

## Evaluation of NZTE Output Class 1: Summary Report

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### Overview

- 1 This evaluation assesses the performance of programmes within NZTE Output Class 1: Standardised Training and Advisory Services, and how the suite of programmes performs as an output class. Output Class 1 supports the provision of information to SMEs<sup>1</sup> on a range of business development needs through services provided by third parties.
- 2 Although most programmes in Output Class 1: Standardised Training and Advisory Services had previously been evaluated individually, this evaluation has focused on effectiveness and efficiency of the output class as a whole and whether there are synergies that could enhance programmes within the output class.

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<sup>1</sup> Small and Medium-Sized Enterprises, SMEs, are defined as enterprises with 19 or fewer employees. The Ministry of Economic Development publishes an annual report "SMEs in New Zealand: Structure and Dynamics 2008".

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- 3 The underlying rationales of programmes funded by Output Class 1 are mostly based on information issues and high transaction costs. We have sought to establish whether the rationales are still as valid today as they were a few years ago when the programmes were implemented or whether the market environment has changed. Some programmes had an (implicit) expectation of establishing a market in order to attract the private sector. This evaluation has paid particular attention to whether such crowding-in of the private sector has taken place or is likely to take place in future.
- 4 We have found concerns with efficiency and effectiveness of the biz and Escalator brokerage services. Questions regarding biz Service efficiencies, raised in the 2006 evaluation, have still not been addressed. NZTE and providers have otherwise generally implemented our recommendations from previous programme-specific evaluations.
- 5 ETP training, the largest service in the output class, Incubator, Escalator training, mentoring and other smaller services are generally being efficiently and effectively delivered by NZTE and programme providers.
- 6 We have found only limited linkages between programmes in Output Class 1. Moreover, the market environment and SME's knowledge of training services has improved, also due to the services provided under Output Class 1.
- 7 These issues and changes in the market environment impact on the objectives and delivery mechanisms of the services. For example, improvements in the environment for business mean that SMEs should now be in a better position to exercise more choice themselves.
- 8 Changes proposed in this evaluation would lead to a fundamental change in the way services are delivered. At the core of our recommendations for a restructured Output Class 1 lies a voucher scheme covering most of the output class. Vouchers should lead to more competition on the supply side (amongst training providers) and SMEs would be given greater choice of training providers and subsidised courses.

## Background

- 9 Output Class 1 is divided into two sub-output classes. Programmes are listed below and (providers) identified.

Sub-Output Class 1.1: Development of providers of training and information

- **biz Service:** 0800 service and national network of walk-in biz centres, a basic information and referral service (Biz Networks Limited)
- **Enterprise Training Programme (ETP):** range of free SME training courses (15 providers nationally)
- **Exporter Education:** part-subsidised training on exporting (experts or organisations contracted for specific training courses)

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- **Pacific people pre-business training:** training and information for Pacific people who are considering starting a business (Pacific Business Trust)
- **Business Assessment Tool:** an electronically-based tool enabling assessment of NZ firms' capabilities and benchmarking (Business Capability Society)
- **Mentoring:** free business mentoring to SMEs (Business Mentors New Zealand), accreditation of professional NZ-based business consultants (Institute of Accredited Business Consultants)
- **Incubator support:** manages the incubator programme, networking activities, and spreads good practice amongst incubators, while incubator awards, financial subsidies to incubators, are not part of this output class. (NZTE incubator support unit)

### Sub-Output Class 1.2: Development of capital information and training

- **Escalator – Info services:** web site, helpdesk, some salary costs (EDANZ and Deloitte joint venture)
- **Investment Ready Training (IRT):** early stage workshops for businesses considering how to finance growth (ETP providers)
- **Escalator training:** advanced investment ready training courses (mostly delivered by Escalator manager)
- **Escalator brokering:** a process leading to capital raising for SMEs (approximately 20 brokers nationally)

10 Government funding for Output Class 1 is \$16.2 m in 2008/09. This figure has remained more or less constant since 2004/05. The Enterprise Training Programme receives by far the largest share of about \$8.5m. (See Figure 1.)

### Intervention rationale

- 11 The rationales upon which Output Class 1 programmes rest are mainly to do with “information failures”. When these programmes were implemented there was a view that SMEs had imperfect knowledge about the benefits of training. And even if they had an understanding of those benefits, SMEs often did not know whom to contact or how to value the quality of the training. Thus the demand for, and commercial supply of, training and information services to SMEs was suboptimal. A third aspect was that some of the services had public good characteristics, making their provision unattractive to the private sector. Fourth, it was felt that some transaction costs were too high.
- 12 Publicly subsidised services should help overcome the information issues so that over time, as demand increases, more private sector provision of the service is triggered, allowing government to scale back its involvement. Services with public good characteristics or high transaction costs that remain unaffected

