

Are small businesses the driving force behind private sector employment and total industry value added?

Geoff Gilfillan

Statistics and Mapping Section

Executive summary

- In June 2016 there were just over 4.7 million people employed by small businesses in Australia.
- Employees of small businesses accounted for just over 44 per cent of all employed persons in the private sector. Larger businesses accounted for just under a third (32 per cent) while medium sized businesses accounted for just under a quarter (23 per cent).
- Industry value added of the small business sector expanded to \$378.4 billion in the 12 months to June 2016 which was equivalent to a 35 per cent share of total industry value added in Australia.
- Wages and salaries of small business employees accounted for 28 per cent of total wages and salaries paid in the private sector in the 12 months to the end of June 2016.
 - The lower share of total wages and salaries recorded by the small business sector relative to their employment share (28 per cent versus 44 per cent) could be due to the greater use by small businesses of casual employees on a part-time basis
 - Average wages in the small business sector may also be affected by the presence of working proprietors and partners of unincorporated businesses among small business employee numbers.
- In the three years to June 2016, small business employment increased by 160,000. In contrast, employment in medium sized businesses fell by 118,000 and employment in large firms increased by 77,000.
- In the 12 months to June 2016, employment in small and medium sized businesses fell marginally by 8,000 and 6,000 respectively while employment in large businesses increased by 80,000.
- Employment growth for small businesses in the three years to June 2016 has been strongest in the construction sector (up by 80,000).
- New South Wales and Victoria experienced the biggest increases in small business employment in the three years to June 2016 (up 108,000 and 63,000 respectively) while South Australia and Western Australia experienced the biggest falls (down 19,000 and 18,000 respectively).
- Small businesses have relatively high shares of total employment in industries such as Agriculture, forestry and fishing (80.0 per cent in June 2016), Rental, hiring and real estate services (77.0 per cent), Construction (68.6 per cent) and Other services (65.5 per cent).

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Introduction

Small business has been cited in the past as the driver of much of Australia's employment and economic growth.¹ Earlier research showed young Small and Medium Enterprises (SMEs) aged up to five years in Australia accounted for over 40 per cent of all jobs created between 2006 and 2011 and 31 per cent of total job growth was accounted for by mature SMEs.² This statistical snapshot seeks to update the contribution of small businesses to the Australian economy.

What is a small business?

Various organisations and legislation use different definitions of small business. The *Fair Work Act 2009* defines a small business employer as an organisation that employs fewer than 15 people. The Australian Taxation Office (ATO) defines a small business as a firm that has annual revenue turnover (excluding GST) of up to \$2 million. The Australian Securities and Investment Commission (ASIC) regulates many businesses that are 'small proprietary companies', that are defined as companies with at least two out of the following three characteristics: an annual revenue of less than \$25 million; fewer than 50 employees at the end of the financial year; and consolidated gross assets of less than \$12.5 million at the end of the financial year.

In this statistical snapshot we use the ABS definition of small businesses—those employing fewer than 20 people. Categories of small businesses under the ABS definition include:

- Non-employing businesses (sole proprietorships and partnerships without employees)
- Micro-businesses (businesses employing between 1 and 4 people including non-employing businesses)

¹ [The engine of the Australian economy](#), Treasury, Budget 2015.

² Hendrickson, L., Bucifal, S., Balaguer, A., and Hansell, D., [The employment dynamics of Australian entrepreneurship](#), Research Paper 4/2015

