

**Report prepared for an Asia Pacific Economic Co-operation (APEC)
project on improving the resilience of SMEs.**

Improving the resilience of SMEs: policy and practice in New Zealand

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Acronyms:

RMA – Resource Management Act

SBAG – Small Business Advisory Group

MBIE – Ministry of Business Innovation and Employment

MCDEM – Ministry of Civil Defence and Emergency Management

CDEM – Civil Defence and Emergency Management

BSP – Better Public Services Program

ESS – Earthquake Support Subsidy

CERA – Canterbury Earthquake Recovery Authority

CCDU – Christchurch Central Development Unit

CBRT – Canterbury Business Recovery Trust

1. Introduction

There are many things that organisations of any size can do to prepare for a disaster or crisis. Traditionally, the advice given to business has focused on identifying risks, reducing their likely occurrence, and planning in advance how to respond. More recently, there is growing interest in the broader concept of organisational resilience which includes planning for crisis but also considers traits that lead to organisational adaptability and ability to thrive despite adverse circumstances.

In this paper we examine the policy frameworks¹ within New Zealand that influence the resilience of small and medium sized businesses (SMEs). The first part of the paper focuses on the New Zealand context, including the prevailing political and economic ideologies, the general nature of New Zealand SMEs and the nature of New Zealand's hazard environment. The paper then goes on to outline the key policy frameworks in place relevant to SMEs and hazards. The final part of the paper examines the way the pre-existing policy environment influenced the response of SMEs and Government following the Canterbury earthquakes.

Whilst this report's focus is on the SME sector, it is clear from both the disaster research tradition and responses from public sector and businesses interviewed in this research that consideration must be given to their interdependencies. SMEs are reliant on many things, particularly critical infrastructure such as power, water, telecommunications and transport links. Additional interdependencies relate to suppliers, staff and customers. The preparedness of SMEs cannot be viewed in isolation as any significant failure in other sectors is likely to have an impact on their performance.

¹ Policy initiatives can include one or more of three approaches; persuasion via methods such as communication campaigns, coercion by providing rewards or incentives (or by enabling private institutions to do so) or commands via rules or regulations (Victoria University School of Government, 2010).

2. Context

The environment in which SMEs operate is affected by both micro level enterprise policy and macro level – the rules of the game (Greene & Storey, 2009). This section will outline the key macro level policies that influence both the overall hazards policy arena and the specific responses to the Canterbury earthquakes.

2.1. Government and Economy

New Zealand has a small economy largely free of any trade restrictions. Primary industries are extremely important with commodities accounting for just 8% of GDP but over 50% of export earnings. Manufacturing accounts for 12% of GDP and services 71% (The Treasury, 2012b).

Key Statistics (March/June 2012)	
Population	4,430,400
Unemployment rate	6.8%
GDP per capita	45,769
Average weekly earnings	\$1,013.09

Figure 1 - New Zealand Key Statistics

Source: (Statistics New Zealand, 2012c)

Since 1984, New Zealand has transformed itself from a highly protectionist economy with extensive regulation, tariffs and protection into one of the least regulated economies within the Organization for Economic Cooperation and Development OECD (The Treasury, 2012b). Changes in the 1980's resulted in enormous public sector reform. The Government of the day commenced a comprehensive review of the role of the state resulting in privatization or corporatization of many state assets and deregulation of all sectors. The focus then, and now, became ensuring that "the state was to deliver policy and goods and services only where market failure demonstrably existed" (United Nations Economic and Social Commission for Asia and the Pacific, 2012). New Zealand also has a strong social welfare tradition with \$25.3 billion spent in the last financial year in social security and welfare payments. This is 31% of core Government expenditure (The Treasury, 2012a). Also of relevance to New Zealand's policy framework is the stable nature of governance and institutions, high levels of satisfaction with public service and its' ranking as the least corrupt

public sector in the 182 countries considered by Transparency International (State Services Commission, 2011; Transparency International, 2012). New Zealand ranks 1st out of 183 countries for ease of starting a business and 3rd for the ease of doing business (World Bank, 2011).

The overall approach to regulation is summed up in the Government Statement on Regulation issued on 17 August 2009; key excerpts of this are shown as Figure 2.

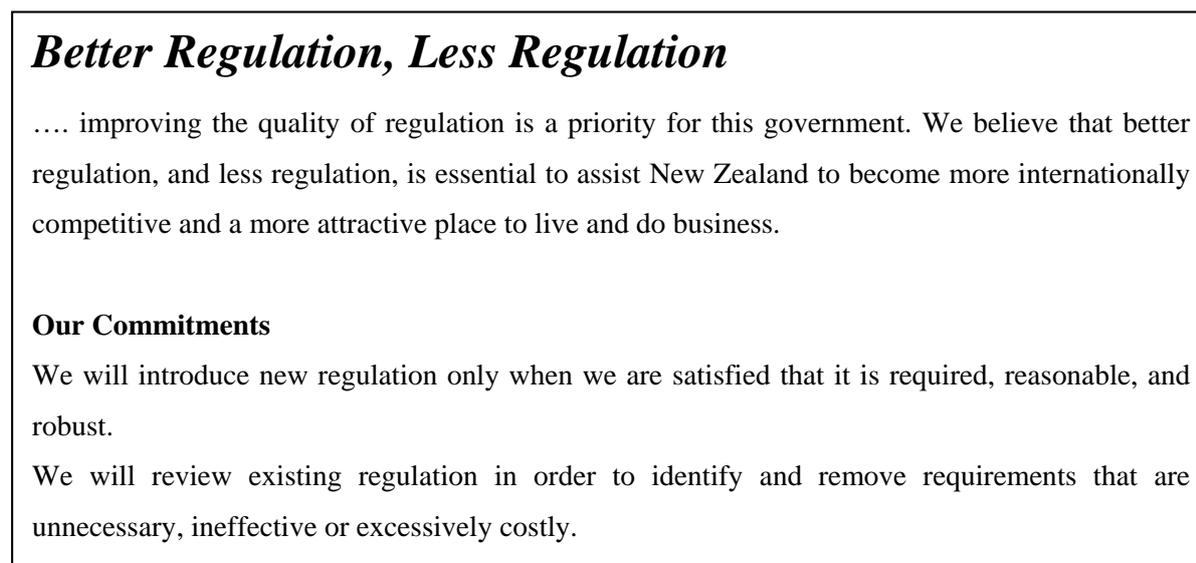


Figure 2 - Government Statement on Regulation

Source: (The Treasury, 2011)

In practical terms this philosophy often means that the first question to be asked in relation to any business issue is whether it is the role of the Government to get involved.

In addition to this push for better regulation, the current Government has also implemented a program of 'Better Public Services (BPS)' aimed at ensuring that the New Zealand public sector,- which accounts for almost a quarter of the economy, is innovative, efficient and delivery focused rather than departmentally oriented (Birchfield, 2012; State Services Commission, 2012).

2.2. Decision Making Structures

Responsibility for reduction, readiness, response and recovery are shared by both national and local Government. The structure of these bodies is outlined in Figure 3.

