

Global Entrepreneurship Monitor
GEM Australia 2006:
A Summary Analysis of Australian Entrepreneurial Activity 2006



Australian Graduate School of Entrepreneurship, Swinburne University of Technology
Entrepreneurship, Commercialisation, and Innovation Centre, The University of Adelaide

The GEM Australia project is based on annual research – principally the annual GEM Australia national adult population survey – that presents its results using a matrix approach developed in: Hindle, Kevin 2006. A Measurement Framework for International Entrepreneurship Policy Research: from Impossible Index to Malleable Matrix. *International Journal of Entrepreneurship and Small Business*, Vol. 3, No. 2, 139-182. This approach breaks total entrepreneurial activity into six components (participation, motivation, innovation, growth, finance and entrepreneurial capacity). Each component is discussed in its own data report with respect to three stages of owner-operated business: *start-ups* (businesses actively starting and no more than three months old); *young firms* (from four to 42 months old) and *established firms* (owner operated businesses greater than 42 months old)¹.

The series of analysis and commentary papers uses the information revealed in the six data reports – and information from other sources – to present deeper analysis and insight. This paper is an overview with three aims: (1) it summarises the six data reports; (2) it presents a summary portrait of entrepreneurial activity in Australia in the calendar year 2006 and (3) it seeks to draw out the key issues latent in data of the 2006 GEM Australia population survey. The key issues are discussed with reference to three principal audiences; the research community, policy makers, and owner-operators of Australian businesses. This overview can be read independently of the six data reports and the range of other documents and materials which comprise the multi-faceted GEM project. However, for further and deeper information, we refer readers to these other documents.

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At an international level, the [GEM Global Executive Report](#) provides the global context for the Australian research by presenting key findings of differences found in comparing the entrepreneurial activity of nations taking part in the GEM project. This year, 42 nations were represented. A full description of the [GEM Global Research Methodology](#) can be found in the [How GEM Works](#) section of the [GEM Australia website](#).

Key Words: Entrepreneurial activity, Australia, policy, business ownership

Aim of this paper: Based on the six GEM data reports, the aim of this paper is to summarise the implications of entrepreneurial activity in Australia 2006 for three key audiences; entrepreneurship researchers, policy makers, and business owners (including people contemplating starting new ventures).

¹ Readers should be aware that the Global Executive team and other countries use different terms to describe these business stages in their respective reports. Please refer to [GEM Global Research Methodology](#) section for a description of these differences.

Overview of Australian entrepreneurial activity

A nation's entrepreneurial activity can be measured in various ways. The Australian GEM team has applied the matrix measurement framework developed by Hindle (2006). This approach argued that, when the nation is the unit of analysis, a country's entrepreneurial activity can be evaluated through considering six key components - *participation, motivation, innovation, growth, financing, and entrepreneurial capacity* - across three stages of the business life cycle: *start-ups* (owner-operated enterprises less than 3 months old); *young* businesses (owner-operated enterprises greater than three but less than 42 months old); and *established* businesses (owner-operated enterprises greater than 42 months old). The first component (participation) is a measure of entrepreneurial quantity, whereas the remaining five components are measures of entrepreneurial quality. For each component of entrepreneurial activity the following sections provide: a resume, an explanation, and a statement of the implications of the most salient features of the 2006 data.

Participation

THE QUANTITY OF BUSINESS OWNERSHIP PARTICIPATION IS HIGH AND INCREASING

Australia continues to experience high levels of business ownership participation in all three business stages. Compared to the remaining 42 participating GEM countries in GEM 2006, Australia's overall business participation ranks highest among the developed countries. 20.6 percent of the working Australian population intend to start, are in the process of starting or are running an owner-operated business. This means that on average one out of five persons among the working population in some way are engaged in business ownership or intend to be. This is extremely high compared to other developed countries. Iceland is the country among the developed nations with the second highest proportion of people engaged in business ownership. It has 11.3 percent engaged in business ownership. United States, United Kingdom and Belgium have respectively 10.0 percent, 5.8 percent and 2.7 percent. Australia also had the highest early stage business ownership participation among the developed countries. In 2006, 12 percent of the Australian working population was engaged either in starting a business or are running a newly established business. This number has increased from 2005's figure of 10.9 percent. From the quantitative measures it seems safe to infer that Australia's working population is increasingly interested in business ownership.

