



**8162.0**

## **Information Paper**

# **A Statistical View of Counts of Businesses in Australia**

**2005**



New  
Issue

**Information Paper**

**A Statistical View of  
Counts of Businesses in  
Australia**

**2005**

**Dennis Trewin  
Australian Statistician**

AUSTRALIAN BUREAU OF STATISTICS

EMBARGO: 11.30AM (CANBERRA TIME) FRI 7 OCT 2005

ABS Catalogue No. 8162.0

© Commonwealth of Australia 2005

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights in this publication should be addressed to The Manager, Intermediary Management, Australian Bureau of Statistics, Locked Bag 10, Belconnen ACT 2616, by telephone (02) 6252 6998, fax (02) 6252 7102, or email: <intermediary.management@abs.gov.au>.

In all cases the ABS must be acknowledged as the source when reproducing or quoting any part of an ABS publication or other product.

Produced by the Australian Bureau of Statistics

## INQUIRIES

- For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070 or Helen Harkin on Canberra (02) 6252 6531.

# COUNTS OF BUSINESSES IN AUSTRALIA

---

## INTRODUCTION

There is a wide range of official business counts available from government agencies in Australia. The Australian Bureau of Statistics (ABS), Australian Taxation Office (ATO) and Australian Securities and Investment Commission (ASIC) are three examples of official bodies which produce a variety of business counts. These figures range from as high as 5.2 million (the cumulative number of records on the Australian Business Register since it was established) to as low as 1.4 million (the number of registered companies reported by ASIC).

The purpose of this paper is to provide analysts of business counts with a brief explanation of the main differences between the available counts and, by doing so, guide users to the most appropriate source for their particular statistical purposes.

To most people, including many users of business counts, a "business" is defined by a physical location, such as a shopfront, factory or office, where people undertake some form of commercial activity. However, this simple definition does not take account of the many options available to business in terms of structural and organisational arrangements. For instance, a business operating at a particular location may have its employees paid by another business operating at a different location or may operate a number of legal entities (e.g. a trust and a company) to manage its finances. Some large enterprise groups may have operations in multiple locations and may have divisions, each responsible for activities as diverse as forestry, retailing, transport and insurance. It is important for analysts of business counts to understand the complex inter-relationships between many business entities. This is one of the main reasons why, for practical reasons, statisticians use the legal structure of businesses (i.e. the ABN registered business entities) as the common starting point when compiling counts of businesses.

Notwithstanding the use of a common starting point, the main reason for differences in the range of business counts available is the different definition of business used in each case. These definitions vary in terms of the way in which the business unit is defined (e.g. location or enterprise group), the types of legal entities included (e.g. incorporated or unincorporated) and the primary objective of the business (e.g. profit or not-for-profit). The definition can also be qualified by the inclusion or exclusion of particular classifications of businesses (e.g. size or industry). These various definitions have evolved because of the different analytical purposes they serve.

This paper concentrates on the definitions that are most appropriate for statistical analyses of the Australian economy. It recognises that other definitions may apply for legal and administrative purposes. While these often provide the practical basis, or starting point, for a statistical definition of business, legal and administrative concepts are not covered in any detail in this paper.

## PURPOSE OF BUSINESS COUNTS

The main general purpose of business counts in statistical analyses is to provide information about the composition and structure of businesses in the economy. However, within these broad parameters there are a myriad of purposes for which business counts may be used. For example, there is a great deal of interest in counts pertaining to specific geographic regions and industries, to specific types of entities (for example, those with a particular legal structure or size) and as an indicator of business growth or decline.

