009; Mazzarol, 2014; Minniti, 2008). By highlighting qualitative aspects, the Ministry of Economic Development (2011) definition is able to capture and bring together a range of characteristics manifest in comparing SMEs across different countries. In this way, the definition better accounts for how a “small” firm in the USA might equate with a “large” firm in New Zealand. Thus, the MED description focuses on the increasingly accepted notion that small firms tend to be run by their owners who, worldwide, face common barriers to successfully running a business, such as capital investment and the need for management development support. The Ministry of Business Innovation and Employment (2014a) report on SMEs does not include a qualitative definition of SMEs. However, other policy papers employ similar dimensions as the MED (2011) one (Ministry of Business Innovation and Employment, 2014b). What the MED (2011) definition does not capture is a widely held assumption (but often implicitly communicated) that SMEs generally aim to grow. In this regard, there is some research to confirm that small firms do indeed aspire to growth (Cambridge Small Business Centre, 1992

cited in Storey, 1994). A typical trajectory, for example, might be from micro-enterprise to small enterprise and eventually to a medium-sized enterprise.

Of interest, however, is that the range of international and nationally based definitions to date overlook the possibility that SMEs may be characterized by less conventional drivers than the traditional economic growth goals in their establishment and subsequent development. These may reflect more individual and/or the personal goals of owner managers rather than the more 'rational' corporate goals of large enterprises. This is an important distinction and one that has been noted in the New Zealand context in particular (Procter, 2008; Sautet, 2006). More generally, some qualitative dimensions seem to have gained widespread application and approval when it comes to establishing a 'universal' understanding of an SME but, since the quantitative dimensions are geographically and nationally dependent, the pursuit of a universal definition that acknowledges both qualitative and quantitative elements may, in the end, be futile.

3.2 Characteristics of SME Policy

The previous discussion highlighted some of the difficulties in establishing a comprehensive, universally relevant and accepted definition of SMEs. Defining SME policy similarly presents various challenges. SME policy has, over time, been characterised by two over-arching aims: to grow the economy; and to reduce unemployment (Down, 2010). In addition, there is a general acceptance that government involvement in seeking to develop the notion of the enterprise is aimed at achieving wider political and social goals rather than solely economic ones (Bannock, 2005; Dennis, 2005). Thus, SME policy has been used to enhance

and extend economic prosperity and to encourage “the un- or under-employed to re-engage with economic activity” (Down, 2010, p. 189). Indeed, Storey (2003) observes that SME policy focuses on bringing disadvantaged individuals into the economic mainstream.

The difficulty policymakers have in seeking to reconcile the economic and social objectives in the formulation of policy has been called “the paradox of entrepreneurship policy and social and economic inclusion” (Down, 2012, p. 6). These seemingly contradictory objectives of SME policy are manifest in macro-economic drivers, which generate policies from the top-down, while social drivers are driven from the bottom up and cultural drivers inform and shape opportunity recognition (Acs & Szerb, 2007; Drakopoulou Dodd, Jack & Anderson, 2013; Huggins & Williams, 2012; 2009).

As the global economy has re-structured through new technological development and growth in small-scale economic activity, SME policy has become a “keystone of economic management for growth and new employment” (Down, 2010, p. 90). Some of the key assumptions underlying SME public policy in most western economies are that SMEs contribute to economic growth and that more SMEs will naturally lead to greater economic growth (Down, 2010). Yet the validity of these assumptions is not necessarily borne out by evidence, and the social rather than economic impacts and drivers of SMEs might warrant greater attention from government policy makers (Shane, 2009). Storey (2008), for example, has pointed out that it is difficult to prove that a positive contribution to economic growth is indeed the case. Harding (2003) elaborates on this, arguing that the real contribution of SMEs may be the “greater well-being at a community level and

the consequences for social cohesion and inclusion” (Harding, 2003, p. 23). Furthermore, SME policy can have contrasting objectives (Bennett, 2012a), as when, for instance, social policy objectives to encourage self-employment conflict with economic growth policy objectives (Blackburn & Ram, 2006; Carter, 2012).

Another important aspect of SME policy is the fact that institutional arrangements mean that there are a broad range of ministries and agencies who are tasked with formulating, implementing, administering and evaluating policies that may affect SMEs, as well as consulting with SME stakeholders (Bannock, 2005a). This often makes it difficult to ensure and sustain a coordinated approach to SME policy. Frequently, a department may have responsibility for a particular policy, but little power to enforce it as other agencies may be otherwise preoccupied (Bannock, 2005a). To counter this, some Governments have sought to link the implementation and development of SME policy to a senior Minister or head of state (Schaper, 2014). In New Zealand, for example, the Minister for Small Business is often also a Minister with other portfolios that have more prominence in the ministerial hierarchy.

3.2.1 SME Policy and Entrepreneurship Policy

The historical period that this research covers spans three decades in New Zealand, and throughout it SME policy has undergone many changes. In response to these changes some researchers have made a clear distinction between SME policy and entrepreneurship policy (Bridge, O’Neill & Martin, 2008). Conversely, others have adopted the term enterprise policy in a bid to accommodate salient characteristics of both SME and entrepreneurship policy (Lenihan, 2011). More

broadly, it has become commonplace to define SME policy as being focused on an established firm, usually at least three years old, with the aim of maintaining and growing the firm. Entrepreneurship policy, on the other hand is focused on the individual in the pre-start-up and start-up phase of the SME formation (Hart, 2003; Lundström & Stevenson, 2005).

As the field of entrepreneurship has developed, researchers have expanded their definition of entrepreneurship policy. Huggins and Williams (2009), for instance, suggest that traditional entrepreneurship policy focused on start-ups, with more direct assistance to SMEs to foster growth and survival, as they were perceived to be particularly vulnerable to ‘market failures,’ thereby justifying government intervention.

Indeed, this continues to be a preoccupation of recent studies, which have focused on the effectiveness of public policies to enhance innovation and entrepreneurship. These enhancements have been designed to compensate for perceived market failures in the adoption of these approaches (Audretsch & Aldridge, 2014).

This analysis contends that currently there has been a shift to focus policy on individuals rather than on firms. This involves entrepreneurship development in the pre-start-up stage, but business development in the post start-up support. This current approach to entrepreneurship policy is influenced by institutional theory (North, 2005) and its application in the field of entrepreneurship (Baumol, 1990). According to institutional theory, productive entrepreneurship cannot exist in a vacuum, requiring stable and effective institutions for entrepreneurs to be able to

thrive (Baumol, 1990; Welter, 20xx). Accordingly, in developed countries most governments actively seek to create an ‘enabling environment’ in which entrepreneurship can flourish (Audretsch, 2009).

Storey (2008) has drawn attention to parallels between SME and entrepreneurship policy, but also cautions that the policy needs are very different between start-ups and established SMEs. This is an important distinction. Table 3.3 reproduces Lundström and Stevenson’s (2005, pp. 51-52) list of priorities for both SME and entrepreneurship policies. This usefully demonstrates both the similarities, but also the differences in the two sets of policies.

In particular, Table 3.3 highlights the similarities in some aspects of both SME and entrepreneurship policy through owner-managers’ need for government policy to facilitate the reduction of compliance burdens and increased access to financial and knowledge-related resources.

The tabulation also underscores the differences in the two sets of policies where, for instance, SME policy may focus on how to facilitate technology transfer and the provision of consultancy and training services, while entrepreneurship policy emphasizes more the networking and entrepreneurship education services.

Table 3.3 SME Policy versus Entrepreneurship Policy (Lundström & Stevenson, 2005, p. 52)

SME POLICY	ENTREPRENEURSHIP POLICY
Reducing red-tape and paperwork burden	Reducing red-tape and paperwork burden
Access to capital/financing	Access to micro loans and seed funds
Provision of information services	Provision of information about start-up
Export and marketing services	Highlighting entrepreneurs as role models
Provision of training and consultancy	Entrepreneurship education
Technology transfer	Facilitating networking services

Broadly speaking, there are two types of SME policy. First, there are those that are created within an institutional framework, also called the ‘rules of the game’ (Baumol, 1990). These are aimed at providing an enabling environment and a level playing field for SMEs. Typically these approaches include macro-economic policies such as those relating to taxes, interest rates, employment legislation, immigration, etc. Table 3.4 below presents these macro-economic policy elements in tabular form, noting in each case the potential impact on SMEs. The second type of SME policies are targeted policies focused directly on SMEs themselves. A study on SME policy has identified the following areas of targeted SME policies. These include: access to: information, finance, technology transfer, management development, women and ethnic minority enterprise and general enterprise support policies (Hall, 2003).

Table 3.4 Macroeconomic Policies and SMEs

Macroeconomic Policies	Effect on SMEs
Fiscal Policy	Business tax/ Tax breaks
Monetary	Interest rates
Employment	Health & Safety Minimum wage
Trade	Export incentives Innovation R&D
Education (entrepreneurial)	Opportunity recognition

The use of targeted SME policies has increasingly been questioned as there has been heightened concern that this approach is not effective over time (Greene, Mole & Storey, 2008; Shane, 2009). Since SME policy constituents come from diverse sectors, as well as different industries, policymakers might direct policy at one or several sectors (e.g. light manufacturing) or across groups spanning several sectors such as women, minorities or self-employed, but with relatively modest effects (Greene, Mole & Storey, 2008). However, the unintended consequences of such focused policies are that they may miss the intended target or may overlook the policy impacts on a non-targeted constituent. Somewhat paradoxically, evidence suggests SME owner-managers are more likely to be affected by broader macroeconomic policies such as fiscal, tax and public spending, than by SME-specific policy itself (Audretsch & Aldridge, 2014; Bennett, 2008).

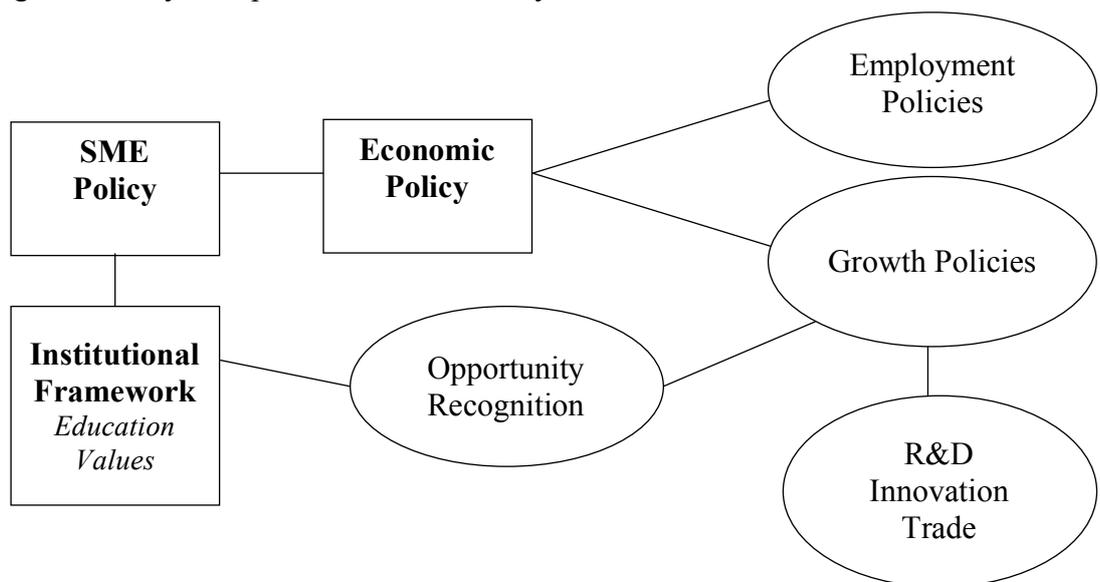
The perception that targetted SME policy was ineffective has led for calls for more consultation between government and SMEs, using a ‘bottom-up’ approach to policymaking, in a bid to ensure more efficient and effective outcomes. A

related risk of SME-related policy is that it is ‘captured’ by the administration that is set up to run or implement the policy. This can result in the perpetuation of policies with limited impact, but a built-in constituency that wants to sustain the policy because its own existence depends on the continuation of the policy (Shaw & Eichbaum, 2011). Additionally, policy development may be confounded by the possibility of overlaps and duplication between non-governmental agencies and government agencies in the provision of services to SMEs (Pickernell, Atkinson, & Miller, 2015).

More broadly, there may be further unintended consequences from SME policy that affects its development, including ‘non-decision’ policy making, whereby non-action in developing and/or implementing SME policy actually impacts upon SMEs (Smallbone & Welter, 2010). Moreover, the historical context for SME policy making also matters. This is a point that is only obliquely referenced, if at all, and is under developed in current SME scholarship. As with the evolution of other policies, SME policy changes have emerged at different historical points, in no small measure as a response to social policy objectives. This may, for instance, be driven by a need to address an unsatisfactorily high unemployment rate at a particular point in time. SME policy may also be developed or implemented to mitigate or prevent perceptions of economic decline. New Zealand SME policy development is no exception in this respect and exhibits significant linkages between the historical context and the specific shifts in policy approaches (Bollard, 1988; Cameron, 1988; Cameron & Massey, 1999; Devlin, 1984a; Massey, 2011; Nyamori & Lawrence, 1997; Perry, 1991).

Although SME scholarship has yet to address many of the intangible cultural aspects of enterprise, there is a growing body of research into the importance of context to policy affecting enterprise. As already mentioned in Chapter 1, the distinction between entrepreneurship and SMEs is sometimes unclear, but what is relevant to this discussion is that researchers in areas that touch on SMEs have noted that the relative success of policy is dependent on the attitudes and values that have an implicit influence on and help shape social and economic goals (Welter, 2012). These attitudes and values also influence the way institutions in a given society operate as these in turn make up “the rules of the game” (North, 1990, p. 3), including how they affect the degree of success of the economy. In the SME context this link was made in the Baumol’s (1990) seminal work about the effectiveness of entrepreneurship in helping the economy grow. It continues to frame discussions on the directions of SME policy (Arshed, Carter & Mason, 2014).

Figure 3.1 Key Components of SME Policy



The principal contextual elements of SME policy are economic policy and the institutional context in which it is developed. This is also contingent on socially constructed institutions (Granovetter, 1992). Institutions include the democratic arrangements, the legislative set-up of a country and the unstated ethical values that underpin a society (North, 2005). Taken together, these play an important part in SME policy development as both the degree of trust that individuals have in institutions and the level of entrepreneurial activity can influence the shape and form of these policies (Acs & Stough, 2008; Audretsch, 2009; Audretsch, Grilo & Thurik, 2007; Minniti, 2008). Figure 3.1 brings together all of these elements and shows their mutually reinforcing nature. In particular, Figure 3.1 highlights the inter-relationship between key components of economic policy and the significance between this, SME policies and both employment generation and growth policies. In turn, growth policies are primarily driven and focused on innovation, R&D, internationalization and trade policies, while the institutional framework, which extends to education and values can influence opportunity recognition, thereby in its own way helping to shape the development of SME policies, as well as growth and employment generation (Acs & Stough, 2008; Audretsch, 2009).

3.3 SME Policy in the Policy Environment

In an ideal sense, public policy would be developed as a consequence of an issue being formally recognised by society as a problem that needs to be addressed (Parsons, 1995). If the issue is to be effectively tackled through policy, not only does the problem need to be identified, but it is also important to set out the way it is going to be addressed, a process called ‘agenda setting’ (Parsons, 1995). In fact,

the current set of SME policies in New Zealand is believed to have grown from a relatively small and ad hoc set of issues, to a more complex policy process that traverses a range of different fields of economic and social policy.

Bearing in mind the previous discussion it is not particularly surprising that agenda setting for more general social and economic policy has had a significant impact on SME policy development (Bennett, 2012a, 2012b; Blackburn & Smallbone, 2011; Down, 2010). Government policy that impacts on SME policy development has rarely been focused exclusively on SMEs. Indeed, SME spin-offs from adjustments to macroeconomic and microeconomic policy settings have led to some SME policy initiatives being characterised as ‘by-product’ policies (Dery, 1999). SME policy is thus sometimes seen as the unwitting beneficiary of broader public policy designed to respond to market failures, which warrant government intervention, in particular those relating to information asymmetries and other forms of market failure (Kraft & Furlong, 2013). It is certainly the case that this type of policy has been particularly pertinent to SME policy development with respect to such areas as access to finance and in management development (Storey, 1994). After all, these are areas where SMEs have operated off a low base of information (Hill, 1997, p. 15). Indeed, Hill addresses some of the issues of ‘by the way’ SME policy development, by persuasively arguing that externalities (both positive and negative) are often behind government intervention. Such externalities arise “when market activities have consequences, either positive or negative, for people who are not party to these activities” (Hill, 1997, p. 13).

As public policy towards SMEs tends to be at least partially driven by social objectives (in particular, employment generation), governments engaging with SMEs face a tension between economic and social (or socio-economic) objectives (Bennett, 2012b; Down, 2012). The degree of public involvement and expectations regarding each side of this duality has historically ebbed and flowed according to the general economic situation. There are, therefore, several elements to the way SME policy intersects with broader social policy. For instance, SME policy can be distributive in nature, as when it is used to encourage self-employment or promote business start-ups, but it can also encompass aspects of regulatory policy (Storey, 1994).

Whatever the intent or focus, government is the main party involved in the development of SME policy. Depending on the historical context, more or less emphasis is given to SMEs as the primary focus of the policy itself. That is manifested at times by a high degree of support typically reflected in the appointment of a formal 'champion' of the sector. In New Zealand, for instance, successive Governments have appointed a specific Member of Parliament as a Minister for Small Business, or equivalent. It is these individuals that have been charged with specific tasks, including for instance, overseeing a dedicated unit within an existing Ministry (in this case the Ministry of Business Innovation and Employment) established to coordinate SME policy development (Massey, 2011). In practice, this type of mechanism tends to act as an advocate for SMEs by assessing the impact of other economic policy measures on SMEs and bringing these to the attention of the government of the day (Shaw & Eichbaum, 2011). Other advocacy groups can have an impact as well. This includes industry

associations and Chambers of Commerce who have lobbied for better access to finance, training and regulatory reform on behalf of SMEs. More recently social media has also played a part in organising SMEs. For example the New Zealand SME Business Network group on LinkedIn has over 7000 members and is a forum for and developed by SMEs to air concerns and discuss these amongst themselves (<http://www.linkedin.com/>). Table 3.5 below presents the broad range of Government agencies involved in SME policy development in New Zealand. It describes both their function and the kinds of SME policies they work on or help implement. This tabulation helps demonstrate the broad range of agencies involved in activities and policies that can have an impact on SME policy.

Table 3.5 Principal Government Agencies Concerned with New Zealand SMEs (adapted from Inland Revenue (2011))

Government Agency	Function	SME Policy
SME Desk Ministry of Business Innovation & Employment	Bring to the attention of other policymakers the interests of SMEs when policy is developed. Provide a forum for government-SME communication	SBAG Appointment of a Minister of Small Business Venture capital fund for high-tech sector SMEs
business.govt.nz Ministry of Business Innovation & Employment	Information portal to inform SMEs on where to access support. Promote best practice Improve ease of doing business	Management Capability Access to finance Export advice
Venture Capital Fund Ministry of Business Innovation & Employment	Provide capital for start-ups in high-growth sectors of the economy	Access to finance

Government Agency	Function	SME Policy
New Zealand Trade & Enterprise Ministry of Business Innovation & Employment	National economic development agency. Provides advice and funds to help SMEs grow	Market intelligence Export advice Management Capability Access to finance
Ministry of Business Innovation & Employment	Support to access funding, support and advice for R&D	Access for funding and advice for R&D
Poutama Trust	Provide advice and finance to Māori SMEs	Business advice Access to finance
Statistics NZ	Business demographic research tools	Customised online business demographic tools
Work & Income	Social welfare government agency Provides financial assistance and support to help individuals into self-employment	Access to finance
Department of Labour	Assistance with employment and health & safety issues Promote best practice and labour productivity	Online information portal Employment regulation information
Accident Compensation Corporation	Health & safety assistance and promotion	Employment best practice
Companies Office Ministry of Business Innovation & Employment	Assistance with registering companies	Ease of doing business
New Zealand Ministry of Foreign Affairs and Trade New Zealand Trade and Enterprise (Ministry of Business Innovation &	Assistance to companies seeking to utilize the outcomes from Free Trade Agreements (e.g. information about tariff and other trade-related preferences) and trade	Internationalisation and exports

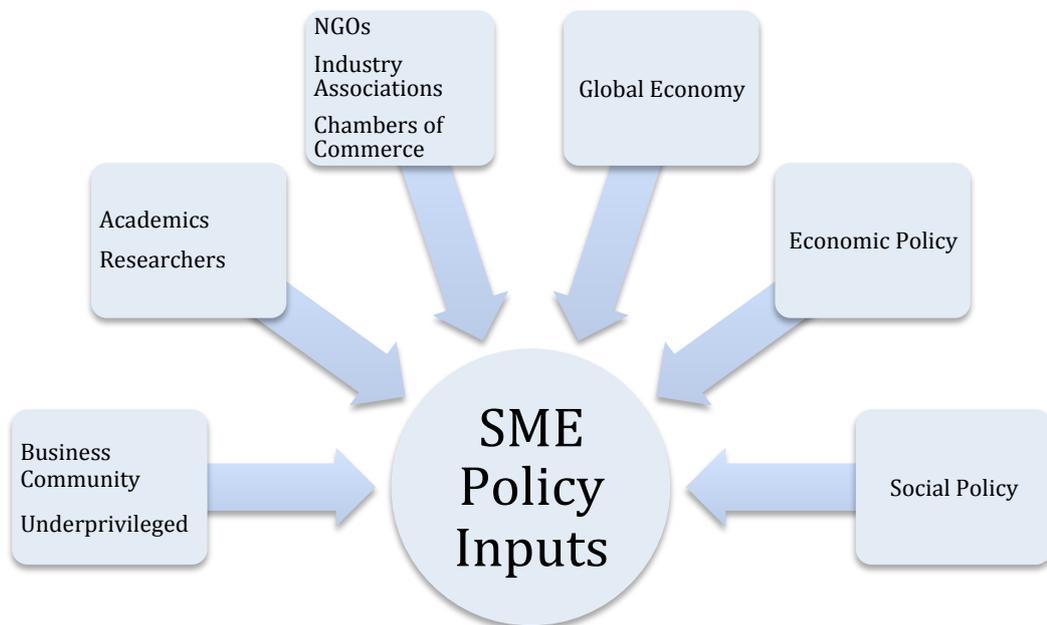
Government Agency	Function	SME Policy
Employment)	promotion activities/ export market information	

Along with ministers, senior officials are the most common party involved in formulating and developing SME policy. Their task in a political system such as New Zealand's is to advise the government in an impartial, non-partisan manner. Most often they are charged with coordinating the development and implementation of a particular policy and, to some extent, are responsible for the level of involvement of SME stakeholders and private consultants in the policy development process.

Other important inputs in the development of SME policy are those grouped in the 'macro' aspect of SME policy. Influential macro environmental factors include trends in the economic, political and social spheres (Dennis, 2011a, 2011b; Storey, 2008). It is clear too that the type of economic framework that is in place, and its ideological underpinnings, has a significant effect on SME policy. Major features of policies that are conducive to entrepreneurial activity may include: global economic policies such as free trade, targeted immigration policy and access to foreign technology; national policies that promote good health and education systems, government intervention in the commercialisation of science and technology, and business-friendly regulation; regulatory settings that promote and facilitate entrepreneurship to attract firms to regions, in particular new ones, and to form clusters such as the successful high-technology clusters; and policies that affect the individual owner-manager (Acs & Stough, 2008). Consequently,

while at a national level domestic institutions, the legislative framework, agencies and industry associations are all important influences in the development of SME policy, these are in turn subject to the considerable impact of the global environment. This is especially so for agenda setting within the general neoliberal paradigm under which Western developed economies operate.

Figure 3.2 SME Policy Inputs



As Figure 3.2 depicts, SME policy has input from events in the global economy, the general economic policy rationale in place, the general social policy and the concerns of SME stakeholders such as chambers of commerce, industry associations NGOs, academics and researchers, the business community and the underprivileged.

Figure 3.3. gives an indication of the complex quality of SME policy as it encompasses a range of policies consisting of macro-economic policies such as fiscal, financial, trade and competition policy, and micro-economic policies such as employment, innovation, export, industrial and firm capability enhancing policies.

Figure 3.3 The Policy Environment of SME Policy



As noted earlier, SME policy is firmly grounded in economic and social policy. Within economic policy, industrial policy and competitiveness enhancing policies are two broad areas that are generally understood to affect and shape SME policy. Industrial policy consists of policies that aim to develop certain sectors of the economy, including and of particular relevance to this analysis, regional policy.

Competition- enhancing policies can be grouped into four further policies – all of which have some impact on SME policy. These are: innovation policy, export promotion, business support and access to finance.

3.3.1 SME Policy Instruments

Policy instruments are “tools used to tackle policy problems” (Shaw & Eichenbaum, 2011, p. 27). There are various degrees of state involvement in the delivery of each of these ‘tools’. For instance regulatory policies such as tax and compliance used to have a higher level of government involvement than is the case today (Bannock, 2005a; Samujh, 2008). Of the broad policy instrument categories identified by Howlett, Rames and Perl (2009), the choice of, and emphasis on, particular SME policy instruments differs depending on the context of each policy. For SMEs, policy instruments can be macro-economic, those that provide infrastructure, education, labour markets and the context for research and development for business (including SMEs) to operate in. The other type of instruments that are used in SME policy are micro-economic, those that deal with access to finance, export, and business advice and capability (Lundström, et al., 2014). In general, alongside regulations, Treasury-based policy and information-based policy instruments are the most commonly used by policymakers. Policy objectives include economic growth, tackling unemployment and aiding economically disadvantaged groups of society including, in New Zealand, the indigenous Māori population, other ethnic minorities and women. The main policy instruments used to address these problems include those depicted above in Figure 3.3, such as access to finance, management and firm capability support, R & D and innovation support, internationalisation support, self-employment

support, and foundation policies which include fiscal and tax policy and employment policies and regulations.

Further, these policy instruments used to support SMEs can be divided into two broad areas. First, there are ‘hard’ policy instruments that involve facilitating access to finance through a series of measures such as loan guarantees, grants and venture capital investment. These types of policies tend to be targeted at specific firms in specific industries. Second, there are ‘soft’ policy instruments which centre around the development of management capability through advice, business support and facilitation of information that could lead to access to further services to assist SMEs such as networking opportunities and cooperation with other firms and universities. These policy offer support that is more usually directed to an individual, or that may be transferred by an individual to another firm (Arshed, Carter & Mason, 2014; Lenihan, 2011; Organisation of Economic Cooperation and Development, 2000).

3.4 Evolution of SME Policy

As the previous discussion suggests, and Audretsch (2008) noted, SMEs have always mattered, it is the way that they have mattered that has changed. Having outlined issues relating to public policy process and associated constructs, with particular reference to SME policy, the following section provides a brief overview of the historical development of SME policy. A comprehensive, worldwide, appraisal is beyond the scope of this review, so the intent here is more tightly focused. The section highlights a number of common and relevant themes that have emerged from international SME policy-related scholarship in the United States of America, the United Kingdom and Australia. These are countries

with which New Zealand shares a broadly similar heritage and common values as well as a well-documented history of interacting with one another in terms of general economic policy direction. This section will therefore first explore themes relating to government priorities with respect to large versus small business, self-employment and SMEs, and the rise of the enterprise culture, [placing particular emphasis on countries with similar social, legal and economic institutional backgrounds to New Zealand.]

3.4.1 Protection From Big Business

Large firms have been an important economic force in Western economies from the times of the Dutch East India Company and the British India Company in the 17th century. From the time of the Industrial Revolution, more larger businesses expanded and developed, culminating in the big firms of the early twentieth century (Wren & Bedeian, 2009). With the specialization of production, the large firm quickly became viewed as the preferred way of doing business with the underlying assumption that increased profits also generated national economic growth. This model operated in most industries, in particular commodity and agricultural production, and included the retail sector, particularly with the advent of large department stores, and later, shopping malls. With the rise of big firms, economists and policymakers adopted an economic paradigm for economic growth that promoted big projects in the manufacturing and services industries, for example the automotive industry. At this point, during the first half of the twentieth century, SMEs (a term that in fact had little or no currency until the 1990s) were not considered economically viable enterprises, so long as they remained small. Thus, they were either encouraged to grow into much larger

enterprises or considered worth protecting from external competition for other, non-economic, considerations. In largely immigrant-based societies like the United States, Australia and New Zealand, governments legislated to protect SMEs from external competition and to protect longstanding values of independence and self-reliance, epitomized through the right to ‘make their own way’ (Anglund, 2000; Hunt, 2007; Hunt & Morrow, 2006; Lundström, 2005). In older, more established, societies SMEs were also protected from the advent of big business, but this protection was expressed in terms of preserving traditional ways of producing goods and an emphasis was also placed on the impact that a change in the scale of production would have on life-styles and to the quality of the product itself (Landes et al., 2010).

3.4.2 Business History and the SME

In the latter part of the twentieth century business historians emerged as an important ‘voice’ in helping to clarify and define the role that SMEs played within the broader business and social environment. Business history was framed by the work of Alfred Chandler Jr (1962, 1977) throughout much of the twentieth century (Amatori & Jones, 2003). In fact, business historians, in common with many neoliberal politicians, have tended to operate on the assumption that big businesses are the engines of the economy. The perspective adopted by many business history researchers and commentators therefore is that of “the evolution of the firm, the primary social organization in the capitalist system” including the notion that SMEs are simply small firms that want to become big firms (Amatori & Colli, 2011, p. 3). Furthermore, for business historians, “firms are seen as

complex units that evolve over time and have considerable differences in their structures and internal dynamics” (Amatori & Colli, 2011, p. 12).

Chandler’s work served to compare big firms, sectors and nations. These three areas were framed by efforts to identify capabilities that increased overall competitiveness and promoted economic growth. For Chandler one of the prime drivers of competitiveness was adoption of technology, something that could vary between sectors and make some more equal than others. In this broad context there has been little room for a history of SMEs – and they have been largely neglected by business historians. Among the few exceptions are Blackford (1991, 2003) who traced the historical evolution of SMEs in the United States, and Anglund (2000) who considered how problems are defined for small business support over a period of forty years, also in the United States. In recent years there have also been historical accounts of particular regions where SMEs are prominent, such as historical studies of Italian regional development (Amatori, 2011). Other examples of this type of study are the longitudinal study of business assistance in the UK undertaken by Greene, Mole and Storey (2009) and the work of Landström (2007) who reviewed the development of entrepreneurship and small business research, in particular identifying ‘pioneers’ who he believed had most influenced the field of study and helped shape research and practical understandings of SMEs.

3.4.3 Facilitating an ‘Enabling Environment’

As established earlier in the chapter, setting aside the considerable impact that general social and economic policy has on small businesses, SME policy can be

defined primarily as a group of decisions that are small firm specific. These are made by policymakers focussed on providing SMEs with an enabling environment, one that provides the institutions necessary for an SME to function to the best of its ability for the benefit of society. In recent years, and in the context of creating an environment that facilitates entrepreneurship, researchers have incorporated aspects of institutional economics to SME policy (for example, Acs & Audretsch, 1993; Gibb & Webb, 1980; Smallbone & Welter, 2010). Smallbone and Welter (2010) argue that “the conditions that enable and/or constrain the process of entrepreneurship are affected by the wider social, economic, political, and institutional context, over which the state has a major influence” (p. 196). Indeed, a thirty-year study on enterprise policy argued that in the 1970s public policy on SMEs did not exist in the United Kingdom. In the 1980s the focus was on encouraging self-employment and, as the 1990s progressed the emphasis shifted towards supporting existing businesses with growth potential (Greene, Mole & Storey, 2007).

3.4.4 Self-Employment As a ‘Cure’ to Unemployment

Echoing the earlier discussion of government priorities, government interest in SMEs, worldwide, was initially centred on the possibilities that SMEs presented for the generation of employment. This focus and interest increased, particularly, in particular after the influential Birch (1979) study, which established a link between SMEs and employment generation. The appeal of the findings of this study was that it occurred around the time of the apparent collapse of traditional industry that was a feature of the economic development of many OECD economies in the 1980s. This brought with it a rise in unemployment as large

manufacturing plants and entire sectors were closed down or moved offshore. This stimulated greater policymaker and academic interest in self-employment policies, in particular after research revealed the importance of SMEs in actual employment generation (Audretsch, 2007; Birch, 1979, 1981; Storey, 1994, 2005). Not surprisingly perhaps, the objectives of subsequent SME policy continued to be primarily of a socio-political nature rather than growth oriented (Blackburn & Schaper, 2012; Dennis, 2011b; Down, 2010).

The closure and decline of many large-scale industrial operations often resulted in high levels of unemployment concentrated in regional centres. This sparked an interest in academic and policymaker circles in regional development and how this might affect SMEs and thus employment (Curran & Blackburn, 1991). Despite the social and political direction of SME policy in this period, however, this was also a time when researchers embarked on regional studies that linked entrepreneurship activity as a possible way of achieving regional development (Reynolds, Storey & Westhead, 1994). SME owner-managers were, for instance, encouraged to develop networking opportunities and research into clusters that had a regional focus. Other forms of improving firm connectivity were explored following the logic that knowledge spill overs and enhanced networks would increase regional economic development (Bennett & Robson, 2003).

3.4.5 Entrepreneurship and Enterprise

By 2008 SME policy had become a recognised and distinct part of economic policy. Researchers, however, were cautious about the type of research on SMEs that was occurring. Blackburn and Kovalainen (2009), for example, argue that UK

academic research on SME policy appears to have drifted from a focus on policy to entrepreneurship. Others judge that academics should tackle the issue from an academic point of view in order to produce robust research. Apparently working on the assumption of entrepreneurship as a key economic and social development ‘engine’ (Audretsch, 2007), other researchers have attempted to use frameworks to aid the implementation of public policy affecting SMEs that promotes entrepreneurship (Audrestch, Grilo & Thurik, 2007; Minniti, 2008).

Audrestch (2009) has traced the shift in the US away from what the economist Robert Solow (1974) explained was an economy where physical capital, which required economies of scale such as that deployed by big businesses, was the key driver of economic growth, to a ‘knowledge economy’ (Drucker, 1969), where entrepreneurship was the important conduit for the commercialisation of knowledge and consequent economic growth. In this way, SME policy shifted from a focus on preserving small firms from extinction to enabling entrepreneurial ones (Audretsch, 2009). Further, the advent of the knowledge economy and increasing awareness of, and promotion of, globalisation in the last 25 years meant that traditional policy instruments were less effective and that too drove the development of business policy that focused on entrepreneurship more generally (Gilbert, Audretsch, & McDougall, 2004).

In the context of this relatively recent re-think of economic policy SME policy was expanded to include the enhancement of competitiveness through the development of managerial skills as well as facilitating access to capital. This signalled a gradual shift from firm based to owner-manager based management development (Bennett, 2014).

By the early 1990s the SME was widely accepted as a credible and substantial contributor to economic growth (Loveman & Sengenberger, 1991). Around this time researchers identified several reasons for the apparent re-emergence of SMEs in the USA and Europe. These included the newly identified comparative advantage accruing to SMEs as the economy shifted towards more nimble and flexible knowledge-based economic activity, and SMEs' commensurate adoption of a new role in adding value to the emerging knowledge-based economy (Audretsch & Thurik, 2001). SME policy was increasingly formulated therefore from the starting point of generating economic growth, rather than the former more social and political approach driven by a broader industrial policy (Atkinson, et al., 1996).

While SMEs gained more prominence in this period, academics were wary about the way business assistance was being provided by government and other SME stakeholders. This highlighted a further difficulty for SMEs – the relatively narrow range of actors and thus stakeholders in the development of SME policy.

