



the **CENTRE for**
LABOUR MARKET RESEARCH

A Study to Better Assess the Outcomes in the New Enterprise Incentive Scheme

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the **CENTRE for** **LABOUR MARKET RESEARCH**

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1 EXECUTIVE SUMMARY

The main focus of the analysis in this report is to provide an assessment of outcomes for New Enterprise Incentive Scheme (NEIS) participants after 18 and 24 months and the characteristics of participants which are associated with business survival or failure. In particular, the study examines the performance of NEIS businesses operated by mature-age people. The focus of this report has not been on the cost effectiveness and equity of the program. Thus, the report does not provide an economic evaluation of NEIS such as that undertaken in 2001 (Kelly, *et al.* 2001). The main objectives were:

- Determine what are the critical factors that comprise a successful NEIS business and how those factors could be incorporated into future NEIS policy.
- Determine what types of NEIS businesses are successful and unsuccessful during NEIS assistance and at three, six, twelve and twenty-four months after the end of NEIS assistance and why.
 - Analyse successful and unsuccessful NEIS business types by location of business; industry; size – low employee turnover; growth patterns and other small business characteristics.
- Identify any factors that could improve NEIS assistance to the mature aged NEIS participant.
- Identify what eligibility criteria and selection processes may need to be addressed to ensure that mature aged and the long-term unemployed have every opportunity to participate in NEIS.
- Compare successful and unsuccessful NEIS businesses with non-NEIS businesses having similar characteristics.

The approach to addressing these issues was to undertake a nation-wide telephone survey of the cohort of NEIS participants that had been off NEIS assistance for between 23 and 26 months. In addition to the telephone survey in-depth interviews were conducted with a small sample of participants from Western Australia, Victoria and New South Wales, with an equal split between metropolitan and regional participants. Interviews were also conducted with providers from the same Departmental “Employment Service Areas” that the participant in-depth sample was drawn from. A review of literature concerned with small business start-ups and exit decisions was also undertaken in order to provide some insights into the key similarities and differences with NEIS ventures.

1.1 Review of Small Business Literature

Survival depends in part on the ability of the business to generate a sufficiently large income for the entrepreneur. While many entrepreneurs struggle on with low incomes, many others close their businesses as a result of income being too low. A related concept is the “threshold of performance”. The threshold of performance is the level of economic performance required to keep the entrepreneur in business. This threshold varies from person to person according to a range of personal and circumstantial characteristics. Exit decisions are

therefore determined by the interaction of economic performance and the performance threshold. Age, family background and motivation are generally found to lower the threshold but do not appear to affect business performance. Finally, the personality of the entrepreneur and their motivation to start a business also have a bearing on business success and survival. In particular the literature suggests that:

- Female businesses are just as likely to survive but less likely to grow.
- Management know-how has little influence on outcomes.
- Family background has influence on exit decision - small business with previous family experience are less likely to exit (lower threshold).
- Financial capital is important.
- Firm performance and “marginal survival” are affected by education.
- An evaluation of the Enterprise Allowance Scheme (EAS) in the United Kingdom found education is not related to survival.
- Women are more likely to pursue goals other than economic.
- Women are more likely to start ventures with less industry specific know-how. They tend to focus on personal services and retail businesses.
- Business training has only a marginal impact on survival.
- The level of capitalization contributes to both marginal survival and growth.
- Industry sector has an impact on performance. The probability of growth is higher for non-retail and personal services.
- Low income is the main reason for leaving a business in the EAS scheme. Other studies have shown that non-financial reasons account for about a quarter of closures.
- Management experience raises the threshold. Venture specific human capital is not related to threshold performance.
- Poor economic climate, lack of demand and too much competition are the main reasons behind lack of economic success in the United Kingdom scheme.
- Education, management experience and supervisory experience are all positively related to economic performance.
- Age is related to lower thresholds and (hence) lower exit rates. Age also increases switching costs.
- Age, family entrepreneurial history and intrinsic motivation do not influence economic performance to any great degree.

1.2 Survey of Participants

The survey used to ascertain the outcomes of NEIS participants 18 and 24 months after NEIS assistance yielded some extremely interesting and useful information. For instance, two years after NEIS assistance ends there are just over 84 per cent of participants either employed or waiting to start a new job. 56 per cent of NEIS participants are in self-employment two years after the assistance they received under NEIS ended. There are a further 15 per cent in full-

time employment and 12.5 per cent in part-time/casual employment and over. Other interesting results are that:

- 65 per cent of Non English Speaking Background participants are still in self-employment two years post-NEIS.
- The mature age participants exhibit very similar self-employment outcomes to those of 'prime-age'. Despite this, they do not achieve the same full-time employee outcomes as the younger participants. This substantiates NEIS as an important alternative to mainstream employment for this age cohort.
- 76.5 per cent of Long Term Unemployed participants, compared to 53.5 per cent for non-LTU, have run their NEIS businesses continuously since the cessation of the NEIS allowance, although not all of these consider self-employment to be their main activity.
- In total, 91.4 per cent of participants that were LTU prior to NEIS were in some form of employment. These results suggest that more could be made of NEIS in terms of access for the LTU, indeed, the cost effectiveness of NEIS might also be improved as a result.
- There are no discernible differences between educational levels and self-employment outcomes.
- Just over 8 per cent of participants who ended their NEIS business within two years immediately moved into a different business. A further 43 per cent moved into either paid employment, or were waiting to start a new job. Around 37 per cent of non-survivors moved straight back on to unemployment benefits. The proportion of women who return to unemployment was around 5 percentage points higher than for men.
- 64 per cent of all NEIS participants were still in their original NEIS enterprise 18 months after the cessation of the NEIS allowance (as their main activity).
- For both surviving businesses and non-survivors, the majority of participants indicated that they did not require any formal qualification to make their product or service. Around 28 per cent of surviving businesses required either tertiary or trade qualifications, as opposed to 21 per cent of non-survivors.
- For males in surviving businesses 45 per cent had prior experience in the same type of business they were operating under NEIS, compared to only 37 per cent for non-survivors. For females there were 39 per cent of survivors and 33 per cent of non-survivors having had prior experience.
- 76 per cent of males and 56 per cent of females had worked in the private sector prior to going onto NEIS (82 and 65 per cent for male and female survivors, respectively).
- Just over 60 per cent of males in surviving businesses said that they had useful networks that they had established before they commenced their NEIS business, while for male non-survivors it was slightly lower at 57 per cent. 55 per cent of women with surviving businesses indicated that they had pre-existing networks that were useful to their business, while only 44 per cent of non-surviving female businesses had useful networks in place.
- Around 60 per cent of females with surviving businesses reported having relevant experience for their NEIS business, compared to 49 per cent for non-survivors.

- 70 per cent of both male and female survivors who reported having prior networks said that clients were the type of contact that they had. For non-survivors 58 per cent and 42 per cent for males and females respectively reported client contacts as being part of their pre-existing network.
- Survivors who required start-up capital are more likely to have obtained the finance from a bank or credit provider, while savings were the main source for non-survivors.
- Of all survivors with a spouse/partner, around 73 per cent have a spouse/partner in paid employment. The corresponding figure for non-survivors is only 57 per cent. This finding suggests that the performance threshold is lower where the participant has a spouse/partner in paid employment.
- Survivors have a significantly higher threshold of performance than non-survivors for males. Female participants with surviving businesses have significantly lower thresholds than their male counterparts.
- For every NEIS completion around 0.45 *additional* jobs are created.
- The lowest earnings for NEIS businesses are for the mature-aged, who also have the lowest average hours of work. The average hours worked (both genders) is just under 37 hours per week, with the median being 38 hours per week.
- Average yearly earnings for all cohorts in surviving businesses is approximately \$400 per week. The highest average weekly earnings are for the 25 to 34 year cohort with \$585 per week. The 55 to 64 year age-cohort have the lowest average weekly earnings with \$167 per week.
- Accounting and taxation advice are the more important sources of advice required by participants with surviving businesses.
- Over 36 per cent of respondents felt that they would find work easily without NEIS. This indicates the possibility that there are significant *deadweight losses* associated with NEIS. Given the very positive outcomes for mature-age cohorts, there is a strong case for more specific targeting of NEIS resources toward this group and even more so for the LTU.

1.3 Comparison with Non-NEIS Businesses

The outcomes observed for NEIS businesses and the key characteristics associated with survival do not appear to be substantially different to non-NEIS businesses. For example:

- Older business operators from both groups (NEIS and non-NEIS) tend to tolerate lower levels of earnings.
- Women achieve survival rates that are commensurate with men.
- Financial resources are an important contributor to the success of NEIS businesses, although not a critical factor, just as they are for non-NEIS businesses.
- Prior experience in related business, is important for both NEIS and non-NEIS businesses alike.
- Networks also appear to be important for both groups.
- Low income is also the main reason for businesses ceasing operations in both groups.

Areas where there are differences are:

- The survival rates for older age-cohorts in the NEIS survey showed very little difference to those observed for other age-cohorts. The literature on small enterprises suggests that they will be better.
- NEIS participants indicated that the business training that they received was quite an important factor in their success. Studies of non-NEIS businesses suggest it has only a limited influence on survival chances.

1.4 In-Depth Participant and Provider Interviews

- In-depth interviews were conducted in four locations – Perth, Melbourne, Albury-Wodonga and Margaret River-Bridgetown (south west of Western Australia). The sample was drawn to provide a mixture of gender and surviving/non-surviving businesses.
- NEIS participants' perception of the market was much broader than their immediate surrounds in metropolitan businesses, whereas in regional areas they were more focused on business in their local area.
- The situation of unemployment is the catalyst for participants to draw on past experience and identify an avenue, or niche, for a new product or service. NEIS provided the motivation, direction and skills to develop it further.
- The relationship between a participant's prior experience, networks and their current business activity were key ingredients to success.
- Those participants who had well developed networks, had businesses that had survived and they felt were in a reasonable position to prosper. All felt their networks were important, some even critical, to their business success.
- The best aspects of NEIS for most people were the book-keeping/cash flow management component and the motivational aspects. Specific criticisms were directed at the legal aspects provided in the course. They were 'tedious' and 'boring' and 'too much was crammed into too little time'. The content or themes of some components seemed premature and difficult to relate to at the time the training was received.
- The inclusion of spreadsheet packages in teaching the financial components of the course may be a useful addition. The use of the Internet as a search device and business tool (marketing/information) could also be explored.
- Participants almost universally commented positively on the motivational aspects of the NEIS programme. Likewise, providers stressed the importance of this aspect. However, the NEIS programme does not allow time to deal with the self-esteem issues of the long-term unemployed participants.
- The match between personal characteristics, type of product or service and the skills required to deliver it were considered essential for success.

- Past networks were considered valuable but not critical. Participants are actively encouraged to further develop networks.
- Mature-aged participants generally do better. However, it is not age specifically that matters, rather, it is “life experience” that counts.

1.5 Conclusions and Recommendations

- There does not appear to be a case for screening proposals that do not conform to a prescribed set of product or service types, industry areas or business model, over and above the business eligibility criteria¹ currently in place. Changes of this nature would increase the complexity and administrative burden of the scheme, with little or no benefit. It would also be counterproductive to limit the diversity of ventures established under NEIS. It is recommended that no further restrictions be added to the NEIS business eligibility criteria.
- It is clear that the outcomes generated by NEIS persist over time, particularly when it is considered that 95 per cent of those who are self-employed have been in continuous self-employment since their assistance ended.
- Increasing the representation of LTU would enhance the cost effectiveness of the programme. As the results from the survey conducted for this report show, increasing their representation need not seriously affect the ‘headline’ rate of employment achieved by NEIS.
- NEIS has performed well, even for the older age-cohorts, in regard to placing people into employment in all its forms. As a programme it is in an ideal place to maintain its gross performance outcomes at levels that would be considered ‘exceptional’, while at the same time adjusting the composition of its clientele to improve the equity of the programme. Just as for the LTU, this would also have the highly desirable effect of improving both the equity and the cost effectiveness of the scheme.
- The most important way in which NEIS can be improved for older age-cohorts is just to increase the number of participants who are able to access the programme. It appears that the programme is, overall, in good shape. Tinkering with the structure and content of the programme to accommodate these groups does not appear necessary, particularly when it is considered that their survival rates are as good as for other age-groups. Accommodating the needs of the older cohorts is something that may best be addressed on a case by case basis by providers. Providers did not see age as a problem, indeed, it was suggested that it is an advantage.
- NEIS may be a useful vehicle for widening the opportunities for LTU, mature-aged and NESB jobseekers without seriously impinging on the ‘gross’ outcomes of NEIS. Indeed, the disadvantage faced by these jobseekers using mainstream pathways to employment suggests that any increase in their representation in NEIS would actually enhance the cost effectiveness of the scheme. It is strongly recommended that consideration be given to increasing the representation of these groups in NEIS.

¹ The purpose of the current business eligibility criteria is to limit the impact on pre-existing businesses. As it currently operates its general effect is most likely to increase the diversity of NEIS ventures.

- One possible option to achieve greater representation of the disadvantaged groups alluded to above, is to put in place a quota for participants with the targeted characteristics.
- An alternative option to that outlined above, one that would be far less cumbersome and restrictive for both providers and the administrators of NEIS, is to offer incentives for achieving outcomes for targeted groups through a higher weighting applied to outcome payments.

2 INTRODUCTION

The main focus of the analysis in this report is not to provide an evaluation of NEIS per se [i.e. the cost effectiveness and equity of the program]. Rather, it is to provide an assessment of the outcomes after 18 and 24 months and the characteristics of participants which are associated with survival or failure. In particular, the study examines the performance of NEIS businesses operated by mature age people. The main objectives were:

- Determine what are the critical factors that comprise a successful NEIS business and how those factors could be incorporated into future NEIS policy?
- Determine what types of NEIS businesses are successful and unsuccessful during NEIS assistance and at three, six, twelve and twenty-four months after the end of NEIS assistance and why?
 - Analyse successful and unsuccessful NEIS business types by location of business; industry; size – low employee turnover; growth patterns and other small business characteristics.
- Identify any factors that could improve NEIS assistance to the mature aged NEIS [participant?]
- Identify what eligibility criteria and selection processes may need to be addressed to ensure that mature aged and the long-term unemployed have every opportunity to participate in NEIS.
- Compare successful and unsuccessful NEIS businesses with non-NEIS businesses having similar characteristics.