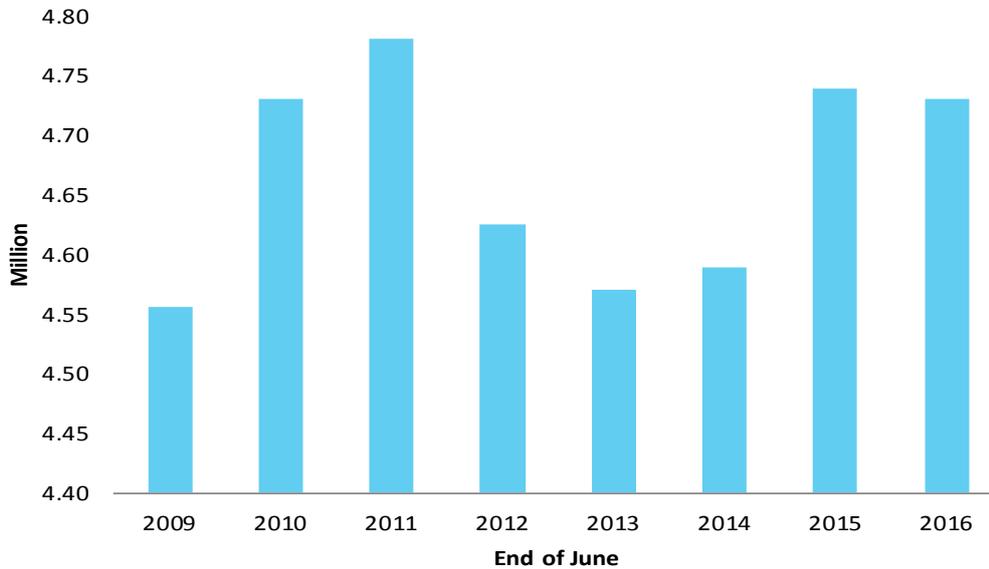
- Other small businesses (businesses that employ between 5 and 19 employees)

The ABS defines a medium sized business as one that employ between 20 and 199 employees while large businesses employ 200 or more employees.

Small business contribution to private sector employment

Data from the ABS [Australian Industry](#) publication shows there were 4,730,000 people employed by small businesses in Australia at the end of June 2016.³

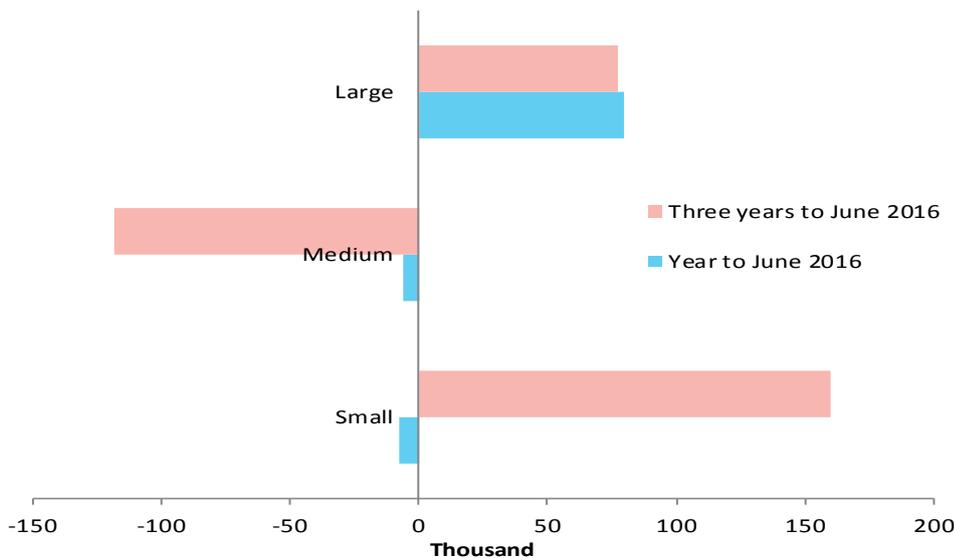
Figure 1: number of people employed by small businesses



Source: ABS, *Australian Industry*, cat. no. 8155.0

In the three years to the end of June 2016, small business employment increased by 160,000 while employment in medium sized businesses fell by 118,000 and employment in large firms increased by 77,000.