Motivation

OPPORTUNITY MOTIVATION, ALREADY HIGH, HAS INCREASED

In common with all other developed countries, Australia has always reported a high proportion of opportunity motivated business ownership compared to the proportion of necessity motivated business ownership. 2006 was no exception. In 2005, Australia reported its highest proportion of opportunity-to-necessity motivated business ownership since GEM Australia collection started in 2000. From 2005 to 2006 this relationship increased even more. For

each person engaged in entrepreneurship through necessity, there are 8.2 persons engaged because they are consciously pursuing an opportunity. A further examination of those engaged in opportunity entrepreneurship revealed that *independence* is a stronger motivating factor than increasing or maintaining *income* among Australian business owners.

Interestingly, this year's data show that, as business owners move forward in the business life cycle, the proportion motivated by necessity becomes larger. This might suggest a kind of a dependency path. At some stage after a business is started and resources are put into the firm, it suddenly becomes difficult to 'get out' of the venture without losses. It might be difficult to sell the business or in other ways structure an exit without incurring a financial or other penalty. Therefore a higher proportion of people operating in later stages of the business life cycle may feel trapped and stay in business because of necessity more than opportunity. This is a truly interesting area worthy of further detailed research.

Innovation

ONE STEP FORWARD, TWO STEPS BACK

The 2006 data reveal that a substantial majority of business owners provide no products or services that any customer would perceive as new, unfamiliar or innovative. Thus, customer oriented innovation is low. These results prevail regardless of business stage. Although Australia still experiences customer oriented innovation that is low in comparison to many countries, the figure has increased from last year. In 2006, more Australian business owners provided or expect to provide their customers with something they perceived as new and unfamiliar. Therefore, Australia has experienced an increase in customer oriented innovation.

However, differentiation oriented innovation is pretty much the same as last year but a small decrease causes some concern. Business owners in the start-up stage are more innovative in regard to differentiation whereas business owners in the young business stage and the established business stage are less innovative. Less technology-oriented innovation took place in 2006 than in 2005. Fewer business owners are using new technology in production of their products and services – especially in established businesses. Thus, although Australia has experienced an increase in customer oriented innovation from last year, overall, it must be concluded that Australian business owners have tended to become less rather than more innovative. From 2005 to 2006 it has been one step forward and two steps backwards.

A really interesting observation is that most of the innovation that takes place is carried out by start-ups or young businesses, whereas established business only counts for a very low proportion of innovation. This might be due to a positive trend among new business owners. However, it is more likely that it is a result of organisational inertia among established business. If that is the case, the high early-stage participation that Australia experiences is crucial for the nation's economic development. If this is the prevailing situation, the implication is that Australia has to rely on new start-ups in order to introduce

new products and services and in order to incorporate new technologies. The higher innovative propensity of startups may well cause many older businesses to close earlier than they otherwise would have. This, in turn, may be offset by the fact that many start-ups never survive or become established businesses.

Growth orientation

A DRAMATIC INCREASE IN EXPECTATIONS CONCERNING FUTURE EMPLOYMENT

GEM Australia 2006 data reveal a positive development in growth. Although, the growth intentions of potential business owners in the start-up stage are unchanged from last year, business owners in the later stages have become dramatically more growth oriented. In 2005, expectations of no growth ran at 50 percent of young businesses and 70 percent of established businesses expected no growth. . In 2005, expectations of no growth ran at 33 percent of young businesses and 38 percent of established businesses expected no growth. In 2006, the high-aspiration group of business owners – those who expect their employment level to grow by more than 20 employees in five years time - was most frequently found in the age group between 25-44 years. This is obviously an encouraging development.

AN INCREASE IN EXPORT ORIENTATION

It seems that Australian business owners who are growth oriented expect to see most of that growth achieved through increased export activity rather than through increases in domestic sales. This is a very positive metric but must be seen in the context that most Australian exporters still only expect exports to form a small proportion of their turnover. Again, it is business owners in the start-up stage who are more export-oriented. On the positive side, this might signify the beginnings of a new trend among Australian business owners. On the negative side, it could simply signify undue sanguinity based on unrealistic plans. Of course, it is a positive sign that more Australian business owners are becoming more growth oriented and more export oriented. However, in the long run it is hard to believe that this trend can continue as long as the Australian business owners are still fundamentally un-innovative in their business approach and strategy. The 2006 increases in both growth and export orientation may provide an opportunity for Australian early-stage enterprise to surf a short-term economic wave, but it needs to be backed up by more and continuing innovation in order to survive in the long run.

