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Factors for Business Establishment in Regional Australia (An Analysis of the Mid North Coast Region of NSW)

Douglas Neil, Margaret Drever, Bruce Armstrong and Don Dingsdag

Abstract

This paper examines reasons why businesses relocated or established on the Mid North Coast region of New South Wales, Australia. The region is characterised by having one of the highest levels of unemployment in Australia, one of the lowest average incomes and a high dependency on social security infrastructure. The region also has a climate, which has been described as one of the best in Australia. These conditions make it an attractive location for 'lifestyle' reasons as well as a large reserve of unutilised labour.

Data used in the preparation of the paper was gathered initially in 1996 and updated in 1999 via an extensive survey of businesses that achieved a response rate in excess of 90%. The data was collated into a regional research database called the Regional Business Register, which was formally known as the Business Enterprise Register.

The focus of this paper highlights the reasons why businesses relocate to this region. It concludes that further research is needed to investigate the impact of the decision-making models particularly in relation to business start up and relocation to regional Australia.

1. Introduction

This paper examines if there is a relationship between the business relocation and business climate of the Mid North Coast region of New South Wales. Schmitt et al (1987) found that there is no evidence that overall business climate perceptions are related to actual relocation decisions. This article states that future research would benefit from consideration of the difference among business types and of multiple climate dimensions.

It is frequently noted that businesses suffer from a lack of effective planning and development skills (Williams cited in Gassiewski 1988, p. 14; McMahon 1995). McMahon (1995, p. 15) stated that "*failure or bankruptcy rates of young, small businesses are very high, and as many as 90 percent of these failures can be attributed to 'poor management'*". McMahon (1995, p. 8) found that the percentage of Australian business failures in the first five years of operation exceeds 70%, due mainly to poor planning and management skills.

A team of researchers at Southern Cross University (SCU) conducted a project in 1996 with the primary purpose of collecting data on all businesses registered in the Mid North Coast Region of NSW. As part of this project businesses were asked to identify reasons why they relocated to this particular region.

One of the outcomes of the project is the development of a database containing details of over 12,000 businesses in the Mid North Coast of New South Wales. The database is regularly updated by stakeholders within the region. Data is used to develop employment strategies, marketing plans and business development opportunities for the region.

2. The Mid North Coast Region

The region which is the focus of the project is typical of many east coast regions of Australia outside the major metropolitan areas. It frequently has one of the highest levels of unemployment and lowest per capita income in Australia. Poor job growth in the region means that there are a large number of discouraged job seekers that are not captured by the official unemployment figures. Consequently, the true economic and social impact of unemployment on the region is likely to be underestimated (University of Sydney - Planning Research Centre, 1991).

Notwithstanding, the region also has strong population growth that provides many business opportunities for established businesses and for the establishment and growth of new enterprises. However, it also puts a strain on existing and new infrastructure, and will have implications for resource sustainability (NOROC, 1990; ABS, 1997).

The region's economy is heavily dependent upon the primary industry and service sectors, especially agriculture and tourism. These sectors make important contributions to regional economic activity, the high level of regional dependence on these two industries means that the region's economy is narrowly based. This makes the economy susceptible to a boom and bust cycle of development. The viability of agricultural industries in the region is very much reliant on domestic and international commodity prices.

3. The Regional Business Register

The RBR currently contains details of over 12,000 businesses covering more than 13,500 Australian and New Zealand Standard Industry Classification (ANZSIC) industry activities. All businesses were allocated to an industry category under the ANZSIC classification system. The ANZSIC classification uses a 4-digit number to represent business and industry classifications. Each number represents a four level hierarchical structure representing industry divisions (highest level), subdivisions, groups, and classes (finest level).

Using the ANZSIC codes enables the data to be queried within industry categories to determine business performance within the various sectors. For example, the level of detail possible using the ANZSIC classification system enables identification of women's and girls clothes manufacturers, wool wholesalers, cut flower and seed growing, etc, as well as broader classifications such as: agriculture, forestry and fishing; mining; manufacturing; wholesale trade; etc. The ANZSIC classification system has 17 main industry categories (see Table 1), each with sub-categories according to the types and nature of activities within each primary category.

4. Survey Findings

A key output of the project has been the release of business census reports in 1997 and 1999. The census reports present summative business data for the entire region and for each of the four sub-regions being Coffs Harbour/Bellingen, Manning/Gloucester, Macleay, and Hastings. There have been no intra-regional comparisons undertaken on the data owing to its sensitivity and the misrepresentation that might result.