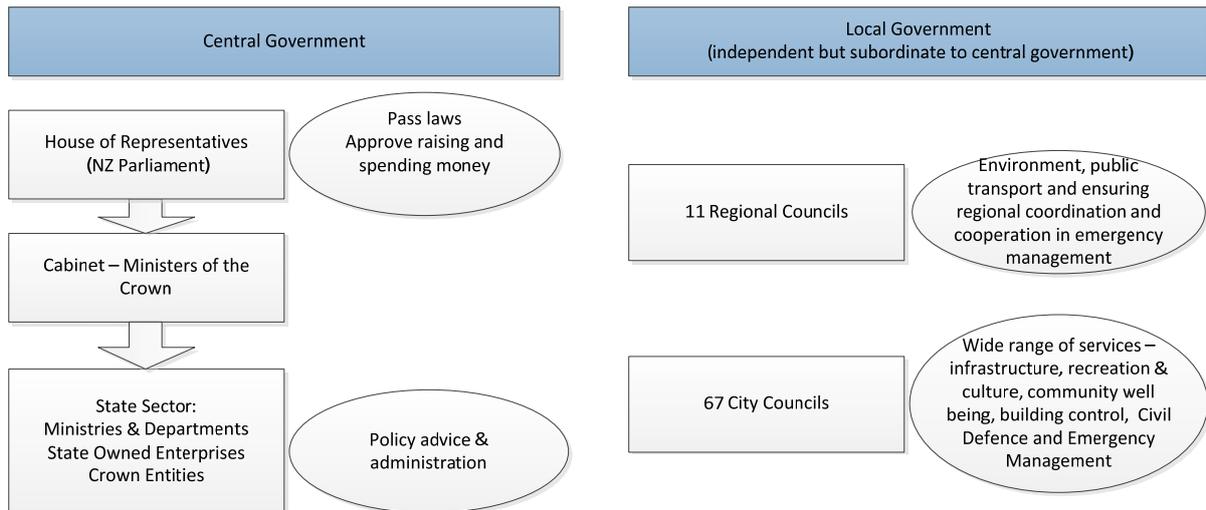


Figure 3 - National and Local Government overview

Sources: (Ministry for Culture and Heritage, 2012; Ministry of Civil Defence and Emergency Management, 2002; United Nations Economic and Social Commission for Asia and the Pacific, 2012)

The high level body responsible for emergency management is the Cabinet Committee for Domestic and External Security Coordination (DES). This committee is chaired by the Prime Minister and includes the ministers responsible for departments that play essential roles in readiness and response. This committee receives strategic policy advice from the Officials Committee for Domestic and External Security Co-ordination. Members of this committee are the chief executives of relevant ministries (Officials' Committee for Domestic and External Security Coordination, 2007).

2.3. Hazards

New Zealand SMEs are exposed to a wide range of natural hazards, both geological and weather related (United Nations Office for the Coordination of Humanitarian Affairs, 2007). In addition to the geological and weather related hazards outlined in the hazard map in Appendix one, animal and plant pests and diseases also pose significant risk to the agriculture sector as New Zealand's geographic isolation has meant that its indigenous flora and fauna have been protected. The impact of a significant pest or disease entering the country can be catastrophic for the affected sector, particularly if it results in the closure of export markets (Officials' Committee for Domestic and External Security Coordination, 2007).

2.4. Canterbury Earthquakes

On 4 September 2010, a MM 7.1 earthquake occurred 40k west of the Christchurch Central Business District (CBD) at 4.35 a.m. This event caused significant damage to property; however there was no loss of life. At that time, rebuild and repair costs from the earthquake were estimated at \$5 billion (MYOB, 2011). Unfortunately, this event was the forerunner of the more devastating MM 6.3 shake, 13km south east of the CBD at 12:51 p.m. on 22 February 2011 which caused 185 deaths and extensive damage to the central business district as well as many residential areas. The combined effect of these two major earthquakes, along with a further 2 aftershocks above magnitude 6, has resulted in over 1000 commercial buildings being demolished and 7057 residential dwellings being placed in a red zone where buildings are to be demolished as land remediation has been deemed uneconomic (Canterbury Earthquake Recovery Authority, 2012a). Residential losses are estimated at over NZD 12 billion, commercial at NZ 10-12 billion and infrastructure repairs to roads, bridges, fresh, waste and storm water systems at NZD 2 - 5billion (Brownlee, 2012; Muir-Woods, 2012; Stronger Christchurch Infrastructure Rebuild Team (SCIRT), 2012).

2.5. SMEs in New Zealand

The small size of New Zealand means that definitions of SME may be quite different from those of larger economies. Government bodies and official statistics most commonly define SMEs as those having fewer than 20 full time equivalent employees (Ministry of Economic Development, 2011). Generalised characteristics of these firms are that they have limited access to resources, personalised management styles and little formal structure (Battisti, Lee, & Cameron, 2009). As of February 2011, there are 456,929 enterprises falling into this categorisation comprising 97.2% of all significant economic enterprises in New Zealand (Statistics New Zealand, 2012a). SMEs employ 30% of New Zealand's working population and contribute an estimated 40% of the economy's total value added output (Ministry of Economic Development, 2011; Statistics New Zealand, 2012a). New Zealand has the highest number of businesses per head of population in the OECD (Ministry of Economic Development, 2011).

SMEs tend to have operated for a much shorter period of time than larger enterprises, with the majority being less than six years old (Ministry of Economic Development, 2011). More than 50% of these enterprises are family or owner-operated businesses (Ministry for Economic Development, 2012). SMEs are the majority organisational size in all sectors of

the economy (Figure 4). There is enormous variation in knowledge, skills and capabilities within the SME sector.

Sector	SME % of total enterprises in sector	SME % of total employment in sector
Rental, hiring, & real estate services	99.8	59.8
Financial & insurance services	99.4	14.9
Agriculture, forestry, & fishing	98.9	62.9
Construction	98.4	52.2
Other services	98.3	66.2
Professional, scientific, & technical services	98.1	42.3
Information media & telecommunications	97.1	12.7
Arts & recreation services	96.9	34.1
Administrative & support services	96.1	19.7
Transport, postal, & warehousing	96.1	20.9
Retail trade	95.6	30.2
Wholesale trade	94.8	35.8
Health care & social assistance	93.3	16.4
Accommodation & food services	93.2	47.8
Mining	93.2	18.4
Electricity, gas, water, & waste services	92.5	10.7
Manufacturing	91.3	23.3
Public administration & safety	81.6	1.9
Education & training	76.5	15.9

Figure 4 - SMEs by sector

Source: (Statistics New Zealand, 2012a)

3. Policy

New Zealand has very few policies specifically aimed at SMEs in any context. This section will firstly discuss the overall policy framework for hazards and resilience before then outlining the structure and actions of the Government ministry directly responsible for considering SME policy. Figure 5 outlines the framework for prevention, response and recovery from disaster - illustrating that disaster preparedness is considered to be the responsibility of all of Government. Within this framework there are three key statutes (and accompanying rules and plans) which are described here.

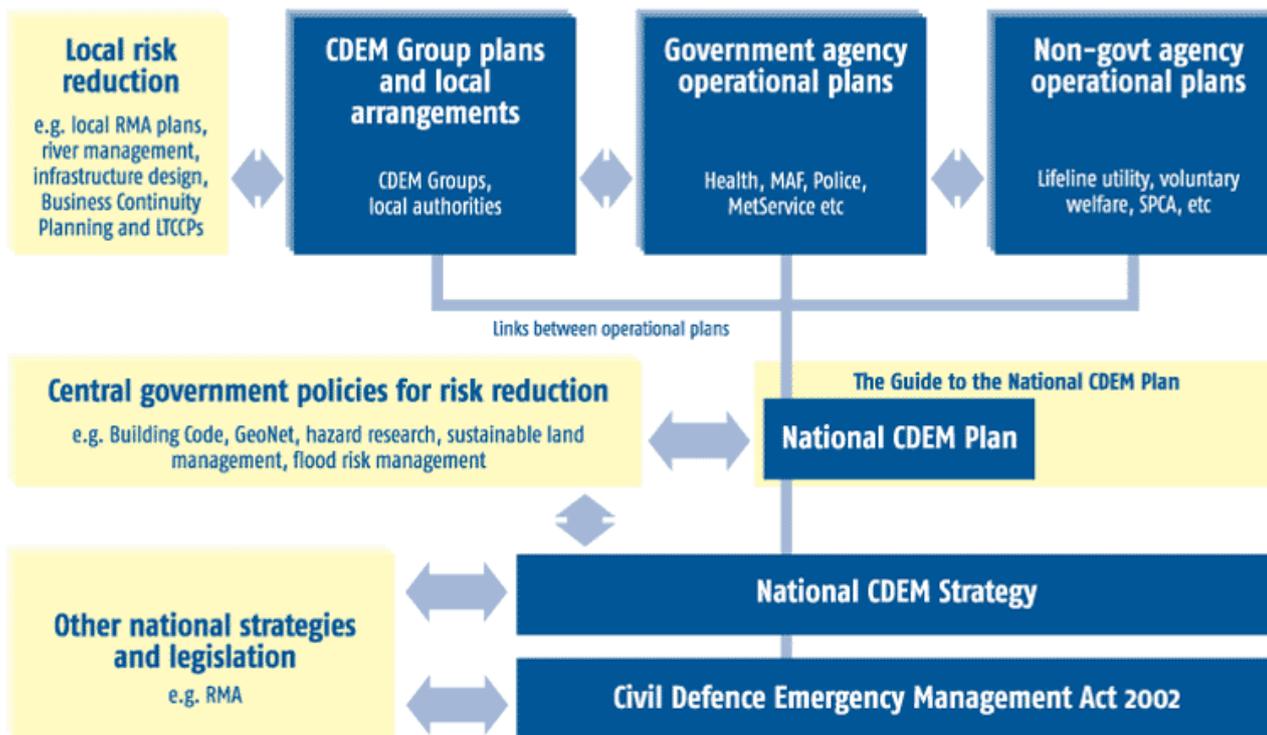


Figure 5 - New Zealand Civil Defence and Emergency Management (CDEM) Framework

Source: (Department of Internal Affairs, 2008)