Gibb, for instance states that:

The major challenge [for SMEs] ... is that of developing those stakeholders who deal with the small firm who influence its capacity to behave entrepreneurially. These stakeholders include the accountant, the banker, the regulatory authority, the local authority, the education system and indeed, the large customer and supplier. (Gibb, 2000a, p. 28)

These calls to view the SME as a complex enterprise in its own right, not a smaller version of a larger firm, went hand in hand with policymakers' enthusiasm for promoting a more entrepreneurial economy. That was reinforced by research into entrepreneurship that demonstrated its link with economic

growth. It was in this context that policymakers in the European Union called for a policy framework – the so-called Lisbon Proclamation – that would lead to an entrepreneurial society (Audretsch, 2009). Calls of this type were not new, however, with some dating back to the 1980s (Storey, 1994), though the impact in terms of highlighting the issue through the Lisbon Proclamation was significantly greater than in the past, and has been re-stated recently through the Bologna Declaration on SMEs (Organisation for Economic Cooperation and Development, 2000). In places like the U.K., however, these calls had mixed results in terms of the overall aim of creating a more enterprising society (Huggins & Williams, 2009). That said, the existence of a European Union-wide coordinated policy approach suggests a significant broadening and deepening of the policy formulation process for SMEs.

This latter phase in the development of SME policy saw key policies such as innovation become an important focus for governments, principally as a way of driving productivity, and, more generally, as a way of creating an enabling environment for SMEs (Audretsch, 2014). Calls to increase competitiveness through best practice, business excellence and sustainability, all reflect the concerns of the time where political attention was focused on issues like climate change and the impact of globalisation. SME policy focussed on key growth factors such as access to finance, with conclusive research demonstrating that access to finance tends to be more difficult the smaller the firm is. Many governments, including in New Zealand, continue to seek ways to improve access to finance for SMEs, as well as reviewing fiscal policy and alleviating the regulatory burden on the SME (Audretsch, 2007; De Bruin-Judge, 2006).

Likewise, a body of research has emerged assessing that the burden of taxation is heavier on a smaller firm than a larger one (Lundström et al., 2014) – all of which has underscored the impact of macro-economic policies and how changes at the macro-level may have significant positive effects on SMEs.

From the 1990s onwards entrepreneurship became an important part of SME policy. At the core of this approach is the ambition and anticipated likelihood that the SMEs will be high growth enterprises, and that there will be more of them over time. Indeed, in the context of entrepreneurship policy, Hart has defined public policy as “the intentional use of the powers of government to affect a societal outcome, like a change in the number of entrepreneurial ventures” (Hart, 2003, p. 8). SME policy, from an entrepreneurship perspective, is believed to operate “within broader more profound contexts of the state pursuing measures aimed at improving competitiveness, free trade and other structural features of the international economy” (Down, 2010, p. 199). With the focus shifted to entrepreneurship, policy initiatives can act as catalysts toward achieving better organisational governance by, for example, “fostering networks by potential customers and service providers, the presence of which reduces the uncertainty facing nascent entrepreneurs” (Hart, 2003, p. 8). Overall, the recent focus on entrepreneurship has relied heavily on key factors such as start-ups, venture capital, innovation, R&D and export assistance.

One of the consequences of the rise of entrepreneurship as an accepted vehicle for economic growth is that it has required policymakers formulating SME policy to consider ‘non-traditional’ policy tools (such as, among others, institutional settings, education policy and immigration policy) along with the more orthodox

policy tools (such as access to finance, management development and regulation). Put simply, the advent of the knowledge economy and globalisation have “rendered traditional policy instruments less effective” (Gilbert et al., 2004, p. 321).

3.5 International Influences on New Zealand SME Policy Development

Researchers have argued that as the nature of economies around the world altered, the emphasis on SME policy has changed accordingly (Acs & Stough, 2008; Bannock, 2005; Bennett, 2008; Blackburn & Schaper, 2012; Dennis, 2011a; Gibb, 2000). At the onset of the period covered by this study, in the late 1970s, SME policy was still largely a subset of ‘big business’ policy, as economies continued to concentrate on supporting big industrial based enterprises as epitomised by the US automobile and steel industries (Gilbert et al., 2004). In the New Zealand context, the agricultural sector was seen as offering the principal prospect for economic growth, with the manufacturing and services industries being seen as ancillary to this, offering comparatively limited growth opportunities (Easton, 1997). The following overview of SME policy development focuses on countries that have an influence on the development of SME policy in New Zealand, because of their global influence (primarily in the case of the United States), historical reasons (in the case of the United Kingdom) and regional/geographic reasons (in the case of Australia).

3.5.1 Evolution of SME Policy in the United States of America

There appears to be consensus among US SME policy commentators that one of the main drivers of US economic policy in the twentieth century was the need to constrain large firms (Acs & Szerb, 2007; Audretsch, Thurik, Verheul, & Wennekers, 2002; Blackford, 2003; Dennis, 2005, 2006, 2011a, 2011b; Levinson, 2011; William, 2005). This helps explain the starting point of US SME policy as being rooted in deeply held American values of self-reliance and independence (Anglund, 2000) where SMEs were disadvantaged while large firms came to dominate the economic landscape and became the biggest contributors of economic growth. The advent of the large firm had caused concerns amidst legislators in the USA as far back as the late 19th century, when the first anti-trust legislation was introduced to try and curb the power of the big firm (Sherman Act, 1890). This sentiment was behind enactment of the *Small Business Act* in 1954, charging the Small Business Administration with the role of looking out for the interests of small businesses. In a study on federal policies towards SMEs, Bean (1996) determined that SMEs were poorly organised to lobby government, and that most SME-related policy was enacted for political gain, rather than a result of small business lobbying. This underlines the amorphous nature of the notional SME 'sector' in the US, and the associated difficulty in targeting policies accurately, a problem that some argue persists today (Dennis, 2011a; 2011b).

Whilst anti-trust policies have been at the core of US SME policy (Dennis, 2005), so too has support for social and political reasons, in particular the desire to “[promote] full employment via a central tenet of American life and the ability to start a business” (Gilbert et al., 2004, p.315). At present the US paradigm,

founded on an economy based on individualist notions of entrepreneurship, is dominant throughout the world (Down, 2010). Its impact on New Zealand's SME policy is evident in the entrepreneur-focused policies embraced by successive governments throughout the latter period of this research.

Dennis (2005) spelled out the implications of this use of competition policy as a tool to inform and manage the direction of SME policy in the US. He argued that, despite there being policies that impact on SMEs, there is no 'actual' SME policy. However, SMEs played an important role in a framework for government intervention in the US economy, which is predicated on ensuring a level playing field for all competitors (Mulock, 2002). In practice, competition policies have had social and economic repercussions, including the promotion of ethnic minority and women's entrepreneurship in the US and elsewhere (Eddy, 2002). In New Zealand, such socially oriented SME policies are evident in similar initiatives to encourage minority entrepreneurship amongst Māori and Pacific Islanders, youth, and women (Cameron & Massey, 1999).

Throughout the 1960s and 1970s SMEs in the US were considered less efficient enterprises than large firms. They were not considered capable of providing employees with the same level of compensation as larger firms and were not judged to be good innovators. During this period "the relative importance of SMEs was declining over time in both North America and Europe" (Audretsch, 2009).

The US achieved its primacy in terms of SME policy research on the back of the sheer size of its economy, its influence on business in general (due in considerable

part to a well developed formal business education system), and the fact that some of the earliest researchers into small business were working in the US (Anglund, 1998, 2000; Blackford, 1991, 2003). For example the establishment of the Office of Advocacy in the Small Business Administration in 1976 is an example of the awareness that SME stakeholders in the US had of the importance of facilitating such a body, while in other countries reliance on industry associations was more the norm (Bannock, 2005). It is also a reflection of the influence US policies and practices have had on New Zealand governments and business leaders with respect to SMEs. Likewise, research in the United States highlighted the negative impact of regulation on SMEs and its decision-making process (Levinson 2011). Finally, an important component of SME policy in the US is the granting of access to finance to the economically disadvantaged (Bannock, 2005a) – another instance of policy settings that are driven by broader societal objectives, such as ensuring a level playing field for SMEs in the wider economy.

3.5.2 Evolution of SME Policy in the United Kingdom

In the United Kingdom, the needs of SMEs came to prominence as early as the 1930s when the *MacMillan Act* (1931) called for better access to finance for SMEs. A series of reports followed, promoting the increase of access to finance for SMEs. One example is the 1959 Radcliffe Report that established the Industrial and Commercial Finance Corporation, which made funds available to SMEs (Hansard, 1959). However, the 1971 *Bolton Report* is widely recognised as the first report in the UK to focus on the all-encompassing needs of SMEs and to investigate the situation of SMEs at the time while acknowledging and valuing both their social and economic contribution (Great Britain Committee of Inquiry

on Small Firms, 1971). Indeed, the origins of modern UK scholarship into SME policy can be traced to the *Bolton Report* (Blackburn & Kovalainen, 2009). Further, the *Bolton Report's* conclusion that “the contribution of small businessmen to the vitality of society is inestimable” (Great Britain Committee of Inquiry on Small Firms, 1971, p. 342) served as an important reference point for many analyses of SMEs and SME policy in New Zealand (Bollard, 1988; Cameron & Massey, 1999; Devlin, 1977). The *Bolton Report* criticised the Government for failing to take into account this important sector of the economy complaining that: “the interests of small firms are neglected because it is nobody’s job to consider them” (Great Britain Committee of Inquiry on Small Firms, 1971, p. 345).

Following the *Bolton Report* interest in SME policy led to public debate on the potential of SMEs to contribute to the economy (Gibb & Webb, 1980). One of the first influential conferences to bring together academics and practitioners and policy makers took place in 1978 at the Durham Business School Small Business Centre (Gibb & Webb, 1980). The themes discussed at this conference were focused on SMEs as important contributors to regional economic development and national economic growth through industrial and SME formation policies and as vehicles for social inclusion. Gibb and Webb (1980) have noted the:

growing recognition of the potential, social and economic importance of a viable SME sector. Such a sector can be viewed as a seedbed of indigenous economic growth, both nationally and regionally and to embody economic independence and liberty; a useful countervailing force to increasing concentration of ownership (p. 3).

Until the release of the *Bolton Report* UK Government interest in SMEs and SME policy had been characterized by uncoordinated and incidental assistance. This changed with the introduction of “direct preferential treatment” for SMEs (Beesley & Wilson, 1984, p. 119). In fact, by the mid-1980s SME researchers were beginning to raise concerns about the link between SME research and policymakers and the need to consolidate discussions of this area in academia (Curran, 1989). Hughes (1993) stated that “[t]he problem for policy is not so much one of small-business creation but of overcoming barriers to growth in the existing small-business population” (Hughes, 1993, p. 17).

The different US and UK trajectories with respect to the emergence of deliberate, specialised SME policy development have provoked comment from researchers. Storey (2003) has argued that there have been different philosophical starting points in the historical formulation of SME policy. At one extreme is the USA with a prevailing ‘competition policy’ approach to SMEs – that is, as tools to help develop competitiveness across industries and sectors (Dennis, 2005) – guiding government intervention. At the other end of this spectrum is what one might term the ‘European experience’ of proactively encouraging job creation and competitiveness, in particular in the regions, through extensive SME business support programmes. Following calls by prominent European scholars to “move away from heroic, individualised notions of the entrepreneur and towards a wider notion of enterprise” (Down, 2010, p. 33), UK research into SMEs has tended to concentrate on a multi-level analysis encompassing the environment, the firm and the individual entrepreneur. New Zealand policy makers continue to actively

engage with UK policy makers through intellectual exchanges via almost routine fact-finding missions and through scholarly exchanges.

3.5.3 Evolution of SME Policy in Australia

Closer to New Zealand, but in the same year as the UK's *Bolton Report*, the *Wiltshire Report* was published in Australia (Landström, 2007). As with its UK equivalent, the concern of the 1971 *Wiltshire Report* was to help small firms to survive under difficult market conditions. Like the *Bolton Report*, the *Wiltshire Report* represented an important landmark in the origins of public policy involvement in the promotion of SMEs. This was particularly the case because the authors re-evaluated the significance of SMEs in terms of the economy and society in general. One of the first consequences of the *Wiltshire Report* was the establishment of the National Small Business Bureau charged with undertaking research and reviewing legislation relevant to SMEs (Schaper, 2014). Many of those involved in this early period were influential in the formation of the Small Enterprise Association Australia and New Zealand in 1987 (Gibson & Jurado, 2012).

In the decades since the *Wiltshire Report*, SME policy in Australia has progressed through several developmental stages (Schaper, 2014). Meredith's (1975, 1987, 1993) work highlights early steps in the research and in the consideration of SMEs as important parts of the economy. Other commentators have also shed light on SME policy in the ensuing decades (e.g. Braun, 2007; Hall, 2001, 2003; Kotey & Meredith, 1997; Mazarrol, 2014; Parker, 1999, 2000, 2002; Parker & Hines, 2013; Williams, 1984; Yencken, O'Connor, & Hindle, 2006). Most

recently, Schaper's (2014) appraisal of SME policy in Australia provides a valuable and important contribution to understanding the historical development of a vibrant sector of the economy.

Somewhat surprisingly given the geographic proximity of New Zealand to Australia there appears to be relatively little formal evidence in the form of documented research of Australia's SME policies having a direct impact on New Zealand's SME policies and practices. However, the nature of the close relationship between Australia and New Zealand is such, that opportunities for business and policy 'cross fertilisation', both formal and particularly informal, are ongoing, and not necessarily recorded. There are a series of inter-agency collaboration mechanisms, including between the Australian Ministry of Finance and the New Zealand Ministry of Business Innovation and Employment as well as at the business level through the Trans-Tasman Business Circle and the annual Trans-Tasman/Australia-New Zealand Leadership Forum which brings together business and political leaders from both countries to debate issues of relevance to the economic relationship. It is quite likely, therefore, that the Australian SME policy approach was also known by New Zealand policymakers. As well as continuing government dialogue, influence on New Zealand's SME policy development occurs at a number of levels. These include through trans-Tasman migration, through research collaboration between Australasian SME scholars, through academic conferences such as SEEANZ, and by way of the coordination of certain business policies to facilitate trade, especially in the wake of the Australia New Zealand Closer Economic Relations Trade Agreement signed in 1983 as well as the conclusion of the ASEAN-Australia-New Zealand Free Trade

Agreement where various attempts have been made to try and bring together Australian and New Zealand companies to work collaboratively in ASEAN markets.

3.6 SME Policy in New Zealand

Superficially, the impact and influence of overseas SME initiatives is apparent in New Zealand SME policy development. As a small, Commonwealth country New Zealand policymakers could be expected to have gravitated to following closely economic policy developments in Australia and the United Kingdom. The United States of America has, however, also exerted influence. As world events changed and economic systems and balances changed New Zealand policymakers have continued to derive inspiration from these countries and their policy approaches, but have also expanded the sphere of interest to other countries who share similar characteristics, particularly in terms of size. The Small Advanced Economies Initiative is an example of this where New Zealand is working with other small economies including Denmark, Israel, Finland and Ireland to better understand the challenges and potential policy responses of small countries to issues like economic growth, science and innovation strategies and so on.

The establishment of the New Zealand Small Business Agency in 1978 to provide business support to SMEs and screen them for financial aid is an early example that reflects the influence of the contemporary international SME policy environment on domestic SME policy. Researchers point to international developments, not only in the UK, the USA and Australia, but also in Canada and Ireland (Small Business Management Advisory Committee, 1975) that have helped shape New Zealand policy development. More broadly, international

developments in economic policy have influenced policymakers in New Zealand, including most significantly through the implementation of far-reaching and groundbreaking economic reforms from 1984 onwards. These reforms affected all aspects of New Zealand society (Easton, 1997). In SME policy related terms, a significant development from the reforms was the introduction of regional economic policy initiatives such as the Business Development Boards, in the 1990s. Finally, the worldwide embrace of the new paradigm of entrepreneurship was readily and swiftly absorbed by New Zealand SME policymakers. All these are themes that will be explored more fully in the course of this research paper.

New Zealand policy makers, like their counterparts internationally, have long looked to each other for ideas as to how to respond to external business influences. In particular, with the rise of cheaper labour options in developing countries, the paradigms of production and of doing business changed. Industrialized countries like New Zealand urgently needed to reassess how they operated in the world economy. As has been alluded to earlier, New Zealand's response to this situation occurred at an economy-wide level. In the thirty year period covered by this study of SME policy the government's approach to public policy development changed markedly. As was evident in the background section of Chapter 1, New Zealand public sector reforms, embodied in the 1988 State Sector Act and the 1989 Public Finance Act, established a policy framework that emphasised management empowerment, output measurement, the greater use of contracts for senior managers, and the introduction of performance pay and performance agreements with the chief executives of all of its agencies (Boston, 1996). Significantly, it was in this context that the Ministry of Economic

Development was charged with a more activist SME policy at around the same time as an emphasis on coherent and integrated state sector policy was being developed and incentivised. Particularly, the early 1980s saw the advent of the New Public Management (NPM) approach, which focused on the ‘service-providing functions of government’ (Christensen, 2006). NPM advocated the devolution of power to managers and end-users within an institutional setting that supported this approach.

These significant and far-reaching public sector reforms impacted on how policy was made in New Zealand. The emphasis moved increasingly to performance and efficiency and favoured outcomes over process (Shaw, 2006). After 1999 the emphasis was shifted towards better outcomes for citizens and Shaw observes that, by 2006 there was:

a new emphasis on working across departmental boundaries; and the false dichotomy between ownership and purchase [was] being gradually replaced by an emphasis on achieving substantive results for citizens (Shaw, 2006, p. 282).

By 2008, therefore, SME policy was inter-agency driven and no longer the remit of a single government agency.

3.7 Concluding Comment

SMEs have long been considered a vital component of the fabric of society. They are the expression of one of the oldest forms of trading and often hold an important place in the communities they operate in. More particularly, in response to changing social and economic conditions resulting partly from an increasingly globalised economy, throughout the period 1978 – 2008, governments around the

world have focussed on SME policy in one way or another. New Zealand, as a small, geographically isolated nation came under particular pressures and was quick to adopt deregulation and public sector reforms that impacted on SMEs. Yet there has been no published comprehensive research undertaken to examine the way policy was formulated, the ideas that drove and the outcomes that resulted. Furthermore, as is evident from the preceding literature review:

issues emerge from a historical context, and evolve over time as economic circumstances change, as governments and Parliaments come and go, and as new evidence about successful (or flawed) interventions come to light. (Shaw & Eichbaum, 2011, p. 16)

This chapter has provided both an overview and an assessment of the literature on SME policy. It considered a range of definitions of SMEs as well as SME-focused policymaking and in doing so sought to explain what SME policy is. It noted that there are a range of objectives evident in SME policy, including both social and political, as well as economic and that these shifted and blurred depending on both the geographic location of the policy and the period in which it was pursued. The evolution of SME research was then considered including through an examination of published research and commentary particularly associated with the development of SME policy in the three countries which share broadly similar outlooks and values as New Zealand – the United States of America, the United Kingdom and Australia. It was against this background, that this chapter then considered the dominant themes and major tendencies with regard to SME policy development in New Zealand. This included an explanation of the inter-relationship between New Zealand SME policy and international knowledge and practice.

SME research is mostly characterised by positivist research methods (e.g. Storey, 1994; Thurik & Wennekers, 1997; Curran, 2000). There is also already considerable research on aspects of policy affecting SMEs, including studies about access to finance, internationalisation, management development, or employment generation. By contrast there are relatively few SME-focused studies that provide insights into how policy was developed against a historical backdrop. Of those that have considered such matters, Anglund (2000) and Blackford's (2003) studies on SMEs in the USA usefully consider the development of SME policies across a distinct historical period. Kuiper's (2011) research on SME policy in the Netherlands. Huggins and Williams (2008) and Greene et al. (2008) in the United Kingdom take a similar approach, but they are exceptions. In New Zealand there are similarly few examples of such a historical perspective, other than the work of Hunter (2004) who has provided a historical account of the role of SMEs and economic growth in New Zealand in the late 19th and early 20th century. There are also compilations of research into SME policy, (Acs & Szerb, 2007; Blackburn, Delmar, Fayolle & Welter, 2014; Braunerhjelm, 2014). None, however, have sought to capture 'eyewitness' accounts of SME policy development in New Zealand over a period that included significant legislative change and business deregulation. This is important to give a context for future policymaking.

4. Research Design

This chapter outlines the process by which the shortcoming identified in the literature will be addressed, that is, that there have been limited attempts to explain SME policy development in New Zealand and those that exist have not been informed or shaped by the incorporation of ‘eyewitness’ accounts of key policy and decision-makers. It proposes to redress this through a study of SME policy development occurring in a discrete historic time period. The chapter begins by elaborating on the research aims that were introduced in chapter one. This is followed by a short discussion of the epistemological underpinnings of the current study, and the reasons that a social constructionist, interpretive approach was chosen as an appropriate method by which to investigate New Zealand SME policy development. In this context, a description of the information sources used and the data collection process is provided, highlighting ethical considerations and also the possible limitations of the study. The data analysis process is explained and a concluding comment draws together all aspects of the chosen method.

4.1 Aims and Objectives

The aims and objectives of this research emerged from the gap identified in the literature in regard to how SME policy has developed in New Zealand. The overarching aim therefore is to critically examine the development of SME policy in New Zealand between the years of 1978 and 2008. The objectives are to:

1. Provide an overview of New Zealand SME policy development during that period;
2. Analyse the influences on New Zealand SME policy development;
3. Identify key policies that resulted; and
4. Identify if there has been any significant change in the approach to SME policy over time;

4.2 Research Paradigms and Approaches

There is an evolving body of literature regarding business research methods in general (e.g. Bryman & Bell, 2003; Collis & Hussey, 2009; Myers, 2009) and, in particular, regarding the conduct of SME research (e.g. Cornelius, et al., 2006; Curran & Blackmore, 2001; Davidsson, 2004; Grant & Perren, 2002; Gartner, 2001; Gibb, 2000; Neergaard & Ulhoi, 2007; Smith et al., 2013). As the field of study has matured there have been multiple approaches to researching SMEs that complement, and even challenge, the dominant positivist paradigm. The willingness by SME researchers to explore alternative, complementary, paradigms and to employ both quantitative and qualitative methods has resulted in what some consider a more complete body of knowledge (e.g. Blackburn & Ram, 2006; Dennis Jr., 2011a, 2011b; Down, 2012; Greene, 2008).

4.2.1 Quantitative and/or Qualitative

Quantitative methods are usually favoured by SME researchers to research specific issues, and are most often aligned with a ‘scientific’, positivist epistemological stance which holds that knowledge is objective and truth universal (Denzin & Lincoln, 2011).

Qualitative approaches, although frequently also aligned with positivist assumptions, tend to be associated with non-positivist epistemology. This holds that ‘truth’ is not objective, but is socially constructed (Crotty, 1998). Denzin & Lincoln (1994) define qualitative research as “multimethod in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meaning people bring to them” (Denzin & Lincoln, 1994, p. 2). From the perspective of social constructionist theorists (Berger & Luckman, 1966; Gergen, 1985), and others wishing to cast light on social phenomena through researching lived experience, one does not perceive the world from outside, but makes sense of it (Weick, 1995) based on the individual’s understanding of what the world is. At its core, social constructionism therefore seeks to describe, “how social experience is created and given meaning” (Denzin & Lincoln, 2011, p. 10). Reality is a social construction and social constructions are based on values that include those of the researcher because “any phenomenon resulting from human agency does not occur naturally but is shaped by particular social, historical and social contexts” (Smith & Anderson, 2007, p. 172). The approach implicitly acknowledges that the researcher, even whilst attempting to be as rigorous and systematic as possible, inevitably must make judgments that introduce an element of subjectivity into the process. In other words, the researcher is part of the process for “[t]he goal of qualitative research is to develop concepts that enhance the understanding of social phenomena in natural settings, with due emphasis on the meanings, experiences and views of all participants” (Neergard & Ullhoi, 2007, p. 4).

Both quantitative and qualitative approaches are valuable contributors to our understanding of phenomena. Quantitative researchers typically examine a substantial number of people using a limited set of questions to generate data that can be statistically aggregated and from which findings can be generalised (Patton, 2002). In contrast, qualitative research is favoured by researchers who are looking to increase the knowledge base of a particular topic through the acquisition of detailed in-depth information from a relatively small number of people. Qualitative research methods have also been found useful to understand “the process by which events and actions take place” (Maxwell, 1996, p. 19).

As a relative methodological ‘newcomer’ on the scene in terms of business research methods, and certainly in the SME or entrepreneurship research field, one of the main criticisms of qualitative research methods is the fact that results cannot always be generalised (Patton, 2002). Bygrave (2007), for instance, has reviewed the previous twenty years of research in entrepreneurship and criticised the direction this had taken, calling for more rigorous methods, both in the quantitative and qualitative areas. On the other hand, Curran (2000) has suggested that the two approaches are complementary; qualitative research requires and benefits from some aspects of quantitative research and vice-versa. Judging by the literature and the expanding use of qualitative methods, the view that a qualitative research approach to the SME sector is both valid and adds value is increasingly prevalent (Blackburn & Smallbone, 2008; Gartner, 2001; Neergaard & Ulhoi, 2007; Smith et al., 2013).

Another growing area of research methodology that applies to this research project relates to business history accounts. The study of SMEs is closely

intertwined with that of entrepreneurship. Indeed the modern ‘forefather’ of this field, Joseph Schumpeter, used a historical approach to explore entrepreneurship. However, subsequent prevailing economic theories considered industry as the prime source of economic growth and business historiography, such as that by renowned business historian Chandler (1962; 1977), focused by and large on the large firm, rather than SMEs, let alone entrepreneurship. In the past twenty years, entrepreneurship is now reappearing in business history (Cuff, 2002) and this has been supplemented by accounts such as Jones and Wadhvani (2008), Amatori and Jones (2003) Cassis and Monoglou (2005) and others who have used historiography as a method of enquiry into SMEs.

4.3 The Current Qualitative Study: Social Constructionism and a Historical Approach

This historical investigation, which spans thirty years of New Zealand business, political and social history (1978-2008), and draws on both archival and eye-witness accounts, lends itself to a rigorous qualitative analysis. It draws on Berglund’s (2007) outline of his use of phenomenological methodology in researching entrepreneurship, and extends his method to draw knowledge from research participants through personal, primarily face-to-face, interviews. The richness of data that this approach delivers allows for analysis that delves for meaning within the particular context that policy was developed.

The basis of this study is the examination of public policy development to examine how policy outcomes developed. Using social constructionist techniques in the context of a study on public policy is important because it can help “discern and critique government aims, intentions and actions” (Howlett et al., 2009, p. 8).

It also sheds light on certain decision-makers' assumptions about human behaviour, which may influence the use of certain policy implementation techniques.

An important aspect of this study is the decision-making process, which can be closely mirrored with the stages in policy cycle (Hill, 2013). This includes, for instance agenda setting, policy formulation and decision making, as well as areas of policy studies that include policy determinants, instruments and content (Gordon, Lewis, & Young, 1977).

A social constructionist approach to qualitative research, therefore, enables the researcher to better understand the participants' experiences, perceptions and perspectives (Booth, et al., 2008; Collis & Hussey, 2009; Patton, 2002; Potter, 1996) during the period in which they were involved in SME policy development. This approach is also consistent with established history research methods, which take into account that a researcher's world-view impacts may have an impact on how historical sources are analyzed (Hoefflerle, 2011).

The in-depth information gathered through the detailed interviews with a narrow range of subjects directly involved in policymaking over the period, sheds considerable light both on the general approach taken (and its evolution) as well as the specific outputs from that process in ways that generalised and highly aggregated data cannot. It is important also to note that in a small economy like New Zealand, the narrow range of subjects interviewed reflects the relatively narrow base of key senior officials with direct involvement in the policymaking process related to SMEs

Likewise historical methods involve gathering and critically analysing primary and secondary sources to be able to answer the research question (Hoefflerle, 2011). In this case, the research question is what impact did historical factors have on the development of SME policy and what are the inputs into and outputs of this policy development. Historical methods are also useful for this study because they emphasise historical agency or “whom or what a historian believes to be the primary agent of historical change” (Hoefflerle, 2011, p. 7). In this regard, Rosen (2013), for instance, has justified the use of history when it comes to business studies, as “one of the most important and impactful sets of institutions in modern life and human history - business institutions”.

4.4 Data Collection

Patton (2002) identifies three types of qualitative data that can be used: interviews, observations and documents. This study uses two of these: a detailed analysis of relevant documents and in-depth, semi-structured interviews. The following section discusses the approach taken for both of these sets of qualitative data.

4.4.1 Business History Archives

Historical documentation is a significant source of data in the study. Documents were accessed from the archives of the National Library of New Zealand, (Alexander Turnbull archives) Archives New Zealand, the Ministry of Economic Development, and the National Library of Australia. Extensive use has been made of business and management databases as well as more generalized databases, including Business Source Complete, Web of Science, Google Scholar, Scopus,

Social Science Research Network and Emerald Full Text, as well as of newspaper archives, including Newztext and Index New Zealand. In some cases files and other relevant documents were provided by interview participants, in particular those relating to the early years of this study.

4.4.2 Personal Insights from Key Informants

Crucial, however, to achieve the aims of the study, is the ability to access the recollections of individuals who helped shape the directions of SME policy from 1978 to 2008, or who were close to its delivery. Thus decisions about data collection focussed on identifying those individuals and how to best gather relevant data. Details are given in section 4.5.2. Data were collected through a series of interviews with fourteen key players in the development of SME policy in New Zealand throughout the period 1978 – 2008. How they were chosen is explored below. Interviews followed a semi-structured format. This is an approach that is useful when in-depth information is sought as it ensures that participants are given the opportunity to expand on significant issues if and/or when they arise (Collis & Hussey, 2009). Moreover, the use of open-ended questions and probes within the semi-structured interviews that were conducted served to “yield in-depth responses about people’s experience, perceptions, opinions, feelings and knowledge” (Patton, 2002, p. 4). Open-ended questions were prepared but no strict order was followed, thereby allowing flexibility to respond to participants’ answers and to seek elaboration of particular aspects, where appropriate (Neergaard & Ulhoe, 2007). The resultant qualitative richness compensated for some of the perceived limitations associated with interview data, including their cost, the possibility of interviewer bias and difficulties in

summarising findings. Given the extended time period canvassed by this study, and the relatively narrow group of individuals likely to have been involved in policy development over the period, the limitations of using interviews include participants' recall error and distorted responses due to personal bias. These factors were acknowledged at the outset and, where possible, mitigated, including through the triangulation of references, documentation and so on, as well as other interviews with subjects involved in SME policy development during a similar period (Bryman & Bell, 2011; Patton, 2002). So-called 'survivor bias', where the risk is that the earlier phases of the study may suffer because of the lack of surviving interview subjects, was mitigated as far as possible through a careful scanning of policy documents from the period and cross-corroboration through secondary sources.

4.4.3 Validity: Triangulation of Methods and Data Sources

The validity of the data set that was used for this study was enhanced by "collecting information from a diverse range of individuals and settings using a variety of methods" and cross-comparing the material, including to verify and assess interview data (Denzin, 1978, p. 75). Data triangulation involves the collection of a variety of sources to strengthen the validity of interview data by cross-checking (Denzin, 1978; Patton, 2002). These forms of triangulation were adopted in the present study to reduce the risk that research conclusions reflect biases or limitations of one data collection method or source (Maxwell, 1996).

The fact that primary data were collected from interviews and policy documents, and secondary sources such as media reporting and, academic research on SME

policy, enabled cross-checking of participant reports with official policy and other written documentation. At the same time, however, the importance of new insights or recollections that might have captured information that only a few had access to or were aware of, was an issue that needed to be contextualized. Thus, where there is no clear corroboration of a particular insight or recollection, but this seems relevant and/or important, the analysis notes this.

Document analysis of government policy documents and other written material that emerged from the period under consideration reflects the ‘authorised’ voice of the research data. This material was used not only for the previously mentioned corroboration where required, but as background prior to the interviews, and to reinforce, supplement and inform the data collected through the interviews.

4.5 Interviews and Protocols

4.5.1 Interview Schedule

The interview schedule (Appendix 3) was designed following the emergence of themes and issues from the literature review. These themes and issues were linked to researching the extent of the participant’s involvement in SME policy, either as a policy-maker or a researcher. The interview was semi-structured and the interviewer was guided by a questionnaire, with questions falling into three main sections, with an additional ‘reflection’ section, which enabled the interviewee to provide any further comments or thoughts not specifically sought in the questionnaire itself. The first section (Questions 1 - 5) collected background information about the subject’s involvement in SME policy. It also included a question asking for suggestions for other possible participants from their contacts

in the SME policy development area. This first set of questions enquired into the level of involvement of the participant with the development of SME policy during this time. This set of questions provided an opportunity to check and supplement previously researched 'facts' and also served as an icebreaker to the interview itself.

The second section (Questions 6-12) was differentiated depending on whether the participant was a civil servant directly involved in policymaking or an SME policy stakeholder. For the purposes of this study an SME policy stakeholder was considered to be a person who was involved in researching, and/or analysing SME policy, such as an academic or agency official removed from SME policy development process. Questions 6 to 12 of the questionnaire for civil servants therefore included questions about the length of time that person had been involved with SME policy, the type of involvement with SME policy, types of policies that were prevalent at the time, and agencies that were involved. Once this was established, the questions proceeded to move on to explore influences, internal and external, on the way the policy was developed, or, depending on the case, the degree of emphasis on a particular policy instrument during the period of the participant's involvement.

By contrast, the questions for the non-civil servant interviewees in this section of the questionnaire dealt with their contemporary and retrospective observations about SME policies that were in place at a given time within both domestic and international contexts.

In the third section (Questions 12-17), all participants were asked to reflect on the changes they have seen in SME policy at the time of the interview in relation to the period that they were actively involved in helping to inform and shape SME policy. The aim of these questions was to explore in more detail what kinds of changes were identified at particular ‘snapshots’ of historical time and therefore offer additional insights into the examination of the development of policy during the different periods identified.

4.5.2 Sample Selection

Sampling was purposive to enable the selection of people “with whom the investigated phenomena was relatively salient” (Berglund, 2007, p. 83). The characteristics of this study where only the end product is known, and not the public policymaker, made purposive sampling an appropriate choice during the data collection process.

The targets of purposive informant selection for the interviews were professionals involved in policy development that impacted on SMEs over the period 1978 – 2008. Access to informants who played a significant role during this time is necessarily limited, not least by the relatively small size of the New Zealand public service. According to the New Zealand State Services Commission (2014, pp. 8-10), for instance the number of staff in “Public Service Departments” that may plausibly have been involved in policymaking was between 58,993 in 1989 and 45,934 in 2009. This relatively small number of public servants is further reduced when one takes into account the even smaller subset of those officials and others working on SME policy development over the period, at times fewer than

ten (Maxwell, 1996). Additionally, some key players from the early years are now deceased. Within this context key informants (or key players) were identified for the three phases of the research as outlined in Table 4.1 below. These participants were considered important because they had a clear and direct involvement in SME policy development either as senior SME public policy developers, or as SME researchers. Preliminary investigation into possible participants revealed a scarcity of possible candidates from sources such as industry associations or chambers of commerce over the period of this study due to the lack of a coordinated lobbying body for SMEs specifically. It was therefore decided to focus on those directly involved in SME policy development as outlined above.

A significant feature characteristic of participants from the earlier era was their involvement with government agencies during the establishment of the Small Business Agency (SBA) in 1978. As more agencies became involved in supporting SMEs, the range of people in SME policy increased, and informants for the latter stages (phases 2 and 3) were drawn from those who dealt with SME policy as either researchers or senior policymakers.

Table 4.1 Sample Selection Using Purposeful Sampling

1978 – 1983			
Key Informant A			
Informant A1	Informant A2	Informant A3	Informant A4
1984-1998			
Key Informant B			
Informant B1	Informant B2	Informant B3	Informant B4
1999-2008			
Key Informant C			
Informant C1	Informant C2	Informant C3	Informant C4

These information-rich key informants were in turn asked to nominate other participants who might offer further value and insights to the study (Neergard & Ullhoe 2007), a form of purposeful sampling known as ‘snowball sampling’ (Patton, 2002; Bryman, 2008). This had the advantage of tapping into the insider knowledge and experiences of the relatively narrow group of informants (Maxwell, 1996) involved in New Zealand SME policy development, and enabled researcher access to a somewhat broader range of knowledgeable sources who may not have enjoyed the same public profiles as the key policy informants.

