

Chapter 2

Understanding Small Business

We talk about the small business sector as if it is some sort of market niche and I do not know how 96 per cent of anything can be a market niche. It is a massively heterogeneous group and I think we could do far more in terms of segmentation: which segments we want to work with and how we develop the capability to work in that sector.¹

What do we mean by small business?

2.1 The term ‘small business’ conjures up images and stereotypes often based on individuals’ personal experiences with neighbourhood firms such as grocers, specialist retailers or cafes. The reality underneath the stereotype is far more complex. This chapter is concerned with providing a general overview of small business in Australia today, identifying both the most important common elements and points of diversity. This will set the scene for discussion of key issues in subsequent chapters.

2.2 A business is a legal entity (individual or organisation) which provides goods or services.² A term such as ‘small business’ implies that size is an important attribute or way of thinking about business. Some submissions questioned the value of using size, as measured by employee numbers, as a primary means of differentiating business.³ For example, the Australian Catholic Commission on Employment Relations (ACCER) argues that other attributes of a business may be equally or more important than size,⁴ a point echoed by the Australian Council of Trade Unions (ACTU):

...the definition of small business is unhelpful given the diversity in small business. Whether it is the income from small business earnings, whether it is the nature of small business, whether they are part of a supply chain, whether they are emerging and incubation businesses, it is so complex that the small business tag—drawing a line under 20 employees—is not helpful. From our perspective, of course, business groups know well that we say you cannot divide human and labour rights simply because you might employ less than 20 people.⁵

1 Dr Tim Atterton, Director, Entrepreneurship and Business Development Unit, Curtin Business School, *Hansard*, Adelaide, 10 October 2002, p. 970

2 Australian Bureau of Statistics (ABS), *Small Business in Australia 2001*, 1321.0, 2001, p. 3

3 Submission No. 31, Australian Catholic Commission on Employment Relations (ACCER), pp. 6–7

4 *ibid.*, p. 8

5 Ms Sharan Burrow, President, ACTU, *Hansard*, 24 July 2002, Melbourne, p. 230

2.3 The committee's view is that, while size is only one of several business attributes that are important and there is a need to consider each policy issue affecting small business on its merits, small businesses share some common characteristics and needs that justify a special policy focus.

2.4 The Committee has adopted the Australian Bureau of Statistics (ABS) approach to identifying and defining small business. Under this approach, a business is regarded as small if it is:

- is a private sector business outside of agriculture with fewer than 20 employees;⁶ or
- a private sector business in agriculture with an Estimated Value of Agricultural Operations (EVAO) of between \$22,500 and \$400,000. (In agriculture, EVAO, which relates to the scale of crop and livestock production, is considered to be a more meaningful indicator of size than the number of employees because of the highly seasonal nature of most agricultural employment).⁷

2.5 The quantitative measures used by the ABS are designed to capture the essential or defining feature of small business, that is, its management and ownership structure. Small business typically has a management structure based on: independent ownership and operation; close control by the owners who also contribute most, if not all, the operating capital; and principal decision-making by the owners.⁸

2.6 ABS research indicates that, for non-agricultural enterprises, the number of employees is a reliable measure of these more qualitative characteristics: that is, the great majority of businesses with fewer than 20 employees have these management characteristics while this is far less true for those with more than 20 employees.⁹ Evidence to the Committee indicating that small business often needs to change its management structures to grow successfully beyond 20 employees, supports the existence of a link between management structures and this employment number.¹⁰

2.7 Across OECD countries, definitions of small business vary, but most are based on a firm's status as an independent, non-subsidiary firm with fewer than a given number of employees and a financial asset ceiling. The given number of employees varies across countries, although small firms are generally considered to have fewer than 50 employees.¹¹

6 ABS, *Small Business in Australia 2001*, 1321.0, 2001, p. 1

7 *ibid.*, p. 2

8 *ibid.*, p. 1

9 ABS, *Small Business in Australia 1999*, 1321.0, 1999, pp. 135–49

10 Submission No. 7, Professor Ann Hodgkinson, p. 1

11 *OECD Small and Medium Enterprise Outlook*, OECD, Paris 2000, p. 7

2.8 While the ABS definition of small business is widely used, different government agencies or policies may use different criteria to target assistance or concessions to small business. For example, to be eligible to opt into the Simplified Tax System, a business must have annual turnover or receipts of less than \$1 million. The Australian Taxation Office estimates that this covers 95 per cent of businesses, approximately the same percentage covered by the employment definition of small business.¹² Ausindustry uses a \$5 million annual turnover figure for its programs targeting small business.¹³ There are also several legislative exemptions targeting small business that use financial criteria or different employment criteria.

