



# ECONOMIC INSIGHT

Series 2022-01

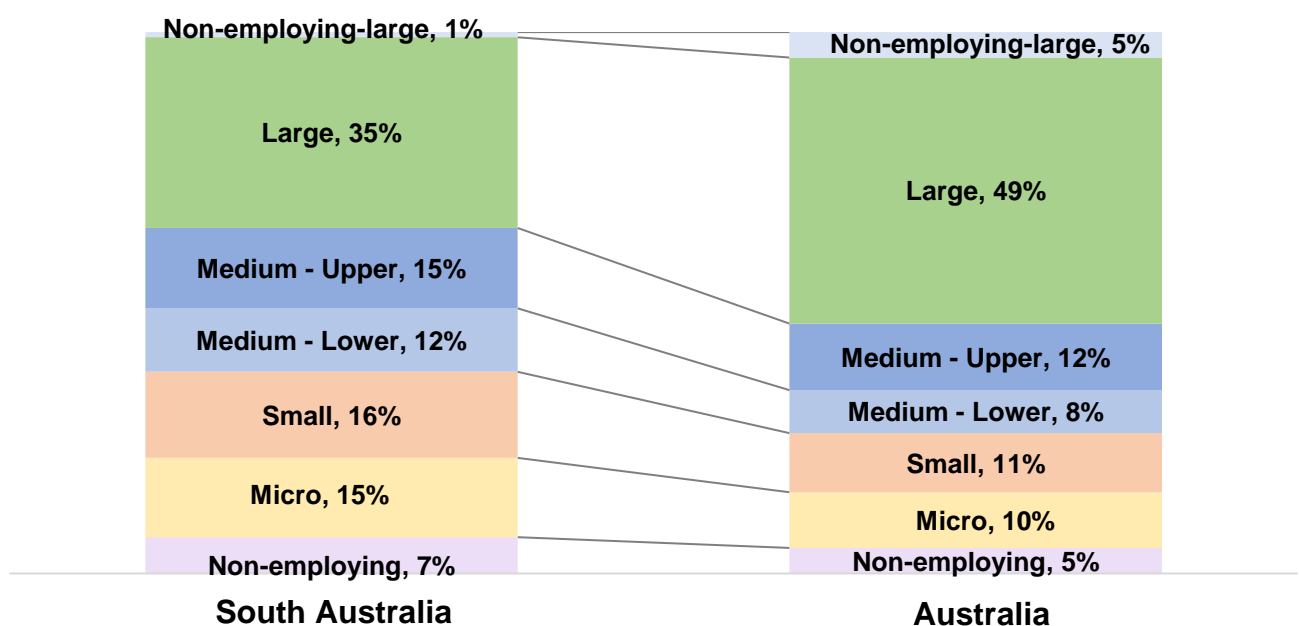
## Firm size and dynamism in South Australia

### Main Findings:

- Larger firms don't contribute as much to economic activity in South Australia
- South Australian firms are more static – less likely to grow or shrink – than firms in the rest of Australia
- The most dynamic firms are small and micro firms in both South Australia and Australia
- Most job growth comes from small firms in both South Australia and Australia

Small and medium-sized enterprises (SMEs) account for a larger share of the economy in South Australia (SA) compared to Australia. Figure 1 below depicts the relative share of firms by various size classes in SA and Australia in FY 2016/17.

**Figure 1: Contribution to gross value add by size class – South Australia and Australia**



Firm sizes based on full time employees. Non-employed: 0; Micro: less than 5; Small: 5 to 19; Medium – Lower: 20 to 49; Medium – Upper: 50 to 199; Large: 200+. Non-employed Large (0 employees with > \$10million revenue).

Large firms accounted for only 35% of the state's gross value add in SA, compared to 49% for the nation in that year. The state's SMEs have a disproportionately larger share of the state's economy compared to Australia. This is despite SA having a very similar distribution in the number of firms by size class. SMEs account for 7.8% of the number of firms in SA compared to 8.9% in Australia. They contribute 34% to exports in SA compared to 27% for Australia. Their contribution to employment is 55% compared to 46% for Australia.

South Australian firms tend to be more static than their counterparts in the rest of Australia. They are less likely to grow or contract. Figure 2 illustrates the 3-year transitions of a cohort of South Australian and Australian businesses, tracking whether they moved down, up or remained static in their size class.