## COUNTS OF BUSINESSES IN AUSTRALIA *continued*

---

### PURPOSE OF BUSINESS

#### COUNTS *continued*

There is no single measure of the number of Australian businesses which will meet the needs of all users. A single measure would be a serious compromise and severely restrict the usefulness of business counts to analysts. However, a fundamental requirement of a series of business counts is that it be transparent, comprehensible and stable. The ABS aims to produce a set of counts which fulfils the broad requirements of its statistical clients by being relevant, coherent with other data, interpretable and comparable over time. These objectives are achieved by the use of the Australian Business Register as the common starting point for all ABS business counts, and the application of consistent definitions and classifications to arrive at different counts for different purposes. The development of the concepts underpinning these different counts has involved extensive user consultation, and the outcomes have broad user support. In developing its outputs, the ABS has also aimed to provide a set of counts which is flexible to the needs of users. These counts enable users to customize the data to meet their needs, for example, by including or excluding selected types of legal structures, or employing or non-employing units.

### DEFINITION OF BUSINESS FOR STATISTICAL PURPOSES

An important prerequisite for developing a coherent set of business counts is the application of consistent definitions and terminology. A key step in this process is the development of an operational definition of business which is based on sound theoretical concepts and arguments. The following paragraphs describe briefly the logic the ABS has followed, starting with a theoretical definition and then concluding with its practical application in Australia.

### THEORETICAL DEFINITION

One of the difficulties in developing a practical definition of a "business" is that it is an ambiguous and abstract concept that can have different meanings for different users and purposes. For instance, each outlet of a retail company may be considered a separate business by some users but others may consider the sum of all operations as a single business. Given the degree of diversity and variety of interpretations and understandings, it is difficult to categorically assert that one single definition is more relevant than another. In accepting these constraints, a theoretical definition has been formulated which is expected to be understood and readily accepted by as wide a population of statistical users as possible. This theoretical definition is:

*A business is a legal entity engaging in productive activity and/or other forms of economic activity in the market sector. Such entities accumulate assets on their own account and/or hold assets on behalf of others, and may incur liabilities. Excluded are the economic activities of individuals (except where individuals engage in productive activity either as sole traders or in partnership) and entities mainly engaged in hobby activities.*

It should be noted that the concepts underlying this definition have been largely premised on the System of National Accounts 1993 (SNA93). SNA93 is a comprehensive, consistent and flexible set of macroeconomic accounts intended to meet the needs of government and private sector analyst, and policy and decision makers. Due to its widespread use throughout a number of international statistical, and other organisations, it is considered an appropriate platform on which to develop a theoretical definition of business.

**OPERATIONAL DEFINITION** To become practical and operational, this theoretical definition must be refined in light of available data sources and statistical survey processes.

The starting point for any practical definition of business in Australia is the Australian Business Register (ABR) which is maintained on behalf of all governments by the Australian Taxation Office (ATO). The ABR was established in 2000, at the same time as the introduction of "The New Taxation System", and is the central repository for information about Australian businesses, including each entity's Australian Business Number (ABN). The purpose of the ABR (and ABNs) extends well beyond tax administration. The main objective of the ABN Act (*New Tax System (Australian Business Number) Act 1999*) is to make it easier for businesses to conduct their dealings with the Commonwealth Government. This was done by establishing a system for registering businesses and issuing them with a unique identifying number so they can identify themselves to the Commonwealth Government. The system allows businesses to identify themselves reliably for the purposes of taxation law and other Commonwealth purposes, and reduces the number of government registration and reporting requirements by making the system available to State, Territory and local government regulatory bodies.

In accordance with this policy, the ABS now maintains a business register for statistical purposes that is largely based on the ABR. This business register is known as the Australian Bureau of Statistics Business Register (ABSBR). The main differences between the ABR and the ABSBR is that selected types of cancelled and non-active ABNs are excluded from the scope of ABSBR. An active ABN represents an entity conducting an enterprise in Australia or a Corporations Act company. A cancelled ABN represents an entity which has ceased to conduct an enterprise or where the ABR Registrar has determined that the entity is not entitled to an ABN. For businesses that are in-scope of the ABSBR, 98% are a direct replica of what is recorded on the ABR.

For the remaining 2%, which are large and complex businesses, the business structure as defined by ABN boundaries is generally not suitable for economic statistics purposes, particularly where industry and sectoral breakdowns are important for economic analysis. For these reasons, the ABS 'profiles' these businesses according to an economic statistics units model.