2.9 The committee notes a proposal by the Small Business Coalition for a consistent definition of small business to be used across all government policies, programs and legislation. The aim is to reduce some of the confusion that arises when a small business cannot easily determine eligibility under different programs and legislation, to provide a more consistent approach and to enable government to better understand issues facing small business.¹⁴

2.10 This report does not deal with the substance of that proposal as it was not raised as an important issue by submissions or witnesses. That said, the Committee is inclined to take the view that while a more consistent approach to defining small business may be useful, it has not seen any evidence suggesting that this is an overriding objective. The most appropriate way of targeting small business, given its diversity, may depend on the nature of the policy or program under consideration. There may be cases where the broad schema of a piece of legislation, including the scope and nature of the Commonwealth's powers, dictates a particular approach. Further work would need to be done before this issue can be resolved. In the meantime there may be value in all programs, policies and legislation targeting small business reporting in terms of the ABS definition as well as any other criteria that used to determine eligibility. This would assist governments to gain a better understanding over time of the relationship between employment numbers and other aspects of small business. The committee also notes in this context, that the diversity of small business places a requirement on government to build more flexibility into the design of its small business support programs.

How small business operates

2.11 The management structure of small business can be both a strength and weakness. Limited management layers are an advantage in making quick decisions and responding swiftly and flexibly to changes in the market. However they can also be a disadvantage, because:

12 Submission No. 68, Dr Binh Tran-Nam and Dr John Glover, pp. 3–4

13 Mr Drew Clarke, Executive General Manager, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 8 October 2002, p. 910

14 Professor Scott Holmes and Mr Brian Gibson, *Definition of Small Business*, Final report, University of Newcastle, 5 April 2001, p.1

In a rapidly changing environment, small business operators do not necessarily have the capacity to adapt to that change as quickly as corporations with a multitude of layers able to focus on single issues, particularly in the areas of technology and accounting.¹⁵

2.12 There is also less scope for small business operators to spend time away from core business functions that directly generate sales and revenue. The National Institute of Accountants commented that:

Small businesses, although a difficult term to define, are unique as they lack economies of scale, meaning that small business operators have to tackle a whole range of tasks, (which they are not necessarily skilled to do) in order to ensure their on-going viability. Small business operators must undertake tasks that larger businesses would split between employees, to ensure costs remain as low as possible. Governments must assist those operators by having as few additional tasks as possible. In addition, governments must do all they can to ensure the overheads to running a business are minimal.¹⁶

2.13 Small business also differs from large business in that it is less likely to be incorporated under corporations law as a legal entity separate from the owners. Most small businesses are either sole traders (a single person operating a business using their own name or under a business name, who is legally responsible for the actions, debts and obligations of the business); or partnerships (two or more people operating a business using their own name or business name who are separately and jointly legally responsible for the actions, debts and obligations of the partnership).

2.14 The limited financial resources of many small businesses is also a constraint on their capacity to weather revenue downturns and grow and compete with larger businesses. Many small businesses operate on small margins, with highly variable cash flow, particularly in their early years.¹⁷ As a result they have little capacity to absorb delays in payments. Late payments were raised as a problem by several witnesses, including Family Business Australia and small business participants at a roundtable in Brisbane, who reported that the problem is particularly acute when GST remittances are due.¹⁸

2.15 Most small businesses rely on their own equity or borrowings, frequently using the family home as security. This is a particular problem for those in areas with depressed housing markets, including some rural and regional areas. In addition, small business is often subject to higher interest rates, and higher bank fees and charges,¹⁹ partly because of a more limited bargaining capacity and also because of perceptions of increased risk. In the words of one witness:

15 Submission No. 36, Canberra Business Council, p. 3

16 Submission No. 73, National Institute of Accountants, p. 3

17 Submission No. 18, CPA Australia, p. 9

18 Mr Leslie Howson, *Hansard*, Roundtable, Brisbane, 12 September 2002, p. 799

19 Submission No. 14, National Federation of Independent Business, p. 2

Unlike big business, small to medium businesses tend to operate on much tighter inventory controls, have less financial flexibility and are more closely monitored by their banks. They are more susceptible to being given risk finance and require a strong cash-flow and ability to repay debts. It is a true adage that if you owe the bank \$100 million it is their problem but to owe them \$1 million it is your problem!...Banks, for instance, tend to find small customers more of a burden than the larger corporations by way of service costs. It seems that there is a need to re-evaluate exactly how much small business impacts on the economy and for banks, insurance companies and the like to adopt different approaches to their issues.²⁰

2.16 The committee is concerned that this less favourable treatment by larger businesses, including banks, insurance companies and creditors, can undermine small business profitability and even viability. There is a role for government in promoting greater recognition of the important economic and social contribution of small business, both within the community generally and with big business in particular.

