SME Policy Development in a Global Economy
An Australian Perspective

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Introduction

Small and medium enterprises (SMEs) have long been recognised as important to the economy in terms of their considerable contribution to GDP and employment creation and, as such, have been a priority agenda item for APEC since the 1993 Leaders’ meeting in Seattle (Hall, 1995). During the last decade, the rise of information and communication technologies (ICT) and the related rise of service sector industries have significantly altered the course of industry and SME policy from a protectionist approach to a culture favourable to entrepreneurship. In particular, policy makers have been looking at what actions should be taken to encourage entrepreneurship and innovation by SMEs in an increasingly connected and global business environment (Audretich and Thurik, 2001).

This paper commences with a summary of SME initiatives currently in place in Australia, highlighting programs, issues and barriers pertaining to the development of SMEs. It then explores public-private partnership options to assist SME promotion and growth. The paper concludes with policy implications and suggestions towards the sharing of best practice for SME development in the Asia-Pacific region.
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Australian SMEs

The SME business sector in Australia accounts for 95 per cent of all business and employs 3.3 million Australians, or 47 per cent of the non-agricultural private sector workforce, in industries across all parts of the Australian economy. At the last census in 2002, there were approximately 1.2 million small businesses in Australia, accounting for around 15 per cent of gross domestic product (GDP). The Australian Bureau of Statistics (ABS) defines small businesses as firms with fewer than 20 employees; medium businesses employ 20 to 199 people (ABS, 2002).

The small business sector is very diverse, with a high representation in the property, business services, construction and retail trade sectors. Around 67 per cent of all small businesses are home-based (ABS, 2005). Australian SMEs are becoming increasingly export focused; approximately 41 per cent of all goods exporters are small businesses (ABS, 2004). The 2006 Sensis Business Index shows that SMEs believe the economy to be strong and future economic expectations remain positive.

The World Bank report Doing Business in 2006 describes Australia as a country that is easy to do business in and is friendly to small business. The ease of doing business refers to governments creating a regulatory environment that is conducive to the operation of business (World Bank, 2006). A new business in Australia can typically be established in less than two days, with just two steps compared with an OECD average of six steps and 25 days. Some 110,000 new SMEs were started in the last 10 years (ABS, 2006), which is not to imply they all survived and thrived. In a comparison of entrepreneurial activity across 30 countries, Australia's small businesses ranked as the eighth most entrepreneurial. Australia's high self-employment and entrepreneurship rates are attributed to the large percentage of immigrants who enter Australia and start a business (Hindle & Rushworth, 2003).

Australian SME Policy

The Australian Government recognises that the economic health of Australia
depends, in large part, on the growth generated by those entrepreneurial Australians who operate their own small businesses. Small business is generally regarded as having the dynamic entrepreneurial culture that leads to innovation and employment growth. Small businesses are also seen as organisationally more flexible and therefore more able to provide rapid response to changing customer demands (OECD, 2001). While there is evidence of constant turbulence in the SME sector, with firms downsizing, new firms being formed, and existing firms expanding, these dynamic entrepreneurial processes, once perceived as a negative influence, are now seen as critical to innovation and growth (Stevenson & Lundstrom, 2001).

In 2004, the Australian Government released its Committed to Small Business statement, bringing together a range of initiatives aimed specifically at enhancing the operating environment for small business (Commonwealth of Australia, 2004). Underpinning the Government’s encouragement of entrepreneurship and innovation is a program of legislative reform and funding to drive continuous improvement in the workplace, flexibility in the labour market, skills development, and reduction in taxation, regulation and compliance cost for business. The 2006 Federal Budget delivered $435 million in business tax cuts over four years through a range of measures aimed at reducing the complexities of doing business for SMEs. Cuts to business taxes are designed to reduce business costs, relieve the burden of red tape, and assist business to sustain high rates of productivity (Commonwealth of Australia, 2006). On the other side of the financial coin, new measures have been put in place to increase the supply of venture capital to start-up companies and small enterprises seeking capital injections. Recent studies have shown the important role new high growth firms can play in job creation and economic development (Yencken et al, 2006), so SMEs with a technology focus and high growth potential are especially targeted as the key beneficiaries from increased access to capital.

While SME initiatives are developed across more than one agency, AusIndustry (www.ausindustry.gov.au), which is part of the Department of Industry, Tourism and Resources (DITR), is the main industry support agency. AusIndustry’s goals as the central point for business assistance and information are to support R&D, commercialisation and innovation. Under the theme Grow Your Small Business, AusIndustry provides a range of products
designed to assist small business to become innovative and internationally competitive (http://www.ausindustry.gov.au/index.cfm). Initiatives cover a variety of SME development and growth stages, examples of which are discussed below.