3.1. Civil Defence Emergency Management Act 2002

This act sets out the roles of the civil defence emergency management organisations along with central and local Government departments, lifeline utility providers and emergency services with regard to reduction, readiness, response and recovery (4Rs) as detailed in Figure 6.

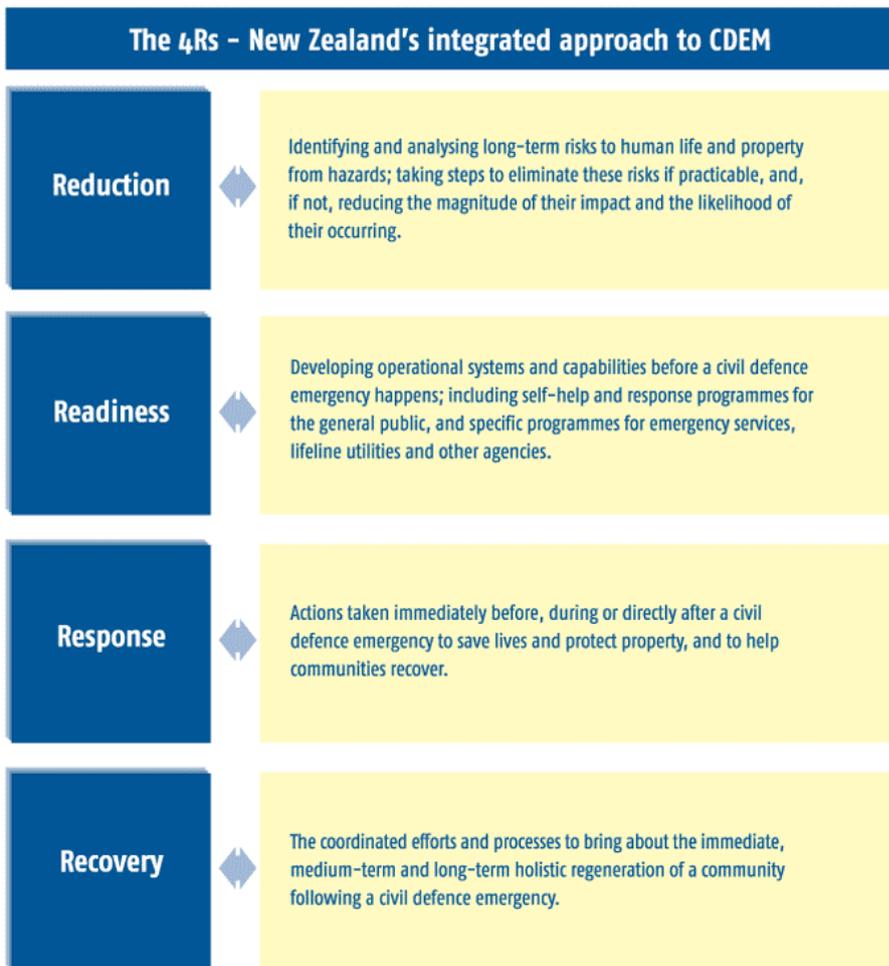


Figure 6 - Integrated Approach to Emergency Management

Source: (Department of Internal Affairs, 2008)

The Ministry of Civil Defence and Emergency Management (MCDEM) is a small agency which operates as a business unit within the Department of Internal Affairs. Its responsibilities are to provide policy advice, ensure that structures are established that are capable of managing and responding to disasters, support and ensure coordination of local Government in their actual delivery of the four Rs and to manage central Government response and recovery for events that are beyond the capabilities of local Government (Ministry of Civil Defence and Emergency Management, 2012).

MCDEM have a strong focus on public education. The primary focus of awareness campaigns is the reduction of harm through strategies such as restraining heavy objects and preparedness for self-sufficiency for a worst case of 3 days following an event. The National CDEM strategy (see Figure 7) makes specific reference to business having a key role in overall resilience as well as stating a goal of improving business preparedness.

Recent campaigns such as 'Shake Out'; a national earthquake preparedness exercise have aimed at increasing both business and individual preparedness.

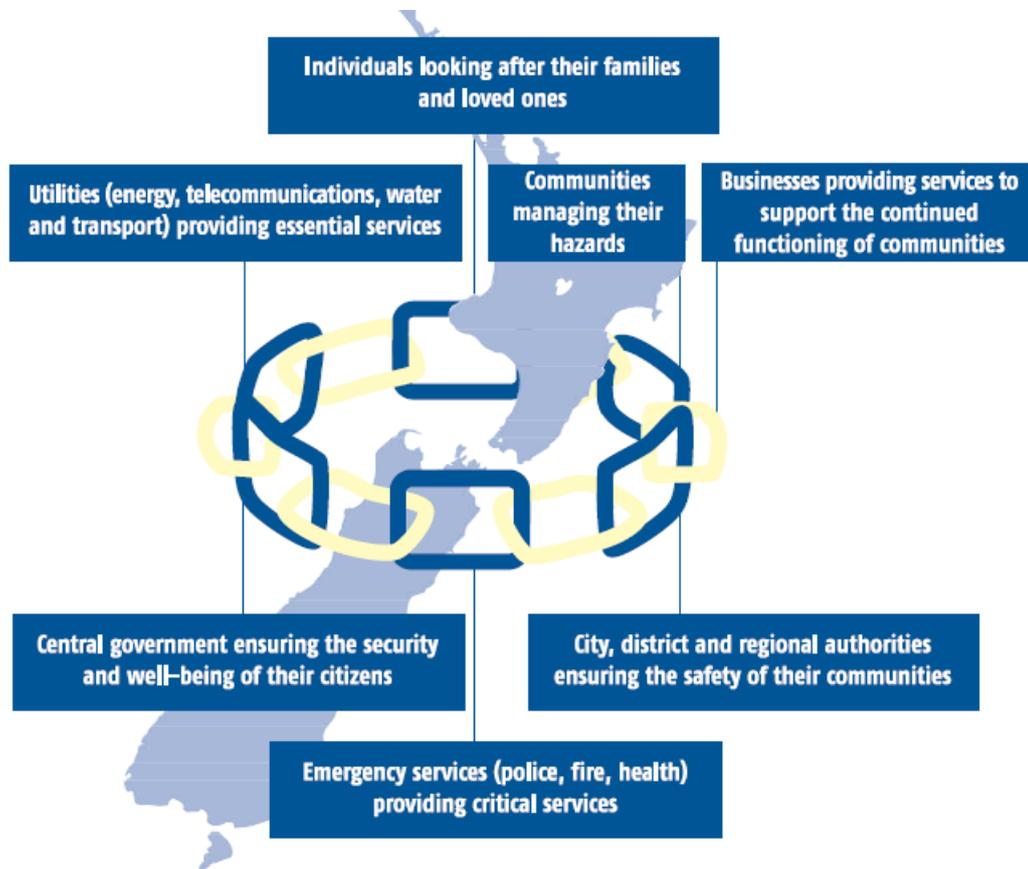


Figure 7 - Components of a Resilient New Zealand

Source: (Department of Internal Affairs, 2008)

Following the philosophy of local solutions for local problems, implementation of local risk and emergency management is the responsibility of 16 regional CDEM groups who are effectively geographically clustered local and regional councils (see Figure 8 for an example). They are responsible for the implementation of the CDEM Act and related plans as well as the administration and compliance with other relevant legislation, specifically in the resilience context, the Resource Management Act and the Building Act. This devolvement of responsibilities to local authorities allows for considerable community involvement in the consideration of decisions on the level of investment they are willing to make in reduction and readiness.

