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Updates on Entrepreneurship Dynamics in Australia

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Key points

- The business entry rate in Australia has followed a general downward trend since the early 2000s until 2012–13, but has been rising since 2013–14.
- The share of small young firms in net job creation has been constantly on the rise, with a noticeable increase in the five years to 2014–15 in line with the recovery in the business entry rate.

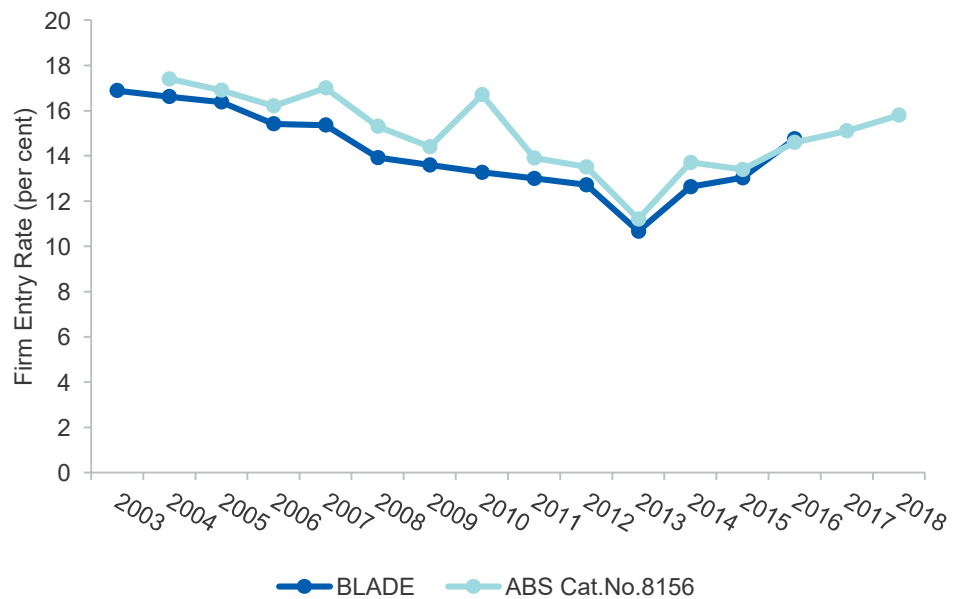
1. Background

Using an earlier version of the BLADE, Bakhtiari (2019) shows the changing dynamics of Australian entrepreneurs. The main conclusion from the work is that over the period from 2005 to 2014 there has been a fall in entrepreneurship dynamics in terms of fewer entries and a higher probability of exit.¹ Despite the deterioration in these conditions, the study shows that job creation among small young firms is strong and even increasing. An update to the BLADE is providing a few more years for analysis. This report utilises those extra years to provide a more complete picture of firm entry and job creation among young firms.

2. Firm Entry

Bakhtiari (2019) finds a downward trend in firm entry that starts from around 2005. This report uses an updated version of the BLADE that extends the years to 2016. The entry rate computed from the BLADE as well as the official results reported by the ABS in Catalogue Number 8165.0 (Counts of Businesses) are illustrated in Figure 2.1.

Figure 2.1 Firm entry rate.



Note: The rate is the proportion of all entries in a year divided by the total number of firms in that year.

Source: BLADE and ABS Cat.No.8165.0

First of all, there are some differences in the entry rate computed from the BLADE from that reported by the ABS. When calculating the firm entry rate from the BLADE, entries in two sectors Financial Asset Investing (ANZSIC 6240) and Superannuation Funds (ANZSIC 6330) are ignored. Entries and

¹ Years in this report are fiscal years being referenced by their ending year. Therefore, 2014 refers to 2013–14.

exits in these two sectors are mostly about investment portfolios maturing and being reinvested and not about entrepreneurship. All government sectors (ANZSICs 751–772 and 621) are also excluded from the statistics.

Despite the discrepancies in numbers, the trends from the BLADE and the ABS are almost in parallel.

In particular, firm entry rate starts dropping from the early years and hits its trough in 2013. After 2013, the trend changes direction and firm entry rate starts increasing. Most of the drop in firm entry has recovered by 2016 (from the BLADE). However, the firm entry rate in 2016 is still about two percentage points below that of the 2003.