The ABS applies an economic statistics units model to business units which are large and/or complex to reflect the characteristics of businesses and the structural relationships between related entities. The units model is also used to define the statistical units that can provide data to the ABS at suitable levels of detail.

This units model is comprised of the following inter-related components;

- Enterprise Group (all the Australian operations of one or more legal entities under common ownership and/or control);
- Enterprise (the institutional unit);
- Type of Activity Unit (TAU).

Within the ABS context, the TAU is considered the most reflective of the theoretical definition of business due to the high degree of alignment between the concepts underpinning the creation of a TAU and the theoretical definition of a business. It is also considered the most suitable in terms of operationalising the concept of business for

## COUNTS OF BUSINESSES IN AUSTRALIA *continued*

### OPERATIONAL DEFINITION *continued*

ABS statistical activities because it is the statistical unit most commonly used in ABS economic statistics.

The TAU is comprised of one or more business entities, sub-entities or branches of a business entity that can report production and employment activities in respect of an industry, by means of a number of key financial account data items. The TAU is the statistical unit for ABS production surveys and therefore, for the majority of ABS economic surveys. Importantly, TAUs are created to enable the collection and publication of consistent, comparable statistical information which reflects as accurately as possible, the real world economic environment. In the case of simple units, which comprise the vast majority of units on the ABSBR, the TAU is composed of a single ABN. In the case of larger and/or more complex units, the TAU may be composed of multiple ABNs.

However, because the ABSBR comprises all entities actively registered for an ABN, this population also includes units such as general government entities, associations and charitable institutions. These groups of entities do not meet the criteria of a business as described in the theoretical definition (i.e. they are not part of the market sector), and equally importantly, would not be considered to be bona fide businesses by the majority of data users. These units, identified based on classificatory variables, are therefore explicitly excluded from the ABS operational definition of a business.

The operational definition of a business to be used in the statistical outputs of the ABS therefore is:

*A business is a unit described as a Type of Activity Unit as included on the ABSBR. Excluded are units classified as general government, nonprofit institutions serving households and other unincorporated entities (which includes sporting and social groups, trade unions, lobby groups and associations).*

This definition is applied in respect of counts produced from the ABSBR, released in *Australian Bureau of Statistics Business Register, Counts of Businesses* (cat. 8161.0.55.001). For all ABS publications released after September 2005, the ABS will only use the term "business" in respect of counts which conform to this definition. Any other counts produced which do not conform to this definition will be referred to with alternate terminology (e.g. "business practices", "business entities", "business locations") as appropriate.

It is important to explicitly note the inclusion of a number of specific types of entities which will be regarded as businesses under the theoretical and operational definitions, the treatment of which may not be overtly clear. The main rationale for the inclusion of these types of entities relates to the fact that they operate in the market sector (either trading in goods and services, or acquiring assets) and also meet the other criteria in the theoretical definition. The entities affected include; market-sector nonprofit institutions, government business enterprises, self-managed superannuation funds and non-trading trusts.

For analysts interested in segmenting businesses that satisfy the operational definition, or in excluding particular types of businesses, a range of classifications is available. These classifications are described below.

## COUNTS OF BUSINESSES IN AUSTRALIA *continued*

---

### DATA SOURCES AND METHODS

As previously mentioned, a range of different counts of businesses and business entities are produced using a number of different sources and methods. Diagram 1 provides a conceptual map showing the main compositional differences between a number of the key data counts for which the ABR is the primary data source.

The initial data sources for business related counts is the ABR. The ABR contains registrations for an ABN for individuals and businesses who are entitled to have an ABN if, they are carrying on an enterprise in Australia or in the course of furtherance of carrying on an enterprise if they make supplies that are connected with Australia. It also contains enterprises who intend to carry on a business and registrations for government entities, not for profit sub-entities, superannuation funds, religious practitioners and religious institutions. The ABR contains entities that are active and cancelled. The counts for each of the outputs sourced from the ABR will differ due to the exclusion of specific sub-populations of units.