In what follows some of the key issues covered in the small business literature are canvassed with a view to shedding some light on what determines survival and success in small business and how this might relate to the experience of the ventures established by NEIS participants. First, a brief overview of the role and scale of NEIS is provided.

One of the more significant issues in the Australian labour market, and elsewhere in the OECD (see, for example, Chan and Stevens, 1999), is the prevalence of mature-age unemployment. This age-cohort face significant challenges in returning to employment due to employers' preference for younger workers, lower levels of educational attainment and poorer potential returns to further training (due to a diminished investment horizon). One of the more important facets of NEIS is its role as an alternative pathway to employment for jobseekers facing disadvantage in the labour market.

NEIS is aimed at extending the range of options available to unemployed people to find work by providing encouragement and assistance to those who wish to establish a small business. NEIS was introduced as a pilot scheme in 1985 and subsequently permanently established in 1987-88. In May 1998 it became part of Job Network.

NEIS is one of five services provided under the Job Network banner, with New Apprenticeships now falling under the ambit of the Department of Education, Science and

Technology (DEST). The scheme is relatively minor in terms of the number of commencements, with around 6 400 people commencing over the 2001 calendar year. In comparison, there were 320 000 commencements in Intensive Assistance and 62 800 in Job Search Training. In other programmes run by the Department, such as the Indigenous Employment Programme (includes STEP projects and Wage Assistance), there were 5 300 commencements, while there were 49 500 in Work for the Dole, 2 400 in the Return to Work Programme and 13 400 in the Community Support Programme. The Job-Matching service placed 297 000 people into employment in 2001. NEIS, then, is clearly a small programme in the context of all forms of labour market assistance provided by the Commonwealth government.

Apart from the scale of NEIS, it is clearly set apart from other Job Network services in two ways. First, it is a programme aimed, essentially, at helping eligible unemployed people to become self supporting and independent of Social Security payments by establishing their own business. Second, the programme has limited numbers such that, access to NEIS is competitive. Other services provided by Job Network, on the other hand, are defined by client eligibility.

Engaging in the formation of a new enterprise is clearly a much more risky endeavour than entering employment. Accordingly, a key criterion of the effectiveness of programmes such as NEIS will be the ability of new enterprises established under the scheme to survive and flourish. Survival over some critical period of time is itself a measure of the effectiveness of the scheme but other criteria are also important. For example, the level of income generated by the enterprise and the employment created additional to that of the original entrepreneur are important considerations. However, there are other economic and social considerations which must be taken into account also. The effectiveness of the scheme to involve the long-term unemployed, indigenous people and females are examples.

While long-term survival of the enterprise is not the only criterion of effectiveness – since, for example, even where the enterprise fails to survive, the training undertaken and the experience gained in the venture may contribute to the individual’s human capital in ways which enhance their prospects of securing new employment – survival is clearly a central aspect of effectiveness. Most of the desired benefits of the NEIS programme are achieved only if the business survives. Accordingly, it is of considerable importance to try to discover what the characteristics of successful entrepreneurs and successful business projects are. An understanding of these characteristics will permit more effective screening of applicants and their projects to be undertaken. It will also assist in developing optimal training and assistance packages for NEIS clients. The following section, therefore, reviews the literature on the determinants of small business success in order to indicate the sorts of criteria which might be useful in enhancing the design and administration of NEIS.

NEIS mainly assists in the creation of “micro-businesses”. Micro-businesses include non-employing and employing businesses with employment of less than 5 full-time equivalent people (ABS, 1999). Micro-businesses are characterised as firms where one or two persons are required to make all the critical management decisions that include finance, accounting, personnel, purchasing, processing or servicing, marketing and selling, without the aid of internal specialists and with specific knowledge in one or two functional areas. The micro-business owner/manager is a person (entrepreneur) who makes all major management decisions in a small enterprise and has equity capital at risk in that enterprise (Perry, 1985).

The pervasive influence of entrepreneurs on their firms and their dominance in making decisions make it possible to assume a high degree of equivalence between the individual and the organisational levels of analysis. The personal characteristics and motivation of the owner/manager have a substantial effect on the decision-making process of such firms (Gray, 1997b).

3 SURVEY OF THE SMALL BUSINESS LITERATURE

3.1 Micro-Business Performance

Extensive literature exists regarding the factors influencing small enterprise performance. These factors can be broadly classified as initial resources, comprising human and financial capital, and background characteristics which predispose the entrepreneur to success or failure. Among the latter are gender, experience, family background, age and race. The issues of business performance and the notion of a “performance threshold” in determining the survival of micro-businesses are also addressed. There is also a literature concerning the decision-making process of the micro-business owner/manager, comprising the goals and strategy of the entrepreneur. The function of strategy is to determine appropriate action in uncertain situations (Frese *et al.*, 2000). Strategy is defined by a plan of action, that is, a sequence of means to achieve a goal (Miller *et al.*, 1960). While the concept of strategy is clearly important, this literature is not reviewed in this report because it seldom identifies specific empirical findings.

3.2 Determinants of Small Business Success

Much of the literature on entrepreneurship focuses on what determines the performance of new firms. Despite this, there has been a degree of inconsistency in the findings. Some of this is due to the empirical and theoretical issues involved. For example, there are a number of ways to measure success, such as lifestyle, turnover or survival. Random events also present challenges in predicting performance for new market entrants. New small firms typically are based on a narrow range of services and products concentrated in narrowly defined markets. This ‘narrow resource base’ and ‘narrow markets’ accentuate the risk profile of the new firm and as a result means that performance is not always stable.

Initial resources available to an entrepreneur will influence the outcome of their business venture, whether in terms of growth rates, profitability or survival. The new venture does not enjoy the benefits of well established routines and administrative procedures, clearly defined institutional identity, market momentum, or credibility with customers and suppliers (Stinchcombe, 1965). Initial resources may act as a buffer against the liabilities of newness and smallness. New ventures are engaged in a process of experimentation whereby concepts are tested. The process of experimentation is characterised by iterations of trial and error. Hence, the availability of entrepreneurial preparation, knowledge bases and financial capital at start-up may increase the ventures ability to withstand unfavourable shocks and undertake corrective actions (Cooper *et al.*, 1994).

Firms with stronger resource positions are in a better position to survive environmental shocks and weather bad decisions. Entrepreneurs with stronger preparation and those who can tap into the experience of others are more likely to be able to deal with the problems that arise as their ventures develop, problems that may not even have been foreseen at the time of founding. Preparation such as this forms one of the major parts of the NEIS program. The subsequent unfolding of events, including key decisions, strategies and the management practices of the entrepreneur, will shape the performance of the new venture (Cooper *et al.*, 1994).

3.3 Background Factors Influencing Business Success

Cooper *et al.* (1994) found that general human capital (gender, race, education) influenced the growth of new enterprises as well as firm survival. Gender was the exception, with businesses being run by women less likely to grow although, interestingly, they were just as likely to survive. This may be because of conscious choices of women whose objective is to reach and maintain the optimum size of their business consistent with lifestyle choices whereas for men income growth may be of greater importance. Management know-how appeared to have a limited influence on outcomes. Other influences on business success were family background, presence of business partners, sector of industry and financial capital.

3.3.1 Education

Access to general human capital, either in the form of the entrepreneur's own education or as life experiences and opportunities providing access to general networks, may increase the problem-solving ability of the firm. Cooper *et al.* (1994) found that firm performance in terms of marginal survival and high growth was enhanced by the entrepreneur's level of education². A higher level of education may lead to problem-solving skills and also reflect a level of commitment, motivation and discipline. Maung and Erens (1991), in an evaluation of the Enterprise Allowance Scheme (EAS) in the UK, found that educational background was unrelated to business survival. The Enterprise Allowance Scheme in the UK at the time of the Maung and Erens (1991) analysis consisted of a flat rate payment of £40 per week to assist people on unemployment benefit or income support to start their own business. In order to join the EAS scheme participants had to show that they had £1000 available to invest in their proposed business. There was no requirement that participants undertake training or education in running a business.

3.3.2 Race

Being part of a racial minority is linked to lower probabilities of both marginal survival and firm growth. Poor location and limited access to the general market contribute to the poorer performance of minority owned businesses. Minorities have fewer business contacts and more difficulty in obtaining insurance, credit from suppliers and access to prosperous customers (Cooper *et al.*, 1994).

3.3.3 Gender

Male gender was found to be a significant factor of high growth. High growth is a more demanding process than marginal survival. High growth indicates a certain ability to withstand the test of the market through effective choices and execution of those choices, and also requires the ability to finance that growth. There is some evidence that banks may impose more stringent requirements on women business owners in regard to collateral for loans. Such requirements could be one factor limiting the growth of these firms but also may be a factor behind the success rate of these firms. It has also been reported that women owners are more likely to pursue other goals besides the economic goals emphasised by many male-owned firms. Male entrepreneurs may be better positioned within networks and thus may benefit

² Cooper *et al.* (1994) recognise three categories of new venture performance. These are failure, marginal survival and high growth.

from improved access to suppliers and customers. They may also be more likely to start growth-orientated ventures (Cooper *et al.*, 1994).

Women are more likely to start ventures with less industry specific know-how, and less human and financial capital in retail or personal sectors. Bird *et al.* (2001) states that women and minority entrepreneurs appear to perform less well. Women-owned businesses are found disproportionately in less profitable and more crowded sectors such as personal services and retail. Owners in these crowded sectors are less likely to have recently received professional training than their counterparts in non-crowded sectors where networks are typically larger. Further, sales were significantly higher among businesses in less crowded, less competitive sectors. Cooper *et al.* (1991) found that being a male with a full-time partner, and not being in retailing or personal services increased the probability of high growth, but not the probability of marginal survival.

Maung and Erens (1991) found that only one third of participants in EAS were female and that businesses run by men were more likely to survive than those run by women.

3.3.4 *Management Know-How*

Management know-how is either embodied in the entrepreneur from previous experience or available to the venture from other sources such as professional advisors and networks. Knowledge of how to manage a business enterprise is mostly tacit and is acquired by investing substantial amounts of time observing, studying and making business decisions. A new venture can increase its chance of success by having access to this management know-how through the involvement of people that embody this tacit knowledge. Management know-how embodied in the entrepreneur may result from having had parents who owned a business, from work experience in a business organisation (rather than not having been in the labour force), and from previous management experience. In addition, management know-how may be obtained through use of professional advisors or from involvement of partners (Cooper *et al.*, 1994).

The level of management experience of an entrepreneur would be expected to affect their ability to deal with the wide range of problems confronting new ventures, to cultivate new skills for monitoring diverse functions and interacting with different constituents and to develop contacts with personal customers and suppliers. Despite this, Cooper *et al.* (1994) find that the level of management is not significant in regards to marginal survival or growth.

Management know-how that is specific to the industry or line of business of the venture is a significant determinant of marginal survival and growth. Industry-specific human capital is a strong predictor of future success, whereas general management experience (management know-how that is independent of industry application) is unrelated to performance. The experience and contacts developed in a similar business may lessen the liability of newness of the new venture leading to less trial and error as the venture begins. Further, such entrepreneurs are more likely to have developed networks of relationships with suppliers, distributors and customers. This enhances credibility and the ability to obtain finance and, therefore, fund growth (Cooper *et al.*, 1994).

Industry specific know-how grows out of previous experience in the same or similar business and ranges from tacit knowledge of the products, processes, and technology, to specific human capital investment in relationships and goodwill with specific customers, suppliers and

stakeholders. Entrepreneurs that come from similar businesses may bring with them directly relevant knowledge bases, experiences, and relationships that significantly reduce the liability of newness (Cooper *et al.*, 1994).

Maung and Erens (1991) found that there were only slight differences in survival between participants in the EAS in the UK who had attended training in business methods and those who had not.

3.3.5 *Financial Capital*

The amount of initial capital is related to the initial strategy that is pursued. For instance, more initial capital permits a retail store to carry a broader mix of merchandise or a high technology firm to undertake more ambitious projects while allowing more time for the entrepreneur to learn and overcome problems associated with new venture start-up (Cooper *et al.*, 1994). When capital is sourced from outside the company, for example, from banks or venture capitalists, it can provide value-added services including mentoring, increased human capital and the introduction of strategic alliances.

Cooper *et al.* (1994) found that the level of capitalisation contributed to marginal survival and growth. Increased levels of financial capital allow the entrepreneur more time, the potential to undertake more ambitious strategies, change courses of action and meet the financial needs associated with growth. The ability to obtain capital, especially from banks, may reflect better training and more extensive planning.

3.3.6 *Family Background*

Entrepreneurs that grow up in families that owned a business view parents as role models and, therefore, entrepreneurship as a viable career option. This type of background exposes a young person to the micro-business environment at an early age. Cooper *et al.* (1994) found that having parents who owned a business contributes to marginal survival, but not to growth. He speculates that such a background prepares the entrepreneurs to expect difficulties. As such, they may be less disheartened in the face of unfavourable shocks. They may be more committed to venturing as a career path and may hang on longer before seeking out other options and may be satisfied with lifestyle businesses that do not experience much growth.

3.3.7 *Partners*

The number of partners in a new business venture was significant to achieving growth. The presence of partners leads to greater breadth and depth of expertise. Partners add to the resource and skills base of the venture while enhancing the credibility of that venture with respect to potential lenders and other constituents (Cooper *et al.*, 1994). Further, increased resource benefits of partners include human and financial capital, functional expertise and a broader range of management experience while simultaneously decreasing the reliance on a single entrepreneurs drive and judgement. Partnered ventures also tend to be larger and more sophisticated in nature, with a start up process that has more extensive planning, evaluation and refinement.