2.17 Technology, including information and communications technology (ICT), is increasingly essential to businesses' capacity to compete effectively. It can open new markets by lowering the costs of production, including for customised products, and allowing small business to service markets well beyond the local neighbourhood. At the same time, as larger businesses and government adopt more advanced technology, there is increased pressure on small business to keep pace just to retain existing markets.²¹ The Melbourne Development Board identified this as an issue for small manufacturing businesses in their region, many of which appear to be lagging in their uptake of ICT.²² A witness from Western Australia explained that businesses wishing to tender for components of major projects in the area now need internet capacity and expertise because:

Every single contract was to be let online and the outcome of the tender process was to be online, so if you did not have access to technology you would not be doing business in a multibillion dollar project.²³

2.18 The relatively slow adoption of e-commerce by small business also risks undermining its competitive position. More education and training in both technology and business practice, and government assistance with these, are seen as critical to improving the sector's capacity to move to e-commerce or even make informed assessments about the value of e-commerce for their business.²⁴ Improved access to

20 Submission No. 66, Brisbane Office of Economic Development, p. 4

21 Submission No. 35, Melbourne Development Board, p. 8

22 *ibid.*

23 Mr John McIlhone, Director, Southwest Group of Councils, *Hansard*, Perth, 17 July 2002, p. 51

24 *Australian SME E-Commerce Forum Taskforce: Accelerating the Uptake of E-Commerce by Small and Medium Enterprises*, July 2002, compiled by E. Brown Small Enterprise Telecommunication Centre (SETEL), p. 4; See also Submission No. 35, *op. cit.*, p. 11

high quality telecommunications services is also important. Many small businesses are located outside the central business districts and lack access to low cost, high speed telecommunications.²⁵

2.19 The management practices of many small businesses are relatively unsophisticated and this can present a major risk for business survival. A worrying number are highly exposed to changes in market conditions due to over-reliance on a handful of suppliers or customers and a lack of risk management strategies. A recent CPA Australia survey of small business found that:

Sixteen per cent of small businesses generate 80 per cent of sales from less than five customers and 47 per cent are dependent on fewer than five suppliers. CPAs say that half these businesses would struggle to survive the loss of a major customer or supplier, yet 76 per cent don't think their clients have strategies.²⁶

2.20 Accountants are the primary source of professional and management advice for most small businesses. However the demands of the current taxation system means that they have less and less time to provide business improvement and accounting advice to their small business clients, even at critical stages such as early growth points. One observer summed up the situation this way:

If you add that to our comments about the banking sector being perhaps underdeveloped and an accounting profession that focuses on compliance, I think you have a pretty lonely small business sector.²⁷

2.21 The isolation is compounded by low levels of participation in industry or similar business associations. Industry associations are an important source of information for their members on matters such as changes in government policies and regulations, developments in industrial relations, and in the industry or the broader economy. They also provide a source of information for government on industry concerns and issues. Businesses that do not belong to such organisations may find it harder to access information critical to their survival and are more dependent on information from official sources such as government. On the other hand, there is a view among some small businesses that industry associations do not always represent the needs of their small business members.

Categories of small business

2.22 The small business sector covers a wide range of enterprises, from a single tradesperson or consultant working from home to a manufacturing business employing up to 20 people and perhaps engaged in export. The need to recognise and respond to

25 Mrs Beverley Nowotny Ford, *Hansard*, Roundtable, Albany, 18 July 2002, p. 157

26 CPA Australia, *Small Business Survey Program: Perceptions of Risk*, August 2002, p. 4

27 Dr Tim Atterton, Curtin Business School, *Hansard*, Adelaide, 10 October 2002, p. 971

the diversity within small business was a consistent and powerful message to the Committee:

...you cannot just block in small business; you have got to look at home based business, micro-business, small small business, small business and medium business. All their needs are different. It has just come to me that we are discussing generally all small business but the needs of the different stages of small business are a lot different.²⁸

2.23 Small business can be further broken down into:

- non-employing businesses, comprising sole proprietorships and partnerships without employees;
- micro-businesses, employing fewer than five people (which includes non-employing business); and
- other small businesses, or businesses employing five or more but fewer than 20 people.

2.24 Medium businesses are those employing between 20 and 200 people and large businesses are those employing 200 or more people.