The small circle of informants involved with policymaking over the period of the study meant that the risk of sampling bias caused by purposeful sampling needed to be mitigated as far as possible. To this end, a careful and rigorous disclosure of the selection criteria was used (Neergard & Ulhoe, 2007).

4.5.3 Participants and Conduct of the Interviews

Fourteen interviews were held with informants over the months of April to July 2011. Individual informants were contacted via an introductory email, which was followed up with more detailed background information about the study. Once the participants were willing to be interviewed they were given a copy of the Massey University Ethics form and an Information Sheet about this project to formalise agreement for interviews. Each interviewee was asked to sign a consent form. This interview documentation is reproduced in Appendix 3. A mutually suitable time was agreed for the interview, which generally took place in the participants’ homes or places of work. Due to time and travel constraints one interview was undertaken via telephone. Some of the participants had retired and preferred to

meet at the university campus or at a café. The majority was comfortable being interviewed at their workplaces (9) with 5 preferring not to be recorded. For these latter cases extensive notes were taken during the interview with the consent of the participants. Details of the interviews are presented in Table 4.2.

Table 4.2 Interview Participants Demographics

PERIOD	ALIAS	POSITION	AGENCY
1978 - 1983	A	Business Advisor	Otago Business Development Centre
	B	Researcher	Small Business Agency
	C	Business Advisor	Small Business Agency/Development Finance Corporation
	D	Trade Commissioner	Trade Development Board
1984-1998	A	Business Advisor/Academic	Auckland University
	B	Researcher	Massey University
	E	Policy Advisor	Ministry of Commerce
	F	Policy Advisor	Ministry of Commerce
	G	Researcher	Massey University
	H	Researcher	New Zealand Institute for Economic Research
1999-2008		Researcher	Victoria University of Wellington
	N	Policy Advisor	Trade Development Board
	E	Policy Advisor	Ministry of Economic Development
	F	Policy Advisor	Ministry of Commerce
	G	Researcher	Massey University
		Researcher	Victoria University of Wellington
	J	Policy Advisor	Ministry of Economic Development
K	Policy Advisor	Department of Labour	
L	Policy Advisor	Ministry of Economic Development	
M	Business Advisor	New Zealand Trade & Enterprise	

The duration of the interviews ranged between 45 and 90 minutes, with most lasting around one hour. Informants were interested in the subject of this research

and were generous with their time and proved very willing to participate in the project.

Finally, some of the interviewees did not fit neatly into the periods this study has been divided into and can be found in more than one period.

4.5.4 Ethics

Ethics approval was secured from the Massey University Ethics Committee. The principles of the Massey University Code of Ethics for Research Involving Human Participants were observed. Each participant was formally and in writing offered anonymity. All participants received an information pack outlining the study's objectives, including their right to withdraw at any stage of the study. A consent form was also provided and agreement was sought for interviews to be recorded⁷. Interviews were undertaken in person where possible. If this was not practical landline telephone was used as a last resort. In the event, and as noted above, fourteen interviews were undertaken face-to-face, and only one by telephone. The recorded interviews were transcribed and transcripts were sent back to participants for their verification to confirm their approval of the transcription as a true and accurate record.

⁷ Please refer to Appendix 3 for interview documentation.

4.6 Data Analysis

One of the objectives of this study was to identify if there has been any change in the approach to SME policy over time. To this end, data was triangulated, by first analysing interview data for thematic issues, followed by analysis for nuanced meaning. A systematic approach was then employed to analyse archival material accessed through a variety of sources including databases from the National Library of New Zealand, electronic archives in the Ministry of Economic Development, as well as documents identified through the interviews. Information gleaned from the documentation was initially grouped according to themes such as period active in SME policy, type of involvement and particular areas of involvement.

The data obtained from the archival search was reviewed according to relevance and crosschecked with what participants had told the interviewer. The literature review also provided another mechanism through which to crosscheck and verify information secured through the interviews. Accordingly, preliminary analysis and reflexive notations (Miles & Huberman, 1994) were also employed throughout the interviews, and this approach was continued through the coding of the interview transcripts. Strauss (1987) has noted the importance of coding in identifying patterns and facilitating comparisons. Taken together, these approaches assisted in the identification of themes and key turning points in the development of SME policy over the period 1978-2008. To enhance the understanding of data collected, contextualizing strategies were used (Maxwell, 1996) as a way of identifying connections between the different features of the data. The process of contextualisation was a useful mechanism to further

understand the relationships between the different elements contained in the interview transcripts as well as the material in the archival data collected in this study.

4.7 Limitations

In acknowledging the limitations of qualitative approaches to research, it is usual for the researcher to situate themselves in the study. By so doing the researcher acknowledges the effect that their life experience and world-view may have on the design choices and interpretation of data. The formal techniques learned through meticulous post-graduate historical research, experience in a specialized SME research centre, as well as postgraduate-level familiarity with business-related issues in other contexts have been applied to this research to the relevant SME policy-related archives, other documentary material as well as the interviews of key participants. This was important in terms of the research attempted to construct a meaningful historical narrative that contextualises the changes and developments in New Zealand SME policy.

As is evident from the previous justification of interview choices, any perceived shortcomings associated with interviews as a data collection method are significantly outweighed by the benefits. The research has extensively employed the individual interpretations and personal insights of informants to better inform the analysis itself. Possible informant memory lapses, confusion, post-hoc elaborations or bias must, however, be acknowledged. Nevertheless, this study addresses these risks and enhances its credibility through active and rigorous triangulation – in this case the use of multiple sources of data and methods of analysis (Maxwell, 1996).

A potential limitation had been the possibility that not all interviews could be conducted face-to-face, and considerable efforts were made to maximize the number of face-to-face interactions. In the event, only one interview required the use of telephone. Although this presented particular challenges, including reducing the speed at which a good rapport could be established with the interviewee and the inability to take into account non-verbal cues, the interview nevertheless proceeded in an easy, conversational manner with a high level of substantive engagement.

As with any historical analysis, this study confronted the same challenges and shortcomings, inviting alternative interpretations through which to record the period, the characters and the events that helped shape SME policy. Inevitably the passage of time also poses particular difficulties for the researcher in identifying informants associated with the earlier period of this study. Those who were found might have their recollections dimmed or distorted by hindsight and their original positions might be altered or re-calibrated by the passage of time and the benefits of reflection. This is not seen necessarily a shortcoming, however, as reflection on SME policy and the context in which it was developed is advantageous for the objectives for this research project.

A final limitation relates to the scope adopted for the study which did not allow for the analysis to extend to evaluating policy outcomes, nor for the SME grouping to be broken down into the various components, such as high-growth, micro-enterprises, family SMEs, Māori, migrant and women SMEs.

4.8 Concluding Comment

The adoption of a non-positivist, qualitative approach should not be interpreted as ‘anti-positivism’. As the literature review made clear, studies grounded in paradigms complementary to the traditional essentialist accounts, have already served to expand the knowledge in the field of SMEs. The use of qualitative research tools in this study was deemed appropriate for initial content analysis of text-rich data. Historical methods were also considered useful in making sense of the combined archival material, recollections of key players from the past, and the historical context prevailing when SME policy was developed. The following chapter examines the context in which SME policy was developed in New Zealand, the main influences on its development and the principal outputs that resulted.

Preface to Discussion and Analysis, (Chapters 5-7)

In terms of government policy ... there are booms and slumps in policies often following policies that have been tried in the US and Canada and in the United Kingdom and Australia. (Participant G)

Participant G is a key informant whose own SME research experience spanned 25 years of the 30 years covered by the current study. His comment on government policy draws attention to the changing outlook of, and some of the external influences brought to bear on, New Zealand SME policy development. In so doing, his observation appears to confirm the relevance of the decision to give due consideration to the country-specific research streams in the literature review. Additionally, the quotation serves to illustrate the potential value of primary data obtained directly from individuals who were themselves influential in the way SME policy developed. In one brief observation, Participant G sums up an array of contextual factors and provides a starting point for discussion and analysis.

The research design outlined in the previous chapter served to highlight both the reason for approaching this research question qualitatively, and the methods employed. The purpose of the following three results and discussion chapters is to present participant insights into the context of the development of SME policy, their perceptions and recollections of the main influences upon that development during the period 1978 to 2008, and to capture their knowledge about the policy outputs that resulted. Data from the fourteen interviews are brought together with

archival research and the analysis is framed by the three relatively distinct phases or periods identified in Chapter 1.

Each phase forms the basis of a corresponding chapter. Chapter 5 begins in 1978, when the Small Business Agency – the most visible SME policy output during this initial phase – was established. The period concludes in 1983, the last year of protectionist economic policies, and the year the Closer Economic Relations (CER) Treaty was signed with Australia. Chapter 6 spans the period 1984 to 1998 when the country underwent radical economic change. The intensity of these changes had consequences for all areas of policy development, including SMEs. In turn, Chapter 7 covers the period 1999 to 2008, where the economic direction of New Zealand established in the previous phase was consolidated under the leadership of the Fourth Labour Government. Each chapter highlights participants' insights into the economic context of the period; the influences on SME policymakers at the time; the development of SME policy; and identifies the key principal policy outputs that emerged in each case.

5. Establishing an SME Policy, 1978 to 1983

During the period covered in this chapter (1978 to 1983) New Zealand economic policy aimed to shift the economy away from being the ‘farm of Great Britain’ to one with diversified exports and access new markets other than the more traditional ones. In this chapter key informants provide insight into how these economic concerns influenced the direction of SME policy.

The following sections outline the context in which SME policy developed noting how this affected SME policy development, including in particular the increased emphasis on regional economic development and export diversification. The chapter explores the significance and understanding of the social and economic role of SMEs from the point of view of policymaking stakeholders.

5.1 Context

In the course of the interviews, seven participants spoke frankly of the period 1978 to 1983 as a time of ‘awakening’ to some new realities. For example, one informant active at the time recalls the newfound prominence of SMEs and the lack of knowledge about them:

Given that our work tended to be more with the smaller companies, what did we know [about them]? (Participant B)

This was also a period where it was difficult to get public policy engagement on SMEs and convincing policymakers that SMEs were a vital part of the economy remained a challenge:

[This was a] period where it was very hard to convince government, and the bureaucracy in particular, that this was a vital part of the economy and needed support. (Participant B)

And yet, at the close of this period,

It was fashionable to think that small businesses were very important for the economy and that's what we thought, that was the received truth at the time. (Participant A)

Indeed, the period 1978 to 1983 is at the tail end of what in hindsight could now be considered a period of transition for the country as a whole. There was belated recognition that New Zealand's export dependency on the United Kingdom was not sustainable given the latter's various attempts, in the end successfully, to join the then European Economic Community (EEC). It was during this time that concerted efforts were made to essentially re-invent the New Zealand economy and move it away from being so dependent on the agricultural sector and on the United Kingdom, its key market (Nixon & Yeabsley 2002). Extensive efforts were made to develop a more multi-faceted and independent economy (Easton, 1997; Evans, Grimes, Wilkinson & Teece, 1996; Hawke & Lattimore, 2007; McAloon, 2010). The New Zealand economy in the early 1970s was shaped by the international economic context and this too affected New Zealand SMEs. Three specific events have been identified as having a particularly lasting impact on New Zealand policymakers over the period under review: the wool price crisis

in 1966 (Easton, 1997); the double oil shocks of the early 1970s; and the fact that the United Kingdom joined the EEC in 1973 (Nixon & Yeabsley, 2002).

One interview participant singles out the oil shocks as representing a significant historical moment. She described them as “one of the big things that woke people up” (Participant E) and made them aware that there was a need to find a way to diminish the impact that these global economic events had on the domestic economy. Participant E’s views are borne out by other historical evidence. Taken together, these events exerted renewed pressure on the government and the private sector to intensify efforts to diversify the destination for New Zealand exports. Increasingly too there was a sense that the existing macroeconomic settings were no longer fit for purpose (Easton, 1997). The sharp and largely unexpected (in New Zealand at least) drop in the price of wool had already exposed New Zealand as being overly dependent on agriculture:

There certainly was a focus on exporting and trying to diversify the economy away from our traditional commodity base and diversify our markets. (Participant C)

The twin oil crises of the 1970s further compounded a sense of the vulnerability of the domestic economy to global economic fluctuations and the emerging trends did not make for comfortable reading. New Zealand had been the sixth richest country⁸ in the world in 1965, for instance, but by 1980 it had fallen to 19th place,

⁸ As measured by GDP per capita

with no signals that this could be easily reversed (Ministry for Culture and Heritage, 2013).

To counteract the poor economic performance, the government responded with a series of protectionist economic policies, known collectively as ‘fortress New Zealand’ (Easton, 1997). Participants refer to this as a period that was “highly regulated” (Participant C) characterized by a “heavy handed government” (Participant A) that clung to a particular approach that no longer worked:

The dominant sort of political thinking at the time, and I suppose the dominant political person was Robert Muldoon as Finance Minister then Prime Minister, ... was to build economic walls around New Zealand to insulate New Zealand ... and eventually that didn't work. (Participant H)

It was realised ... from the early eighties that the policies that New Zealand had had from the time of the Depression, which was protection of industries and encouragement of manufacturing barriers, weren't working very well anymore. (Participant G)

Among others, manufacturing industries were heavily protected from external competition through both high tariffs and subsidies in place since the post-war period. There were also significant limitations placed on competition from importing finished products, including an import licensing regime and a range of non-tariff barriers designed to favour New Zealand’s production base. The detrimental effect on the economy was not lost on a key participant in this study who recalled discussions about the need “to get rid of the old import substitution arrangements” (Participant E).

Participants recalled the focus of government on big enterprises in an attempt to diminish New Zealand's vulnerability to further energy crises, a series of state-funded 'Think Big' projects were put in place:

Partly as a reaction to the energy crisis, you did have to Think Big.
(Participant C)

In conjunction with these policies the prevalence of an industrial policy, which emphasized the "injection of taxpayers' money into selected firms or industries" (Burton, 1983, p. 7) sat comfortably with the broader protectionist economic approach of the government of the day. Key areas of the economy, such as agriculture, were also heavily subsidized. Between 1982 and 1984 price and wage controls were set in place, tariffs were high and tax incentives were increased (Easton, 1997).

Participant H recalls that this targeted, 'Think Big' protectionist approach resulted in widespread disenchantment amongst senior policymaking circles:

There'd been 10 years when officials in New Zealand, senior officials, who had been involved in all these big interventionist projects and attempts to cut New Zealand off from some of the world economic prices. And in doing that they'd become very cynical about how successful that could ever be. (Participant H)

The 'fortress New Zealand' mentality extended to an expectation about the role of government to provide 'cradle to the grave' support in all aspects of an individual's life, from health care and education, to social services and retirement schemes. These expectations were also present in one way or another, in the private sector in general, in terms of their expectations of government policy and how this would impact on the profitability of their business:

If you wanted to get some significant product – white ware, something like that - there'd be somebody who would have the import license and you could only import through that person. And actually a number of the people who are quite rich in New Zealand today trace their earnings back to that sort of period. (Participant H)

One participant was critical of this tendency, commenting that protectionist policies made it very difficult to enter an established market:

Trying to get insurance or guarantees for exporting was impossible. (Participant B)

While business leaders may have become increasingly interested in diversifying the economy, the assumption was that the government would nevertheless ease that transition and provide a safety net for business to develop, including to protect SMEs from external competition. As described by Participant H, this level of protection was primarily managed for the manufacturing sector through import licensing schemes and an external tariff that acted to keep competitors out of New Zealand (Organisation for Economic Co-operation and Development, 1983). Another participant described how some firms were protected to the extent that their overall aim was to receive government subsidy, rather than increase exports:

[Firms before 1984] had all been cosseted before, they'd been given support. The idea of giving people support to enter the export markets is all very good, but what happens is that people go into the export market to get the government's subsidy. (Participant A)

However participants also recognized that this support made exporting possible for firms who previously would not have had access at all:

At the same time because trying to get insurance or guarantees for exporting was impossible so the government set up this operation but there were several supportive entities. (Participant B)

According to one respondent, protectionism was so extreme, economic indicators were such that:

You had an unusual convergence of political and economic opinion in New Zealand at that time and things had to change and they had to change in a big hurry. (Participant H)

By 1983 it had become clear that the protectionist approach was not helping the economy to deal with unprecedented levels of inflation and unemployment (Organisation for Economic Co-operation and Development, 1983), and this signaled the end of the first historical period of SME policy development identified in this study.

The harbinger of the economic changes that would follow was the Closer Economic Relations (CER) free trade agreement with Australia, which came into force in 1983:

[CER] was a precursor to the big unilateral tariff reduction programme that we later started. (Participant E)

This began the process of opening up the New Zealand market to external competition, albeit in a very limited form, as it was only open to Australian firms:

Australian imports were nothing in terms of competitive forces with what was to come from the Chinese imports. (Participant H)

This first step had, however, an important influence on how SMEs operated from this point on. According to one participant, existing assumptions about protection from external competitors were shattered with the reduction and eventual elimination of many barriers to trade, including tariffs and, over time, import licensing as well but it was seen as necessary to follow this path:

Of actually deciding that the economy had to be opened up and opened up to global competition there was no way we were going to make it if we couldn't actually drive efficiency system and seek to compete on the global sector. (Participant E)

CER was a first step in this direction, which compelled local manufacturers to compete directly with Australian manufacturers. Furthermore, competition from Australia, which was similarly undergoing an overhaul of its own, began to intensify. In line with Nixon's (2000) observation, and Dent's description of CER as a "cornerstone" for the development of New Zealand's economy in general and its external trade policy in particular (Dent, 2006, p. 88) participants in this study emphasised CER's role as a the first step in the "exposing New Zealand business to external competition" (Participant D) and this had an impact on how "business was done" (Participant A).

5.2 Influences

It was fashionable to think that small businesses were very important for the economy and that's what we thought, that was the received truth at the time. (Participant A)

Other participants echo participant A's comment about the impact of 'fashion' on the willingness of policymakers and politicians to consider SMEs. For example, Participant B spoke of this period being "very exciting times" in terms of the development of SME policy and Participant G described it as "the beginning of interest in small business in New Zealand." The late 1970s was a period when participants and researchers alike appear to believe that SMEs entered the consciousness of policymakers in New Zealand and the rest of the world. As well as the economic situation described above, the major influences on the

development of SME policy during this time can be grouped around three major developments: the release of government reports into the role of SMEs in the economy by countries such as the United Kingdom and Australia; the publication of a very influential study on SMEs and their role in employment-generation, and; the growing New Zealand export diversification drive in the context of the changes in the international economy, particularly the United Kingdom's entry into the Common Market and the signature of the CER agreement. These three factors were the principal influences on SME policymakers at this time.

5.2.1 Publications on Small Business

Several publications surfaced at this time worldwide, that reflected the widespread preoccupation to seek alternative economic strategies and gave unprecedented prominence to SMEs. This section discusses influences by a world bestseller, and a local agency report that combined to raise the profile of SMEs in New Zealand. Six participants referred to two international parliamentary reports and three to the local agency report. Other publications mentioned were the annual reports of the Small Business Administration (Participant A; Participant B) and research from the University of Durham (Participant A; Participant G).

Several interview participants emphasized the view that it was during the 1970s that policymakers and researchers of business enterprises internationally took the first steps in identifying SMEs as worthy of further research and attention (Participant A, Participant B, Participant G, Participant H). Before this time there was little public sector activity focussed on SMEs. In the late 1970s, however, the

New Zealand Government began to progress and develop an increasingly wide range of responses to what it understood to be SME needs (Participant A; Participant B).

A popular bestseller of this time, *Small is Beautiful* (Schumacher, 1973) further served to give SMEs a platform to access the public arena and galvanise policymakers' attention, not least in New Zealand, one participant suggesting that this book was "received a lot of publicity at the time" (Participant B). In particular, Schumacher's analysis offered a way to consider SMEs as both viable and meaningful contributors to the domestic economy, and not simply as remnants of an era that pre-dated 'big business' domination. *Small is Beautiful* came out at a time when the intersection of the wider economy with the environment was increasingly being called into question. Participants A and B remembered the popularity of this book, but don't remember major discussions about it. However, they were in agreement that it was part of the new thinking towards SMEs as important contributors to the economy.

The environmental consequences of unconstrained 'big business' manufacturing caused widespread unease in many policymaking circles (Organisation for Economic Co-operation and Development, 2001). Schumacher (1973) argued for technology that was easier to apply on a small scale and had less negative impact on the environment. The global enthusiasm for this book had a spillover benefit for SMEs. It meant that in the public consciousness, SMEs were increasingly viewed as a potentially viable type of enterprise that could minimize negative environmental effects. Whilst participants did not highlight the environmental

aspect of *Small is Beautiful*, they recalled the book as a way of bring SMEs to the public arena (Participant G). Newspaper articles at the time also began to consider the notion that SMEs could be an important consideration for future economic development, for example in newspaper articles where one describe SMEs as “small is beautiful” (Small business with big voice, 1979) and another carries this as the title in (Easton, 1979).

Against the background of Schumacher’s analysis, two high profile public investigations into small business helped shape and inform New Zealand thinking about SMEs. These were the 1971 *Bolton Report* in the United Kingdom and the 1971 *Wiltshire Report* in Australia. Both reports were identified by participants approached for this study as very influential in helping to shape how SME policy was formulated during the period 1978 to 1983. In fact the *Bolton Report* was overwhelmingly thought to be influential for the New Zealand SME policy context.

The *Bolton Report* is considered by many as a founding document in terms of the development of SME policy in the United Kingdom (Blackburn & Smallbone, 2008). This proved to be particularly influential in New Zealand given the longstanding socio-cultural ties with the United Kingdom and was an important source for consideration of an alternative way of shaping and informing the development of the domestic economy during this period. The *Bolton Report* identified small businesses as an important, yet neglected, sector of the British economy and was also one of the first attempts to define SMEs as firms that are independently owned and operated with a small market share (Great Britain

Committee of Inquiry on Small Firms, 1971). Significantly too, it was one of the first public policy documents to identify the need to improve SME management capability and to facilitate better access to finance. The report expressed concern that SME numbers were dwindling, and although it still considered big business to be the main avenue for economic growth, it called for SMEs to be supported by public policies. In fact, it assessed that without government assistance SMEs were unlikely to be able to survive (Blackburn, Delmar, Fayolle, & Welter, 2014). These calls resulted in the establishment of a range of SME assistance programmes, which were delivered throughout the United Kingdom, including tax incentives for small firms and the development of local and national competition regulations. Several of those interviewed for this research identified the importance of the *Bolton Report* in informing the emerging New Zealand SME policy to focus on a relatively narrow sub-set of firms determined by number of employees. One participant, observed for instance:

When they created the Small Business Agency they were imbued with a sense of purpose to do with Bolton and they used, not the same criteria, but much the same criteria to confine the Small Business Agency to only dealing with people for example up to 10 employees or 20 employees. (Participant A)

Close historical and cultural relationships with Australia also influenced SME policy in New Zealand. The *Wiltshire Report* (1971) was one of the earliest reports to highlight the importance of effective business assistance for SMEs and it was widely read amongst those involved in SME policy in New Zealand. In Australia, this report promoted the establishment of support structures for SMEs to facilitate economic growth (Meredith, 1975; Schaper, 2014). In particular, the

Wiltshire Report proposed that the Australian Government consider developing specialist SME advisory services, funding programs and other support tools as a way of developing SMEs as well as enhancing economic growth.

Participants provided considerable insight into the emergence of training programmes for SME managers. More generally, largely as a result of the issues raised in the *Wiltshire Report* and other reflections on where to lead SME policy in Australia (Meredith, 1977), an influential SME education book was developed (Meredith, 1988). The book was called *Small Business Management in Australia* and provided a guide to running a small business. Responses from participants endorse Landström's (2007) finding that, together with the *Wiltshire Report*, Meredith's book remained significant for the next decade in both Australia and New Zealand and was used for training SME managers and programmes to enhance their capabilities. An important outcome of the *Wiltshire Report* was the establishment in Australia in 1973 of the National Small Business Bureau to provide assistance to SMEs to help small firms address their own management capability issues (Landström, 2007). It also called for the development of small business studies in higher education in Australia (Peacock, 1999).

Overall, however, according to participants in this study, the *Wiltshire* and *Bolton* reports, had the greatest influence on policy development and thinking in New

Zealand⁹, with the United States Small Business Administration having a secondary influence:

At that stage [1973] in researching small firms at the University I became aware of the 1971 Bolton Report ... and the Wiltshire Report in Australia, and also of course the Small Business Administration in the United States. (Participant B)

There were two important reports ... the Wiltshire report and, roughly at the same time the Bolton report, and that influenced New Zealand a lot. (Participant G)

These exemplary remarks from participants in this study highlight the importance of these reports in bringing to their attention the role that SMEs could play in an economy. Documents from this period refer to the two reports as justification to pursue SME policy (Devlin, 1984b; Devlin and Le Heron, 1977). Moreover, both of these reports contributed to an emerging focus on regional employment policy, which relied heavily on SMEs as generators of local employment.

In contrast with the *Bolton* and *Wiltshire reports*, the United States Small Business Administration (USSBA) was established twenty years earlier, in 1953. At its inception it had a rather different focus to the agencies that emerged from the United Kingdom and Australian reports. The USSBA's role was to defend certain values and expectations, including the right to own one's own business,

⁹ Another contemporary report, the French *Miliaret Report* (1971) placed emphasis on the role of SMEs and regional economic development (Bares, & Jonczak, 2010). However, it is unclear if this had a direct influence on New Zealand SME policymakers. Indeed, none of those interviewed for this research identified the *Miliaret Report* as having shaped approaches in New Zealand.

which was increasingly perceived as being under threat by the progressive growth of the large firm (Anglund, 2000). Participant A specifically raised the existence of this agency in relation to the structures put in place in New Zealand:

Well at that time the Americans had a Small Business Agency and in fact they developed something called Business Development Centres.
(Participant A)

Unlike New Zealand's Small Business Agency, the USSBA had two inter-related functions. First, it was the main provider of business support to SMEs. Second, it was charged with an active lobbying role on the sector's behalf across all arms of the US Government. These functions were described as being to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns" (United States Small Business Administration, 2014). The influence of this organization on New Zealand SME stakeholders was reflected in the way the New Zealand Small Business Agency was later established, and the design of the functions it was charged with prosecuting. In particular, the USSBA was used as an example of a government agency set up to protect small business interests. It was also noted that the approach of the USSBA was to provide SMEs with access to information and advice – something that formed the basis for the subsequent New Zealand approach as well.

5.2.2 New Zealand Perceptions of SMEs

Many of the comments made by respondents in this study captured the sense of excitement driving changes to NZ economic policy, but these did not necessarily flow on directly to a SME-specific policy. Nonetheless, the period 1978 to 1983

can be considered as the dawn of SME policy – it was a time where little was known about SMEs and many assumptions were tested. Perceptions of SMEs varied amongst participant accounts, ranging from enthusiasm to advance a new and potentially vibrant sector of the economy to the view that SMEs comprised a group with largely similar issues. According to key informants, their notions about what an SME was were vague, as was the role SMEs could play in the New Zealand economy (Participant A; Participant B). When SMEs collectively were first considered as comprising a sector in its own right, Participant A reflects that the perception at the time was rather simplistic:

We still didn't realize the importance of the small subset of the small business, the entrepreneurial start-ups business ... their growth patterns. (Participant A)

However, for those involved in promoting SMEs, these were vibrant times even if government was not involved in promoting them separately from business in general:

These were very exciting times but as far as I know, there was no government specific focus on small firms at that point. (Participant B)

Significantly, entrepreneurship as a concept that could be applied to SMEs did not take place during this period. This is somewhat unusual since the notion was already reasonably well known through the work of Schumpeter (1934). For example, a participant from this early period recalls reading it for the first time in the early 1970s:

In 1973 a gentleman by the name of Kilby produced a book ... about economic development. In that book he cited Schumpeter 1934

theories, this was when I first came across this idea of entrepreneurship. (Participant A)

During this period, if SME policy was articulated at all, it was conceptualized as assistance for the firm, as opposed to the individual. Although there was also awareness that policy needed to also address the individual, this was still within the context of the firm, and policies to enhance management capability, for example, became more of a priority than previously, though they remained secondary to broader considerations about regional economic development and employment generation. In all, focus on the firm was considered the way to generate growth, there was still little understanding of the entrepreneur being an agent of change. Participant A was particularly explicit about this, with other participants (Participants B, C and G) touching on similar themes:

We were so imbued with: small business are the ones that generate [growth and employment], small businesses do that, small business do the other, that it just didn't hit us that the entrepreneur was the actual agent that we were trying to cultivate. (Participant A)

5.2.3 The New Zealand 'Report': A Local Catalyst to 'Small is Beautiful'

Participants in this study seemed to perceive that SMEs in New Zealand were viewed narrowly. In particular, Participant C commented on the inaction of policymakers in relation to commercial imperatives:

There was recognition that there was market failure around the research, science and technology end of the system but not in the commercial end. (Participant C)

Unlike the United Kingdom, Australia and France, New Zealand did not have a public enquiry into SMEs during the 1970s, however here too interest in SMEs

was beginning to kindle. One of the first times public statements on SMEs took place was in 1975 in a forum organised by the Vocational Training Council and the New Zealand Institute of Management (Devlin & Le Heron, 1977). The forum's focus was on the importance of taking SMEs into account when developing broader economic policy as this could affect management, employment and vocational training.

While there was no parliamentary report in New Zealand, interviews conducted for this research (in particular Participant A and Participant B), and the analysis of archival sources, including policy documents and media reports, revealed that there was a report issued by the Department of Trade and Industry which is considered by participants to have played an important role in establishing SME policy in this early period. The title of the report, *Small Scale/High Value* underscored the potential for SMEs (Datson, 1977) and is mentioned by Participants B and C for this study as having been influential in terms of advancing SMEs as a complementary sector of the economy, along with 'Big business'. Given the government concerns to diversify the economy and to remain competitive, despite the constraints of being a small and remote country, the participants observed that New Zealand policymakers were looking for ways to support research and development (R&D) and to facilitate links between manufacturers, scientists and academia in general as a way to stimulate economic growth. The *Small Scale/High Value* report therefore advocated the importance of nurturing "small scale, technology-oriented industry" (Datson, 1977, p. 3) and was one of the earliest to identify the advantages of a small firm, for "smallness

seems to go with inventiveness, versatility, ingenuity, and flexibility” (Datson, 1977, p. 40).

While this report did not have the same scope as the parliamentary reports discussed earlier, its focus on examining the “role of smaller scale industry - particularly when allied with appropriate technology – in New Zealand’s social and industrial future” (Datson, 1977, p. i) meant that it provided a context to possible approaches to develop SME policies. This endorsement of the SME as a meaningful vehicle for economic growth represented a significant shift in the thinking of the time, and may, according to one participant, still be pertinent for policymakers :

They came up with a strategy called Small Scale/High Value which is as relevant today as it was 40 years ago ... which was to some degree recognis[e] that New Zealand was mainly a small firm economy ... They were looking at what some of the benefits were ... if you’re in small scale manufacturing. (Participant B)

This initiative was also closely associated with the establishment of the Applied Technology Programme designed to fund research and development and product development. In fact, the author of the Small Scale/High Value report was involved with the Development Finance Corporation (DFC) and the Applied Technology Programme. This is significant as it illustrates, arguably, one of the first times a senior civil servant advocated for SMEs to play a greater role in the economy:

Datson was the Deputy Secretary in the Department of Trade and Industry and he was on the Board of the Development Finance Corporation...and again, the Applied Technology Programme was funded by [both of these agencies]. (Participant C)

The New Zealand report also put forward an alternative way for New Zealand to engage with the world economy in a manner that did not rely solely on larger enterprises. While Datson was determined to “show the world that smallness can be a virtue” (Datson, 1977, p. 40), he was also well aware of the problems facing these small firms. He identified these to be access to finance, management development and the lack of information on access to technology. Interestingly, these have remained recurring themes in SME public policy. It is significant that an influential government agency such as Industry New Zealand was publicly discussing the economic viability of SMEs in areas of R&D and innovation and making concrete steps to implement this. These were the first steps in government policy to connect SMEs with high technology. In fact, the Applied Technology Programme came out of this, as Participant C suggests, and remained in place in one form or another throughout the entire period of this study.

5.2.4 SMEs and Tackling Unemployment – the Birch Study

One of the themes that emerged from the interviews was the link drawn between SME policy and the creation of jobs as a way to address and mitigate rising unemployment (Participant A, Participant B and Participant G). In New Zealand, this approach was influenced by two external inputs. First, there was the promotion of enterprise – a core theme that emerged in the United Kingdom during the late 1970s and early 1980s. According to some of those interviewed, the lessons of this were studied with some interest in New Zealand. The second was the influence of a United States-based analysis, the Birch study (1979), which drew a strong causal relationship between SMEs and job creation. Participant B

spoke of the role he played in promoting the virtues of SMEs, thus demonstrating the credibility government gave the study:

The importance of the small business, which is what Birch advocated, became the watchword and I would go around giving speeches about the importance of small business to anyone who'd listen. We were great advocates of it. (Participant B)

Despite the obvious enthusiasm for Birch's findings, some participants stressed the marginalization of SMEs during this period. For example, Participant G recalls the widespread view that SME owners basically lacked the education or intelligence to do anything better:

In the seventies and eighties small business ... was [thought of as] back street-type operations for ones that couldn't hack it in the corporate world, who didn't have any brains to get in the professions. (Participant G)

Some participants also alluded to the ignorance of policymakers as to the economic and social impacts of SMEs:

It wasn't until later that we found out that it was really the entrepreneurial small firms that were the force that were creating new jobs. (Participant A)

New Zealand was not, according to the accounts of the key informants from this study, in a leadership role when it came to recognizing and supporting SMEs. In the early 1980s the United Kingdom had already introduced a series of regional economic policies designed to encourage enterprise and in this way galvanise employment generation. High levels of unemployment in the late 1970s and early 1980s spurred policymakers there to encourage an 'enterprise culture' that was intended to foster self-reliance and decrease welfare dependency (Armstrong,

2005). Under the influence of ‘Austrian School’¹⁰ economists, such as Kirzner (1973), United Kingdom public policy, as well as that of a number of other economies including the United States of America, reduced taxes and public expenditure on social welfare, with a view to catalyzing greater individual responsibility and to stimulate an emerging ‘enterprise culture.’ According to archival and interview evidence unlike movements underway internationally, in New Zealand there was no concerted attempt to transform the education and the mindset of existing and potential SME owners and/or managers. The new approach to SMEs overseas embraced the concept of the entrepreneur – an individual who seized opportunities during times of disequilibrium and returned markets to equilibrium (Storey & Greene, 2008). However, in New Zealand these influences of entrepreneurship made little headway during this period due to the protectionist economic approach and the generally negative view towards entrepreneurs, Yet the influence that this set of approaches in the United Kingdom and the U.S. had on the development of SME policy internationally at the time was considerable (Storey & Greene, 2008).

However, as unemployment began to manifest itself, New Zealand policymakers began to identify the potential value of SMEs as a generator of employment,

¹⁰ The Austrian School had as its focus the notion of “methodological individualism” whereby most economic outcomes can be traced to the role of the individual (Boettke, 2008).

particularly in the regions, as this quote from an archival document on the emerging notion of entrepreneurship shows,

Clearly, small businesses internationally, unlike their larger counterparts, are employment generators. It is important that society has a positive attitude towards such enterprises, including participation in them (Miller, 1982, p. 2).

The United States-based Birch (1979) study, mentioned earlier, combined the preoccupations of regional development and employment, and found that job losses in regions were being replaced by new jobs created by SMEs employing fewer than twenty people (Birch, 1979). From the points of view of key informants, the impact of this early study could not be overstated, as it opened up the door for academic research on job generation and entrepreneurship, and also influenced governments around the world (Participant A, Participant B and Participant G). Participants' views seemed in tune with Landström's claim that it "provided the intellectual foundation for researchers throughout the world to incorporate smaller firms into their analyses of economic development" (Landström, 2007, p. 50).

