

RESEARCH NOTE

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Small Business Employment

Introduction

The small business sector is the largest employer in Australia. With 1 162 000 small businesses in operation, the sector employs well over three million people, accounting for nearly half of all private sector non-agricultural employment.¹ But the trend in small business employment has turned downward from March 2001 despite the best economic conditions for businesses in almost three years. This Research Note compares employment growth in the small business and large business sectors over the last decade. It also examines recent salary trends in small and large businesses and the major obstacle to small business employment.

Employment Growth

Remarkably, employment growth in big business has outpaced that of small business since the last recession in 1991-92. Average annual growth in small business employment for the period March 1992 to March 2001 was 2.3 per cent, compared to 3.5 per cent for big business. (See Table 1 and the graph below.) Over the last three years employment growth in big business has increased in the face of major company failures (HIH, One-Tel, Ansett), restructuring in the manufacturing and retail sectors (Bradmill, Harris Scarfe), and job shedding by the banks. It has also outpaced small business employment as the small business employment share of total employment declines.

Shift in Small Business Employment

The results from Table 1 also indicate that the number of non-employees (self-employed and employers) has remained unchanged since March 1992, and there has been little, if any, change throughout the 1990s. Clearly there is some leakage from the non-employees group to the employees group, in the second column, as there are tax advantages

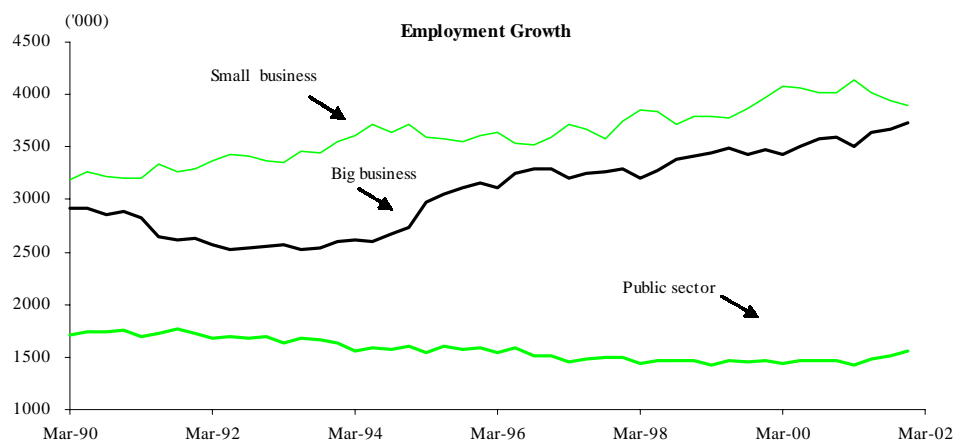
Table 1 Employment by Business Size and Sector

	Private Sector						
	Small business			Big business (000)	Total	Public sector	Total
	Non-employees (a)	Employees (b)	Total				
Mar-90	1151.2	2033.6	3184.8	2922.0	6106.8	1709.8	7816.6
Mar-91	1183.3	2018.8	3202.1	2829.6	6031.7	1698.5	7730.2
Mar-92	1229.1	2143.9	3373.0	2574.7	5947.7	1676.6	7624.3
Mar-93	1257.6	2096.1	3353.7	2570.6	5924.3	1630.5	7554.8
Mar-94	1235.1	2367.7	3602.8	2610.1	6212.9	1560.1	7773.0
Mar-95	1225.8	2367.0	3592.8	2972.6	6565.4	1545.9	8111.3
Mar-96	1294.1	2349.9	3644.0	3110.2	6754.2	1537.3	8291.5
Mar-97	1224.1	2484.1	3708.2	3198.2	6906.4	1457.8	8364.2
Mar-98	1257.9	2594.7	3852.6	3196.2	7048.8	1433.7	8482.5
Mar-99	1222.0	2568.0	3790.0	3449.0	7239.0	1427.5	8666.5
Mar-00	1247.6	2826.1	4073.7	3422.6	7496.3	1437.8	8934.1
Mar-01	1227.9	2910.8	4138.7	3503.8	7642.5	1427.5	9070.0
Jun-01	1241.2	2771.8	4013.0	3635.1	7648.1	1485.8	9133.9
Sep-01	1278.6	2658.6	3937.2	3668.0	7605.2	1519.0	9124.2
Dec-01	1229.5	2674.4	3903.9	3734.0	7637.9	1552.5	9190.4

(a) Employers, self-employed persons and unpaid family helpers.

(b) Officially defined as private enterprises with less than 20 employees except: manufacturing, in which a small business is defined as one with less than 100 employees; and agriculture in which a small business is defined as one with an Estimated Value of Agricultural Operations between \$22 500 and \$400 000.

Source: Derived from *Employed Wage and Salary Earner* (ABS 6248.0) and *The Labour Force* (ABS 6203.0)



in the self-employed and employers incorporating their business and becoming employees of their own business. The relative decline in the number of non-employing businesses

is more evident in Table 2, which shows the employer size group as a percentage of the total number of small businesses from 1983-84 to 1999-2000.