3. Share of Net Job Creation

Bakhtiari (2019) also shows that small young firms are the engine of net jobs growth in Australia. Pooling data from 2002 to 2014, he finds that about 80 per cent of net job creation has been the contribution by small young firms. Net job creation among small mature firms and large firms practically offset each other and only account for about 20 per cent of the total.

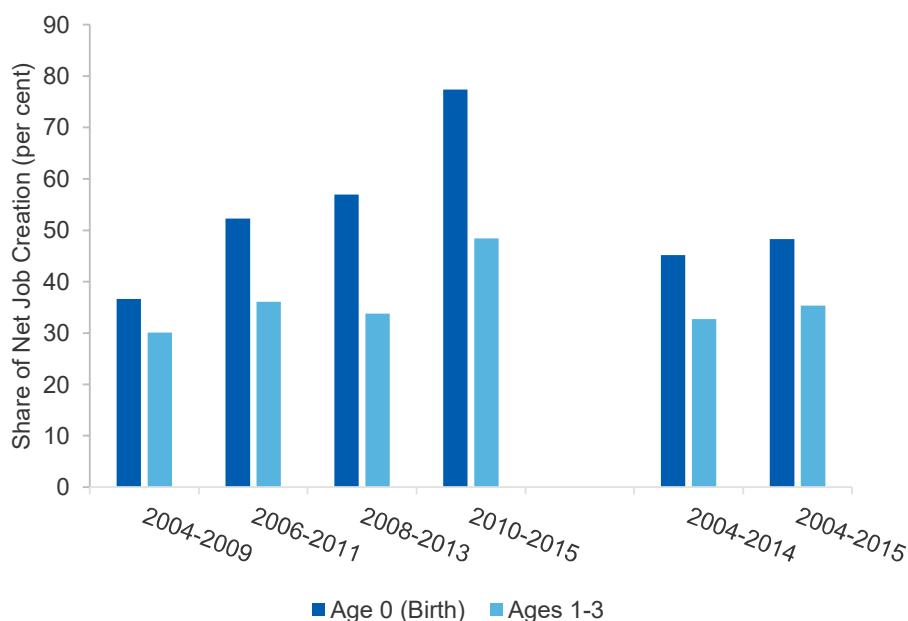
Using the updated BLADE, this report explores whether the contributing share of small young firms to net job creation has been steady, increasing or decreasing over the years. To bypass noise and short-term economic effects, the net job creation shares are computed using a sliding five-year window.

The share of small young firms from net job creation is illustrated in Figure 3.1. For this purpose, firms are divided into five groups. This categorisation is more detailed than the one used in Bakhtiari (2019) and is to provide a better inside into the contributions to job creation at different stages of a firm. The categories showcased here are: Small firms at age zero (year of birth), Small Young firms (ages 1–3), Small Mature firms (ages 4+), Medium-sized firms, and Large firms. Small is defined as the firm having fewer than 20 full-time equivalent employees (FTE) in the first year observed. Medium-sized are firms whose FTE is between 20 and 200. The definition of young firms in this study follows that of Bakhtiari (2019) which shows that after the third year, job creation and destruction among firms converges to that of the more mature firms.

As explained earlier, sliding window of years with the width of five years is applied. In each case the net job creation among each category is computed. The share of small young firms from the total net job creation from the total sum is computed and plotted.

The first important observation is that most of the jobs added by young firms are happening in the first year of birth. In one year, that is the year of birth, these firms add more jobs than in the whole of the following three years. As is inferred from this finding, and in-line with the evidence from Bakhtiari (2019), job creation among young firms quickly tapers off with age. This pattern has consistently held, and is becoming even more nuanced over the more recent years.

Figure 3.1 The share of small young firms in total net job creation.