Several participants identified the Birch study as a significant turning point in the development of SME policymaking in New Zealand. This suggests that in some ways New Zealand SME policy was reliant on the overseas experience. Interview participants noted that contemporary local researchers and advisors were influenced by the Birch study and the 'enterprise policies' of the United Kingdom to encourage the unemployed to become self-employed. The research that

emerged from local researchers reinforced the link between SMEs and employment (Bollard, 1988; Devlin, 1984a; Higham, 1985).

Concerns meant to encourage regional development and growth were linked by participants to the role SMEs could play in this and the New Zealand Government began to regard SMEs as vehicles to tackle unemployment in economically depressed regions. Moreover, participants also reported that, at this time, several New Zealand policymakers visited several institutions in the United Kingdom and were exposed to the enterprise culture being developed there. (Participant A; Participant D; Participant G). One of the institutions was the Small Business Centre (SBC) at the University of Durham, a well-known small business research programme that had been recently established. Participant G recalled the influence of Durham's SBC research on SMEs at the time. Several (e.g. Participant A; Participant G) also mentioned the influence of the United Kingdom on their work with SMEs, both with academic research and exchange of information and collaboration. For instance, Participant A was in the United Kingdom at various points during this period and noted that he was influenced by the business development centres set up in the regions. He recalls meeting with Professor Gibb¹¹ at the Small Business Centre at Durham University:

¹¹ Gibb was one of a handful of influential SME-focused academics working during the 1980s.

This was modelled on something I'd discovered when I'd been back in England in 1976. Up in the north of England Professor Allan Gibbs at Durham University developed a thing called Enterprise North ... We then established enterprise boards up and down the South Island ... That was the sort of thing that was in parallel with the SBA set up by the government. (Participant A)

Identifying the “parallel” nature of the New Zealand and British agencies, and presenting evidence of active exchanges of ideas, suggest that policymakers sought overseas experience to inform the New Zealand situation. In a follow-up article to his original study, Birch (1981) claimed “of all the net new jobs created between 1969 and 1976, two-thirds were created by firms with twenty or fewer employees” (p. 7). Although his claims were contested and he later tempered these, his point about the employment generation capacity of SMEs had an enduring impact on SME policy strategy development by governments around the world, including New Zealand.

Not surprisingly therefore, research into the contribution to employment by New Zealand SMEs was initiated in the wake of Birch’s findings. Devlin (1984c) and Lawrence (1984), for instance, produced two separate research papers that examined the contribution of SMEs to employment in the manufacturing sector, during the 1970s and early 1980s and were able to confirm the Birch findings in the New Zealand context. For instance, Lawrence (1984) concluded that SMEs “appear to be the vehicles by which employment expands” (p. 30). This in turn contributed to the view held by contemporary SME policy stakeholders that more self-employment and enterprise incentives were necessary and should be a product of government policy. Several participants identify an attitudinal change among policymakers and Government. This was most articulated:

The attitude changed over the Birch report in the United States that said ... small business were the main source of both entrepreneurship and job creation ... and then the attention for about two decades were small business and creation of entrepreneurs. How do we encourage them? How do we create the correct conditions for them? (Participant G)

Although all five New Zealand participants in this study who mentioned Birch perceived it as a positive influence, not all New Zealand research was as conclusive in its support for Birch. The work of Bollard and Harper (1986), for instance, suggested that, although there was a higher rate of job generation in SMEs, these also had a higher rate of job loss.

Participants emphasised that industry associations, such as chambers of commerce, played an important role in helping SMEs improve management skills and encourage internationalization as reflected in contemporary newspaper reports (Easton, 1979). Other media were also credited with reflecting renewed SME interest with headlines such as “Small Business With Big Voice” signaling a bigger presence for SMEs in the mainstream business arena (e.g. Small Business With, 1979).

There was also debate in the newspaper media on the extent of government intervention in SME support (Small Business Should, 1980). Archival sources also highlight the examination on the role of government taking place behind the scenes, in particular in relation to the future of the SBA. More publicly, the Small Business Conference in 1980 and opened by the Prime Minister Muldoon, became a forum for such discussion.

The exchange of ideas with Australia was also mentioned as influential in establishing new ways of approaching New Zealand's SME policy. For example, there was an exchange of policy ideas with agencies such as the National Small Business Bureau (Small Business Should, 1980, p. 10). The relationship with Australia meant that there were already some built-in mechanisms to facilitate the exchange of policy ideas. For example, policy advisors in the New Zealand Department of Trade and Industry and the Australian Department of Industry and Commerce held discussions on SME policy.

5.3 Policy Outputs

Key informants universally identified the main policy output of this period as the establishment of the Small Business Agency and spoke of the consequences this had for the development of SME policy in New Zealand from here on, especially for the regions. Table 5.1 gives a break down of the public expenditure on SMEs drawn from the New Zealand Budget. This table highlights the fact that regional development and export support were the primary concerns of government throughout this period. It is also interesting to see the reallocation of funding to the Otago Business Development Centre and the Small Business Agency.

Table 5.1 Government Spending on Business Development 1978 to 1983 (Massey & Cameron, 1999, p. 45)

VOTE TRADE & INDUSTRY	1978/79 \$,000	1982/83 \$,000
Trade centres	287	
Development of export services	250	
Export development projects	10	13
New market export incentive	800	1,5
National export institute	25	50
Small Business Agency	522	1,011
Horticultural marketing unit	150	250
Applied technology programme	1,65	2,5
Otago Business Development Centre	38	107
Regional development	5,214	8,353
Industrial design council	246	397
Export suspensory loans	2,75	2

The following section will examine the policy outputs that during this period in more depth.

5.3.1 The Small Business Agency

Participants emphasized that the formation of the Small Business Agency (SBA) in 1978 is best understood if the broader economic picture in New Zealand is taken into account. They identified a number of key economic imperatives that underpinned the establishment of the new agency. The urgent need to test new economic approaches was compounded by the loss of virtually unfettered access to the United Kingdom market when it joined the European Economic Community in 1973. It was not seen as surprising therefore that the government

began to cast about for alternative approaches and it was here that SMEs began to emerge as a focal point for part of the emerging ‘policy tool kit’ in the New Zealand context. According to Participants A, B and F, under the auspices of this policy for diversification, the Otago Small Business Development Centre emerged in 1973 (Department of Trade and Industry, 1973) as part of a government programme to develop the regions in areas of manufacturing and resource-based industries. Although the Otago Small Business Development Centre continued to operate after the establishment of the Small Business Agency, it was considered the forerunner of the Small Business Agency (Devlin, 1977). Participant G referred to it as being a provider of key resources to SMEs:

Otago [Small Business Development Centre] were one of the earlier leaders ... on running small business and [produced] a number of small books, like handbooks. (Participant G)

While SMEs were gradually recognised in New Zealand as having a role to play in contributing to growth, policymakers continued to operate on the premise that ‘real’ economic growth was primarily driven by large enterprises. The growth-related component of SMEs was less dominant therefore in shaping a key policy output of the period than the need to foster regional economic development. In fact, participants observed that the SBA was the result of growing concerns that regional economic development needed to be addressed and revitalized:

That was the sort of thing that was in parallel with the SBA, set up by the government. So all that was going on at about that time and it was, I think, a real force for the good. (Participant A)

It started back then ... they were all part of the same [regional development] strategy, which was fostering basically what they were trying to do down here several years earlier. (Participant B)

Assistance to SMEs in these regions was seen as one way to do this, and the influence of overseas experience informed their opinions on this aspect of economic development. As discussed in section 5.2.4, the establishment of business development centres in the South Island were heavily influenced by the work of researchers at Durham University, as Participant A recalls:

In 1976 I had gone to see Allan Gibb and discussed this whole thing with him. I wrote for Ashburton ... this resource study [and] I added in the introduction [that] the Ashburton Borough Council should immediately set up Enterprise South Board and that came known as the Canterbury Enterprise Board. (Participant A)

This interview extract also conveys a sense that emerged from several of the interviews that the energy and networks of individuals ‘on the ground’ could influence the direction of SME policy and SME support systems. Against this background, the SBA was formally established through the provisions of the *Development Finance Corporation (DFC) Amendment Act 1977* to support SMEs and facilitate access to finance.

With the establishment of the SBA, however, the growing interest in and focus on SMEs highlighted the hitherto limited amount of research on these firms in New Zealand. Several key informants noted that the first steps in redressing this were taken at this time with a view to better informing and shaping policy (Participant B; Participant G; Participant H). For instance, John Hunn, the General Manager at the DFC, observed:

There is at present limited up-to-date information available, on a New Zealand-wide basis, relating to either the characteristics of small business problems or to the needs of small [sic] for advisory services (quoted in Devlin & Le Heron, 1977, p.1).

Some participants believed that government involvement in SME development through the SBA was justified on the basis that SMEs needed specific targeted support given that they were often in the regions of New Zealand and isolated from others, as well as operating across a number of sectors of the economy (Participant B; Participant C). Taken together, there was a sense therefore that these factors made it difficult for SMEs to work together to lobby government in support of specific SME-focused policies.

Of particular concern was to help SMEs secure access to finance, which was very difficult to obtain without government assistance during these early years. Participant C and Participant B both referred to this aspect, seeming to endorse the claims of Devlin (1984b).

Informants recounted how the SBA and its various regional branches worked actively to deliver business advice across the board to SMEs (Participant A; Participant B; Participant C; Participant D). They stressed, however, that it was important to note that there was an element of ‘self-selection’ among SMEs in terms of which enterprises secured both financial assistance and business advice and support. In many cases the advice provided by the SBA and others was more likely to be tailored to those firms that had also qualified for a DFC loan. As recalled by a participant who worked closely with the SBA and the DFC:

Lending was the last resort, so they tried to pick winners.
(Participant B)

This was understood to be a consequence of the ‘vested’ interest on the part of the SBA in making sure that the government’s investment in terms of financial

support to the firm concerned would generate a return. Participant C suggested that the emphasis during this time was on encouraging the development of best practice for firms working on export markets. Increasingly, however, there was a move to also place emphasis on encouraging firms to develop their management capabilities.

The DFC emerged as an important influence identified by several participants.

There was a gap in the banking sector that the DFC emerged to fill:

One of the problems was that prior to this happening if you wanted to fund and finance a new venture you had real problems, the banks wouldn't do it. (Participant B)

The DFC was designed to provide concessionary loans to smaller firms that were identified as having growth potential, in particular, to export. These loans would generally not be possible through the normal banking system, and the DFC was seen by one DFC 'insider' as:

[Filling] a gap in the financial system at the time because the banks were offering limited facilities, there was not a lot competition and as a development bank we didn't want to duplicate what the banks were doing in that area. So we tended to be the lender behind the banks. (Participant C)

There was an understanding in policymaking circles in New Zealand that relying exclusively on private sector financing for SMEs was unlikely to catalyse growth in the sector, let alone an export orientation.

When the SBA was set up in 1978 as a branch of the DFC the procurement of loans for SMEs, which were capable of exporting was identified as a key priority. Participants saw this as an important step. Evidence from the interviews points to

the participants being in no doubt that the services provided by the DFC represent the first time in New Zealand that a policy aimed at SMEs acknowledged the specific needs of small business as being distinct to those of larger enterprises. Of course this insight is not surprising, as Devlin (1984) explains:

The fundamental purpose of this partnership was to establish a range of government-funded services (advisory services, publications and research) specifically directed towards small businesses, acknowledging that being small in business was associated with a range of particular problems (Devlin, 1984b, pp. 5-6).

The provision of funds was carefully scrutinized and the DFC tended to focus on high technology ventures, hence, with respect to 'picking winners', Participant B pointed out that the DFC "particularly looked at what was then high tech, particularly with exporting".

Research participants from this period acknowledged the influence that the Bolton and Wiltshire reports exerted on the formation of the SBA in New Zealand. In this they reflected Devlin's (1984b) account of the circumstances and his close involvement, which gave rise to the establishment of the SBA:

As a result of an increasing awareness on the part of academic, government and other interests, of the worldwide concern in the early to mid-1970's for the small businessman. This concern essentially followed the lead given in the Bolton Report (1971) in the United Kingdom and the Wiltshire Report (1971-1972) in Australia (Devlin, 1984b, p. 5).

The purpose behind the SBA was a straightforward one. It was to encourage cooperation and coordination between government and non-government SME stakeholders who had contact with SMEs in areas of finance, technology and management development, as well as business advice (Devlin & Le Heron, 1977),

while its overarching objective was “to encourage, promote, and facilitate the establishment ... expansion, and development of efficient small business” (Devlin, 1984b, p. 9).

The SBA had two tiers of services. The first gave small businesses initial advice on issues as wide-ranging as employment; grants and access to finance, as well as straightforward business-related advice. The second tier gave ongoing counselling and in-depth problem-solving and loan guarantees. This latter set of services was aimed at “businesses engaged in exporting or which, in the opinion of the board have export potential” (Devlin, 1984b, p.6).

Participants stressed their ‘hands-on’ role in promoting the services of the SBA and also in assessing the export potential of firms. Firms were assessed by the SBA for export potential and if they deemed this was so, SMEs they were then referred to the DFC for funding. Participant C pointed out that the process for giving advice and financial support to SMEs had a much broader remit than simply providing access to finance:

We’d go out, visit the firm, wander through their factory and facilities to get the owner to basically explain what he did, how he did it, where he thought his market was...It wasn’t just looking at the company and the security, it was more looking at what’s this project, does it meet the criteria around export orientation and export markets (Participant C)

This assessment was closely linked to management capability within the context of the firm in question:

A lot of the assessment was: can this management team and this group of shareholders, do they have the capability, the competency and the resources to actually deliver on the project? (Participant C)

According to Participant C's account, there were aspects of best practice that were incorporated into the conditions of the loan. Typically these focused on "making it a condition that they have got to provide us with quarterly financial reports" (Participant C, p. 8). The assessment role appears to have been associated with considerable command by the loan providers at the DFC as, interestingly, the criteria could extend to requiring SMEs to consult external advisors:

Might we insist that they get some specific expertise in to advise the company as a condition of the loan? Yes. And might we even insist that they get an independent director on the board because... there was no sort of formal governance arrangement? Yes (Participant C).

Over time too, the SBA expanded its operation with the formation of the Small Business Development Division in 1980 to oversee the Applied Technology Programme, Job Creation Suspensory Loans, Small Business Venture Capital and the Loan Guarantee Scheme (Devlin, 1984c; Small Business Development Division, 1982). The aim was to deliver financial and advisory services expressly for SMEs (Small Business Development Division, 1982). The Applied Technology Programme was one of the first public policies to be directed at high-end manufacturing firms, with the aim of encouraging R&D and innovation. The remaining three policies were intended to improve access to finance by SMEs.

The SBA was perceived as also playing an important role as a leader in the discussion on SMEs in New Zealand and to have facilitated the publication of SME-related research. In particular, it actively fostered collaboration with

academics in the development of an SME- related curriculum (Participant A; Participant B). This is confirmed in that, for instance, a 1982 SBA publication recommends

That the Agency continue to work with the educational institutions in the development of small business education [and] that the Agency organize and encourage research into aspects of the small business scene (Holden, Kininmonth, Andrew, & Costello, 1982, p. 3).

The SBA was also credited for having played a role in the area of academic courses with SME-related content:

In the early eighties we started to get the first academic courses ... Some of the other institutions like the Institute of Management would run seminars as well. (Participant B)

This was well understood within the SBA who was actively involved in promoting education and research into SMEs to ensure it could make better assessments of the type of support SMEs should be provided (Devlin, 1984d).

5.3.2 Regional Economic Development and Export Diversification

According to participant accounts, between 1978 and 1983, with the formation of the SBA, there emerged two specific sets of policies that had an impact on SMEs. These were regional development policies and policies that sought to incentivize or otherwise encourage export diversification (Participant D). By the end of this period the signing of the 1983 Closer Economic Relations (CER) free-trade agreement with Australia catalysed both export diversification in general and SME policy in particular (Participant E, Participant G, Participant H). Participants saw this as a turning point in the way that SMEs operated.

During the 1970s economic development of New Zealand's regions became a priority (Participant A; Participant B). Other studies commenting on this regional focus, have demonstrated that it represented a substantial proportion of all public funding for business assistance (Massey & Jurado, 2005), with most of it channeled through the DFC. To meet these regional development objectives, the SBA actively engaged communities in the delivery of small business assistance and continued to provide these services until 1987. One of these policies was the Regional Development Assistance Suspensory Loans and the investigation and establishment grants run by the SBA "to stimulate economic and social development in slow growth regions" (Gill, 1989).

According to the participants interviewed, this activity by the SBA served to reinforce for those who owned or managed SMEs, their expectations that government should afford them protection from competition and incentivize their international engagement under as favourable conditions as possible (Participant B; Participant C). This has been recognized by other researchers, who claim that one consequence was limited interest in SMEs improving competitiveness through the development of managerial or marketing skills. For most of this period, the prevailing view of advisors was that there was already enough assistance available for businesses in terms of advisory services and assistance (Le Heron, 1979). Consequently any form of targeted assistance was not judged a priority (Haines, 1991). For some analysts, the result of these policies had detrimental effects on the way all businesses in New Zealand were run, with a

mindset that focused firms on government assistance, rather than improving competitiveness, let alone export competitiveness (Bollard & Jackson, 1992).

Notwithstanding the criticism of government policy, which was seen by some participants as being largely detrimental to the creation of a competitive export-oriented SME sector, the need to diversify exports was an important government aspiration. The focus during the early 1980s in New Zealand was to identify export-related “‘best practice’ internationally and to apply those lessons in New Zealand” (Participant D). To this end and in a bid to galvanise SME interest in exporting, the government gradually expended export incentives for SMEs, including market development loans and market strategy assistance.

The ‘Fortress New Zealand’ mentality remained problematic, however, and, according to interview participants (Participant B; Participant C) the mindset of SME owners remained one of fierce independence. This view was explicitly reflected in the opinion of one key informant:

A lot of New Zealanders still valued their independence. They’d rather have 100% of very little. (Participant C)

Moreover, due to the small size of the New Zealand market, there was perceived to be an understanding that growth beyond a certain point was only possible when external markets were accessed, thereby generating the necessary scale effects for firms to expand sales and profits. This was believed to be the reason that “government efforts were focused on export-oriented firms” (Participant D), though it should be acknowledged that relatively few of these were SMEs.

Several forms of assistance were delivered to encourage exporting during this first phase of SME policy development. Informants recalled that assistance included export market intelligence provided by the Market Development Board – both generic and customised as well as assistance in developing marketing strategies for particular product categories. There was an emphasis on high-tech ventures, but also on specific destinations. Not surprisingly, informants pointed to an initial key focus on Australia, where it was expected that with the conclusion of the CER agreement, enhanced market opening across the Tasman would require greater assistance to leverage new opportunities in this nearest neighbor (Participant E).

A former civil servant in the Department of Trade and Industry recalls that to encourage exporting “[Trade and Industry] decided to go to regional centres to help small companies export” (Participant D). The Enterprise Assistance programmes in New Zealand were modelled on similar programmes established in the United States and Australia. These aimed to increase productivity through marketing and Research and Development. The range of assistance schemes available to small firms remained largely financial, through grants, loans, tax incentives, export incentives, regional development assistance, and assistance in the development of technology (Massey & Jurado, 2005).

5.3.3 Closer Economic Relations: The Effect on SMEs

At the same time that New Zealand policymakers were focusing on the need to diversify exports there was an increased focus on the expansion of the domestic manufacturing sector as a means to break the country’s dependence on the

agriculture sector. This resulted in an industrial policy that focused on ‘picking winners’ (Easton, 1997). With tariff walls shielding domestic firms from competition, there were few incentives for SMEs to consider exporting as a way of addressing their scale-related difficulties. The rationale behind this type of policy was to encourage the development of value-added manufacturing firms with export potential, very much in the spirit of the influential Datson (1977) report discussed earlier in this chapter. ‘Picking winners’ had close links with the Applied Technology Programme introduced in the period 1978 to 1983.

The Closer Economic Relations (CER) trade agreement changed this level of complacency and exposed New Zealand firms to more competition in, and from, Australia. One policymaker described the conclusion of CER as being “the other big thing” noting this was “the decision to remove all tariffs in trade and goods with Australia” (Participant E). This heralded the beginning of a change in attitude among SMEs towards the way business was done (Baker, 2008). Reflecting on the manufacturing sector, Participant E noted:

Once you took those subsidies off that sector there was no way that you could allow your manufacturing sector to sit behind old import substitution arrangements. (Participant E)

For some business commentators at the time, the opening of the New Zealand market to competition with Australian firms exposed serious deficiencies in managerial and general business practices (Jones, 1992; Bollard & Jackson, 1992). It is worth acknowledging that by opening the New Zealand market to Australia (and vice versa), the increase in competitiveness domestically was gradual and incremental. It was not of the same scale as changes that might have

resulted from similar types of agreements with other trading partners. Participant H noted this:

Australian imports were nothing in terms of competitive forces with what was to come from Chinese imports, but that [in itself] was a change in operating conditions for a lot of people. (Participant H)

Nevertheless, the impact of CER should not be under-estimated as for the first time it genuinely exposed New Zealand firms to external competition with the expected innovation and dynamic productivity spill-overs traditionally generated by trade agreements (Nixon, & Yeabsley, 2012).

5.4 Concluding Comment

This chapter has presented and interpreted observations contained in accounts from key players associated with New Zealand SME policy development between 1978 and 1983. It has identified key influences and key policy outcomes through their eyes and analysed these with respect to archival documentation and the findings of existing research studies. Brief comment is made with respect to the policymaking process.

Emerging themes of this chapter include the focus on firm-level SME policy; the focus on export-potential firms who were monitored closely by the SBA as part of the condition for receiving finance from the DFC; and the linking of SME policy to regional development. Firms were still considered a smaller version of a larger firm, but awareness of their intrinsically different characteristics was already evident.

The predominant aim of New Zealand's SME policy during this period appears to have been an economic one; to develop the regions, through the activities of the Small Business Agency, and to contribute to the diversification of the economy primarily via the value-added manufacturing industry and the Applied Technology Programme. The role of SME policy in terms of the social cohesion policy objective remained understated, and SMEs were viewed as a small homogeneous version of big businesses.

Unsurprisingly, respondents identify the influences of this period as including the Bolton and Wiltshire reports, the global economic crisis generated by the twin oil crises, and the entry of Great Britain in the European Economic Community in 1973. These put more impetus on the need to diversify the economy and gave more status to SMEs as a viable economic avenue. However, the most longstanding influence was the Birch (1979) study, arguments from which linked employment generation to SMEs and provided governments with an incentive to support SME development.

It is apparent from the interviews that the SME knowledge base during this early period was emerging. The SBA, once formed, came to play an important role in policy development and implementation. However, results indicate that there was still no widespread understanding of SMEs as a separate sector to 'big business' and this inevitably had an impact in the types of policies in place at the time. Ultimately, the main premise for SME policy intervention at this time was market failure, in particular in relation to access to finance.

On a deeper level, this section of the research raises a number of issues that are not immediately obvious from previous research accounts, and which are sometimes appear only indirectly through the stories participants share. These include an apparent informality of the policy development process, and the sense that a few individuals at the forefront of the policy development may have had undue influence over resource allocation and thus the shape of the embryonic SME sector. Similarly, the effect of other allied policy developments appeared to introduce policy bias in SMEs toward funding the technology developing enterprises. This in turn raises issues of equity in terms of policy implementation, but an exploration of that is beyond the scope of this research

The ensuing chapter presents and examines participant insights into the next stage in New Zealand's political history: a stage in which policy towards SMEs resulted in exposing them to global competition.

6. Economic Reform, 1984 to 1998

A New World for SMEs

6.1 Context

Eight participants recalled the period 1984 to 1998 as a momentous period of New Zealand economic history. The liberalisation of the economy, known as ‘leveling the playing field’ over this period, was premised on the assumption that market forces should be the primary drivers to shape and inform the economy. The reforms put in place caused a recalibration of the economy and unemployment rates peaked in 1992 at 10.2 per cent (Statistics New Zealand, 2015). At the same time, the number of enterprises employing fewer than 50 full-time employees increased to 88 per cent in 1989 (Linowes & Dixon, 1992, p. 132). A contributing factor to this increase was the growth in the numbers of self-employed, who made up 19.3 per cent of all employed (Haines, 1991). By 1999 enterprises employing fewer than 20 full-time employees accounted for 93.4 per cent of all enterprises and contributed to 42 per cent of all employment (Statistics New Zealand, 2015).

Participant C’s summary of this period is typical of how participants reflected on these reforms:

1984 ... was the beginning of questioning of interventionist, industrial policy in New Zealand. [There was] a change in the thinking on the frameworks around economic policy, a questioning of the role of government in industry development [and] economic

development. There was ... more let's get the institutions right, restructure the institution, set up the frameworks, the fundamentals, the markets, etc., and the government move away [and] let business sort itself out. (Participant C)

Already in the years before 1984, a range of macro and microeconomic indicators were signaling that fundamental reform was needed. In a country that had enjoyed full employment during the postwar years, unemployment began to rise reaching an unprecedented 5 per cent. Moreover, inflation had risen sharply to nearly 20%, before the imposition of price controls managed to cap this growth. By 1984, real GDP per capita growth in the past five years had barely averaged 1% per annum and government debt was ballooning – from 10% of GDP in 1976-77 to nearly 45% by 1983-84 putting further pressure on the exchange rate (Wallace 1990; Easton 1987; OECD 1983, 1985). The situation was widely perceived to require urgent remedial action and the incoming Labour Government moved swiftly to arrest the economy's decline, by floating the New Zealand dollar and emphasizing price stability as the government's over-arching priority. Underpinning this approach was an assumption, which – consistent with the Washington Consensus and Austrian School of economic thought – emphasized that “employment, economic growth and balance of payments objectives could – and indeed should – be left to market forces” (Whitwell, 1990, p. 101).

This new economic paradigm had been developed within the parameters of a global re-alignment of economic thinking, which, as noted above, was generally referred to as the Washington Consensus (Rodrick, 2006). It was heavily influenced by a combination of the Austrian School of economics and the increasingly influential research and thinking that had occurred in the Chicago

School of Economics in the mid seventies. This approach was summoned up as an approach to economic policy that believed in:

Fiscal conservatism ... in demand management by ... the central bank, in capital markets as efficient suppliers of capital, in deregulated labour markets as the cure to unemployment, and in the private sector as inherently more efficient ... in supplying most goods and services, than the public sector. (Wade, 2001, p. 1)

This analysis of economic reform found its way to New Zealand and was followed in the late 1980s.

Another important economic factor was caused by the strain of the 1987 Wall Street crash. This further highlighted the immediate social costs the drastic reforms had caused. Some limited government intervention was resumed in some areas, but not to the same degree as before 1984. Participant G recalled the check that the 1987 share market crash had on the approach of policymakers:

In 1987 the share market crashed and everything had been created before that time, entrepreneurship, deregulation and take all the checks and balances away and everything will flourish, then became questioned very, very seriously. (Participant G)

As Participant G stated, the underlying premise of policies developed at this time was to avoid the perceived waste of the previous protectionist era, the result of 'government failure'. Government failure was interpreted as an inefficient allocation of resources resulting from government intervention. This approach, it was argued, was reactive and inefficient, and did not serve the interests of the economy. Instead, the premise shifted for intervention to take place on the grounds of market failure only (Wallis & Dollery, 2002).

The period from 1984 to 1998 was characterized by a fundamental transformation not only of New Zealand's economy, but also developed world economies more generally where large-scale industrial manufacturing sectors were on the wane. These sectors suffered from the twin afflictions of low profitability and high input costs, while simultaneously experiencing a decline in competitiveness. In part this was a consequence of increasing competition from emerging economies with considerably lower factor and input production costs, including labour costs. The result was a considerable overall decline in the manufacturing sector in most developed economies and a growth in the services sector.

This global trend was mirrored in New Zealand where successive governments during these years responded to the decline in manufacturing and the general decrease in productivity across most sectors by instituting a range of fundamental economic reforms designed to re-frame the domestic economy to encourage both competitiveness and productivity growth. The transformation of the global economy – or rather, within the changes in industrialized countries - led to the development of economic theories that focused on the 'knowledge economy' (Romer, 1986), where knowledge spillovers and how to generate increases in levels of competitiveness through research, development and innovation would become the subject of research. These analyses were applied to formulate theories of 'productivity clusters' and enhanced regional development as drivers of macroeconomic growth.

The adoption of this new economic paradigm facilitated renewed interest in the field of entrepreneurship. That in turn encouraged a greater interest in and

exploration of the relationship between entrepreneurs and rates of innovation, which had been originally postulated by Schumpeter (1934) and re-examined by Baumol (1990) in his seminal study on the role of institutions and 'productive entrepreneurship'. These academic developments re-kindled an interest in how SMEs might contribute to the policy thinking underway on entrepreneurship as the role of smaller firms in entrepreneurial activity was both identified and acknowledged.

By the beginning of the 1980s, the shift of both academic and policy interest into smaller enterprises was underway. The Organisation for Economic Cooperation and Development (OECD), for instance, made the first incursions into the study of SMEs with the first comparative study of SME public policy published in 1989. In 1993 an OECD SME Working Party was established to examine SME policy in member countries and internationally, and to promote good practice relating to SMEs arising from the evaluation of these policies (Estimé, 2009).

In another international organization there was also growing interest in SMEs, with the First Asia-Pacific Economic Co-operation (APEC) Small and Medium Enterprises Ministerial Meeting held in 1994, which brought together Ministers from the region to discuss SME policy issues (APEC, 1994).

Both participants E and F recalled that the higher status of SMEs in the OECD and APEC influenced the prominence SMEs had amongst higher levels of policymaking:

There was APEC and the early work coming out of the OECD.
(Participant F)

Researchers at think tanks at universities internationally were increasingly aware that the overly prescriptive role of the state through the investment in large-scale infrastructure industries – or “think big” in the New Zealand context - was not delivering the expected growth. Moreover, the prescription of employment generation, and a focus on localized regional development was failing to deliver to expectations. This was apparent to New Zealand policymakers working on SME policy development at the time. Participant H, for instance, observed that during his period working in the United Kingdom a marked shift was underway away from the existing approaches because of emerging competitiveness-related challenges to new and alternative approaches:

Both the institutes and both the programmes I was working on were ... related around the industrial renewal, employment generation, ... local enterprise ... By the late 1970s they were starting to run into real competitive problems ... and there'd been huge unemployment and huge problems with unions and there was the Thatcher years that the unemployment level had got over three million. And so it was in that sort of context that this research was on industrial revival and small firm revival. (Participant H)

Another participant (E) commented that she had always retained an interest in SME capability, but that the catalyst for this focus only emerged subsequently as SMEs had been subsumed into broader “firm capability issues” (Participant E). Specifically, she recalled that since the late 1990s SMEs played an important part of her work:

I had to think about the policy dimension of SMEs ... So one way or the other I have had an abiding theme running through my work, which is focused on SMEs, though I wasn't explicitly focused after I

handed over firm capability, on just looking at the capability issues or SMEs, in my job. (Participant E)

As a way of underlining to the public the new winds of change in the horizon, the newly elected government promoted an Economic Summit in 1984 to bring together interest groups, in particular trade unions, industry and manufacturer association members (Cook, 2013). At the Summit SMEs were not visible as a separate entity:

Small business, from memory, was there but not as a particular lobby, not with any particular strengths or cohesion as small business per se. It was seen much more just as a business and markets and so at that time there wasn't really ... a lot of focus on small business. (Participant H)

Although the Small Business Agency contributed to this Summit with an overview of the SME sector in New Zealand (Devlin, 1984e) participant H went on to comment that the ethos of the time pointed towards a blanket business policy, as opposed to a specific SME policy:

The sort of official view of government at that stage was you wouldn't want a small business policy, you wouldn't want a big business policy, you would want to leave it to market forces. (Participant H)

The difficulty that SMEs had in organizing themselves into an effective lobby group was a reflection of the nature of this sector and the result of the heterogeneous grouping, which was difficult to group successfully under one banner. In this middle period, SMEs were able to take advantage of the level of coordination achieved by the manufacturing sector during the protectionist era, as mentioned earlier in this research. The result was a clear split in this sector between big business manufacturers (who formed the Business Round Table) and

SMEs that were aligned with the Manufacturers Federation. Participant H recalled:

The group that lobbied most against some of these reforms were manufacturers [but] my memory is they weren't particularly organising themselves or lobbying as small businesses. (Participant H)

The push for the 1984 reforms were led by big business and farmers who were prepared to give up subsidies in exchange for a freely floated exchange rate, and the removal of capital controls. These reforms were initially extremely tough on the New Zealand economy at the time. One participant underlined the significance of the economic crisis of 1983-4 and reflected on the context in which these reforms were put in place:

[It is] very difficult to make fundamental reform in New Zealand until you actually get some sort of crisis. (Participant E)

Once the economy was opened up SMEs were exposed to external competition in extremely difficult conditions:

Brutally thrown to [compete globally], they had to sink or swim ... and ... two thirds of them swam and one third sank. (Participant H)

6.2 Influences

During this second phase of SME policy development in New Zealand was influenced by the Washington Consensus and the Chicago School approach to economic reform; the work of Porter on competitive advantage, and; the drive to build competitiveness. More broadly, there was the influence that the economic reforms launched in 1984 had on SME policy specifically:

It was the time of Milton Freeman as well and the Chicago school: take away the obstacles and let the economy rip and the economy would surge ahead due to the efforts of entrepreneurial people. (Participant G)

The work of Harvard academic Michael Porter influenced policy to upgrade New Zealand's competitive advantage and was also influential in the way in which SME policy was shaped over the period. The 1987 stock market crash brought to home to policymakers that reforms needed to be extended to the microeconomic arena, as well as the macroeconomic. This resulted in an enhanced focus on the role of innovation, research and development and a reassessment of the importance of entrepreneurship as a driver of productivity. One participant recalled that the reforms had placed a premium on:

The power of your ideas and your ability to access and use and translate high quality fabrics into something that looks stunning. So you know the textile industry, which essentially was a small industry, really had a very big shake out. (Participant E)

This quote illustrates how the principles behind the knowledge economy (that knowledge and skills were the key to develop future economies) were implicit in the reforms put in place at this time.

At the same time, however, several of those interviewed for this study acknowledged that policies for SMEs were not a particularly high priority. Participant H and F both concur on the prevailing attitude of the period towards SME policy:

So how is the government thinking about small business? They were not thinking of small business specifically. (Participant H)

We wouldn't have had a small business policy over that period.
(Participant F)

Indeed, there was a sense prevalent over this period that the government should 'get out of the way' of the private sector in general and SMEs in particular. As one participant put it:

The attitude of the day is entrepreneurship happens spontaneously - you don't need help... if you've got the right infrastructure, the right laws, the right IT system, roadway system, transport, if all of these things are right, then entrepreneurship will happen spontaneously [when] that doesn't happen spontaneously you've got to encourage it or do something to encourage it. (Participant G)

Over this period the United Kingdom and Australia remained important points of reference and inspiration for continued interest in SMEs. Some were influenced through professional connections with the United Kingdom:

So I had been working in Britain at two institutes on small firms. So I'd actually been looking at small firms, small technologies, economics of small firms when I came back to New Zealand in 1984 and I guess I was interested in that area. (Participant H)

For other participants the influence from the UK made its way through Australia to New Zealand:

Generally speaking I think New Zealand followed on and Australia was quite important and the UK was quite important. (Participant G)

It had started off in the UK and then it spread to Australia, diffused to Australia and then it diffused to New Zealand. (Participant F)

6.2.1 Impact of 1984 Reforms on SMEs

The new social and economic environment generated by the extensive economic reforms launched in 1984 also served to further highlight a 'failure of

management' in New Zealand businesses (Jones, 1992). Policymakers realized that New Zealand firms were relatively weak in this area and that management was a key driver of high-growth firms, which further emphasised the importance of developing managerial capabilities (Bollard, 2005). The New Zealand thinking in this area was influenced by the prevalent management theory of the time, in particular Porter's 'five forces' on competition (Porter, 1979) and 'total quality management' theory (Knuckey, Leung-Mai, & Meskill, 1999).