3.3.8 *Industry Sector*

Cooper *et al.* (1994) determine that the industry sector in which new firms operate has an impact on performance. The probability of growth was higher in businesses that were not in the retail and personal sectors. Retail service industry firms have been found to have high discontinuance rates due to greater competition and higher labour intensity in such businesses. Greater competition is due to the lower start-up barriers of this industry.

3.4 **Business Performance and Survival**

3.4.1 *The Effects of Income on Survival*

A number of studies evaluating new enterprise incentive schemes in Europe have found that many of the participants establish viable businesses but the incomes they earn from them are very low (see for example Benus, 1995; Owens 1989; and Meager, 1993). These low earnings outcomes were attributed to a tendency for the schemes to encourage entry to “low margin, highly competitive activities, which have poor survival chance, or displace existing businesses.” (Meager, 1993: p. vi.)

A 1986 US study found that only 31 per cent of entrepreneurs closed their business solely because of financial reasons. 26 per cent of entrepreneurs surveyed said that financial difficulty played no part at all in their decision to exist. A 1960 study showed that non-financial reasons were behind 20 per cent of all new business closures. Among the non-financial reasons cited were external job opportunities, dissatisfaction with business ownership and not being prepared to accept ‘limited success’. “At least in some cases, dissolution is not forced upon the entrepreneur but involves a proactive decision to exit” (Gimeno *et al.*, 1997 p. 753). This was also found to be the case in the current survey of NEIS businesses, with 27.7 per cent of participants indicating the main reason for discontinuing their business was due to either poor health, finding a preferred job as an employee, personal reasons or family pressure. Nonetheless, low income was still the single most important factor, with 34.5 per cent of participants indicating the main reason for ceasing their business was because they were not making enough money. A further 27.7 per cent were either losing money, had irregular income, had cashflow management problems, or experienced a lack of demand for their product (see Appendix B, Table B1). Maung and Erens (1991) found that low income was the single most frequently cited reason (30 per cent) for EAS participants leaving their business.

3.4.2 *Economic Performance*

Economic performance can be thought of, or measured by, the salary, dividends and perquisites taken from the entrepreneur’s enterprise. The expectation is that they will be positively related to the general human capital that an individual has, such as formal education, management experience and supervisory experience. They will also be positively related to the human capital that an individual has that is specific to their current venture, such as past experience in a similar line of work or market (Cooper, 1998).

3.4.3 *The Threshold of Performance*

The threshold of performance for the entrepreneur can be thought of as that level of performance they desire to stay in business, much in the same way as the reservation wage operates for people in employment. In general, the expectation is that the threshold level of performance is determined by human capital specific to the business, psychic income (such as satisfaction from owning the business or being self employed) and switching costs. Switching costs are those associated with shutting down the business and moving into another form of employment or enterprise and include the uncertainty of future income and security in employment and so forth. They are expected to be higher for older people, as they have lower prospects in the labour market, and shorter investment horizons for new ventures. These variables will generally influence both threshold and performance levels and thus the entrepreneurs exit decision. Crucially for any analysis of business survival, the level of threshold will vary between individuals and this explains why it is common to observe in empirical evidence the continuance and exit of firms that have otherwise achieved the same level of economic performance (Cooper, 1998).

Gimeno *et al.* (1997) found that *both* economic performance and the entrepreneur's threshold affected the likelihood of exit. Education, management experience and supervisory experience (general human capital) were all found to be positively related to economic performance. Of these variables only management experience was positively related to a 'threshold' required to stay in business. Venture specific human capital, while strongly (positively) related to economic performance, had no influence on (entrepreneurial) threshold. It was, however, negatively related to exit.

Maung and Erens (1991) found that in the EAS in the UK lack of success was most frequently attributed to the poor economic climate (38 per cent), lack of demand (28 per cent) and too much competition (20 per cent).

3.4.4 *Age of the Entrepreneur and Performance*

NEIS has been specifically identified in two reports as being especially relevant to mature-aged people. The Nelson Report (2000) was concerned with issues relating to mature-age workers. The Report discusses the NEIS in relation to mature-age workers in length and in some depth. The report:

- is very supportive of NEIS but warns that starting a small business is a high-risk option;
- draws attention to problems associated with difficulties in accessing working capital;
- emphasises the importance of business training and the work of mentors;
- suggests that "...there appears to be a considerable degree of confusion in the community about how to access information about Commonwealth and State/Territory programs to assist small business starters." (p. 211)

The McClure Report (2000) on the Australian welfare system offered advice on welfare reform. The report also refers to the issue of promoting self-employment as an option for unemployed mature-aged people. The report takes a positive view of the role of 'micro-business' in the economy and the community as a means of promoting equity and suggests that:

- Micro-businesses are a growing element of the economy, generate many jobs and enable many people to gain financial independence;
- Micro-businesses "...can act as a source of employment for groups within the community which traditionally encounter inequity in finding employment as employees." (p. 50);
- Micro-businesses offer special opportunities for mature workers to find employment.

Gimeno *et al.* (1997) investigated the influence of the age of the entrepreneur on business performance. Age was found to be related to lower threshold levels and lower exit rates. This, it was suggested, is a result of the higher switching costs for older entrepreneurs. Age, family entrepreneurial history and intrinsic motivation do not influence economic performance to any great degree. These attributes are related, however, to a willingness to accept lower levels of economic performance (i.e. lower thresholds) to survive.

3.4.5 *Long-Term Unemployed and Business Success*

Targeting the most disadvantaged among the unemployed for support to develop a new enterprise meets many social and equity criteria, but this may increase the risk of business failure. However, in Denmark policy has focused the scheme on the long-term unemployed [and also has a very high proportion of female participants] but survival rates are among the highest of any country (Meager, 1993). In contrast to the Danish scheme, NEIS in Australia mainly attracts well-educated, short-term unemployed people.

3.4.6 *Strategic Planning and Specialist Assistance*

Glen and Weeradena (1996) examined around 200 Queensland firms and the extent to which they engage in strategic planning, what they term 'planning process-sophistication' (PPS). They hypothesise that there are a number of factors influencing 'PPS', such as the size of the firm, 'multiplier agent assistance' (MAA) and perceived environmental uncertainty. MAA relates to an outside agent providing assistance with strategic planning. In this sample this predominantly means the engagement of a specialist consultant to develop a strategic plan. The importance of strategic planning lies in its ability to influence enterprise performance. The most significant factor influencing PPS was the engagement of planning consultants through the National Industry Extension Programme in operation at that time.

It was found that variables relating to management level, prior employment in non-profit organisations, coming from outside the labour force and the use of professional advisors did not have any significant effects. This is of interest, as there is some earlier evidence to suggest that, in an Australian context, this may not be the case. A study undertaken in Queensland in the early 1990s suggested that there is a relationship between specialist advice and business outcomes (Glen and Weerawardena, 1996).

3.5 The Decision Making Process

The decision-making process associated with micro-business start-up concerns the personal and firm-specific goals of the entrepreneur and the strategy used to achieve those goals. The

literature concerning new venture start-up deals extensively with entrepreneurial motivation and goals, that is, the reasons for the venture, what they plan for the business venture to achieve, and the types of strategies utilised to achieve those objectives.

3.5.1 *Motivation for the New Firm Start-Up*

The personality of the entrepreneur plays a role in the new business start-up process but must be considered within its environmental context. Analysis of the pre-start-up decision phase should include such issues as intrinsic interest in the new venture, entrepreneurial career preference, and the individual characteristics of nascent entrepreneurs. Key enterprising tendencies are a need for achievement, need for autonomy, creativity, calculated risk taking, drive and determination (Mazzarol *et al.*, 2001).

Mazzarol *et al.* (2001) recognise six main motivators of venture start-up. Investment encompasses the need for a job, the desire to invest personal savings, desire to receive income based on merit, and the need to invest in a redundancy package. Second, creativity is concerned with the desire to take advantage of talents, the wish to have an interesting job and the desire to create and realise a dream. Autonomy relates to the desire to work at a location of choice, to set ones own hours of work and be one's own boss. Status involves the wish to follow the example of another person, the desire to increase status or prestige or the desire to follow a family tradition. Market opportunity is concerned with the desire to take advantage of a recognised market opportunity in anticipation of positive economic profit. Finally, the desire for money, that is, the wish to keep a large part of the venture proceeds and thus earn more money.

3.5.2 *Barriers to New Ventures*

The main factors identified as barriers to new ventures are lack of resources, including a lack of marketing skills, management/financial expertise, lack of information, difficulty in obtaining finance and lack of suitable premises. Compliance costs are the second factor and include high taxes and fees, problems finding suitable labour, compliance with government regulation and having no one to assist. Finally, Mazzarol *et al.* (2001) define hard reality as the assessment that risks are greater than expected, realisation that the task was more difficult than expected, uncertainty of the future and a fear of failure.

New venture starters are likely to be characterised by a strong desire to create something and a concern over finding suitable labour. The desire to create appears to be a motivator capable of overcoming critical barriers. Non-starters are likely to be characterised by a desire to work at a location of choice, often at home, and to see the risks they face as greater than expected and to feel that no one is available to help them (Mazzarol *et al.*, 2001).

3.6 **Summary**

There are many factors which potentially may affect the ability of micro-businesses of the kind promoted by *NEIS* to survive beyond two years. Some of these factors are characteristics of the entrepreneur, such as:

- Education generally enhances performance;
- Racial minorities display lower success rates;

- Males tend to achieve greater success than females;
- Families which owned a business have a positive effect on other family members starting businesses.

Background factors also play important roles. Those most likely to succeed tend to have:

- Prior management experience;
- Higher levels of financial capital;
- Business partners;
- A favourable industry sector in which to operate.

Survival depends in part on the ability of the business to generate a sufficiently large income for the entrepreneur. While many entrepreneurs struggle on with low incomes, many others close their businesses as a result of income being too low. A related concept is the “threshold of performance”. The threshold of performance is the level of economic performance required to keep the entrepreneur in business. This threshold varies from person to person according to a range of personal and circumstantial characteristics. Exit decisions are therefore determined by the interaction of economic performance and the performance threshold. Age, family background and motivation are generally found to lower the threshold but do not appear to affect business performance. Finally, the personality of the entrepreneur and their motivation to start a business also have a bearing on business success and survival.

The review of the existing literature revealed a number of interesting findings regarding the factors affecting small business performance. With respect to gender businesses operated by women are just as likely to survive as those operated by men, but less likely to grow. This difference may be due to differences in objectives in running small businesses between women and men rather than in constraints with women more likely to pursue goals other than economic. Women are more likely to start ventures with less industry specific know-how and focus on businesses in personal services and retailing.

Management know-how attained through training has little influence on outcomes. Although firm performance and marginal survival are affected by the general level of education acquired there is little evidence of its importance to success in overseas programs comparable with NEIS. By contrast, know-how arising from family background has an influence on small business performance with those operators whose family have had business experience more likely to survive.

Access to financial capital has been found to be important. Also, the level of capitalisation contributes to both marginal survival and growth.

Industry sector has an impact on performance with the probability of growth higher for non-retail and personal services.

The threshold level of performance, the minimum income, profit and satisfaction necessary to induce the business person to continue, plays an important role in the exit decision. Management experience raises the threshold. Venture specific human capital is not related to threshold. Low income is the main reason for leaving a business, whereas non-financial reasons account for about a quarter of closures.

With respect to a particular concern of this report, namely the mature-aged, age is positively related to lower thresholds and (hence) lower exit rates. This is due to the relative lack of employment alternatives for older workers. Thus, small business provides an opportunity for meaningful economic activity to a group with limited employment choices.

For surviving businesses, poor economic climate, lack of demand and too much competition are the main reasons behind lack of economic success. Education, management experience and supervisory experience are all positively related to economic performance. Age, family entrepreneurial history and intrinsic motivation do not influence economic performance to any great degree.

4 SURVEY OF PARTICIPANTS

The main objective of the survey undertaken for this evaluation was to ascertain the outcomes of NEIS participants at the 18 month and 24 month post-NEIS assistance interval. 400 telephone interviews were undertaken in May of 2002 of approximately 15 minutes duration, covering to a large extent questions addressed in the 2001 evaluation of NEIS (Kelly, *et al.* 2001). Additional questions were incorporated to address the objectives of the current evaluation.

A sample was drawn from all candidates who had been off NEIS assistance for between 23 and 26 months, thus ensuring adequate numbers were available to obtain a final working sample of 400. In addition to obtaining information on the 18 and 24 month post-NEIS outcomes, it was also important to obtain information on how mature-age cohorts fare under NEIS. To ensure adequate numbers of these cohorts in the final sample, a quota of 100 (out of 400) was set for the 45 to 54 year age group and a further 50 for the 55 to 64 year age group. Unless otherwise indicated, the data presented below have been adjusted to take account of the over sampling of the older age-cohorts (i.e. they have been weighted)³.

4.1 4.1 Participant Outcomes

4.1.1 *Employment Status*

Previous analyses of NEIS (and other labour market programmes) have tended to have a very short time horizon for the assessment of outcomes. Typically outcomes are assessed at the 3 and 6 month intervals after the intervention ceases. While this can be a very useful and efficient tool to determine the efficacy of various interventions, it does not provide any insights into whether the desired effects of the intervention (i.e. labour market programme) have persisted over time. This is particularly relevant for a programme of the nature of NEIS, as typically small business start-ups require one or two years and even longer to become established and financially robust enough to weather the shocks that are faced by the small business operator.

Table 4.1 shows the employment status reported by respondents at the time of the survey. Survivors are classified as those still operating their NEIS enterprise. As can be seen, there are a small number (24 out of 400) who, despite still operating their NEIS business, still classify their main activity as either being in part-time/casual or full-time employment, waiting to start a new job, unemployed or retired. Nonetheless, these participants are still treated as 'survivors' for the purpose of the following analysis.

³ See Appendix A for population characteristics and sample weightings.