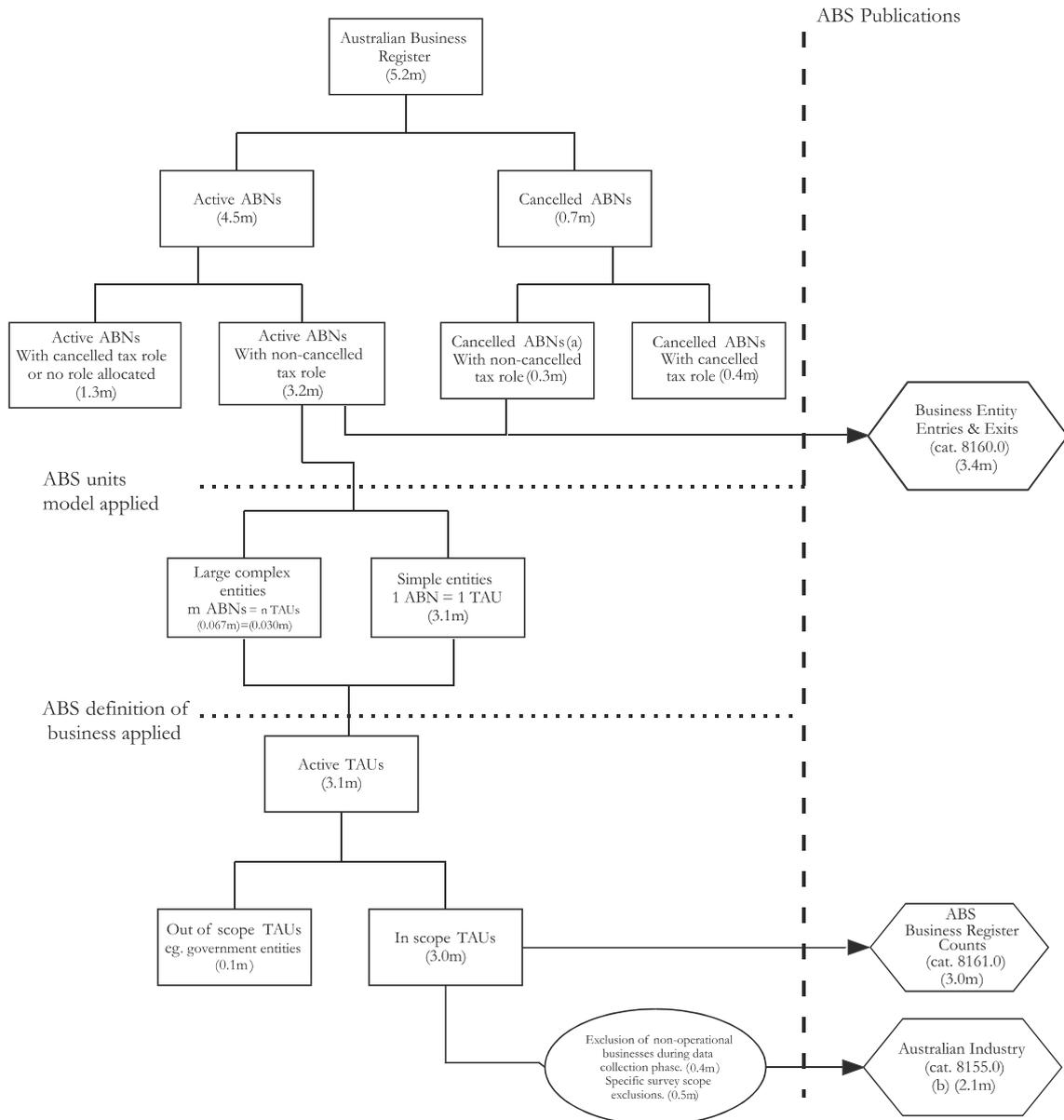
The publication *Experimental Estimates, Entries and Exits of Business Entities* (cat. no. 8160.0.55.001) comprises all ABN units with a non-cancelled tax role<sup>1</sup>. This population is further filtered by applying the ABS units model and excluding units which do not conform to the definition of business, to derive a count of active businesses from the ABSBR, *Australian Bureau of Statistics Business Register, Counts of Businesses* (cat. no. 8161.0.55.001). The key differences between counts from ABS survey outputs, such as *Australian Industry* (cat. no. 8155.0) and the ABSBR are due to the specific scope of each survey, and also that survey counts will include only operational businesses. Operational businesses are those which are still in existence at the end of the reference period and are identified as such through the survey collection process. The difference between active businesses, included in ABSBR counts and operational businesses is largely due to the ABR processing lags of businesses which have ceased operations.