Table 1 shows the individual business numbers in industry categories according to the ANZSIC classification system. It shows the high number of retail businesses across the region and the reliance on the service sector as an employer and contributor to the region's economy. This is consistent with findings published by the Australian Bureau of Statistics (1999) 'Special Article on Employment Generation by the Small Business Sector', that states in 1996-97 small business accounted for 50.2% of private sector employment.

TABLE 1 – Respondents by Industry Category (Small Business)

<i>Industry Category</i>	<i>Total Operating Organisations</i>	<i>Employees</i>	<i>Average Employees per Organisation</i>
Manufacturing	1369	5349	4
Electricity, Gas, Water	11	386	35
Construction	1663	3391	2
Wholesale Trade	641	2506	4
Retail Trade	3152	10461	3
Accomm., Cafes, Restaurants	896	6967	8
Transport & Storage	402	1273	3
Communication Services	36	176	5
Finance & Insurance	276	1090	4
Property & Business Services	1161	3712	3
Government Admin. & Defence	60	1631	27
Education	210	2360	11
Health & Community Services	678	5141	8
Cultural & Recreational Services	267	1031	4
Personal & Other Services	689	1516	2
ANZSIC code not supplied	313	798	3
	11,824	47,788	

The data has been analysed in a variety of ways to meet the information needs of business development agencies and government bodies. Examples of the information provided are export by industries as a percentage of turnover, employment by gender and type, high risk business, industry confidence, business age, experience of proprietors relative to their current business, customer and market locations and business turnover by industry category.

The data has and will continue to be used to enable business and economic development agencies to target specific market and industry sectors in terms of marketing, employment programs, and other developmental initiatives. It will also enable business and economic development agencies to target specific business types to relocate to the region and advise potential start up business on issues such as planning, infrastructure, and upstream and downstream markets.

5. Reasons for Relocation

Respondents were asked to identify the reasons for establishing or relocating their businesses to this region. Responses to this question enable preliminary analysis of the business decision processes associated with relocation. Of the businesses that cited a reason for relocation 24% listed 'lifestyle' as their principal consideration. The data in Table 2 is supported by Dixon et al (1991). Their research found five factors for relocation that are consistent with the reasons which have been nominated by businesses in this region.

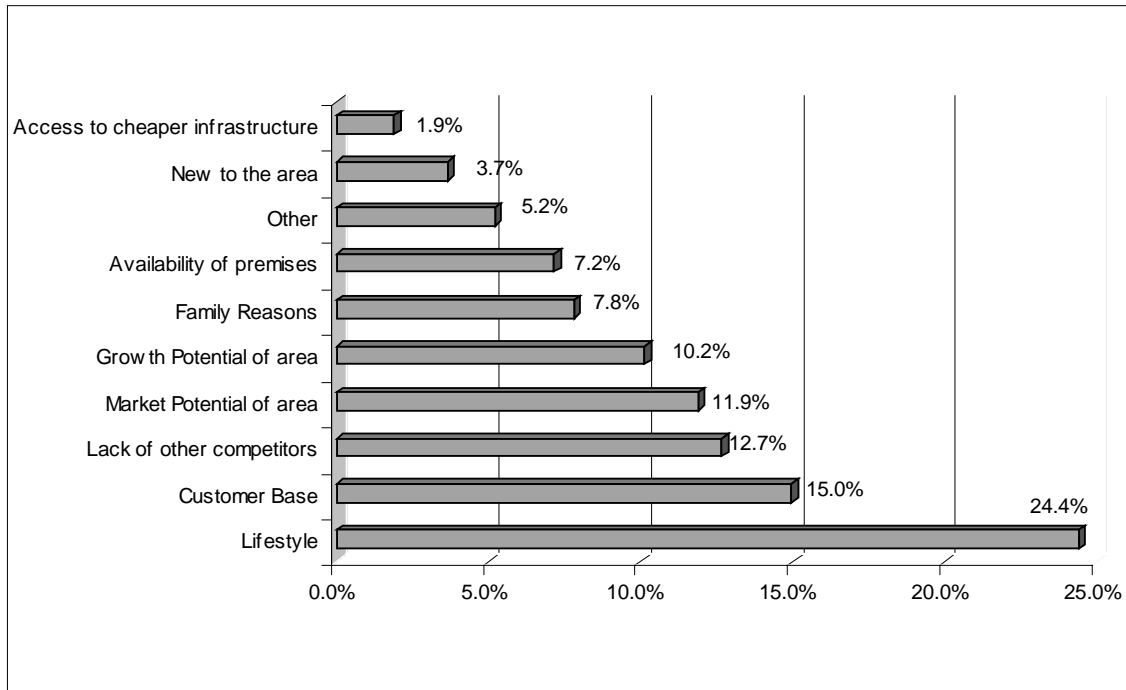
Table 2 – Reasons for Location and Number of Responses Supplied by Respondents