Table 4.1 Main Labour Market Activity by Survival Status

	non survivor		survivor		Total	
	Count	%	Count	%	Count	%
Working Full-time	53	32.6	8	3.5	61	15.3
Working Part-time or casual	39	24.3	11	4.6	50	12.5
Self-employed	11	7.0	213	89.6	225	56.2
Total Employed	103	63.9	233	97.7	336	84.0
Retired	3	1.6			3	0.7
Not looking for work (but not retired)	5	3.1	1	0.6	6	1.6
Unemployed and on benefits	46	28.5	3	1.3	49	12.3
Unemployed but not on benefits	3	2.1			3	0.9
Waiting to start a new job	1	0.7	1	0.4	2	0.6
Total	162	100.0	238	100.0	400	100.0

Table 4.2 shows that around 56 per cent of NEIS participants are still in self employment two years after the assistance they received under NEIS ended. In addition to this, there are a further 12.5 per cent in part-time or casual employment and over 15 per cent in full-time employment. All up around 84 per cent of participants are in some form of employment. Very little separates male from female self-employment outcomes. As might be expected, females have a more than proportionate share of part-time/casual employment, with 53.6 per cent of this type of employment going to women despite only representing 42.4 per cent of the sample. Conversely, men are over-represented in full-time employment. There were 12.3 per cent of participants in unemployment, with a slightly higher share for women.

Table 4.2 Outcomes 2 Years after the Completion of NEIS by Gender

	Male		Female		Total	
	Count	%	Count	%	Count	%
Working Full-time	41	17.9	20	11.7	61	15.3
Working Part-time or casual	23	10.1	27	15.9	50	12.5
Self-employed	131	56.8	94	55.4	225	56.2
Total Employed	195	84.8	141	83.0	336	84.0
Retired	2	0.8	1	0.5	3	0.7
Not looking for work (but not retired)	5	2.0	2	1.1	6	1.6
Unemployed and on benefits	26	11.5	23	13.4	49	12.3
Unemployed but not on benefits	1	0.5	2	1.4	3	0.9
Waiting to start a new job	1	0.5	1	0.6	2	0.6
Total	230	100.0	169	100.0	400	100.0

4.1.2 NESB

Table 4.3 below shows the outcome for Non-English Speaking Background (NESB) participants. The relatively small number in the sample requires caution to be exercised in drawing conclusions from the data other than for the self-employment outcomes. Significantly more NESB participants are still in self-employment two years post-NEIS than the general NEIS population, with about 65 per cent still in self employment. This is consistent with Wooden (1990) who found that there is a greater propensity for migrants to establish and run successful businesses. From the perspective of NEIS this is of some importance as one of its benefits as a labour market programme is to provide an alternative, non-mainstream, pathway to employment for people who face significant barriers, such as those who lack fluency in English.

Table 4.3 Outcomes Two Years after NEIS Assistance by NESB

	NESB		Other		Total	
	Count	%	Count	%	Count	%
Working Full-time	5	7.9	56	16.6	61	15.3
Working Part-time or casual	6	9.7	44	13.1	50	12.5
Self-employed	40	64.7	185	54.7	225	56.2
Total Employed	51	82.2	285	84.4	336	84.0
Retired	1	0.8	2	0.6	3	0.7
Not looking for work (but not retired)	2	3.0	5	1.3	6	1.6
Unemployed and on benefits	7	11.7	42	12.4	49	12.3
Unemployed but not on benefits	1	2.2	2	0.6	3	0.9
Waiting to start a new job			2	0.7	2	0.6
Total	62	100.0	338	100.0	400	100.0

4.1.3 Age

One of the more significant issues in the Australian labour market, and elsewhere in the OECD (see, for example, Chan and Stevens, 1999), is the prevalence of mature-age unemployment. This age group face significant challenges in returning to employment due to employer preference for younger workers, lower levels of educational attainment and poorer potential returns to further training (due to a diminished investment horizon).

Research in the US has shown that for male workers over the age of 50 the chances of re-entering employment after a job loss decline with age. At the age of 50 there is a 75 per cent chance of re-entering employment, while at the age of 62 the chances have declined to around 30 per cent. The likelihood of leaving the labour market altogether also increases with age. The likelihood of staying in employment for male workers in their fifties who have re-entered employment after a job loss is lower than the re-entry rates suggest. Only 62 per cent of re-entrants remain in employment after two years, although the difference between those who are re-entrants and those who have never lost their job gradually diminishes over time. (Chan and Stevens, 1999). It is difficult to disentangle retirement decisions from the unemployment statistic for the oldest group, but it would seem likely that there is some overlap between the two. NEIS offers a potential pathway for sustainable employment for older people.

The older cohorts shown in table 4.4 below exhibit very similar self-employment outcomes to the ‘prime-age’ cohorts. The percentages for those in employment are 81 percent and 72 per cent, respectively, for the 45 to 54 and 55 to 64 age groups compared to 84 per cent for all age groups. People in the oldest age group have a significantly higher proportion who fall back into unemployment (rather than employment) than the other cohorts, 22 per cent of the 55 to 64 year age-cohort compared to 13 per cent for all age groups. These results suggest that NEIS is fulfilling one of its more important equity objectives in providing an alternative to mainstream employment. NEIS is a suitable option for older unemployed since they do find alternatives to unemployment and stick with it. The evidence suggests that perhaps the Nelson (2000) report put undue emphasis on poor performance of NEIS.

Table 4.4 Outcomes by Age-Cohort Two Years after NEIS Completion

	18 to 24		25 to 34		35 to 44		45 to 54		55 to 64		Total	
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
Working Full-time	7	20.7	26	21.6	19	13.5	8	10.0	1	4.0	61	15
Working Part-time or casual	5	13.8	12	10.2	19	13.5	11	14.0	3	12.0	50	13
Self-employed	18	51.7	69	56.8	78	56.4	46	57.0	15	56.0	225	56
Total Employed	29	86.2	108	88.6	115	83.5	65	81.0	19	72.0	336	84
Retired							2	2.0	1	4.0	3	1
Not looking for work (but not retired)			1	1.1	2	1.5	2	3.0	1	2.0	6	2
Unemployed and on benefits	4	10.3	11	9.1	18	12.8	11	14.0	6	22.0	49	12
Unemployed but not on benefits			1	1.1	2	1.5					3	1
Waiting to start a new job	1	3.4			1	0.8					2	1
Total	34	100.0	121	100.0	138	100.0	80	100.0	26	100.0	400	100

4.1.4 Educational Attainment

Educational attainment has been found in numerous labour market studies to significantly affect outcomes, such as earnings, employment, participation and so forth. However, there are no discernible differences between educational levels and self employment outcomes (Year 11 appears to be an aberration) in the data shown in table 4.5. The total employment count (all types of employment) follows the expected pattern of better outcomes associated with higher levels of educational attainment. The ‘Secondary completed’ and ‘Tertiary qualified’ participants have around 89 per cent in employment. The lower categories of educational attainment are around 10 per cent lower than this (see table 4.5).

The success rate for those only having completed secondary education may be due to the fact that they have fewer alternatives (unemployment rates are higher for the population with low educational attainment) and are therefore more committed to their businesses.

Table 4.5 Outcomes by Level of Education Attainment Two Years Post-NEIS

	< year 10		Year 10		Year 11		Trade/TAFE		Secondary completed		Tertiary qualification	
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
Working Full-time	1	5.3	13	14.8	6	21.9	7	10.7	13	15.7	20	18.7
Working Part-time or casual	4	16.0	9	10.4	3	10.6	8	12.8	10	11.6	16	14.6
Self-employed	16	59.9	48	54.7	14	46.8	38	57.4	52	61.3	58	54.4
Total Employed	21	81.2	70	79.9	23	79.2	53	80.8	75	88.6	94	87.8
Retired					1	2.7	1	0.8			1	1.2
Not looking for work (but not retired)			1	1.2			1	2.1	2	1.9	2	2.2
Unemployed and on benefits	5	18.8	13	14.9	5	18.0	11	16.3	6	6.9	9	8.8
Unemployed but not on benefits			2	2.8					1	1.2		
Waiting to start a new job			1	1.2					1	1.4		
Total	26	100.0	87	100.0	29	100.0	66	100.0	84	100.0	107	100.0

4.1.5 Long-Term Unemployed

The long-term unemployed (LTU) face some of the greatest challenges of all jobseekers. Apart from the scarring effect it may have on individuals, there is the issue of employers seeing unemployment durations as a signal of the quality of the applicant. Of interest for this evaluation are the outcomes of participants that were long-term unemployed prior to commencing NEIS. The data in table 4.6 below show that outcomes for the LTU are exceptional.

Table 4.6 Long Term Unemployed by Employment Status and Survival Status Two Years Post-NEIS

	non survivor		survivor		Total	
	Count	%	Count	%	Count	%
non-LTU						
Working Full-time	49	30.6	6	2.4	55	13.8
Working Part-time or casual	33	20.7	9	3.7	42	10.6
Self-employed	9	5.3	156	65.4	164	41.1
Total employed	91	56.6	170	71.5	262	65.5
Retired	2	1.1			2	0.5
Not looking for work (but not retired)	4	2.5	1	0.2	5	1.1
Unemployed and on benefits	41	25.5	3	1.3	44	11.1
Unemployed but not on benefits	3	2.1			3	0.9
Waiting to start a new job	1	0.7	1	0.4	2	0.6
Group Total	143	88.7	175	73.5	318	79.6
LTU						
Working Full-time	3	2.0	3	1.1	6	1.5
Working Part-time or casual	6	3.6	2	0.9	8	2.0
Self-employed	3	1.7	58	24.2	60	15.1
Total employed	12	7.3	62	26.1	74	18.5
Retired	1	0.5			1	0.2
Not looking for work (but not retired)	1	0.6	1	0.3	2	0.5
Unemployed and on benefits	5	2.9			5	1.2
Group Total	18	11.3	63	26.5	81	20.4
Total	162	100.0	238	100.0	400	100.0

Of the 81 participants that were long-term unemployed prior to commencing NEIS, 62⁴ had been running their business continuously (the “survivor” group) since the cessation of the NEIS allowance, or 76.5 per cent. However, not all of these considered self-employment to be their main activity, with 5 out of 62 working as employees outside of their NEIS enterprise (see table 4.6).

The survival rate of 76.5 per cent for LTU participants compares favourably with the 53.5 per cent for those who were not LTU prior to commencing NEIS. There were 74 out of the 81 LTU participants in some form of employment, or 91.4 per cent (see table 4.6). These results suggest that more could be made of NEIS in terms of access for the LTU, indeed, the cost effectiveness of NEIS might also be improved as a result.

4.2 Non-Survivor Interim Outcomes

4.2.1 Employment Status at the Close of NEIS Business

The following tables set out the outcomes for participants immediately after closing the doors of their business and at 18 months after they finished receiving their NEIS allowance. Just over 8 per cent of non-surviving participants moved into a different business immediately after ending their NEIS business. A further 43 per cent moved into either paid employment, or are waiting to start a new job. Around 37 per cent of non-survivors move straight back on to unemployment benefits. The proportion of women who moved on to unemployment benefits after cessation of their NEIS allowance was around 5 percentage points higher than for men (see table 4.7).

Table 4.7 Employment Status for Non-Survivors Immediately After NEIS Business Ended by Gender

	Male		Female		Total	
	Count	%	Count	%	Count	%
Working Full-time	14	18.7	7	14.3	21	16.9
Working Part-time or casual	19	25.7	11	23.0	30	24.6
Self-employed in a different business	7	9.5	3	6.0	10	8.1
Total Employed	39	53.8	21	43.3	60	49.6
Retired	2	3.0			2	1.8
Not looking for work (but not retired)	1	1.9	6	11.9	7	5.9
Unemployed and on benefits	26	35.2	20	40.3	45	37.3
Unemployed but not on benefits	2	2.5			2	1.5
Waiting to start a new job	2	2.1			2	1.3
(Don't know)	1	1.4	2	4.5	3	2.6
Total	73	100.0	49	100.0	122	100.0

⁴ The count data presented in table 4.6 may not tally due to the combination of weighting procedures and rounding.

4.2.2 Employment Status 18 Months Post-NEIS

Participants who had non-surviving businesses after 24 months were asked what their main activity had been 18 months after NEIS assistance ended. Given that only 15 per cent were still operating their NEIS business, this suggests that once NEIS businesses have got over the initial hurdles which determine success or failure, they tend to survive. A further 7.7 per cent of participants with non-surviving businesses at the 24 month mark were self-employed in another business 18 months post-NEIS (see table 4.8).

Taking into account the 238 surviving businesses, which by definition had been in operation continuously since the cessation of participants' NEIS allowance, and the 18 non-survivors who were still operating their NEIS business 18 months after their NEIS assistance ceased, there were 64 per cent of all NEIS participants still operating their original NEIS enterprise at the 18 month interval.

Table 4.8 Employment Status for Non-Survivors 18 Months after NEIS Assistance Finished by Gender

	Male		Female		Total	
	Count	%	Count	%	Count	%
Working Full-time	20	26.9	12	25.1	32	26.2
Working Part-time or casual	12	16.3	13	25.9	25	20.2
Still self-employed in your NEIS business	12	16.4	6	13.0	18	15.1
Self-employed in another business	6	8.6	3	6.3	9	7.7
Total Employed	50	68.3	34	70.4	84	69.1
Retired	1	1.1			1	0.7
Not looking for work (but not retired)	1	0.7	4	7.6	4	3.5
Unemployed and on benefits	20	28.0	11	22.1	31	25.6
(Don't know)	1	1.9			1	1.1
Total	73	100.0	49	100.0	122	100.0

4.3 Characteristics of NEIS Participants and Their Businesses

4.3.1 Qualifications Needed for Business

Businesses requiring certain qualifications to operate restricts entry to only those who hold these qualifications. This may improve the chances of success. Respondents were asked whether they needed to have any qualifications to produce their particular product or service. For both surviving businesses and non-survivors, the majority of participants indicated that they did not require any formal qualification to make their product or service. Around 28 per cent of surviving businesses required either tertiary or trade qualifications, as opposed to 21 per cent for non-survivors (see table 4.9).

Table 4.9 Qualifications Required for NEIS Business by Survival Status

	non survivor		survivor		Total	
	Count	%	Count	%	Count	%
A Trades Certificate	11	9.0	28	11.9	39	10.9
Formal training to university level or beyond	15	12.1	39	16.4	54	15.0
Some other form of qualification	17	13.9	25	10.6	42	11.7
No formal training was required	79	65.0	146	61.1	225	62.4
Total	122	100.0	238	100.0	360	100.0

4.3.2 Similarity with Previous Employment

Experience, contacts, knowledge of the industry in which an entrepreneur is trying to become established, and industry specific management and other knowledge have all been found to be important contributors to the successful establishment and survival of new ventures. They help overcome the ‘liability of newness’ (Cooper *et al.* 1994). The following tables attempt to shed some light on whether there are any differences between surviving and non-surviving businesses as far as prior experience is concerned. As can be seen in table 4.10, for males in surviving businesses just over 45 per cent had prior experience in a type of business similar to the one they were operating under NEIS, compared to only 37 per cent for non-survivors. For females there were around 39 per cent of survivors and 33 per cent of non-survivors with prior experience. Clearly prior experience is no guarantee of success, but it does appear to have some small positive influence.

Table 4.10 Similarity of NEIS Business with Previous Employment Experience By Survival Status and Gender

		non-survivor		survivor		Total	
		Count	%	Count	%	Count	%
Male	similar	27	37.0	61	45.2	88	42.1
	unrelated	46	63.0	74	54.8	121	57.9
	Group Total	73	100.0	135	100.0	209	100.0
Female	similar	16	33.3	40	39.2	57	37.7
	unrelated	32	66.7	62	60.8	94	62.3
	Group Total	48	100.0	102	100.0	151	100.0
Total		121	33.6	237	65.8	360	100.0

In table B2 (see appendix B), information is presented on participants’ previous sector of employment. A larger share of females had worked in the public sector than males (survivors and non-survivors). Over 76 per cent of males had worked in the private sector prior to going onto NEIS (82 per cent for survivors).

Of the 25 per cent of participants who were previously employed in the public sector, 22 per cent were in part-time jobs, 64 per cent in full-time jobs and around 14 per cent in casual

employment. The major difference between non-survivors and survivors is the high proportion of non-survivors that were in casual employment (see table B3 in appendix B).

Participants formerly employed in the private sector were predominantly in full-time employment. This was high for males and higher for both genders in the survivor group relative to respective non-survivors. Casual employment was significantly higher for non-survivors, particularly for women (see table B4 in appendix B).

4.3.3 *Prior Business Experience*

Participants were asked whether they considered themselves to have had prior experience “relevant” to running a business. Around 60 per cent of females with surviving business reported having “some” or “lots” of relevant experience, compared to 49 per cent for non-survivors. The difference between male survivors and non-survivors was much less pronounced (see table 4.11).

Table 4.11 Prior Business Experience by Survival Status and Gender (Unweighted)

i) *Non-Survivors*

	Male		Female		Group Total	
	Count	%	Count	%	Count	%
Lots of experience	32	32.7	11	18.0	43	27.0
Some experience	31	31.6	19	31.1	50	31.4
Little experience	20	20.4	19	31.1	39	24.5
No experience	15	15.3	11	18.0	26	16.4
(Don't know)			1	1.6	1	.6
Total	98	100.0	61	100.0	159	100.0

ii) *Survivors*

	Male		Female		Total	
	Count	%	Count	%	Count	%
Lots of experience	34	24.6	23	22.3	57	23.7
Some experience	49	35.5	39	37.9	88	36.5
Little experience	31	22.5	27	26.2	58	24.1
No experience	23	16.7	14	13.6	37	15.4
(Don't know)	1	.7			1	.4
Total	138	100.0	103	100.0	241	100

4.3.4 *Networks*

Well developed networks of relationships with suppliers, customers, distributors are also to be considered important to the success of new ventures. The data presented in table 4.12 support this proposition. However, the difference between male survivors and non-survivors is quite

small. There were just over 60 per cent of males in surviving businesses who said that they had useful networks that they had established before they commenced their NEIS business, while for male non-survivors it was slightly lower at around 57 per cent. Of women with surviving businesses, 55 per cent indicated that they had pre-existing networks that were useful to their business, while only 44 per cent of non-surviving female businesses had useful networks in place.

Table 4.12 Networks Prior to NEIS Useful to New Business Venture by Survival Status and Gender

		non-survivor		survivor		Total	
		Count	%	Count	%	Count	%
Male	had networks	41	56.8	82	60.4	123	58.9
	no networks	31	43.1	54	39.6	86	41.1
	Group Total	73	100.0	135	100.0	209	100.0
Female	had networks	21	43.8	57	55.4	78	51.7
	no networks	27	56.3	46	44.6	73	48.3
	Group Total	49	100.0	102	100.0	151	100.0
Total		122	33.9	237	65.8	360	100.0

Table 4.13 shows the types of contacts that respondents reported using. The most striking feature is the difference between client networks. Around 70 per cent of both male and female survivors who reported having prior networks said that clients were the type of contact that they had. For non-survivors 58 per cent and 42 per cent for males and females, respectively, reported client contacts as being part of their pre-existing network. The difference for female businesses is quite dramatic and may be one of the more important factors relating to success.

Table 4.13 Type of Contact by Survival Status and Gender (Unweighted), Per Cent

	non survivor			survivor		
	Male	Female	Total	Male	Female	Total
suppliers	44.2	52.6	46.8	55.0	47.3	51.9
staff	16.3	10.5	14.5	16.3	16.4	16.3
clients	58.1	42.1	53.2	70.0	69.1	69.6
outlets	30.2	42.1	33.9	20.0	25.5	22.2
business groups/professional associations	18.6	68.4	33.9	55.0	52.7	54.1
professionals with skills relevant to business	51.2	47.4	50.0	1.3		.7

4.3.5 Resources

As reported in the CLMR's 2001 evaluation of the NEIS programme (see Kelly *et al.* 2001) survivors and non-survivors accessed capital in roughly equal proportions, with about half requiring start-up capital (see table 4.14). Like the 2001 evaluation, the major differences lay in the amounts raised by survivors and non-survivors. Survivors who required start-up capital are more likely to have obtained the finance from a bank or credit provider, while savings were the main source for non-survivors (see table 4.15).

Table 4.14 Whether Needed Finance to Establish NEIS Business by Survival Status

	non survivor		survivor		Total	
	Count	%	Count	%	Count	%
Yes	56	46.2	118	49.4	174	48.3
No	65	53.8	120	50.6	186	51.7
Total	122	100.0	238	100.0	360	100.0

Table 4.15 Sources of Finance by Survival Status

	non survivor	survivor	Total
redundancy payments	9.9	6.9	7.9
savings	55.3	41.6	46.0
selling existing assets	14.1	11.7	12.5
loan from bank or credit provider	18.3	39.4	32.6
loan from friend or family	30.9	25.6	27.3
other	1.9	2.6	2.3

There are no statistically significant differences between survivors and non-survivors from the various sources, except for bank loans and funds from family and friends. The differences for these sources of funds are quite pronounced. This could be due to the fact that businesses that have obtained a loan from financial institutions have been subjected to and passed a further test of their viability through banks' strict lending criteria.

Table 4.16 Funds Raised Through:

i) *Redundancy payments (\$)*

	Mean	Median
non survivor	21638	28600
survivor	19511	19600

ii) *Savings (\$)*

	Mean	Median
non survivor	5166	3113
survivor	7280	5000

iii) *Selling Existing Assets (\$)*

	Mean	Median
non survivor	22808	15000
survivor	17826	11750

iv) *Bank Or Credit Provider (\$)*

	Mean	Median
non survivor	15196	10580
survivor	37143	15000

v) *Family Or Friends (\$)*

	Mean	Median
non survivor	5070	1790
survivor	13366	9970

Having a spouse/partner⁵ may also affect the ability to successfully operate a business. Participants who are not the sole breadwinner in the household may have greater resources to devote to their venture. Table 4.17 shows the relationship between partners in paid employment and survival status. Of all survivors with a spouse/partner, around 73 per cent have a spouse/partner in paid employment. The corresponding figure for non-survivors is only 57 per cent. This finding suggests that the performance threshold is lower where the participant has a spouse/partner in paid employment. This is because when income is available from paid employment from one of the partners there is less need for the extra money from a business.

Table 4.17 Whether Partners/Spouse Were in Paid Employment by Survival Status

	non survivor		survivor		Total	
	Count	%	Count	%	Count	%
Spouse/partner in paid work	57	57.4	128	72.6	185	67.1
Spouse/partner not in paid work	41	40.7	48	27.4	89	32.2
No response	2	1.9			2	.7
Total	99	100.0	176	100.0	276	100.0

⁵ The usage of 'partner' in this context relates to the personal relationship with the participant and not the business.

4.3.6 Threshold of Performance

While economic performance is, ultimately, critical to the survival prospects of any venture, it is not the only factor that determines the decision to exit. In the current survey respondents were asked what level of annual wages and retained profit they would need in order for their business to be worthwhile. There are a number of limitations to a question of this nature, as responses may be conditioned by recent experience. For example, participants with businesses that have started to experience an upturn may have higher expectations for wages and retained profits than when they first started their business. Thresholds by themselves are just one factor among many. Table 4.18 shows the reported thresholds by age-cohorts by survival status. It might be expected that older cohorts, given that they are coming from unemployment, including recent retrenchment, (and their employment prospects are generally poor), are more likely to have lower thresholds. This is not reflected in the data. What is clear is that the survivors have, for most age categories, much higher performance thresholds than non-survivors. Taking the average, survivors have a significantly higher threshold of performance than non-survivors for males (see table 4.19). There is no significance difference between genders for non-survivors. Female participants with surviving businesses have significantly lower thresholds than their male counterparts.

Table 4.18 Threshold by Age-Cohort And Survival Status (\$)

	non survivor		survivor	
	Mean	Median	Mean	Median
18 to 24 years	32300	30000	45227	35000
25 to 34 years	31932	20000	45548	40000
35 to 44 years	31138	30000	36432	30000
45 to 54 years	39720	30000	33423	26000
55 to 64 years	28542	30000	37738	32846

Table 4.19 Threshold by Gender and Survival Status

	non survivor		survivor		Table Total	
	Mean	Median	Mean	Median	Mean	Median
Male	32979	25000	41285	35000	38224	30000
Female	33321	30625	36437	30000	35508	30000
Table	33100	30000	39211	35000	37132	30000

4.3.7 Employment Created, Survivor Earnings and Hours Worked in NEIS Businesses

i) Employment Created

Another aspect of outcomes achieved by NEIS is the amount of employment created, the level of earnings and the hours worked by participants in their ventures.

Table 4.20 shows the average number of people employed in either a part-time/casual or full-time capacity by the age-cohort of participants. Not all of the 238 surviving businesses take on employees. Nonetheless, on average, participants employ 0.5 part-time/casual employees and 0.2 full-time employees. Thus, for every 1 000 NEIS participants who complete their assistance period, two years later there will be just over 300 additional part-time/casual employees and 145 full-time employees. Another way of looking at it is that for every NEIS completion around 0.45 *additional* jobs are created - a result fairly similar to that calculated in the 2001 NEIS evaluation (Kelly *et al.*, 2001).

Table 4.20 Average Employment Created by Surviving Business and Age

	18 to 24	25 to 34	35 to 44	45 to 54	55 to 64	Total
average employment created						
part-time/casual	0.8	0.7	0.6	0.3	0.1	0.5
full-time	0.4	0.3	0.3	0.1	0.2	0.2
total additional employment created						
part-time/casual	11.7	48.3	49.9	12.8	1.0	123.8
full-time	5.9	16.6	29.1	3.2	3.1	57.9

ii) *Hours Worked*

The average hours of work of the 18 to 44 age-group for male participants in surviving businesses follow a full-time working pattern, with older participants tending to work fewer hours. There is a clear difference between the hours worked for males and females across all age-cohorts, with males , on average, working around 6.5 hours per week more than their female counterparts (see table 4.21).

Table 4.21 Weekly Hours Worked in Business by Age and Gender

i) *Females*

	Count	Minimum	Maximum	Mean	Median
18 to 24 years	6	20.0	40.0	31.0	35.0
25 to 34 years	26	8.0	120.0	34.3	30.0
35 to 44 years	40	.0	80.0	32.8	30.0
45 to 54 years	22	2.0	80.0	30.6	30.0
55 to 64 years	6	10.0	80.0	41.1	39.5
Total	99	.0	120.0	33.1	30.0

ii) *Males*

Rows	Count	Minimum	Maximum	Mean	Median
18 to 24 years	8	15.0	55.0	40.0	45.0
25 to 34 years	40	10.0	80.0	43.6	40.0
35 to 44 years	49	5.0	80.0	41.6	40.0
45 to 54 years	28	.0	65.0	33.5	40.0
55 to 64 years	9	4.0	80.0	29.4	27.8
Total	134	.0	80.0	39.6	40.0

iii) *Persons*⁶

Rows	Count	Minimum	Maximum	Mean	Median
18 to 24 years	14	15.0	55.0	36.3	37.5
25 to 34 years	66	8.0	120.0	39.9	36.5
35 to 44 years	88	.0	80.0	37.7	40.0
45 to 54 years	50	.0	80.0	32.3	33.5
55 to 64 years	15	4.0	80.0	34.0	37.7
Total	233	.0	120.0	36.8	38.0

iii) *Earnings*

Respondents in surviving businesses were asked what their annual earnings were, calculated as the wages they paid themselves and any residual profit over the course of the preceding 12 months. Table 4.22 shows the pattern of *net* earnings between age-cohorts and the average hours worked for participants in surviving businesses. Earnings appear to be quite low for all groups, with the lowest earnings recorded for the mature-age cohorts- these also have the lowest average hours of work. The average hours worked (persons) is just under 37 hours per week, with the median being 38 hours per week.