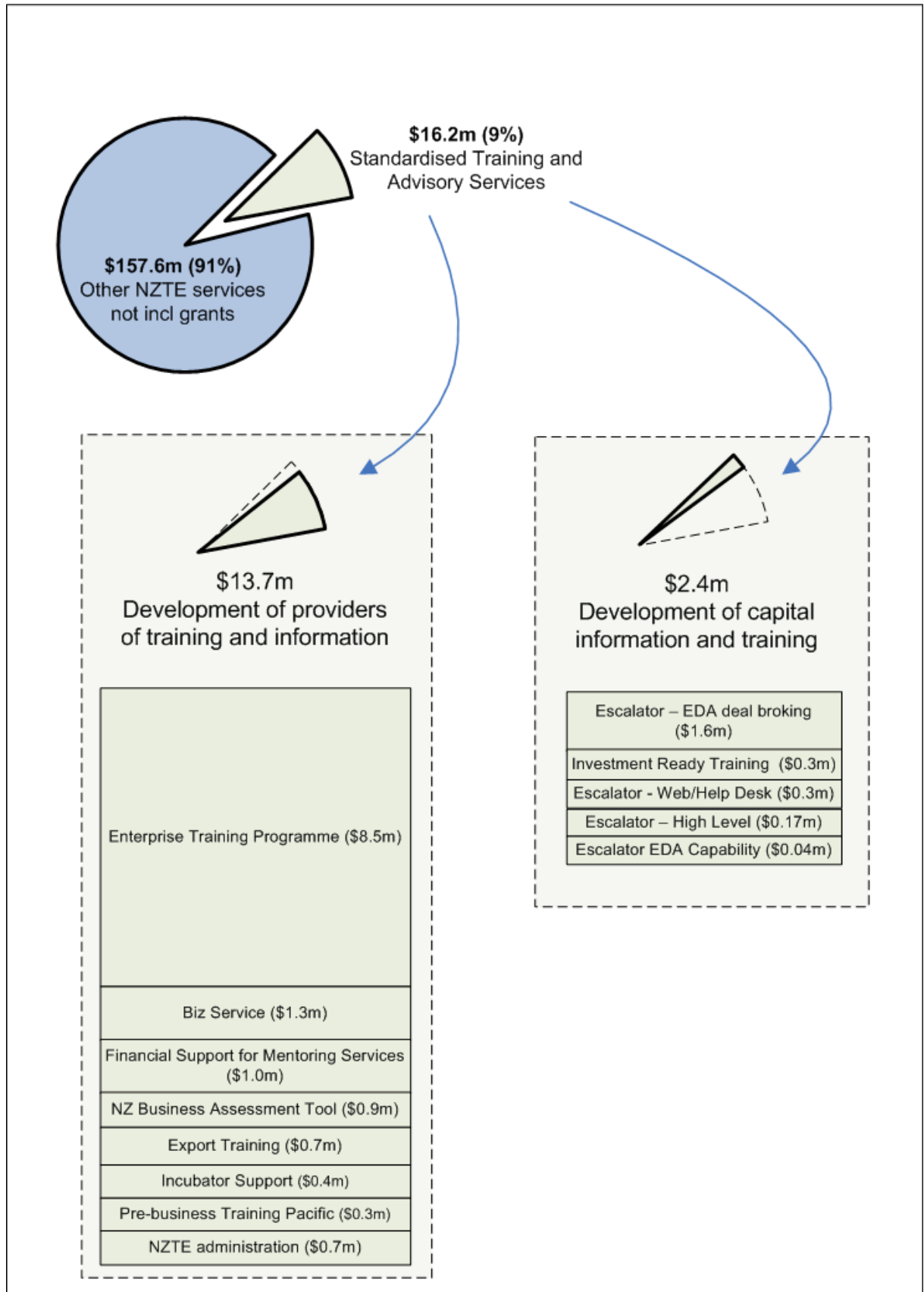
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by an increase in demand, e.g. the biz Service, are different and long-term government support may be required.

- 13 As with all interventions, government involvement is meant to be proportionate to the problem. In practice this often means that the more severe the problem, the more interventionist government support might be warranted. Subsidising the supply side of SME training through ETP does not allow SMEs directly to exercise choice. But as they develop a better understanding of business training, the proportionality of the intervention needs to be reassessed and, if necessary, policy redesigned to take account of the progress that has been achieved. This applies to all policy interventions and indeed is one of the main purposes of an evaluation.

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**FIGURE 1: BREAKDOWN OF NZTE'S 2008/09 OPERATING BUDGET FOR STANDARDISED TRAINING AND ADVISORY SERVICES. (\$ VALUES ARE GST EXCLUSIVE AND ROUNDED.)**



## Evaluation objectives

- 14 It is the first time that an evaluation of a whole output class has been carried out, although a number of programmes within Output Class 1 have been evaluated before. Where possible we have used previous evaluations as the starting point for this evaluation.
- 15 The focus of this evaluation has been on: 1) the nature and extent of the developmental issue addressed and alignment of the output class objectives with those issues; 2) whether the output class objectives and objectives of constituent programmes have been achieved; 3) output class effectiveness; and 4) programme delivery efficiency.

## Information sources

- 16 We conducted extensive interviews with a range of service providers from both the private as well as public sectors, researchers and other stakeholders. We talked to service providers of all programmes and surveyed all biz centres. We drew on client surveys and qualitative and quantitative monitoring information collected by NZTE and service providers. Moreover, we drew on relevant literature from New Zealand and abroad.

## Conclusions and Findings

### *Enterprise Training Programme, ETP*

- 17 ETP has three components, a capability assessment, workshops or seminars, and follow-up training. Courses cover a range of topics for example: Business planning, Finance, Marketing, Exporting, Lean manufacturing. Over the last five years the proportion of the ETP budget spent on 'hi-impact' training has increased from 4% to 18%. Hi-impact training involves participation in more than 1, often six or more, workshops e.g. Lean manufacturing<sup>2</sup>, some exporting courses, or the Canterbury Development Corporation Hi-Tech Launch Programme.
- 18 ETP is delivered nationally through fifteen regionally-contracted providers. These contracted providers subcontract others and services have, at times, been provided in remote communities e.g. Chatham Islands, Katikati, Kaikoura, West Coast. ETP courses are held in all NZ regional centres (towns and/or cities larger than 20,000). While there has been limited on-line delivery of ETP services there is scope to expand in this area.
- 19 Client satisfaction with ETP courses remains high. (Client satisfaction with a service is not necessarily a measure of service results.) The one-on-one follow-up sessions are particularly highly rated. There appears to be increasing demand for one-on-one or bespoke training and support. But across the range of delivered training programmes, it is less clear what concrete improvements in firm performance ETP has produced that would not have happened without it.

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<sup>2</sup> Lean manufacturing, promoted by Toyota, improves the flow or smoothness of work, assisting in the identification and steady elimination of waste.

