



Encouraging Enterprise – Regional Enterprise Development Frameworks in Australia

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ENCOURAGING ENTERPRISE – REGIONAL ENTERPRISE DEVELOPMENT FRAMEWORKS IN AUSTRALIA

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ABSTRACT

Australia is rapidly becoming a divided nation in which regional and rural communities slip further behind their counterparts in the major cities. Government policy is struggling to find a balance between the increasing economic and social marginalisation of the regional and rural areas, and the demands for greater urban concentration in a global market place. This paper examines the opportunities for bringing life back to Australia's regions through the creation of enterprise initiatives. Of importance is the need to create an enterprise culture in which nascent entrepreneurs can be encouraged to launch new business ventures. Regional enterprise development initiatives should consider four key frameworks: 1) the economic environment, 2) the regulatory environment, 3) the support environment and 4) the specific business environment. Each of these environments must be considered together in terms of their collective impact on the establishment and growth of small to medium enterprise. Enterprise initiatives often fail because they are too narrowly focused. Recommendations for future action are given.

Key words: entrepreneurship, enterprise development, regional development.

RRARA: WHAT'S THE BIG DEAL?

"The Federal Government strongly believes that regional, rural and remote Australia has a bright and prosperous future."

It was with these words that the Honourable John Anderson M.P., Deputy Prime Minister and Minister for Transport and Regional Services introduced his May statement entitled "Regional Australia: Making a Difference" (Anderson, 2000a). This initiative committed \$90 million in Federal Government grants to regional, rural and remote Australian (RRARA) communities "experiencing economic and social disadvantage, including high levels of unemployment and inadequate services" (Anderson, 2000b). It followed the *Regional Australia Summit* held in Canberra in October 1999 that drew together submissions from communities across the country.

An examination of the submissions and reports emanating from this summit is instructive as to why so much attention is being placed upon "RRARA Land" by government. There were a dozen working groups operating within the summit that encompassed such key issues as: communications, infrastructure, health, community well-being and lifestyle, government services, financing and facilitating entrepreneurship, new industries and opportunities, and education and training.

Several background papers were commissioned for the summit that explored the difficulties facing the people of regional, rural and remote Australia in each of these areas. Some of the findings presented at the summit are instructive and can be examined against recent statistics highlighting the problems facing regional, rural and remote Australia. For example:

- **Population Decline** – In 1911 43 per cent of Australians lived in rural areas; by 1976 this figure had fallen to 14 per cent and has continued to decline (ABS, 2000). The main areas of regional population decline in the period 1998-1999 were: inland rural areas, mining and manufacturing and some urban areas. “Population loss in rural Australia has been occurring for some time and is largely the result of net migration loss (ABS, 2000). Up to 200 rural shires across Australia have lost population in the last 22 years (Alston, 1999). Figure 1 shows this decline.