Table 4.22 Net Earnings and Hours Worked in Surviving Businesses by Age (Unweighted) (\$)

		Count	Median	Mean	Standard Error of Mean
18 to 24 years	wages and retained profit	11	18000	18056	3381
	hours worked	11	40.0	37.2	3.6
25 to 34 years	wages and retained profit	51	22000	30459	4598
	hours worked	51	30.0	35.9	2.7
35 to 44 years	wages and retained profit	68	16000	20219	2340
	hours worked	68	40.0	37.2	2.8
45 to 54 years	wages and retained profit	38	6000	14613	3081
	hours worked	38	35.0	32.7	3.4
55 to 64 years	wages and retained profit	12	9500	8708	2151
	hours worked	12	30.0	31.3	6.5
Total	wages and retained profit	180	15000	21003	1781
	hours worked	180	35.0	35.5	1.6

Average yearly earnings of survivors for all age-cohorts are around \$21 000. This equates to approximately \$400 dollars per week. The highest average weekly earnings are for the 25 to 34 year cohort with \$585 per week. The 55 to 64 year age-cohort have the lowest average weekly earnings with \$167 per week. Median earnings for all survivors equate to around \$288

⁶ Note: The discrepancy between the mean hours reported in table 4.21 for the 25 to 34 year category and that in table 4.22 arises from the omission of one case with very high hours worked. The respondent did not reveal net earnings and hence was omitted from the data presented in table 4.22.

per week, compared to median weekly earnings of \$250 for survivors in the 2001 evaluation (Kelly *et al.*, 2001). This difference may largely be due to the relative maturity of the businesses in the sample for the 2002 survey, as all surviving businesses had been in operation for approximately 3 years, whereas the 2001 survey included businesses that may have been in operation for much shorter periods than this.

The 55 to 64 year age-group's 'apparent' low earnings may be viable because they may have other sources of income, thus their 'threshold of performance' is significantly lower. Other sources of income, due to their eligibility, include superannuation, pensions, savings and redundancies.

Table 4.23 shows the pattern of earnings by educational attainment. Average annual earnings are significantly higher for tertiary and trade qualified participants, perhaps reflecting skills that are specific to the businesses being operated by these participants.

Table 4.23 Educational Attainment and Average Annual Earnings in Surviving Businesses (\$)

	Count	Median	Mean	Standard Error of Mean
< year 10	14	14663	15221	2691
Year 10	35	16270	18640	2554
Year 11	15	18300	14380	3077
Trade/TAFE	25	17685	29285	6924
Secondary completed	37	14825	17749	3293
Tertiary qualification	54	17360	24180	3881
Total	180	15000	21003	1781

4.3.8 Web Usage and Advice Sought

Many NEIS business plans indicate that they will be using the Internet in some way for their business. Participants were asked how they used the web for their business. There was not a great deal of difference between survivors and non-survivors who had used the web in their business. The dominant use of the web for all participants was as a way for customers to contact the business. Of equal importance was the use of the web as an advertising or promotional tool, with around 85 per cent of participants who had used the web using it for this purpose (see table 4.24).

Table 4.24 Website Use by Survival Status (Unweighted), Per Cent

	non survivor	survivor	Total
As a way for customers to contact	85.0	67.9	72.6
For sales or distribution purposes	25.0	30.2	28.8
As and advertising or promotional tool	95.0	83.0	86.3
None of the above		5.7	4.1

Table 4.25 shows the three dominant areas where participants have sought advice from people other than their NEIS provider or mentor. For non-survivors marketing stands out as being the most important sort of advice required by participants, which may reflect the difficulties that they are facing. Accounting and taxation advice are the more important sources of advice required by participants with surviving businesses, perhaps a reflection of pending success and also a more business-like approach. To the extent that participants seek advice in these areas due to inadequate treatment within the NEIS course, whether that be due to superficial coverage or inadequate amounts of time spent on the material, these areas may also be an indication of where NEIS needs some improvement.

Table 4.25 Main Types of Advice Sought by Survival Status, Per Cent

	non survivor	survivor	Total
Accounting	31.0	62.5	52.6
Tax	30.7	43.5	39.5
Marketing	60.9	37.8	45.0

4.3.9 Role of NEIS

One of the more important facets of NEIS is its role as an alternative pathway to employment for jobseekers facing disadvantage in the labour market. Participants were asked how easily they would have found work without NEIS. Over 60 per cent indicated they would have with “some” or “great” difficulty, or they would not have found work at all. As expected, the responses show a clear pattern of increasing difficulty with age. This again suggests that NEIS is a good option for the mature aged. The corresponding figure for the 45 to 54 year age group is 69 per cent, for 55 to 64 year olds it is 78 per cent. It is of some concern that over 36 per cent of respondents felt that they would find work easily without NEIS. This indicates the possibility that there are significant *deadweight losses* associated with NEIS. However, given the very positive outcomes for mature-age cohorts, there is a strong case for more specific targeting of NEIS resources toward this group (see table 4.26).

Table 4.26 Difficulty in Finding Work without NEIS Option by Age-Cohort

	18 to 24		25 to 34		35 to 44		45 to 54		55 to 64		Total	
	no.	%	no.	%	no.	%	no.	%	no.	%	no.	%
Very easily	6	17.2	26	21.6	15	10.5	10	12.0	3	10.0	59	14.7
Quite easily	11	31.0	30	25.0	30	21.8	12	15.0	3	10.0	86	21.4
With some difficulty	15	44.8	40	33.0	46	33.1	23	29.0	4	16.0	128	32.1
With great difficulty			15	12.5	32	23.3	22	27.0	8	30.0	77	19.2
Would not have found work			6	4.5	12	9.0	10	13.0	8	32.0	37	9.2
Don't know	2	6.9	4	3.4	3	2.3	3	4.0	1	2.0	13	3.3
Table Total	34	100.0	121	100.0	138	100.0	80	100.0	26	100.0	400	100

4.4 Participant Satisfaction with NEIS

Questions were included in the survey to determine what areas of NEIS participants felt could be improved and to ascertain their satisfaction with the key components of NEIS.

4.4.1 Areas where Participants Thought NEIS Needed Improvement

Table 4.27 suggests that only a small proportion of NEIS participants felt that more financial assistance would have improved the success of their business in some way. The main areas of concern for respondents were the quality and quantity of mentoring/networking (14.6 per cent) and likewise for information/marketing research/training (17.4 per cent). As can be seen from table 4.28, the same pattern of responses was recorded for the mature-age cohorts. Looking at the responses by survival status also shows a similar pattern of responses with the main exception being survivors' perception of mentoring and networking. There were 17.8 per cent of participants with surviving business that indicated that the quality of mentoring and networking could be better compared to 8.3 per cent of non-survivors (see table 4.29). It was noted by regional providers in the in-depth interviews that it was very difficult to get mentors. Some participants in the in-depth interviews (both metropolitan and regional) also raised the issue of mentors, particularly in the context of having specific knowledge of the participant's line of business.

Table 4.27 Suggested Areas of NEIS that Could be Improved

	responses	%
more financial assistance/funding/grants	32	8.8
longer period of support	32	8.8
more technical support and assistance	6	1.7
better quality of mentoring/networking	53	14.6
more/better quality information/marketing research/training	63	17.4
follow-up support	18	5.0
other	8	2.2
Total	362	

Table 4.28 Suggested Areas of NEIS That Could be Improved- Mature-Age Group

	responses	%
more financial assistance/funding/grants	15	10.0
longer period of support	13	8.7
more technical support and assistance	1	.7
better quality of mentoring/networking	15	10.0
more/better quality information/marketing research/training	25	16.7
follow-up support	5	3.3
other	2	1.3
Total	150	

Table 4.29 Suggested Areas of NEIS That Could be Improved by Survival Status

	non-survivor		survivor	
	responses	%	responses	%
more financial assistance/funding/grants	12	9.9	20	8.3
longer period of support	8	6.6	24	10.0
more technical support and assistance	2	1.7	4	1.7
better quality of mentoring/networking	10	8.3	43	17.8
more/better quality information/marketing research/training	20	16.5	43	17.8
follow-up support	6	5.0	12	5.0
other	1	0.8	7	2.9
Total	121		241	

4.4.2 Rating of Key NEIS Components

Participants with surviving businesses were asked how helpful they thought the various components of NEIS were in contributing to the success of the business. Responses were on a scale of 1 to 10 with 1 being “not at all helpful” and 10 being “extremely helpful”. The three components of NEIS were ‘training and business development’, ‘mentoring and advice received while on NEIS’ and ‘financial assistance provided under NEIS’. As might be expected, the financial assistance provided by NEIS scored very well, with the mean response overall being just over 8. Training and business development likewise was quite high at 7.7. Mentoring and other advice had the lowest mean score at 6.8, around 1 full point lower than that recorded for the other areas of assistance provided by NEIS (see table 4.30). This is consistent with the information by participants with respect to where NEIS could be improved. This is an area where more flexibility in the way NEIS mentoring is provided may be the way forward. Not all participants feel they need a mentor- resources may be better used by concentrating them on people that are responsive to this kind of assistance.

Highest education level completed		Training and business plan development	The mentoring and advice received while on NEIS	The financial assistance provided under NEIS
< year 10	Mean	7.58	6.95	8.42
	N	19	19	19
	Std. Deviation	1.677	3.009	2.063
Year 10	Mean	7.90	7.55	8.24
	N	51	51	51
	Std. Deviation	2.003	2.715	2.286
Year 11	Mean	7.81	6.75	7.88
	N	16	16	16
	Std. Deviation	2.562	3.337	2.306
Trade/TAFE	Mean	8.05	7.29	8.63
	N	38	38	38
	Std. Deviation	2.066	2.426	2.541
Secondary completed	Mean	7.62	6.79	7.83
	N	53	53	53
	Std. Deviation	1.863	2.491	2.680
Tertiary qualification	Mean	7.48	6.08	7.75
	N	64	64	64
	Std. Deviation	2.085	3.139	2.743
Total	Mean	7.72	6.85	8.07
	N	241	241	241
	Std. Deviation	2.013	2.836	2.525

Table 4.30 Rating of NEIS Contribution to Success

Participants with surviving businesses were asked whether they thought their business would have been more or less successful without the support of NEIS. The vast majority, 79.6 per cent, indicated that they would have been *less* successful without NEIS assistance, while only 15.7 per cent indicated that they thought NEIS did not have any influence on the success of the business (see table 4.31).

Table 4.31 Whether Business Would Have Been More or Less Successful Without NEIS

	More		Same		Less		Don't know		Total	
	Count	%	Count	%	Count	%	Count	%	Count	%
18 to 24 years			2	16.7	11	75.0	1	8.3	14	100.0
25 to 34 years			11	16.3	57	83.7			68	100.0
35 to 44 years	3	3.4	12	13.8	72	79.3	3	3.4	90	100.0
45 to 54 years	2	3.2	8	15.9	39	77.8	2	3.2	50	100.0
55 to 64 years	1	3.3	4	23.3	11	73.3			16	100.0
Total	5	2.2	37	15.7	190	79.6	6	2.5	238	100.0

4.5 Comparison with Non-NEIS Businesses

One of the objectives of this study is to make comparisons with NEIS businesses and non-NEIS small businesses. The approach to addressing this issue has been to examine the literature concerning small business operation, survival and exit decisions in order to obtain a profile of the essential characteristics of these ventures and their operators. The following draws on the findings presented in Chapter 3 and compares them with the main features of NEIS participants and businesses identified above.

The most obvious difference, of course, is that the vast majority of NEIS participants will have come from a state of unemployment prior to commencing their small business venture. The facet of NEIS that results in key differences is that participants are steered heavily toward low-risk, low-capital start-ups, this is not necessarily the case with other small business ventures. Also, NEIS businesses receive a 'leg-up' for the first 12 months of their operation through the payment of their NEIS allowance. Finally, a key requirement of NEIS participants is that they undertake training, although this is relaxed where the participant can demonstrate that they have the necessary experience to bypass training, and develop a business plan that is acceptable to the Department of Employment and Workplace Relations.

4.5.1 Training

Training requirements are not imposed on small business start-ups in the same way they are for NEIS. This is of some interest as it has been found that business training has only a marginal impact on survival. However, it must be remembered that the pool of people that NEIS draws from may be substantially different to the general population of small business start-ups, not the least because of the scarring effect that a spell of unemployment may have had. Of some interest with regards to this is the sentiment expressed by both providers and participants that an important part of the NEIS training is its motivational aspect. Participants with surviving businesses also rated the contribution of NEIS training and business plan development to their business success very highly. However, whether this really contributes to any differences between the survival rates of NEIS and non-NEIS businesses would require the counterfactual to be established, which is beyond the scope of this study.

4.5.2 Resources

Financial capital has been found to be an important contributor to both the survival and growth of small ventures. The survey of NEIS participants revealed that there were no significant differences between survivors and non-survivors in terms of the proportion who required start-up capital. The differences lie in the amounts raised by survivors and the sources of funds, with survivors placing greater emphasis on loans from banks and credit providers and families and friends. Non-survivors had a greater tendency to rely on savings. Thus, it seems that financial resources are also an important contributor to the success of NEIS businesses, although it is not a critical factor.

4.5.3 Human Capital

Education, supervisory and management experience were all found to be important contributors to economic performance and, hence, survival of small business start-ups. Whereas this was the case for total employment outcomes for NEIS participants, the effect was not as clear cut when just looking at business survival, something that may be related to

the expectations of better educated participants and the opportunities that they face in the labour market.

Prior experience in a related business clearly has a positive influence on the survival chances of NEIS businesses, just as it does for non-NEIS businesses. Having no previous employment (this was mainly an issue for female NEIS participants) was associated with non-survival. A greater proportion of survivors, male and female, had prior employment experience in the private sector, further supporting the notion that specific human capital is an important aspect to business survival. A higher proportion of participants in surviving NEIS businesses also reported having experience relevant to running a small business than for non-survivors- this was particularly pronounced for women.

Networks are another aspect of human capital that are particularly valuable to economic success, whether in the labour market or self-employment. NEIS participants likewise had higher proportions of participants with surviving businesses reporting that they had networks useful to their venture in place prior to commencing their NEIS business.