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- 20 Basic comparisons of firm level performance on a limited data set indicate that there may be a positive association between ETP attendance and employment and productivity gains for some companies. However, these findings are not statistically robust, meaning that we cannot conclude that ETP has a positive impact. Due to gaps in data collection a more thorough econometric analysis that might determine whether ETP leads to firm level performance improvements is not possible at this stage.
- 21 NZTE undertakes implementation surveys in the two months following participation in ETP workshops. These surveys show impressive results:
- A high level of implementation of specific actions identified following training has been reported. 71% of responding participants also benefited from improved confidence or motivation, and 64% benefited from better understanding of the strengths and weaknesses of their business. Networking with other businesses was a benefit for 40% of responding ETP participants.
  - Two months after participating in an ETP workshop, 32% of survey respondents had undertaken other training, and 45% intended to do so. Of the other training undertaken half was free and half was paid for. Clients preferred one-on-one training (business coaches, mentors, or professional business advisory services).

### ***Intervention Rationale***

- 22 We undertook thirty-seven interviews with training providers with approximately half being either ETP or other Output Class 1 providers. Most training providers think:
- SMEs can access the training they require either from public or private providers. (However, there are still challenges in some rural areas.)
  - The greatest barriers to training are: lack of time; inability to be away from business; lack of money; and lack of awareness of what's available.
  - Some government subsidisation of training courses for SMEs is desirable.
- 23 Combining training-provider interviews with feedback, from researchers and other stakeholders, suggests that SMEs now have a better understanding of the benefits of training and how to access it. But SMEs may find it challenging to form an accurate opinion on the quality of a training course, and paying for courses remains an issue.
- 24 The Statistics New Zealand Business Operations Survey 2008 shows that while 78% of businesses with 6-19 employees<sup>3</sup> train their staff, at least 95% of businesses with >50 employees train their staff. It is not clear whether this is due to: an information gap; opportunity costs that make investing in training less

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<sup>3</sup> The BOS only includes firms with ≥6RME.

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attractive to SMEs than their bigger counterparts; or the short horizon for life of SMEs.

- 25 Crowding-in of the private sector has not taken place and it is unlikely under current arrangements.
- 26 Training providers were specifically asked, 'Do NZTE services compete with or complement your services?' While not all answered the question, and some replies could not be coded, the following results were obtained:

**Table 1: Do NZTE services compete with or complement your services?**

	Compete	Complement
Chamber of Commerce	1	2
Industry/member association	2	1
Not-for-profit (inc.council/EDA)	2	6
Polytechnic or Uni	2	3
Private trainers & consultants	4	5
<b>Total</b>	<b>11</b>	<b>17</b>

- 27 Several non-ETP providers have reported that they see this market niche as occupied by ETP and that they could not possibly compete with free training courses. Others specifically stated they had chosen their market niche so as to complement NZTE services.
- 28 Thus, feedback from key stakeholders suggests that ETP has achieved progress in terms of training more SMEs and spreading knowledge about the benefits and availability of training courses. While this should put SMEs in a better position to exercise choice, the current design of the intervention, fully subsidising specified providers, is unlikely to offer SMEs this opportunity.

### ***Exporter Education***

- 29 As there have been no previous evaluations of Exporter Education, and the redeveloped programme is still being established, there is no evidence with which to assess its efficiency and effectiveness.
- 30 A new Exporter Education programme is being started. It would be desirable to clarify and confirm the objectives and rationale for this programme in relation to the Government's priorities. Ideally, the programme should have been reviewed and shortcomings documented prior to implementing significant changes.
- 31 In Table 2 participation in Exporter Education is shown. The numbers for 2004-05 to 2007-08 are for Exporter Education as delivered by WHK Gosling Chapman. The numbers for 2008-09 are for the 'new model' Exporter Education and are only complete to 16/6/2009.



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**Table 2: Participants and cost of Exporter Education by year.**

	2004-05	2005-06	2006-07	2007-08	2008-09
No of companies	418	589	693	513	474
No of individuals	487	728	818	610	593
Cost	\$553,773	\$546,244	\$516,567	\$542,139	\$364,682

- 32 Of the 474 companies in 2008-09 approximately 430 were involved in the ETP exporter training component of Exporter Education. A company can send more than 1 participant to a course hence the larger number of individuals involved.
- 33 Basic comparisons indicate that firms doing Exporter Education in 2006 were, on average, larger, more productive and with higher sales than the average non-exporting firm.
- 34 Partial payment of non-ETP Exporter Education courses by participants takes account of their more advanced nature. In the new model a move from a single provider to NZTE contracting expert presenters and organisations will hopefully also stimulate more private-sector providers to enter this market. However, there seems to be a degree of reluctance amongst firms to participate in exporter training.

### ***Pacific people pre-business training***

- 35 This course offers effective engagement with the Pacific community on issues to do with starting a business. Its objectives remain in part social and in part economic. The economic recession and rising unemployment mean that more Pacific people are considering starting their own business. The course provides those people with advice and information about requirements, often also serving as a good reality check. Integration into general training provision could have a negative impact on engagement with the community.

### ***Business Assessment Tool***

- 36 The Business Capability Assessment Tool, currently used in the ETP capability assessments for business owners, can provide a nationally consistent basis for the appraisal of New Zealand firms' capabilities and enables firms to benchmark their performance against that of their peers. NZTE contracts the Business Capability Society<sup>4</sup> to administer and further develop this Tool. Core functionalities should be achieved in 6-12 months.