Transitions across the period are largely contractions, with the most dynamic size classes being small and micro firms. Non-employing firms were the most likely to grow over the 3-year period, with 11.1% of firms transitioning to either small or micro size classes in South Australia. Small firms were most likely to decrease in size in South Australia, with 22.7% of firms decreasing to non-employing or exiting altogether.

**Figure 2: Net Change in Size Class, South Australia and Australia (2013 – 2017)**

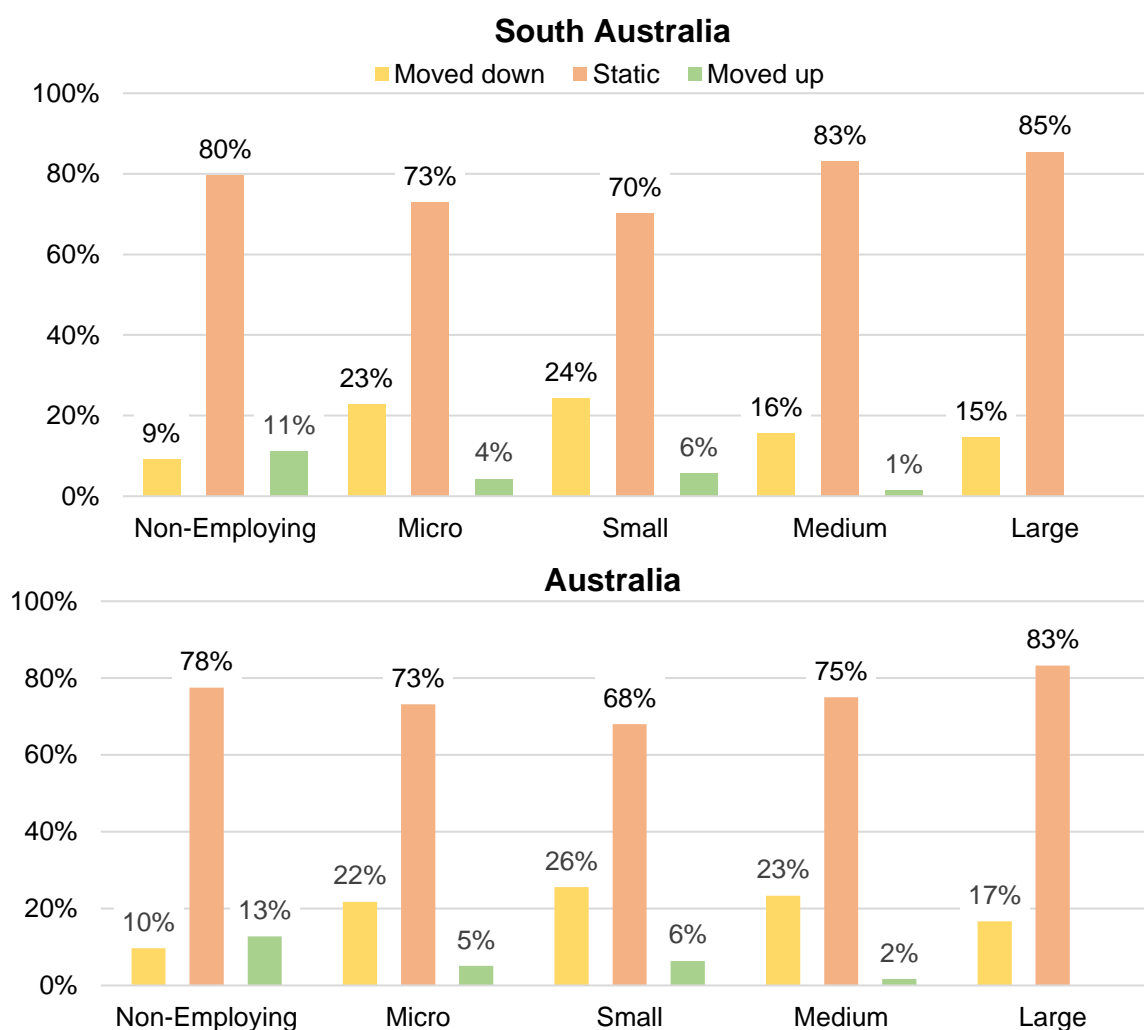
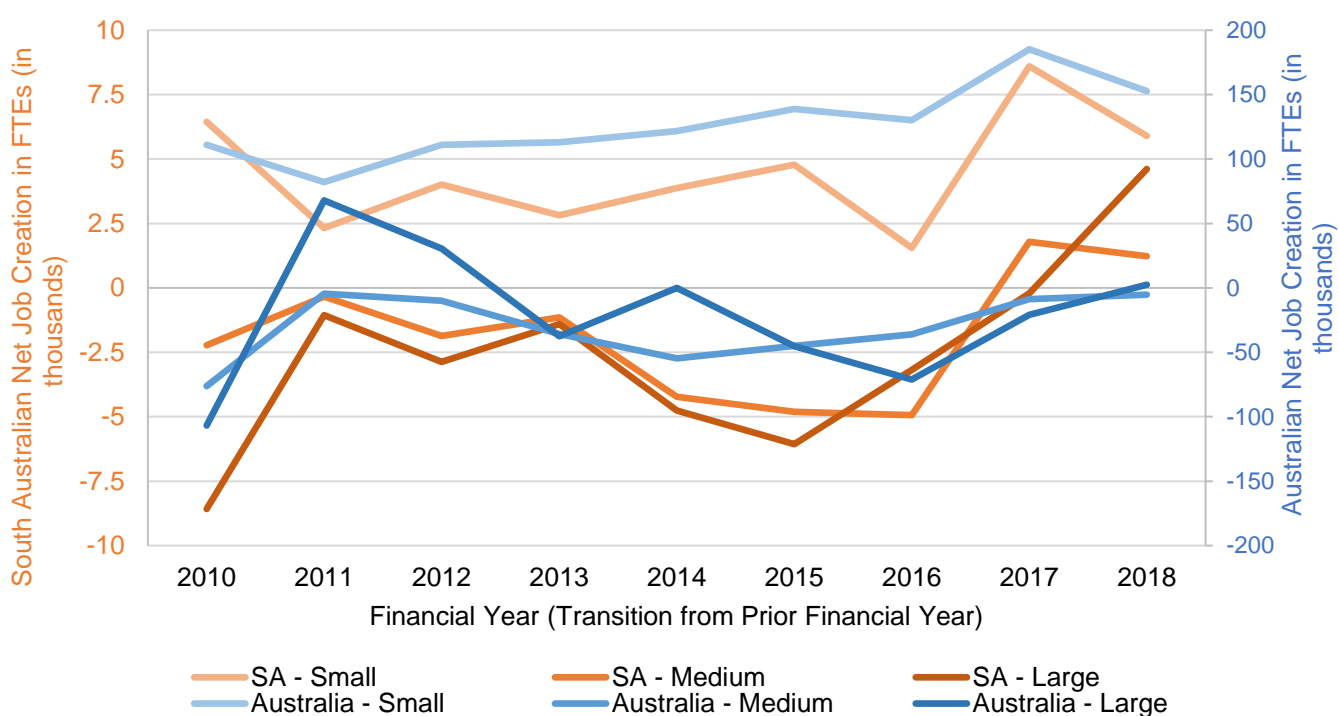


Figure 3 below shows that small firms are consistently the strongest contributors to net job creation in both South Australia and Australia. In recent years, large firms generated the second largest net job creation in both South Australia and Australia, followed by medium firms. Medium and large firms in South Australia have contributed net job destruction, excluding 2017 and 2018. This trend is similar nationally, with medium and large firms contributing net job destruction across the 8-year period, with the exception of 2011 and 2012 for large firms.

All firm sizes in South Australia generated net strong positive job creation in 2018. Comparably, Australian medium and large firms approached neutral net job creation (job creation equals job destruction) in the same year.

**Figure 3: Trends in Net Job Creation by Size Class – South Australia vs Australia**



Note: "Small" in Figure 3 groups, non-employing, micro- and small enterprises.

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### For more information:

Economic Policy Advice, Cabinet Office  
Department of Premier and Cabinet

T (08) 8429 0179

E [DPCCabinetOffice@sa.gov.au](mailto:DPCCabinetOffice@sa.gov.au)

W [dpc.sa.gov.au/responsibilities/economic-insight-and-evaluation](http://dpc.sa.gov.au/responsibilities/economic-insight-and-evaluation)