4.5.4 Background Characteristics

An interesting feature of the survey of NEIS participants was that, in terms of business survival, people with an NESB background fared particularly well, as did the LTU. The mature-aged achieved self-employment outcomes comparable with other age-cohorts. There were no discernible differences between males and females. Outcomes for women participants are consistent with what is observed for non-NEIS businesses, that is, they are just as likely to survive as male run businesses. Age is an interesting case in that it is related to lower exits for small businesses, due to a lower thresholds and higher switching costs. For NEIS businesses the survival rates were no different to other age-cohorts. However, the earnings for the oldest cohorts were very low, suggesting that the same influences are at work for NEIS participants.

4.5.5 Economic Performance

Just over a quarter of small enterprises surveyed in a US study conducted in 1986 indicated that financial difficulty played no part at all in their decision to exit. This was also found to be the case in the current survey of NEIS businesses, with about 28 per cent of participants indicating the main reason for discontinuing their business was due to either poor health, finding a preferred job as an employee, personal reasons or family pressure. Nonetheless, low income was still the single most important factor, with 34.5 per cent of participants indicating the main reason for ceasing their business was because they were not making enough money. A further 27.7 per cent were either losing money, had irregular income, had cash flow management problems, or experienced a lack of demand for their product. Low income has also been found to be the main reason behind closures in a scheme similar to NEIS operating in the UK. Studies of small enterprises in the US found that just under a third closed their business solely because of financial reasons.

4.6 Summary

The survey used to ascertain the outcomes of NEIS participants 18 and 24 months after NEIS assistance yielded some extremely interesting and useful information. For instance, two years after NEIS assistance ends there are just over 84 per cent of participants either employed or

waiting to start a new job. Fifty six per cent of NEIS participants are in self-employment two years after the assistance they received under NEIS ended. There are a further 15 per cent in full-time employment and 12.5 per cent in part-time/casual employment and over.

Importantly, the mature aged have very similar self-employment outcomes to the 'prime-age' cohorts. NEIS is, therefore, an important alternative to mainstream employment for this age group.

Just over 8 per cent of participants who ended their NEIS business within two years immediately moved into a different business. A further 43 per cent moved into either paid employment, or were waiting to start a new job. Around 37 per cent of non-survivors moved straight back on to unemployment benefits. The proportion of women who return to unemployment was around 5 percentage points higher than for men.

Sixty three per cent of all NEIS participants were in some form of self-employment as their main activity 18 months after the cessation of the NEIS allowance. Around 61 per cent of all participants were still in their original NEIS enterprise (as their main activity).

There are no discernible differences between educational levels and self-employment outcomes. For both surviving businesses and non-survivors, the majority of participants indicated that they did not require any formal qualification to make their product or service. Around 28 per cent of surviving businesses required either tertiary or trade qualifications, as opposed to 21 per cent of non-survivors.

For males in surviving businesses 45 per cent had prior experience in the same type of business they were operating under NEIS, compared to only 37 per cent for non-survivors. For females there were 39 per cent of survivors and 33 per cent of non-survivors having had prior experience. Seventy six per cent of males and 56 per cent of females in non-surviving businesses had worked in the private sector prior to going onto NEIS (81 and 65 per cent for male and female survivors respectively).

Just over 60 per cent of males in surviving businesses said that they had useful networks that they had established before they commenced their NEIS business, while for male non-survivors it was slightly lower at 57 per cent. Fifty five per cent of women with surviving businesses indicated that they had pre-existing networks that were useful to their business, while only 44 per cent of non-surviving female businesses had useful networks in place.

Around 60 per cent of females with surviving businesses reported having relevant experience for their NEIS business, compared to 49 per cent for non-survivors. Seventy per cent of both male and female survivors who reported having prior networks said that clients were the type of contact that they had. For non-survivors 58 per cent and 42 per cent for males and females respectively reported client contacts as being part of their pre-existing network.

Survivors who required start-up capital are more likely to have obtained the finance from a bank or credit provider, while savings were the main source for non-survivors. Of all survivors with a spouse/partner, around 73 per cent have a spouse/partner in paid employment. The corresponding figure for non-survivors is only 57 per cent. This finding suggests that the performance threshold is lower where the participant has a spouse/partner in paid employment. Survivors have a significantly higher threshold of performance than non-

survivors for males. Female participants with surviving businesses have significantly lower thresholds than their male counterparts.

For every NEIS completion around 0.45 *additional* jobs are created. The lowest earnings for NEIS businesses are for the mature-age cohorts, which also have the lowest average hours of work. The average hours worked (both genders) is just under 37 hours per week, with the median being 38 hours per week. Average weekly earnings for all cohorts in surviving businesses is approximately \$400 per week. The highest average weekly earnings are for the 25 to 34 year cohort with \$585 per week. The 55 to 64 year age-cohort have the lowest average weekly earnings with \$167 per week.

Accounting and taxation advice are the more important sources of advice required by participants with surviving businesses. Training and business plan development and the financial assistance were rated highly by participants with surviving businesses as having contributed to the success of their business, while mentoring and other advice received while on NEIS were given a significantly lower rating. The vast majority of participants with surviving businesses indicated that their venture would have been less successful without NEIS. The main areas where participants felt that NEIS could be improved were related to the quality and quantity of mentoring and networking, information, marketing research and training.

Over 36 per cent of respondents felt that they would find work easily without NEIS. This indicates the possibility that there are significant *deadweight losses* associated with NEIS. Given the very positive outcomes for mature-age cohorts and the long-term unemployed, there is a strong case for more specific targeting of NEIS resources toward these groups.

The outcomes observed for NEIS businesses and the key characteristics associated with survival do not appear to be substantially different to non-NEIS businesses. For example, older business operators from both groups (NEIS and non-NEIS) tend to tolerate lower levels of earnings. Women achieve survival rates that are commensurate with men. Financial resources are an important contributor to the success of NEIS businesses, although not a critical factor, just as they are for non-NEIS businesses. Prior experience in related business, is important for both NEIS and non-NEIS businesses alike. Networks also appear to be important for both groups. Low income is also the main reason for business ceasing operations in both groups.

The survival rates, or conversely, exit rates, for older age-cohorts in the NEIS survey showed very little difference to those observed for other age-cohorts. The literature on small enterprises suggests that they will be better. Nonetheless, the survival rates achieved for the older cohorts in the NEIS survey was still encouraging. The extent to which they differ between the two groups could not be ascertained from the survey of the literature.

The other area where NEIS differs significantly with non-NEIS businesses is in the requirements to establish a business, such as training and business planning, two areas where there is no such requirement for non-NEIS businesses. NEIS participants indicated that the business training that they received was quite an important factor in their success. Studies of non-NEIS businesses suggest it has only a limited influence on survival chances.

5 IN-DEPTH INTERVIEWS

In order to provide further insights into the nature of the businesses being operated by NEIS participants and the background of the participants associated with these businesses, a small number of in-depth interviews were undertaken. This allowed the study to obtain a better understanding of the context in which NEIS participants operate. It allowed an exploration of the way they draw on NEIS training, advice, their surroundings, opportunity, networks and past experience in order to establish and benefit from their enterprise. It must be noted, however, that this approach does not, and was not intended to, provide the best avenue to establish statistical profiles of participants and their outcomes.

The in-depth interviews were conducted in four locations – Perth, Melbourne, Albury-Wodonga and Margaret River-Bridgetown (south west of Western Australia). The participants chosen had all approximately been two years off NEIS assistance. The sample was drawn to provide a mixture of gender and surviving/non-surviving businesses. Finally, in order to provide other viewpoints on the success of participant businesses, the providers of participants were also interviewed. Five participants in each location were interviewed, with each group of five having the same provider. In practice the providers had little or no knowledge of individual participants or their businesses, as the staff of the providers had changed since these businesses/participants had been through the programme. Nonetheless, their viewpoints were on a similar range of issues as the participants and provided valuable input.

5.1.1 Location

Very little separated the two metropolitan locations in terms of the outlook of the participants and the ‘focus’ of their businesses. Where there did appear to be differences was between the regional and metropolitan areas. The impression was that participants’ perception of the market was much broader than their immediate surrounds in metropolitan businesses, whereas regional areas were more focused on business in their local area. This is not a hard and fast rule, however. It should also be noted that the local focus did not mean a business did not, or would not, survive. In many cases, though, the prospects of a financially viable, growing and thriving business looked better for the metropolitan based businesses. This could be due to the specific niche identified and the potential size of that niche in the larger metropolitan markets.

5.1.2 Type of Business

The types of businesses that had been established under NEIS were quite diverse. Any expectations of a narrow range of businesses, such as hairdressing or lawn mowing, would be completely misplaced. The ingenuity and sophistication of products, services, production techniques and business models were very impressive. Participants interviewed in the in-depth interviews typically were providing a service, involved in a particular craft or retailing. Within these broad groupings, however, there were numerous activities being undertaken. Among the products and services being produced were counselling, craft-ware, top-end jewellery, food retailing, trade services, acupuncture, chauffeuring, marketing/wholesaling, automated engraving, creative writing, to name a few.

Quite often the situation of unemployment for participants has been the catalyst for them to draw on their past experience and identify an avenue, or niche, for a new product or service. Many point out that NEIS provided the motivation, direction and skills to develop it further. The type of business, however, was not the only ingredient evident in the successful ventures. The relationship between a participant's prior experience, networks and current business activity were a key ingredient to success.

5.1.3 Past Experience

Participants in most cases could relate their current activity in some way to their previous employment. For example, they may have been working previously in wholesale related business and subsequently have started a NEIS business in wholesaling, but in a different area of the market (different products). Sometimes the products are sufficiently different so that it is just a 'broad' awareness of the pitfalls and selling methods that have helped. In other cases the link between past experience and current activity is so close it is simply a case of changing from employee to proprietor. What changes is the focus and business model used. In these examples the networks developed prior to NEIS play an important role.

Another way past experience influences present activity and, to some extent, outcomes is direct experience with the manufacture of a product or delivery of a service. These are not necessarily related to employment in the area, but may simply be a craft skill of some sort. However, it is the more concrete application of skills and knowledge acquired through past experience in the workplace that appears to affect the longevity and financial health of NEIS businesses. Those with less tangible links to past experience tended not to be in sound financial shape, or had ceased trading.

5.1.4 Networks

The other dimension of past experience and current business activity that is important is that of networks. Networks have been described in a number of ways (see, for example, Winter, 2000). However, here the primary concern is with networks that have some economic value. Respondents were asked specifically whether they had useful networks of people, prior to starting their business. Networks were described broadly as knowledge of suppliers, contacts with potential clients, staff or outlets of their product.

Those participants who had well developed networks, with only one exception, all had businesses that had survived and they felt were in a reasonable position to prosper. All felt their networks were important, some even critical, to their business success. These participants not only valued the networks they had, but actively worked on expanding their networks.

5.1.5 Training and Mentoring

Most participants had very positive comments about the quality and content of the NEIS training they received and the mentoring component. Most thought that the NEIS training was important and that things would have been difficult without it. Nonetheless, there were some criticisms and suggestions as to how it might be improved.

The best aspects for most people were the book-keeping/cash flow management component and the motivational aspect. Some of the specific criticisms were directed at the legal aspects

provided in the course. Some felt they were ‘tedious’ and ‘boring’ and ‘too much was crammed into too little time’. This last criticism was directed at the course in general. Although not provider specific (the criticism was directed at more than one provider), it is unclear whether it is a valid criticism or is more to do with the learning capacity of the individuals concerned. However, the participants suggesting that this was an issue, in the main, seemed to be aware and astute with reasonably high levels of training and education (degrees, diplomas and trade qualified in some cases). This may be an area for providers to review.

One of the more pertinent criticisms was that the people enlisted by providers to deliver course content were not good educators, despite being knowledgeable about their particular area. The content or themes of some components seemed premature and difficult to relate to given that participants had yet to establish their business.

Most of these criticisms, ultimately, are the types of issues that providers must deal with. It is doubtful whether the Department need do any more than provide feedback to providers on these issues and suggest to providers they do their own follow-up, where they think the criticisms are justified.

On a slightly more positive note, there may be one or two areas that the Department can explore that may enhance the future operation of NEIS. The first issue was the extent of IT in the course and integration of software into teaching of some components. This may already have been acted on by providers, as the respondents viewpoints relate to training provided some three years ago. The specific examples given were the use of spreadsheet packages (e.g. Microsoft Excel) in teaching the financial components. The use of the Internet as a search device and business tool (marketing/information) could also be explored and may warrant inclusion in the NEIS course.

The other area of interest was the need for a follow-up course. Given the NEIS course is all provided ‘up-front’, there was some who felt they could not directly relate to some issues at the time. Having operated their businesses for a few months or even years, they now felt that they wanted specific information and advice. There may be scope to allow ex-participants to go through some components of the course again to receive a ‘refresher’, perhaps at a higher level.

5.1.6 Provider Interviews

Providers that were interviewed had very little or no familiarity with the participants interviewed. However, they were able to comment more generally on the issues relating to participant success and failure. Discussions focused on the role that NEIS plays, the attributes of participants, the types of businesses that work and some of the issues they face in providing NEIS effectively.

5.1.7 Motivation

Participants almost universally commented, positively, on the motivational aspects of the NEIS programme. Likewise, providers stressed the importance of this aspect. One provider sees screening on personality as an important role for the provider. In their words, “... you get the front room people and the back room people. The back room person loves the idea of the product or service they want to provide, but not the process of selling or running a

business”. They must have “drive” and “perseverance”. They must “want to continue to learn and improve”.

For long term unemployed participants the need to deal with self-esteem is paramount. This was suggested by one provider as being a problem with the training that is provided, in particular, the length of the course.

5.1.8 Training

As alluded to above, the time that it takes to deliver training may be too short for Long Term Unemployed (LTU) participants. Specifically, the provider argued that “... you need to deal with self-esteem first, otherwise nothing gets off the ground. If there is one problem with the NEIS programme, it does not allow time to deal with the self-esteem of LTU participants”. One suggestion made was that LTU participants could be put into ‘business search training’ as a stream of Job Search Training for those thinking of the self-employment option.

This is one area where a simple policy change may bring about an improvement. However, the extent of the problem would need further investigation before changes were implemented.

Some participants suggested that while mentors were generally good, they didn’t have specific background knowledge of their particular business. Providers didn’t feel that this was the critical issue, however. One provider felt that the matching of the competencies (of the mentor) with the deficiencies of the participant, with respect to business fundamentals such as marketing or accounting, was more important than the industry background of the mentor.