The regional CDEM controller or the local mayor may declare a state of an emergency for all or part of its specific area and is then responsible for any required response. For an event

as significant as the Canterbury earthquakes, a national state of emergency may be declared by the Minister of Civil Defence resulting in central government control of the emergency phase (Ministry of Civil Defence and Emergency Management, 2002).



Figure 8 - Canterbury CDEM Group

Source: (Canterbury Civil Defence Emergency Management Group, 2012)

One of the first lines of contact for businesses seeking advice in relation to hazard preparedness is potentially the local government CDEM team; however a capability assessment of the CDEM local government sector by MCDEM identified a lack of capability

in the area of business continuity management. The traditional focus of emergency managers has been on building response capability. There are some initiatives underway to seek to provide resources for business – see for example a new website produced by Auckland CDEM staff² and a guide produced specifically for SMEs by the Resilient Organisations research programme in New Zealand³.

The Earthquake Commission (EQC) who provide a nationwide system of residential only earthquake insurance cover also have a significant role in facilitating both research and education regarding reduction and prevention of damage from natural disasters (Earthquake Commission, 2012).

3.2. Resource Management Act 1991 (RMA)

The Resource Management Act (RMA) 1991 replaced more than 50 existing laws relating to environmental protection and town planning (Ministry for the Environment, 2012b). The RMA mandates that any activity effecting the environment requires a consent which is granted by the regional or local council depending upon the type of activity. The Act requires regional authorities to develop specific rules and standards for their area, within the general guidelines set down within the Act and related policy statements – see Figure 9.

² www.resilientbusiness.co.nz

³

http://www.resorgs.org.nz/images/stories/pdfs/OrganisationalResilience/sme_resilience_brochure.pdf



Figure 9 - Resource Management Act 1991 Overview

Source: (Ministry for the Environment, 2012a)

However, despite its extensive length and complexity, the consents process driven by the RMA currently gives insufficient weight to the consideration of natural hazard risks. An advisory group commissioned by the Government to review the Act has recommended that the “management of natural hazards and urban infrastructure” should be added into the list of considerations for councils granting consents (Small, 2012b). This recommendation stems from the realisation that consents for residential subdivisions were granted in Christchurch with little apparent consideration of the potential (and now proven) liquefaction risks (Small, 2012a). If this change proceeds, it may result in improved risk reduction with an expectation that consents would be declined for buildings or activities in areas of increased hazard. Whilst the Act does currently allow local Government to do this, the proposed changes would give natural hazard issues an increased emphasis (Saunders & Beban, 2012).

3.3. Building Act 2004

This Act is concerned with ensuring the safety and integrity of built structures with specific criteria set out in the Building Code including considerations relating to the land (Officials’

Committee for Domestic and External Security Coordination, 2007). The code is performance-based, setting out standards buildings must perform to, rather than specifying how they must be constructed. Plans must be submitted to local councils and consents issued before construction commences with inspections taking place both during and at the completion of construction. Recognising the tremendous advances in knowledge with regard to the earthquake resistance of structures, the Act has a specific section dealing with the risks posed by older buildings. Structures are classed as 'Earthquake Prone' with this determination made by comparing the assessed performance of the building in question with that expected of a new building (Ministry of Business Innovation and Employment, 2012). The Earthquake Prone Buildings section of the Act requires local authorities to develop a policy in consultation with their communities regarding these buildings which is to take into account the social and economic impacts of any recommended remedial actions. In practice, this meant that commercial building owners were allowed considerable time to consider strengthening their buildings – a significant factor in the resulting casualties and damage in the Christchurch central business district. This section of the Act is currently under review. Whilst this review is still underway, one of the reported impacts of the Canterbury earthquakes is that owners of earthquake prone buildings in Wellington are unable to attract tenants and face enormous insurance premiums as global reinsurers reassess New Zealand risks.

In anticipation of potentially heightened requirements or shortened timeframes for requiring the strengthening of existing buildings, property owners are already lobbying for Government financial support claiming that it is simply uneconomic and that strengthening is a public good (Harris, 2012).

3.4. Ministry of Business, Innovation and Employment (MBIE)

The Ministry of Business, Innovation and Employment (MBIE), formed in 2012, incorporates the former Ministry of Economic Development, the prime agency responsible for SME and general business issues, together with the Ministry of Science and Innovation, Department of Labour and Department of Building and Housing. Its creation is in line with the Better Public Services program and aims to ensure that there is coherence in innovation and business support initiatives, a weakness noted in a report issued by the OECD (OECD, 2007). The Ministry has a specific small business unit which is responsible for the Small Business Advisory Group (SBAG). This group, established in 2003, meets every two months to consider potential areas of concern to SMEs as well as to review issues highlighted by the

Minister for Small Business or other Government Departments. The ten members of the group are all SME owners and represent a variety of sectors and geographic locations within New Zealand and provide a sounding board and voice for the SME sector with reports made directly to the Minister for Small Business (Ministry of Economic Development, 2012; Small Business Advisory Group, 2012).

MBIE is also responsible for the creation of the extensive business.govt.nz website which aims to provide a single internet destination to give advice to businesses on dealing with Government agencies, compliance, and general business guidance. This website is aimed specifically at enabling quick and easy information access by SMEs. Following a call by SBAG in April 2012 for business survival/disaster planning and recovery information to be pulled together into a single location within the business.govt.nz portal, this site now contains many useful resources on the topics of crisis management and preparedness, a detailed interactive 10 step business survival planning tool along with a case study and tips from a Canterbury business. These resources are located under Laws and Regulation/Health and Safety. Their location in this area is understandable given that some of the content deals with regulatory requirements such as evacuation plans, however, it may also give a slightly confused message as to how resilience planning should be considered by business.

Additional help for SMEs is provided through the regional business partners network which are business advisors usually from the regional economic development agency or chamber of commerce, funded by New Zealand Trade and Enterprise (the Government economic development agency) and the Ministry of Science and Innovation (now part of MBIE) (Ministry for Economic Development, 2012).

3.5. Policy – summary

Whilst there are no specific policies aimed at SMEs, this section has outlined a significant framework aimed at ensuring the resilience of key sectors upon which SMEs depend – Lifelines and Government departments via the CDEM Act, and built structures via the RMA and Building Acts. In addition to this, the SBAG group and the MBIE ensure that there is a forum for SMEs to both be heard and to give important feedback to all of Government in relation to policies that impact on SMEs.

4. Policy Responses to the Canterbury Earthquakes

Most of the policy responses to the Canterbury earthquakes were created in response to the events, rather than as pre-determined plans. However their creation was guided by existing policies, specifically the CDEM framework discussed in Section 3 and the Rural Adverse Events Policy administered by the Ministry of Primary Industry's and designed to communicate the responsibilities of individuals, local communities and Government in the event of any disruption caused to a rural community by climatic or natural disaster.

At the same time as pledging wholehearted support to help Canterbury recover, the Government has also shown a very clear awareness of the issue of moral hazard – of not giving advantage to people who have not looked after themselves. Tied with this concern is also the issue of setting precedents in terms of community's expectations of the Government in any future disaster. Also clearly evidenced in action and discussion is a reluctance to interfere in free market operations – most notably the rental housing and insurance markets. Key drivers of Government response policies are that Government assistance needs to be targeted, capped, timely, temporary and proportionate to the magnitude of the effects.

Central government put a range of policies in place to support Canterbury following the 2010-11 earthquakes, which are discussed below.