Figure 2: change in private sector employment by firm size—one year and three years to June 2016



Source: ABS, *Australian Industry*, cat. no. 8155.0

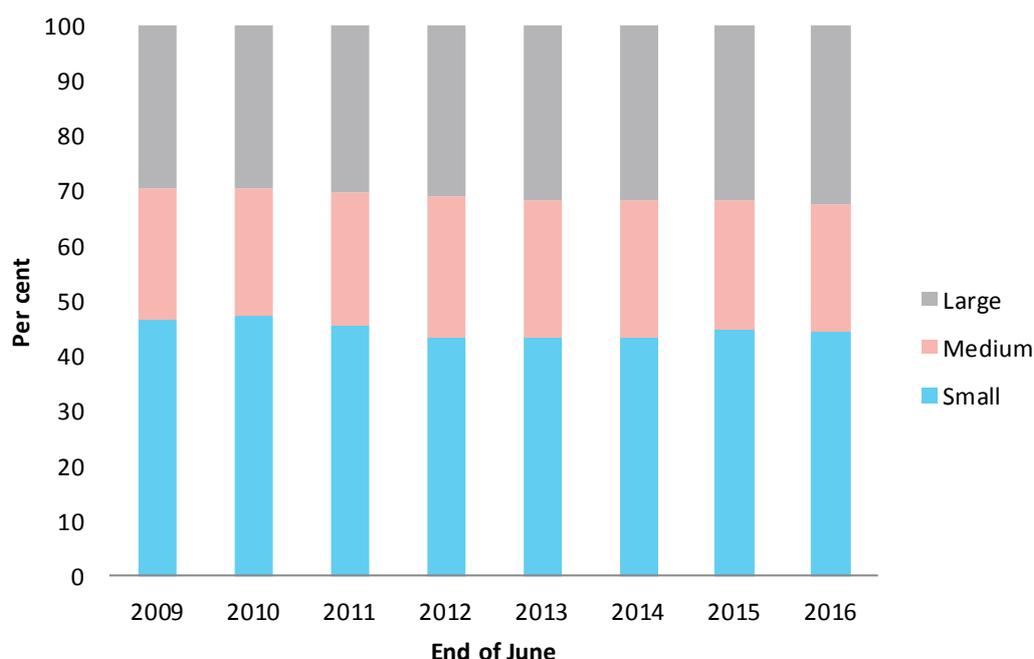
³ The estimates included in *Australian Industry* publication are produced at the end of each financial year using a combination of data collected directly from the annual Economic Activity Survey (EAS), conducted by the Australian Bureau of Statistics (ABS), and Business Activity Statement (BAS) data provided by businesses to the Australian Taxation Office (ATO)

However, in the 12 months to the end of June 2016, employment in small and medium sized businesses fell marginally (by 8,000 and 6,000 respectively) while employment in large businesses increased by 80,000.

The small business share of total private sector employment has fallen marginally over the past seven years. Small business employees accounted for 44.3 per cent of all persons employed in the private sector in Australia at the end of June 2016—down slightly from 46.4 per cent in June 2009.

Medium sized businesses accounted for just under a quarter (23 per cent) of all employed persons at the end of June 2016 and large firms accounted for just under a third (32 per cent).

Figure 3: share of total private sector employment by firm size



Source: ABS, Australian Industry, cat. no. 8155.0

Small business share of employment in selected industries

Small businesses having high shares of total employment in industries include Agriculture, forestry and fishing (80.0 per cent in June 2016), Rental, hiring and real estate services (77.0 per cent), Construction (68.6 per cent) and Other services (65.5 per cent).

Small business employment shares are much lower in capital intensive industries such as Mining and Electricity, gas, water and waste services (see Table 1).

The small business share of total employment in Accommodation and food services fell from 55.1 per cent in June 2009 to 46.2 per cent in June 2016. Smaller reductions in small business sector shares of total employment were recorded over the interval in Agriculture, forestry and fishing; Mining; Construction; Professional, scientific and technical services; Public administration and safety (private) and Arts and recreation services. In contrast, small rises in the small business share of total employment were recorded in Manufacturing; Administrative and support services; and Health care and social assistance (private).