The **Innovation Investment Fund** is a venture capital scheme first introduced by DITR in 1998. Through this program, the government co-invests in early-stage equity companies together with private venture capital funds. The aim of the scheme is to encourage research and development (R & D) and growth of new Australian technology-based firms through the supply of venture capital. Approximately 75 firms have received funding through the program. The program is currently being evaluated, but can generally be considered successful in terms adequate return on investment for all parties concerned. While the program was designed to supply venture capital to early-stage firms, due to investor risk aversion in practice most participating firms have been in later stages of development. For the continuation of the program, a successor scheme (the **Pre-Seed Fund**) has been redesigned to support earlier stage development to a greater degree (Yencken et al, 2006).

As part of **Backing Australia’s Ability** (http://backingaus.innovation.gov.au), an initiative that supports research, innovation and skills development, the **Commercialising Emerging Technologies** (COMET) program was introduced in November 1999 to aid the commercialisation of innovation products, processes and services. COMET targets all industry sectors and provides support to early-growth stage companies, spin-off companies and individuals in the areas of commercialisation and business development activities. The program has been shown to increase the motivation of participating firms and COMET has been extended until June 2011, with a further $100 million in funding (Autio et al, 2007).

The **Commercial Ready Program**, introduced in 2004, provides competitive merit-based grants to SMEs for commercialisation activities, for R&D with high commercial potential, and for proof-of-concept activities. The program supports both R & D in new ventures as well as applied research leading to new innovations by established SMEs. The aims of the program are to support Australian businesses in the technology sector to develop innovative products, processes and to encourage collaboration between industry and research
institutions. Grants require matching contributions by receiving firms which limits the program to firms that already have significant financial resources. In 2005-06, 600 firms were supported through the program, which is considered particularly useful to SMEs in the expansion stage, e.g. to assist in the funding of product customisation activities for new markets. The fund contributes to an increased growth motivation for established SMEs by facilitating the continued development of new products and product lines (Yencken et al, 2006).

Foreign owned businesses in Australia contribute a disproportionate share of R &D and innovation and until very recently businesses which held their intellectual property overseas did not qualify for R & D tax concessions. With the aim to make Australia a more attractive place for innovation, from July 2007 onwards SMEs and large firms which boost their long-term investment in Australian innovation will be rewarded with a subsidy on additional R & D conducted in Australia (Commonwealth, 2007).

With the main role for small business considered to be job creation and making a contribution to (regional) economic development, continuity of business experience and enterprise, as well as entrepreneurial capacity building are actively encouraged through business development programs. The Small Business Entrepreneurship Program and the Building Entrepreneurship in Small Business support a new culture of entrepreneurship by providing grants focusing on the ongoing improvement of Australia's small business operating skills with grants being made available for incubation, training and mentoring and succession planning. Funding themes within these programs include women entrepreneurs, young entrepreneurs and the development of skills in the use of information and communication technologies (ICT) to conduct electronic business transactions with clients and suppliers.

The drive for improved efficiency and a reduction in the cost of doing business is also being actively pursued through information technology tools such as the Business Cost Calculator and the VANguard initiatives. Both are designed to reduce the cost of compliance for business in terms of time and money. The Calculator can be used to estimate/calculate an approximation of regulation costs and their impact on small business. The Calculator can also be
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used to compare the compliance cost based on location or industry and identify strategies to reduce the compliance burden. In keeping with the theme to simplify compliance for small business, the VANGuard initiative takes a whole-of-government approach to electronic validation, authentication and reduction of red tape to complete transactions with government agencies (Commonwealth of Australia, 2006).

In addition to the aforementioned technology developments, a New to Business initiative for aspiring entrepreneurs has been rolled out. A web-based checklist delivered through www.business.gov.au, provides entrepreneurs with a one-stop-shop start-up resource, combining information from all three tiers of government relevant to starting a business. Small business is further assisted by being exempted from unfair dismissal laws allowing for more flexibility in its workforce, business investment and growth. New export opportunities for small business are also being created through the negotiation of foreign trade agreements aimed at reducing transaction costs involved in cross border trading.