4.1. Earthquake Support Subsidy (ESS)

Short term grants were made available to employers to allow them to continue wage payments in the immediate six weeks post disaster. This program, rolled out only 6 days after the disaster, allowed employers who intended to recommence operations a grant of up to \$500 per week per full time employee for up to six weeks or \$400 a week for six weeks for employees whose employers were un-contactable or who indicated their business was closed permanently (Ministry of Social Development, 2011). The intent of this policy was to enable business and employees to assess their situation and ideally prevent a massive surge in unemployment benefit applications. High level discussions ensured that ESS support was in addition to any business interruption payments receivable under insurance claims. The program was led by the Ministry of Social Development and implemented via existing social welfare payment mechanisms. Media reports indicate that the ESS was

very well received by business with comments that it “saved their business from failure and staff from the dole queue” (Steeman, 2011a).

4.2. Tax leniency

Leniency was permitted for businesses who could not access their financial records or for whom cash flow was causing a temporary issue. Information brochures and a specific support line complemented an overall flexible approach taken by taxation authorities (Inland Revenue, 2011).

4.3. Managing the rebuild

The Government appointed New Zealand’s largest construction firm, Fletchers Construction Ltd, to coordinate the rebuild for all residential housing with damage between \$10,000 (later raised to \$15,000) and \$100,000⁴. The aims of this move were to ensure that “the capital available for reconstruction is actually used for that purpose” (Cowan & Simpson, 2011, p. 9), standards are consistent, and demand pressures are managed so as to moderate inflation and ensure equity of access to limited contractors. The impact on this for the many SMEs involved in the construction industries is that they are acting as sub-contractors to Fletchers with designated rates of remuneration.

4.4. Recover Canterbury

The public service in Canterbury demonstrated remarkable innovation and adaptability in working collaboratively across departments and with the private sector to deliver support to Canterbury. The key collaborative effort focused on businesses was the formation of Recover Canterbury. Recover Canterbury is a collaboration between two existing business support agencies – the Canterbury Development Corporation (CDC) which is the economic development arm of the Christchurch City Council, and the Canterbury Employers Chamber of Commerce (CECC) along with Government agencies involved in business support including the Ministries of Economic and Social Development, New Zealand Trade and Enterprise, the Department of Labour, Inland Revenue and ACC (Recover Canterbury,

⁴ The maximum coverage provided by the state run Earthquake Commission. Damage above this figure is covered by the homeowner’s private insurance policy.

2012). Recover Canterbury is intended to be a temporary operation with current plans to cease operation in April 2013 at which time, any further needs for assistance will be provided by CECC or CDC.

Recover Canterbury provides a free one stop shop for business to obtain support – removing the necessity for business to find the right Government agency for their needs and ensuring there is little duplication of efforts by various government agencies. A similar but smaller role is offered to the Kaiapoi and Rangiora boroughs through Enterprise North Canterbury. Business recovery coordinators work with affected businesses on a case by case basis to assess viability and where appropriate make a business case for financial assistance from the Canterbury Business Recovery Trust (see 4.5). Vouchers for coaching and training workshops are available through a pre-existing business support scheme run by New Zealand Trade and Enterprise and additional co-funding was provided by the MBIE for qualifying businesses.. This financial assistance follows similar principles to those outlined at the wider government level – targeted, specific outcome orientated projects. Other activities carried out by Recover Canterbury include facilitating and assisting in the creation of local business associations, facilitating the co-location and coordination of SMEs in the arts sector and engaging in an on-going feedback process with business engagement groups to ensure that issues faced by Canterbury SMEs are identified and communicated. Recover Canterbury works cooperatively with the Canterbury Earthquake Recovery Authority (see 4.6) and also reports to the MBIE.

Several participants in this research noted that the existence of a strong Chamber of Commerce with high membership levels and respected leadership was a key enabler of the response effort particularly in terms of good communication and local participation in formulating appropriate responses. Concern was also expressed that this is not necessarily the case in other New Zealand communities.

4.5. Canterbury Business Recovery Trust (CBRT)

The Canterbury Business Recovery Trust was created following the February 2011 earthquake and is administered by Recover Canterbury. The MBIE provided funding of \$2.5 million and assistance with structure and process, recognizing that many SMEs would simply require a small amount of financial assistance provided in an easily accessible and timely manner. Donations to this trust total 5.4 million as of June 2012 (Canterbury Business

Recovery Trust Fund, 2012). Grants have been made for marketing, fit-out costs or other activities relating to the specific businesses' recovery plan.

4.6. Other MBIE initiatives

As well as their involvement in the creation and operation of both Recover Canterbury and the CBRT, the MBIE also implemented the following assistance measures:

- Funding was provided to pay Canterbury businesses' registration costs for Business Mentors NZ – a program giving SME owners access to a volunteer mentor to assist with a fresh perspective on their business.
- Funding for psychosocial support programs, recognizing that many SMEs did not have access to the employee assistance programs common in many larger organisations.
- Provision of resources and information through the business.govt.nz web portal prior to the full operationalization of Recovery Canterbury.

4.7. Canterbury Earthquake Recovery Authority (CERA)

The Canterbury Earthquake Recovery Authority (CERA) was created by an Order in Council amending the State Sector Act on the 29th March 2011 (Parliamentary Counsel Office: New Zealand Legislation, 2011b). Legislation granting it, together with the Minister for Canterbury Earthquake Recovery extensive powers to enable a focused, timely and expedited recovery of greater Christchurch was enacted in April 2011⁵ (Parliamentary Counsel Office: New Zealand Legislation, 2011a). The creation of CERA to lead and coordinate recovery efforts is seen by some as an appropriate recognition that existing policies and structures were insufficient for the scale of the task in Canterbury, but by others as an erosion of local involvement and control over the recovery process. Whatever the concerns around the overarching powers granted to CERA, it is also recognized that the creation of this body to guide and coordinate was a key step in facilitating recovery (Taylor, Chang, Elwood, Seville, & Brunson, 2012).

⁵ The Canterbury Earthquake Recovery Act 2011 which replaced the Canterbury Earthquake Response and Recovery Act 2010 which was enacted following the initial less damaging 4 September earthquake

Economic recovery is one of the key work areas for CERA and efforts include targeted initiatives for badly affected sectors such as tourism and education, monitoring of economic indicators (Appendix 2) and development of an overall economic strategy (Canterbury Earthquake Recovery Authority, 2012b). Whilst it is envisaged that the majority of initiatives will be privately funded, Government spending is occurring following the principles of targeted intervention outlined at the commencement of this section (Canterbury Earthquake Recovery Authority, 2012c).

4.8. Christchurch Central Development Unit (CCDU)

The Christchurch Central Development Unit (CCDU) was created in April 2012 as a new unit within CERA. Its mission was to take the initial visions for the city developed by the City Council after extensive community consultation and create, within 100 days, a plan for the city rebuild. The CCDU plan released in July 2012 provided certainty over the location of major anchor facilities and the particular precincts within the city (Figure 10).



Figure 10 - Central City Plan

Source: (Christchurch Central Development Unit, 2012)

The plan includes designations of particular areas within the city (the frame) for specific uses. This results in a large amount of compulsory land acquisition affecting existing businesses who have been able to reopen and operate premises which are now designated for other purposes (Christchurch Central Development Unit, 2012). Reactions to the plan as reported by media have generally been very favorable; even from some affected business owners who have acknowledged the need for an overriding vision for the city. However as with all aspects of recovery, certain issues remain extremely contentious, particularly in relation to the amount of compensation that will be offered to affected owners and concerns over a lack of local input.

4.9. Open for Business

New Zealand Trade and Enterprise, the Government's national economic development agency coordinated a communication program and travel grants to get the message out to export markets that New Zealand was still open for business. The speedy and coordinated response between Government and business was necessary to counter international perceptions of the entire country and every business in the region being badly affected. Specific grants have also been made from the Canterbury Business Recovery Trust for individual businesses to promote their new locations as well as local council initiatives such as the creation of a website, www.findchch.com aimed at enabling people to easily find open public facilities, restaurants and shops (Christchurch City Council, 2012).

