



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

31 January 2023

Treasury

Langton Cres

Parkes ACT 2600

via email: [MeasuringWhatMatters@Treasury.gov.au](mailto:MeasuringWhatMatters@Treasury.gov.au)

Dear Sir/Madam,

### **Measuring what matters**

Small and family businesses play a crucial role in the Australian economy, through their contributions to economic growth, employment, and essential positions in supply chains – especially in rural and regional Australia. Small businesses account for 33% of Australia’s total GDP and 42% of private sector employment. Despite their economic contributions, the new generation of small business owners are facing significant market entry challenges, with only 8% of small business owners under the age of 30 in 2021.<sup>1</sup> This indicates barriers within the entrepreneurial environment, where there is significant value to be uncovered in the context of measuring wellbeing.

The distinctive characteristics and perspectives of small and family businesses must be considered when implementing a framework to measure what matters. The comprehensive and effective measurement of both the entrepreneurial environment and small business owner wellbeing is an essential component of the national wellbeing landscape.

**As part of this consultation, we recommend the Australian Government consider tasking the Productivity Commission with developing a framework to effectively measure the policy environment for entrepreneurship and to track its health over time.** The cumulative benefits or burdens of policies, regulations and market designs on the small business ecosystem could be quantified in a ‘Small Business Health Index’, which could consist of key indicators such as:

- The cost of establishing a business
- The ease or difficulty of maintaining self-employment, becoming an employer or employing additional workers
- Estimated total hours of compliance to recurrent tax and regulatory obligations
- The ease or difficulty of gaining access to finance
- The ease or difficulty of gaining access to export markets and international investment
- The work satisfaction and mental health of owners of small and family businesses.

As much of the policy environment for small and family businesses is shaped by state and local governments, the ‘Small Business Health Index’ would need to take all levels of government into account and to highlight the differential impact of alternative approaches where relevant.

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<sup>1</sup> ASBFEO, *Small business data portal*, Resources and Tools Centre, accessed 31 January 2023.

ASBFEO, *Quarterly report: Q4 2022 (1 October to 31 December 2022)*, ASBFEO, Australian Government, 2022, accessed 31 January 2023.



We submit that the Productivity Commission would be well-placed to undertake this task, given its extensive experience of conducting ongoing regulatory reviews across jurisdictions and identifying best practices.

**A comprehensive ‘Small Business Health Index’ would require effective measurement of the ‘non-core’ business activities undertaken by small and family business owners.** Small and family businesses lack the resources of their larger counterparts, often with less formalised processes, governance structures and business systems. These unique ecosystem differences result in a greater dependence on the business owner that is particularly apparent in non-core business activities, such as regulatory compliance and administrative tasks.

Existing gaps in small business data indicate a failure to capture the full extent of the relationship between work demands of small business owners and their business. The core business activities that small business owners engage in to produce revenue generating goods or services are effectively measured using business performance indicators. These indicators include turnover, profits, and inventory related statistics. However, these performance indicators do not adequately capture all the activities that small and family business owners must undertake.

There are a variety of non-core business activities that underpin revenue generation and account for a significant portion of the time demands of small business owners. We suggest, the investment in these activities can be better quantified by owner/operator centric variables such as hours spent on compliance, ratio of work to personal time and the frequency of major goods or services change. Adequate measurement of these variables will improve the ability to measure the wellbeing of small and family business owners and the health of the entrepreneurial environment.

The relevance of measuring non-core business activities conducted by small business owners to understand their wellbeing is indicated by Treasury’s Small Business and Mental Health report 2022.<sup>2</sup> The report measured small business owners’ stress levels associated with different non-core business activities, which reflects a facet of their general wellbeing. By filling this data gap, the work demands of small business owners could be better measured through the more holistic view of the various business activities engaged in. This will likely reveal the complex linkages between wellbeing and commercial variables in the entrepreneurial environment. The need to target understanding of small business owners’ wellbeing is demonstrated by the State Insurance Regulatory Authority (SIRA) report in 2021, which highlighted how the varied governance structure of micro-sole businesses (0-4 employees) relative to large organisations affects their owners’ wellbeing differently in the context of mental health.<sup>3</sup>

For example, in organisational psychology self-efficacy is generally positively associated with measures of success and job satisfaction. However, the SIRA report found that for micro-sole business owners, entrepreneurial self-efficacy can overdrive their “can-do” attitude, leading to over-exertion, lowered work satisfaction and negatively affected mental health. This research demonstrates the need for government policies and data measurements to recognise the uniqueness of the small business ecosystem. Better measurement of the non-core business

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<sup>2</sup> Treasury, *Small business and mental health: through the pandemic*, Treasury, Australian Government, 2022, accessed 20 January 2023.

<sup>3</sup> University of Newcastle, *When size matters: creating mentally health workplaces*, A literature review of workplace mental health approaches in a micro and sole operator business context, State Insurance Regulatory Authority (SIRA), Australian Government, 2021, accessed 20 January 2023.



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activities of small business owners is also likely to help identify many of the operational differences to large businesses, and the impact on their wellbeing.

Further, the measurement of non-core business activities is particularly important to form the statistical foundation to better understand self-employment and build self-employment datasets, an imperative step that provides clarity on the critical role of small business owners in the labour force. This clarity could significantly facilitate the creation of a 'Small Business Health Index', aiding the effective measurement of the entrepreneurial environment.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Dianrong (Sophie) Li on 02 5114 6124 or at [Sophie.Li@asbfeo.gov.au](mailto:Sophie.Li@asbfeo.gov.au).

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman