

Determining the factors influencing the success of private and community-owned Indigenous businesses across remote, regional and urban Australia

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Project Recommendations**1) Changing the definition of Indigenous business**

One key recommendation to emerge from this research project is the need to rethink how we define Indigenous enterprises. The Supply Nation definition of Indigenous enterprises requires more than 50 per cent Indigenous ownership and control for an enterprise to qualify for access to their certified supplier list, though it has recently been changed to 50% ownership for businesses that want to be part of their registered suppliers list. Other public and private organisations also utilise the definition of more than 50 per cent Indigenous ownership in deciding which enterprises can access their programs to support Indigenous enterprises. The problem with this definition is that it excludes private enterprises that are jointly-owned by an Indigenous person and his or her non-Indigenous partner. Our research showed that this is a common situation in Indigenous private enterprises in Australia today. But these enterprises are prevented from access to many support programs. Another problem with the Supply Nation definition is that enterprises owned by Indigenous community organisations with an Indigenous Board directing enterprise activities and strategy but employing a non-Indigenous manager(s) are also excluded from these programs. Our field work in Darwin found a number of community-owned Indigenous enterprises could not get access to the economic activities designated for Indigenous enterprises from Darwin's large liquid natural gas developments for this reason.

The Forrest Review (2014, p.186) suggested that in the implementation of procurement policies the definition of Indigenous Business (or, as the report calls them, first Australian firms) be changed to include "those that have 25% or more first Australian ownership and management and can demonstrate significant first Australian employment outcomes". This move may dilute Indigenous ownership and control too severely and be open to manipulation by firms who put in token Indigenous involvement to get access to fairly lucrative support programs that the Forrest Review recommends. Our quantitative research findings suggest that there are very few existing Indigenous businesses with less than 50% Indigenous ownership. Nevertheless the case to review the definition of Indigenous Business is strong. We would recommend that the definition be marginally changed to include businesses with 50% Indigenous ownership to enable private enterprises that are jointly-owned by an Indigenous person and his or her non-Indigenous partner to access existing programs of Indigenous business support. We note that this recommendation is consistent with the current IBA definition of Indigenous Business as being at least 50% Indigenous owned.

2) Change approach used to evaluate Indigenous business suitability to finance

The findings from our quantitative research indicate that only a minority of Indigenous businesses are successfully receiving finance from commercial banking institutions, and our qualitative findings indicate that even successful Indigenous businesses have been refused finance. This has been, for example, because of a poor credit history due to incidents from, in some cases, when the entrepreneur in question was a teenager (eg failure to pay a mobile phone bill). This suggests that the approach used by lending institutions to evaluate the suitability of Indigenous businesses needs to be re-evaluated and be based more on current capacity to pay, the existence of critical supports (eg a mentor, participation in a network, business qualifications, evidence of good systems) and potential for the loan to leverage business growth.

3) Develop new strategies, policies and programs to improve Indigenous business access to commercial bank finance

Our research has identified problems related to access to Indigenous enterprises to finance as a major constraint to their business success. Many Indigenous enterprises, particularly those in micro and small businesses, are marginal in their first few years of establishment. They struggle to make ends meet. A challenge for new-start Indigenous businesses is to deal with a relatively low cash flow during the initial period of operation. We found that cash flow was substantially and significantly lower in the first three years of operation for privately-owned business which potentially affects the viability of the businesses.

Problems of accessing business finance is not only a characteristic of micro and small Indigenous businesses: all micro and small businesses go through a difficult establishment phase. The main difference is that Indigenous entrepreneurs are very much less likely to be able to get access to business loans from Australian banks. Indeed only 19 out of 324 Indigenous entrepreneurs (5.9%) surveyed reported that they had secured a bank loan to support their business. Our research was not able to probe this aspect in the detail necessary to provide a nuanced understanding of why Indigenous entrepreneurs are not accessing bank business finance to a commensurate degree to other Australian entrepreneurs. This is an aspect that needs further research, although it is clear that the lack of access to collateral and/or histories of financial difficulties restrict many Indigenous entrepreneurs in this regard.