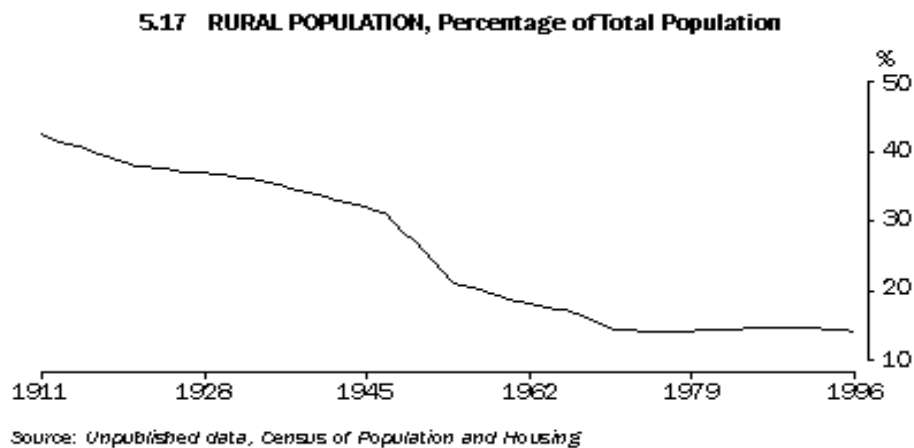


FIGURE 1: RURAL POPULATION DECLINE IN AUSTRALIA

- **Social Decline** – Participation rates in tertiary education by persons aged 19 to 21 years is between 50 and 60 per cent lower in Australia’s regional and rural areas than in urban areas. Further, of those in regional areas who seek tertiary education, the majority do not return thereby lowering the already low levels of education (Chudleigh, 1999). This has impacted particularly upon the Aboriginal and Torres Strait Islander communities. For example, The Remote Kimberley Region of WA has the highest proportion of one-parent families with dependent children (ABS, 1998). Only 15 per cent of Australia’s indigenous population live in the capital cities and only 21 per cent live in remote towns and communities. The majority (64%) live in larger regional urban centres (Pritchard, 1999). Unemployment rates in these areas is usually far above the national average.
- **Infrastructure Decline** – In almost every respect the residents and businesses in regional areas are provided with a lower standard of communications services have fewer services to choose from or simply have no services (Ashford, 1999). Roads and related infrastructure is usually little better.

FINANCING AND FACILITATING REGIONAL ENTREPRENEURS

In the area of “Finance and Facilitating Entrepreneurship” the *Regional Australia* summit identified the following priorities that needed attention. These were grouped into four key areas:

1. **Access to sources of financial capital** – this focused on the lack of access to financial services within remote and regional Australia and the limited supply of equity capital to be found there. The withdrawal of banking services and lack of information, knowledge and coordination of financial services in these areas were also noted. Recommendations included greater coordination between all levels of government, as well as provision of assistance to remote and regional communities to establish community-based financial institutions.

2. **Government Incentives and Disincentives** – this area focused on the various problems associated with gaining approval for development applications as well as compliance costs, efficiency of expenditure, accountability for tangible outcomes, access to information and education. The often-uncomfortable relationship existing between the three tiers of Australian government appears to lie at the root of this. The summit recommended enhanced coordination and collaboration between state and federal government agencies and their stakeholders.
3. **Need for a New Business Paradigm: Modernizing Regional Business Practice**– this is recognition that the emergence of new information and communications technologies (ICT) provides regional, rural and remote Australia with enhanced opportunities for management and production. However, this will require the development of ‘entrepreneurial environments’ capable of managing change and commercial risk within these communities. The need for a *Rural and Regional Business Foundation* was identified as an important strategy in achieving this.
4. **Community Culture and Attitudes** – this embraces the idea that regional, rural and remote communities in Australia must identify common goals and inclusive attitudes focused on a “can do” attitude. Too often these communities face internal divisions such as tensions between development and conservation that are aggravated by a ‘failure of government policy linkages’. More importantly these communities also lack the necessary skills in business development or at least the skills and support base required for such development.

These four themes are a positive base for the examination of future strategies for the enhancement of enterprise within the regional, rural and remote communities of Australia. This paper examines the nature of enterprise development and growth from an environmental perspective. It considers the importance of adopting a ‘holistic’ approach in the design of enterprise initiatives at a local level. To this extent it is encouraging to see the outcomes of the *Regional Australia Summit*.

WHAT DO WE KNOW ABOUT ENCOURAGING ENTERPRISE?

Small business creation and development is frequently considered from either an economic or labour market perspective. These approaches consider the economic factors (both macro and micro) likely to impede or encourage the formation and growth of small to medium enterprises (SMEs), and the contribution such firms make to employment. While important, these perspectives are narrow and fail to take into account a variety of other factors likely to impact on enterprise foundation and development.

Gibb (1987a) provides an enterprise development cycle as shown in Figure 2. It represents the stages through which a small business commonly moves from conception to inception, birth, growth and maturity. As shown the development cycle is separated into the pre and post start-up phase. Both phases are of relatively equal importance. Too many enterprise development programs focus attention on only one side of this model.

According to Gibb (1987a) attention should also be given to the preparation of children and youth in the development of an enterprise culture within a community. Support and encouragement needs to be provided for the pre-start-up and start-up process. Formal and informal education programs can achieve this. Further, once trading has commenced the small firm requires a variety of resources and support services to assist its survival and growth. The availability of capital to finance business growth is an obvious example. Absence of business banking services or venture capital can prove a significant hurdle to small firms in the development cycle from 1st stage growth and beyond.