Finance

THE NEPOTISTIC MARKET ANGEL CONTINUES TO DOMINATE EARLY-STAGE FUNDING

After personal resources, informal investors' ('angel' capital) is the most important source of equity funding for the vast majority of owner-operated businesses, particularly in their early stages. In 2006, over half of the informal investments made in Australian new ventures were for amounts less than \$50,000. As in 2005, a gap is clearly evident between investment required (what start-up owners want) and investment provided (what angels are willing

to provide). Last year's observation that the Australian angel market was nepotistic, was also supported by the 2006 data. More than half of all angel investments are provided to close family members².

EXPECTION GAPS BETWEEN INVESTOR AND INVESTEE

Interestingly, essential expectation gaps exist between investors and the entrepreneurs they are investing in (investees). Investees are more optimistic in regard to expected payback time and expected payback amount than their investor counterparts.

Entrepreneurial capacity

THE FEMALE PARTICIPATION RATE HAS RECOVERED BUT VOLATILITY IS UNEXPLAINED

Compared with many countries, Australia used to have a high female-to-male early-stage business ownership index. However, in 2005 the index decreased from 70 percent (in 2003 and 2004) to 53 percent. In 2006, the index is back to 70 percent. It means that for each 100 males engaged in early stage business ownership 70 females would be engaged (considering the relative size of the working male and female population). This year's increase in early stage participation is thus caused by an increase in female early stage participation whereas male participation has been more stable.

A LACK OF ENTREPRENEURIAL CAPACITY CONTINUES

Again this year the data show that the majority of Australians feel they lack competence and skills to start a business. This is an amazing figure when juxtaposed with the high percentage of Australians actually engaged in business ownership. Even people currently engaged in starting a business and people who earlier have started a business feel they lack the requisite levels of competence. If ever there were an area screaming out for policy attention, this is it.

Issues and implication for entrepreneurs, policy makers and researchers

This year's six GEM Australia data reports (the reports are available on; gemaustralia.com.au) raise a range of salient issues regarding Australia's entrepreneurial activity that have various implications for three constituents: entrepreneurs, policy makers and researchers.

ORGANISATIONAL INERTIA

It seems, from analysis of the 2006 GEM Australia data, that most of the innovations among Australian business owners are being carried out by business owners in the start-up stage. As they move forward in the business life cycle, innovation becomes less frequent among business owners. It might suggest that business owners follow a dependency path they can't escape.

² GEM has always permitted the inclusion of family members as part of the composition of the angel market. Other definitions of the term 'angel' exclude family members from the category.

They stick to the early innovation (or non-innovative strategy) with which they started their business, and thereafter ignore the need to re-invent and innovate once their business is established. Business owners appear to have problems with changing their services, products, and the procedures they employ to serve their markets. They demonstrate a high degree of organisational and market inertia. They fall into the rut of using old procedures, habits, and routines without evaluating whether these fit currently prevailing challenges. They either won't or can't change and this reluctance to develop is dangerous for the survival of their businesses.

For genuine entrepreneurs (as distinct from mere business owners), the problems associated with organisational inertia can be solved through a range of different solutions. However, the first and essential step is to simply *recognise* that every organization has a tendency to develop organisational inertia. Only when the danger is realised can something be done about it. The nation's owner-operated businesses clearly need to increase the quality of their monitoring and planning activities, placing special emphasis on the commercial dangers inherent in inertia. The monitoring regime might include setting goals about how often the business needs to make a conscious effort to renew itself.

For policy makers Australian business owners' tendency to organisational inertia has some significant implications. One main reason for organisational inertia is often the lack of skill to lead the organisation through organisational change. Thus, it seems important to improve change management skills among existing Australian business owners. This can be achieved through a range of initiatives including public supported training programs and creation of business networks.

For researchers, the tendency of Australian businesses to suffer from organisational inertia raises some interesting questions that need to be explored. The most essential question is why the proportion of business owners that are innovative is higher in the early stages than in the later stages of the business life cycle? What causes this tendency to organisational inertia? What can be done about it from the point of view of both business owners themselves and the government?

THE NATURE OF AUSTRALIA'S NON-ENTREPRENEURIAL PATTERN OF OWNER MANAGED BUSINESSES

As in previous years, the 2006 data reveal that Australia has a high business ownership participation rate, but that most participants are not innovative. It was also revealed that most of the innovation that takes part is carried out by start-ups. These salient features of Australia's entrepreneurship landscape have significant implications.