One option to deal with this issue could be the introduction of a HECS style loans program for Indigenous enterprises. Such a program could involve a declining amount of funding such as 100% in year 1, 50% in year 2 and 25% in year 3 to assist in covering living expenses during establishment. To continue receiving funding, key business milestones would need to be achieved, such as establishing key business practices and participating in a business network, or receiving mentoring. Entrepreneurs would then pay the loan back when their income passes a certain threshold.

Another option could be the introduction of new micro-finance initiatives to bridge the gap in Indigenous business finance, particularly for marginal businesses in the set-up phase or in their first years of establishment. Experience with a new program attempting to assist newly arrived refugees establish enterprises in Sydney suggests that access to small loans at favourable rates through micro-finance organisations could potentially be very successful in terms of strengthening the success of existing Indigenous private enterprises and increasing new Indigenous private enterprise formation. This will be non-collateral based funding. The program administrator would preferably need to be a group that is not directly connected with commercial banks so that they are seen to be approachable by Indigenous businesses.

Another alternative is to seek to develop other non-loan based forms of funding, such as equity-based financing. This could also involve provisions whereby over time Indigenous businesses have the opportunity to “buy” back this equity at reasonable rates.

4) Support early-stage businesses through a new Business Development Program

One of the strongest findings of this research project is that there are few programs to support new Indigenous enterprises to be established or to support Indigenous enterprises in their first

difficult years, apart from IBA's "Into Business Workshop" and IBA provided post loan business support. In addition to problems related to business finance, this is the major policy gap related to supporting Indigenous enterprises in Australia. In this regard we recommend that a pilot program to facilitate the creation of new Indigenous enterprises be established. Experience with a new program attempting to assist newly arrived refugees establish enterprises in Sydney provides insights to key features of such a program. First two Enterprise Facilitators would be hired for three years. They would play the role as a broker between aspiring Indigenous entrepreneurs and volunteers who would comprise a Resources Team with expertise across a wide range of skill sets required by new business owners: finance, accounting, marketing, IT, Web design, supply chains, business and consumer networks and the like. The Resources Team would meet bimonthly with the Enterprise Facilitators who would go through different business needs of their Indigenous entrepreneur clients. Eventually on-line contact replaces bi-monthly meetings, easing the time pressure on Resources Team experts. This program – Facilitating New Indigenous Enterprises - could be trialled in the first instance in one major city like Sydney, as well as a regional area like Bathurst, and a remote location like Bourke. The program would be independently evaluated and revised during the three years. If the program is successful and the evaluation positive, such a program could be rolled out to urban areas in other states and to other regional and remote communities as well.

Another possible approach to assist new Indigenous enterprise formation could be to relaunch the NEIS program whereby Indigenous unemployed could get advances on their unemployment benefits to provide start-up capital for their business. If the business is successfully established any financial obligation of the new Indigenous entrepreneurs related to future unemployment benefits would be erased. Moreover, some scheme modelled on the HECS type scheme described above could be introduced to provide much needed capital injection into the business in the first two to three years. Such a scheme could also assist other Indigenous enterprises in their first three years. Like HECS, repayment of these business loans would only begin once the entrepreneur's income or the business' profit reached a certain level commensurate with the HECS program.

5) Evaluation of Mentoring Programs

While the findings from our qualitative research indicated that mentors are important for business success, our quantitative findings suggest that the impact of mentors was more nuanced. Specifically, early stage businesses did not benefit from using mentors, while usage of mentors negatively effects the growth of early stage male-run businesses. However mentors had a positive effect on more mature businesses run by either males or females. These findings are puzzling, and raise questions about the effectiveness of mentoring for businesses at different stages of development, and for male versus female run businesses. It suggests the need for a review of what materials are covered in mentoring programs, its robustness and its appropriateness for different types of business. Such a review should include both industry experts and academics with expertise in entrepreneurship, including Indigenous entrepreneurship.

6) Development of Mentoring Programs in Remote Areas

A notable finding was the absence of mentoring among remote businesses in our sample. Given the comparative poor levels of business skills of remote businesses, this suggests a need for the establishment and resourcing of mentoring programs for businesses in remote locations.