The economic reforms launched in 1984 affected all sectors of society, including the previously highly protected farming sector, which over the period of three years had its subsidies withdrawn, tariff protections sharply reduced or eliminated and production incentives removed. Many farmers struggled to adapt to the new conditions where the only price that mattered for their production was the global one – forcing many farms for the first time to see themselves as a part of the burgeoning private sector. Farms, many of them SMEs, were now businesses. Indeed, when reflecting on the changes that had swept through New Zealand in the mid 1980s, one farmer lamented, “farming is not a way of life anymore. It's a business” (Linowes & Dixon, 1992, p. 135).

For SMEs more generally, the reforms at the macroeconomic level forced them to be much more competitive. Participant E recalled that tariff policy “had a very big implication,” describing this as a component of “framework policies” which were resulting from “the general opening up of the economy over time [which] was actually driving the structural changes within it as well” (Participant E).

Other participants pointed out that the significance of the 1984 reforms for SMEs was the fact that a fundamental ‘playing field’ was laid out for business, including SMEs, to operate in:

The government had a very strong focus on just creating the right sort of an environment for business more broadly. (Participant F)

The 1984 reforms also affected the ability of business support agencies to support SMEs. Participant A recalls that these were difficult years for the Business Development Centre as the government wound up support for this agency:

After 1984, and they were all for deregulation, less support and all that, the Business Development Centre, started to have a really rocky time because it was reckoned that they really shouldn't be helping anyone because they should help themselves. (Participant A)

It was also a period where SMEs had a series of export incentives removed, as recalled by Participant D:

As a result of 1984 a proposal to remove export incentives was taken up by the Labour government and this affected small exporters. (Participant D)

With reference to the textile sector, Participant E recalled the significant changes that followed the economic reforms:

Suddenly everything goes and the cost of re-entry is too high ... What would happen in our textile manufacturers once you lost the dying capability, once you lost all of that it wasn't going to come back, but we probably would have erased it anyway because the drivers were taking it in that direction. (Participant E)

Participants remarked that it is difficult to pinpoint SME specific policies at this time. The manufacturing sector, for instance, suffered great losses:

Between 1986 and 1989 we lost one third of our manufacturing sector. (Participant H)

The response of the government policy towards SMEs was initially largely the same as it had before 1984: it focused on providing SMEs with generic business assistance through locally run regional development boards. As the economic reforms progressed and fed back into the broader economy, a gradual shift in emphasis began away from the generic forms of business support that had characterized the period to 1983. Consistent with the influence of the Austrian School of economics, there was interest in focusing on how to develop and sustain entrepreneurship at all levels of the economy, including SMEs, with minimum government intervention.

Some of those interviewed for this study observed that New Zealand SMEs were due to make such a shift. As one participant recalled, before then this had not been the case:

Austrian economics interpret entrepreneurship as people seeking opportunities and working in uncertainty and...New Zealand in some respects had been a very un-entrepreneurial business culture and even social culture. (Participant H)

By 1992, the 1984 economic reforms had introduced a much greater level of competition into the New Zealand economy, and SMEs were by no means immune to this. Contemporary research reported that by the early 1990s New Zealand firms had modified how they operated because of these reforms:

Firms [had] made some bold strides to adjust to these changes. Industries [had] become much more competitive... Industry boundaries were blurring as firms faced new competition from what were once unrelated businesses (Linowes & Dixon, 1992, pp.133-34).

Participant E used the clothing industry as an example of how surviving firms adapted to the new environment and were sometimes in better shape than before:

Rather than collapsing [it] actually readjusted itself up the value chain ... it rose from the ashes from producing t-shirts to a lot of people like [high-end fashion designer] Trelise Cooper ... the suit manufacturers were all still alive, and were much more efficient and in a much better position and up the value chain. (Participant E)

For many SMEs, however, the introduction of much greater competition exposed their paucity of management and entrepreneurship skill. The government sought to respond with training that could be targeted at specific needs, such as management development (Bollard, 1988; Linowes & Dixon, 1992). Participant E observed that the macroeconomic reforms had to be in synchrony with other global issues:

These big framework policies we're running alongside these [global] issues where it's how do you deal with the capability of companies as well. (Participant E)

Several of the changes brought in during this period had a direct impact on how SMEs operated their day-to-day business. Participants identified three pieces of legislation as having played a role in the way SMEs function, the *Goods and Services Tax* (1985), the *Fair Trading Act* (1986) and the *Commerce Act* (1986).

The introduction of the *Goods and Services Tax* (GST) in 1985 required firms with a turnover greater than NZD\$30,000 to register if they wanted to be entitled

for tax refunds. This measure had the unexpected consequence that it significantly altered what was known about the numbers of SMEs operating in the economy as more of them registered for tax purposes. As one participant recalled:

Suddenly we found from [GST] registrations we had one third more small businesses than we thought we had had. So basically a lot of small businesses [had been] operating in a grey economy and they sort of came into the official sector at that point. (Participant H)

While the introduction of GST revealed the larger than expected numbers of SMEs, the *Fair Trading Act* introduced in 1986 delivered for SMEs a transparent and readily understandable “set of rules for selling products and operating” (H, p. 6). This level of certainty allowed SMEs to plan their business operations on a more professional and formal manner. It also served as a standard that SMEs had to adhere to.

The *Commerce Act*, which came into force in 1986, reformed price setting across the New Zealand domestic market and prescribed the conditions of service practices by trade associations. Instead of following the directives of a trade association, with all of the anti-competitive inefficiencies this implied, SMEs were exposed to a more competitive environment where the market set prices and suppliers responded directly to demand indicators from consumers. This encouraged SMEs to see the value of re-orientating their business practices to become more efficient and effective. As one participant observed the cumulative effect of these legislative changes in the mid-1980s was such that:

You found small businesses had to stand on their own, they had to compete much more and they had to take on new skills...small businesses had to make decisions themselves. (Participant H)

It was a completely new world for SMEs.

6.2.2 The Aftermath of the 1987 Stock Market Crash: A Shift in Emphasis

In the wake of the initial phase of economic reforms, the New Zealand share market index doubled in 1986 – a growth rate well in excess of that of most other OECD economies at the time (Gaynor 1997a; Jesson, 1999, pp. 103-136). During the crash in October 1987 the New Zealand share market index fell by over 60% following the initial collapse on 19 October. The slide, which continued for several months thereafter was described by an observer as, the “market’s decline was relentless and frightening” (Gaynor 1997b). Nearly 200 New Zealand firms were delisted from the stock exchange, with many becoming insolvent. The impact was immediate, with the economy falling into a long recession from which it struggled to recover (Whitwell 1990).

The collapse of the New Zealand stock market gave many policymakers pause. The deregulation of the financial system that had taken place in the previous years had benefited SMEs as access to finance became more available than it had been previously. No longer was the Development Finance Corporation, through the Small Business Venture Capital initiative, one of the only paths for accessing finance. However the 1987 crash represented a considerable setback to the supply of venture capital, in particular for that aimed at high-risk enterprises (Cameron & Massey, 1999; Simmons, 2002).

Some participants suggested that the crash triggered a gradual rethink of policy approaches to consider the notion of industrial policy, including how this could be

applied (or not) to SMEs. As two participants (H and C) observed, after the stock market crash the government started to consider direct intervention in some areas, in particular innovative industries with perceived high growth potential:

You were starting to see a growth of views in parts of government, but not all of government, that one should consider industry policy in the sense of government having a role in a slightly more selective way, but not selecting products and firms but having a view about what builds up their competitive environment what builds up, environmentally inputs availability of capital, availability of skills. (Participant H)

I think [there was] a recognition that there was market failure around the research, science and technology end of the system, but not in the commercial end. (Participant C)

The combination of the structural economic reforms and the 1987 stock market crash left the country in an economic recession. Unemployment went from 5 per cent to reaching an all time high of 10.2 per cent. At the 1990 election the Fourth Labour Government was defeated at the polls and was replaced by a National Government. The new government was confronted by a general discontent with the performance of the economy (James, 1992). As Participant H summed up in the above quote, some policymakers were questioning the extent of the reforms, as there was a feeling that there had been a lot of sacrifice with little return.

Sections of the newly elected government were determined to continue the neoliberal economic reforms that they considered remained to be done. One of the pieces of legislation of this time that impacted on SMEs was the *Employment Contracts Act*, 1991, which gave employers the flexibility to use individual employment contracts.

The approach of the government was debated widely and several areas were considered to improve and impact on the competitiveness of the economy, as will be discussed in the following section.

6.2.3 Building Competitiveness

The high number of business failures after the 1984 reforms raised concerns about the competitiveness of SMEs (Linowes & Dixon, 1992). As the new business environment was consolidated, including through the legislation passed in the 1985 to 1987 period described above, the SME sector underwent a level of relative stabilisation. However there remained a lot to be done to improve the competitiveness of the New Zealand economy. In New Zealand and Australia SME researchers at the time were aware of the connection between poor management practices and business failure (Bollard, 1988; Meredith, 1988). There was also agreement that despite the hardships caused by the brashness of the 1984 economic reforms, the result had effectively raised the resilience of SMEs in international markets (Campbell-Hunt, Bollard & Savage, 1989).

By the early 1990s there was a sense among policymakers that the enabling economic environment, developed through the reforms launched in 1984, had enhanced levels of competitiveness and reduced costs. It was at this point that there was an increased interest in re-considering the need for management development as an objective of government policies towards SMEs. Participant N recalls the Minister of Overseas Trade and Marketing taking an interest in the capability of SMEs to export:

[The Minister] asked are they equipped to export? So we needed to develop their capability. This was mostly motivational because there was little government funding. (Participant N)

Moreover, the same Minister introduced the Business Development Boards aimed at building regional economic development through supporting SMEs develop their capabilities:

Mr. Moore, the Labour Prime Minister ... was attempting to do something vital for industry and he developed a programme of support for small business, entrepreneurial business or whatever, all over the country (Participant A)

According to Participant A, many of the ideas had already been presented to policymakers in the immediate aftermath of the 1984 reforms, but had not been taken onboard back then:

When the Prime Minister and his lackeys stood up to tell us about the new plan, blow me down every single word was what I'd told this bloke in 1985-6. (Participant A)

It should be noted that the fact that the government considered intervention in the area of management capability was not in line with the overall policy rationale of that time:

[This intervention was driven] from a slightly different paradigm, it came from a microeconomic paradigm, and one that was incorporating a lot of government, and this is more of an act in the process, as opposed to the prevailing paradigm here which the government should get out of the way at least from economic decision making. (Participant H)

Participants F and J recall being influenced by theories of quality management and by programmes implemented in Australia and the United Kingdom to develop management capability. According to Participant F who was heavily involved in

the policymaking process at the time, the key to improving competitiveness was to improve management capability of SME owner/managers, and total quality management:

So you had quality management as a philosophy, a business philosophy, and then you had particular techniques. (Participant F)

In the early nineties we had a huge push on quality ... there was a big movement ... this whole focus on Just in Time. (Participant J)

Participant F recalled the beginnings of the Quality Management Programme, a package designed to encourage New Zealand businesses to meet international quality standards:

In about 1986 ... there was a trend internationally towards a strong focus on quality management, total quality management and the like ... The Minister was asked ... to look at whether New Zealand should effectively join that movement and I was asked to lead that work, and that led through to the development of what we call a Quality Management Programme ... So we developed case studies and we ran, I think, about 70 seminars around the country. (Participant F)

Several theories influenced this quality programme, which sought to improve quality standards across industries to match internationally accredited ones. One was based on the Deming Institute, which took elements on the Japanese approach to build productivity in New Zealand (Humphries, 1998). Participant F recalls it was a policy that worked across agencies:

The Testing Registration Laboratory Council of New Zealand was involved in it. Standards New Zealand would have been involved in it. The Ministry of Agriculture and Fisheries was involved in it, so you had some government departments that were involved as well. And it was around about that time - probably a little bit before that - that you also had ISO9000 being adopted, which was a particular technique, which we promoted as well. [And another was put forward by] the Deming Institute (Participant F)

Participant F recalls that as well as adopting the quality management package there were efforts to put in place an Expert Assistance Programme:

What else was happening at that time was in addition to the quality movement ... there was an initiative, it had started off in the UK and then it spread to Australia, and then it diffused to New Zealand. We called it the Expert Assistance Programme. In Australia it was called the NIES, National Industry Extension Scheme. In the UK it might have been called the Enterprise Programme or something like that?
(Participant F)

The influence of new theoretical developments in business studies also influenced policy towards SME in the 1990s. Notably, Harvard Professor Michael Porter was invited to lead a research team to consider the comparative advantage of the New Zealand economy at the invitation of the Marketing Development Board (Crocombe, Enright, & Porter, 1991). This research, known as the 'Porter Report', raised questions about the virtually exclusive macroeconomic approach taken up to then, noting the way that it was constraining competitiveness rather than facilitating it. Crocombe et al., (1991) recommended the use of microeconomic tools as a way to bring the economy up to international standards, while simultaneously providing an enabling environment for the private sector to upgrade its competitive advantage. This resulted in a greater focus on training and skills of individuals, the promotion of innovation and higher levels of assistance for research and development (R&D) and the development of particular exports to widen New Zealand's relatively narrow dependency on the primary commodity sector for exports.

A contemporary analysis described the Porter thesis to be:

[A] shift to an enterprise economy, that is, one based on human resources, which means management training and development – and effective research and development. (Scott, 1995, p. 62)

Innovation was also a key component of this new approach to generating economic growth, as was the dynamic relationship between business and government, where businesses were encouraged to take the lead. By the 1990s, the debate on the way forward for New Zealand's economy seemed to be settled. There was widespread consensus that the prime mover should be the private sector, with the government providing the environment for economic growth to take place. The Treasurer at the time stated:

We are at last getting to a point where we can have a discussion about New Zealand's economic development without having to define the terms of the debate and arguing about the role of government and the role of business (quoted in Scott, 1995, p. 62).

Participants approached for this study recalled that the Porter Report had altered the way in which SMEs were thought about, even if that was not the main thrust of Porter's analysis. One participant commented that Porter's work was "all taken very seriously" (Participant E). Discussions on the Porter Report took place at the New Zealand Enterprise Conference in May 1991 and at the Putting Porter into Practice Conference in July that same year (Graduate School of Business and Government Management, 1991).

A key participant did not recall the Porter Report and his visit having a direct impact on the work on SMEs carried out at the Ministry of Commerce, although

he did acknowledge its importance in terms of encouraging export competitiveness:

I remember going up to a dinner in Auckland where Porter was at. So, I was engaged with it at one level. There would have been other people in the Ministry of Commerce or whatever it was at that time. But I don't think any of that materially impacted on the organisation that I belong to ... it may well have materially influenced the Trade Development Board. (Participant F)

This assessment by Participant F is corroborated by media report that commented that the Porter Report analysis had not brought up anything new; it was simply a fashionable approach to drive the internationalization of the economy (Easton, 1991).

Nevertheless, the importance that Porter's competitive advantage theory placed on externalities generated by knowledge exchange (such as those found in clusters and networking opportunities) had an indirect effect on SME policy. Participant E assessed Porter's influence as being a positive one in relation to the development of clusters, and also in the singling out of particular industries, with the overall aim of developing competitive advantage:

I think it was all taken really seriously. I mean I think some of it is still in play. But [to what extent] was it behind some of our decisions to perhaps re-engage a little bit in some industry policy? (Participant E)

Innovation was a further issue highlighted by the Porter Report. To build competitiveness SMEs and bigger businesses were encouraged to foster innovation, as "competitive advantage is created by innovation" (Graduate School of Business and Government Management, 1991, p. 16). Those who attended the

conferences that resulted from the Porter Report also raised the possibility of “transforming the role of industry associations” (Graduate School of Business and Government Management, 1991, p. 11). The conferences concluded that such associations should not simply be lobbying government on behalf of members, but should also establish themselves as a key partner of government in developing the kinds of advice and information of issues affecting SMEs, such as management development, access to finance and market development. This is important as it changes the role of business associations from one of advising government on the issues of concern of businesses (including in some cases SMEs) to playing a role in developing and sometimes in implementing these policies. Significantly, although contemporary documentation cited above shows the new role being assigned to industry associations and the need to change the way they related to government, there was no recollection of them playing an important part in the development of SME policy at the time.

The same conference called for better communication channels between business and government. The aim was to have a better understanding of the effects of legislation on SMEs and business in general. With this in mind the New Zealand Enterprise Council was set up “to advise on policy issues affecting business and provide a perspective on the impact of government on business activity” (Graduate School of Business and Government Management, 1991, p. 95). Nevertheless, the impact of this Council was limited with participants having only vague recollections of its existence, and pertinence, to SMEs.

One important effect of the Porter Report was the expectation that SMEs would take on a more proactive role in exploring ways to internationalise. This was a departure from the traditional expectation that government and SMEs had about the relationship of SMEs with government:

Success in international competition will require a new breed of manager [with] a fundamentally different and more sophisticated orientation to competition than New Zealand management has been used to ... It requires ... being essentially proactive ... rather than being reactive to local conditions. (Crocombe, Enright, & Porter, 1991, p. 106)

This period also came under the influence of work by researchers in New Zealand that increased the knowledge base about SMEs.

In the late 1980s Participant F recalled the Minister of Finance calling for more research into why SMEs were not benefitting from the economic reforms:

My recollection is that Mr. Douglas, [the Minister of Finance] about 1989, wondered why we actually weren't getting the benefits. And he turned ... to the Department of Trade and Industry and we initiated a research programme ... So it was the Institute of Policy Studies, NZIER [New Zealand Institute of Economic Research], Department of Trade and Industry, Ministry of Commerce, whatever the time period was, to say, well how are firms responding to a significant endogenous shock deregulation (Participant F).

Another participant recalled that in the 1990s the type of research the Ministry of Commerce was involved in was on questions of management capability, as opposed to financial performance:

Just as I came on board a big piece of research had been undertaken by what was then called the Manufacturing Advisory Group, which I sat on, looking at the dimensions of firm capability - so not focusing on financials, not focusing on the data around investment but going to the question of quality of management capability. (Participant E)

Other studies, for instance work by Harper (1994, 1992) and Harper and Bollard (1991) called for better statistical data on SMEs. The publication *Islands of Excellence? A Study of Management in New Zealand* into standards of New Zealand managers in relation to building global competitiveness (Campbell-Hunt, Harper & Hamilton, 1993) was regarded as a milestone in terms of the future direction of capability building amongst New Zealand SMEs. Section 6.3.6 will discuss further the way the domestic knowledge base was developed.

6.3 Policy Outcomes

Unlike the period from 1978 to 1983, there were no direct SME-related policy outputs comparable to the establishment of the Small Business Agency during the period from 1984 to 1998. In fact, in 1986, the SBA was disestablished in line with the philosophy of the government that businesses were best served by businesses themselves. Resistance to interventionist policies such as the SBA was based on arguments that there was little evidence these had worked in New Zealand, or elsewhere. This criticism was combined with the assessment that the private sector was better placed to provide business advice:

There was opposition to SME policy by economists and bureaucrats who said that interventionist policies like this haven't worked elsewhere...[there were criticisms that the SBA was] undercutting private sector consultants. (Participant B)

Discussions amongst policy advisors on the future of the SBA had been ongoing with one camp asserting:

Private sector initiatives should not be squeezed out of the small business sector market. (Small Business Agency Review, 1983)

While the other camp believed that the private market was not equipped to provide this assistance appropriately:

The DFC had tried to promote small business sector assistance outside of the SBA but this had largely failed. Organisations like the Chambers of Commerce and SCORE did not fulfill this assistance role. (Small Business Agency Review, 1983)

The criticism was consistent with the prevailing orthodoxy of this post 1984 period, whereby the government's primary role should be to create an appropriate enabling environment to allow SMEs to evolve without direct intervention or interference.

The disestablishment of the SBA in 1986 (*Development Finance Corporation of New Zealand Act 1986*) was a source of great disappointment for SME advisors at the time as there was general agreement that there was no suitable replacement for the services that were provided by the SBA, in particular those relating to counseling assistance (Bollard, 1988). Media also commentators reported disappointment by SMEs that the support had been withdrawn (Bitterness over, 1986). The rejection of the direct provision of assistance to SMEs was softened somewhat in the 1990s with the introduction of the Business Development Boards. This will be discussed below in section 6.3.2.

Table 6.1 outlines the level of government expenditure on policies in place that affected SMEs by 1999. The main areas of concern to government were business development (through the Business Development Programmes and Business Capability Improvement Grants programmes), internationalization and building competitiveness (through the Export Capability Development and Promotion of

Exporting and Promotion of Technology for Business Growth programmes) and self-employment (through the Community Employment Projects programme).

Table 6.1 Government SME Policies in 1999 (New Zealand Treasury, 1999)

1998/99 \$,000	
VOTE BUSINESS DEVELOPMENT	
Business Development Policy Advice	\$1,866
Delivery of Business Development Programmes	\$5,053
Business Capability Improvement Grants	\$7,340
VOTE COMMERCE	
Policy Advice: Business and Competition	\$8,287
VOTE EMPLOYMENT	
Community Employment Projects	\$13,596
VOTE FOREIGN AFFAIRS & TRADE	
Export Capability Development	\$8,320
Promotion of Exporting	\$7,160
International Business Consultancy	\$39,814
VOTE RESEARCH SCIENCE & TECHNOLOGY	
Promotion of Technology for Business Growth	\$15,694

As shown in Table 6.1, the focus was on developing business capability and encouraging exporting.

Also of note during this period was the establishment of the Ministry of Commerce in 1988, with a new division with aspects of policy that related to SME policy called Business Development. In 1997 the Ministry of Commerce was restructured and the Competition and Enterprise Branch was set up to advise on business policy (New Zealand Year Book, 2000).

Other than the closure of the SBA, there were no SME-specific outputs from the period, there are a number of policy instruments that were utilized and had an impact on SMEs over the period under review. These included: using SMEs to drive employment generation and to improve the management capability of all SMEs; build the SME knowledge base; using regional economic development to foster the development of SMEs; support for minorities in SME development; picking SME ‘winners’ those who were likely to internationalise; and easing the burden of regulation.

6.3.1 SMEs Self-Employment and Management Development

As mentioned in section 6.1, the pace and intensity of economic reforms, combined with the 1987 share market crash left many sectors in New Zealand vulnerable. There was increasing political pressure to address unemployment and the incoming government sought policy options to address this. It was in this context that there was a reconsideration of the government’s role in the SME sector, especially in the regions where unemployment appeared to be particularly difficult to dislodge.

There were also growing concerns that government SME business assistance was under-utilized, largely because of information asymmetries (Harper, 1994) meaning that not all SMEs were able to access this support. Along with the paucity of managerial capability in New Zealand SMEs, successive governments after 1984 sought to find ways to upgrade the skills and capabilities of managers, including SME owner-managers. Calls to modify the strategy to improve the

skills base in New Zealand stated, “the old mentality of ‘if we need some skills we will just bring them in from the U.K.’ is just not good enough anymore” (Caughey, 1991, p. 26).

Concerns to encourage employment generation and to improve the development of management capability amongst SMEs, gave rise to the Expert Assistance Programme (EAP). Participant F recalls what the EAP’s objectives were, and the rationale behind its establishment:

Basically it was predicated on subsidizing the use of consultants by businesses ... The basic model is to say well, we need to improve business capability, how best do you improve, improve business capability? You, you get experts to work with firms. Where do you find these experts? You find them in consultancies. How can you encourage businesses to engage consultants? You subsidise. You subsidise the use of consultants and you promote the use of consultants. That’s the core of the model. (Participant F)

The EAP from observation of similar programmes in the UK and Australia:

[The EAP] was the model which the UK applied [and] Australia adopted it as the National Industry Extension Scheme. (Participant F)

As Table 6.2 shows, the EAP had two levels of government involvement. One was directed at improving business capability amongst SMEs. This was run by the Minister of Commerce and consisted of the Business Development Investigation Grant, the Expert Assistance Scheme and the Enterprise Growth Development Scheme. The second level had a social objective and was aimed at self-employment. The main provider in this level was the Community Employment Development Unit set up in 1990 (renamed the Community Employment Group in 1992). This Group managed the Local Employment and Enterprise

Development (LEED) fund for self-employment support, with programmes such as Be Your Own Boss, a training scheme that was contracted to 56 LEED agencies (Scott, 1995).

Table 6.2 Expert Assistance Programme 1991 (Community Employment Development Unit, 1991, p. 3)

Expert Assistance Programme		
Ministry of Commerce	Department of Labour	
Business Development Programme	Community Employment Group (CEG)	Community Employment Assistance Project Fund
<ul style="list-style-type: none"> • Business Development Investigation Grant • Expert Assistant Scheme 1991 • Enterprise Growth Development Scheme 	<ul style="list-style-type: none"> • Local Employment and Enterprise Development Fund • Small Co-operative Enterprises Programme • Self-employment • Assistance Agency-based projects 	Community-based programme funds.

Contemporary commentators were not convinced that the EAP served an economic purpose and considered these policies to be political in nature with little direct impact on the overall aims of revitalizing the regions and curbing unemployment (Cameron, 1988; Luxton, 1997; Perry, 1991). Some researchers at the time went one step further calling for “a comprehensive small business policy” (Tweed & Cameron, 1991, p. 55).

Participants replicated the view that the EAP policy had an ambiguous outcome and may have been affected by political considerations. Participant G recalled the emphasis that policymakers placed on seeking to encourage unemployed individuals to consider starting their own companies as a form of social policy:

[These programmes were] *welfare schemes to get people off welfare by giving them encouragement and building an Enterprise Allowance... it was a difficult task but so many of the policies were, in my opinion, the government being seen to be doing something...so yes we had these schemes to help with self-employment.* (Participant G)

Participant A also questioned the effectiveness of the self-employment policies at the time:

The government was really quite active in the small business area but their purpose may have been as much to curry favour in the regions, maybe as persuaded by genuine academic argument that this was the best thing to do, such as academic argument in those days was, and I suppose I was part of it. (Participant A)

However the critical tone of the above remarks are tempered by an implicit acknowledgement that the social aspect of SME policy (in this case self-employment) was an important tool. A researcher and advisor active during this period acknowledged the multiple objectives of the programmes (i.e. social and economic), but pointed out that on balance the thinking of the day was that:

You were helping people back into employment and giving them skills...so there was a social as well as an economic element in some of those things. (Participant G)

Once these schemes were in place there was no evaluation to see how they were performing, no evaluation “of the results of the policy to see how effective they actually were and there were horror stories” (Participant G).

Self-employment policies directed at Māori, Pacific Islanders and other minorities to alleviate unemployment were also intended to integrate these groupings into the wider economy. SMEs were seen as a potentially significant ‘enabler’ of this process of integration. As well as the Enterprise Assistance Programme discussed above, policies to encourage employment rates among minorities were developed by the Department of Labour. These included, for example, a range of local initiatives administered by the Community Employment Development Unit and the Local Employment and Enterprise Development Scheme (LEEDS). These measures approached the issue of regional economic development from another angle, but retained the same objective, i.e. to facilitate local initiatives to foster growth (Perry, 1991).

Despite the existence of various forms of business assistance grants, as described above, the applications for these grants did not increase at the anticipated rate. This was puzzling and the government commissioned a study to identify the reasons for this. The findings of this study identified a lack of management competence, low growth ambition and a preference by owner-managers to remain in control of their business (Austin et al., 1996). In effect, this study challenged the assumptions of policymakers about the needs and expectations of SME owner-managers, in particular regarding growth. Further research into management practices amongst SMEs in the 1990s reported that although there had been significant changes in the way business was done, there was still more work to be done to be able to compete effectively in the global stage (Campbell-Hunt, & Corbett, 1996).

Participants recalled frustration with the lack of uptake by SME owner-managers of these programmes, reflecting their low levels of ambition:

[SMEs] preferred to not to adapt so they ran their businesses on a kind of cash flow basis rather than thinking about the value of equity to actually grow the business. (Participant E)

Other participants echoed this sentiment of frustration:

They're amateur in business and it's just the same now as when I started in 1973 (Participant A)

Nevertheless, this period saw a 41% rise in rates of self-employment between 1981 and 1986, reaching 19.3% of the employed population in 1990 (Haines, 1991, p. 5). This significant increase in self-employment added to the complexity of SME policy development as the category of the 'micro-enterprise' made up the bulk of this sector. Participant C expressed the difficulty in encouraging growth amongst SMEs when he stated:

We don't have SMEs; we have garage operators and micro businesses. (Participant C)

6.3.2 Regional Economic Development: The Business Development Boards

The disestablishment of the SBA in 1986 was part of a wide-ranging reform process designed to decentralise government assistance and reduce 'direct interference' in the market. The overall policy rationale for this era has been described as a "devolutionary partnership" (Scott, 1995, p. 92), which consisted of encouraging the private sector and the community to assume more active participation in finding paths for economic development. While the SBA was removed, its advisory functions continued to be provided by Regional

Development Councils, which were rapidly re-branded Business Development Boards (BDBs). Twenty-one BDBs were established under the *Business Development Boards Act, 1991* with the purpose of promoting business growth and business development in the regions (Controller and Auditor-General, 1998).

The structure and form of BDBs mirrored those of the Business Enterprise Centre in the U.K. and in Australia. As one participant recollected when commenting on the beginnings of the Expert Assistance Programme, run by the BDBs:

I went to the UK, understood what they were doing. I already had a lot of engagement with the Australians. I understood what the Australians were doing, and then I proposed that we adopted that scheme in New Zealand. (Participant G)

The BDBs had a wide range of functions including the administration of various grants. These included the Business Development Investigation Grants to fund new business opportunities; the Expert Assistance Grant Scheme to access management consultants; and the Enterprise Growth Development Scheme to assist with export related costs (Austin, Fox, & Hamilton, 1996). BDBs also oversaw the Business Development Programme, which aimed to provide businesses with information, capability improvement services and fostered regional cooperation (Austin et al., 1996). Services included basic business advice, mentoring and face-to-face counselling of existing or prospective SME owners.

Participant A recalls these being a positive development in terms of SME support:

The government established regional development councils and these were extraordinarily useful and helpful things at the time. They

were populated by local business people and local academics.
(Participant A)

The policy rationale behind these programmes was for the government to serve as a ‘facilitator’ of ideas for local economic development. The then Minister of Employment described the government’s role in the context of the Community Employment Development Unit in 1989, the role was “midwifing ideas and then passing the responsibility to local groups” (quoted in Scott, 1995, p. 86).

Participant E recalls being involved in the review of the effectiveness of the Expert Assistance Programme, which concluded that the policy was no longer reaching the objectives it had been intended to deliver. Her disappointment with the state of the policy at this stage was unequivocal:

What the hell is all this? ... this is pretty marginal stuff and there was a need to refresh our thinking ... the whole grants based programme was not necessarily the way to do it. (Participant E)

Another participant’s recollection around this time reflects on the fact that the Expert Assistance Programme had been subverted by a small number of firms who were adept at securing funding and assistance and not necessarily putting it to the intended use, at the expense of others. This participant felt the government was partly to blame for this due to the removal of some checks and balances in the interests of providing an environment where market forces governed the economy:

There were dangers in that policy because entrepreneurs would, when the rules were taken away, they’d do things that made governments then realise why some of those rules had been there in the first place and also that some rules didn’t work anymore and new rules had to come in, new regulations. (Participant G)

The above quote also stresses the almost cyclical nature of government intervention, where some rules and regulations are removed and then later reintroduced, a theme that is recurrent in SME policy development. Furthermore, this perception that the BDBs had simply encouraged a proliferation of consultants that were adding relatively little value in terms of the government's wish to boost regional development, combined with a lack of evidence that the BDBs were effective in fostering SME growth over time, and concerns that grants were not reaching the intended recipients, led to a review to be carried out by the Ministry of Commerce in 1997 (Controller and Auditor General, 1998). This review of 473 grant approvals across the 21 BDBs found irregularities, including the fact that 28% of approved applications should not have been granted (Controller and Auditor General, 1998).

The fact that there was no consistent evaluation and other mechanisms to measure the impact of the SME support offered under the BDBs was widely reported and noted at the time (e.g. Cameron, Massey & Tweed; Locke, 2000). One participant recalls:

A number of those businesses failed and some of these people were locked up, if I remember rightly. (Participant F)

Dissatisfaction with the BDBs led to their disestablishment in 1998 and they were replaced by a new business development plan. The purpose of the new plan, as described by the Minister for Business Development, was “to find innovative ways to improve general management capabilities of small firms, rather than the previous focus [which was to provide] cash injections through grants” (Bradford,

1998). The blueprint for this plan was laid down in a document entitled *Bright Future* (Ministry of Commerce, 1999b). This will be discussed more fully in Chapter 7, section 7.2.1.

However, much damage had been done to the credibility of government policy and SMEs and it was eyed warily in terms of the future of SME policy. The following contemporary comment was typical of the general sentiment at this time:

The '90s have been witness to numerous changes in government policy for small to medium businesses and there's scant evidence that anything worthwhile has been achieved. (Locke, 2000, p. 34)

6.3.3 Encouraging Exporters: 'Picking Winners'

Government approaches to SME business assistance over the period 1984 to 1998 were premised on SMEs becoming significant contributors to wider economic growth, yet not all SMEs were able to contribute to this objective. The government responded by developing a multi-tiered SME policy designed to explicitly distinguish between 'high growth' SMEs receiving more targeted funding than the bulk of SMEs with low growth ambitions. In the New Zealand context, high-growth SMEs were also seen to be those most likely to export, or who could increase their export markets.

In 1986 the Market Development Board was established to answer calls to establish a business-led agency that assisted exporters. The main mover behind this was the then Minister of Overseas Trade and Marketing, Mike Moore who continued to be involved in export development policies until 1990 (Williams,

Su'a-Huira, & Campbell-Hunt, 1995). Because of concerns about the management capability of businesses including SMEs, a new Trade Development Board was created in 1988 to merge offshore and onshore services into one agency (The Bolton Consulting Group, 2004).

By 1991 the export promotion agency was known as TradeNZ and had the remit to focus on export markets and to continue the drive to diversify New Zealand's export market base (Williams, Su'a-Huira, & Campbell-Hunt, 1995). Significantly for SME policy, TradeNZ "emphasized the basic argument was that the major constraining to New Zealand's export growth is onshore company capability rather than access to offshore market opportunities" (The Boston Consulting Group, 2004, p. 175). The rationale behind the grouping together of two was the development of firm capability.

Participant F recalled how this form of business assistance towards exporting SMEs, and others who could become exporters, evolved and the synergy that developed between different agencies that worked with them:

The Market Development Board would have ... started to put in an institution around it. It would have developed programmes. In 1989, you had the destruction of the Department of Trade and Industry, and the creation of the Ministry of Commerce and of the Ministry of Foreign Affairs and Trade ... the trade promotion parts of the Department of Trade of Industry went to the TradeNZ.

And then it became a very substantial institution, and it would have focussed not just on exporters, but it actually would have focussed on getting companies to the point of being export-ready, and that would have taken it into issues of firm capability, domestically, and that's where you'd have the interface between what we were doing to promote further capability, and what the Trade Development Board would be doing to promote further capability. (Participant F)

The way targeted assistance developed during this period was described as the ‘champagne glass’ approach to SME support (Massey, 2006) where the ‘champagne bubbles’ represented the high-growth, exporting SMEs, supported by Trade New Zealand, and the remaining growth-oriented firms (‘those in the glass’) were supported by the Ministry of Commerce. Finally, the remaining firms (‘those in the stem’) were supported by the Community Employment Group. This meant that government policy was increasingly focussed on SMEs that it judged were more likely to grow. As a consequence, the bulk of SMEs suffered from lower levels of targeted engagement by government.

The objective to make SMEs more likely to export led to changes in policies to support R&D and innovation, in particular to aid the commercialization of innovative scientific developments. Participant C recalled that despite the bid to limit government intervention to enhance competitiveness and expose business to external competition, after the 1987 crash:

There was still a belief that there was market failure around the research, science and technology end of the system but not in the commercial end (Participant C).