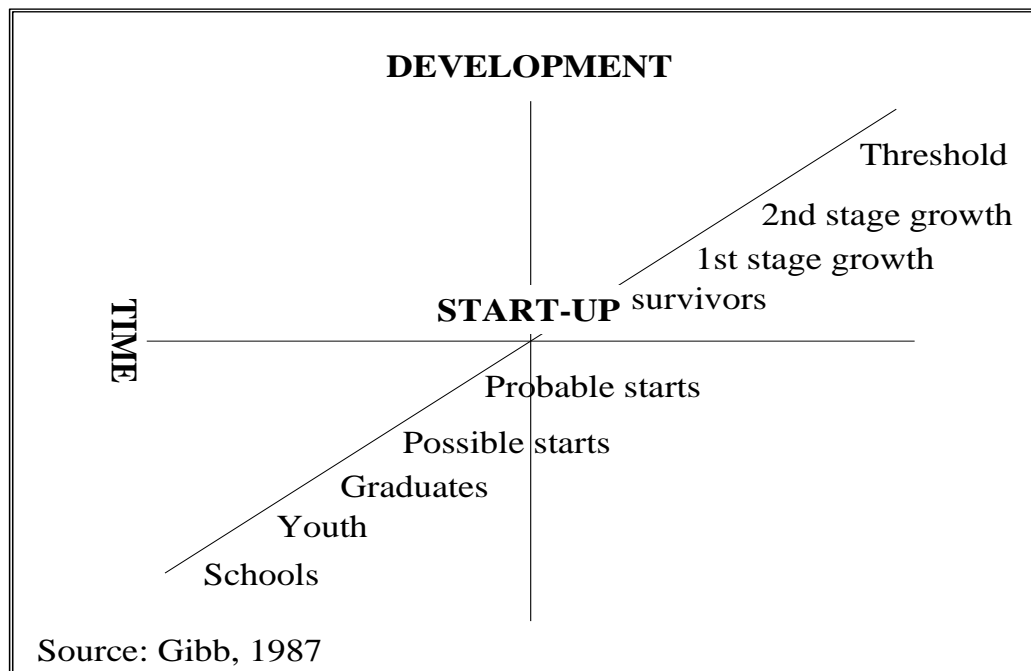


FIGURE 2: ENTERPRISE DEVELOPMENT CYCLE

CREATING AND ENTERPRISE CULTURE

Critical to the effective creation and development of SMEs is the existence of a healthy enterprise culture. Such a culture is likely to possess five key elements (Gibb, 1987b):

- **Positive role models** – abundant positive role models of successful independent businesses and their owners.
- **Opportunities to experience enterprise** – opportunities for youth and other to familiarize themselves with small business tasks.
- **Opportunities to practice enterprise** – opportunities to practice entrepreneurial attributes reinforced by society culture during formative years.
- **Education and Knowledge transfer** – provision formally and/or informally of knowledge and insight into the process of independent business management.
- **Support networks** – existence of a network of independent business/family contacts and acquaintances reinforcing familiarity and providing market entry opportunities.

Seeking to enhance the establishment and development of enterprise within regional, rural and remote Australia is likely to require attention to be placed on the fostering of a healthy enterprise culture. It is in this area that a nexus between education and industry policy needs to be found. Local schools, colleges and universities have a legitimate role to play in assisting this process, as do community associations (e.g. Lions and Rotary).

Some regions have a well-established history of local enterprise and entrepreneurial behaviour. The history of these areas needs to be considered along with their social and cultural traditions and environment. For example, within Western Australia, the Margaret River Region has developed a relatively healthy enterprise

culture based around the wine and tourism sectors. This has encouraged new enterprise creation in a variety of related sectors and established role models and support structures for further enterprise creation. By contrast, other regions in the same state are heavily dependent on mining, agriculture or forestry. In some cases this dependency is tenuous with many jobs and supporting SMEs survival hinged on the existence of a single mine or company.

Morrison (2000) reinforces the importance of culture suggesting a ‘symbiotic relationship’ may exist between entrepreneurship and culture. This relationship involves a series of ‘inputs’ comprising such things as religion, education, politics, family background, history, and the existence of role models and cultural and personal characteristics. These factors impact on the culture at national, regional, business and individual levels. They in-turn have a strong influence on the ‘societal constructs’ defined as including economics, government policy and institutions, organisational structures the social class system and its contexts. Cultural characteristics are evidenced by the ideologies, attitudes, attributes, behaviours, values, hopes and aspirations of individuals. Such a combination of variables is likely to influence the entrepreneur and shape their behaviour. Figure 3 illustrates this relationship.