7) Development of Business Incubators that draw on best practice

There are a number of business incubators that have been developed nationally and internationally to develop non-Indigenous, ethnic and Indigenous business. This includes non-Indigenous incubators at the University of Melbourne and University of Technology, Sydney. University of Technology, Sydney has also recently developed a specific refugee business incubator which is being co-led by Professor Jock Collins, who is one of our research team. This incubator is proving to be very successful in encouraging the development of new refugee businesses. In addition, Indigenous incubators like the Darebin Enterprise Centre,

although not linked with a University partner, are providing business support. Overall the evidence suggests that incubators can be very effective at accelerating the development of businesses, and we believe that it is likely that this will transfer to the Indigenous context, and that further efforts could go into establishing Indigenous business incubators that are linked to universities so that best-practice advice is imparted.

8) Establish networks for remote businesses

Our results demonstrate that involvement in business networks is low among remote businesses, even though this has been found to be an important factor in influencing growth. An alternative would be to fund or organise the establishment of networks among remote businesses, or encourage the development of links between remote businesses and other networks in urban or regional areas using modern technologies.

9) Establish network for community and cooperative-owned businesses

Similarly, our results indicate that the engagement of community and cooperative businesses in Indigenous business networks is relatively low. It is possible this is because of a perception that Indigenous business networks are primarily for privately-owned businesses. Given the benefits of networking and the specific needs and challenges of Indigenous community and cooperative businesses, there is a case for establishing a network or networks for such businesses.

10) Encourage engagement of mature Indigenous businesses in mainstream business networks

Another finding was that more mature businesses benefit substantially from participating in mainstream business networks, and more so than participating in Indigenous business networks. This is akin to the notion in the ethnic entrepreneurship literature of “breaking out”. Mainstream business networks could be identified and contacted about inviting Indigenous businesses to participate. Mentors, government business advisors and development officers and other support agents could also be urged to encourage participation in such networks.

11) Develop a how to guide for effective promotions among Indigenous businesses

Promotions was found to be an important factor in business growth, yet only 25% of businesses were making use of both traditional and electronic promotional techniques. A guide on effective promotions for Indigenous businesses could be developed. This would focus on effective promotional activities for micro, small and small to medium sized businesses. It would need to recognise that cash-flow is limited for micro and small businesses, so the array of possible promotional techniques is fewer. It would need to focus on both advertising and public relations (that is, zero cost promotional approaches). Case study examples should also be included.

12) Encourage higher level skill development among Indigenous businesses

Having a tertiary diploma or degree in business, as well as employing a range of sophisticated business practices were found to significantly influence business success. However, having a non-business related tertiary degree, a business certificate or having TAFE/technical qualifications, were not found to positively affect business success. This suggests a need for policies to encourage business education among Indigenous entrepreneurs at the tertiary level.

Given that specific skills were found to be related to business success (eg promotions, accounting systems, ICT), programs could be developed to address these skills. This could include development of information guides (see Recommendation 11), but also mentoring of businesses in these key areas, particularly in remote areas and among female entrepreneurs.

13) Additional support needed for female entrepreneurs

A concerning finding was the poor performance across multiple indicators of the success of female owned or managed businesses. Furthermore, some standard forms of assistance for early stage businesses such as mentors and participation in mainstream business networks was not found to be helpful in encouraging the success of female entrepreneurs. However, some other forms of support were found to be helpful, including participation in Indigenous business networks, mentoring and achieving tertiary business diplomas and degrees. Given the relatively poor performance of female run businesses relative to their male counterparts, there is a rationale for increasing funding for activities that have been found to encourage growth. Further research could also investigate why mentors have not been effective at increasing growth for this cohort, and why participation in mainstream business networks have not been effective for early stage female entrepreneurs but is effective for encouraging growth for later stage female entrepreneurs.

14) Improving information to match Indigenous employers with potential Indigenous employees

Our research indicated that many businesses are wanting to increase numbers of Indigenous employees but often have trouble finding suitable Indigenous staff. An alternative is to support the development of Indigenous jobs databases such as Indigenous Jobs Australia. This could involve providing information to Indigenous businesses about the existence of such databases, and advertising to the Indigenous community about it. Virtual or actual

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