### ***biz Service***

- 37 The biz Service provides a referral service to New Zealand businesses. Enquiries can be made by calling an 0800 number, email or walk-in. biz centres are divided into three tiers, depending on the type and number of enquiries they handle. Tier 1 consists of the four big centres – Christchurch, Dunedin,

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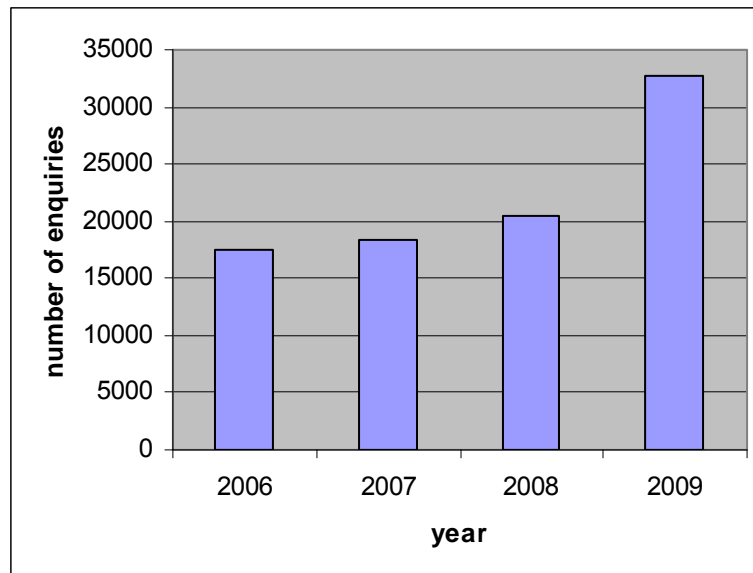
<sup>4</sup> The Business Capability Society includes Business New Zealand (who provides a chair for the Society), EDANZ (whose CE is secretary of the Society), Institute of Chartered Accountants, New Zealand Institute of Management, and New Zealand Chambers of Commerce.

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Wellington and Auckland – which handle the telephone service. Walk-in enquiries can be made at all centres, but it is expected that tier 2 centres have to deal with higher volume demand than tier 3 centres. The level of funding is related to the tier, with tier 1 centres receiving more funding than tier 2 which get more than tier 3. However, all centres within a tier receive an equal amount of funding. We were not able to obtain more detailed funding figures from the provider, e.g. per biz centre.

- 38 Overall enquiry numbers have been going up for a number of years, but especially last year. Between July '08 and June '09 enquiry numbers increased by 59% to 32,754. This strong increase was influenced by the economic recession and the introduction of the Government's Business Assistance for Small Business, which included a Business Health Check, operated by the biz Service. However, efficiency concerns already raised in 2006 around many tier 2 and 3 centres have not been resolved.

**Figure 2: biz Service enquiries per year 2006-2009.**



- 39 Recommendations made by the previous evaluation on further staff training and marketing activity have been followed up, especially since the arrival of the new general manager in July 2008. We are also aware of the good advice and extra support beyond simple referrals that biz centre staff often offer. However, there remain huge differences in efficiency between centres. Overall enquiry numbers at many tier 2 and 3 centres have remained rather low, barring a few notable exceptions such as Waikato. Twelve of the 29 centres had less than two clients per day in Q4/2008. (See Figure 3.)
- 40 Not surprisingly, the four big centres handling the telephone enquiries are far more efficient than their smaller counterparts. But even within tiers 2 and 3 there are huge differences in enquiry numbers and how long it takes to deal with an enquiry. While some tier 2 and 3 centres take as long as one hour per enquiry, others only take 12–15 minutes. Enquiries at Tier 1 centres take between five and ten minutes. (See Figure 4.)

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Figure 3: Jobs logged per biz centre for quarter 4, 2008.

