

Westpac GEM Australia 2005: Data Report on Participation



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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 which 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.

Accordingly this data report is one of six that, together, comprise a portrait of entrepreneurial activity in Australia in the calendar year 2005. It is best read in conjunction with the other five data reports and the wide range of other documents and materials, which comprise the multi-faceted GEM project, available at www.gemaustralia.com.au.

The full and correct academic citation for this paper is:

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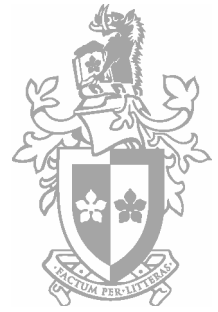
At an international level, the [GEM Global Executive Report](#) provides the global context for the Australian research by presenting key findings of differences found in comparing the entrepreneurial activity of nations taking part in the GEM project. This year, 35 nations were represented. A full description of the [GEM Global Research Methodology](#) can be found in the [How GEM Works](#) section of the [GEM Australia website](#).

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.

Key Words: Business ownership, Business stages, Participation, International comparison

Aim of this paper: To portray the business ownership participation rates in Australia (within the limits prescribed by the data available in the 2005 GEM Australia national adult population survey) and make some comparisons with the other contributing nations for 2005.

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.



PARTICIPATION RATES

It must be strongly stressed that the rankings displayed in the charts contained in this paper should not be crudely misinterpreted out of context. The participation rates depicted here are indications of quantity. For entrepreneurship, the *nature* and *quality* of new ventures is more important than their mere quantity. And the consideration of participation rates in conjunction with other economic variables is more important than considering them in isolation. The value of considering participation in combination with other variables applies both to variables generated outside GEM (such as whether a country is developed or developing and how much GDP per capita it generates) as well as in comparison to internally determined GEM activity-matrix variables (motivation, innovation, growth-orientation, financing and entrepreneurial capacity). With those caveats firmly established, we can say that knowledge of how many individuals in a country are active in various stages of private sector business ownership is an important first indicator of entrepreneurial activity. Business ownership participation rates provide a valuable initial context for the other factors which combine to provide us with a multi-faceted portrait of national entrepreneurial activity in a given year.

GEM starts with an all-embracing definition of entrepreneurship as the act of conceiving, creating and developing a new business. The national adult population survey questionnaire then captures data based on the division of any business's life stages into one of three categories; start-up, young firm and established firm as indicated above. These categories are defined by the length of time the business has been paying wages.

THE THREE STAGE PERSPECTIVE

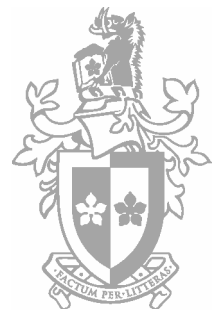
As an overall picture it is useful to compare nations on the total private sector participation in prospective and actual business ownership. Figure 1 is a composite chart comparing international rates of participation for all three stages of business.

Australia continues to experience high levels of business ownership participation in all three business stages. When compared to the thirty five contributing nations in the 2005 GEM research, Australia ranks seventh on overall business ownership participation, (refer Figure 1). This position, the same as in 2004, is above the USA in eighth position, Canada in eleventh and the UK slipping down from last year to the twenty second position. New Zealand, in third position, is the only high-income country (as measured by Gross Domestic Product) ranking higher than Australia. The remaining countries occupying the top positions in aggregate (3-category) business ownership participation as a percentage of the population are Thailand at number one, followed by Venezuela, China, Jamaica and Brazil. The prevalence of developing nations with lower GDP figures ranking highly in business ownership participation is consistent with past years and has been found to be partly attributable to a higher proportion of necessity motivation in such countries; that is individuals who start businesses because they have no better choice for work. (See the Motivation Data Report for more detail).

An interesting phenomenon is revealed in this year's data by plotting the total participation rate of individuals when people participating in more than one stage of business ownership simultaneously (we call it 'parallel entrepreneurship') are excluded from multiple counting. This is displayed with the line graph skirting the tops of the bar graphs in Figure 1. Notably, the USA has more 'parallel entrepreneurs'.