The Importance of Culture

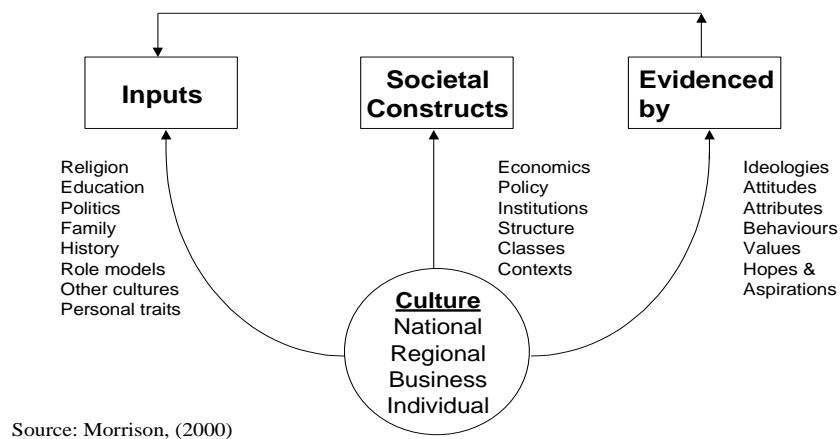


FIGURE 3: KEY FEATURES ASSOCIATED WITH CULTURE

UNDERSTANDING THE SMALL BUSINESS GROWTH CYCLE

Figure 4 shows a five-stage model of small business growth originally developed by Scott and Bruce (1987). This model seeks to provide an explanation of the process of small firm growth. It is relevant to this research study as it offers a conceptual framework into which the methodology can be placed. While the model in Figure 2 considers both the pre and post start-up environment, this model is concerned only with the business once it has commenced trading.

For each stage of the business development cycle different skills and resources are required. According analysis undertaken by both Churchill and Lewis (1983) and Scott and Bruce (1987), during the first stage the business is conceived and established. During this period it is entirely the creation of its owner-manager

founder(s). All attention is given to finding customers and maintaining adequate cash flows to survive. The owner is the most important asset of the business, providing all its managerial skill, direction and capital.

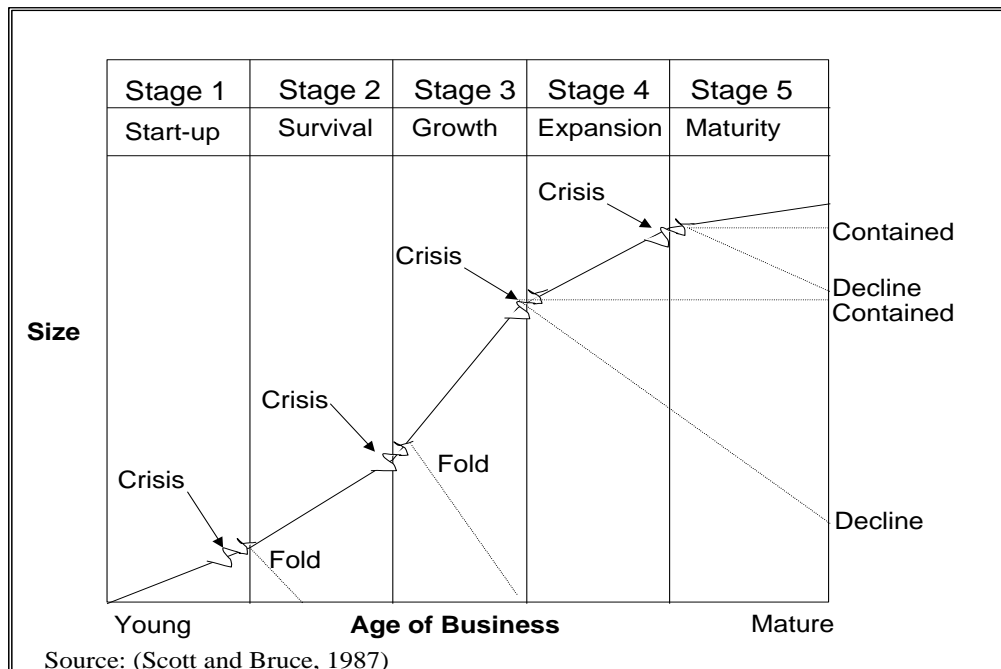


FIGURE 4: STAGES OF BUSINESS GROWTH

If it survives, the business will pass into a second stage of “Survival”. During this period the business is financially viable and may even hire additional staff. The owner-manager usually remains in control of the business and usually undertakes only minimal formal planning (Churchill and Lewis, 1983). Many SMEs continue to operate in this stage for long periods of time, with a single or limited product line and any growth being driven by natural market expansion (Scott and Bruce, 1987).