Table 2. Number of Businesses by Employer Size

Business Size (number of employees)	1983–84		1996–97		1999–2000	
	number '000	per cent	number '000	per cent	number '000	per cent
Non-employing	339.3	52.60	503.6	49.05	542.2	48.65
1–4	186.2	28.87	342.6	33.37	365.7	32.81
5–19	95.2	14.76	144.0	14.02	167.1	14.99
total small	620.7	96.23	990.2	96.44	1075	96.45
20–99	20.4	3.16	30.6	2.98	33.2	2.98
100–199	2.1	0.33	3.4	0.33	3.7	0.33
200 or more	1.8	0.28	2.6	0.25	2.7	0.24
total all	645	100.00	1026.7	100.00	1114.6	100.00

Source: *Small Business in Australia, Update 1999–2000* (ABS 1321.0.40.001, Table 2.3)

The figures in Table 2 indicate that the relative proportion of non-employing businesses and small businesses with less than five employees changed very little in the thirteen years between 1984 (when the proportion was 81.5 per cent) and 1997 (when the proportion was 82.4 per cent), while the proportion of businesses employing five to 19 people declined from 14.8 per cent in 1984 to 14.0 per cent in 1997. The results also confirm a structural shift away from the self-employed and non-employing businesses over the same period from 52.6 per cent of all businesses in 1984 to 49 per cent in 1997.

Since 1997, the proportion of non-employing businesses has declined still further to 48.6 per cent. There has also been a small decline in the proportion of small businesses with less than five employees or 'micro businesses' and an increase in the proportion of small businesses with five to 19 employees. This would suggest that non-employing and 'micro businesses' are more likely to fail or instead choose to remain small, while small businesses with five to 19 employees stay in business and continue to hire staff. It would also suggest that much of the 2.8 per cent annual growth in small business

employment for the period March 1997 to March 2001, when small business employment peaked, occurred in the five to 19 employees group.²

The results of business surveys suggest that many small businesses, particularly very small businesses, have capped their growth and look for a stable framework and outcomes that deliver a range of financial and non-financial returns.³ A March 2002 Small Business Survey by CPA Australia found that of the 23 per cent of small businesses that had no employees, 57 per cent had made a conscious decision not to employ.⁴ In a yet to be completed survey of small firms in the western metropolitan region of Melbourne, 87 per cent of the 61 local firms interviewed indicated they had not changed their employment mix in recent years and expressed concern about employing staff. Approximately 70 per cent of the businesses involved in the survey are small businesses.⁵

Small Business Salaries

Notwithstanding the falling trend in small business employment, there remain differences between small and large businesses in salary trends. According to the *National Salary Survey 2002*, of 227 small companies by the Australian Institute of

Management, small company salary increases outpaced those in larger firms with employees in small companies receiving an average salary increase of 2.5 per cent, compared to 1.5 per cent for employees in large companies. The survey also found that 92 per cent of the small companies surveyed forecast pay increases up to 4 per cent in 2002.⁶

Conclusions

At first sight, the results of the ABS data and business surveys, namely the shift away from non-employing businesses, the declining share of small business employment of total employment, and higher and more stable salaries for employees of small firms would appear contradictory. But the results lend strong support to the capped growth explanation for the decline in the proportion of non-employing and 'micro businesses', and the low growth rate of small business employment generally, which has been below the annual growth rate of the economy. What is clear is that those small businesses that hired extra staff have continued to do so, while other small businesses that have created a stable framework in which to operate are unwilling to employ additional staff. In this context, the Senate Employment, Workplace Relations and Education References Committee is currently examining proposals to stimulate small business employment at a time when the trend in small business employment is downward. If the capped growth objective is as dominant in the sector as the results and surveys suggest, all options for removing obstacles to small business employment including changes to the unfair dismissal laws would need to be considered.

1. See *Characteristics of Small Business* (ABS 8127.0) and *Small Business in Australia, Update 1999–2000* (ABS 1321.0.40.001).

2. See Table 2.4 Employed Persons by Industry and Employer Size in ABS publication *Small Business in Australia, Update 1999–2000* (ABS 1321.0.40.001). The Table shows an overall decline in 'micro business' employment from 1997 to 2000.

3. For a discussion on the capped growth objective of small firms, see S. Holmes and I. Zimmer, 'The Nature of the Small Firm: Understanding the Motivation of Growth and Non-growth Oriented Owners', *Australian Journal of Management*, 1994, 19(1), pp. 97–120.

4. See CPA Australia, Submission to the Senate Employment Committee Inquiry into Small Business Employment Issues, [Submission No. 18](#).

5. See Small Business Research Unit, Victoria University, Submission to the Senate Employment Committee Inquiry into Small Business Employment Issues, [Submission No. 64](#).

6. See Australian Institute of Management, *National Salary Survey 2002*, May 2002.

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