To help SMEs start and run a successful business, SMEs also have access to state-level support in the State or Territory they reside. Programs and resources vary from state to state and range from finance to support for the development of a business plan, to training and assistance to attend overseas trade fairs. The State of Victoria’s Building Innovative Businesses Program, for example, provides participating SMEs with intensive management assistance, internationally focused market support and access to private sector equity (Yencken et al, 2006).

SME Development Issues

Australia has a wide-ranging set of SME initiatives in place, with a number of them enjoying iterative lifecycles as a result of the same political party having been in office for more than a decade. While Australia may have a comprehensive set of SME policies related to the resources and support SMEs need in different phases of development, a number of SME development issues remain. As Yencken et al (2006) observe, Australia may have a
reasonable record in public funding of research and development, but policy makers still tend to view innovation as a pipeline. When funding is provided for product research and SME development on one end of the pipe, new technologies, commercial applications, SME growth and job creation are expected flow out on the other end. Policy measures have a limited lifecycle and are adjusted continually to address perceived gaps, but anticipated outcomes of many of the SME policies may well be too high (Autio et al, 2007).

Current Australia’s SME policies have an emphasis on new technology and a focus on businesses with a strong potential for high growth. There are a number of phases of business that need to be negotiated between opportunity, start-up and expansion that lead to successful high-growth. These steps are arguably the most difficult for any firm and are strongly influenced by the capability, behaviour and motivation of the entrepreneur in terms of translating technology-driven business ideas into reality in the marketplace. Yet, these situational conditions tend to fall outside the scope of entrepreneurship support policies (Autio et al, 2007).

While the contribution to job creation by high-growth SMEs is extremely important, in reality only a small percentage of entrepreneurial ventures achieve rapid growth and contribute to high quality innovation and job growth. As a recent article on the employment opportunities presented by SMEs in Australia suggests, the country should not solely rely on SMEs to create job opportunities since the majority of them are not interested in hiring people (Schaper, 2006).

Another development issue pertains to the fact that SMEs are a heterogenous group. The contemporary make-up of small business shows that over 30 per cent are operated by 'baby boomers' who may be exiting their business over the next decade and less than 10 per cent are run by those under 30 years (Commonwealth of Australia, 2006). SMEs also operate in different industry and local contexts. As such, there is little benefit in treating SMEs as a homogeneous group without regard to gender, education and demographic make-up, the industry sector they operate in, or the local context within which they are embedded. Location is considered an important context for entrepreneurship, but all locations do not equally contribute to
entrepreneurship. The ability of entrepreneurs to induce entrepreneurial activities in their region also depends on their education, experiences, skills and motivations (Kotey, 2006). Deregulatory measures designed to cut red tape and support SMEs in a generic fashion may result in the creation of a low quality and low wage employment environment for SMEs with little future (Parker, 2000). Van Stel and Storey (2004) caution against policies that promote short-term self-employment by individuals with low levels of human capital and subsidising of less efficient firms to prevent them from leaving the market when competition intensifies.

That is not to say that SME capacity building, especially on the micro firm level, is not required. As a 2003 Senate Report on Small Business Employment by the Employment, Workplace Relations and Education References Committee observed, "despite being highly skilled and capable in many areas, many proprietors lack the business management skills they need to compete effectively in today's more competitive, deregulated environment. The lack of these skills is a major cause of under-performance, business failure and untapped potential in the small business sector" (Commonwealth of Australia, 2003, pp.xix-xx). This is not a new finding, nor one confined to Australia. Over the past 25 years the need to improve the business management skills of small business owners has consistently been identified in small business studies and reports undertaken by Australia, APEC and the OECD. Australian government officials at all levels have, to varying degrees, acknowledged the needs of small business and rolled out small business development initiatives. Worthwhile as many of these programs may have been, "most initiatives fall short of providing the level, quality and type of business development support that would allow small business to reach its full potential" (Commonwealth of Australia, 2003).

Barriers to small business capacity building are in part related to the Australian culture which attaches a high value to self-reliance, resulting in atomistic behaviour by Australian SMEs and a pervasive culture of 'going it alone' (Braun, 2004). As a result, many SMEs lack awareness and understanding of the benefits of training, resulting in widespread indifference to training. Since SMEs are often time- and resource-poor, the cost of training, including time loss from the job, is frequently seen as a disincentive. Training provision is often not sufficiently flexible, while the diversity of small
business and the preferences of owner/managers make even the best of training programs a difficult undertaking (Kearns, 2002).

