



RESEARCH NOTE

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Small Business Is Big Business

MAJOR FINDINGS

1. A new methodology developed for this note suggests that small business employs almost half of all working Australians.
2. Small business is currently the fastest-growing sector of the economy, and its growth is considerably stronger than conventionally believed.
3. The composition of small business is specialised and changing. An important trend is growth in contracting work for governments and big business.
4. ABS business surveys appear to under-estimate small business.

What Is Small Business?

The small business sector is of special interest because of its significant role in economic growth and dynamism and its particular needs in dealing with government. This paper reviews the relative size, composition and economic performance of small businesses.

In Australia, the official definition of small business is private enterprises with less than 20 employees. (The two exceptions to this are manufacturing and agriculture. In manufacturing, because of the large scale of its operations, a small business is defined as one with less than 100 employees. In agriculture, because of the volatility of employment, a small business is defined as one with an Estimated Value of Agricultural Operations between \$20,000 and \$399,000.)

Small Business Represents Almost Half Of All Employment

A new methodology developed for this paper suggests that small business employment is greater than previously realised. In May 1994, it was about 3.7 million - 47% of total Australian employment (the latest available data)¹.

The latest (1991-92) ABS estimates² put the number of small businesses in Australia at about 859,000, or 95% of all businesses. Data on the small business contribution to GDP are not available, but would be notably less than the 47% share of employment (possibly about 40%), because small business tends to have lower wages and capital-intensity.

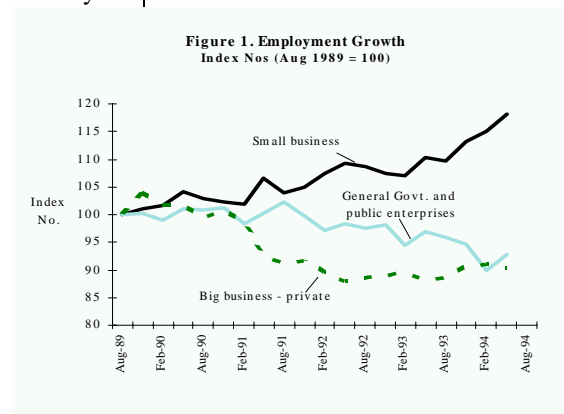
Small Business Is The Fastest Growing Sector Of The Economy

The new estimates show that small business is the most rapidly growing sector of the economy - in the five years to May 1994, employment grew by 563,000 or 18.1%. (Employment in government and big business employment fell over the same period by 7.2% and 9.5% respectively.)

Figure 1 shows that even during the last recession, total small business employment was stable or increased slightly (suggesting that there were net new jobs or perhaps that some medium-sized businesses became small businesses) With the recovery, small

business employment is growing strongly, while big business and government employment were still below their pre-recession levels.

The Composition Of



Small Business Is Specialised And Changing

Small businesses operate across a wide range of industries but are especially concentrated in particular activities. For small business as a proportion of total employment, construction is highest (around 81%), followed by agriculture (around 72%) and recreational and other personal services, manufacturing and wholesale and retail trade (all just under 60%) (See Figure 2).

One explanation for part of the boom in small business is the increased use of contractors and consultants by both governments and larger firms to replace their own employees (also called "outsourcing"). This can sometimes increase efficiency and flexibility and cut costs such as

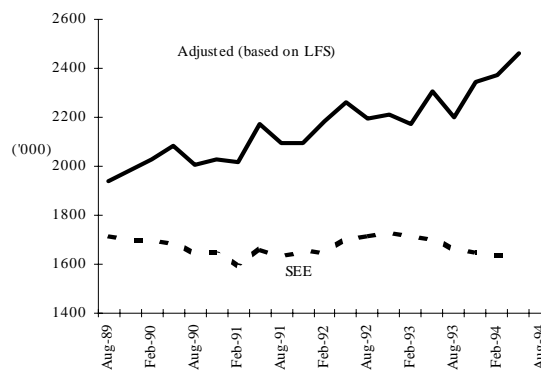
	Employment ('000)		
	Small business	Government	Big business
Aug-89	3115.5	1727.7	2872.2
May-94 (% total empl)	3678.1 (47)	1602.8 (20)	2598.3 (33)
Variation - No.	562.6	-124.9	-273.9
- %	18.1	-7.2	-9.5