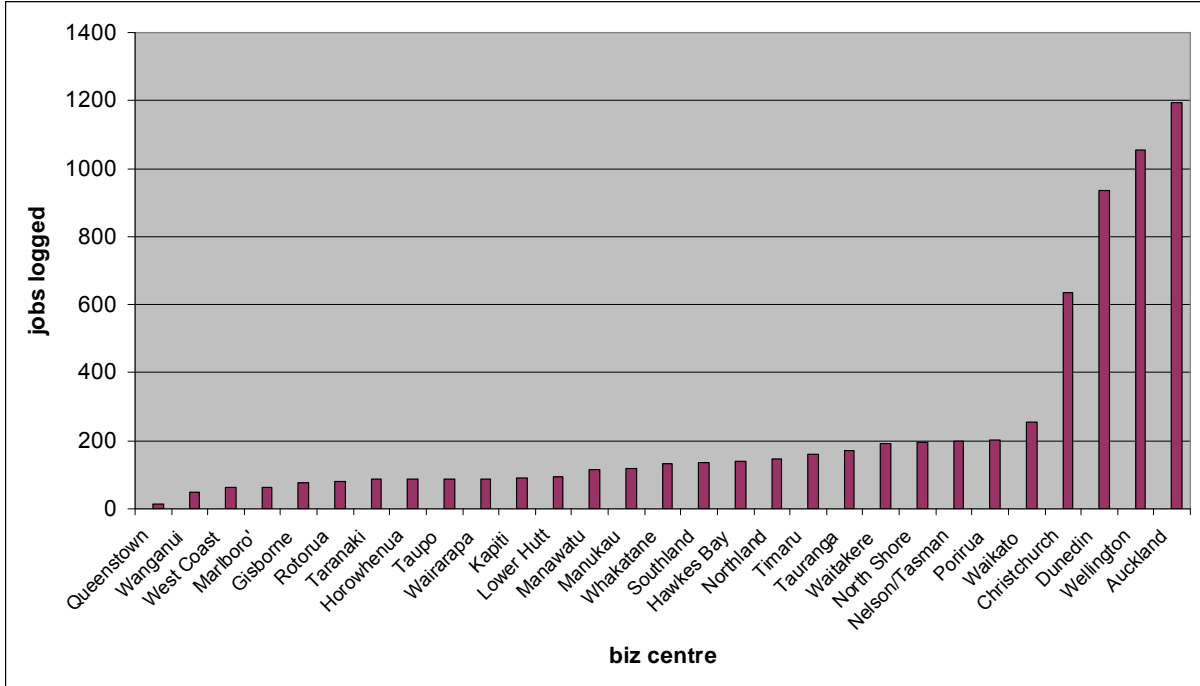
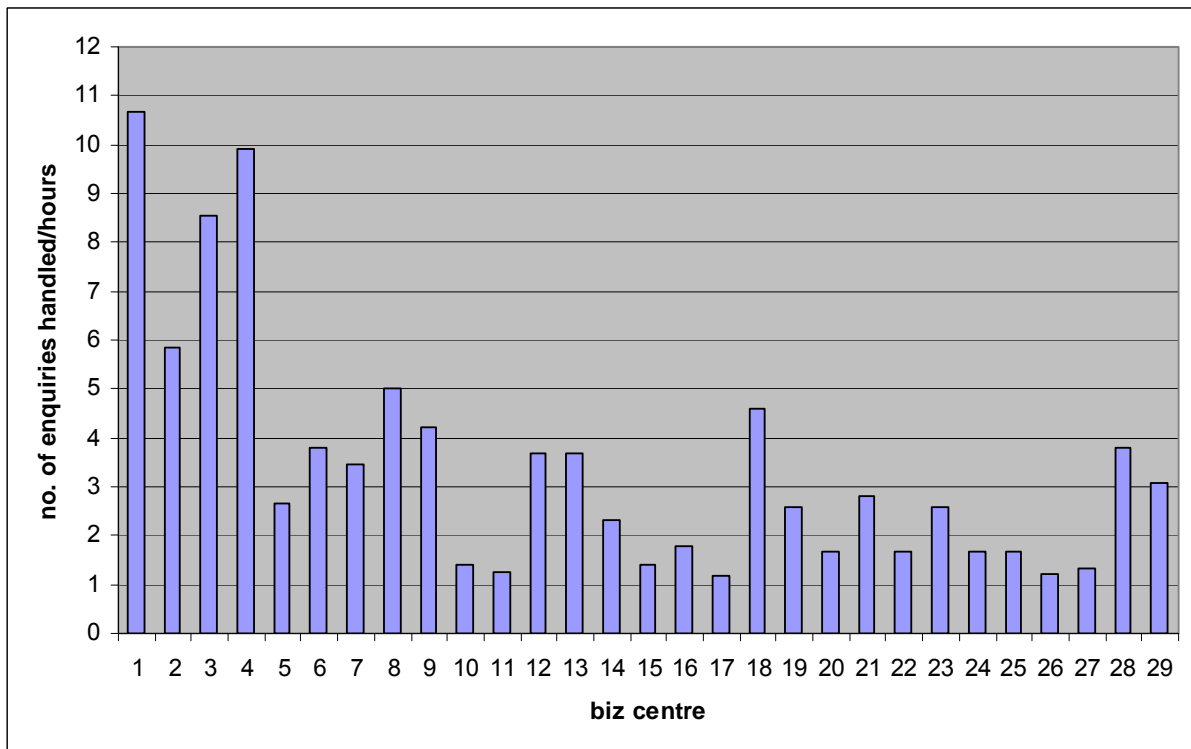


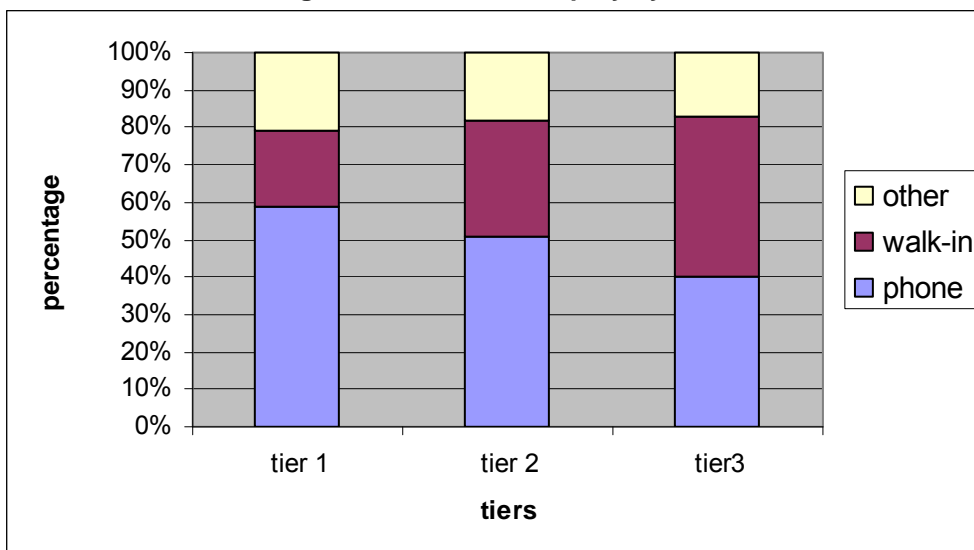
Figure 4: Number of enquiries handled per hour per biz centre.



41 The overall number of enquiries at most tier 2 and 3 centres is low and there appears little real demand for drop-in centres. It is interesting to note that on average not even half of the number of enquiries at those centres are by walk-in. The notion that walk-in centres are required because businesses in rural areas prefer a face-to-face service, i.e. that they are less comfortable with modern technology, is not supported by the evidence available to us. (See Figure 5.)

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Figure 5: Method of enquiry by tier.



- 42 The average cost per enquiry, across all centres, of \$41 in 2008/09 appears high for a referral service<sup>5</sup>. This high-cost figure is driven by a low volume of enquiries at many drop-in centres.
- 43 In conclusion, although previous recommendations for raising enquiry numbers at tier 2 and 3 centres have been followed up, barring a few exceptions, no real improvement has materialised. The previous efficiency concerns have not been resolved. There is now a need for a more fundamental change to the delivery of the service in order to improve efficiency while maintaining at least the same quality of service.