From the perspective of growth it is the third stage that may be most critical. Churchill and Lewis (1983) identify two sub-stages in this “Growth” or “Success” period. The first of these is that of “Success-Disengagement”. Here the business is economically strong and has sufficient size and product market penetration enabling it to sustain its current position. Its size is such as to require professional managers. In this sub-stage the owner-manager makes a decision to either grow or not. The business is usually profitable and can either continue on in its present form or even is sold at a profit (Scott and Bruce, 1987).

If the owner-manager decides to opt for growth the business will enter the “Success-Growth” sub-stage. During this stage the owner-manager frequently places the business under risk to finance its growth. The need for professional managers may also increase along with the need for systems and enhanced planning. As noted by Scott and Bruce (1987) the most likely crises facing the business during its growth are the threats posed by larger competitors, and the demands placed on its resources as it seeks to develop new products or markets.

A successful growth strategy will take the business into the fourth stage of “Take-Off” or “Expansion”. In this critical stage the business will either succeed to develop into a big business or not. As it grows the business will become more formalized in its accounting, management and other systems. The need for greater quantities of

capital is likely to lead the business towards equity finance. This may pose difficulties as the business seeks to secure long-term debt against its assets. Major crises facing the business during this stage are frequently those associated with the distancing of the original entrepreneur owner from the day-to-day running of the firm. Expansion requires the introduction of more professional managers. As noted by Scott and Bruce (1987:50-51):

“They will not have the commitment to the business that those who were with the business from the early stages had and are unlikely to be prepared to make the same sacrifices ‘for the sake of the business’. This situation is potentially dangerous and can cause a crisis.”

The fifth and final stage of “Maturity” or “Resource maturity”, sees the business with sufficient resources to conduct formal strategic planning. Its management structure is likely to be decentralised and there is a greater separation between the owner and the business in terms of financial and operational matters. Large-scale investment in marketing and production facilities during this stage may result in additional equity financing. Many entrepreneurs experience difficulties with pressure from shareholders over strategic directions.

As can be seen from the above, firms in each of the five growth stages experience slightly different ‘generic’ problems. These are frequently related to the size of the firm and its operations. The level of financing required at each stage is usually of an increasing magnitude and the managerial tasks demanded of the owner-manager(s) also increase with scale and scope. At each stage the owner-manager requires a variety of support measures and will frequently abandon the business (fold) if they cannot overcome these problems (crisis).

In many respects the needs of owner-managers in the early stages of the life cycle are recognised by government-funded initiatives and strategies put in place to assist them (e.g. incubators, the NIES scheme). Unfortunately the maintenance of a healthy enterprise environment requires ongoing assistance at all stages of the business life cycle. A holistic approach is required if effective support frameworks are to be developed capable of supporting the establishment and growth of new business ventures.

The need to adopt a ‘holistic’ approach to the development of enterprise within a community was endorsed by Cromie (1994) who calls for an integrated strategy that brings together “entrepreneurs, financiers, small business support agencies, policy makers and research centres”. The existing ad-hoc approach taken by most policy makers to assist small business growth and development is unlikely to achieve a comprehensive solution.

FOCUS ON THE ENTREPRENEUR

In seeking to develop a vibrant enterprise region, capable of generating and sustaining new ventures we must focus the lens down to the smallest unit of analysis – the owner-manager or entrepreneur. Enterprising tendencies are likely to be found in all people to some degree. Caird (1991; 1993) found small business owner-managers were more likely to display high levels of orientation in five important attributes:

- 1) creativity,
- 2) need for achievement,
- 3) need for autonomy,
- 4) willingness to take calculated risk, and
- 5) drive and determination.