4.10. Targeted funding for specific projects

Whilst the recovery of Christchurch is expected to be largely funded through insurance and private means, funding has been made available for specific projects. \$1.8 million dollars has been granted by the Science and Innovation Ministry and New Zealand Trade and Enterprise towards the creation of an Information Technology Hub which will provide facilities for 17 innovation focused companies affected by the quakes (Wright, 2012). This project is in line with overall Government initiatives to build New Zealand's knowledge economy. \$1 million has been made available by the Ministry of Education to support the badly hit education sector with the launch of a Christchurch Educated Initiative which is responsible for a number of initiatives designed to attract international students back to Christchurch (Mann & Law, 2012).

5. SME Responses

“Christchurch businesses are like weeds, they grow out of the cracks of the pavement, they are hard to kill, they may be pretty ugly, but gosh they are still there”

Phil O’Reilly, CEO, BusinessNZ

SMEs in the Canterbury region have faced enormous challenges in remaining both open and profitable. For every SME in the region, there is a story and this paper can touch only briefly on some of the key responses. It was noted in the introduction that SMEs are just one part of an interlinked system. A key factor enabling business resumption for many SMEs was the excellent performance of lifelines (critical) infrastructure in Canterbury (Fenwick & Brunsdon, 2012). Despite extensive damage, power was restored very quickly due to prior investment in seismic strengthening and an extensive mutual aid agreement which saw 700 workers from NZ and Australia contributing to swift repairs (Giovinazzi & Wilson, 2012). Water supplies were restored to 2/3rds of the affected area within one week. Whilst roading and wastewater networks were significantly damaged, temporary solutions and detours allowed business to function. Two key gateways for supplies into the region – the airport and port both resumed operations quickly, the same day for the airport and within days for the port. State Highways out of the region were largely unaffected.

The starting point for many businesses was collaboration, cooperation and innovation. Unaffected businesses offered temporary space to clients, customers, bankers and in some cases even competitors. Many businesses, including the Chamber of Commerce set up operations in homes and garages. Businesses who were able to comprehend the scale and long term implications of the event gained significant first mover advantages in signing leases on available commercial space in less affected suburban areas. Some existing businesses in these suburbs prospered with one suburban mall reporting a rise in sales of 25% in the immediate year after the disaster (Steeman, 2012). The Earthquake Support Subsidy discussed in Section 4 allowed many firms the time necessary to absorb their new reality and plan for the future. Examples of innovative activity include one city café owner now opening at night as a restaurant after realizing what a shortage of evening dining locations there were; the café and nightclub who now share premises with a conversion occurring at the end of the day; or the two printing firms that now share their premises and printing equipment (Berry, 2012a, 2012b; Carville, 2012).

Businesses who did not find suitable premises in the immediate aftermath and those forced to relocate a significant time after the disaster face a difficult property market with restrictive lease conditions and vastly increased prices⁶. (Stewart, 2012b). Small businesses with low margins are particularly hard hit by the lack of low quality commercial building stock, much of which was severely damaged.

There has been a huge geographic and sectoral shift in the region. Figure 12 prepared by CERA and CDC from a variety of sources, including utility usage data, indicates the new economic ‘hotspots’ of the city to the west of the badly damaged central business district.

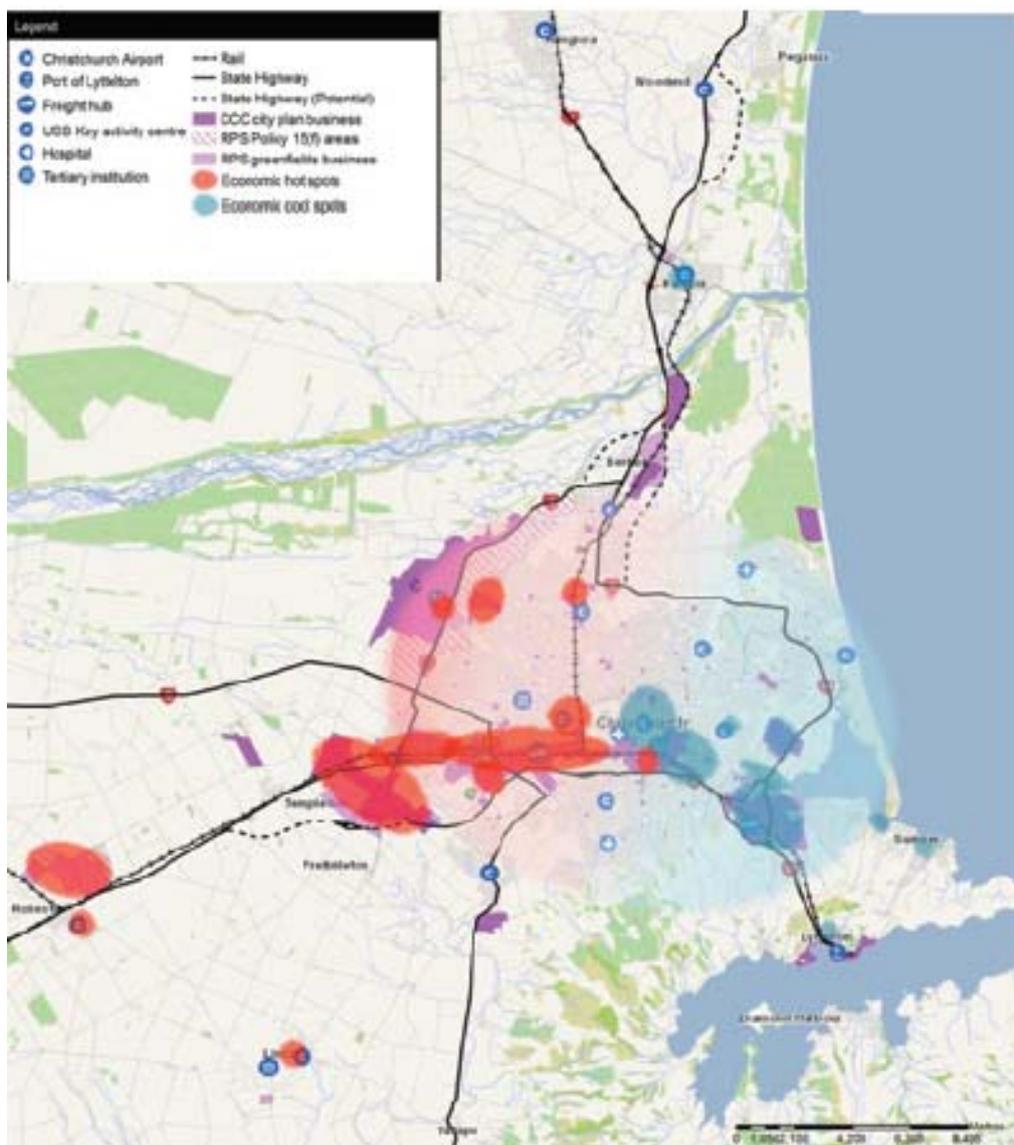


Figure 11 - Canterbury Heat Map

Source: (Canterbury Development Corporation, 2012)

⁶ Many businesses have been forced to vacate their premises long after the initial events when detailed engineering assessments have revealed significant structural weaknesses

Whilst there are not yet clear cut numbers relating to business survival or failure, Household Labour Force Surveys give a clear indication of the winners and losers showing a decline in employment in retail and the increase in transport and construction in the region.