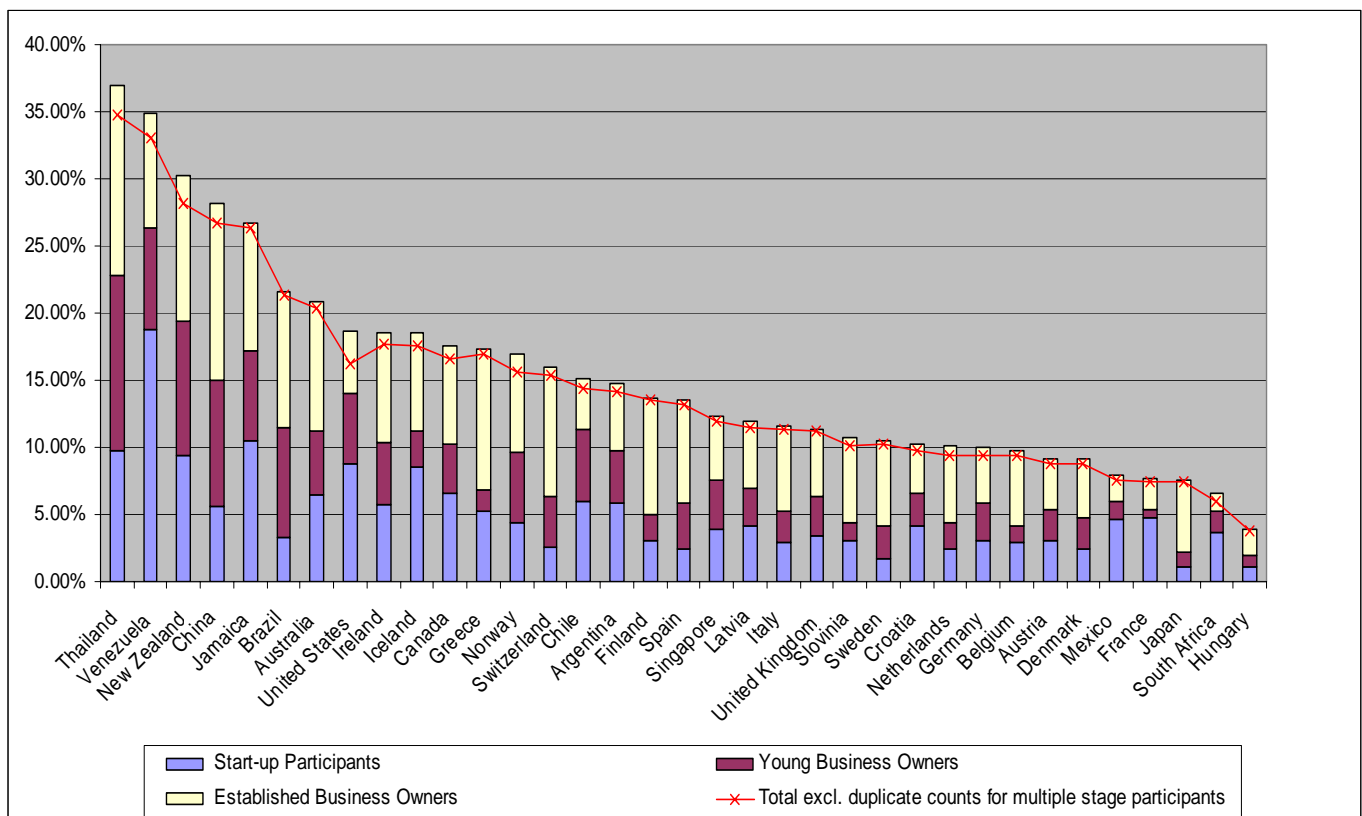
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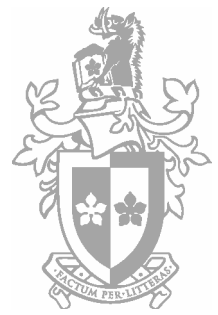




The numbers of individuals involved in more than one venture in different stages represents a larger proportion than exhibited by the other nations. This observation has not been explored further in this paper, but raises the question about 'parallel entrepreneurship' and the circumstances favourable to concurrent ventures that might be found in the USA. Is there a social, cultural, economic or political relationship or is it just merely an aberration in the data? These sorts of questions expose the value of continuing GEM as an ongoing, multi-national project.