For existing business owners the situation mandates that they have to be alert against the advent of new entrants to existing markets i.e. competitors determined to take slices out of the existing pie rather than expanding the size of the pie. The entry of new competitors is higher in Australia than in most other developed countries. Established Australian business owners more

often experience direct threats from new businesses created along identical strategic lines than business owners in other countries. One way of surviving in such an environment of plenty of new dogs but no new tricks is to actually learn a few new tricks: to innovate. It is a dominant fact of the Australian business landscape that most existing Australian owner-operated businesses simply don't innovate. Innovation provides an efficacious means for business owners to positioning themselves differently from the mass of me-too competitors, new and old.

For policy makers, Australia's high-participation, low-innovation business landscape generates some essential implications. The most important thing for any policy agency to do is to stop focusing on mere participation. Australia has plenty of people involved in business ownership; many more than other developed countries. The problem in Australia, and what policy makers should put their focus on instead, is lack of innovativeness. In Australia, we need to increase the motivation not to be just a business owner but to be an *innovative* business owner. Australian policy doesn't need to stimulate business ownership motivation, but the motivation to innovate and make a difference. Policies designed to increase the innovative propensity and growth-orientation of Australian business owners – i.e. policies designed to generate less 'mom and pop' or 'lifestyle' enterprises and more genuine entrepreneurship in the sense of high-aspiration venturing - can be achieved by encouraging a more entrepreneurial and innovative culture through the education system.

For researchers the nature of Australia's entrepreneurial landscape leads to questions based on comparisons with other nations' business-owner segments. For instance, comparing entrepreneurship in Australia and Denmark reveals that Australia is high on participation and low on innovation, whereas the opposite is the situation in Denmark (Klyver 2007). It raises the question of whether there is a trade-off between quantitative and qualitative entrepreneurial activity in the sense that countries with high participation rates in business ownership have low quality enterprises and countries with low participation rates have high quality enterprises. If that is the case, it raises several radical propositions. Perhaps entrepreneurship policy, as distinct from small business policy, should be actively *discouraging* greater levels of participation in small business? This is not likely to be a seriously entertained inference by many constituencies. But the prospect that it can be conceived at all might act as a stimulus to better thinking about ways to encourage the creation and development of business that have a good rather than a nebulous chance of contributing significantly to the economic well-being of the nation.

INNOVATION, GROWTH AND EXPORT ORIENTATION

The 2006 GEM Australia data show that the orientation towards innovation, growth and export is highest among business owners in the start-up stage. It is important to Australian business owners, if they are internationally oriented, that they don't benchmark themselves with other Australian business owners but use global referents as the measure of their aspirations. It also implies that business owners should: be long term in their planning; incorporate new

technology; and frequently evaluate customer and differentiation-oriented innovation.

For policy makers this implies that innovative intentions have to be stimulated at the same time as innovative skills are improved among Australian business owners. It is important that practical programs and initiatives must focus on business owners operating at *all* stages of the business life cycle and not just the early stages. Business owners in the early stages are actually those who are most innovative already. Initiatives to stimulate innovative propensity might include public supported advisory programmes.

For researchers, the decreasing orientation towards innovation, growth and export as businesses mature raises a range of questions such as:

- What kills this orientation?
- What can be done to stimulate it?
- What can be done to make sure it continues through the whole business life circle?

A NEPOTISTIC, NEGATIVE ANGEL MARKET PITTED WITH EXPECTATION GAPS.

As has been apparent in previous years, the 2006 data paint a portrait of a nepotistic angel market in Australia. Business angels mostly invest in early stage business owners who are closely connected to them. The perceived potential of business success is often not important. Some business angels even invest in start-ups where they *never* expect to get their money back. In general, Australian angels are providers of low levels of funding and they are often more pessimistic about the future economic output of the business than the persons who start them. From a societal point of view, having a nepotistic angel market is a serious problem. It basically means that financial resources available for early-stage venturing are being used in an inefficient manner. It is not the opportunities with highest expected profit that are being financed, but rather those opportunities that belong to someone close to the business angel. In this way, financial resources are potentially wasted on un-innovative and un-entrepreneurial people and ideas. The nepotistic angel market might be a significant part of the explanation of the low level of innovation among Australian business owners. Also, the fact that many business angels expect longer payback time than early stage business owners and that many business angels don't even expect payback, may act as a disincentive to aggressive business performance. It might relieve the pressure on early stage business owners to achieve at higher levels of financial performance in faster timeframes. For Australian society at large, it amounts to a waste of scarce financial resources.