Mentors in some places can be hard to get. One suggestion was for group mentoring, or to use past participants as mentors. Whereas these approaches are to be commended, they hardly require policy intervention to bring them about. They should properly reside with the individual initiatives of providers.

5.1.9 Past Experience

The past experience of participants was important, but not crucial. That is, providers suggested other factors also had to be present, such as motivation. What was generally thought to be crucial was the match between personal characteristics, type of product or service and the skills required to deliver it. This observation accords with the viewpoint and experiences of participants and the relative health of their enterprises.

5.1.10 Networks

Providers acknowledged the value of past networks. They also actively encourage participants to further develop networks. One provider organises informal gatherings and has mentors foster contacts between new participants and other business operators. Their viewpoint is that while a vital part of the business development for the individual, it is up to the provider to provide the appropriate emphasis within the delivery of their service to the participant.

5.1.11 Age

Age, argued one provider, tends to be associated with successful outcomes. That is, the more mature participants generally do better. However, it is not age specifically, rather, it is “life experience” that counts. Some younger participants have had quite a rich range of life experiences and this has put them in good stead to successfully develop and operate a business.

5.2 Summary

In-depth interviews allowed some investigation in to the nature of the businesses operated by participants. While most of the participants who had surviving businesses felt that their product was important to their success, most would say that the business product or service is only *part* of the puzzle. It did not appear that there was any pattern in the specific types of businesses that allows for a categorical statement that says “*this type of business or product works*”. Participants interviewed in the in-depth interviews typically were providing a service, involved in a particular craft, or retailing. Within these broad groupings, however, there were numerous activities being undertaken, from counselling to craft, top-end jewellery, food retailing, trade services, acupuncture, to name a few.

Comments from both the provider and participant interviews suggest that it is a combination of participant characteristics, such as past experience, business acumen, perseverance and attitude, networks and how well participants are able to identify and service a niche for their product that matters. How well participants are able to identify and service a particular niche is itself determined in large part by the specific and general human capital just alluded to.

While participants and providers all had very positive attitudes towards NEIS in general, certain areas for improvement were identified. These were the final training components of NEIS, the need for more mentors, particularly in the regions and the need for more ongoing support. For those who are particularly at risk in the labour market, the mature aged and the long term unemployed, NEIS provides an important alternative to mainstream employment.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 What Comprises a Successful NEIS Business?

The most important factors for success are a combination of participant characteristics, such as past experience, business acumen, perseverance and attitude, networks and how well participants are able to identify and service. How well participants are able to identify and service a particular niche is itself determined in large part by specific and general human capital.

It does not appear that success is governed by the ability to obtain finance. The survey of participants found that only a small number of participants with non-surviving businesses indicated a lack of finance was the main reason why they ceased operating their business. Without exception, participants with surviving businesses in the in-depth interviews did not see finance as being a constraint on their continued survival or the business success or failure. However, this needs some qualification.

One of the consistent themes for all participants interviewed (for the in-depth interviews) was that they structured their business venture so as to minimise start-up costs and to maintain a low exposure to risk. The question is not necessarily whether there is a lack of finance, but whether the businesses that are started are adventurous enough. That is, if the businesses set their sights a little higher, it may be that they would require more start-up and ongoing capital. Assuming they were able to finance start-ups of this nature, would their survival rates and other measures of business performance have improved? Unfortunately the counterfactual that would allow this question to be answered is not available. Nonetheless, given the objectives of NEIS and the circumstances from which its participants are drawn (i.e. unemployment) it would seem prudent for the current emphasis on low-cost start-ups to be maintained.

It is difficult to escape the fact that the successful ingredients to small business ventures are related to the *specific* and *general* human capital that is available to the business. Invariably this means the human capital of the participant, as the vast majority of start-ups in the early stages will not be employers of large numbers of, if any, people. This conclusion suggests:

any moves toward screening proposals that do not conform to a prescribed set of product or service types, industry areas or business model, over and above the business eligibility criteria⁷ currently in place, would be ill advised. Changes of this nature would increase the complexity and administrative burden of the scheme. It would also be counterproductive to limit the diversity of ventures established under NEIS.

6.2 Outcomes at 18 and 24 Months

Among the objectives of the research undertaken for this report was to determine participant outcomes for participants at the 18 month and 24 month intervals after the cessation of NEIS assistance. In the 2001 evaluation of NEIS (Kelly *et al.* 2001) it was determined that around 73 per cent of participants are still in self-employment 3 months after NEIS assistance

⁷ The purpose of the current business eligibility criteria is to limit the impact on pre-existing businesses. As it currently operates its general effect is most likely to increase the diversity of NEIS ventures.

finishes, dropping to 57 per cent after 12 months. It was suggested that the proportion in self-employment after 12 months continues to decline. The results for the 2002 survey, however, suggest that conditions have stabilised by the 24 month interval, with around 56 per cent of businesses still in operation. Including those in full-time, part-time/casual employment at 24 months post-NEIS, there are some 84 per cent in employment. All this suggests that:

the outcomes generated by NEIS persist over time, particularly when it is considered that 95 per cent of those who are self-employed have been in continuous self-employment since their assistance ended.

Total employment outcomes at both intervals were consistently high, whether examined by gender, NESB, LTU or age, although the oldest cohort, the 55 to 64 year olds, was lower at 72 per cent (24 month interval). Other age groups were around 85 per cent.

The situation of long-term unemployed participants is of considerable interest. The survey results showed that just over 90 per cent were either self-employed, in part-time or full-time employment. Of LTU participants 72 per cent had been continuously employed in the NEIS business they established. In total, there were 74 per cent in self-employment at the time of the survey. These are quite remarkable outcomes. Very few LTU participants were unemployed and on benefits (6 per cent). Outcomes of this order for a group of people considered to be some of the toughest to place into employment, let alone continuous employment, provide a compelling case for both increasing the share of LTU in a programme such as NEIS and also the scale of NEIS.

Increasing the representation of LTU would enhance the cost effectiveness of the programme. As the results from the survey conducted for this report show, increasing their representation need not seriously affect the 'headline' rate of employment achieved by NEIS.

One of the main criteria by which labour market programmes are typically judged is the proportion of participants that are off benefits or, conversely, on benefits. The proportion of participants who were unemployed and on benefits ranged from 9 per cent to 14 per cent for those aged between 18 and 54 years, generally increasing with age. The oldest age-cohort, the 55 to 64 year olds, had 22 per cent unemployed and on benefits. This compares to the average for the scheme of 12.3 per cent. A further 4 per cent for the oldest cohort had retired, presumably the retirement decision was heavily influenced by the unfavourable labour market faced by this cohort. Given that the employment prospects for the older age-cohorts are generally very tough, the outcomes generated by NEIS for these groups are exceptional.

NEIS has still managed to perform well, even for the older age-cohorts, in regard to placing people into employment in all its forms. As a programme it is in an ideal place to maintain its gross performance outcomes at levels that would be considered 'exceptional', while at the same time adjusting the composition of its clientele to improve the equity of the programme. Just as for the LTU, this would also have the highly desirable effect of improving both the equity and the cost effectiveness of the scheme.

6.3 Factors That Could Improve Assistance to Mature-Aged Participants

Only a small proportion of mature-age NEIS participants felt that more financial assistance would have improved the success of their business in some way. The most important area where the programme could be improved is in mentoring, networking, marketing research and training.

Possibly the more important dimension of how NEIS can be improved for older age-cohorts is just to increase the number of participants who are able to access the programme. It appears that the programme is, overall, in good shape. Tinkering with the programme to accommodate these groups does not appear necessary, particularly when it is considered that their survival rates are as good as for other age-groups. Accommodating the needs of the older cohorts is something that may best be addressed on a case by case basis by providers. Providers did not see age as a problem, indeed, it was suggested that it is an advantage.

An area where the Department could focus on is the use of Information Technologies within the training course, both to deliver the training and as an area that requires instruction for the participants. Examples given by participants included the use of spreadsheet packages in the teaching of financial components. Inclusion in the training course of a module on how to use the Internet as a marketing and business research tool could also be considered. This may be particularly relevant for some of the older participants who may have had a lower exposure to developments in the IT area.

6.4 Eligibility and Selection Processes to Ensure Opportunities for Mature-aged and LTU Participants

One of the more encouraging results to come out of the survey of participants is the self-employment outcome for participants with an NESB background, mature-age participants and LTU. These groups are generally considered to be at some disadvantage in the labour market, particularly the mature-age. Mature-age did not appear to be a barrier to business survival, although the earnings achieved by businesses still in operation by this group are somewhat lower than recorded for other age-cohorts. It must be noted that the hours worked by this group are also substantially lower than the average for surviving NEIS businesses. NESB survival rates (businesses that have been running continuously for 2 years post-NEIS assistance) are around 9 percentage points higher than for non-NESB participants. As mentioned in section 6.2 above, LTU outcomes are even higher again. All this suggests that

NEIS may be a useful vehicle for widening the opportunities for these jobseekers without seriously impinging on the 'gross' outcomes of NEIS. Indeed, the disadvantage faced by these jobseekers using mainstream pathways to employment suggests that any increase in their representation in NEIS would actually enhance the cost effectiveness of the scheme.

If there were to be any attempt to increase the representation of mature-age cohorts, or other disadvantaged groups, in NEIS, it raises the question as to what the best mechanism to achieve this would be. Under the current NEIS contract (ESC II) providers who are located in employment service areas (ESA) with an eligible client population of greater than 5 per cent

Aboriginal peoples or Torres Strait Islanders have their outcomes for these client groups monitored (see ESC II, p56). Conceivably this could be also done for other disadvantaged groups.

One option is to put in place a quota for participants with the targeted characteristics.

6.4.1 Increasing Mature-Age and LTU Involvement in NEIS

An alternative option to that outlined above, one that would be far less cumbersome and restrictive for both providers and the administrators of NEIS, would be to put in place increased incentives for achieving outcomes for targeted groups.

These need be *no* more complex than having higher weights for the outcome payments attributed to these groups. For example, an achieved outcome for a NEIS participant who is mature-aged (i.e. greater than 45 years) might attract 1.2 times the contracted outcome payment for the typical participant. This would leave providers to choose how they would target their resources, would not require additional reporting and could be adjusted up or down at any time in order to meet policy objectives relating to the target group of interest. A mechanism of this nature would also be consistent with the underlying principles evident in other Job Network services where the more difficult to place participants attract higher fees for servicing jobseekers and higher rewards for successful outcomes. Further, it is also consistent with the flexibility and market orientation of the current employment services regime.

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APPENDIX A: DETAILS OF SAMPLE

Table A1 NEIS Participants 23 to 26 Month Cohort

Age cohort			
		Frequency	Percent
Valid	18 to 24 years	155	8.5
	25 to 34 years	551	30.3
	35 to 44 years	632	34.7
	45 to 54 years	363	19.9
	55 to 64 years	119	6.5
Total		1820	100.0

Table A2 Unweighted Sample

Age Group			
		Frequency	Percent
Valid	18 to 24 years	29	7.3
	25 to 34 years	88	22.0
	35 to 44 years	133	33.3
	45 to 54 years	100	25.0
	55 to 64 years	50	12.5
Total		400	100.0

Table A3 Weighted Sample

Age Group			
		Frequency	Percent
Valid	18 to 24 years	34	8.5
	25 to 34 years	121	30.4
	35 to 44 years	138	34.6
	45 to 54 years	80	20.0
	55 to 64 years	26	6.5
Total		400	100.0

Table A4 Months Since NEIS Completion

Months since Completion of NEIS		
	Frequency	Percent
23 months off NEIS	93	23.3
24 months off NEIS	86	21.5
25 months off NEIS	105	26.3
26 months off NEIS	116	29.0
Total	400	100.0

APPENDIX B: SUPPLEMENTARY TABLES

Table B1 Main Reason for Ending NEIS Business

Reason	% of non-survivors
poor health	9.4%
found preferred job as employee	6.2%
started another business	5.0%
not making enough money	34.5%
losing money	8.9%
late paying customers made cashflow difficult	2.4%
income too irregular	11.7%
family pressure	5.3%
GST/tax problems	3.1%
lack of demand for product/services	4.7%
personal reasons	6.8%
other	3.4%
not applicable	.4%
Total	101.8%

Table B2 Previous Sector of Employment by Survival Status and Gender

	non survivor				survivor				Total	
	Male		Female		Male		Female		no.	%
	no.	%	no.	%	no.	%	no.	%		
No previous employment	2	2.0	7	11.5	4	2.9			13	3.3
Public sector	21	21.4	20	32.8	22	15.9	36	35.0	99	24.8
Private sector	75	76.5	34	55.7	112	81.2	67	65.0	288	72.0
Total	98	100.0	61	100.0	138	100.0	103	100.0	400	100.0

Table B3 Prior Employment Status in *Public* Sector by Survival Status and Gender

	non survivor				survivor				Total	
	Male		Female		Male		Female			
	no.	%	no.	%	no.	%	no.	%	no.	%
A part-time position	1	4.8	4	20.0	6	27.3	11	30.6	22	22.2
A full-time position	14	66.7	12	60.0	14	63.6	23	63.9	63	63.6
A casual position	6	28.6	4	20.0	2	9.1	2	5.6	14	14.1
Total	21	100.0	20	100.0	22	100.0	36	100.0	99	100.0

Table B4 Prior Employment Status in *Private* Sector by Survival Status and Gender

	non survivor				survivor				Total	
	Male		Female		Male		Female			
	no.	%	no.	%	no.	%	no.	%	no.	%
A part-time position	8	10.7	8	23.5	16	14.3	14	20.9	46	16.0
A full-time position	49	65.3	15	44.1	79	70.5	35	52.2	178	61.8
A casual position	11	14.7	8	23.5	10	8.9	10	14.9	39	13.5
Were you self-employed	7	9.3	3	8.8	7	6.3	8	11.9	25	8.7
Total	75	100.0	34	100.0	112	100.0	67	100.0	288	100.0