According to Cromie (1994) the forces likely to motivate an individual to launch a new venture are a combination of socio-economic, psychosocial, personal and employment or skill related. In assessing the merits of a new business idea, the nascent-entrepreneur is likely to consider all these elements serving either as barriers or triggers to self-employment (Volery, Mazzarol, Doss and Thein, 1997). Further, the most

important motivation is unlikely to be money, but a desire to create something new or to achieve personal goals (Mazzarol, Volery, Doss and Thein, 1998). A desire for independence or autonomy may lie behind many individuals' motivation for establishing a new business (Bryson, Keeble and Wood, 1993).

Motivations for growth appear equally complex and may be linked to the owner-manager's desire for achievement (Perry, Meredith and Cunnington, 1988). Those owner-managers who do seek growth are likely to enjoy challenge and pressure, variety and change and a willingness to question the system. Further, such owner-managers are likely to be strongly leadership-oriented with a desire to determine their own future and a clear sense of vision (Moran, 1998). When seeking to develop policies to support the small business sector more attention should be given to the personal values and orientation of the individual owner-managers (Kotey and Meredith, 1997)

Westhead and Wright (1999) point to the importance of supporting the individual entrepreneur rather than the business venture. In a study of rural and regional SMEs in England, they highlight the need to differentiate between novice and habitual entrepreneurs. The first represent those who have not yet founded their first venture, or who are in the early stages of new venture formation. The second were those who had founded a number of business ventures. Of these there were two sub-types: 'portfolio' and 'serial' entrepreneurs. Portfolio entrepreneurs were defined as those who had retained their original business but subsequently inherited or purchased additional businesses. By contrast, the serial entrepreneur developed a business, sold it and later developed a new venture. Of these, the portfolio entrepreneur generated 69 per cent of gross new employment in the rural areas.

The study concluded that enterprise support policies should be targeted at the habitual entrepreneurs not just the novice and nascent. Support for the portfolio entrepreneur in a rural environment may indeed prove of greater benefit to the generation of employment. As stated by Westhead and Wright (1999):

"Our evidence suggests that policy makers concerned with economic development (and maximizing the number of jobs created per unit of investment) in rural areas may generate significantly more local jobs by targeting scarce resources to experienced portfolio entrepreneurs rather than novice entrepreneurs. ...Policy makers desiring to target scarce resources to businesses which generate the vast majority of jobs must, however, appreciate that prior venture experience does not necessarily ensure that this type of habitual entrepreneur will subsequently establish/own a high growth venture."

FRAMEWORKS FOR ENTERPRISE DEVELOPMENT

In seeking to enhance the creation and growth of small firms within a region attention needs to be given to the environmental factors likely to impact on the owner-managers seeking to operate such businesses. Gibb (1987a) has proposed a four-part framework that needs to be examined and assessed in any holistic, integrated approach to enterprise development:

- 1) The Economic Environment** – This framework considers the economic structure of the various industry sectors currently operating within the region. It requires attention to be paid to the economic structure operating within regional, rural and remote Australia. Current industry sectors, their capacity for expansion and employment generation, and the factors serving to impede such expansion. Opportunities for the emergence of new industries and how such industries might be established within the region will also be considered.
- 2) The Regulatory Environment** – This framework considers the legal environment into which new ventures will be created or existing ventures developed. Any specific legal issues relating to the establishment of new enterprises (e.g. environmental controls, planning regulations, local rates and

charges, licensing) will be considered. Government regulation and de-regulation policy is of primary concern in within this framework. Of particular importance will be local government planning activities as these frequently impact directly on the operation of small firms. Lack of coordination between the three tiers of government or their agencies is a critical area for consideration and attention.

- 3) **The Support Environment** – This framework considers the availability within a region of sources of specialist advice and information. This might include such services as accounting and legal, training and education, technology support, property development, banking, loan finance and equity.
- 4) **The Specific Business Environment** – This framework considers those aspects of the environment that impact directly on the business community. New technologies and business techniques such as use of the Internet for commercial purposes are an example. Attention needs to be given to identifying potential barriers to new enterprise formation or growth. Within this ‘environment’ attention needs to be paid to both the business factors and entrepreneur or owner-manager factors. The Business factors are concerned with financial resources, personnel, planning and control systems, and process technologies including customer relations, marketing and distribution processes. The owner-manager related factors are related to the goals set by the owner, their operational abilities in technical skills (e.g. marketing, production), their managerial skills and strategic planning abilities (Churchill and Lewis, 1983).