2.25 More than half of all small businesses outside of agriculture, that is 582,100, are 'non-employing'.²⁹ They account for 22 per cent of the total small business workforce outside of agriculture, or 713,200 persons.³⁰ They are concentrated in construction (26 per cent) and property and business services (17 per cent).³¹ Over the past 17 years, these businesses have grown more slowly than small business overall, although in the past three years non-employing businesses have grown at a faster rate than employing business.³²

2.26 A witness from the Micro Business Network suggested the need for greater policy recognition of the significance of this segment of the small business community and its role in contributing to overall employment:

Another issue that needs to be addressed—and again I have seen no evidence of it—is the fact that many of these people are employing themselves. They call themselves a business but they do not truly see themselves as a business. They see themselves as employing themselves. There is lots of support and help to get more employees into the work force

28 Mr Graeme Harris, *Hansard*, Roundtable, Perth, 19 July 2002, p. 185

29 ABS, *Small Business in Australia 2001*, 1321.0, 2001, p. 9

30 *ibid.*, pp. 9–10

31 *ibid.*, p. 10

32 *ibid.*, pp. 13; 15

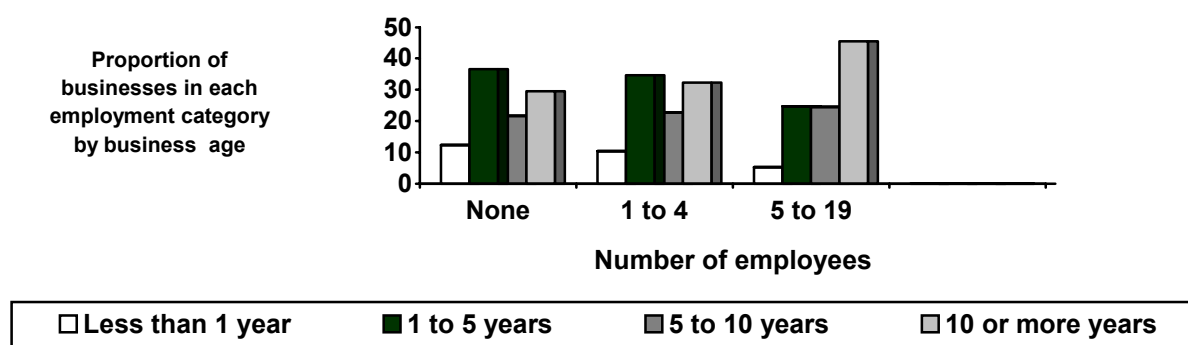
but I have seen no evidence of support to self-employ rather than go on the dole or whatever.³³

She suggested that government could recognise and support this contribution by providing access to a small financial grant, repayable on an income contingent basis, along the lines of the Higher Education Contribution Scheme (HECS).³⁴ This issue is taken up further in Chapter 4.

2.27 It should not be assumed that all non-employing businesses will remain that way. While some are clearly oriented to self-employment, a proportion are also likely to be newly established businesses, which may grow over time if successful. As an indicator: in 2002, thirty-nine per cent of non-employing businesses had been in operation for less than one year;³⁵ and 35 per cent of a sample of non-employing businesses in Australia surveyed as part of an international study, indicated that they intend to employ in the future.³⁶

2.28 To a large extent, small business in Australia means micro-business. Over 85 per cent of all small businesses are micro-businesses employing fewer than five people, with 52 per cent of these being non-employing and the remaining 34 per cent employing one to four people.³⁷ Over the past 17 years employing micro-business has performed most strongly in terms of employment growth, although this has slowed significantly over the past three years.³⁸

TABLE 1—Small Business: employment numbers by years established



[Data source: ABS, *Characteristics of Small Business*, 8127.0, 2001, Table 3.1, p. 44]

33 Ms Barbara Gabogrecan, Managing Director, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p. 234

33 *ibid.*, p. 235

34 *ibid.*

35 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 40

36 K. Hindle and S. Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 21

37 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 39

38 ABS, *Small Business in Australia, 2001*, 1321.0, 2001, pp. 14–15

2.29 Many submissions highlighted the importance of this segment and suggested that it is often overlooked in policies and programs targeting the larger end of the small business community. The Melbourne Development Board argued that micro-business, and in particular home-based micro-business, is an economic trend that has been largely ignored in the development of public policy. In their view:

...this trend is too important to ignore for much longer. There are substantial skills and potential for growth locked away in the micro based sector (particularly those that are home based) which are difficult to identify and even more difficult to engage with. These micro-businesses are strongly independent and maintain low profiles, except with close networks of like-minded operators.³⁹

2.30 Home-based businesses are those operated *from* the owner's home (for example, a tradesperson who does not have separate business premises) or *in* the owner's home, for example a consultancy business. The common feature of home-based business is the absence of any other premises for conducting the business.

