

## PUBLISHED VERSION

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### Grassroots entrepreneurship and innovation - Business start-up in Australia

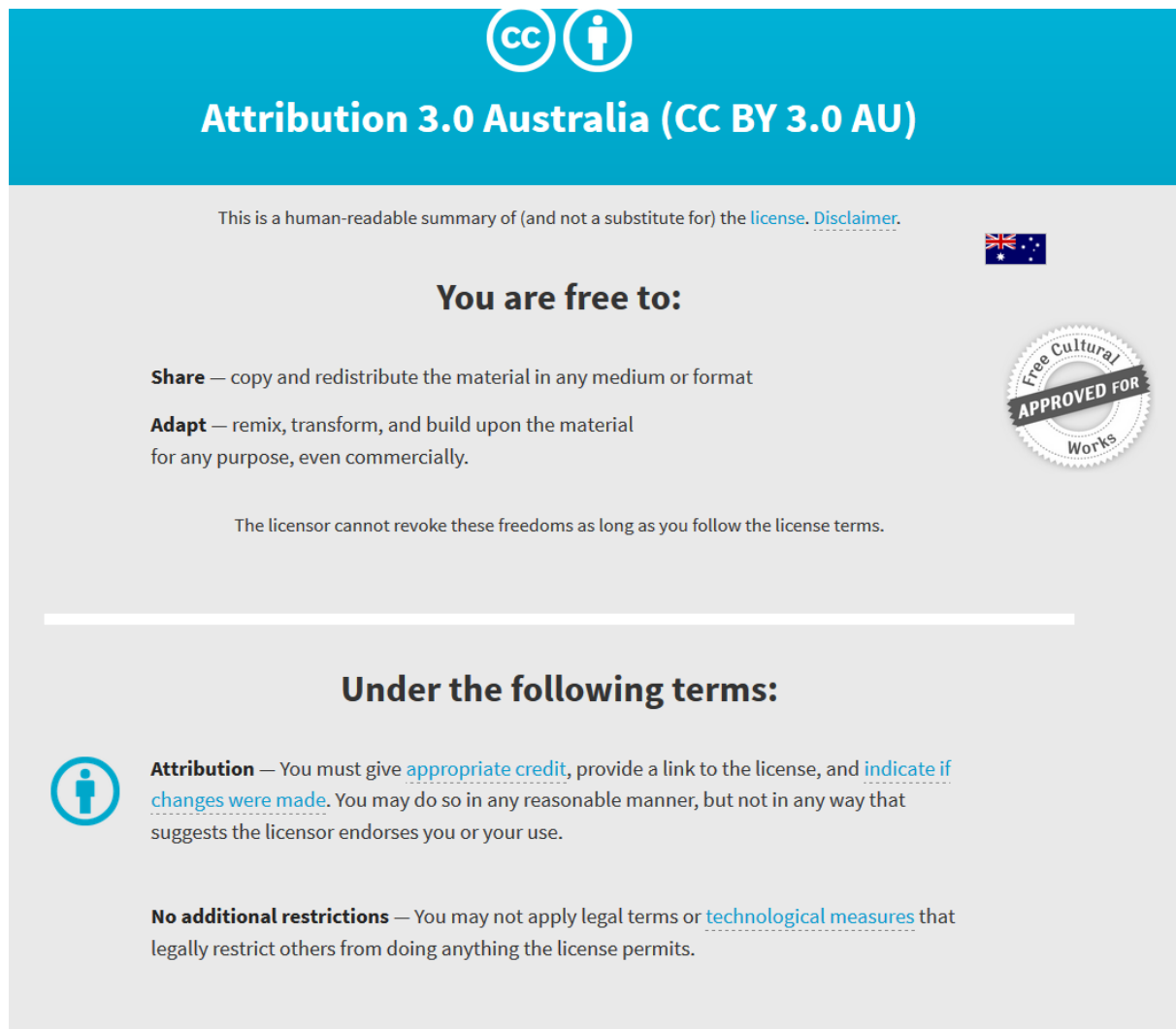
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## Feature: Grassroots entrepreneurship and innovation — Business start-up in Australia

By Dr Paul Steffens, Deputy Director, Australian Centre for Entrepreneurship Research (ACE) and Associate Professor, School of Management, QUT Business School

This article provides a broad picture of business start-up activity and its level of innovativeness in Australia. This sector of the economy is of critical importance for economic development as young SMEs are an important engine of job creation. In Australia, like other OECD countries, young SMEs less than five years old contribute a much larger share of job creation (41 per cent) than either their share of the stock of jobs (19 per cent) or job destruction (24 per cent) (see Chapter 3).<sup>56</sup>

By world standards the level of business start-up activity in Australia is high. Looking at the very earliest stages of business start-up, the Global Entrepreneurship Monitor (GEM) study estimated Australia's total entrepreneurial activity (TEA) at 13.1 per cent of the adult population in 2014. This places us amongst the highest of developed economies. This concurs with other data which shows Australia's rate of business entry is one of the highest in the OECD.