### ***Mentoring services (BMNZ and IABC)***

- 44 The \$850,000 annual support government gives to BMNZ contributes to the administrative costs of providing mentoring services to c. 3,000 clients per year<sup>6</sup>. In other words, government spends \$280 per client receiving mentoring support. Although it is difficult to make comparisons with other mentoring schemes due to differences in the design and scope of such programmes across other policy areas and countries, the part funding of BMNZ activities appears to be an efficient way of providing mentoring services to such a large number of firms.
- 45 After a period of declining demand for BMNZ mentoring services, there are current indications that demand is going up again. The recession and the recent Business Assistance Package for Small Business, including the Business Health Check, which offers a waiver of the \$100 registration fee, are possibly the main drivers for this. Circa 70 percent of BMNZ funding comes from private patrons. There is some anecdotal evidence of the recession potentially affecting this source of funding for BMNZ.

<sup>5</sup> Total programme cost/number of enquiries. Not included in this calculation are the extra funds the biz service has received for handling the Business Health Check. In 2007/08 the average cost per enquiry was \$ 65.

<sup>6</sup> BMNZ mentors volunteer their time. Travel costs are reimbursed but they do not receive any payment for their time or services.

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- 46 The IABC is still in the process of establishing itself. It needs wider market recognition to achieve its goals of accrediting professional business consultants and thus providing a signalling function to users. We would expect IABC accreditation to be seen as the industry benchmark in the next three to five years. This will enable it to be in a position to signal to SMEs that its accredited consultants abide by a code of practice and guarantee a level of quality. The IABC should then be able to fund more of its activities from membership and accreditation fees and be on a recognisable path to self-sufficiency. The IABC management agrees that this is a feasible timeline.

### ***Incubator support***

- 47 The main findings made by the last evaluation in 2008 have been followed up. Overall awards are to be increased and there is now multi-year funding, instead of the previous annual awards.
- 48 No change in the delivery of incubator support is recommended. However we note that incubator funding and incubator support are in different output classes. Combining these in a single incubator programme could offer some benefits including simplifying the budget.
- 49 The separation between incubator funding and incubator support is because the former are awards, whereas the programmes in Output Class 1 are funded by grants. However, providers of other Output Class 1 services have to bid for their contracts too, e.g. ETP providers. The actual difference between ETP contracts and incubator awards may seem arbitrary to an outside stakeholder and the move to multi-year funding makes the awards look even more similar to contracts.

### ***The Escalator programme***

- 50 The training component of the Escalator programme is highly valued by clients and seems to be well-aligned with the more basic ETP course 'Investment Ready Training'. Escalator training accounts for less than one-tenth of the total Escalator cost of \$2.1m per year.
- 51 Views on the brokering service are more mixed. Good brokers were said to be versed in matching clients with the right potential investor. Various sources suggest that there are concerns about the usefulness and quality of advice and involvement of about a third of the approximately 20 brokers. There have been declines in the number of applicants to the programme and in the amount of capital raised. (See Figure 6.) While the former may be partly explained by more stringent admission criteria, the proportion of firms entering the brokering programme that manage successfully to raise capital has also declined. (See Figure 7.)

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Figure 6: Number of Escalator applications per year.

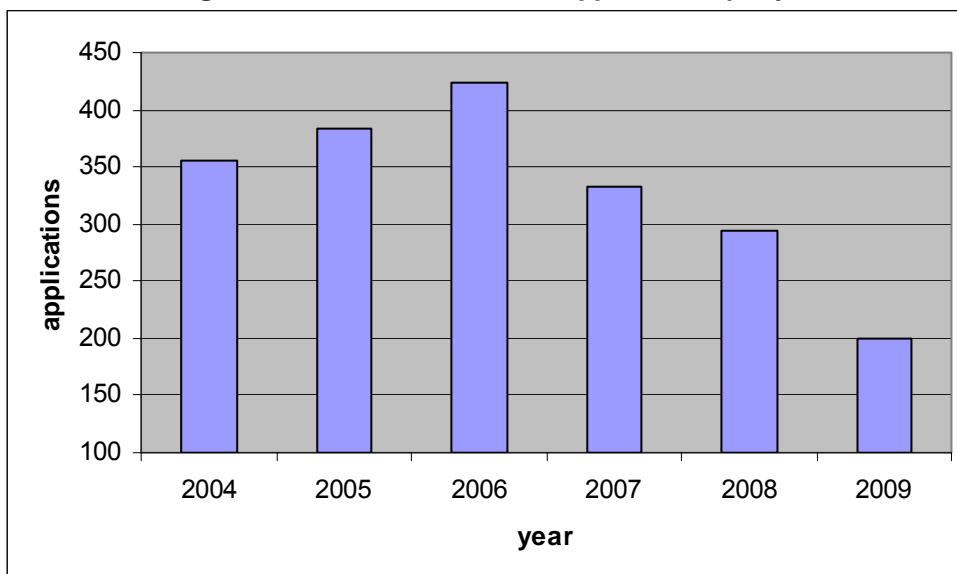
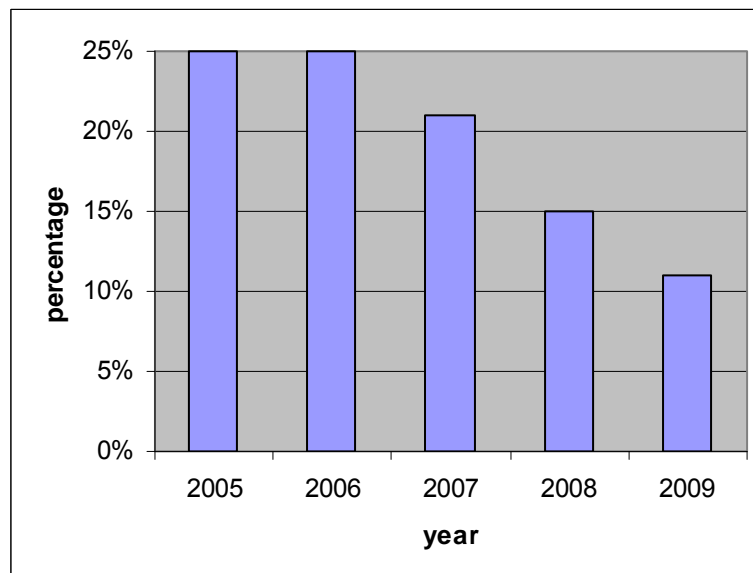