Source: Dept. of Industry, Innovation and Science (2019)

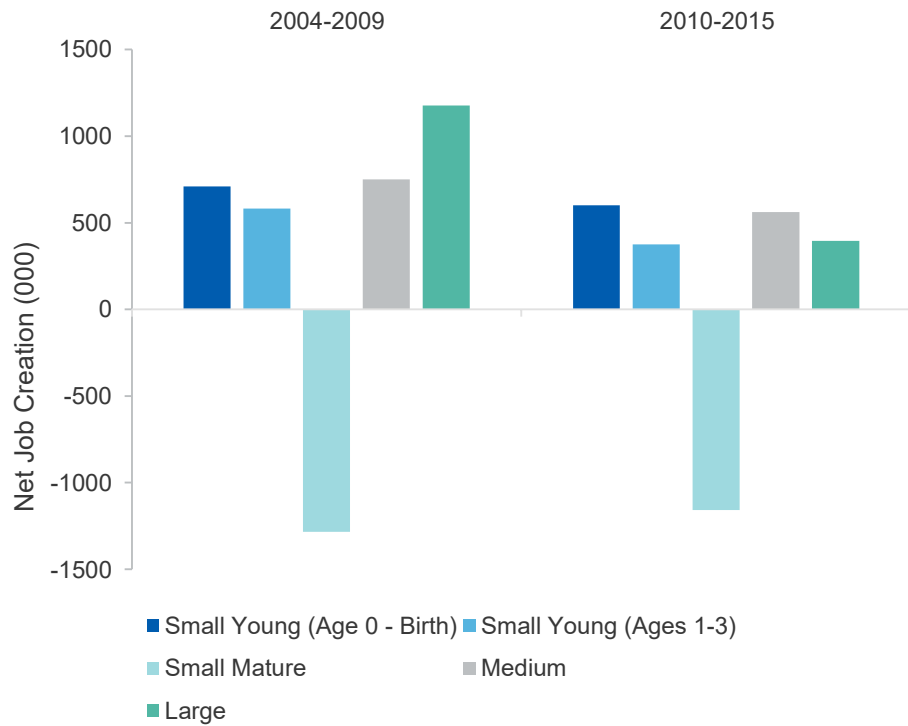
The results also show that the share of small young firms from total net job creation has been monotonically increasing over time. During the 2004–2009 period, close to 65 per cent of all the jobs added to the economy were generated by small young firms (adding up ages 0 to 3). During 2006 to 2011 and 2008 to 2013, this share is between 80 to 90 per cent (ages 0 to 3 included).

For the period 2010 to 2015, the share of small young firms from total job creation is about 125 per cent (ages 0 to 3 included). During this period, small mature firms destroyed more jobs than large firms added, so the net effect in the absence of small young firms is negative (Figure 3.2). Most of the job losses by small mature firms have been through downsizing; only about 3 per cent of these job losses are due to exit by small mature firms.

Medium and large firms are adding a lot of jobs. However, two things are happening during the last period in Figure 3.2. First, the number of jobs added by medium and large firms, and also by small young firms, has dropped. The full pace of job creation is slowing down.

The second issue is that, during this last period, the total number of jobs added by medium and large firms is not enough to fully offset the negative impact of small mature firms. Small young firms are not only covering the gap but also adding jobs on top of that. That is the reason their contribution is higher than hundred per cent.

Figure 3.2 Net job creation (destruction) by different types of firms.



Source: Dept. of Industry, Innovation and Science (2019)

4. Conclusion

Entrepreneurship in Australia experienced a period of rather steep decline from 2005 to 2014. This is similar to the trend observed in many other countries. After 2014, entrepreneurship and job creation among small young Australian firms has constantly improved. By the BLADE account, the level of firm entry in 2016 is still below that of 2003. Further updates to the data can show whether a full recovery is taking place or not.

Disclaimer

The results of these studies are based, in part, on ABR data supplied by the Registrar to the ABS under A New Tax System (Australian Business Number) Act 1999 and tax data supplied by the ATO to the ABS under the Taxation Administration Act 1953. These require that such data is only used for the purpose of carrying out functions of the ABS. No individual information collected under the Census and Statistics Act 1905 is provided back to the Registrar or ATO for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes, and is not related to the ability of the data to support the ABR or ATO's core operational requirements. Legislative requirements to ensure privacy and secrecy of this data have been followed. Only people authorised under the Australian Bureau of Statistics Act 1975 have been allowed to view data about any particular firm in conducting these analyses. In accordance with the Census and Statistics Act 1905, results have been confidentialised to ensure that they are not likely to enable identification of a particular person or organisation.

References

Bakhtiari (2019) "The Dynamics of Entrepreneurship in Australia: Lessons from Micro-data," *Economic Record*, 95(308), 114–140.