2.31 Home-based business is of interest for a number of reasons. First, it is the most significant segment of small business: 67 per cent of all small business is home-based business.⁴⁰ Second, in recent years it has been growing more rapidly than small business overall (16 per cent per annum compared with 11 per cent per annum for small business in general). Business that is primarily conducted *in the home* rather than simply *from the home* has grown even more rapidly than home-based business in general (18 per cent growth rate).⁴¹ This group of home-based business has a relatively large and growing representation of female business operators,⁴² which may reflect a shift to self-employment as a means of balancing work and family commitments.

2.32 Another perspective on home-based business is its penetration in residential neighbourhoods. Estimates suggest that at least one in ten households in Australia hosted a home-based business.⁴³ The committee was told that this figure may now be even higher.⁴⁴ Local government zoning laws, which generally stipulate the conditions

39 Submission No. 35, op. cit., p. 9

40 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 80

41 *ibid.*

42 *ibid.*

43 A. Stanger, 'Home-Based Business Marginality: A Review of Home-Based Business Performance and its Determinants', *School of Commerce Research Papers Series 00-17*; ISSN 1441-3906, p. 5; also note that the ABS *Characteristics of Small Business* (Cat. No. 8127.0) reported 778 400 home-based businesses in June 2001; and the last Census gave the number of occupied private dwellings as 7 072 202, indicating that 11 per cent of households hosts a home-based business.

44 Mr Murray Geddes, Honorary Development Officer, Home-Based Business Association of the ACT, *Hansard*, Canberra, 6 August 2002, p. 524

under which businesses can operate in residential neighbourhoods, are therefore a major issue of concern for home-based businesses.

2.33 Home-based business is often considered synonymous with self-employment and the development of the non-standard labour market and there is some evidence to support this. A series of focus groups with home-based business in two Australian regions found that many had been started by people who were forced out of the mainstream workforce due to illness, injury or other factors, but retained entrepreneurial drive and ability.⁴⁵ A representative of the Home-Based Business Association of the Australian Capital Territory (ACT) argued that the growth in home-based business in the territory reflects not only personal lifestyle choices but also deep structural forces shaping modern economies like the ACT.⁴⁶

2.34 Small business participants in a roundtable also emphasised the important role of technology in enabling the formation of a home-based business:

What I find is that technology is great. It allows you a low-cost business set up. A \$400-machine lets me do my faxes, my scanning and my printing or whatever. Add a computer and a couple of phone lines and basically you are in business. It makes it pretty easy...We do not have to bring people into our homes or into 'a business'...So we are not intrusive as far as the community around us is concerned; they probably would not even know that we have a business.⁴⁷

2.35 One challenge for governments is that home-based business is relatively isolated and hidden, and an 'obscure group to try to work with'.⁴⁸ These businesses may not need to register with local councils, and many prefer not to, from fear of being penalised either by councils, neighbours or service providers.⁴⁹ In these circumstances, councils often have little idea of the number and nature of home businesses in their jurisdiction:

Usually you come across them. You cannot point your finger at a house and say: 'There is a business in that house,' but you can do that in a commercial street.⁵⁰

45 K Houghton and Capital Region Enterprise and Employment Development Association (CREEDA), *Home-Based Business in Two Australian Regions. Backyarders and Frontrunners*, December 1999, p. 24

46 Submission No. 76, Mr Murray Geddes, p. 2

47 Mr Bernard Duke, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 460

48 Mrs Marilyn Horgan, Project Officer, Perth Area Consultative Committee (ACC), *Hansard*, Perth, 17 July 2002, p. 39

49 Mr Euan Miller, op. cit., p. 950

50 Ms Allison Oldfield Hiosan, Executive Officer, Perth ACC, *Hansard*, Perth, 17 July 2002, p. 34

2.36 Councils vary significantly in their attitudes to home-based business, with some being quite ‘friendly’ or supportive and others being more concerned about residential amenity and complaints. There was a general recognition of the need for a more consistent approach by councils to home-based business, as a foundation for policies designed to foster the development of this segment of small business.⁵¹ Home-based businesses are also starting to become more organised and the committee heard that a growing number of regional self-help associations have agreed to cooperate nationwide.⁵² The Commonwealth could provide some leadership in supporting a more consistent approach to home-based business, a point that is taken up in more detail in Chapter 6 on regulatory issues.