Figure 7: Percentage of programme entrants that raise capital (lagged by one year)



52 Escalator has failed to achieve its capital raising target in all but one year since its inception. The target of \$15 m in its first year did not take into account lead times of 12 – 18 months for raising capital. The increase in the target to \$25 m in 2004–05 was probably too ambitious. When the target was reduced to \$20 m it was exceeded in 2005–06. Since then there has been a marked decline in the annual amount of capital raised, so that Escalator has again not achieved its target in capital raising. Based on preliminary data for the period July '08 to June '09, it appears that the amount of equity that was raised almost halved compared with the previous year to \$7.3 m, while the number of deals fell to 15. Five of the 15 deals completed last year raised only around \$100,000 or less, sometimes as little as \$30,000. We are aware, however, that these companies are in the market for more capital and that they might raise additional funds through further tranches. We also acknowledge that last year's figures are

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affected by the recession and that there are a number of deals in the pipeline which may lead to an increase in the amount of capital raised. The capital raising ratio has dropped from 11.1 in 2005–06 to 3.4 last year.

- 53 Despite the decline, the number of deals reached through Escalator are ahead of global trends for angel investor networks. However the decline does seem to reflect a lowering of demand for these types of services.

**Table 3: Capital raised and deal completed through Escalator, 2003-04 to 2008-09.**

Year	Capital raised	No of deals completed (based on number of companies assisted)	Capital raised target
2003-04	\$ 0	0	\$ 15 m
2004-05	\$ 18.8 m	27	\$ 25 m
2005-06	\$ 23.4 m	36	\$ 20 m
2006-07	\$ 11.4 m	36	\$ 20 m
2007-08	\$ 14.5 m	27	\$ 20 m
2008-09 (YTD)	\$ 7.3 m	15	\$ 20 m

- 54 The service has achieved its goal of providing more business advisers with the skills to act as equity brokers. The programme has benefited a number of firms with access to capital, but it is not clear whether that support has led to additional capital being raised. Links between brokers and angel investor groups seem to have improved, too. Indeed, the development of groups of angel investors should have reduced the transaction costs of raising capital, which form part of the rationale for government support of an equity brokering service. It would appear that the relationship between brokers and angel investors is such that there are limited opportunities to reduce transaction costs in this way. Angel Investors do not hold all Escalator brokers in high regard.
- 55 The evidence shows a decline in the amount of equity raised through Escalator and a drop in the proportion of programme entrants who raise capital. Angel investors and Escalator clients have expressed concerns regarding the quality of some, approximately one third, of the Escalator brokers.

### ***Across the output class***

- 56 The overall policy objectives of the output class have not changed since it was established in 2007. The services in Output Class 1 were grouped together to 'enable delivery of information on the impact of groups of programmes, and appropriations, toward a single outcome ...'. Output Class 1 aims to deliver the policy outcome of:

*'Improving the environment for enterprise and growth'*

And the objective of:

*'Business development providers support the capability development of firms to achieve growth and internationalisation.'*

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- 57 In order to achieve these high level objectives, Output Class 1 services aim to overcome or mitigate the information and market failures explained above. A further objective for most programmes in this output class is over time to stimulate the private sector to provide the service without the need for government support, i.e. crowding-in.
- 58 To date only a few real linkages have been established between programmes in Output Class 1. Any envisaged efficiency gains by exploiting synergies between the programmes have not yet materialised. Referral rates between programmes are surprisingly low, as is knowledge of and referral to some services by other stakeholders.
- 59 Improvements to efficiency have been mostly incremental. There have been operational decisions, largely aimed at increasing effectiveness. These operational decisions by NZTE have reshaped the direction of the output class, or some of its programmes. It is timely for government to revisit the policy priorities and to set future direction to ensure that they are fit for purpose.
- 60 Revisited priorities may benefit from greater clarity as regards timelines and expectations. For example, where crowding-in or self-sufficiency of providers is an objective, timelines should be set and these should be clearly communicated and reflected in programme performance monitoring.
- 61 There is also a need for guidance as to when operational changes have policy implications, and the supporting evidence and analysis needed before such changes are implemented. Likewise, monitoring arrangements that already exist for most of the programmes between NZTE and the respective providers could be used for deepening the ongoing dialogue between MED and NZTE.
- 62 Revisited priorities should also reflect progress that has already been achieved and changes in the market environment. Where programmes have already, or to some extent, alleviated the market failure, or information asymmetries are less severe than they were at the time of implementing the programmes, a less interventionist approach may now be preferred.

## **Recommendations**

### ***Enterprise Training Programme***

- 63 SMEs have overcome some of the information issues that previously may have affected their take-up of training courses, this has implications for the underlying rationale and proportionality of ETP. It suggests that the current level of intervention, fully subsidised courses provided by specified trainers, should be reduced and that SMEs could be empowered to exercise more choice themselves. Secondly, having an enhanced understanding of the benefits and availability of training also means that there is less need for taxpayers to subsidise private benefits that are directly enjoyed by SMEs. In addition, hesitation by the private sector to enter the ETP niche of the market is somewhat disconcerting as it prevents more competition on the supply side.