Regulation was another area the government was active in this period to help improve productivity rates and doing business in general. The reduction of transaction costs in the private sector was a primary objective of successive governments over the period from 1984 to 1998, and also had an impact on SMEs. Participants E and J recalled this push:

The government had put a lot of work into thinking about how you reduce the compliance costs of SMEs. (Participant E)

Through the 1990s there had been a big push on reducing government regulation, breaking through red tape, Ministers trying to be good about not reaching for the rulebook to solve problems. So the SME policy was seen in that context. (Participant J)

Tax reform in this period was a significant contributor to lessen the burden on business operators, with business tax dropping from 45 per cent in 1981 to 33 per cent in 1987 (Goldsmith, 2012).

6.3.4 Building the SME Knowledge-base

Once SME stakeholders began to reflect on government policy towards SMEs, a knowledge-gap was identified. The assertion in 1977 by the SBA General Manager that there was a lot to be known about SMEs, still held true during this period. Stakeholders in government, SMEs, industry associations and academia, sought to seek to fill this gap with surveys and analyses to build the knowledge base on SMEs in New Zealand (Bollard, 1988; Devlin, 1984a; Haines, 1991; Harper, 1994, 1992; Harper & Bollard, 1991). Participant E reinforces this push to get research done that would better inform policymakers. The focus was on:

Commissioning external research around ... technology and business looking at things like investment, what were the constraints or investment? (Participant E)

A feature of much of this analysis was to understand the SME sector, including through attempts to define SMEs using particular criteria, such as employee count

and/or turnover¹². Importantly, the foundations for the availability of data on SMEs were laid during this time, in particular in the area of data collection:

We did the pioneering work on looking at Statistics New Zealand databases on small firms and trying to work out the dynamics - so birth, growth, expansion, contraction, stability of small firms - and we were the first here to do that, ... probably the first in Australasia ... But that was trying to focus on not just a snapshot of small firm sector but how it all moves around and we got a lot out of that. Actually it led to building up of much better databases by Statistics New Zealand. (Participant H)

Likewise, a series of studies under the auspices of the SBA examined different aspects of SMEs (Devlin, 1984a, 1984b, 1984c, 1984d). Other New Zealand-based studies on aspects of SMEs explored topics such as the rates of SME failure (Turner, 1984), the role of government assistance and SMEs (Cameron, 1983, 1988; Tweed & Cameron, 1991) and marketing amongst New Zealand SMEs (Taylor & Brookbank, 1995).

Researchers and policymakers also explored the impact of the economic reforms on New Zealand's competitiveness and how business and SMEs, were measuring up to global competition. Poor international rankings in productivity and competitiveness prompted the Ministry of Commerce to commission research from the New Zealand Institute of Economic Research on management development. The most prominent study in this area was *A Season of Excellence? An Overview of New Zealand Enterprise* (Campbell-Hunt & Corbett, 1996) which

¹² This is discussed more fully in the Introduction.

concluded that several years of radical economic reform had caused firms to regroup and re-adjust their strategies to cope with the new environment. This study was followed by a study of management practices (Campbell-Hunt, Harper & Hamilton, 1999). The call to develop more up to date research and business data was taken up by the Ministry of Commerce in partnership with other agencies and led to a series of studies that built on each other through partnerships with the Australian Manufacturing Advisory Council, the New Zealand Manufacturing Advisory Group, the Ministry of Commerce, Statistics New Zealand and academia. Participant E recalled one of the earlier studies (Australian Manufacturing Council, 1994) and described how this was built on to develop other research:

The Manufacturing Advisory Group did a first study and it was quite light it gave us broad indications around some of the issues for SMEs but it wasn't a population-based survey if you know what I mean it was just a handful of people who were picked and asked to fill in some questionnaires. (Participant E)

After this initial study efforts were made to work with the Department of Statistics in terms of the type of data that was being collected. The shift was to not only analyze firms in terms of financial data, but to include qualitative analysis in the policy process:

And at that point ... we worked with [the Department of] Statistics over a period of six months to actually put in the annual business survey, the sets of questions, which were more qualitative. It [sic] allowed us to cross-tabulate or look for the synergies between actual hard performance, data, finance ... and it started to build a picture and so that was then taken further forward. (Participant E)

This type of collaboration continued and by the end of this period *Gearing Up*, one of the more significant studies on how manufacturing firms measured up to international best practice, was well underway (Knuckey, Leung-Wai & Meskill, 1999).

External research also fed into policymaking, as a participant recalled:

There was also a research programme, let's improve our understanding of firms, firm capability issues and firm response to change over that period as well. And some of what we were learning from that was probably informing the Enterprise Assistance Programmes as well. So one of the arguments I can recall using to justify the Enterprise Assistance Programme is, is to facilitate firm adaption to change. That would have been one of the arguments that I would have used at the time and that would have come out of the Colin Campbell-Hunt work ... Islands of Excellence. (Participant F)

While the foundations were being laid to better understand and study SMEs, there was no coherent SME stakeholder 'voice' to lobby policymakers and the heterogeneous nature of SMEs made it very hard for them to come together as an effective lobby group. If SMEs were represented at all it was through the economic development agencies, such as the BDBs discussed above, the particular industry association they belonged to, and the chambers of commerce in their region. However, this representation was not comprehensive and SMEs did not take a leading role in lobbying for their issues:

SMEs were not organized during this time. They did not figure in the public domain as an organized group. (Participant H)

The government was not the only SME stakeholder with an interest in developing the SME knowledge base. Along with industry associations and economic development agencies, academics in Australia and New Zealand came together to

form the Small Enterprise Association of Australia and New Zealand (SEAANZ) in 1987. SEAANZ was an umbrella grouping that brought together SME stakeholders in one body, including academics, members of industry associations, policymakers and SME owner/managers. The objective of SEAANZ was to promote the knowledge and understanding of SMEs in Australia and New Zealand and to engage with global SME research (Mazzarol, 2014; Schaper, 2014). It elaborated and developed the existing field of research on SMEs in New Zealand in new directions and in a way that brought together a range of perspectives – from ‘hands-on’ SME-focused assessments to more theoretical approaches to issues like management and entrepreneurship, while providing an opportunity to ensure that such debates and discussions did not lose sight of the need to ensure their policy-relevance (Gibson & Jurado, 2012). The significance of SEAANZ therefore was that it provided a forum for academics and SME stakeholders to engage with one another, share information and debate policy issues that were relevant to SMEs. It was also a starting point for academic researchers to access the international SME research arena as it was affiliated with the global International Council for Small Business (Lundström, 2005). During this period New Zealand hosted the SEAANZ conference in 1993, which allowed local policymakers to have close contact with national and international SME researchers.

Similarly, the work of the Asia Pacific Economic Cooperation (APEC) on SMEs provided a regional forum for the exchange of views and perspectives both between SMEs themselves and also with policymakers. The latter in particular

were exposed to the kind of thinking that was underway elsewhere in the Asia-Pacific, much of it of relevance to New Zealand policymakers resulted in work by Hall (1991) for Australia and closer encounters with New Zealand policymakers, and as mentioned early the formation of the APEC SME Ministerial Meeting (APEC, 1994) which continued to be held throughout this study.

6.4 Concluding Comments

This chapter examined the development of SME policy in the years 1984 to 1998. It described a defining period for economic policy in New Zealand and it highlighted how the drive to open up the economy had important implications for the role of government in the economy. During this period a new approach to policymaking was developed and this had direct repercussions for SME policy. Not only was policy intervention in relation to SMEs shifting away from the concept of ‘market failure’ as a basis for formulation, but it also embarked in a deregulation exercise that exposed local manufacturers to international competition and resulted in many business closures and a recalibration of the economy. The government provided ‘the fundamentals’ for businesses to operate in with few constraints, and SMEs themselves had to learn to do business differently.

The tenets of the Washington Consensus (Roderick, 2006) neoliberal economic approach were important influences on SME policy development, as was the theory of competitive advantage (Porter, 1979). Policies were modeled on self-employment and regional development policies from the United Kingdom and

Australia. In particular, policies to improve management development and business practices were put in place at this time.

During this period entrepreneurship was adopted as a crucial component of economic policy. In terms of SME policy, this encouraged a tiered approach to SME policy where SMEs with high-growth potential were targeted with specific assistance to increase exporting, through improved competitiveness and productivity. This tiered approach to SMEs represents an apparent contradiction in the government's overall philosophy of 'creating an enabling environment' and getting out of the way of the private sector. In effect, albeit on a significantly smaller scale it was replicating the 'Think Big' schemes of the late 1970s and early 1980s, which were similarly focused on 'picking winners' and prosecuting a tiered approach to different sectors of the national economy.

The tiered approach also increased the role of SMEs in terms of social cohesion, even if the role was not always explicitly acknowledged by policymakers. This was particularly so in relation to encouraging minorities and the unemployed to become self-employed.

7. SME Policy and the Entrepreneurial Economy, 1999 to 2008

7.1 Context

The period from 1999 to 2008 in New Zealand began with the Asia Financial Crisis and ended at the onset of the Global Financial Crisis. Yet, the years in between these crises were characterized by relative stability, particularly compared with the economic and social upheaval of the mid 1980s and early 1990s. In terms of SMEs, by 2008, 97% of all New Zealand enterprises employed fewer than twenty employees and accounted for 30% of all employment (Ministry of Economic Development, 2009). These proportions remained the same as they had been at the beginning of the period. Perhaps of some significance for SME policy is the fact that levels of self-employment increased by 2% between 2000 and 2008, from 66% to 68% respectively (Statistics New Zealand, 2015).

A Labour-led Government, first elected in 1999, remained in power throughout the period under review until its defeat at the polls in 2008 and this provided a relative measure of stability in economic planning. Framing its overall approach was the identification of a core national objective: to return New Zealand to the top half of the OECD rankings by raising levels of productivity (Clark, 2001b). This objective was to be achieved by developing innovation as a key driver of economic growth.

In all, six study participants reflected on SME policy during this period. Because of the more contemporary aspect of this period some participants did not wish to be recorded. It also meant that more archival data was available and this is reflected in the results and discussion that are analysed in this chapter.

Participant C summed up the period as being one where government was more involved than before in SME policy:

That framework remained in place until the Labour/Alliance Government got elected [in late 1999] and ... saw a greater role for government policy in the economic development area. (Participant C)

On the one hand policymakers at the time continued to focus on strengthening ‘the fundamentals’. This involved the provision of a stable macroeconomic environment to encourage competitiveness domestically. This involved a highly skilled and globally connected economy with high rates of R&D and innovation and high levels of social cohesion (New Zealand Government, n.d.). Underpinning this objective was an expectation that science and innovation in particular should become an important source of competitive advantage for New Zealand. This was the context for the Growth & Innovation Framework (GIF) which provided the underlying rationale of the government’s economic policy of this period. The GIF was launched in 2002 to enhance existing innovation; develop skills and talents to increase productivity; increase global connectedness to decrease the ‘tyranny of distance’; focus on niche high-growth industries, such as biotechnology, ICT and creative industries; and finally build the infrastructure: transport, energy, water and telecommunications (Ministry of Economic

Development, 2000). Commentators continued to encourage relative levels of government activism based on market failure and called for more effective measures in New Zealand's economic integration internationally specifically by addressing the low levels of investment, or capital available to New Zealand businesses (Skilling, 2004).

It was against this background, that policymakers reconsidered how SMEs might fit into the evolving GIF paradigm and potentially help drive and generate economic growth. In 1999 there were 215,606 SMEs with fewer than twenty employees, making up 97 percent of all enterprises (Statistics New Zealand, 2015). At the same time, there was increasing recognition that SMEs were not a homogeneous group, and that 'one-size-fits-all' policies would not work. What was needed would be a range of approaches that could be targeted and re-calibrated for different types of SMEs. As a policy document from c2002 states:

Vibrant SMEs are important for successful economic and social development. (New Zealand Government, n.d. p. 4)

A more coordinated effort across government in terms of SMEs was also implemented. For instance in 2006 ministries working on SME issues included the Ministry of Economic Development, Ministry of Research Science and Technology, the Foundation for Research Science and Technology, the Ministry of Foreign Affairs and Trade, the Tertiary Education Commission, Department of Labour, Ministry of Māori Development, and the Ministry of Social Development (Ministry of Economic Development, 2006).

The research and analysis that emerged during this period was greatly influenced by the development of the field of entrepreneurship and had an important effect on the types of policy outputs that resulted. For instance, the establishment of a re-vitalised and expanded New Zealand Trade and Enterprise (NZTE) Agency in 2003, which emerged to play a central coordinating role in the implementation of SME policy. The formation (also in 2003) of the Small Business Advisory Group (SBAG) and efforts to engage SMEs and stakeholders in the policy process, and the continued effort to further reduce the burden of regulation on SMEs. The following section considers the main influences on SME policy over the period 1999-2008.

7.2 Influences

SME policy was influenced by a variety of factors, including academic research, OECD thinking, international trends and the changing global economic environment. Moreover, the period 1999 to 2008 was a particularly fertile one for SME research in New Zealand. Building on the body of work on the knowledge economy (Romer, 1986) that was already underway, this period extended the links between enhancing technology, encouraging innovation and developing the services sector. Moreover, entrepreneurship, the new paradigm, was used to achieve the overall aims of increasing competitiveness, raising productivity levels and leveraging economic growth. In particular, this body of research played an important part in the discussions held at the Knowledge Wave Conference held in 2001.

Internationally there were also developments that influenced the way SME policy was developed in New Zealand. The Organisation for Economic Cooperation and Development (OECD) Bologna Charter was adopted in 2000 by the first *Conference of Ministers responsible for SMEs and Industry Ministers* (OECD, 2000). The purpose was to provide a forum for dialogue on SMEs at a high level and to engage more nations in SME policies. The conference was repeated in 2004, and more recently the Bologna Charter was revisited in 2010 (OECD, 2004, 2010). New Zealand was a signatory to the Bologna Charter and its involvement exposed policymakers to international thinking on SMEs, in particular the value that SMEs could generate for the wider economy across economic as well as social indicators.

This formal endorsement of SME policy by the OECD influenced and informed further research and policy thinking in New Zealand. It also had the important effect of raising the profile of SMEs to the Ministerial level, and consequently to a higher policy level internationally. At this conference SMEs were referred to in terms of “economic growth, job creation, regional and local development, and social cohesion, ... and the role played by women and young entrepreneurs” (OECD, 2000, p. 1). Likewise, the European Union adopted the Lisbon Strategy in 2000 with similar aims principles (European Council, 2000). This was a common strategy for all member states to meet the challenges of the knowledge economy by promoting entrepreneurship and building Europe’s research capacity, and to consolidate social and economic policies.

As the joint influence of the knowledge economy and entrepreneurship theory progressed, the manufacturing sector continued to decline in importance over the course of the twentieth century, and the service sector gained in prominence in terms of both research and rates of internationalisation, as recalled by a participant:

[The OECD didn't make] any particular change until the late 90's and they ... started to talk about service industries and then it was another 5 years before they started to think seriously, how you collect information about these service type industries, as opposed to your manufacturers ... And then they started to think about, well, what is this entrepreneurship thing, and what are the high growth companies and how might we define them and where are they coming from. (Participant J)

More broadly, the outcome of research during this period on the burden of regulation for SMEs and the utility of business assistance programmes (Ministry of Economic Development, 2006, 2007) further influenced policy thinking on SMEs. This combination of SME-focused research and 'events' drew together a range of approaches and consideration that provided the main influences on New Zealand SME policy over the period under review.

7.2.1 Building Competitiveness and the Knowledge Economy

Aim: Grow internationally, competitive businesses (New Zealand Government, n.d., p. 22).

The objective of the government during this period was first encapsulated in the Growth and Innovation Framework (GIF) (which ran from 2002 until 2006) and later by the Economic Transformation Agenda (ETA) (2006 - 2008). The GIF was a strategy of "growth through innovation" to lift New Zealand's innovative and

economic performance (Cabinet Policy Committee, 2006, p. 1). In a similar vein, the ETA was released in 2006 to build on the aims of the GIF, “to drive innovation and internationalise our economy” and called for working “closely with business, unions and other stakeholders” and for being able to communicate “the challenge and the strategy” (Cabinet Policy Committee, 2006, p. 2).

International and New Zealand SME research had evolved to urge governments to deliver an ‘enabling environment’ for SMEs through a series of macro-economic policies (also known as providing ‘the fundamentals’), under the premise that the right conditions would spur entrepreneurship and thus enhance competitiveness.

By 1999 New Zealand stakeholders felt this had largely taken place:

The attention, for about two decades, was small business and the creation of entrepreneurs. How do we encourage them? How do we create the correct conditions for them? But I think ... that message has been absorbed by governments largely. It's ... an accepted fact; it's part of the scenery. (Participant G)

Entrepreneurship was a key component in taking advantage of the ‘enabling’ environment put in place over the previous decade. The concept of entrepreneurship was viewed as a logical extension of the work stakeholders and policymakers had been doing with SMEs over the previous years. It was welcomed not only because it gave a focus to their efforts, but because it also articulated what many had suspected about the SME sector:

All the international thinking there was about this thing called entrepreneurship ... there was an actual framework ... and all those guys had been saying it ages before ... although we knew that because we'd been measuring value-added to the small business for years. (Participant J)

Entrepreneurship, and the theory behind it, was closely linked to the concepts behind the knowledge economy. Together these caused a change in the way SMEs were viewed:

Somehow there was a mind shift and it was tied up with things like the knowledge wave conference. (Participant J)

At this point SMEs were viewed as potential ‘engines’ of the economy in a way that hadn’t been the case previously. It focused policymaking to encourage entrepreneurial activity amongst firms:

Somehow there was a sense that in the bottom of your economy somewhere was this power house and that it was made up of lots of little firms and you didn’t have to wait until they were the world’s biggest, the world’s greatest, for them to make a contribution to the economy. (Participant J)

However others lamented the time spent previously concentrating on SMEs as a homogeneous group, until a better understanding of entrepreneurship emerged and moved the primary attention away from the firm and more towards the individual:

We were so imbued with small business are the ones that generate, small businesses do that, small business do the other, that it just didn’t hit us that the entrepreneur was the actual agent that we were trying to cultivate. (Participant A)

Along with entrepreneurship came an idea that certain industries were more entrepreneurial than others and this resulted in a more concerted move towards industrial policy:

You didn’t have sector strategies in those days. I mean the government does have an industry policy now. It didn’t have an industry policy in those days. It had a residual industry policy ...

you had elements of an industry policy, but you didn't have a coherent industry policy. It was more driven by individuals within the system than it is now. (Participant F)

Participant J explained that once the macroeconomic environment was in place, sector strategies were used to achieve economic growth:

So we were saying for a firm to reach its full potential first you have to have a big macro [macro-economic] New Zealand environment that's encouraging on business growth and particularly of the particular sectors so our sector strategies came into play for growth. (Participant J)

An important measurement of economic growth for policymakers was the prevalence of exporting amongst SMEs. SME research was undertaken at this time to identify the common characteristics of successful New Zealand exporters. The focus on exports is indicative of a degree of continuity in policy intentions over the three periods of this study, and the primacy given to internationalizing the SME sector. The research undertaken informed policymakers considering how to develop the competitiveness of SMEs and grow the New Zealand export base. Studies into competitive enterprises contributed to the widespread belief that “New Zealand’s community of small and medium sized enterprises ... is the best mechanism we have to discover how the country can create economic value” (Campbell-Hunt, 2002, p. 12).

Embracing an entrepreneurial paradigm was an important component of building competitive advantage. Government interest in entrepreneurship manifested itself most obviously in the thinking encapsulated in the publication *Bright Future* (Ministry of Commerce, 1999b). This publication was a blueprint to develop skills

to match the challenges of globalization and the development of innovative, competitive goods and services (Ministry of Economic Development, 2000).

Despite being developed by a previous government, the newly elected government¹³ in late 1999 continued with the provisions of this programme, which entailed a cross-agency cooperative approach to remove barriers to innovation and growth (Ministry of Economic Development, 2000). For example, to reduce the regulatory burden a review of legislation that affected SMEs was instituted. The backbone of this policy was to articulate the link between entrepreneurship, growth and innovation, reflecting national (Harper, 1992) and international (Gibb, 1999) research in these areas. The main objectives for SME policy were those that underwrote the functioning of the knowledge economy: skills enhancement, improving R&D, increasing access to capital, and fostering innovation and creative industries. As argued in the report, the key was to develop skills and capabilities of individuals:

Bright Future is about giving New Zealanders the skills to excel in the knowledge era, building the capability of our workforce and generating and funding good ideas. (Ministry of Commerce, 1999b)

This policy framework was particularly interested in raising rates of innovation and productivity. The then Minister for Enterprise and Commerce summarized the programme as:

¹³ The Fifth Labour Government was in power between December 1999 and November 2008 (Aimer, 2015).

A wide range of initiatives ... carefully designed to improve our ability to innovate [and to] help businesses to get the skills they need. (Bradford, 1999)

SMEs played a more significant role than beforehand in the GIF in terms of the contribution they could make to both innovation and economic growth. In particular, there was a shift in policymakers' attitudes away from an assumption that SMEs were small companies wanting to 'grow-up' to an understanding that SMEs in their own right could be economic multipliers across the economy.

Participant J recalls the change in attitudes and assumptions towards SMEs:

In 1998 when I was in the business policy group ... we saw SMEs ... as little big businesses waiting to grow up ... The policy we were working on was about ... what are the things that something small might need in order to grow into something big as opposed to saying well actually small businesses are already grown up ... they are complete in themselves. (Participant J)

The diverse nature of SMEs was now widely acknowledged and the policies that came out of *Bright Future* targeted growth-oriented entrepreneurial firms (New Zealand Government, 1999). There was also a growing understanding about the need to assist SMEs in areas where market-based solutions were not effective, such as access to finance and business support due to information asymmetries and market failure. As one participant recalled:

The biggest change probably was after the 2002 [election] when the government said we really want more of a focus on SMEs. (Participant J)

This participant recalls that once the idea that SMEs were not homogeneous took hold, other policy initiatives were developed to meet different needs and capabilities:

I [am not] quite sure where that driver came from. Partly I think it was a campaign that they really had connected with these SME things and then once we started thinking SMEs are separate then lots of other ideas came in. (Participant J)

An important influence in the early years of this period was the Knowledge Wave Conference held at Auckland University in 2001 and endorsed by Prime Minister Helen Clark. The conference included international participants from Australia, Canada, Ireland, Israel, Singapore, Korea, USA and Taiwan. It was viewed by some as the logically continuation of what had been set forth in 1984 with the economic reforms, and the theories of competitive advantage that played a role in this era. In terms of SMEs, the significance of the conference was that it highlighted the potential contribution they could make to the ‘knowledge economy.’ One participant recalls:

Although we knew that because we’d been measuring value added to the small business for years, somehow there was a mind shift and it was tied up with things like the Knowledge Wave Conference. (Participant J)

Prime Minister Helen Clark noted that one of the main objectives of the conference was to raise “national consciousness about some of the priorities we need in order to secure economic growth” (Clark, 2001b), as the poor performance of the economy in terms of its ranking in the OECD had led to concerns about the poor productivity and competitiveness of New Zealand in the changing global economy. There was a need to change the way business was done and to revitalize some sectors of the economy. Contemporary commentators reported that the fact that the conference was held was due to widespread recognition of this shortcoming in the economy:

[There was] *recognition that New Zealand's economic performance was inadequate to sustain the quality of life, the quality of public services, and the social cohesion valued by New Zealanders.* (O'Sullivan, 2011)

This idea of social cohesion was also emphasized by the Prime Minister at the time, as the conference aimed to facilitate the development of “a more prosperous and socially cohesive society” (Clark, 2001b). The language of building a cohesive society was an important one in relation to SMEs. Moreover, high unemployment rates in the 1990s and the recession caused by the Asian Financial Crisis of 1997 had marginalized minorities and women, as well as some regions. In this sense, the conference represented a new way of dealing with social problems. It also once again brought to the fore the dual nature of SME policy and the challenges this posed for governments at the time:

New Zealand is facing an issue that is very complicated and affecting many nations: ... how to balance economic policy and social policy. (Porter, 2001, p. 13)

One of the outcomes of the conference was to harness the knowledge of successful expatriate New Zealanders from around the world, and of scientists in New Zealand. There were calls for more concerted efforts to develop a diaspora policy to take advantage of New Zealand talent that had gone overseas, the so-called ‘brain drain’, and to strengthen links between high-technology clusters and researchers in universities within an entrepreneurial framework. Wade (2001) summed up this approach:

Industrial policy has to be informed by Schumpeterian economics... Above all, it requires high-level commitment in the government and in the civil service that this is the way to go, and some protection from the volatility of electoral politics. (p. 24)

In the same vein the conference also considered the need to enhance New Zealand's level of international connectivity. One government policy document listed the areas in which SMEs with 'high export growth potential' needed to develop if they were to succeed:

SMEs with high export growth potential need to develop international management expertise, technology, and best practice acquisition, improving capabilities critical to competitive growth and business relationships with strategic partners. (New Zealand Government 2003b, pp. 15-16)

One particular outcome from the conference was the formation of the Kiwi Expatriates Abroad network. This was established to try and leverage the New Zealand expatriate diaspora in support of New Zealand business exporters, as well as to keep the expatriates informed on developments and provide them with networking opportunities (Kiwi Expatriates Association, 2015).

The conference's influence on SME policy manifested itself in the area of assistance to start-ups in high-growth industries to access finance to try and catalyse both innovation and venture capital for New Zealand firms. This was a direct response to the perceived 'thinness' of investment funds available domestically to New Zealand firms (Skilling, 2004). Accordingly in 2002 the New Zealand Venture Investment Fund was established with the task of investing in private venture capital investment funds to help these high technology start-ups (New Zealand Venture Investment Fund, 2015).

Unfortunately, notwithstanding the initial enthusiasm for the conference and the focus on developing the 'knowledge economy', its actual direct influence on

policymaking related to SMEs was relatively muted. In fact, some of those interviewed for this study judged that relatively little came out of the Knowledge Wave Conference. One participant recalled:

The other day [we] thought well what came out of Knowledge Wave Conference and we couldn't actually think of anything particularly.
(Participant J)

Ten years on, this impression was reinforced by business commentators who reflected that there had been no noticeable impact in terms of New Zealand's economic indicators; dependency on commodities remained high and rates of innovation and productivity low (O'Sullivan, 2011).

Nevertheless, the Kiwi Expatriates Abroad network, which came out of the conference, played an important role in linking homegrown enterprises with those abroad and the bigger prominence the services sector could play in developing the knowledge economy. As one participant recalls:

[Around the time of the Knowledge Wave] we started to come to realise value of services. (Participant J)

In 1999 New Zealand hosted the Asia-Pacific Economic Co-operation (APEC) meeting, which brought together ministers and senior officials from Pacific Rim nations. Participant F remembered being the SME policy advisor for the SME meeting, where discussions centred on reducing internal barriers to the functioning of SMEs, and encouraging e-commerce. The press release by the Minister of Enterprise and Commerce put SMEs at the heart the development of a knowledge economy:

Ministers and business representatives acknowledged their joint responsibility to promote the growth and profile of SMEs, which are emerging as the engine rooms of the knowledge-based APEC economies of the future. (Bradford, 1999 April 28)

Another important effect of the knowledge economy theory was the sharing and exchange of knowledge through networking and clusters.

Policymakers also sought advice by actively seeking input from national and international researchers, industry representatives and other stakeholders, as exemplified by the Business Capability Partnership, a public/private sector initiative to improve the quality of available management and business capability services (Ministry of Economic Development, 2011b).

7.2.2 Easing the Burden of Regulation

There was longstanding international evidence that the regulatory environment affected SMEs disproportionately as this could act as a potential brake on SME performance (Storey, 1994). The *Bright Future* policy considered easing the burden of regulation to be an important step towards achieving the overarching goal of more productive and competitive SMEs. The proposal was to be achieved through a ‘small business test’. Tax breaks, encouragement for research and development as well as innovation and capital for incubation centres were also proposed (Ministry of Commerce, 1999b). Initial efforts were made to cut red tape across the board, and SMEs were expected to benefit from general policies:

We were starting to move, 1998, 1999 up to 2000/2002 [but] we were still very much in the mode of if we can just cut red tape that will feed small business. (Participant J)

The purpose was to make doing business as easy as possible and to that end SME policy around compliance sought to make this possible:

The second bit about firm growth is that which is intrinsic to the firm. In government terms it was that they could freely trade the goods and services that they were generating that they weren't constrained by unnecessary rules and the like. (Participant J)

Throughout this period the government devoted extensive attention to these compliance issues. In late 2000, the government established the *Ministerial Panel on Business Compliance Costs* to review ways to reduce compliance costs to business (Massey, 2003). The Panel reported that the proportional burden of compliance was higher on SMEs than on larger firms, and issued 162 recommendations. Among these were calls for more coordinated efforts to ease the burden of regulation through a institution of a type of 'small business test' and tax breaks (Bradford, 1999). The government replied with a commitment to improve the quality of regulations, to make information about these regulations more readily available, and to implement these regulations effectively (New Zealand Government, 2001).

The findings of the research presented to the Ministerial Panel also noted the challenges SMEs faced in complying with a range of other pieces of legislation. It was understood that these could not be eliminated for SMEs, but the influence of the research findings was such that the government implemented measures to assist business to understand key pieces of legislation, such as the *Resource Management Act*, tax simplification initiatives and e-government initiatives 'to make the internet the primary mode of businesses' interaction with government'

(New Zealand Government, n.d., p. 14). The latter had been promulgated through the passing of the *Telecommunications Act 2001* and the *Electronic Transactions Act 2002*.

Influenced by these findings, a *Regulatory Impact Statement* was introduced for all policy proposals submitted to Cabinet (Department of Internal Affairs, 2015). The *Regulatory Impact Statement* required all government departments to consider how any specific proposals might involve creating, amending or repealing primary legislation or regulations. The idea was to ensure that any new proposals that would impose additional regulatory burdens would be tested and considered carefully before being accepted. Departments were encouraged to ensure that regulatory burdens were minimized. They were also to consider whether there were practical alternatives to additional regulations given the burden this could potentially impose on SMEs with their more limited resource base to comply with new or enhanced regulations.

In later years this issue was revisited with the *Good Regulation Project* led by the Department of Labour (Labour Market Policy Group, 2004). This Project was set up to ensure “a thriving environment for SMEs, where regulation is more than just an unnecessary evil” (Labour Market Policy Group, 2004, p. 6).

Calls by the Small Business Advisory Group (2006) and others led to the *Quality Regulation Review* of the burden of regulation as it stood towards the end of this period (Office of the Minister of Commerce, 2007). The conclusion reached by the Review panel was that whilst New Zealand performed well in this area, there

was still work to be done in particular regarding the *Employment Relations Act*, the *Holidays Act*, the *Resource Management Act*, the *Hazardous Substances and New Organisms Act*, the *Building Act* and the *Occupational Safety and Hazard Act*. Other areas of compliance that SME owner-managers had concerns about included the accident compensation scheme, liquor licensing, local government practices, food safety legislation, gambling, tax (e.g. excise, income tax and fringe benefit tax) and statistical surveys/data collection (Office of the Minister of Commerce, 2007, p. 3).

The undertaking of these surveys increased the understanding of policymakers about the impact of these regulations and the need to communicate the objectives of regulations in a better way to SMEs. These reviews also built on how the regulatory process was understood:

When thinking about the link between quality regulation and economic growth, it is necessary to view the regulatory environment as a complex dynamic system, rather than a collection of independent and static regulations. (Office of the Minister of Commerce, 2007, p. 3)

7.2.3 Business Assistance

The wide range of initiatives has been carefully designed to improve our ability to innovate. The government is helping businesses to get the skills they need. It is up to businesses to decide what skills they want. (Bradford, 1999)

The aim of the government towards SME assistance during this period was to assist firms to become more innovative and competitive, but it put the onus on SMEs themselves to access and seek out this help. Public policy towards business

assistance took the form of creating an enabling environment, akin to the philosophy behind the ‘fundamentals’ of the post 1984 reforms, to facilitate SME growth (Wigglesworth, 2009). The principle was to provide the institutional and macroeconomic settings to allow entrepreneurs to function. Easing the regulatory burden was also an important form of assistance, but the main form of this support was through an online information portal to access SME support and to aid with internationalization.

The research undertaken in New Zealand suggested that SMEs responded better when the government’s role in the provision of business assistance was that of a facilitator, rather than a ‘top-down’ approach to such assistance. Management capability continued to be an area of concern for SMEs and a study into best practice established that SME owners were not always aware of the benefits of increasing their capability:

There is a need for a more sophisticated understanding of business improvement and its relationship with operational outcomes and business results, and the pursuit of international competitiveness. (Knuckey et al., 2002, p. 19)

The same study also called for more opportunities to be made available for inter-firm collaboration and networking, as well as closer links between science and research and development. These are all themes that dominated the period of the knowledge economy, and this particular study was influential in the way forward for SME policy. Other studies into competitiveness reinforced the finding that only a small number of firms were growing at high growth rates and becoming competitive globally (Campbell-Hunt, et al., 2001)

Until 2002 the approach was to create the regulatory conditions to create conditions for SMEs and business in general to access business support from the market:

We tended to just say business is business let's have an environment that supports business and big ones will grow as well as little ones and that's sort of been the approach we've taken. (Participant J)

Nevertheless, there were signs that SMEs were not accessing available support due to information asymmetries (Cameron & Massey, 1999), prompting the government to decide to play a more hands-on role in the facilitation of an information portal on services and compliance issues relevant to SMEs. As time went on, this became more comprehensive and involved a range of government agencies.

Government and policymakers still held the view that 'business knows best' in terms of support, and appointed itself as a facilitator of information for SMEs, rather than a direct provider. This facilitation took the form of an online business information portal on the range of business support initiatives available; the provision of opportunities for knowledge exchange through networking events; and capability development programmes, in particular for exports.

In this way it hoped to encourage SMEs to be able to access better information about services that were available to all enterprises. However, there was evidence that information symmetries and lack of resources meant that SMEs were not able to make good use of the resources available to them (Massey, 2004; Lewis, Massey, Ashby, Coetzer & Harris, 2007).

While SMEs were being targeted, the overall policy was not exclusively aimed at SMEs:

I think it's a business policy – I don't really think it's an SME policy. Now the business policies, in some elements, are focussed on SMEs, and that's quite different to having an SME policy. (Participant F)

The government also saw itself as a regulator of the quality of the services provided by consultants, in particular after the heavily criticised plethora of consultants that had emerged under the Business Development Boards (as mentioned in section 6.3.2).

Table 7.1 below lists the range of programmes available to SMEs in 2002. The rationale behind these policies was the important role that knowledge sharing played in developing management capability and business skills, and in improving ways of delivering and accessing this knowledge. The policies can be grouped into knowledge sharing (BIZ Information, BIZ Training and Coaching and Trade NZ, Innovate Roadshows; Industry NZ and World Class New Zealanders); growth assistance to exporting or SMEs with export potential (Trade NZ, Industry NZ, NZ Incubator Development Unit, Technology NZ); and business support for Māori (Māori Business Facilitation Service). At this point the process of sharing and delivering knowledge to and between SMEs was more complex than it had been previously. The key difference was the role government played in this process, having evolved from being a provider of information to being a facilitator, and this is a key difference in how government interacted with SMEs during this period.

Table 7.1 Sample of New Zealand Support Programmes for SMEs in 2002.
Adapted from New Zealand Government (n.d.).