These barriers extend to the area of information and communication technology (ICT) adoption by small business, an essential tool for any small business wishing to participate in today’s global business environment. Many Australian SMEs have yet to comprehend the value of integrating ICT into their business processes, lacking the strategic e-business planning, skills and knowledge required to operate in the digital economy (Braun & Van Beveren, 2005; Braun, 2004). Government interventions designed to overcome ICT adoption barriers have not markedly increased the uptake of e-business by Australian SMEs (Braun & Harman, 2004), with women-led SMEs trailing their male counterparts in the integration of e-business practices (Sensis, 2006). SMEs that continue to remain unskilled and unintegrated in the digital economy may eventually experience a reduction of market opportunities.

Other issues that impact on Australian SMEs operating in a global business environment relate to compliance with international tax laws, rules and regulations relating to cross-border trading, e-business, e-payment, intellectual property rights (IPR) and international financial reporting standards (IFRS). Results of a survey indicate that most SMEs are not ready for international financial standards such as IFRS (Heathcote, 2005) and cross border trading. The latter is based on cooperation by regulatory authorities across jurisdictions and a clear delineation of authority and responsibility. Such delineation is typically not yet present and SMEs hence need help with the rapidly changing international regulatory environment. The Australian Government has established eight so-called Export Hubs in key locations that offer local businesses a one-stop shop for trade and industry assistance. However, governmental export agencies whose mission it is to increase Australia’s export volume, particularly those of SMEs, appear to fall short in serving a valuable purpose, with only 45 per cent of SME exporters seeking any advice or assistance when they start exporting (Kerin, 2006).

Aforementioned issues highlight the challenges of designing and implementing effective public policy to support Australian SMEs, particularly in areas where the prevalent SME culture tends to favour a laissez-faire approach. One area where Australia has been making significant progress is in
the public-private partnership arena. The aforementioned *Innovation Investment Fund* is one example of a successful public-private partnership program.

**Public-Private Partnerships**

With the rise of the knowledge economy, public-private partnership (PPP) models have moved well beyond shared investment in key public infrastructure towards a framework for innovation through knowledge sharing. The importance of knowledge sharing is reflected in the 2006 adoption of the Hanoi Declaration on Strengthening SME Competitiveness for Trade and Investment, in which Ministers agreed to become proactive in sharing experiences, research and best practice in the areas of SME competitiveness for trade and investment (APEC, 2006).

The development of joint initiatives between the public and private sectors for SME development is of considerable interest to Australia as SMEs play a strategic role in fostering the Australian innovation process and are a significant source of national wealth creation. Building partnerships, skills and infrastructure that enable SMEs to experience the full benefits of R & D and produce commercially viable outcomes that attract global interest are seen as necessary to compete in the global business environment. The sourcing and supporting of entrepreneurship and innovation through public-private partnerships also reflects the policy shift from a protectionist approach to a culture favourable to entrepreneurship. As such, deregulation measures, venture capital, encouraging R & D and new firm start-ups are all designed to enable SME creation and commercialisation of knowledge (Stevenson & Lundstrom, 2001). As Audretsch and Thurik (2001, p.32) point out "entrepreneurship generates growth because it serves as a vehicle for innovation and change, and therefore as a conduit for knowledge spillovers".

Australia's *Cooperative Research Centres* (CRC) Program was established in 1990 to improve the effectiveness of Australia's research and development efforts. CRCs are funded for seven years and promote long-term strategic links and collaboration between industry, universities and government
research institutions. CRCs link researchers with industry to focus R & D efforts on progress towards utilisation and commercialisation. The close interaction between researchers and the users of the research is a key feature of the program. Another feature is the industry contribution to CRC education programs to produce industry-ready graduates (Yencken et al., 2006). At present the CRC Program has a network of 56 active CRCs, mostly made up of small companies formed through a collaboration of businesses and universities, but can also include government agencies and other research organisations. Each CRC falls into one of six broadly defined sectors: environment, agriculture, information and communication technology, mining, medical science and technology and manufacturing. Some six hundred SMEs currently are or have been involved with CRCs and the return and impact of the work by CRCs on the Australian economy is estimated at A$2.7 billion (Innovation Australia, 2007). The CRC Program has become a global role model for collaboration between business, academia and government, aiming to turn scientific innovations into successful new products and services.

In addition to supporting R & D through partnerships, market-based approaches that have a focus on creating a market environment conducive to SME development are also actively pursued. For example, to maximise opportunities for Victorian SMEs, the Victorian Industry Participation Policy (www.dird.vic.gov.au/VIPP) seeks to increase opportunities for participation by SMEs in major government procurement contracts, projects and infrastructure. The program aims to boost SME employment and business growth and to expose SMEs to new technologies, new processes and best practice. One of the primary issues to heed in rolling out market-based programs is the difference in capacity between public and SME partners, whereby capacity building of SMEs needs to be ongoing and responsive to the growth and inevitable changes SMEs face by participating in these types of partnerships.