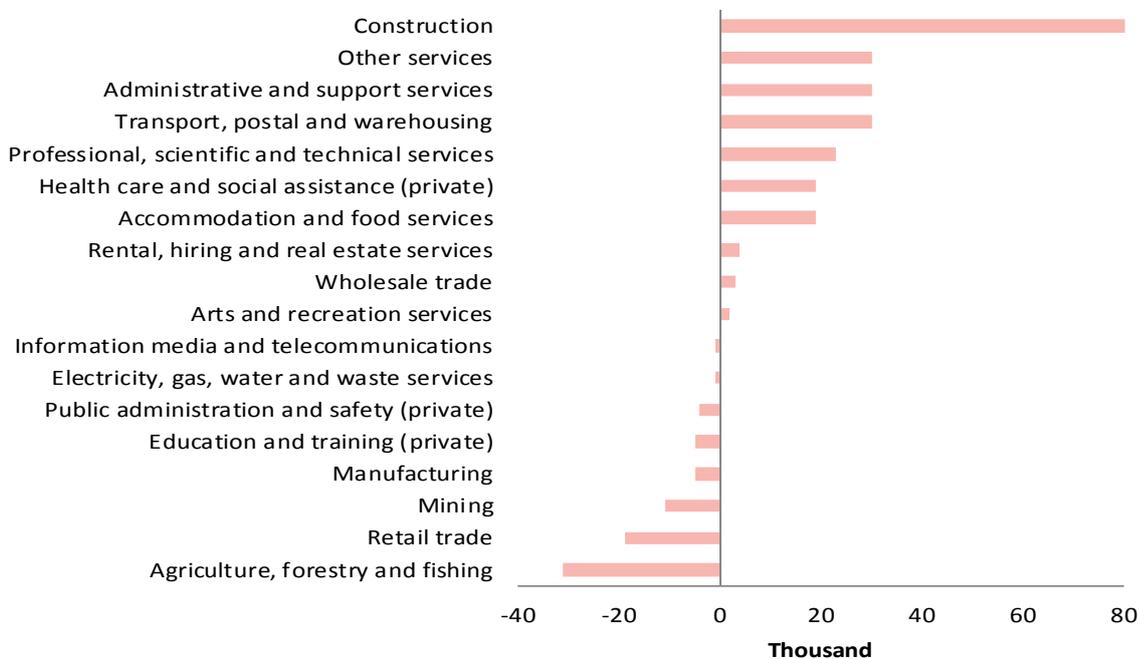
Table 1: small business share of total private sector employment by industry—June 2009 and June 2016

	Small business share of total employment (%)	
	End of June 2009	End of June 2016
Agriculture, forestry and fishing	84.1	80.0
Mining	14.8	8.0
Manufacturing	29.9	31.0
Electricity, gas, water and waste services	14.8	14.3
Construction	70.9	68.6
Wholesale trade	34.8	34.3
Retail trade	38.3	34.7
Accommodation and food services	55.1	46.2
Transport, postal and warehousing	44.0	44.0
Information media and telecommunications	19.7	20.0
Rental, hiring and real estate services	76.6	77.0
Professional, scientific and technical services	55.9	52.8
Administrative and support services	32.8	34.0
Public administration and safety (private)	25.8	21.8
Education and training (private)	25.1	23.4
Health care and social assistance (private)	30.7	31.6
Arts and recreation services	40.2	37.8
Other services	65.8	65.5
TOTAL	46.4	44.3

Source: ABS, *Australian Industry*, cat. no. 8155.0

Employment growth for small business in the three years to the end of June 2016 has been strongest in Construction (up by 80,000) followed by Other services (up 30,000), Administrative and support services (up 30,000) and Transport, postal and warehousing (up 30,000). Employment loss for small businesses has been greatest in Agriculture, forestry and fishing (down 31,000), Retail trade (down 19,000) and Mining (down 11,000).