Figure 1 – International Comparison of Rates of Participation for All Three Stages

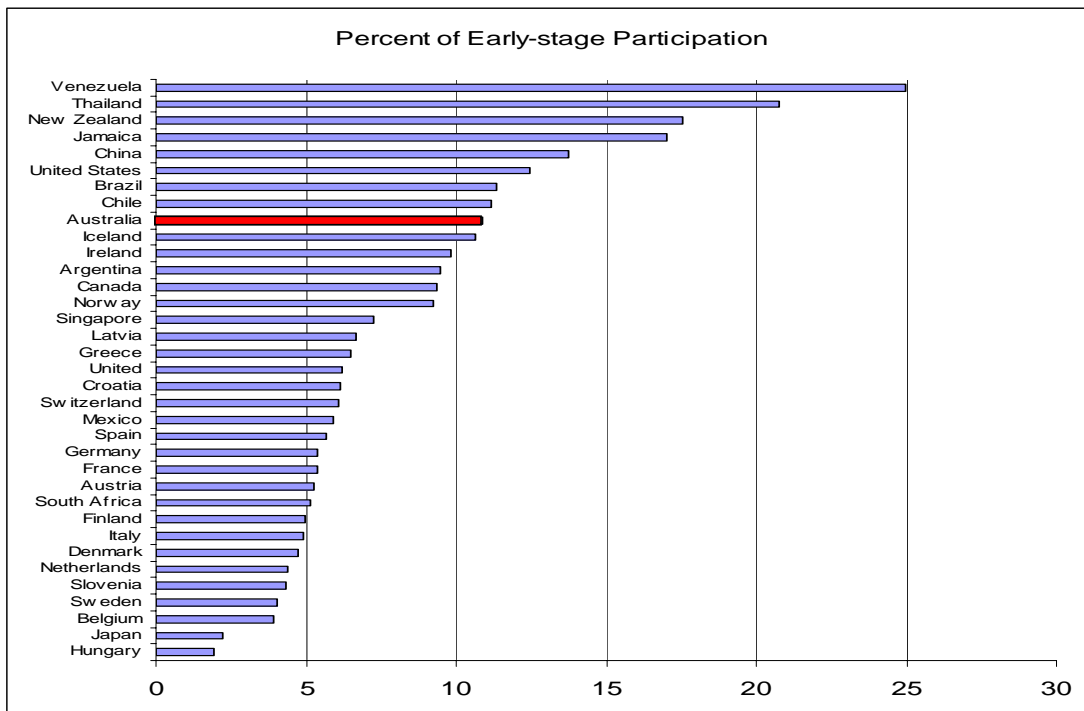




THE EARLY-STAGE FOCUS

Traditionally, the GEM study, world-wide, has given special focus to a combined index of start-up and young firm participation which we, the Australian research team, refer to as the Percentage of Early-Stage Participation (PEP) index². It combines the percentage of the working population participating in start-up and young business involvement (minus people simultaneously involved in both). This early-stage focus has been justified on the grounds that the PEP index may be a useful indicator of potential growth in the economy. See Figure 2.

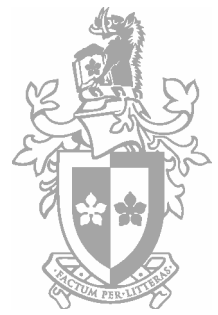
Figure 2 International Comparison of Early-stage Participation Rates



In an international comparison of PEP indices, Australia has an early-stage business participation rate of 10.9% and, in comparison with the composite three-stage participation rankings, slips two places to ninth in the list of 35 countries. USA advanced to sixth place and Chile occupied eighth, just ahead of Australia.

