



**T**here is something special about small businesses, since they are the seeds from which big businesses grow. The small and medium enterprise (SME) sector is the largest employer in Australia, and, for that matter, in all the world's economies. SMEs are also a major thrust area of the APO. Productive small businesses are of universal economic importance.

SMEs in Australia employ some 3.9 million people in about 1.2 million enterprises, in contrast to 3.7 million employed by big businesses and 1.6

million by the public sector. Officially, an SME is a private enterprise with fewer than 20 employees; in manufacturing, a small business is one with fewer than 100 employees; and in agriculture it is an operation with an estimated value of agricultural production between A\$22,500 and A\$400,000.

view that government action is needed to remove obstacles to small business employment growth, including changes in the "unfair dismissal" law, which inhibits small business owners and operators from expanding beyond 20 employees.

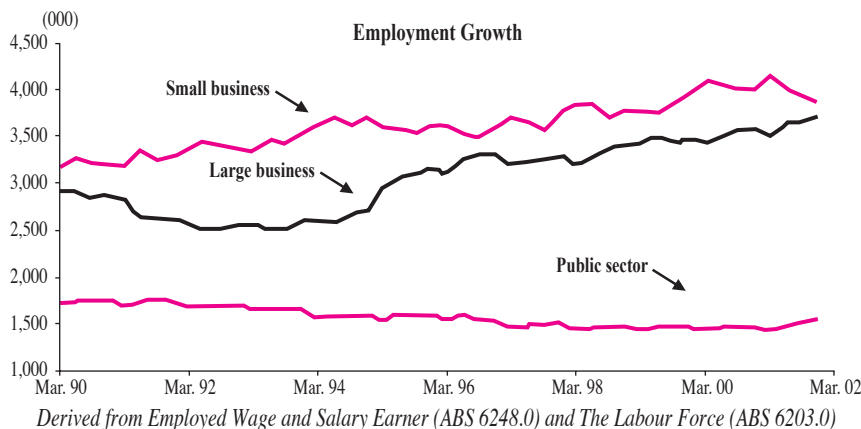
Success in all SMEs rests on making a perceivable difference to the customers they choose to serve. It is often the little "value-added" details that make customers feel special and make one business stand out from the rest: Attention to detail in every facet of the business process from how

remain competitive, retain key employees, and achieve a high degree of customer satisfaction.

In a recent survey of the top-performing small businesses in Australia, the key issues for the sector were identified as:

- Ethical conduct is important in business. Recent concerns about flawed corporate governance must be recognized by small businesses.
- Directors and senior managers should attend educational seminars. Staying current is recognized as vital for retaining a competitive edge.
- Human resources and/or IT functions are being outsourced. This refers mainly to administrative matters like payroll. People management is the direct responsibility of management and cannot be outsourced.
- Business partnerships and alliances are important, particularly as many small businesses are suppliers to larger ones and should be strategically linked.
- Business planning must be highly effective. Often the quality of the planning and the implementation of the plan differentiate success from failure.
- SMEs should hold regular board and management meetings. Effective and regular communication at all levels is necessary for both small and large business success.
- Directors must be competent in the use of technology. Now directors are being held more accountable and thus need to be able to access and understand company data.
- SMEs should have a risk management plan. This is important when the product is of high value/high risk.
- R&D is a success factor. A distinguishing feature of leading SMEs is the recognition and innovative use of sound R&D linked to the sales and customer requirement processes.

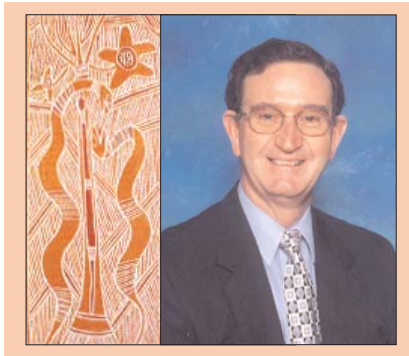
Employment growth in small and large businesses and the public sector in Australia, 1990–2003.



When I last wrote for the *APO News* on this topic, SMEs were considered to be the growth engine of the Australian economy. But that has changed. According to an economics research paper dated September 2002, the trend in small business has turned downward since March 2001 despite the best economic conditions for business in almost three years. Some of this decline can be attributed to structural shift in the way people are paid, as there are taxation advantages to being self-employed in a small business, as opposed to being an employee in a small business. The survey data also indicate that the number of small businesses that employ staff seems to have plateaued. Many SMEs are content not to expand. There is also a

quickly and in how friendly a manner the telephone is answered, or how potential customers are welcomed, to the accuracy and timeliness of service delivery, billing, and collecting payment. My experience has revealed that to remain successful an SME must retain "big picture" vision but at the same time implement the little things that make the difference to customers.

Small business owners and operators derive a great sense of satisfaction from their work, but they must constantly look for improvements in products, processes, and services to maintain the market niche and satisfy customers. Operating a small business is often referred to as common sense, but unfortunately, as in large businesses, sound business practices are not often common practices. To make a difference, the first step by the owner/operator is to recognize that there is a need to improve, and that translates into a desire to improve. Even high-performing SMEs must stay focused on the need to improve if they want to



Successful SMEs also place great emphasis on customer satisfaction and information. They recognize the importance of listening closely to customers and utilizing their feedback to improve products and services, and ultimately the business as a whole. Customers today are more demanding than they were even two years ago, which is why their needs must be monitored more closely than ever. The provision of customer-related technology services is appreciated. SMEs should be aware of the market potential of new products and services in their quest to maintain excellent customer relations.

While world equity markets have been in decline, the capitalized public SME companies listed on the Australian Stock Exchange have grown by 20% over the past three years. The lesson here is that productivity improvement in SMEs, even under adverse economic conditions, delivers profit growth.

All large enterprises were once small businesses, including Microsoft and IBM. How many future Microsofts and IBMs could be lurking among our SMEs already? The productivity challenge is to identify the potential high-performing SMEs and support them so they too can grow and develop to become worldwide corporations. 🌀

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