Seeking to achieve a holistic approach to the enhancement of enterprise in regional, rural and remote Australia will require the collaboration of a combination of participants able to unite together these various environmental frameworks. Research, education and training will be required to achieve enhanced understanding of how best to develop strategies able to satisfy the needs of the key stakeholders. Attention will need to be given to developing enterprise culture suggesting the involvement of schools and community groups. Assistance must also be given to micro and small firms and their nascent and novice entrepreneurs, as well as medium size firms and their management teams and habitual entrepreneurs. The active engagement of support networks including large firms, professional agencies and government service providers will also have to be sought.

REGIONAL DEVELOPMENT IN NORWAY

To illustrate how a regional enterprise initiative may occur reference can be made to a five-year action research project undertaken in Norway during the period 1985 to 1990 (Levin, 1993). This study took place in three small coastal municipalities in central Norway – Froya (population, 4,400), Hitra (population, 4,500) and Snillfjord (population, 1,200). Each community had rural or remote status and was dependent on either agricultural or fishing industry sectors. Prior to the commencement of the project the three adjacent municipalities had all been noted for inter-municipal conflict over access to government development funding.

The study was undertaken in three distinct phases that built on the one before. The first phase involved the creation of networks to identify new business venture opportunities and engage public commitment. A ‘search conference’ was held in each municipality that brought together key stakeholders and gathered suggestions for future ventures. Such ideas included new educational and recreational centres, services, tourism and fish-farming ventures (Levin, 1993).

During Phase Two of the project a process of ‘inter-municipal network building’ was undertaken. This involved bringing together representatives from each municipality in a series of “Task Forces” to share ideas and

generate enhanced inter-municipal exchange and cooperation. This was a difficult process and fell short of expectations due mainly to a lack of commitment and trust between municipalities.

Finally the Third Phase of the study involved staging a further conference drawing together representatives from both government and the private sector. This was designed to bring financial support to the municipal-based ventures and developed focus around several key venture ideas lead by the various task-force groups.

By the end of the third phase (after two years) only nine of the original 12 new venture task forces had developed into operational projects. Of seven private sector ventures five were actually launched. After five years only three of these ventures still existed. However, only one of the public sector projects did not proceed to completion. In addition to the business ventures a number of secondary outcomes emerged. These were: 1) formation of new organizations such as regional venture capital sources; 2) enhanced experience for local entrepreneurs, and 3) enhanced networking and collaboration between public and private sectors (Levin, 1993).

It was recognised that the most important ingredient in developing successful regional enterprise development was the formation of workable networks. According to Scheifloe (1985) four factors are important to the creation of effective networks: 1) Shaping areas for social exchange, 2) Creating cooperation, 3) having common value systems, and 4) Time and continuity in the social exchange process. The first requires the establishment of forums in which community stakeholders can meet and exchange. The search conferences and community meetings served this role. The opportunity to create cooperation came in part from the formation of task forces and the facilitated meetings between these groups. This element of the project was less successful due to inter-municipal rivalry. Developing common values and shared vision takes time and can only come as part of the on-going interaction between stakeholders.

ACHIEVING ENHANCED ENTERPRISE CREATION IN RRARA

Returning to regional, rural and remote Australia how can these various lessons be applied? To begin with the problem is not a lack of finance. There are numerous federal, state and local government funding initiatives to assist regional areas. Sources of venture capital can be found even given the difficulties associated with bank withdrawals and closures.

The problem lies with a lack of cooperation and coordination between the three levels of government, public and private sector and the academic or scientific research community and industry. Each group have their own specific sub-cultures, objectives and needs. Bringing these otherwise separate groups together to achieve enterprise development initiatives able to assist the formation and growth of new business ventures requires the formation of a whole of community project designed – as in Norway – to achieve enhanced networking and collaboration.

Figure 5 shows a proposed model for Regional Enterprise Development. It suggests that the objective of achieving enhanced employment and new venture growth, increased population and a common or shared sense of community values and objectives can be achieved if consideration is given to the interdependency found between the four key environments and the culture found in a particular region. As noted earlier, attention needs to be given to addressing the economic, regulatory, business and support network environments surrounding enterprise. These need to be filtered via the network development process that allows opportunities for various stakeholders to come together and exchange ideas, cooperate in common purpose and over time develop common values.