2.37 Telstra charging policies may also discourage home-based businesses from self-identifying, which can complicate planning for traffic capacity. One witness suggested that Telstra consider adopting the approach of Telecom New Zealand in striking a special rate for home-based businesses as a means of encouraging them to ‘come out’ as it were.⁵³

2.38 While there were varying views on the employment aspirations and potential of home-based businesses, a number of witnesses argued that there is untapped growth and employment potential in the sector.⁵⁴ The committee was told of a project in Joondalup, Western Australia that, by working with home-based business, had stimulated the creation of a significant number of new jobs.

2.39 There is a strong overlap between small and micro-business in particular, and family businesses. Many small businesses are family businesses in the sense that the owners and managers are family members. A CPA Australia survey suggested that a small majority employ family members of the owner, usually the spouse.⁵⁵

2.40 Family businesses are of interest because they have some specific features or characteristics that affect their capacity to grow and to manage conflict. CPA Australia argued that family businesses have different employment relationships and needs to businesses that are ‘non-family entities’.⁵⁶ In its view family businesses combine two ‘inherently incompatible systems’: a family, with a primary social function of caring for its members and a business, where the primary goal is wealth generation,⁵⁷ complicating enterprise management and growth.

51 Mr Euan Miller, *op. cit.*, p. 950

52 Submission No. 76, *op. cit.*, pp. 1–2

53 Mr Euan Miller, *op. cit.*, p. 51

54 Ms Oldfield-Hiosan, *op. cit.*, p. 31; Submission No. 35, *op. cit.*, pp. 9; 12

55 Submission No. 18, *op. cit.*, p. 7

56 *ibid.*, p. 7

57 *ibid.*, p. 7

2.41 Managing conflict and succession planning are particular challenges for small business and, as a result, family-controlled small businesses generally last for a shorter period than non-family controlled enterprises.⁵⁸ Family businesses may also be affected differently by the regulatory framework: CPA Australia argued that current rules for Capital Gains Tax and the superannuation legislation may act as disincentives for a family business to grow.⁵⁹ The representative of Family Business Australia argued that the needs of family business need to be better represented in policy development although no specific areas of current disadvantage or neglect were identified.⁶⁰

2.42 Austrade highlighted the growing importance of micro and other small business in strategies to improve Australia's export performance. While relatively few small businesses in Australia export, and certainly fewer than in other OECD countries, small businesses are now entering the export market at a faster rate than medium and larger businesses. Austrade's target of increasing the number and proportion of exporting businesses by 2006 will rely on a doubling in the numbers of small business exporters over that period. In the view of Austrade, the next generation of exporters is likely to comprise small or micro-businesses increasingly operating outside of the major metropolitan areas.⁶¹ The committee commends the Austrade focus on the export potential of small business and considers that governments at all levels should examine ways in which their programs and services for small business can support this objective.

Comment

2.43 Not enough is known about micro-business and home-based business in particular. Governments need to consider ways of improving their understanding of these categories of small business, so that they can formulate appropriate policies and programs.

Recommendation One

The committee recommends that governments consider appropriate ways of developing a better understanding of micro-business and home-based business and their potential.

Characteristics of business operators

2.44 An ABS survey in 2001 provides a useful snapshot of the individuals who operate Australia's more than 1 million small businesses. The latest survey information indicates that most small business operators:

58 *ibid.*, p.7

59 *ibid.*, p.7

60 Ms Julie Cambage, National Executive Director, Family Business Australia, *Hansard*, Melbourne, 24 July 2002, p. 216

61 Submission No. 58, Austrade, p. 4

- are male (67 per cent): but between 1999 and 2001, the number of female business operators increased at a slightly faster rate than the number of males (10 per cent compared with 8 per cent);⁶²
- are aged between 30 and 50 years of age;⁶³
- have either no post-school qualifications (41 per cent), or certificate level qualifications (38 per cent), with 21 per cent having diploma level or above qualifications;⁶⁴
- work full-time in their business, that is work at least 35 hours a week in the business (71 per cent). Forty-six per cent work between 35 and 50 hours each week, 22 per cent between 51 and 75 hours and 3 per cent more than 75 hours a week.⁶⁵ However a minority of female operators (42 per cent) work full-time in their business;
- were born in Australia (although 28 per cent were born overseas);⁶⁶
- operate home-based businesses (67 per cent);⁶⁷
- use computers in their business operations (67 per cent of all small businesses and 89 per cent of those with 5–19 employees, compared to 56 per cent of non-employing businesses);⁶⁸
- have access to the internet (53 per cent);⁶⁹ and
- have been operating the business for less than 10 years (68 per cent).