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- 64 We recommend a voucher scheme, which would empower SMEs to exercise greater choice and introduce more competition on the supply side. It would also take account of a frequently cited obstacle to SME training, namely money. There are examples from around the world where voucher schemes are in operation. For example, many EU countries operate innovation voucher schemes and some countries have voucher schemes for SME and entrepreneurship training and advisory services.
- 65 A voucher scheme consists of more than simply sending SMEs vouchers. Safeguards against abuse of the system need to be in place, which will involve some administration. There may be a need for some form of certification of providers in order to ensure that training providers offer a service that is of sufficient quality and to prevent inappropriate use of the vouchers. The capability assessment of ETP is currently seen as a crucial ingredient as SMEs do not always 'know what is good for them' in the sense that they might not choose the most relevant training courses. It might be sensible to include such a component in a voucher scheme. We would expect NZTE to be in a position to make use of their expertise and networks to certify providers and to contract capability assessment centres.
- 66 These administrative requirements will come at a cost. Exploiting existing expertise and synergies with other programmes could reduce those costs. The costs of a voucher scheme will depend on the face value of the vouchers, the services to be covered and the number of firms eligible for a voucher. A proper cost-benefit analysis comparing a number of alternative options for a voucher scheme, e.g. criteria and administrative requirements, should be carried out in collaboration between MED and NZTE. We would estimate that such an exercise be completed in less than three months and definitely before Christmas.
- 67 Thus, it is recommended to:
- Change the structure and funding of ETP and replace it with a voucher-based scheme as of July 2010.
  - Develop a cost-benefit analysis of a voucher scheme that investigates alternative options regarding scope, value of vouchers, certification and eligibility criteria. MED and NZTE should collaborate on this cost-benefit analysis.
  - Develop ongoing monitoring indicators to track SME take up, private sector provision (i.e. level of competition and quality of courses) and feedback from clients
  - Evaluate the new scheme two to three years after implementation. This evaluation should have a special emphasis on the capability assessment component of the scheme.

### ***Exporter Education***

68 Recommendation:

- General exporter education should be part of the voucher training scheme
  - Targets and specific objectives should be agreed by government: and
  - Demand for exporter education should be closely monitored

### ***Pacific people pre-business training***

69 Recommendation:

No change

### ***Business Assessment Tool***

70 It is recommended that this tool is evaluated in 6–12 months time when core functionalities should have been achieved. It is crucial that NZTE continue to contract with the Business Capability Society so that it is given time to carry out its leadership role to establish it across the country.

### ***biz Service***

71 It is unlikely that enquiry numbers at smaller biz centres will increase, given that the previous evaluation in 2006 already expressed similar concerns. A number of options exist for improving efficiency of service delivery whilst maintaining the standard of the service.

72 In general, it is recommended to:

- Substantially reduce the number of walk-in biz centres and reallocate the freed up resources this would produce to more effective areas.

The Review of Business Assistance proposed to:

- Explore ways of merging the biz Service with TechNZ regional Partners. A final report investigating the feasibility of such a merger should be prepared by NZTE and the Foundation for Research Science and Technology in collaboration with MED and Ministry of Research Science and Technology by 11 December 2009.

73 This would certainly reduce the number of biz centres. Depending on the design and outcome of the cost-benefit analysis of a voucher scheme, other possibilities might exist that are worth exploring alongside the TechNZ/biz option. For example, the retention of capability assessment might lead to regional centres administering parts of the voucher scheme. Those centres could quite feasibly display biz stands with information, while the 0800 number and the email service are retained.

## **In confidence**

74 Therefore, other recommendations that should also be investigated are to:

- Reduce the number of centres to the four main centres which would provide an email and telephone service, while biz info stands are displayed at focal centres in each of the regions; and
- Install biz stands at the capability assessment centres, or regional locations, and to merge the biz Service telephone hotline and email service with those operated by MED Business Services Branch.

75 We would anticipate that in the second half of 2010 the biz Service would be delivered in line with one of these recommendations.

### ***Mentoring support***

77 The following recommendations are made:

- To monitor the adequacy of BMNZ funding in light of the recession;
- That a cost-benefit analysis of establishing a voucher based training and advisory services scheme looks at the impact it would have on BMNZ;
- To assess in a future piece of work the impact mentoring services are having in New Zealand; and
- To monitor the impact of IABC on the market and its move towards self-funding.
  - To clearly restate expectations regarding self-funding and to gradually reduce funding to zero over a three year period, starting in 2012.

### ***Incubator support***

77 Recommendation:

MED and NZTE to monitor follow up to the 2008 evaluation recommendations requiring the incubator support team to:

- Reconsider the definition of high growth companies as applied to incubated companies
- Enhance the transparency of incubator awards
- Review and enhance the system of tracking company exits from incubators; and
- Socialise the outcomes of incubator projects more widely; and
- Combine incubator awards and incubator support in one output class.

Incubator support should be evaluated again in 2014/15.

### ***Escalator programme***

78 It is recommended:

- To continue with the investment ready training component by integrating it into a revamped business training programme
- To phase out the subsidy for the brokering activity over the next three-years. This could mean no change to the current contract, with the phase out beginning in July 2010. That would also coincide with the voucher-based ETP successor programme, which should include the Escalator investment ready training component. The brokering part of the Escalator, and probably Escalator in its current form would be closed by July 2012.
  - During this period and for a period of two years after the subsidy has stopped NZTE should monitor the impact that wind-down has on firms seeking finance and commercial brokering activity. This could be done by tracking firms that participate in advanced investment ready training courses and by regular surveys of angel investors, known Escalator brokers and other players, e.g., accounting and consultancy firms.
  - This monitoring activity should not just report on developments but also attempt some analysis of why things are developing the way they are.

### ***Output Class 1 structure***

79 Implementation of programmes within the output class should be simplified, where possible, and reflect policy objectives and priorities, and not retain historical boundaries.

80 It is recommended that

- a. Objectives and policy priorities of Output Class 1 better reflect market developments
- b. We recommend a target policy outcome of:
  - sustained rates of New Zealand small business productivity growth comparable to the best in the OECD

With a supporting objective:

- to address market failures constraining small businesses growth by facilitating access to effective training, mentoring, and information services.

c. We recommend that:

- NZTE use existing performance information to facilitate monitoring disclosure

81 Under the current plan, this output class would be evaluated again in five years' time, in 2014. Changes proposed should have been implemented and well embedded by then.