Angel funding is sometimes named 'clever money' in the sense that angels are alleged to bring not only their money, but also their knowledge, skills and networks to an investee relationship. It is extremely important for an entrepreneur to build and develop a social network to gain access to such resources. This specific issue was further touched upon in the 2005 GEM Australia action focus paper (Klyver 2006). It seems doubtful that the majority

of Australian angels are, in anyway, helpful with 'beyond the pocket' assistance to Australian entrepreneurs.

For policy makers, the implications of the nepotistic angel market are much more complicated. The issues concerned are embedded in the social as well as commercial culture in Australia and much work needs to be done to better understand this phenomenon. To improve the cultural environment in which Australian angel investments take place, a long term effort involving a range of initiatives has to be planned and carried out. Basically, it is all about teaching and educating – continuing to communicate the importance of a less nepotistic angel market for Australia from an economic point of view. One specific initiative could involve training programs – similar to the ones especially designed for entrepreneurs – developed for current and potential business angels. Spain is one of the few countries that have an active program of 'angel schools'. Lending money and assistance to a new, high-potential venture is a complex business and the skills it requires are unlikely to be obtained without conscious effort.

Research interest in angel-entrepreneur relationships has increased during the last decade. However, our knowledge about angel-entrepreneur relationships is still very weak. How are these relationships created and how do they develop? What can be done from a political point of view to support and encourage creation and development of these relationships? When entrepreneurs experience lack of financial resources it might be due to distribution and infrastructure problems rather than actually a lack of resources. So, what can be done to overcome these possible distribution problems? Research into angel-entrepreneur relationships also needs to move away from the one-dimensional economic approach and instead start focusing on these relationships from a broader resources perspective as well as a learning perspective.

Summing up

In the six 2006 GEM Australia data reports, Australia emerges as a country with high levels of quantitative activity (lots of businesses) but low levels of quality (not enough high-aspiration, high-potential businesses). Many people are involved in business ownership, but few of them are innovative or have intentions to grow. In this overview report we have discussed several salient features of the 2006 GEM Australia data with respect to three constituencies: entrepreneurs, policy makers and researchers. Table 1 summarises our analysis and its implications.

Table 1: Implications of the GEM Australia 2006 data for three constituents

| | Entrepreneurs | Policy makers | Researchers |
|--|---|---|---|
| Organisational inertia | <ul style="list-style-type: none"> - Change procedures, norms and habits before crisis emerges through pro-active change management. - Set goals about how often the business has to be renewed | <ul style="list-style-type: none"> - Increase business owners' skills in change management - Establish business networks with focus on exchange of experience - Training programs for established business owners | <ul style="list-style-type: none"> - Why are more business owners innovative in the early stages than the later stages? Is it a learning effect or a selection effect? - What can be done to maintain innovative intentions during the life cycle? |
| Nature of entrepreneurship | <ul style="list-style-type: none"> - Be aware of new competitors. Most innovations emerge from new start-ups. - In order to survive in a very dynamic business infrastructure innovation is important. Those who don't innovate die. | <ul style="list-style-type: none"> - Stop focusing on participation ... there are plenty of people involved in business ownership in Australia. - More focus on entrepreneurial capacity - Increase innovative intentions. | <ul style="list-style-type: none"> - Is there a trade-off between the volume of participation and the qualitative aspects of entrepreneurial activity in the sense that countries with high participation have low quality and countries with low participation have high quality? |
| Innovation, growth and export orientation | <ul style="list-style-type: none"> - Don't benchmark with other Australian business owners – they are normally not innovative - Take a long term focus about incorporation of new technology - Evaluate customer and differentiation oriented innovation frequently. | <ul style="list-style-type: none"> - Improve innovative intentions and innovative skills - Focus should be put in all stages of the business life cycle and not only in the start-up process. Business owners in the early stages are actually those who are best already. - Advisory programmes must include all phases of the business life cycle. | <ul style="list-style-type: none"> - How can innovation, growth and export orientation be stimulated? |
| A nepotistic angel market with expectation gaps | <ul style="list-style-type: none"> - To entrepreneurs and business angels it seems important to communicate expectations before any commitments are made - Entrepreneurs have to build social networks if they want to succeed. Having an effective social network seems more important than having a good business idea. - Entrepreneurs can potentially obtain lots of important knowledge and information from business angels, but business angels aren't automatically 'clever': they have to learn the craft | <ul style="list-style-type: none"> - Teach and educate about the importance of a less nepotistic angel market through the whole education system. - Develop training programs for business angels | <ul style="list-style-type: none"> - The relationship between entrepreneurs and business angels is poorly understood. We don't know enough about how relationships are established and how they develop over time. - A special focus on expectations and expectations gaps might be needed. |

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