---

<sup>1</sup> The scope of this series was developed in consultation with users. It should be noted that this is an experimental series, the scope of which may be subject to change, in light of further investigations.

# COUNTS OF BUSINESSES IN AUSTRALIA *continued*

DIAGRAM 1 - BROAD CONCEPTUAL FRAMEWORK FOR AUSTRALIAN BUSINESS COUNTS, Numbers in brackets are indicative as at June 2004—(millions)



(a) It is possible for a business to have a cancelled ABN yet still have outstanding tax liabilities (in the form of non-cancelled tax roles). This situation can occur when: an entity continues to employ staff after the ABN has been cancelled; until the final tax return is lodged; if income in the form of investments or distributions continue to be received or until all processes in legally winding up the entity are complete. Until such times as all liabilities pertaining to the business are fulfilled and the tax roles are cancelled, the business is considered operational in a limited capacity.  
 (b) Estimate for 2002/03

## CLASSIFICATIONS

Consistency between business counts and other statistical outputs is facilitated by using a common definition of business and by the application of standard classifications which divide the population into broad sub-groups.

Definitions and classifications are used to ensure consistency and comparability of data across time and across a wide range of subject matters. The application of classifications enables the grouping of like entities for analytical purposes. An individual business can be classified based on a number of variables, such as its size, the industry in which it operates, its legal structure and its institutional sector. Following are brief descriptions of the key classifications by which business count information may be available and which can be used to tailor information to meet specific analytical needs.

### *Size classification*

A common requirement of users interested in business demography is a breakdown of counts by size of business. The most common basis for classifying businesses by size is employment. Employment comprises persons working in their own business (working proprietors and partners) and employees/payees. Working directors of incorporated businesses are considered employees. For standard statistical purposes, a small business is defined as a business with employment of less than 20 persons.

The ABS has developed the following standard hierarchy for classifying business by employment size:

- Non-employing businesses (defined for practical purposes as businesses without an Income Tax Withholding (ITW) role).
- Employing businesses (i.e. businesses with employment as identified by the presence of an ITW role).
  - Small employing businesses - businesses with employment of fewer than 20 persons and includes:
    - Micro employing businesses - businesses with employment of fewer than 5 persons; and
    - Other employing small businesses - businesses with employment of 5 to fewer than 20 persons.
  - Medium employing businesses - businesses with employment of 20 to fewer than 200 persons.
  - Large employing businesses - businesses with employment of 200 or more persons.

As indicated, employing businesses are differentiated from non-employing businesses by the presence of an ITW (or Pay As You Go Withholding (PAYGW)) obligation. Entities which employ staff are required to withhold and remit their taxation instalments to the Australian Taxation Office (ATO). The employing business has this responsibility recognised by the allocation of an ITW role by the ATO.

The majority of businesses in Australia are non-employing businesses. However, not all of these would be considered "small" as some have high levels of turnover or asset holdings, more commensurate with a large business. The ABS is investigating the development of an additional size classification system applicable to these businesses and will publish the results of this when available.

*Size classification  
continued*

There are limited exceptions to the application of the current employment based standard. For example, it is generally not seen as applicable to Agricultural businesses due to such factors as seasonality and the extensive use of contract labour. Instead, an estimation of the value of agricultural activity undertaken by an agricultural establishment is often preferred as a sizing measure. Similarly, other non-standard sizing classifications based on turnover or asset holdings can be applied to provide tailored breakdowns of business counts, particularly where employment data are not available. These are usually performed according to specific user requirements. This could turn out to be the case for non-employed businesses.