2.45 Small business owner–managers are also reported to have some common or prevailing attitudes and behavioural styles that influence their desire and capacity to grow. Research into entrepreneurial personality, behavioural patterns and management styles in the US and Europe suggests that entrepreneurs often demonstrate ‘Type A’ behaviour patterns with the following characteristics: high levels of optimism; a reluctance to read and write with a preference for learning by doing and making mistakes; a desire for a high level of independence and control; difficulty in forming an objective assessment of their own business and its strengths and weaknesses; and an operational rather than strategic focus.⁷⁰

62 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 7

63 *ibid.*, p. 13

64 *ibid.*, p. 10

65 *ibid.*, p. 11

66 *ibid.*, p. 12

67 *ibid.*, p. 80

68 *ibid.*, p. 42

69 *ibid.*, p. 43

70 Submission No. 92, Dr Tim Atterton, p. 2

2.46 A small business adviser commented that there is a ‘huge and diverse range of personality types that enter small business’ but that isolation is a common factor and may determine a preference for a more personal approach to obtaining information:

You are quite isolated. You cannot talk to your staff about your problems. Your wife or husband does not really want to hear about it at the end of the day. Often, you struggle with things and keep them very private...we all know that the Internet is a very efficient way of delivering information and

the Business Entry Point and sites like that have served a very useful purpose...but there is nothing like that human contact of one person sitting down with another.⁷¹

2.47 Policies and programs targeting small business need to recognise these personal characteristics as they can influence operators’ preferences for information and participation.

Business life cycle

2.48 The small business sector can also be segmented in terms of the age of the business or stage of business development, including key points such as the engagement of a first employee or entry into the export market.

2.49 A snapshot of small business operators in mid-2001 revealed that almost half (49 per cent) had been operating for less than five years, with 14 per cent operating less than one year. Nineteen per cent has been in operation between five and 10 years and 32 per cent more than 10 years.⁷² Businesses employing more than five people were more likely to be more than 10 years old (50 per cent).⁷³

2.50 One witness who provides advisory services to small business suggested that there are four very distinct phases in small business. She identified the first stage as:

...the period from nought to two years, or start-up...I call it the Nike phase: ‘Just do it’. They lose money, they are focused on systems and product and they have not really got it together.

The second phase, ‘the take-off period’, occurred at about four years:

...[when] one of three things happens. The first is that the business fails. One of the reasons it fails is that there was no market, it was insufficient. The business owner decides that they want to go back to corporate life and do something else. The other thing that happens is that they make a conscious decision to structurally stay the same, so they do not hire staff or they look at other revenue sources. The take-off phase is when they identify

71 Ms Clare Loewenthal, *Hansard*, Sydney, Roundtable, 14 August 2002, p. 632

72 ABS, *Media Release*, 19 March 2002, 8127

73 ABS, *Small Business in Australia, 2001*, 1321.0, 2001, p. 40

a new market for their existing product or they identify another product for their existing market. If they get over that four-year phase, they then usually experience fairly rapid growth and that is where a lot of your employment comes from—that very intense phase where they suddenly grow. In my work as a consultant, they know where they want to go but they are not quite sure how to get there.⁷⁴

The next stage occurs at around seven years:

That might be called the seven-year itch. It is consolidation. All the systems that they set up on day one, and that ranges from the computer systems and their phone systems, to the way they communicate with their staff, start to wobble because the volumes increase to such a point where they can no longer cope. The revenue is coming in but it is all the underpinnings. That is the next key phase. If you can imagine it, the type of business support and training that is needed for a consolidation business is completely different to our Nike phase.⁷⁵

For those that succeed, the last stage is from eight to ten years, when the business can move to major expansion. The area of business that expanded then begins to act like a start-up.⁷⁶

2.51 The Committee heard that the start-up phase is a particularly critical stage, when businesses need to establish effective processes and management arrangements. A small business operator at a roundtable on small business issues stated that:

A lot of people start their businesses and they say, ‘I will deal with that later.’ A fundamental thing, when you first start your business, is that you need to have a template of how you are going to do your accounting. A lot of people do not do that and get themselves into trouble down the track.⁷⁷

Comment

2.52 Programs or policies targeting small business may also need to take account of the different needs at different points in the growth cycle. There appears to be a growing recognition of this, but it is not clear that the current array of programs, particularly for management development, goes far enough.

The external environment

2.53 While owner characteristics, size and internal management and financial arrangements are important determinants of business needs and circumstances, the

74 Ms Linda Hailey, Director, Hailey Enterprises Pty Ltd, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 631

75 *ibid.*, pp. 631–33

76 *ibid.*

77 Ms Amy Lyden, Company Director, Bow Wow Meow Pty Ltd, *Hansard*, Sydney, Roundtable 15 August 2002, p. 684

industry or market in which business operates may be as important, and in some cases, even more important.