Support Programme	Function	Target
BIZ Information	Phone and shop front support	All SMEs
BIZ Training and Coaching	58611 attendees	
Trade NZ	Export assistance to 700 new clients	High-growth SMEs
Industry NZ	22 clusters that assist business	All SMEs
	Enterprise Awards \$3.3m to 294 businesses	High-growth SMEs
Business Growth Awards	\$6.8m	
Māori Business Facilitation Service	Advice, guidance and facilitation to developing, new or existing businesses.	Māori SMEs
NZ Incubator Development Unit	Funding for 16 incubators	Start-Ups (high-growth)
NZ Venture Investment Fund	High-growth start-ups helped with seed funds from partnerships with government	
Technology NZ	Technology adoption support to aid growth. R&D grants to aid innovation - \$30m	High-growth SMEs
World Class New Zealanders (renamed Kiwi Expatriates Abroad)	Enable networking with international expertise, strategic partnerships and networks with successful overseas businesses through international missions and exchanges.	High-growth SMEs
Innovate Roadshows	Assistance to SMEs to network and learn from each other and to raise awareness of services available to them. Held throughout NZ	All SMEs

Nevertheless, given the relatively narrow resource base of SMEs, their ability to access and understand, let alone take full advantage, of this number of assistance mechanisms continued to be limited and to be discussed by SME stakeholders (Small Business Advisory Group, 2006). In fact, New Zealand research on SME use of business assistance programmes revealed that this range of services was proving difficult for SMEs to access (Bollard, 1988; Cameron & Massey, 1999; Knuckey et al., 2002).

7.3 Policy Outcomes

The period 1999 to 2008 was characterized by a shift in SME policy in the way business support was designed and promoted. The aim was a more coordinated approach that involved inter-agency collaboration in the delivery of these services. Indirect forms of assistance were designed to build competitiveness and to encourage entrepreneurship in support of the knowledge economy. The policy reforms – most of which dated from 2002 - resulted most notably in the establishment of the New Zealand Trade & Enterprise agency, which merged two formerly independent agencies (Industry New Zealand and Trade New Zealand). The other key policy outputs from the period included the wider prominence of SMEs in policymaking circles, for instance with the appointment of a Minister for Small Business in late 1999 (New Zealand Parliament, 2015), and the encouragement of a closer engagement with SME stakeholders, for example the establishment of the Small Business Advisory Group.

Table 7.2 shows the main policies that related to SMEs in 2008 according to government expenditure. These can be grouped under four main areas, regional economic assistance for SMEs (Firm Capability; Sectoral and Regional Development; Analysis and Development Services for Firms; Regional Sector Development Services; Regional Partnerships and Facilitation); assistance for exporting SMEs (Identification and Coordination of International Market Opportunities), assistance with R&D and innovation incentives (New Economy Research Fund; Research and Development Facilitation and Promotion Services), and access to finance (Seed Co-Investment Fund; Venture Investment Fund).

These policies continued to address the four areas identified in the first period of this study (regional development, internationalization, access to finance and business capability development), yet the emphasis on each area was different. The highest expenditure was on policies to increase internationalization of enterprises, including SMEs. The next level of expenditure was on policies to foster regional economic development and to increase the rates of research and development. In areas such as access to finance and general capability development, there was around a third of the funding that was available to the above categories.

Table 7.2 Government Spending on SME policies in 2008 (New Zealand Treasury, 2008)

2008/09 \$,000	
VOTE ECONOMIC DEVELOPMENT	
Policy Advice Small Business Firm Capability Sectoral and Regional Development	\$17,193
Analysis and Development Services for Firms	\$22,530
Identification and Coordination of International Market Opportunities	\$68,446
Investment Fund Management	\$2,590
Regional and Sector Development Services	\$44,906
Standardised Training and Advisory Services	\$16,137
Enterprise Development Fund	\$2,774
Enterprise Culture and Skills	\$1,511
Growth Services Funds	\$5,927
Management Development Funds	\$756
Regional and Industry Development Fund	\$2,274
Regional Partnerships and Facilitation	\$18,182
Sector Strategies and Facilitation	\$3,218
New Zealand Trade and Enterprise	\$3,314
Seed Co-Investment Fund	\$8,000
Venture Investment Fund	\$20,000
VOTE FOREIGN AFFAIRS & TRADE	
Promotion of Exporting	\$848
Promotion of Asian Skills and Relationships	\$4,000

Table 7.2 Continued - Government Spending on SME policies in 2008 (New Zealand Treasury, 2008)

VOTE RESEARCH SCIENCE & TECHNOLOGY	
Engaging New Zealanders with Science and Technology	\$6,071
Global Technology Partnership	\$401
Māori Knowledge and Development Research	\$4,867
New Economy Research Fund	\$73,033
Research and Development Facilitation and Promotion Services	\$5,000
Research for Industry	\$215,818

The main policy outcomes of this period were the establishment of the economic development agency, New Zealand Trade and Enterprise, with a dual domestic and international outlook for SMEs; the new prominence given to SMEs in public policy; and the building and strengthening of relationships with stakeholders. The following sections will discuss these three areas.

7.3.1 New Zealand Trade & Enterprise: A New Coordinating Body

The merger of Trade New Zealand and Industry New Zealand resulted in the establishment of New Zealand Trade & Enterprise (NZTE) in 2003. Industry New Zealand had been established in 2000 to facilitate the “development and implementation of strategies, programmes and activities for industry and regional economic development” (The Boston Consulting Group, 2004, p. 179). The alignment of these two bodies, which had quite different mandates, represented an

important attempt to develop coherence and coordination across the wider economy. Industry New Zealand's focus had been primarily inwards, acting on regional economic development policy. Conversely, Trade New Zealand's focus had been outwards, on facilitating and encouraging the internationalization of SMEs and larger businesses as the government's trade promotion agency. As discussed in Chapter 6, there was already awareness that there was a place for a body that could incorporate in one place available support for SMEs, to coordinate the various policies and avoid replication.

For a key participant the establishment of NZTE was the culmination of a long process that had started with the Small Business Agency under the Development Finance Corporation:

So you've got NZTE an institution that has real capability in this area. So when you started out, I mean we were going through the end of the DFC [Development Finance Corporation], Small Business Agency, which would have had capability, and you're actually building up from that. Now we built up in the Department of Trade and Industry from one person. You built up to the Trade Development Board from one person. So you're actually building up in these areas from a really, really small base. I mean we did a lot of borrowing, I suppose, of programmes. Whereas now you've got an institution [NZTE] with a dedicated function and a lot of capability.
(Participant F)

The reasoning behind this merger was to make it easier for SMEs to access government business support by providing a more coordinated, flexible and targeted approach. This resulted in a reorganisation of the way business support delivery was structured within the government. The core services of NZTE were built around laying the foundations for firms to network to extend their market reach, build their capability to enhance productivity and growth, access

Table 7.3 Government Business Assistance for SMEs in 2003. Adapted from New Zealand Government (2003b).

Policy Objectives		Programmes
Facilitating New Business Opportunities	Enabling new business opportunities through international business consultancy, promotion of exporting, facilitation, funding and advice on managing rapid growth, foreign direct investment and local and regional counterparts.	International Business Consultancy & Promotion of Exporting Business Growth Service & Fund Fast Forward New Zealand Strategic Investment Service & Fund NZ Industrial Supplies Office
Promoting a Culture of Enterprise	Initiatives aimed at the education sector, work places and businesses	World Class New Zealanders Promoting a Business and Enterprise Culture
Enabling Access to Finance	Enabling access to capital such as venture capital	Investment Ready Scheme
Enabling Access to Skills and Expertise	Enabling access to skills, expertise and specialist knowledge such as management skill or overseas market intelligence.	BIZ Info BIZ Training
Fostering Access to Innovation and New Technologies	Enabling access to innovation and uptake of new technologies such as commercialization of patents or identification of new technologies.	Incubator Support Programme BIZ Enterprise Awards Scheme
Collaboration and Linkages	Fostering cross-business partnerships such as networks, clusters, alliances, and joint ventures. Promoting and identifying regional opportunities and supporting development of specific sector strategies, as well as enhancement of Māori capacity building.	Regional Partnerships Programme Sector Facilitation and Support Regional & Sector Initiatives Fund Major Events Cluster Development Programme Regional Polytechnic Programme

knowledge of opportunities to grow, reduce the barriers to growth and fund “the development of firms, industry groups and regions” (New Zealand Trade & Enterprise, 2008, p. 6).

Table 7.3 above summarises the main policy objectives and programmes as they were set out in 2003, for the new NZTE to coordinate. The emphasis was on facilitating business opportunities; promoting a culture of enterprise; helping with access to finance, skills and expertise; and encouraging innovation, adoption of new technologies and cross-business collaboration.

One important outcome of the establishment of NZTE was that all resources to assist SMEs were in one place and, paradoxically, there was more assistance available than before. Participant F compared the resources available during this period and the 1984 to 1998 one:

If you look at NZTE, I think they are really quite targetted in their programmes now, and they are based in a deeper understanding about firms than we had. So they are able to tailor their initiatives more than we would ever, ever want to. I mean I suspect we wouldn't even want to target our initiatives too much. So I think that would probably be a difference as well – we put more resources into it now than we used to. (Participant F)

The Beachheads programme was a networking scheme to support New Zealand firms to enter international markets aimed at high-growth firms. Policies to develop firm capability to improve their productivity and growth was supported through Better By Design where industrial design was used to “differentiate their products in international markets” (New Zealand Trade and Enterprise, 2008, p. 7).

In terms of SMEs, the policies were grouped under the title ‘Path to Market’ with the ultimate aim of achieving greater export numbers amongst SMEs. These programmes (listed in Table 7.4) consisted of Enterprise Training to build SME capability; Biz to curb information asymmetries; mentoring; Export Training, to build export capability; an E-business guide to enhance use of the internet; and the Escalator programme to provide capital to SMEs who were ready for investment.

Table 7.4 Path to Market Policies for SMEs, 2008. Adapted from (NZTE, 2008, pp. 7-8)

Service	Objective
Enterprise Training	Improve the management of skill of owners and operators of SMEs
Biz	Provide a business information and referral service
Mentoring	Support Business Mentors New Zealand to deliver mentoring
Export Training	Build capability for export firms, and those getting ready to export.
E-business Guide	Provide an online self-service guide for e-business
Escalator	Provide investment ready businesses with assistance to capital

Over the period under review, policymakers working on business support policies sought to refine and re-calibrate a range of existing programmes and supplement these with new ones, where necessary. In this regard it is worth highlighting the Business Growth Services and Fund and Fast Forward New Zealand. Both programmes were targeted specifically at firms with high growth potential. The aim was to target firms with growth potential, contribute to strategic planning

towards this goal, in some cases including through access to funding and to coordinate the delivery of this support through inter-agency collaboration.

Assistance offered in the industry development assistance range covered different areas such as help to: raise funds from venture capital funds, usually for high-technology ventures; secure joint ventures or strategic alliances; improve strategic or business planning; establish a sound management team, and ensure appropriate systems, skills and processes were in place (New Zealand Government, 2003b).

Other programmes from the industry development assistance range included Technology New Zealand, Trade New Zealand, BIZ and Māori Business Facilitation Service (New Zealand Government, 2003b). Technology New Zealand was one of the programmes at the time and it resulted because of concerns with the rate of R&D amongst New Zealand firms. In 2007 R&D was further encouraged through the introduction of a tax credit (New Zealand Treasury, 2007).

Following on from concerns that SMEs were not accessing available support, the BIZ programme was established in 1998 to “enhance management capability, business skills and knowledge of SMEs” (New Zealand Treasury, 1999, p. 44). It could be argued that this was the continuation of a policy back to the Small Business Agency, and continued by the Business Development Boards for most of the previous decade. The government’s role was to facilitate (as oppose to deliver) access to business counseling and management development initiatives using the Internet as the interface of communication with SMEs. The BIZ business portal

also provided a one-stop shop to provide all relevant government information and services in a helpful and intuitive way (New Zealand Government, n.d., p. 10). It was intended to streamline SME engagement on these programmes, without necessarily reducing their availability.

In the spirit of embracing the ‘entrepreneurial economy’ and in the context of the knowledge economy, policymakers were concerned about the ‘brain drain’ with a large number of highly skilled and educated New Zealanders leaving the country (Walrond, 2014). In a bid to both encourage New Zealanders to return home, but also to tap in to and leverage the New Zealand diaspora, the government actively promoted networking between SMEs with high-growth aspirations and expatriates in successful ventures around the world. Funding towards making contact was combined with awards to celebrate achievements of high-growth firms as well as expatriates who were contributing to the development of New Zealand. Initially known as World Class New Zealanders, this organization became better known as Kea. This was a direct outcome from the Knowledge Wave Conference and was aimed at high-growth firms who were internationalising (Teece, 2001).

As well as harnessing homegrown talent, World Class New Zealanders, under the Enterprise Culture programme, aimed to develop a culture of enterprise through education and interaction with successful entrepreneurs. The objective was to embrace entrepreneurial attitudes and acceptance of the entrepreneurship paradigm. In previous years it had been identified that New Zealanders tended to not value entrepreneurs (Harper & Bollard, 1992). This concerns were expressed in a degree of support for rules and regulations to regulate their activities:

Unless there are reasonable checks and balances things do get out of kilter and this is probably the downside, the dark side of entrepreneurship. The dark side of entrepreneurship is the cowboys who use the fact that there are less rules and bad regulation or regulation that is not being enforced. (Participant G)

The Enterprise Culture programme promoted “more positive attitudes towards business activity and success in the community ... to provide a supportive social and cultural climate to entrepreneurs” (New Zealand Government, 2003b, p. 18). This type of public intervention was necessary because attitudes towards entrepreneurs could be negative:

Sometimes you'll find that entrepreneurship is a praiseworthy term and at other times it's a term of abuse or negative term and I think the policy will follow that. There's always that fine line between allowing people to be exploratory try new things and the cowboys who are pushing the boundaries all the time, doing things that are probably illegal, and so there's a very fine line between high levels of entrepreneurship and going over the limits into failure and receivership and ignominy. (Participant G)

By the end of this period there was a concerted effort to build the innovation capacity of SMEs and to assist the commercialization of innovations. Table 7.5 shows the range of policies, which ranged from supporting research and development, building SME capability, assisting with internationalization and access to finance. What stands out is the way the assistance is more targeted to particular groupings of SMEs and the range of policies available to them. For instance, both high-growth SMEs and Māori SMEs had distinct policy programmes.

Table 7.5 Government Assistance Programmes for SMEs in 2008 (de Beer, Greet, & Morris, 2010).

Classification	Description	Policy
Foundation for Research Science & Technology (FRST) Capability Building	Support to build R&D capability	TECHLINK Technology Fellowships and Internships
FRST Project	Support for R&D projects provided to firms with potential for high growth.	Technology for Business Growth Grants for Private Sector R&D Technology Expert
New Zealand Trade & Enterprise (NZTE) Capability	Support for firms to build business capability	Enterprise Training Programme Enterprise Awards Grants Enterprise Development Fund Enterprise Development Grant-Capability Building World Class New Zealanders Incubator
NZTE growth	Support for firms with potential for high growth	Client Management Services (for firms classified as High Growth Potential) Growth Services Fund Australia New Zealand Biotechnology Partnership Fund Strategic Investment Fund Better By Design
NZTE International	Support for firms to export and increase international presence	Market Development Assistance Scheme Beachheads Market Development Services Enterprise Networks
Ministry of Economic Development (MED) Capital	Support for firms to raise capital	Seed Co-investment Fund Venture Investment Fund Escalator (for firms that had a funding deal brokered)
Te Puni Kōkiri Capability	Support for Māori firms to build business capability	Māori Business Facilitation Service Māori Tourism Facilitation Services

Assistance to SMEs to internationalise was furthered when 2007 was declared Export Year and a \$33 million boost was injected to the Market Development Assistance Scheme (Clark, 2006). At the same time, a tax credit was introduced to encourage private sector research and development. The Minister of Research Science and Technology described the aim of the tax credit:

The aim is to help raise the rate of private sector investment in New Zealand ... This government is committed to raising the low level of private funding of R&D, by giving smaller companies the incentive to start investing in R&D and larger companies to expand their research. (Maharey, 2007)

By the end of this period the NZTE was tasked with providing information to SMEs on a range of policies to assist them in distinct areas, with particular emphasis on R&D and internationalisation.

7.3.2 Improved Communication Amongst Government Agencies

During this period SMEs increased in visibility amongst policymakers. The office of the Minister for Small Business; the Small Business Directorate at the Ministry of Economic Development; the SME Senior Officials Group and the Ministerial Group on Small Business were the main vehicles for discussion on SMEs in policymaking circles. This set up began around the same time as the establishment of the NZTE:

We have established four groups to further the development and understanding of the small business community (Tamihere, 2003 December 4).

The introduction of the Minister for Small Business was an important milestone in the development of SME policy and a step towards coordinating SME policy

development between the different government agencies. The appointed Minister was usually a Cabinet Minister for other portfolios and this in turn could increase the profile of SMEs amongst other policymakers:

The first Minister for Small Business in the Government in 1999 was Minister Swain and the Small Business portfolio was seen as an adjunct to the Minister of the Commerce/Business. (Participant J)

The primary function of the Minister for Small Business was to advocate to colleagues on the impact that rules and regulations could have on SMEs:

The role of the Minister for Small Business was to make sure that when we made rules that we didn't just think of the big players or the impact on all big players, that we all sort of thought of the impact of the rules on the small players and was that actually stopping them becoming big players. (Participant J)

The Small Business Directorate was established in 2003 and by 2005 there were six members (Ministry of Economic Development, 2005). It was part of the Economic Development Strategy Branch of the Ministry of Economic Development. The Directorate published since 1999 a summary of the key characteristics of SMEs collected from data from Statistics New Zealand. The report was called *SMEs in New Zealand: Structure and Dynamics* and provided a snapshot of SME indicators. It defined SMEs as employing fewer than 20 full time employees and quickly became a point of reference for all SME stakeholders. The Directorate was also tasked with engaging with other agencies and promoting SME issues.

The other important development in terms of the prominence given to SMEs amongst policymakers was the establishment of the SME Senior Officials Group.

This group brought together officials from various government departments, including the Ministry of Economic Development, the Department of Labour, Statistics New Zealand and the Ministry of Foreign Affairs and Trade. The purpose of this group was to provide another forum for communication with SMEs themselves and SME stakeholders on government initiatives:

[It aimed] to get people [other policymakers] to agree with regulations. To understand the nature of intervention as these cause complex reactions. (Participant K)

The Senior Officials Group was set up to share information about research programmes, statistics and encourage dialogue across different government departments. (Participant L)

Another important element in the improvement of interagency communication in SME policy development issues was the establishment in 2002 of the Ministerial Group on SMEs. This group was made up of the Minister for Small Business, the Minister of Commerce, the Minister of Economic Development, and the Minister of Finance (New Zealand Government, 2002).

As the following policy document noted, the intention was to minimize unintended consequences in policies, to build SMEs' awareness of what was available, what the implications of certain policies were for them and to have a discussion across agencies about policy initiatives that affected SMEs:

Improve the focus within government on small business issues and the co-ordination of government-wide initiatives for, and communication with, small businesses (Ministry of Economic Development, 2003)

7.3.3 Building Stronger Relationships with SME Stakeholders

One of the main developments of this period was the level of engagement with those involved with SMEs. Table 7.6 shows a range of organisations that actively engaged with the Ministry of Economic Development on SME issues in 2008. These ranged from industry associations, economic development agencies, providers of business assistance, and those involved in academic research on SMEs. The range of these organizations covered the spectrum of SMEs, from those in high-growth industries, to more traditional established SMEs.

The government sought to build a better relationship with SMEs to increase awareness on issues such as management capability, and other support. In more recent years there were calls for SMEs to go beyond the so-called ‘growth ceiling’ by bringing in more expertise into the governance of the firm itself. The latter years of this period saw government begin to encourage established SMEs to bring in expertise onboard, through boards and mentors, to help in the governance aspect of their development.

Table 7.6 Key SME Stakeholders in 2008 (Ministry of Economic Development, 2008a, pp. 12-15).

Type of Stakeholder	Main Stakeholders	Principal Activities
Industry Associations	Employers Manufacturing Association (Northern and Central) Otago Southland Employers Association Canterbury Manufacturing Associations Southland Employers Association Business NZ	Lobbying on competitiveness, employment, compliance, innovation and skills. Promotion of the development of high-value goods and services
Economic Development Agencies	Chambers of Commerce Economic Development Agency of NZ	Local, regional and international lobbying to enhance regional business. Run training, events and networking. Support member organisations with employment relations advice, occupational safety, training and education
Providers of Business Assistance	Icehouse - University of Auckland NZ Institute of Management NZ Institute of Chartered Accountants NZ Venture Investment Fund Ltd. Pacific Business Trust Business Mentors NZ Institute for Accredited Business Consultants NZ Council of Trade Unions Home Business New Zealand Ltd	Incubator programme for startups and growth programmes for established SMEs. Management education, training and development Financial and tax policy Implementation of Venture Investment Fund Support and financial advise to New Zealanders of Pacific descent Mentoring programme partially funded by NZTE Provision of accreditation and professional capability to increase competitiveness Promotion of unionization and collectivism. Provision of information, resources and network opportunities to home businesses.
Academic Researchers	NZ Centre for SME Research Massey University	Research into SMEs

However, this is found to be reticent to let go of total control from their SMEs:

I mean there are a lot of people out there holding on to ideas or patents where they've got 100% control of something that's basically valueless, whereas in fact what they should be doing is giving it to somebody else who actually can make money out of it and then they'll have 30% or even 10% of a multimillion dollar business but they'd much rather have 100% of next to nothing.
(Participant J)

As well as facilitating information about the series available to SMEs through engagement with these stakeholders, there was consultation processes set up. One of them was the Workplace Productivity Working Group to improve productivity through the encouragement of collaboration between government, industry, firms and unions. Another was the Business Capability Partnership, a private–public partnership established in 2004, which sought to enhance business and management capability by focusing on policies to help grow competitive firms (Massey & Ingley, 2007; Ministry of Economic Development, 2011b).

The benefits of stakeholder consultation were not lost on Participant J, a senior policy advisor during the duration of this period. For instance, the Business Capability Partnership provided an opportunity for policymakers to reflect on the policies that affected SMEs and to articulate what the role of government was towards SMEs:

[With the] Business Capability Partnership ... there are all these big policy papers we did around 2003-2004 and there really for the first time we tried to describe the things that made for business growth or business success ... and for the first time we articulated [these as] we

were also doing the growth innovation framework and the economic growth agenda and things. (Participant J)

In 2003 the Small Business Advisory Group (SBAG) was set up to enhance communication between government and SMEs. Six to eight members were chosen to bring to government issues that impacted on the growth of SMEs and with suggestions for priorities and possible solutions (New Zealand Government, n.d., p. 17). The SBAG was tasked with maintaining an open communication with the Ministerial Group on Small Businesses and providing advice to the Minister for Small Business. Receiving reasonable publicity, this group of successful SME owners challenged the government on issues of concern to them and suggested areas that could be improved on. Participant L characterized the role of SBAG as being more of a sounding board rather than a lobbying group:

In some ways it is like a focus group, an officials' sounding board when developing new policy, not a lobbying group. They are not there to promote one solution. (Participant L)

Initially there was concern about the usefulness amongst policymakers of this initiative because of the perceived challenges associated with distilling the various perspectives and incorporating them into policy:

Raw perspectives can be emotional. (Participant L)

Nevertheless, policymakers were interested in generating an SME perspective in the policy process, but the extent of their involvement with SBAG was largely dependent on the Minister for Small Business and the amount of effort he or she was prepared to invest in this initiative:

The minister's personality determined the level of engagement with SBAG. (Participant L)

Amongst SME owner-managers there was suspicion of how close SBAG was to the government, causing some SMEs to mistrust the efficacy of the consultation process:

At times there was suspicion from SMEs who viewed SBAG as a government lapdog, that type of thing. (Participant L)

This suspicion derived from the fact that in some instances SBAG was in a position to understand the government rationale for introducing a new policy, but SMEs in general were more apprehensive, viewing the introduction as yet another regulation to add to other 'red tape' they were required to comply to. For instance, to make tax reform changes more palatable and less threatening SBAG engaged in several platforms of communication, aided by the SBAG when it introduced Kiwi Saver, a work-based retirement savings scheme, in 2007:

Initially SBAG were overwhelmed as they were basically dumped with all this stuff [the Kiwi Saver scheme] but the Government was determined to make this come about. (Participant L)

Nevertheless SBAG played an important part in transforming the way the government presented new policies to SMEs:

Small things can blow out of proportion and SBAG helped change the way government presented information to SMEs. (Participant L)

This signified an improved channel of communication and more efficient implementation of SME policy.

7.4 Concluding Comments

In this section the development of SME policy was examined in the period of 1999 to 2008. As part of a broader economic policy framework to advance an innovative and internationalised economy, SMEs were encouraged to export and to play a significant role in regional development. Successful provision of ‘the fundamentals’, also referred to as an ‘enabling environment’ was reflected in the routine high ranking of New Zealand in international ease of doing business surveys. Yet, as low productivity rates showed, these policies did not translate into overall economic success. The year 2002 was a turning point in terms of the development of SME policy with the establishment of the SBAG, the appointment of a Minister for Small Business, a Cabinet portfolio, and a concerted effort to engage with the SME stakeholder community. The following year the New Zealand Trade and Enterprise economic development agency was established and this consolidated into one agency the provision of business assistance to SMEs.

The influence of entrepreneurship theory was significant, in particular in terms of articulating the fact that not all SMEs are equal and in the development of policy to assist SMEs. This link enhanced the tendency for particular industries to be targetted with sector specific policies to access finance, develop capabilities and internationalise.

The understanding of the SME sector was more sophisticated and this had consequences for the way SME policy was developed. A more consultative approach to SME policy development was adopted through engagement with

SME stakeholders. Policymaking also became more comprehensive, with more care to evaluate policies once in place, and greater awareness that inter-agency work was important to minimise unintended consequences. However, the incremental approach to policymaking was still the dominant process for developing policy.

A better understanding of the impact of regulation also impacted on how policy changes were brought about, as was the case with the introduction the retirement savings scheme KiwiSaver, which required extensive collaboration between various agencies.

8. Conclusion

This study set out to provide an overview of New Zealand SME policy development and outputs between 1978 and 2008. It looked at changes in the broader economic environment and considered the range of influences on, and the development of, policy instruments that were used to support SMEs. The previous sections identified and explained the key policies, analysed the main influences that shaped and informed these policies, and considered the significant changes in the approach to New Zealand SME policy development over this period, including the identification of specific outputs relevant to SMEs. This concluding chapter will comment on the themes that have emerged and the implications that these could have for further study into SME policy.

First, the chapter synthesises the main research findings, summarises key findings and presents a framework in section 8.1.3 that can inform and provide insights into both the core outputs of, and influences on, SME policy development. This substantive section of the chapter reinforces important issues relating to the accomplishment of the research objectives. Specifically, it meets the first objective of this study by providing an overview of New Zealand SME policy development during that three-decade period. This occurred against a backdrop of the broader policy literature, and with the benefit of the reflections of participants who had themselves influenced policy direction. With respect to the second objective, this chapter shows that the research identified and analysed the

influences on New Zealand SME policy development and produced a framework to describe the SME policy development process.

The third objective required the identification of key policies that resulted from policy changes over the three decades under scrutiny. These included a move away from purely external influences to an awakening of confidence in New Zealand's own unique circumstances and therefore customised responses and self-determination.

This main section is followed by a brief acknowledgement of the limitations of the research, canvassed earlier in Chapter 4. Consideration is then given to the way in which the current findings might shape and inform future directions on SME policy-related practice and research. A final summary comment is then made with respect to the study's contribution to the wider SME literature and context.

8.1 SME Policy: Continued Relevance and a Changing Focus

The research has demonstrated that SME policy between 1978 and 2008 developed from being an incidental outcome of general economic policy, to targeting particular SME sectors and engaging stakeholders and SMEs themselves in this process. The way it changed was determined by the overall policy rationale the government had during the different periods, the way government was conducted, the influences on the policymaker, and the policy theory influence on the way policy was developed.

This research identified three distinct phases in SME policy development in New Zealand – 1978 to 1983, 1984 to 1999, and 1999 to 2008. In each case a set of specific SME-related outputs was distinguished, as well as the changing nature of the influences and stakeholders that helped shape policy approaches. In order to better understand the dynamic nature of the change underway in New Zealand SME policy development and outputs, a framework (presented in section 8.1.3) was developed by the author to illustrate how SME policy mattered throughout the period under analysis, including in ways that affected the emphasis placed on particular outputs, as well as the evolution of stakeholder and other external influences on SME policymaking. The following section will comment on the findings of chapters 5 to 7.

8.1.1 Influences on the Development of SME Policy

Table 8.1 below provides a summary of the SME policy environment over the thirty-year period of this study by looking at the dominant policy rationale, the principal characteristics of SME policy, the main influences on SME policy and the theoretical policy approach employed. This will be followed by a separate discussion of SME policy outputs.

Policy Rationale

Each period under consideration operated under an over-arching policy rationale under which SME policy was developed. In the 1978 – 1983 period this rationale took the form of a protectionist economic approach with a high degree of direct government intervention justified on the grounds of market failure. This study

found that the protectionist policy rationale reinforced expectations amongst businesses that they could count on government to protect them from external competition. The policy rationale also had an implication on the role of SMEs in the economy, with big business considered to be the main engine of growth, as exemplified by the 'Think Big' projects of this period. This policy rationale was mirrored by international approaches (Amatori & Jones, 2003).

In contrast, during the second period (1984 to 1998) the policy rationale was to provide 'the fundamentals' in terms of provision of the wider macroeconomic policies, and to rectify 'government failure' that had resulted from a protectionist economic approach. Initial efforts to allow the market to provide SME support were followed by government intervention through partnership with the private sector. Participants interviewed found the move to the free market policy rationale an important one for SMEs, signaling a move to self-reliance and a more proactive engagement with the policy environment. In different degrees this experience was similar overseas (Blackburn and Kovalainen, 2009; Dennis, 2005, 2006, 2011a, 2011b; Schaper, 2014).

The policy rationale during the final period (1999 to 2008) of this study was to enable entrepreneurship and to build a knowledge economy through growth and innovation. The government encouraged entrepreneurial activity through a consolidation of policy instruments available to SMEs, in particular regarding competitiveness and productivity.

Table 8.1: A Summary of Policy Environment, Influences and Orientation

Historical period	1978-1983	1984-1998	1999-2008
Government Role	Interventionist ‘Think Big’	Free Market ‘The Fundamentals’	Enabler of Entrepreneurship
Theoretical Policy Approach	Incremental approach – building on regional economic development policy	Incremental approach	Institutional approach - Policy evaluation becomes critical
Characteristics of SME Policy	High direct government intervention	Minimal government intervention	Minimal government intervention
	Small businesses seen as homogeneous. SMEs considered as ‘little big businesses’	SME term adopted by policymakers.	SMEs seen as heterogeneous. New terms – high- growth SMEs and micro-enterprises
	Intervention at firm level policies	Intervention on management capability and best practice issues Firm-level interventions	Intervention on management capability and R&D The individual SME owner-manager is targetted Delineation of high- growth from other SMEs
Influences on SME Policymakers	Influence on SMEs mostly external for research, analysis and trends. Small Business plays an important role in early research development.	Influence weighted to external influences Competitive advantage and QM theory. Growth of domestic SME research and stakeholder community. Personal networks with overseas SME stakeholders influential Implementation through public-private partnership	Big influence of entrepreneurial theory. Focus on enterprise & empowerment Robust domestic International and domestic research Growth of SME stakeholder visibility and lobbying

For SMEs this policy rationale translated into more targeted policies. High-growth groupings in particular industries were identified and a further characterization of

micro-enterprises, a subgroup of SMEs, brought to the fore the complexity of the SME sector as reflected in international research (Arshed, Carter & Mason, 2014; Down, 2010; Landström, 2007).

Theoretical Policy Approach

The incremental policy approach was used across the thirty years of this study. This approach views policymaking as being formed as a reaction to changing circumstances and evolving understandings, rather than a linear, rational approach. It was famously labeled ‘muddling through’ (Lindblom, 1959) and interestingly this research found that many participants and archival sources reflected dissatisfaction with the way SME policy was developed during the earlier periods of this study, finding it to be disorganized and not always coherent. There were also reports of unintended consequences that came to light in certain aspects of SME policy development, which has also been noted in academic circles (Smallbone & Welter, 2010).

The incidental nature of the way SME policy came about was a dominant feature in the first two periods, but became relatively less pronounced in the final period. Initiatives such as the Minister for Small Business, the Small Business Ministerial Group and the Senior Officials Group, were steps to integrate the SME perspective into the overall public policy cycle.

In the final period, the rationale to foster entrepreneurship and provide an enabling environment for SMEs to operate in was reflected in the way policy was developed, with the aim of gearing up institutions to enable business to function.

The importance of the institutional setting is well documented in the literature (Baumol, 1990; North, 1990; Smallbone & Welter, 2010; Welter, 2012), including how it affects the degree of success of the economy (Shane, 2009). Moreover, the institutional approach, such as that adopted by New Zealand, continues to be prominent in discussions on future directions of SME policy (Arshed, Carter & Mason, 2014).

This follows initiatives in Australia (Schaper, 2014) and the United Kingdom (Greene, Mole & Storey, 2008) and the United States (Audretsch & Aldridge, 2014). This policy approach considers the social, economic and legal institutions in the process of policymaking. It values consultation processes and also takes into account institutional pressures in the external environment. Participants and archival resources demonstrate the steps SME policymaking has made in terms of forming a more cohesive and consultative approach to SME policy development. This confirms international findings on the importance of adopting a more consultative approach when implementing SME policy (Austrestch & Aldrige, 2014; Bennett, 2008).

The significance of evaluation is another aspect that emerged during this period, with participants for the first time suggesting that SME policies should be evaluated more often than previously.

Characteristics of SME Policy

During the course of this study the delivery of SME policy went from a high level of direct government intervention to a minimal government intervention style.

Government interventions that affected SMEs during the early period were based on a 'market failure' focus, in the form of tax incentives, subsidies and industry policy. In the second period the government's role changed from protecting SMEs from external competition and providing firm-level policies, to supplying a macroeconomic environment that favoured entrepreneurial ventures, while concentrating on developing rates of innovation, competitiveness and productivity.

An important characteristic of SME policy during the thirty years of this study was the move in the final period towards a more concerted approach to policymaking that involved consultation with multiple government agencies and to some degree with SME stakeholders, during the formulation of policy to ensure better policy coordination and to avoid replication of programmes. The appointment of a Minister for Small Business played an important role in better coordination of how policy was developed, as well as the centralization of policies under New Zealand Trade & Enterprise (the government's economic development agency).

Throughout the period of this study the economic objective of SME policy remained paramount to policymakers. For instance, in 2008 it was common for politicians to state that SMEs were the engine of the economy. However the social objective gained prominence as attitudes towards SMEs changed. This social aspect was also implicit with SMEs being considered as important vehicles of social cohesion, in particular in terms of integrating the economically disadvantaged and other minorities.

Whereas in the earlier period public support for SMEs was restrained and it was generally considered that SMEs only played a minor role in reviving the regions and diversifying the economy, in the second period the social aspect gained more prominence with the use of SMEs to tackle unemployment, mostly through self-employment incentives. The final period further delineated the various roles that the SME sector plays within the economy and society in general. This delineation was exemplified by routine use of the terms 'high-growth' SMEs and of micro-enterprises. Implicit in the use of 'high-growth' was that some SMEs were of low (or even no) economic growth but had an important role to play in terms of social cohesion, in particular through the integration of minorities and the economically disadvantaged. In this final period there was also an understanding that SMEs were not a homogeneous group and that policy development needed to take this into account.

The delivery of SME policy evolved from being one of direct state intervention, to intervention through private-public partnership in the second period and, finally, to facilitating the implementation of SME policies by making them more accessible through the use of an information portal and active involvement of SME stakeholders. The role of SMEs in the SME policy environment evolved and in the 1999 to 2008 period they were expected to be pro-active about seeking assistance, to network and interact with others, whilst in the earlier period they tended to be approached by the Small Business Agency and screened to assess their growth potential.