It is theoretically valid to define a business size classification system based on qualitative characteristics such as the level of control by owners/managers, the source of the operating capital, the internal decision-making process and whether or not the business is independently owned. However operationalising such a size classification is not currently viable because of the lack of a suitable source of this information for the entire business population.

*Australia New Zealand  
Standard Industry  
Classification (ANZSIC)*

The use of an industry classification such as ANZSIC enables the groupings of businesses which carry out similar production activities. ANZSIC is a hierarchical classification system comprising categories at four levels, namely Divisions (the broadest level), Subdivisions, Groups and Classes (the finest level). There are 17 different industry divisions, examples of which include agriculture, manufacturing, construction and retail trade.

Counts of businesses are usually available classified by ANZSIC and users can customise their particular needs by concentrating on selected ANZSIC Divisions, Subdivisions, Groups or Classes of particular interest or excluding those that are not of interest.

*Type of Legal Organisation  
Classification (TOLO)*

The TOLO classification indicates whether a business is part of the private or government sector and, within these broad dissections, the type of ownership structure it has. Examples of types of legal entities recognised are companies, partnerships, trusts and sole proprietorships. Counts classified by TOLO enable analysts to include or exclude specific groups of businesses to meet their particular analytical needs.

*Standard Institutional  
Sector Classification of  
Australia (SISCA)*

The SISCA is based on the System of National Accounts 1993 (SNA93) institutional sector classification and is one method of dividing the national economy into broad economic sectors. Examples of these broad sectors include financial corporations and non-financial corporations. A further classificatory breakdown is available for entities in the financial corporations sector. It is not uncommon for analysts to want counts of businesses presented by these main institutional sectors.

**SUMMARY OF OUTPUTS**

Due to the range of potential sources of business count estimates available, it is important to understand a little about the scope, composition, availability and purpose of each of them to best select the estimate appropriate to a particular purpose. Table 1 provides a brief overview of a number of key sources and purposes of business demographic information.

# COUNTS OF BUSINESSES IN AUSTRALIA *continued*

TABLE 1 - SUMMARY OF THE MAIN SOURCES AND PURPOSES OF BUSINESS COUNTS

Source	Purpose	Data Available	Usage Notes
Australian Bureau of Statistics Business Register, Counts of Businesses (cat. no. 8161.0.55.001)	Number of Australian businesses (principal ABS estimate)	Counts of businesses by employment size ranges by the following variables; <ul style="list-style-type: none"> <li>• industry</li> <li>• geographic region(a)</li> <li>• type of legal organisation</li> <li>• institutional sector</li> </ul>	Whilst acknowledging that this set of counts will not meet all user needs, it is considered the best set of levels available from the ABS, and the only source for detailed breakdowns, e.g. by region.  Data for some TOLO and SISCA categories will not be available from counts due to their exclusion from the definition of business.  Ultimately, will become best source for growth analysis.
Australian Industry (cat. no. 8155.0)	Financial estimates	Counts of businesses by employment size ranges by the following variable; <ul style="list-style-type: none"> <li>• industry</li> </ul> Financial data available in respect of size ranges.	Current source for growth analysis.  However, counts for all industries not always available (i.e. ANZSIC Division K: Finance and Insurance, not available for 2001/02 and 2002/03).
Characteristics of Small Business (cat. no. 8127.0)	Characteristics of small businesses and business operators	Proportions of attributes of businesses and operators, including; <ul style="list-style-type: none"> <li>• size</li> <li>• length of operation</li> <li>• use of computers</li> <li>• age</li> <li>• sex</li> <li>• hours worked</li> </ul>	Includes small businesses only.  This collection is a household based survey. It does not use the ABSBR as the source for the survey sample. The statistical unit for the collection is the household, as opposed to the business, the case in the majority of ABS economic collections. Outputs therefore do not conform to the ABS business definition.  Counts of businesses and operators should be used with caution due to the sampling error associated with each year's estimate. Their main purpose is to derive the proportions of businesses and operators with selected characteristics.
Experimental Estimates, Entries and Exits of Business Entities (cat. no. 8160.0.55.001)	Numbers of business entries and exits	Counts of business entity entries, exits and survivals by the following variables; <ul style="list-style-type: none"> <li>• industry</li> <li>• state/territory</li> <li>• type of legal organisation</li> <li>• size</li> </ul>	Counts are of business entities. Entities equate to ABNs.  This is an experimental series and may not be continued.
Taxation Statistics Australian Taxation Office	Numbers of tax paying entities	Aggregated counts (and aggregate financial data) in respect of the following entities; <ul style="list-style-type: none"> <li>• companies</li> <li>• superannuation funds</li> <li>• partnerships</li> <li>• trusts</li> </ul>	Counts of tax paying entities, based on tax returns, activity statements, etc., will not necessarily equate to counts of businesses.
Company registration statistics Australian Securities and Investment Commission	Numbers of registered companies (i.e. incorporated entities)	Monthly counts of company registrations available by; <ul style="list-style-type: none"> <li>• State/Territory</li> </ul>	Dissections by company size or industry are not available.