superannuation, payroll tax and workers' compensation insurance. This development differs from the traditional concept of small business - in some respects, the contractor is as much tied up with the large enterprise being served as the large enterprise's own employees. To illustrate the trend, small business has grown particularly rapidly in finance, property and business services - from 38 to 49% of the industry total. This industry includes some services which are increasingly contracted out such as accounting, computing, cleaning and security. Transport and construction are other industries where small business growth has been particularly strong, and

Do ABS Business Surveys Under-Estimate Small Business ?

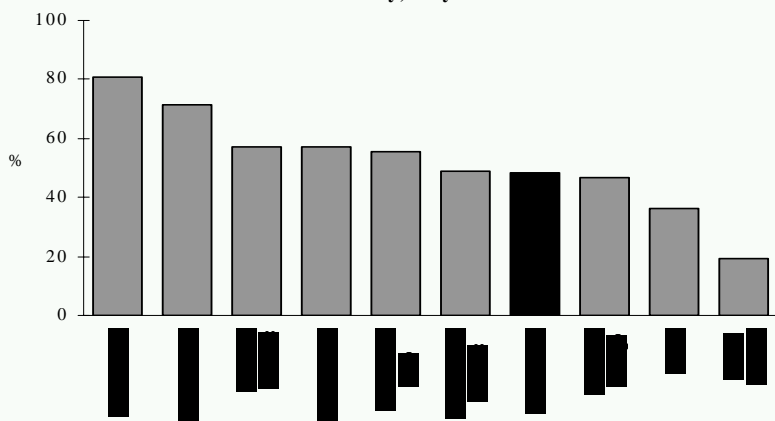
ABS business surveys are based on the ABS register of businesses. The process of adding new businesses is subject to lags and omissions. Larger businesses and government organisations are more stable and are readily identifiable, so it is likely that omissions are largely of small business. At a time of economic recovery, there tends to be more new small businesses created, so that under-coverage worsens.

Figure 3. Small Business Non-Agricultural Employees



SEE. The gap has increased over the last five years and now stands at more than 800,000 employees, or about 13% of the total number of non-agricultural employees in Australia. This could cause serious misinterpretation: the SEE estimates show almost no employment growth during the recovery, while the LFS shows strong growth (see Figure 3). The problem of undercoverage also has implications for other ABS business surveys.

Figure 2. Small Business as % Total Employment in Each Industry, May 1994



where contractors can be readily substituted for own employees. Further corroboration of contracting out is that government employment is falling while government final consumption expenditure is rising. Another factor contributing to the growth in small business employment is the increase in business franchising.

The growth in the numbers of consultants and contractors discussed above could lead to particular coverage problems.

The apparent undercoverage was quantified for this paper by comparing the results from the business register-based *Survey of Employment and Earnings (SEE)* with the household-based *Labour Force Survey (LFS)*. The LFS records many more non-agricultural employees than the

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- The estimates in this paper were derived indirectly from *Employed Wage and Salary Earners* (ABS 6248.0) and *The Labour Force* (ABS 6203.0) because they have recently shown inconsistent trends. Estimates of small business employment are obtained as a residual by subtracting from total employment (from 6203.0) the sum of all government employees (from 6248.0) and private sector big business employees (from 6248.0 in the case of non-agricultural employees but estimated from other ABS sources in the case of agricultural employees). The result includes small business employees, as well as all self-employed and employers. While the estimates do not adjust for employers who have large businesses, or multiple job holders, these factors are both relatively stable and minor. (The method is consistent with the ABS national accounts estimates of wages, salaries and supplements.) Full data used in this paper are available on request from the Parliamentary Library.
- Source: *Small Business in Australia* (ABS 1321.0).