Throughout the entire period SME policy remained an important component of regional economic policy and of driving exports. Initially the role of SMEs in growing the regions was the main focus of the Small Business Agency, with pockets of SMEs being already signalled in parts of the value-added manufacturing sector to diversify exporting. In the post 1984 period the overall rationale of market forces encouraged an indirect form of assistance towards SME management capability with more targeted assistance towards high-technology SMEs. In the third period assistance to SMEs continued in the new industries that were considered to be likely to grow and export.

This study found a degree of continuity in the types of SME policies in place in areas such as management capability, internationalization, access to finance and business development. This is consistent with development in the United States (Dennis, 2011a, 2011b), the United Kingdom (Green, Mole & Storey, 2008) and Australia (Schaper, 2014; Mazarrol, 2014; Parker & Hines, 2013). The types of programmes in place have used elements of previous ones and rejected others, giving credence to the thought that there was a cyclical nature to government SME policymaking regarding programmes to remedy management capability deficiencies and to improve global competitiveness and productivity rates.

A final, important characteristic of SME policy was the evolving role of SME stakeholders, made up of academics, researchers, chambers of commerce and industry associations. In 1978 those engaged in protecting SME interests were small in number and most of them had a connection with the Small Business Agency, which acted as an advocate for SMEs amongst policymaking circles. In

the 1980s more researchers became involved in investigating the nature of SMEs in New Zealand. The changing role of government at this time also brought about a change in the role of industry associations, with members, including SMEs, expected to take a more pro-active role in the relationship. However SMEs were not organized into a visible lobbying group, and continued to rely on their industry associations and others to bring their interests to the fore.

In the final period the SME stakeholder played a more noticeable role in the SME policy development process. The most notable instances of this enhanced role were the establishment of the Small Business Advisory Group, as well as the consolidation of SME research by government and academics to produce more reliable and robust data for policymakers and SMEs to interpret.

Influences on SME policy

As with other types of policy development in New Zealand, the three-year electoral cycle was an important influence on the development of SME policy. However, SME policy development appears to have benefitted from a relative stability in terms of approaches taken by the governments led by one or other of the two main political parties during this period. By the end of the first period, there was a willingness to move away from the prevailing protectionist approach that had dominated New Zealand policymaking and this was reflected with SME policy in the ensuing period. Once the sweeping economic reforms were in place the main point of difference between the major parties was the degree of direct intervention favoured, but there was common agreement on the general approach,

that is, to provide an enabling environment through strong institutions and the embrace of entrepreneurship as the guiding paradigm. Because of this relative stability in political outlook towards SME policy, changes in government resulted in changes to policy outputs that either continued a longstanding policy approach (as the Fourth National Government did when it took over in 1990) or adopted a newly introduced policy rationale (as the Fourth Labour Government did in 1999) when it continued the recently introduced *Bright Future* policy agenda.

There were two principal types of influences on the development of SME policy over the period of this study: economic and stakeholder. Economic influences refer not only to the global economic situation, for example a period of economic recession, which occurred in the late 1970s, in the mid 1980s, and the late 1990s, but also to domestic economic circumstances and priorities. As mentioned above, stakeholder influences came from academics, researchers and industry associations. The influence of the stakeholders expanded over time, from comparatively little influence in the first phase of the study, to considerably more influence in the third decade of the period considered by this research.

The degree of impact of the influences on SME policy changed over time. For instance in the first period the main external economic influence was the loss of the market access to the United Kingdom when it joined the EEC and the twin oil crises. This external economic influence impacted on the domestic aim to diversify the economy away from agricultural dependency and to protect it from external global crises, resulting in a protectionist approach, as discussed above. On the other hand the stakeholder influence of this period came from external

sources, namely the Bolton and Wiltshire reports and the US Small Business Administration. Local stakeholders were limited to those working at implementing SME policy such as the Small Business Agency and the Otago Business Development Centre.

In the second period the influence of stakeholders became slightly more pronounced with some research emerging and links with academia developing. During this period new approaches to business strategy, such as Porter's theory of competitive advantage and total quality management theory, had an important influence on economic development in the regions, through the use of clusters and the role of networking.

The New Zealand context during this period was particularly important in terms of its receptiveness to new approaches to the economy. This second period was one of transformation characterized by a willingness to try a new way of doing things. It was also a significant period in terms of New Zealand's emerging identity in the international arena, for example with its anti-nuclear stance. This study found that the influence of these new academic theories was real, but the willingness to embrace these new approaches played a part in their impact.

Traditional ties with the United Kingdom and Australia continued to play a role in terms of influencing SME policy development, as many of the early researchers, as well as those involved in policy formation, had close links with academia and policy practitioners in the UK. Finally, industry associations were the main

vehicle for SMEs to lobby government, but in fact did not play a prominent role in representing SMEs as opposed to the industry itself.

Also during this second period, SME researchers forged links with international umbrella organization that specialized on SME research such as the Small Enterprise Association of Australia and New Zealand and the International Council for Small Business, both important for the exchange of ideas and the latest thinking on SMEs.

During the third period, between 1999 and 2008, stakeholders provided a broader range of influences, with academic research exploring various aspects of SMEs, and the establishment of better links between SME stakeholders and policymakers, namely through the Small Business Advisory Group and the Minister for Small Business.

The emerging academic field of entrepreneurship during this time, both in New Zealand and internationally, significantly influenced the way SME policy was developed. International bodies such as the Organisation for Economic Co-operation and Development and the Asia Pacific Economic Cooperation forum began to hold high-level meetings to discuss SME policy and to better understand the role of SMEs in the domestic economy.

Influence of Individuals on SME Policy Development

During the course of this research it became clear that in the first two periods there were key individuals who at a given time acted as catalysts to approaches to

SME policy. This was largely because SME policy was not an established field. In the early period of this study a senior civil servant at the Department of Trade and Industry called on government to support SMEs in the value-added manufacturing sector and encourage “small scale, technology-oriented industry” (Datson, 1977, p. 3). Datson’s influence was significant because of his status as a senior official advocating for SMEs in a context where big industrial ventures were seen to be the way forward. One outcome of this influence was the Applied Technology Programme.

In contrast, in the second period (1984-1998) the individual who influenced SME policy was a politician, the Minister of Overseas Trade and Marketing Mike Moore. This Minister oversaw the establishment of the Market Development Board. This initiative led to a rethink of how export support would be provided to SMEs. This Board was the prime mover behind the invitation to Michael Porter to lead research into New Zealand competitiveness using his theory of competitive advantage. Participants in this study and media reports disagreed over the influence of Porter’s work on SME policy development itself, but his visit was nevertheless significant, in particular in discussion on export strategy which eventually affected internationalising SMEs.

In the latter period of this study the influence of a particular individual, be it as a senior official or as a Minister, was not as prominent. This is because of the ‘institutionalisation’ of SME policy within the policy development cycle as more processes and coordinating approaches were set in place.

8.1.2 SME Policy Outputs

This research focussed on policies that were targeted specifically at SMEs. SME policy outputs identified were grouped into two types: firm-level and individual-level outputs. It is possible, however, that some policy outputs may overlap between these two categories, for instance, in micro-enterprises the owner-manager is in effect the firm itself.

Firm-level policy outputs affected the enterprise regardless of the owner-manager and were not usually portable. They were indiscriminate in their nature in that they applied to most SMEs in the same way. These included those policies that affected SME access to finance, such as investment, as well as support to access markets and export incentives. Within this group were also included regulatory and compliance measures, industrial policy, and trade policy, all of which affected SMEs at the firm-level.

Conversely, individual-level policy outputs were centred on the capabilities and skills of the SME owner-manager. Typically these included policies such as assistance with management development, advising and sharing best practice, business excellence, skill development and training.

Policy outputs during the first period were the establishment of the Small Business Agency and the Applied Technology Programme. In the second period policy outputs were focused on a joint collaboration between public agencies and private consultants, whereby government funded and coordinated through the Business Development Boards the delivery of SME support policy by private

sector consultants. There were signs of efforts to coordinate SME policy more, and in the 1994/5 Budget Vote Industry Development SMEs were identified as a specific category. Given the emphasis on creating an enabling macroeconomic environment, the main SME-related policy outputs of this period were relatively limited and focused primarily around the creation of a public-private partnership for delivery of SME policy coordinated by Business Development Boards located throughout New Zealand.

During the final period (1999 to 2008) the government extended the provision of an enabling macroeconomic environment to actively encourage innovation and entrepreneurship. In this final period, SME policy in New Zealand emphasized the facilitation and encouragement of a more ‘entrepreneurial’ behaviour that would translate into more efficient, productive and innovative SMEs.

There were three principal policy outputs from this period: the establishment of a dedicated unit at the Ministry of Economic Development, the introduction of a Ministerial portfolio for Small Businesses and the establishment of one economic development agency, New Zealand Trade & Enterprise, to deal with internal and external (export) assistance to SMEs.

There were different policy instruments in place during the three periods, although all three used a form of mixed policy instrument. A mixed policy instrument relies on SME owner-managers being proactive in taking up policy initiatives. They tend to be information-based policies, such as the information portal set up in the final period of this study, and favour contracting out services to harness local

expertise and foster private-public partnerships. In the first period the mixed policy instrument was the main type of policy instrument in place. In the second period voluntary policy instruments, where the private sector played a leading role in policy provision, were introduced, but the mixed policy instrument remained the main type. Finally, in the third period there was an element of a suasion policy instrument, as defined in Chapter 2 as encouraging desirable behaviours that sought to encourage SMEs to embrace entrepreneurial behaviour and engage with technology. However in this period the mixed policy instrument was also the main means of implementing SME policy. Throughout the 30 years a compulsory policy instrument was in place for taxation, legislation and regulation matters.

Table 8.2 summarises the above discussion on the impact of the influences on SME policy, the types of policy instruments used and the types of policy outputs.

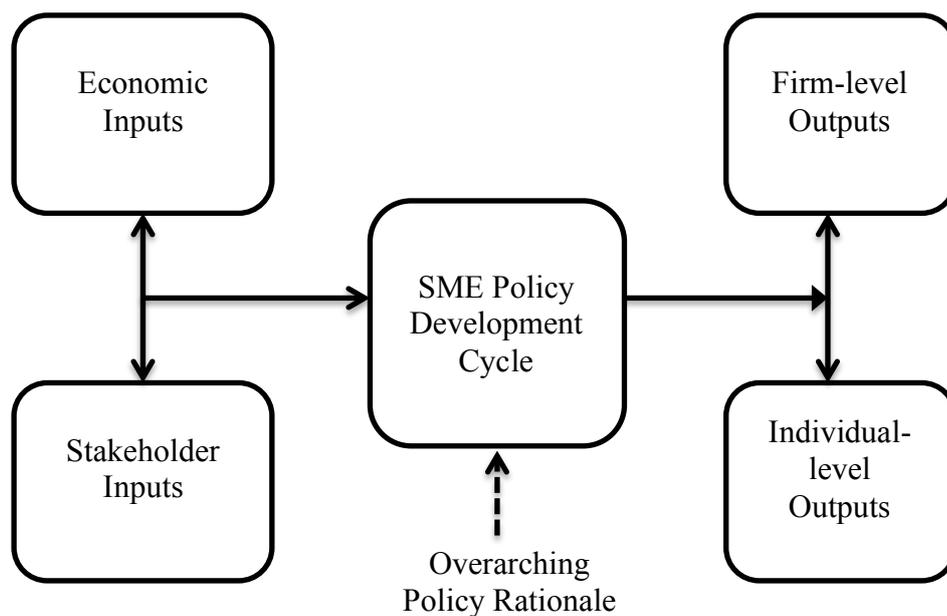
Table 8.2 Impact of SME Policy Inputs, Type of SME Policy Output and Types of Policy Instruments

Period	Impact of SME Policy Inputs		Type of Policy Instrument	Type of SME Policy Outputs
	Economic Input	Stakeholder Input		
1978 – 1983	High	Low	Mixed	Firm-level
1984 –1998	High	Low	Voluntary Mixed	Mostly Firm-level
1999 –2008	High	Medium	Suasion Mixed	Mostly Individual-level

8.1.3 A Framework for SME Policy Development

As discussed in the previous section the inputs (or influences) into the development of SME policy combined in different levels and ways to reflect the degree of government intervention that resulted in SME policies (or outputs). Figure 8.1 illustrates a framework of inputs and outputs of SME policy that explains the interaction of the components of the SME policy development process.

Figure 8.1 Framework for Inputs and Outputs of the SME Policy Development Cycle



The framework illustrates the relationship between the different variables such as economic and stakeholder policy inputs and firm-level and individual-level policy

outputs, within one overarching policy rationale. Within the SME policy development cycle particular policymaking approaches are employed, while policy instruments are employed to implement the policy outputs. The emphasis on particular outputs may change over time, as does the prominence of particular influences.

Figure 8.1 also offers a mechanism that sheds light on the relative importance of specific influences (e.g. stakeholders versus economic influences) over time while demonstrating how those influences have directed and shaped outputs. Good examples of this are the shift away from direct government intervention and firm-focused outputs, such as with the establishment of the SBA in 1978 through to the establishment of a Minister for Small Business in 2002 and the consolidation of domestic and export assistance for SMEs under the New Zealand Trade & Enterprise agency.

Similarly, the framework is able to capture the move underway from firm-level interventions in favour of individual-level interventions. A good example of this in the New Zealand context has been the expanded focus on managerial capability and entrepreneurial skills.

A key contribution of this analysis of the development of SME policy is the identification of a historical context in which to consider the development of government policy for SMEs in a small OECD economy. The analysis highlights the importance of taking into account economic events – both international and domestic – when examining the formulation of policy responses. It also

underlines the important role (and one that has changed over time) that stakeholders can play and are increasingly playing in the formulation process. By 2008, SMEs mattered to the government as potential generators of innovation and entrepreneurship, alongside the longstanding emphasis on employment generation and regional economic development.

8.2 Limitations of the Study

This research depended on interviews with a relatively narrow subset of policymakers involved in SME policy development as well as a similarly narrow group of SME stakeholders. While the sample may be relatively small, given New Zealand's relative small size and the proportionately smaller number of government officials and others involved in policymaking, it can be considered sufficiently significant to allow for meaningful insights and conclusions. Nevertheless, to mitigate against any risk of skewed results, considerable care was taken to choose informants that were directly involved in SME policy development, either through their role in policy formulation or their research into SMEs.

One of the challenges that confronted the researcher was that, for much of the historical period being reviewed (1978 – 2002), there was no specific unit dedicated to SME policy formulation. This necessarily impacted upon both the secondary and primary source material available to the researcher. That said, interviews were undertaken with the key players in the evolution of SME policy since 1978, including those involved in the establishment of the Small Business

Agency, and in the delivery of its assistance. The period 1984 – 1998 incorporated more specific policies towards SMEs, especially towards the end. However, SME policymakers still remained very small in number, as they did in the third period of this study. As noted above this is a consequence of the size of New Zealand's population (less than 4 million for much of the period researched in this study) and a relatively small public service reaching 45,000 in 2014 (New Zealand State Services Commission, 2014).

Another challenge to the researcher and thus a potential limitation of the study is that the recall of participants, in particular those from the earlier periods, may be coloured by the benefit of hindsight. This is a well-known difficulty and the phenomenon itself has been termed 'hindsight bias' (Hoffrage, Hertwig & Gigerenzer, 2000). With this in mind, the researcher minimized the risk of such a bias, extensively using secondary and archival resources such as government papers and media reports, to crosscheck these recollections.

While a compelling reason for undertaking the research, the lack of similar studies into this area in New Zealand also meant that cross-comparisons were not possible. This necessarily narrows the relevance and conclusions the researcher can draw from this study. At the same time, the fact that this is genuinely new ground that is being broken in the research highlights its utility and the contribution that this kind of historical analysis can make more broadly.

8.3 Implications of the Study

This section will examine the implications of this research for policymakers and SME stakeholders.

Because SME policy in New Zealand is formulated within a three-year electoral cycle, an element in the development of SME policy was driven by political considerations and shifting economic imperatives. Nevertheless, as noted before, despite this there was a degree of continuity in policy between different governments. The continued relevance of SME policy can be explained by its enduring role in terms of social policies and to a better understanding of the diverse nature of SMEs.

This research brought together the historical context of this development, and provided a sense of policy continuity that could prove useful for future policymaking. This is particularly important as at different points in time during this research participants reported getting the feeling of ‘having seen it all before’ when new policies were announced.

An important finding of this research was the change in policymakers’ perceptions of the role played by SMEs in the economy. Key participants and archival records showed that policymakers were aware that not all SMEs wanted to grow, but they still considered SMEs to play an important role in terms of social cohesion. This study found that the potential role SMEs played in social cohesion, based on regional development and job creation, was implicit in SME policy designed for the bulk of SMEs. While the contribution of SMEs to

economic growth is easier to quantify through economic indicators, their contribution to social cohesion is not as easily measured. Given the shift in emphasis by New Zealand governments towards this aspect, as identified in this study, there may be value in considering this aspect of SME policy and further refine the definition of SME policy objectives for better policy formulation and implementation. In particular, a clearer statement of the social objective of a given policy could provide a sounder starting point for policy development.

Another finding of this research was the increase in targeted policies towards exporters in high-growth industries. This shed light on SME policies designed to enhance internationalization and increase SME contribution to export growth. However a recent New Zealand study reports that the percentage of exports to GDP has not changed significantly since 1984 (Hall & McDermott, 2009), which raises issues on whether SMEs are the way to increase this contribution after all, another reason why the prominence of the economic role of SMEs should be reconsidered by policymakers. This could also entail reviewing the social role that SMEs play, which was recognized to some degree with cabinet papers including the phrase ‘social cohesion’, but not making it explicit in the policy development process.

8.4 Future Research

Through this research into New Zealand SMEs, a wide-ranging variety of under-researched areas were identified, but only some stood out as emerging directly from this research. Future research to help address the ongoing challenges that

face SME policymakers, for which this study provides a foundation, include the following:

1. A historical analysis of SME Policy before 1978 and after 2008. This study has demonstrated that historical analysis is a valuable tool in gaining insight into policy process and overview of an economic and social phenomenon central to New Zealand as a nation. Further study on the period spanning 1935 to 1977 might provide the reasons behind the emphasis on the UK market and the choice of policies that were highlighted in the early period of this study. Analysis of recent history would serve to further interrogate the current study and progress its findings.

2. A historical evaluation of policy outputs. The choice to focus this study primarily on the SME policy process and the outputs that resulted, explicitly excluded the possibility of an in-depth study of policy outcomes, or an evaluation of New Zealand SME policy effectiveness. Implicitly, however, this study establishes the value of undertaking a more comprehensive evaluation in the future, and provides a rationale for the value of historical analyses informing future policymaking. New Zealand policymakers are confronted by the challenge that, despite extensive economic restructuring and a supposedly world leading business-friendly environment, the percentage of exports in relation to GDP has not changed. Furthermore, despite the provision of an enterprise-enabling environment, income and productivity levels remain low, something that has been termed the 'New Zealand paradox'. Thus, in particular, any analysis should

critically examine the efficacy of the key SME policy objective to diversify the economy and increase exports.

3. An assessment of SME contribution. The more easily quantifiable economic contribution has tended to take primacy over social indicators such as social wellbeing, social cohesion and other qualitative dimensions relating to social wellbeing. Given research that has found little movement in economic indicators over most of the period under review, it is recommended that historical research be undertaken to better understand the social contribution that SME-focussed policies can make. Access to such research might enable future policymakers to pay more attention to optimising both the economic and social benefits of SMEs holistically. The concept of ‘entrepreneurial ecosystems’ provides a potential lens through which New Zealand policymakers might better understand the multitude of ways SME policy contributes to the economy, not least because it represents a more holistic approach to SME policy.

4. An analysis of the influence of stakeholders on SME policy development. SME policy development and execution continues to be limited by the difficulties in establishing an enabling environment for such a large and heterogeneous group of SME owner-managers. This historical overview has drawn attention to the increasing levels of influence stakeholders have had on policymaking over time. Future exploration could track these changes, including the mode of policy engagement with SMEs in the context of the growth of Internet platforms for policy engagement; LinkedIn groups for influencing and informing SME policy; use of the Small Business Advisory Group (re-branded the Small Business

Development Group in 2012); and the roles of chambers of commerce and industry associations and other economic development agencies in expressing the views of SMEs.

5. An analysis of the development of SME policy directly impacting on the various types of SMEs, for example migrants, Māori, women, high-growth, micro-enterprises and family SMEs. In particular, it would be interesting to further explore the links between SME policy addressed at disadvantaged sections of society and social cohesion, and whether the social role of SMEs will continue to keep SME policy relevant to policymakers and SMEs.

8.4 Closing Comment

SMEs in New Zealand are understood to be essential players in the economy, the social fabric, and the national psyche. Furthermore, they are frequently heralded as the potential saviours in all these areas. Yet, prior to this study, little was known about the process, nature, and impact of SME policy in New Zealand, and the foregoing discussion suggested that research paths barely touched the surface of potential research opportunities. This research sought to address some of the deficit. It looked to the past to identify and draw together some of the strands of the fabric that is New Zealand SME policymaking and was able to cast some light on the broad sweeps of policy development, reinforcing the value of an historical approach. Importantly, the research captures the voices of key players who reflected on their motives and contributions. These participant accounts have been brought together with information from archives and media sources to contribute

to a richer, more comprehensive account of three decades of New Zealand SME history.

By 2008 the SME policy development process had become an intricate and complex process, involving several government agencies, stakeholders and informed by New Zealand and international research. The entrepreneurial paradigm was the starting point for policy development and SME policy developed into a complex concept that encompassed a broad range of government policies (Smallbone & Welter, 2010). No longer were SMEs considered 'little big businesses' waiting to grow up. Whereas once government was a vast presence in their environment, they were now expected to take control over the circumstances they operated in and develop good governance skills in order to grow and survive.

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10. Appendices

Appendix 1

Chronology of Defining Historical Events in the Evolution of New Zealand SME Policy, 1966 to 2008

1966	Collapse of wool prices, export diversification becomes more urgent.
1973	Great Britain joins the European Economic Community – New Zealand loses a major overseas market.
1970s	Twin oil shocks
1975	Election of Robert Muldoon (Prime Minister until 1984), main architect of protectionist policies.
1977	The <i>Development Finance Corporation Amendment Act 1977</i> establishes the Small Business Agency
1978	The first Small Business Agency offices begin operations
1981	‘Think Big’ a failed economic strategy that aimed to create 400,000 jobs and solve energy crisis. As the name implies it was focused on big business.
1982	Price and wage freeze, and interest rate controls.
1983	CER (Closer Economic Relations) trade agreement signed between Australia and New Zealand
1984	Second Labour Government – sweeping liberalizing economic reforms (“Rogernomics”) into government regulation and opening the economy up to international competition and markets.
	Economic Summit Conference held to to rethink the direction of New Zealand economy

1985	Floating of the dollar; phasing out of import licensing; removal of subsidies
1986	Introduction of goods and services tax (GST) (excluding exports).
1987 - 1996	Period during which most state owned enterprises (SOEs) were sold to private enterprise and of rising unemployment
1987	Small Business Agency is shut down Wall Street share market crash
1989	Establishment of Regional Development Councils (RDC) throughout the country.
1990	Fourth National Government (1990 – 1999) led by Jim Bolger elected continues neoliberal economic reforms First signs that the way business was done in New Zealand had changed. Increase in competitiveness and productivity Regional Development Councils re-branded as Business Development Boards (BDB)
1991	Employment Contracts Act introduced – allowed for individual labour contracts and simplified labour law.
1992	Unemployment peaked at unprecedented level of 10.2 per cent.
1994	First Asia Pacific Economic Cooperation (APEC) Ministerial Meeting on SMEs
1996	Introduction of a new proportional voting system, Mixed Member Proportional (MMP). The New Zealand Budget introduces the term ‘SME’ as a separate entry. Coalition government led by the National Party.
1998- 2006	Strongest growth period, low unemployment, low inflation, high debt, low wages
1998	Disestablishment of Business Development Boards

- Establishment of BIZ centres to aid access of management capability, skills and knowledge
- 1999 National government launches *Bright Future* a policy to encourage R&D and technological innovation.
- Labour Party elected to government – the Fourth Labour Government (1999 – 2008).
- 2001 *Knowledge Wave Conference* – discussions on ways to harness the knowledge economy to benefit economic growth.
- Fund of \$100m allocated to R&D.
- Appointment of Minister for Small Business (outside of Cabinet).
- 2002 New Zealand Trade & Enterprise (NZTE) formed from merger of Industry NZ and Trade NZ.
- Growth and Innovation Framework (GIF) launched
- 2003 Establishment of Small Business Advisory Group (SBAG)
- Establishment of the Small Business Ministerial Group and the Small Business Senior Officials Group
- 2004 Small Business Summit
- Establishment of the Business Capability Partnership
- 2006 Economic Transformation Agenda (ETA) launched
- New Zealand joins Australia Small Business Council
- 2007 Export Year to encourage exporting.
- 2008 Introduction of R&D tax credit.
- 2008 End of the Fifth Labour Government, November

Appendix 2

Low Risk Notification Human Ethics Committee



MASSEY UNIVERSITY

31 January 2011

Tanya Jurado
c/o MFAT
Private Bag 18901
WELLINGTON

Dear Tanya

Re: Thirty Years of SME Policy in New Zealand (1978-2008)

Thank you for your Low Risk Notification which was received on 13 January 2011.

Your project has been recorded on the Low Risk Database which is reported in the Annual Report of the Massey University Human Ethics Committees.

The low risk notification for this project is valid for a maximum of three years.

Please notify me if situations subsequently occur which cause you to reconsider your initial ethical analysis that it is safe to proceed without approval by one of the University's Human Ethics Committees.

Please note that travel undertaken by students must be approved by the supervisor and the relevant Pro Vice-Chancellor and be in accordance with the Policy and Procedures for Course-Related Student Travel Overseas. In addition, the supervisor must advise the University's Insurance Officer.

A reminder to include the following statement on all public documents:

"This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research."

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Professor John O'Neill, Director (Research Ethics), telephone 06 350 5249, e-mail humanethics@massey.ac.nz".

Please note that if a sponsoring organisation, funding authority or a journal in which you wish to publish requires evidence of committee approval (with an approval number), you will have to provide a full application to one of the University's Human Ethics Committees. You should also note that such an approval can only be provided prior to the commencement of the research.

Yours sincerely

John G O'Neill (Professor)
**Chair, Human Ethics Chairs' Committee and
Director (Research Ethics)**

cc Prof Claire Massey
School of Management
PN214

Prof Larry Rose, Pro VC
College of Business
PN252

Massey University Human Ethics Committee
Accredited by the Health Research Council

Appendix 3

Interview Documentation



SCHOOL OF MANAGEMENT
Private Bag 11 222
Palmerston North
New Zealand

Telephone: 64 6 356 9099 x 2777
Facsimile: 64 6 350 5661
<http://management.massey.ac.nz>

THE DEVELOPMENT OF NEW ZEALAND SME POLICY

Doctoral Research by Tanya Jurado
July 2011

CONSENT FORM

I have read the Information Sheet and have had the details of the study explained to me.
My questions have been answered to my satisfaction, and understand that I may ask further questions at any time.

I agree/do not agree to the interview being sound recorded.

I understand have the right to withdraw from the study at any time and to decline to answer any particular questions.

I agree to provide information to the researcher on the understanding that my name will not be used without my permission.

I agree to participate in this study under the conditions set out in the Information Sheet.

Signed:

Name:

Date:



Massey University
COLLEGE OF BUSINESS
Kaupapa Whai Pakihi

SCHOOL OF MANAGEMENT
Private Bag 11 222
Palmerston North
New Zealand

Telephone: 64 6 356 9099 x 2777
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New Zealand SME Policy Development 1978-2008

INFORMATION SHEET

The study is part of the doctoral research of Tanya Jurado, a PhD candidate at Massey University. The aim is to explore the ways in which New Zealand SME policy has developed over the 1978 - 2008 period, and why. A qualitative research method is employed involving the use of semi-structured interviews.

You are being asked to participate in this project because of your involvement in SME policy as an SME stakeholder (e.g. policy maker, researcher, industry association member, etc).

The recruitment method of the project uses purposeful sampling where key informants are identified and these in turn may identify others to be interviewed by the researcher.

Your participation involves a one hour face-to-face interview and each interview will be recorded and transcribed. Transcriptions of the interviews will be sent back to you, along with a Transcript Release Authority (TRA). If you are happy with the transcript you will be asked to sign the TRA and return it to Tanya Jurado. All interviews will be stored by Tanya Jurado and will only be used for the purposes of academic research.

Participant's Rights

You are under no obligation to accept this invitation. If you decide to participate, you have the right to:

- *decline to answer any particular question;*
- *withdraw from the study at any time;*
- *ask any questions about the study at any time during participation;*
- *provide information on the understanding that your name will not be used unless you give permission to the researcher;*
- *be given access to a summary of the project findings when it is concluded.*
- *ask for the recorder to be turned off at any time during the interview.*

“This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University’s Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Professor John O’Neill, Director, Research Ethics, telephone 06 350 5249, email humanethics@massey.ac.nz”.

Project Contacts

If you have any concerns please contact Tanya Jurado, t.r.jurado@massey.ac.nz, or the primary supervisor Professor Claire Massey on c.l.massey@massey.ac.nz, ph +6448015799 ext. 2800.



Questionnaire for Civil Servants

SME POLICY DEVELOPMENT 1978-2008

Tanya Jurado

t.r.jurado@massey.ac.nz

Massey University

Background

1. When did your involvement with SME policy begin?
2. Why / How did you become involved?
3. What agency or agencies did you work with?
4. When did your involvement with SME policy stop?
5. You may have come across others who were particularly influential in terms of SME policy. Who else did you work with during the time you were involved in SME policy related policy development?

Policy-related questions for civil servants directly involved in policymaking

This section explores the policies that you were involved in.

6. Please outline the main government policies (related to SMEs) that you were involved in developing, drafting and/or implementing?
7. What was your role in the development of these policies? Why / How did you become involved?
8. Could you explain the aims and objectives of these policies? Do you recall why there was a need for these policies?
9. How successful/effective did you think these policies were during the time of your involvement?
10. In relation to the policy/policies you were involved in, what were the key government agencies involved in its development?

11. In relation to the policy/policies you were involved in, were there any other pressure groups (e.g. industry associations) or personalities (e.g. ministers) involved in its development?
12. If there were pressure groups and/or personalities involved in the development of SME policy, what do you think was their motivation?

Influences on SME policy

This section explores influences on SME policy at the time.

1. With regard to the major policy initiatives you were directly engaged with, or had an interest in, can you recall any influence or pressures being exerted on the government? (From business stakeholders, global economy, academic influences, international trends in policymaking, etc.)
2. To what extent, and how, do you think that external factors (such as the global economy and global economic policy trends) to New Zealand helped shape SME policy approaches?
3. In relation to the policy/policies you were involved in, were there any other pressure groups (e.g. industry associations) or personalities (e.g. ministers) involved in its development?
4. If there were pressure groups and/or personalities involved in the development of SME policy, what do you think was their motivation?
5. In your view, what was the MAIN influence on the development of SME policy during the time of your involvement? (e.g. academia, interest groups etc).
6. In your view, how influential was the international experience on the New Zealand SME policy development process?
7. How influential were SME stakeholders? (industry associations, regional chambers of commerce, community organizations)
8. Over the period you were involved, were there changes to the approach towards SME policy? If so what were they?
9. In your view, what were the factors that drove the change in approach? (OECD work, academic, chambers of commerce, industry associations, changes in government/minister).
10. What was the key influence upon you as a policy maker?

Historical Overview

11. Looking back, how would you characterize the changes in SME policy from the time of your initial involvement to today?
12. Is there any other comment you would like to make?



Massey University

COLLEGE OF BUSINESS

Kaupapa Whai Pakihi

Questionnaire for Non-Civil Servants

SME POLICY DEVELOPMENT 1978-2008

Tanya Jurado t.r.jurado@massey.ac.nz

Massey University

Background

13. When did your interest with SME policy begin?
14. Why / How did you become involved?
15. What agency or agencies did you work with?
16. You may have come across others who were particularly influential in terms of SME policy. Who else did you work with during the time you were involved in SME policy related policy development?

Policy-related questions for non-policymakers

These questions aim to explore SME policies in place at the time.

13. Please outline the main policies (related to SMEs) that you were involved/had an interest in?
14. What caused you to be interested in the development and implementation of these policies?
15. Could you explain the aims and objectives of this policy/policies?
16. Do you recall why there was a need for these policy/policies?
17. How successful did you think these policies were during the time of your involvement?
18. In relation to the policy/policies you were involved/interested in, what were the key government agencies involved in its development?

Influences on SME policy

19. In relation to the policy/policies you were involved/interested in, were there any other pressure groups (e.g. industry associations) involved in its development?
20. In relation to the policy/policies you were involved/interested in, was there a key person who was driving the policy implementation (for example a minister, prime minister or civil servant)?
21. With regard to the major policy initiatives you were directly engaged with, or had an interest in, can you recall any influence or pressures being exerted on the government? (From business stakeholders, global economy, academic influences, international trends in policymaking, etc.)
22. To what extent, and how, do you think that external factors (such as the global economy and global economic policy trends) to New Zealand helped shape SME policy approaches?
23. In your view, what was the MAIN influence on the development of SME policy during the time of your involvement? (e.g. academia, interest groups etc).
24. In your view, how influential was the international experience on the New Zealand SME policy development process?
25. How influential were SME stakeholders? (industry associations, regional chambers of commerce, community organizations)
26. Over the period you were involved, were there changes to the approach towards SME policy? If so what were they?
27. In your view, what were the factors that drove the change in approach? (OECD work, academic, chambers of commerce, industry associations, changes in government/minister)

Historical Overview

28. Looking back, how would you characterize the changes in SME policy from the time of your initial involvement to today?
29. Is there any other comment you would like to make?

Appendix 4

Principal SME Policy Developments Since 2008

- 2008 *Small Business Relief Package* to help SMEs navigate the Global Financial Crisis.
- Legislation introduced allowing employers to terminate employment easily within a 90 day period.
- Elimination of the R & D tax credit.
- 2009 Tax credit insurance guarantee for exporters to help exporters maintain cashflows.
- Tax assistance measures to aid SMEs to manage their cash flows and meet their tax obligations.
- Job Support Scheme extended to those employing 50 or more employees. Under this scheme the Government allows enterprises, workers and unions to negotiate a reduction in hours.
- 2010 *Economic Growth Agenda* announced. It focused on science, innovation and trade, a leaner public service, infrastructure development, education, and tax reform. Incentives for innovation were complemented with access to capital, and the provision of support for efforts to internationalise. The high-value manufacturing and services industries were targeted. In particular, the high-value food sector and the tourism industry.
- Technology Development Grant programme aimed at high-technology export businesses.
- Voucher system introduced for business assistance and phasing out of funding third-party training providers.
- Regional Business Partners Network launched by NZTE and the Ministry of Science and Innovation, to provide business support via a voucher system that targeted businesses with export and growth potential.

- 2010-2011 A series of earthquakes devastated New Zealand's third largest city. Measures to help SMEs included: creation of an Earthquake Support Subsidy; support for a Canterbury Business Trust Fund; provision of a Market Connection Fund; and support for Business Mentors New Zealand.
- 2012 Establishment of the 'super Ministry', the Ministry of Business Innovation and Employment. This brought together the Ministry of Economic Development, the Department of Labour, the Ministry of Science and Innovation, and the Department of Building and Housing.
- Rebranding of the Small Business Advisory Group into Small Business Development Group
- Powering Innovation launched: Funding for high-value manufacturing targetting engineering and electronic sector SMEs to develop capability via audits, technology, design and modern plant investment and skills training.
- 2013 Business Growth Agenda framework for business growth. It identifies six key inputs that are necessary to boost business growth. These are: building capital markets, innovation, safe and skilled workplaces, resources, infrastructure and export markets.
- Callaghan Innovation launched, an advanced technology institute to support science and technology-based innovation in the manufacturing and services industries.
- 2014 SME Research Hub launched, a central online repository of research and policy on SMEs
- 2015 Business Transformation launched, a programme to ease tax compliance and simplify Goods and Services Tax compliance burden through a partnership between the Inland Revenue Department and private accounting software providers.