² Most GEM national teams unfortunately refer to this measure as the TEEA Index (standing for 'Total Early-Stage Entrepreneurial Activity'). Since the measure is not a total of anything and since 'participation' is only one component of 'activity', it is to be hoped that the global project eventually adopts the superior Australian nomenclature. For a detailed critique of GEM methodology and nomenclature see 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 paper is available on the [GEM Australia website](#).

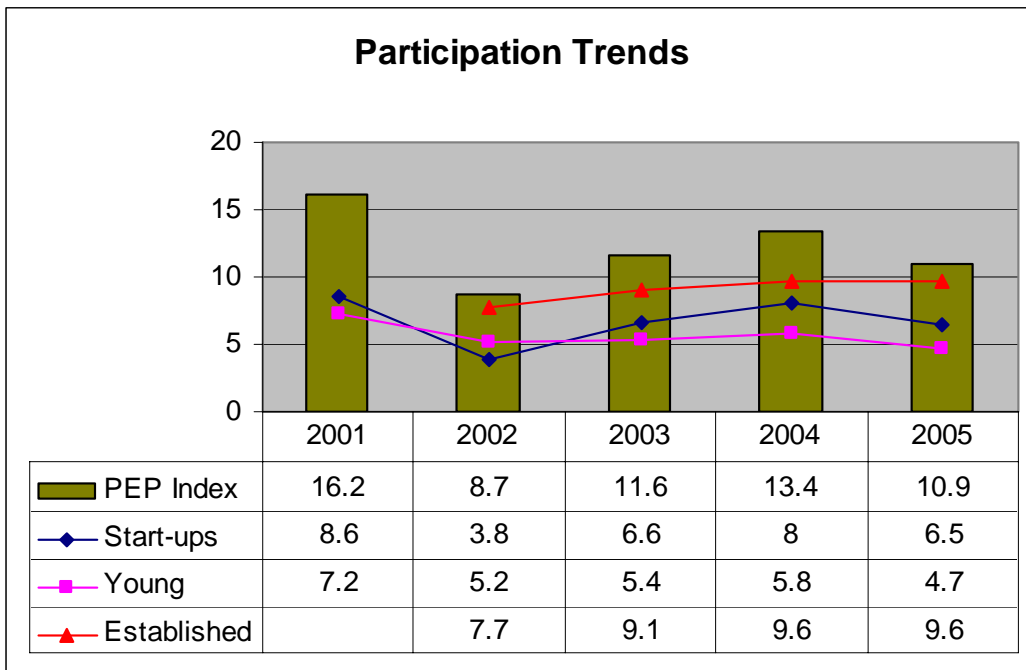


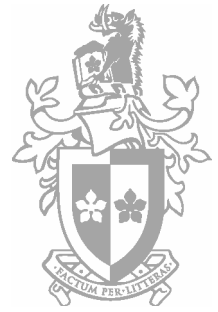


THE LONGITUDINAL STORY

A downward fluctuation of the Percentage of Early-stage Participation (PEP) rate again appears to coincide with a similar declining trend in small business confidence that has been apparent in Australia since August 2004 (Sensis, 2005). The concurrence of the two patterns has been consistently noted since 2002. Interestingly, both the start-up and young business rates have declined despite the fact that in 2004 there was an increase in start-up participation that may have suggested that a conversion of start-up activity to young businesses would have propped up the young business participation rates for 2005. This is not the case, and young business participation rates are apparently just as vulnerable to declining business confidence as start-ups. The demise of young businesses holds potentially much more severe consequences, given the fact that these entities would have engaged in the payment of wages – and thus actual employment – whereas many start-ups might simply be aspirational ventures ‘nipped in the bud’. (Refer to Figure 3).

Figure 3 – Australian Longitudinal Business Ownership Participation





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