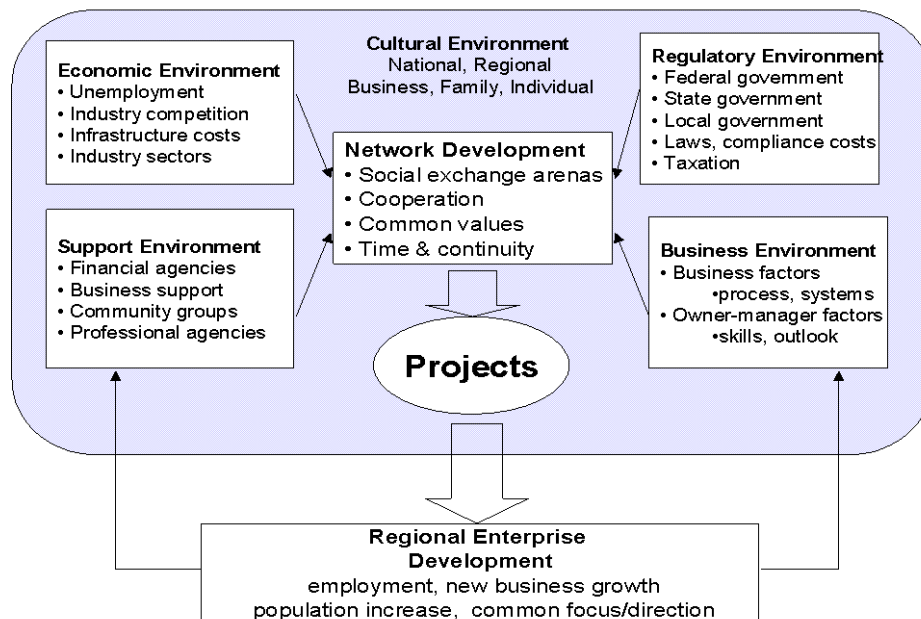


FIGURE 5: INTEGRATED REGIONAL ENTERPRISE DEVELOPMENT MODEL

To achieve a common purpose and understanding; a series of ‘audits’ must first be undertaken to examine the nature of the four key environments. These are all best examined by different research methods. Collection of data and the analysis of time-series or trends frequently measure the Economic Environment. Government agencies can usually supply the necessary data and support for such modelling. By engaging the various agencies representing the three tiers of government some understanding of and collaboration between these levels can be achieved. It will also assist in identifying any problems associated with the Regulatory Environment.

Mapping the Support Network Environment requires an auditing process to identify what is present and what is absent. Areas of need (e.g. absence of a bank or accounting services) can be identified. The Business Environment can be measured through community discussion forums, survey or case studies. The latter is often a good way to develop deeper understandings of the dynamics taking place within a particular sector or industry at the firm level.

In order to achieve unity of purpose attention must be paid to Network Development. This process is essential if any meaningful progress is to be made. Identification of community-based projects (either public or private) should be undertaken. Until specific enterprise projects are identified, assessed and initiated it will be difficult to rally sufficient collaboration between stakeholders. A multi-disciplinary approach using both economic, business and social science specialists is required. This should – where possible – engage all three levels of government.

Finally, attention should be given to the issue of culture, at both enterprise and community levels. Where the prevailing culture is already strongly pro-enterprise more is likely to be achieved in a shorter timeframe. However, in other areas this aspect of the model will need greater focus. Cultural change is complex and cannot be undertaken in haste.

CONCLUSIONS

This paper has sought to sketch a framework for addressing the needs of developing local enterprise initiatives within regional, rural and remote Australia. It suggests that the problem cannot be solved via the 'ad hoc' approach usually adopted by well-meaning government enterprise agencies. The problem requires a whole-of-community approach that is integrated and examines all the main environmental forces that impact on the formation and growth of new enterprise.

The Deputy Prime Minister John Anderson has stated that his government believes regional, rural and remote Australia has a bright future. If this is to be true a long-term strategic approach must be undertaken with a time horizon measured in decades rather than months. It will need to challenge existing prejudices and rivalries existing between local, state and federal governments, and will need to address cultural as well as structural barriers to enterprise within communities. The challenge is a big one, but if we are to create a vibrant and healthy Australia for all we cannot afford not to undertake it.

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