No. of Responses	Reason for Location
1454	Lifestyle
896	Customers
755	Lack of other competitors
748	Market Potential of area
631	Growth Potential of area
449	Family Reasons
405	Availability of premises
229	New to the area
116	Access to cheaper infrastructure
52	Transport
45	Place of Residence
37	Suppliers
34	Raw materials
22	Employment required
17	Home Based Business
16	Established Business

Cross-tabulation of data from respondents shows that 60% of those citing a reason for relocating a business do not have previous experience of owning and operating a business of this type. Reid et al (1993) makes reference to factors to be considered in a competitive market as existing rivals, potential new entrants, substitutes, customer’s ability to purchase and suppliers. The benefit of sound business planning procedures and practices, are well established and supported by current research and it is of concern that ‘lifestyle’ is the main reason for businesses relocating to the region. In this regard business and economic development agencies need to take more proactive measures in the provision of business advice to developing and incoming businesses.

The graph in Figure 1 illustrates the ten reasons for businesses listed for relocating to the region. It shows that 32.9% of businesses cite reasons which are not related to business practices as the key issues in establishing or relocating. While this data indicates desirability of the region’s ‘lifestyle’, it does not bode well as a reason for business establishment and development especially if sound business practices are ignored.

Figure 1: 10 Highest Responses for Location as a Percentage of Total Responses



Analysis by industry category shows that construction has the highest number of individual businesses citing 'lifestyle' as the main reason for relocation to the region. Over 31% of businesses in the construction industry list this as their main reason. This is followed closely by accommodation, cafes and restaurants at over 30%, and property and business services and transport and storage both over 27%. Communication services, education, finance and insurance are the only industry categories with less than 20% citing 'lifestyle' as a reason for relocation. Finance and insurance is the lowest at 11.6%.

The data highlights the lack of planning particularly in the construction, accommodation, cafes and restaurants, property and business services, and transport and storage industry. It would be expected that the finance and insurance industry would have the capacity to undertake sound business planning as a component of their service in advising business of these practices. Thus, the number of responses of 'lifestyle' as the reason for relocation by this industry is predictably low compared to the other industry categories.

Table 4 presents further analysis of the construction industry. It lists the ten most frequently cited reasons for businesses in the construction industry relocating to this region. It shows that just over 46% of

construction businesses relocate to this region for reasons that are not related to business planning or development.

TABLE 4 – Top 10 Reasons and Number of Responses for Location:
The Construction Industry

Location Reason	Responses
Lifestyle	184
Customers	80
Family Reasons	69
Market Potential of area	60
Growth Potential of area	58
Lack of other competitors	58
Availability of premises	25
New to the area	24
Place of Residence	13
Other	31

6. Conclusion

This region is known for having one of the highest unemployment levels in Australia and is constantly having businesses established by people who move from the metropolitan areas of Australia. In many cases it appears that these people establish a business in an attempt to buy themselves a job in a region where there are few employment opportunities. There is a need for an advisory service to intervene in the business relocation process by incorporating sound business planning procedures and practices. Business and economic development agencies need to be funded on a model based on business expansion and sustainability rather than new business start ups and introductions.

Lifestyle should not be the only factor when establishing a business in a regional area of Australia. Businesses that are contemplating moving to regional areas from metropolitan bases should be given information and assistance about the region and have a business plan to guide them through a transitional period of a minimum of two years. Businesses moving to the regional areas of Australia should have mentors to assist in the transfer, transition and consolidation in the new location.

The benefits that the mentoring program can offer are:

- Accelerated learning about the region
- Association with businesses that have best practice in a regional setting
- Provision of information to government to enhance future mentoring programs

Benefits to accrue to government from a consolidated approach to business mentoring in a regional context would be:

1. Uniform standards for establishing or relocating a business to a regional area of Australia.
2. Building a team spirit within the business community for mapping future opportunities.

The RBR is an information model that has the potential to assist business people in the future by giving them information on the possibilities of establishing or relocating a business within this region. This information is available now for businesses on the Mid North Coast of New South Wales.

There is need for further research on the importance of cost-benefit analysis, planning and the impact of decision processes on the relocation and establishment of business in regional Australia.

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