(a) Counts of businesses by postcode and the related State/Territory counts are derived from the main business address (in the case of large or complex business, the head office). Counts of businesses by Main State are derived from the main business address for simple businesses and the state/territory with highest employment for large or complex businesses.

## COUNTS OF BUSINESSES IN AUSTRALIA *continued*

---

### FURTHER INFORMATION

For more detail relating to some of the concepts and frameworks discussed in this paper refer to following ABS publications:

ABS Units Model: *Information Paper: Improvements in ABS Economic Statistics [Arising from The New Tax System]* (cat. no. 1372.0)

ANZSIC: *Australian and New Zealand Standard Industrial Classification, 1993* (cat. no. 1292.0)

SISCA: *Standard Economic Sector Classifications of Australia (SESCA)* (cat. no. 1218.0)

For more details on any of the ABS publications referred to in this paper, telephone the ABS National Information and Referral Service on 1300 135 070 or log onto [www.abs.gov.au](http://www.abs.gov.au).

If you have any comments or suggestions on future plans for developments of business demographic statistics, please write to the Director, Business Demographics National Statistics Centre, Australian Bureau of Statistics, Locked Bag 10, Belconnen, ACT, 2616



## FOR MORE INFORMATION . . .

- INTERNET* **www.abs.gov.au** the ABS web site is the best place to start for access to summary data from our latest publications, information about the ABS, advice about upcoming releases, our catalogue, and Australia Now—a statistical profile.
- LIBRARY* A range of ABS publications is available from public and tertiary libraries Australia-wide. Contact your nearest library to determine whether it has the ABS statistics you require, or visit our web site for a list of libraries.
- CPI INFOLINE* For current and historical Consumer Price Index data, call 1902 981 074 (call cost 77c per minute).
- DIAL-A-STATISTIC* This service now provides only current Consumer Price Index statistics call 1900 986 400 (call cost 77c per minute).

## INFORMATION SERVICE

Data already published that can be provided within five minutes will be free of charge. Our information consultants can also help you to access the full range of ABS information—ABS user pays services can be tailored to your needs, time frame and budget. Publications may be purchased. Specialists are on hand to help you with analytical or methodological advice.

- PHONE* 1300 135 070
- EMAIL* [client.services@abs.gov.au](mailto:client.services@abs.gov.au)
- FAX* 1300 135 211
- POST* Client Services, ABS, GPO Box 796, Sydney NSW 2001

## FREE ACCESS TO PUBLICATIONS

All ABS publications can be downloaded free of charge from the ABS web site.

- WEB ADDRESS* [www.abs.gov.au](http://www.abs.gov.au)



2816200006050

RRP \$10.00