2.54 A few industries are dominated by small business: 99 per cent of all business in the construction industry are small, while 92.8 per cent of manufacturing businesses and 88.7 per cent of businesses in the accommodation, cafe and restaurant industry are small.⁷⁸ Over the past two years small business growth was strongest in the property and business services, health and community services and education services industries; the lowest growth rates were recorded in retail trade, wholesale trade and transport and storage.⁷⁹

2.55 The Australian Retailers Association argued the overriding importance of industry sector in determining the primary concerns of small business:

While there are some common characteristics of small businesses, the major concerns of small business often depend on the industry in which they operate. Retail tenancy legislation and practice is a major concern of retail business, where occupancy or rental costs are one of the major cost items.⁸⁰

2.56 Submissions from other industry associations, such as the National Association of Retail Grocers of Australia (NARGA) and the Motor Trades Association also raised industry-specific issues, such as the market dominance of large supermarket chains and market practices in the motor trades industries respectively, as the key concerns of their members. Competitive practices and competition laws are a major concern of small businesses operating in these industries and the extent to competition, or anti-competitive practices by large firms, is regulated may be the main determinant of their profitability and survival.

2.57 Small businesses are often found in industries or sectors where they can have a comparative advantage such as in serving the local neighbourhood market, or where low overheads and personal service are an advantage, or niche markets that may be unprofitable for larger business. The submission from the Micro Business Network highlighted the enormous diversity within the sector, many servicing niche markets: ‘from milking venomous snakes, to needle craft, to consultants, to bed and breakfast—the range is enormous.’⁸¹ This very diversity underscores the limited scope for many to be represented by industry associations.

2.58 The inquiry received a large number of submissions from regional organisations, reflecting the important role of small business in regional areas, where it is often collectively the largest employer. There is a strong interdependence between small business and regional development, and a particular need to build the potential of existing small business:

78 ABS, *Small Business in Australia, 2001*, 1321.0, 2001, p. 21

79 *ibid.*, p. 15

80 Submission No. 4, Australian Retailers’ Association, pp. 6–7

81 Ms Barbara Gabogrecan, *op. cit.*, p. 242

In rural and regional Western Australia, the greatest way to improve economic growth is through small business—not just through the establishment of new small businesses but also through helping those that we already have improve their lot in life, because the easiest small business to keep in a rural and regional area is the one you already have.⁸²

2.59 Location can be, and often is, a fundamental determinant of business profitability or viability. Submissions and evidence to the committee from a number of regional organisations highlighted the range of constraints and higher overheads facing businesses in regional, and particularly in remote, Australia including:

- limited infrastructure and services and high transport and communication costs;⁸³
- freight, repairs, telephone costs, fuel and travel;⁸⁴
- high telecommunication costs and limited facilities such as fast internet or mobile phone access;
- reduced population and support services from government, resulting in shrinking markets and less business support facilities; and
- the flow-on effect of an agricultural downturn or drought and reduced farm incomes on non-farm enterprises in the affected region.⁸⁵

2.60 Several submissions suggested that a regional development approach or regional employment strategy is the best way to assist regional small business.⁸⁶ Project funding under the Small Business Enterprise Cultures Program and the Regional Assistance programs can be very useful in this regard because of the scope for a tailored, multi-faceted regional approach. The committee also heard evidence that current program arrangements, in particular the lack of continuing programs for business skills development, mentoring and networking in regional areas, can be a constraint on the development of regional small business. This issue is taken up in Chapters 4 and 5.

Comment

2.61 Understanding small business, while a precondition for effective policies and programs for the sector, is a major challenge for governments. The diversity of the sector means that generalisations and broad scale policies may be ineffective and inappropriate. At the same time, the committee considers that there are some common features to small business that justify a special policy focus.

82 Mrs Vicki Brown, Small Business Assistance Officer, Great Southern ACC, *Hansard*, Albany, 18 July 2002, p. 80

83 Submission No. 6, Gulf Savannah Development, pp. 4; 8–9

84 Submission No. 24, Great Southern Development Commission, Attachment 1, p. 16

85 Submission No. 23, Great Southern Area Consultative Committee, p. 2

86 Submission No. 32, Institute of Chartered Accountants of Australia, p. 3

2.62 Governments need to consider ways of developing better information sources on small business and improved ways of communicating with the sector. Programs and policies may need to be tailored to the needs of the various segments of the sector, although this further complicates policy and program delivery. There is a need for a more coordinated national approach and for more flexibility in programs and policies to meet these diverse needs.