Public-private dialogue and partnerships promote better diagnosis of the investment climate and related policy design; make policy easier to implement; create more transparency; and promote trust. While PPPs assist in creating an enabling environment for SME development, they should not be considered a panacea. There will be instances where PPPs may be ineffective, especially when the interests of SMEs are being under-represented in the
partnership. Dialogue to develop specific goals, strategies, and priorities for the partnership will lessen these problems. Considering implementation of PPP initiatives in phases - a discovery phase, a high impact phase, and a sustainability/transfer phase - can also be a useful strategy (Herzberg & Wright, 2006).

**Enabling Environment for SME Development**

International experience has shown that subsidies alone have limited effectiveness in promoting SME development and a clear understanding of the role of government in creating enabling environments for SME development is essential. Typically, the role of government has been to get the enabling environment right for business by removing obstacles to private sector activity - including those resulting from inappropriate legislation, institutional deficiencies and market failures. Increasingly important components to consider within the enabling environment are the local context and asset base, including access to infrastructure and institutional support; industry structures and networks; research and training.

ICT and the digital economy have created a level playing field and policy initiatives would do well to move away from creating generic enabling environments without regard to gender, demographic make-up, firm size (micro versus SME), the industry sector SMEs operate in, and the local context within which they are embedded. For example, women are increasingly important in terms of their contribution to GDP (Braun, 2007; Daly, 2007). However, women-led SMEs face different obstacles from men, such as access to finance and juggling family care and business when venturing into business (Centre for Women's Business Research, 2003). SME strategies should hence take into account the full range of factors that influence the creation of new firms and the growth of existing firms and include not only the regulatory apparatus, but also the legal system and the taxation system. SMEs will benefit most from policy that is integrated and coordinated, in the sense that SME development programs are considered within the overall policy environment and are complementary across agencies. In addition, promoting transparency and SME awareness of laws, rules and
regulations, especially in rapidly changing areas such as e-business, cross-border trading and intellectual property rights, will assist SMEs to act local but think global.

Perhaps the most important step governments can take in getting the enabling environment right is to embrace a public-private partnership approach for policy innovation. The advent of ICT provides policy makers with a useful platform for sustained dialogue on the local level. An inclusive approach to policy creation will lead to informed policy initiatives that are tailored to SME needs. A shared approach also promotes trust, which in turn will assist in the identification of industry opportunities and increased uptake of development programs by SMEs.

**Knowledge Sharing across APEC Economies**

This paper has highlighted policies, programs, issues and barriers surrounding the development of SMEs in Australia. It discussed Australia’s public-private partnership approaches to assist SME promotion and growth. The paper has also explored the role of government in creating enabling environments for SME development.

Australia is not alone in its quest to enhance SME performance and find solutions that will boost SME growth and innovation. With each economy now globally engaged and the integration between economies increasing daily, it is imperative to build knowledge sharing partnerships both within and across our borders, especially in the areas of SME research, technology and product innovation. Recognising that both the business climate and enabling environment impact on SME development and growth, it is also vital to share the processes and observations of particular policy reforms that have led to an improved business climate. The sharing of policy design, implementation, monitoring and evaluation processes will assist in building an evidence-based regional charter for good practice in SME development.

There is no doubt that the sharing of knowledge across economies will contribute to increased understanding of how to best support entrepreneurship,
SMEs and related economic development in the Asia-Pacific region. ICT-based technologies and the Internet can effectively assist economies to collaborate and share their research, knowledge, technology and policy experiences. Much like generic SME policy, generic knowledge sharing would be ineffective in terms of creating good practice for SME development across the region. Research and knowledge sharing require a best practice framework and infrastructure accessible to all those generating and sharing the knowledge base. This would enable targeted and equitable content contribution and distribution. It would also be conducive to the formation of communities of practice in special interest areas such as R & D, innovation, specific industry sectors or regional areas and other social, cultural, political and economic dimensions that influence entrepreneurship and SME development. Encouraging dialogue across interests would promote a culture of cross-fertilisation and transparency. In time, such a knowledge base could become a valuable resource for collaboration and an effective tool to generate policy guidelines towards best practice in SME development across the Asia-Pacific region.

References


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