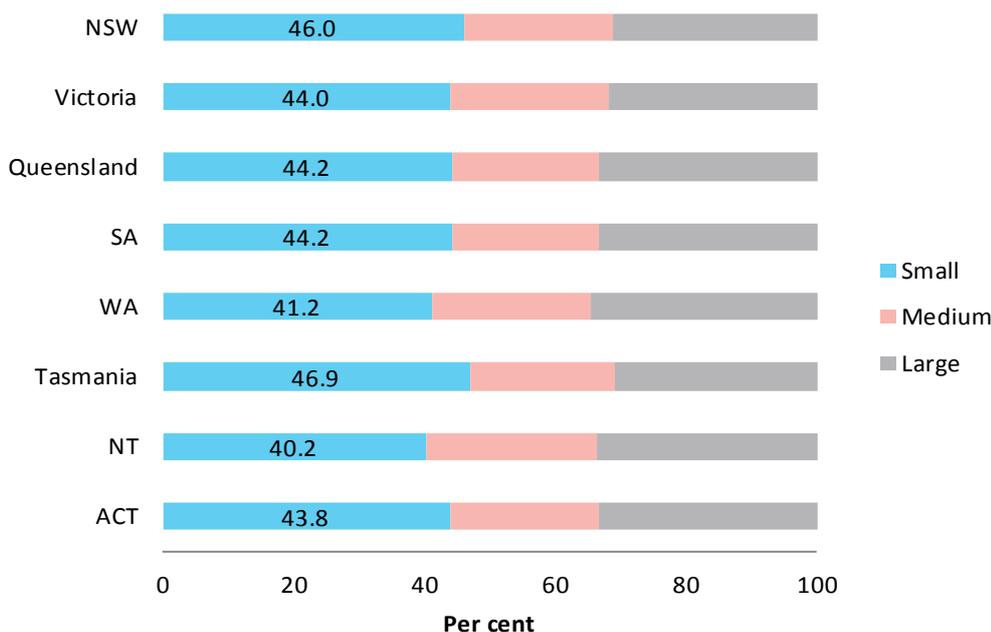
Figure 4: change in small business employment by industry—three years to end of June 2016



Source: ABS, *Australian Industry*, cat. no. 8155.0

Tasmania had the highest small business share of total employment at the end of June 2016 (at 46.9 per cent) while the Northern Territory had the lowest (40.2 per cent).

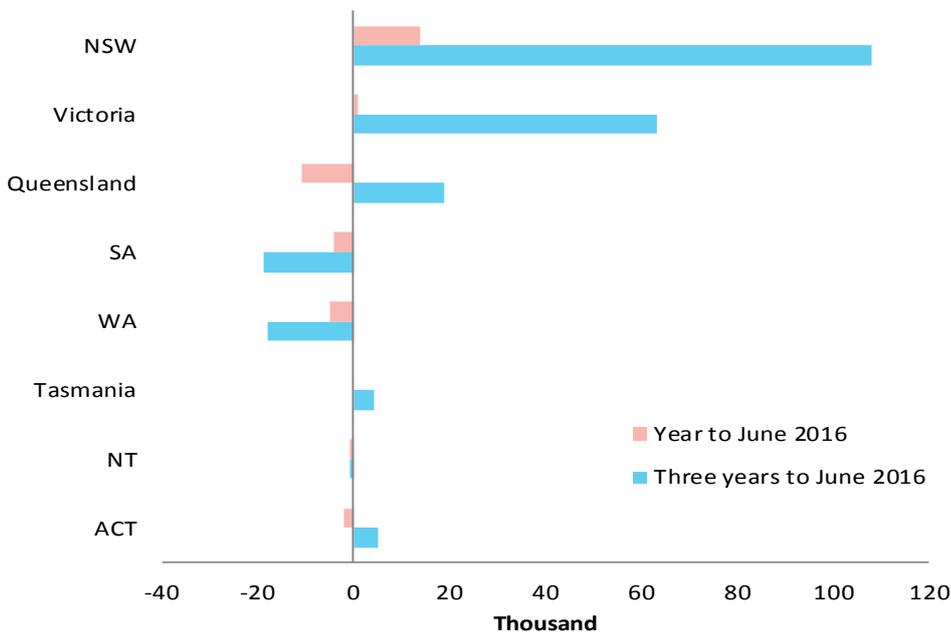
Figure 5: small business share of total private sector employment by state and territory—end of June 2016