Australians also appear relatively effective at starting businesses. A large longitudinal study of business start-up attempts, CAUSEE,<sup>57</sup> and a US counterpart (PSED II),<sup>58</sup> reveals Australian entrepreneurs are about twice as likely on average to get a business operational than those in the US (31 per cent vs 12 per cent after one year or 30 per cent vs 16 per cent after three years). This picture is supported by GEM data that reveals while Australia has a similar TEA to the US, we have a lower percentage of the population engaged in the process of starting a business and a higher percentage who have recently started a business.

So business start-up activity appears to be alive and well in Australia. But what about the quality of these start-ups? How innovative are they, and how much do they grow?



Dr Paul Steffens

- 56 Hendrickson L, Bucifal S, Balaguer A and Hansell D (2015) *The Employment Dynamics of Australian Entrepreneurship*, Department of Industry, Innovation and Science, Office of the Chief Economist, Canberra; Criscuolo C, Gal PN & Menon C (2014) *The Dynamics of Employment Growth: New Evidence from 18 Countries*, OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, Paris
- 57 Davidsson P, Steffens P and Gordon S (2011) *Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE): design, data collection and descriptive results*, Handbook of research on new venture creation, 216-250. See: <https://www.qut.edu.au/research/research-projects/the-comprehensive-australian-study-of-entrepreneurial-emergence-causee>
- 58 Reynolds P and Curtin R (2008) Business creation in the United States: Panel study of entrepreneurial dynamics II initial assessment, *Foundations and Trends in Entrepreneurship*, 4 (3), 155-307. See: <http://www.psed.isr.umich.edu/psed/home>

First, it must be emphasised that the broad population of business start-ups are dominated by a 'modest majority' that do not aspire to grow particularly large, nor do they. The CAUSEE study reveals that after three years, the median revenues of the 30 per cent of start-ups that became operational is only \$60,000, only 35 per cent regularly employ any staff, and the median of those that do is only between 1-2 staff. However, this is not to say that start-up firm growth is poor in Australia. These figures are almost identical to international studies such as PSED (Panel Study of Entrepreneurial Dynamics) II.

In fact, overall the innovativeness of the average business start-up in Australia appears to be, if anything, relatively high by world standards. GEM indicates that Australia outperforms most other developed economies on indicators that represent the quality and economic impact of early-stage businesses. For example, in Australia, 5.7 per cent of adults report they are starting businesses selling products or services that no or few other businesses sell. This compares favourably to the developed economies average (3.8 per cent) or benchmarks like the UK (3.6 per cent), however falls a little behind that of the USA (6.8 per cent). Similar patterns are true for growth aspirations, the number of opportunity-driven start-ups and other indicators of innovativeness. This overall positive picture concurs with data from CAUSEE and PSED studies where, for example, Australia's start-ups are more likely to be engaged in R&D or new technologies.<sup>59</sup>

Other evidence suggests that Australia's small firms are also relatively innovative. Surveys indicate Australia compares well in terms of the self-reported innovativeness of its SMEs, ranked 7th of 32 OECD countries.<sup>60</sup> Australia similarly ranks highly amongst developed economies for what GEM calls employee entrepreneurial activity in established firms, ranked 3rd among 29 developed economies.

So, it appears that start-up activity in Australia is high by world standards and that, while these efforts are modest on average, they are reasonably innovative by international comparisons. Yet what about Australia's performance when it comes to the very high growth firms, such as the so-called gazelles?

Here reliable international comparisons of just how many start-ups exhibit high or sustained growth have been lacking. Studies based on representative samples of firms reveal just how rare these firms are, and hence we are left with only a tiny number of very high growth firms which may not be representative of the population of high growth firms. For example, in the CAUSEE sample only seven per cent of operational firms, or just two per cent of start-up attempts, had revenues over \$1 million after three years. But these figures were stronger than recorded in the US counterpart PSED II (three per cent of operational firms, or one per cent of the start-up attempts).

Alternatively, after three years only a tiny proportion of firms in Australia had achieved medium size status by employing more than 20 people (0.8 per cent of operational firms or 0.2 per cent of those start-up attempts). This is the one area where the US counterparts performed better (four per cent of operational firms, or just over one per cent of start-up

59 Davidsson P, Steffens P, Gordon S and Reynolds P (2008) *ACE research briefing paper 006: Anatomy of New Business Activity in Australia: Some Early Observations from the CAUSEE Project* Queensland University of Technology, Brisbane

60 OECD (2014) *Entrepreneurship at a Glance 2014*, OECD Publishing. [http://dx.doi.org/10.1787/entrepreneur\\_aag-2014-en](http://dx.doi.org/10.1787/entrepreneur_aag-2014-en)

attempts). This new data and international comparisons will be crucial to pinpoint areas of comparative strengths and weaknesses of our start-up sector.



Australia's rate of business entry is one of the highest in the OECD.  
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