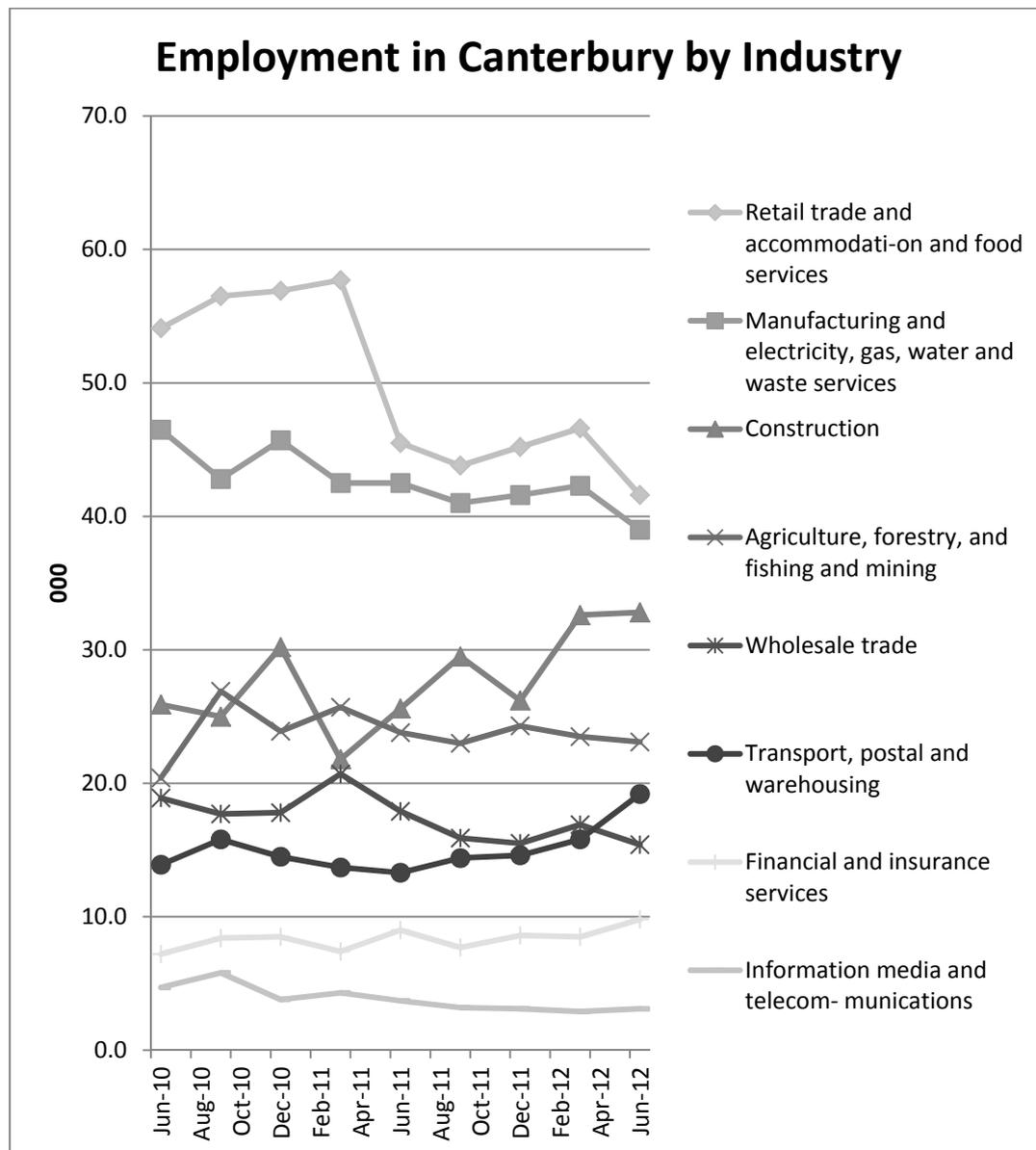


Figure 12 - Canterbury Employment by Industry June 2010 - June 2012

Source: (Statistics New Zealand, 2012b)

Reports on the current performance of SMEs are mixed. A survey in April 2012 which included 128 Christchurch SMEs reported revenue at the same level for 23% and declines for 37% (MYOB, 2011). This compares to New Zealand overall⁷, whereby 31% of respondents reported decreased business revenue over the prior year (MYOB, 2011).

⁷ Bi-annual commercial survey of 1000+ businesses with 0-200 employees

Information gathered by Recover Canterbury business support coordinators showed 51% of their clients reporting reduced revenue and 17% with improved revenues. It is also important to note that all of these figures are for businesses that have continued to trade – there is still a great deal of uncertainty with regard to the number of businesses who have ceased trading permanently. Whilst these figures indicate a rather negative outlook, overall employment and economic indicators are significantly more positive with Paymark, who process 75% of all electronic transactions, reporting spending above the national average for August 2012 in Canterbury (Canterbury Business Recovery Trust Fund, 2012). Unemployment rates in Canterbury are only 6.5%, compared to the national average of 6.8%, however there has also been a significant fall in the working age population (Canterbury Development Corporation, 2012; Statistics New Zealand, 2012b). Recover Canterbury has identified mental strain and stress taking a toll as business owners continue to face very challenging trading conditions, additional work and stress dealing with insurance and operational challenges as well as managing the impacts on their residential situation. The three short case studies below illustrate some of the issues faced by business.

Ceased

Shane and Cassandra have operated Satchmo restaurant in Lyttelton for 10 years. Their rented premises were not badly damaged by the quake but were rendered inaccessible due to collapse risk from a neighbouring building. 9 months later after demolition of the neighbouring property, a full engineering assessment was carried out and a program of repairs and strengthening outlined. Restaurant owners began negotiation with their landlord for a repair timetable but 2 months later were advised that the rent was to be doubled and that they were required to take responsibility for future damage. They decided the cost was too high and the risks to great and Satchmos' business phone was disconnected for good in Sept 2012 (Napier, 2012).

Surviving

Whare is a family run gift and home wares store and was located in the CBD. Their premises have been cordoned since the February quake. They shared temporary suburban premises with a snow equipment shop for four months in the summer season and now operate from their home garage as well as on-line. Turnover is 60% lower than pre-quake with trade limited to prior loyal customers and a reluctance by many people to buy potentially breakable items whilst the aftershock sequence continues to produce large magnitude shakes. One family member has found other employment on a temporary basis to support cash flow. They have considered alternative premises however the high rents and restrictive lease conditions are not attractive given the uncertainty over trade levels (Stewart, 2012a).

Thriving

Local taxi company Blue Star were located just on the edge of the CBD cordon. They were operational the day after Feb 22 but were then given half an hour to evacuate their premises when an inspection the following day found serious damage and potential fuel leaks from the service station below. Whilst technically not able to access their old premises, some temporary make-safe work was carried out and they were able to retrieve essential equipment and move to an adjacent building owned by them and unused. Their existing IT support person was available and a team of 4-5 worked flat out for the next three days to enable resumption of operations. Whilst the nature of their clientele and the trips taken has changed, business is thriving. Like many operating businesses they still face significant disruption in moving from their temporary premises to a more permanent home. They also identify labour as a potential growing issue as the well-paid rebuild jobs attract their traditional labour force.

6. Issues encountered by SMEs

In the initial days and weeks following the February earthquake, one of the key issues for businesses was access to their premises to retrieve stock, equipment and records. The Central Business District was closed entirely from 22 February 2011 to 9 March 2011 with a gradual reduction of the cordon over time as shown in Figures 13 through 16.



Figure 13 - Cordon as at 22 February 2011



Figure 14 - Cordon as at 11 April 2011



Figure 15 - Cordon as at 21 December 2011



Figure 16 - Present Cordon - 15 October 2012

An access system for businesses to retrieve essential items from the outer areas of the cordon was not in place until two weeks after the February earthquake (Steeman, 2011b). Businesses in the hardest hit zones in the centre were unable to access their premises for months and in some cases not at all. There was extensive protest from businesses during this period with claims of unfairness as access was gained by a selected few individuals (Brown, 2011) . Civil Defence officials have acknowledged that the access process was too slow (Heather, 2011).

Moving forward to today, the most prominent current issues reported by business recovery coordinators working with Canterbury businesses are:

Cashflow & Finance:

- Reduced trade due to changed demand and location issues.
- Increased operating costs, particularly insurance and rent.
- Time-lags between expenditure and insurance settlement.
- Inadequate insurance cover.
- Discounting to attract custom.

Building Relocation Issues:

- New uncertainty for some businesses in CCDU designated activity zones.
- Lack of affordable rentals.
- Ongoing anxiety regarding further aftershocks, detailed building inspections and required remediation work.

Marketing:

- Ongoing struggle to both retain old customers in their new locations and to attract new trade.