Source: ABS, *Australian Industry*, cat. no. 8155.0

New South Wales and Victoria experienced the biggest increases in small business employment in the three years to the end of June 2016 (up 108,000 and 63,000 respectively) while South Australia and Western Australia experienced the biggest falls (down 19,000 and 18,000 respectively).

Figure 6: change in small business employment by state and territory

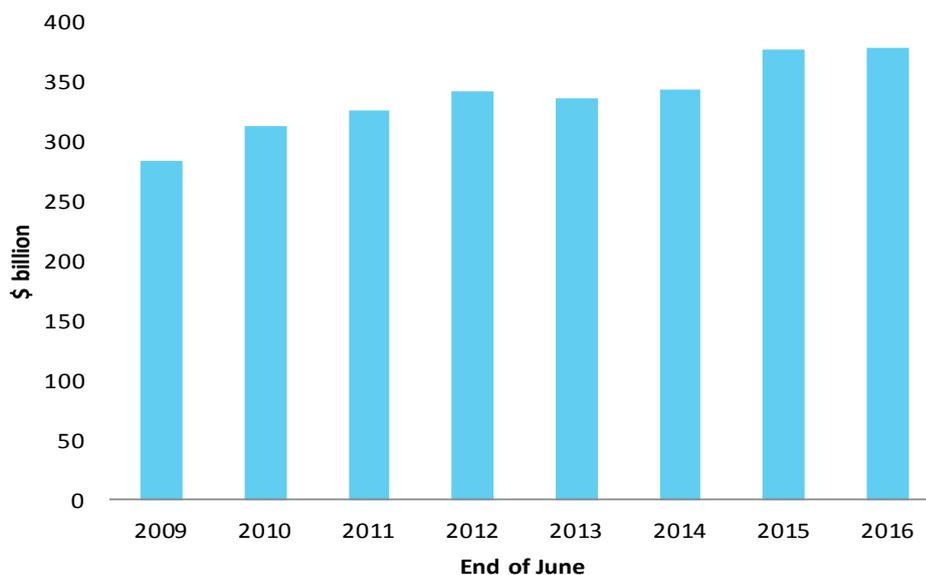


Source: ABS, *Australian Industry*, cat. no. 8155.0 (unpublished data)

Small business contribution to the economy

Industry Value Added (IVA) is the private industry contribution to the economy. IVA is an estimate of the difference between the market value of the output of an industry and the purchases of materials and expenses incurred in the production of that output. Total IVA for the small business sector hovered between \$326 billion and \$342 billion per year from 2010–11 to 2013–14. Industry output in the small business sector grew substantially by \$33.5 billion or 9.8 per cent in the 12 months to the end of June 2015 and by a more modest \$2.6 billion or 0.7 per cent in the 12 months to the end of June 2016 to \$378.4 billion.

Figure 7: Total Industry Value Added (IVA) in the small business sector

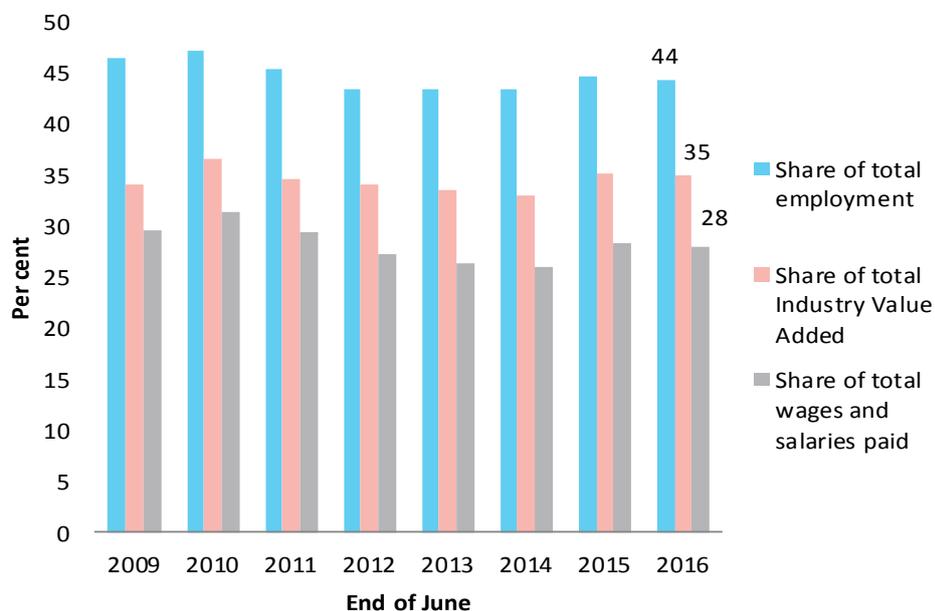


Source: ABS, *Australian Industry*, cat. no. 8155.0

Average annual wages by firm size

The following chart shows the small business share of total private sector employment, total IVA and total wages and salaries paid in the private sector. The small business sector accounted for just over 44 per cent of total private sector employment, 35 per cent of total IVA and only 28 per cent of total wages and salaries paid in the private sector in the 12 months to the end of June 2016.

Figure 8: small business share of total private sector employment, IVA and wages and salaries



Source: ABS, *Australian Industry*, cat. no. 8155.0

The following table shows average annual wages and salaries paid for workers in small, medium and large enterprises between 2008–2009 and 2015–2016 expressed in June 2016 dollars.

Table 2: average annual real wages for workers in small, medium and large enterprises (\$ per annum)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Change: 2008-09 to 2015-16	
									dollars	Per cent
Small	\$29,803	\$30,633	\$29,603	\$30,072	\$29,687	\$29,443	\$31,683	\$31,893	\$2,090	7.0
Medium	\$55,891	\$52,691	\$52,363	\$53,098	\$55,314	\$57,165	\$56,955	\$58,476	\$2,586	4.6
Large	\$66,393	\$64,839	\$64,542	\$68,872	\$70,259	\$70,464	\$70,256	\$70,275	\$3,882	5.8

Source: ABS, *Australian Industry*, cat. no. 8155.0; ABS, Consumer Price Index, cat. no. 6401.0 (Parliamentary Library calculations). Note: Expressed in June 2016 dollars and includes working proprietors.

Average annual real wages for workers in large and medium enterprises are much higher than those recorded for workers in small enterprises. The results may reflect differences in average hours worked by employed people and different skill sets of workers in different sized firms. For example, there may be a higher percentage of people working in casual part-time positions in small businesses compared with medium and large enterprises. And workers in smaller firms may be less skilled on average than workers in larger firms. Unfortunately ABS data is currently not available on the composition of full and part-time employment and access to leave entitlements of employees by firm size and industry. Point-in-time estimates for wages and salaries may also be affected by seasonal factors.

It should also be noted that a proportion of people employed in small businesses are working proprietors who may or may not be drawing a wage as an employee of their business. For example, ABS data shows just over 10 per cent of employed people in Professional, scientific and technical services were working proprietors in June

2016. The working proprietor share could be much higher or lower in other industries which could affect the averages for wages and salaries paid in each industry sector.

Growth in average wages and salaries for workers in small enterprises was slightly higher in real terms between 2008–09 and 2015–16 (at 7.0 per cent) than growth in average wages for workers in medium and large firms (at 4.6 per cent and 5.8 per cent respectively).

Conclusion

The most recent data available shows the small business sector makes an important contribution to private sector employment and industry value added in Australia. But this finding should not ignore the equally important influence and involvement of medium and larger sized enterprises in driving employment and output growth.

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