Insurance :

- Delays in assessment, action and payment

7. Policy Recommendations

As noted in Section 2, New Zealand businesses operate in a free market economy with comparatively little Government intervention. In line with this, there seems to be little expectation of additional government assistance in the current Canterbury circumstances. Many have acknowledged the provision of ESS and the assistance offered by Recover Canterbury as hugely important to them. The key area where there is a call for Government input is in the provision of preparedness resources or business survival guides aimed specifically at the SME sector.

The Small Business Advisory Group suggested in their 2012 report that resources should be made available through the business.govt.nz website and, as noted in Section 3, this has now occurred. However, some have questioned whether a standalone location would enable the information to be more easily found.. There is also the issue of whether the government is the best provider of this information or whether dissemination through industry or business associations would lead to greater interest.

Wherever the information resides, there is a danger at present of duplication of effort or mixed messages as different groups prepare their own resources, either through a lack of awareness of the resources that do exist or dissatisfaction with their content. Engagement of all interested parties - MCDEM, MBIE, Local CDEM staff, resilience experts and business organisations in the production/compilation of resources may greatly enhance the visibility of resilience if it results in the same message being promoted by multiple sources. Engagement in collaborative production would both solve the problems of conflicting messages and duplication of effort. Multiple channels of promotion would increase the likelihood of organisations finding the information. Having just endured a significant disaster, this effort would also be a practical way to ensure that lessons learned by Canterbury SMEs are reflected in resilience advice.

8. Conclusion

The Canterbury earthquakes presented the greatest test to date of the overall resilience policy of New Zealand. A review of the pre-existing policy framework and the responses required post event illustrate that no policy framework devised in times of calm can deal with all of the eventualities faced in a time of crisis. Building the adaptive capacity that has been shown in both the government policy responses and in the actions of Canterbury SMEs should be considered a key part to any overall resilience policy. Any policy aimed at improving the resilience of SMEs needs to look outside of the sector and identify the key dependencies – most notably the critical infrastructure which was a crucial part of the swift resumption of business for many firms in Canterbury. Policy and responses in Canterbury were strongly influenced by the prevailing political ideology. Notwithstanding this, there are valuable lessons to be learned from understanding New Zealand's recent experiences and considering how they may best be applied to differing contexts to improve SME resilience.

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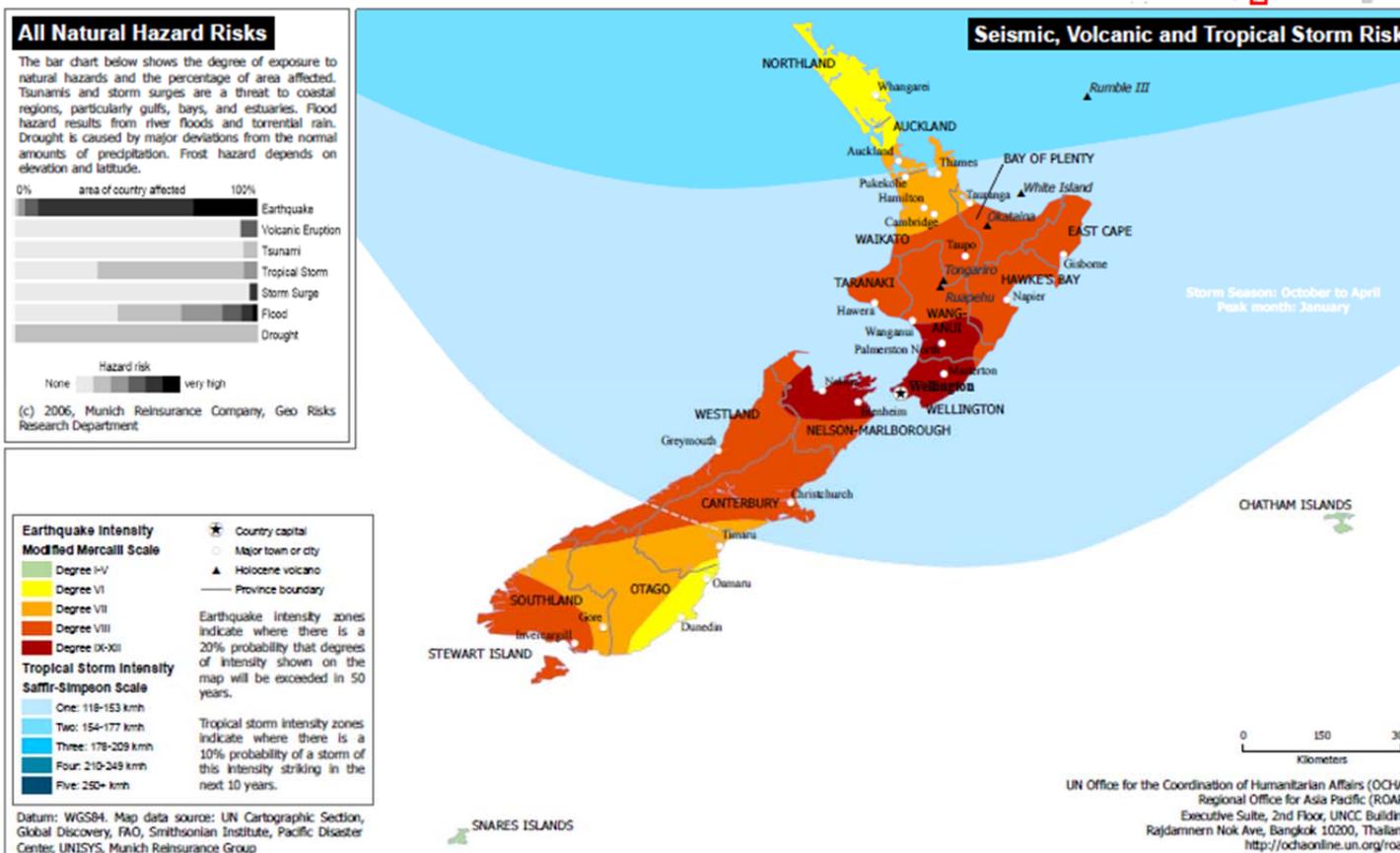
APPENDIX ONE – New Zealand Natural Hazard Risks



OCHA Regional Office for Asia Pacific

NEW ZEALAND: Natural Hazard Risks

Issued: 12 July 2007



The names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations

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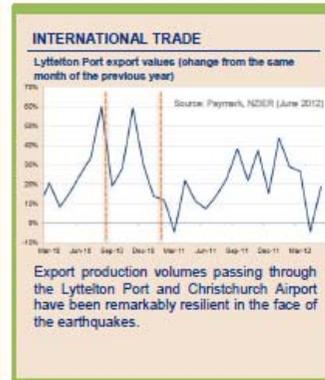
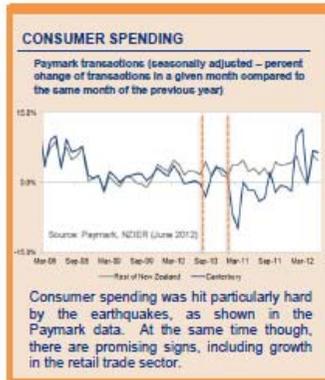
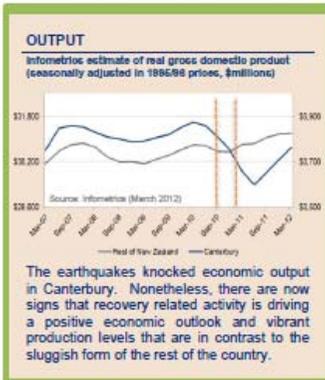
APPENDIX TWO – Canterbury Economic Recovery Indicators



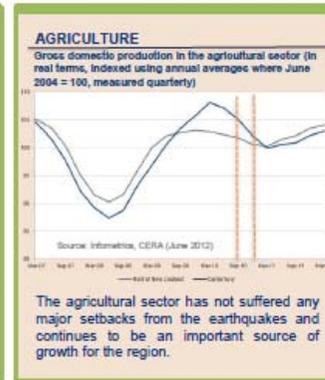
Canterbury Economic Recovery Dashboard August 2012

- Key**
- going well
 - going steady
 - requires monitoring

Output and Trading Activity



Key Sectors



Key Sectors

