14 July 2026

Commissioner Alison Roberts and Commissioner Stephen King
Productivity Commission
GPO Box 1428
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via email: BusinessDynamismInquiry@pc.gov.au

Dear Commissioners

Reducing barriers to business dynamism

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) welcomes the opportunity to make a submission to the Productivity Commission's inquiry into regulatory barriers to business dynamism in Australia.

Small businesses make an important contribution to the economic, social and cultural fabric of Australian life. Ninety-seven per cent of all Australian businesses are small, and they represent the overwhelming majority of businesses in virtually every Australian industry, while employing 39% of the nation's private sector workforce.[1]

Furthermore, small businesses are highly diverse in terms of age, gender, cultural and linguistic diversity and the variety of communities across the country in which they occupy a prominent role. Small businesses are also highly diverse in terms of their business structures, characteristics, capabilities and geographic location (urban, regional and remote).

This submission illustrates some of the most important aspects of how small businesses experience, respond and adapt to dynamic processes of change — particularly establishment, expansion and contraction — across their lifecycle. It does so in two parts. The first part provides context for understanding the barriers to these processes of change, in terms of the diverse, dynamic characteristics of Australia's 2.7 million small businesses, and the variety of settings in which they operate. The second part highlights what the ASBFEO considers to be some of the most critical, but also remediable, barriers to enabling businesses not only to survive but also thrive.

Business dynamism in context

A full and accurate understanding of small business dynamism needs an appreciation of the diversity of Australia's 2.7 million small businesses, the different contexts in which they operate, and the wide range of barriers, challenges and opportunities they must navigate.

Small businesses have diverse characteristics

Small businesses are not simply economic units. They are identified closely with their owners, who are often resourceful, community-minded, family-focussed, adaptable and enterprising people of diverse characteristics.

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[1] Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Contribution to Australian Employment,* ASBFEO, July 2025, p 2.

One fast-growing cohort is sole traders. Recent ASBFEO analysis of ABS DataLab administrative data on sole traders, from 2017-18 to 2021-22, indicates that:

- 16% of sole traders were under the age of 30, 48% aged 30-49 and 36% 50 years or above
- 40% of sole traders were women — and this grew by 31% over the preceding 5 years (more than double the rate for males)
- 37% of sole traders identify as being culturally or linguistically diverse.[2]

While Australia's small businesses are diverse in nature and character, research indicates that many small business owners prioritise stability, sustainability, avoidance of risk, limited employment and adequacy of income, ahead of rapid growth.[3] For these owners, lifestyle is paramount, dictating a need to be one's own boss and to have more control over hours of work.[4] Small business owners also exhibit a wide range of values, motivations and ambitions, and Government policymakers would benefit from a better appreciation of this diversity.

Small businesses are a core part of local economies and communities across urban, regional and remote Australia. And while many small business owners are more concerned with sustained, lower-risk performance rather than pursuing high growth, business dynamism is essential to their capacity to adapt to opportunity, uncertainty and change, whether this be driven by economic, technological, cultural or demographic factors.

To enable business dynamism, policymakers need to ensure their perspective of small business is not disproportionately calibrated towards high profile, high-growth, high-impact start-ups, often described as "Gazelles".[5] While these businesses can be drivers of growth, productivity and innovation, they represent only a small minority of Australia's small businesses.

ASBFEO advocates for policy approaches that better reflect the diverse realities and aspirations of small business owners across Australia. Rather than just focus on interventions that seek to attract or scale high-growth firms, policymakers should consider the structural features of the broader businesses environment and seek to reduce or remove barriers or impediments that make it hard for small businesses to operate, and to adapt to opportunity, uncertainty and change.

<u>Small business dynamism can be impacted by the location in which they operate</u>

Regional and remote contexts can pose a range of impediments

Nearly a third of all Australian small businesses are based in a regional area (as of 2022).[6] Small businesses operating in rural and regional areas are faced with a range of challenges, and business activity can be disrupted through a lack of:

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[2] Sole traders represent 77 per cent of all small businesses: Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Sole Traders – The unsung hero of Australia's economy* [Website], ASBFEO, 29 January 2026, accessed 2 July 2026.
[3] T Mazzarol T and S Reboud (2020) *Small Business Management: Theory and Practice*, 4th ed, Springer, Singapore, p 13-15.
[4] S Nicholls & D Orsmond, *The Economic Trends, Challenges and Behaviour of Small Businesses in Australia,* Reserve Bank of Australia [website], 2015, accessed 2 July 2026.
[5] T Mazzarol and D Clark (2016), 'The evolution of small business policy in Australia and New Zealand', *Small Enterprise Research*, 23(3):239-261, p 255.
[6] Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Location of Australia's small businesses - regional and metro areas* [Website], ASBFEO, February 2023, accessed 2 July 2026.

- *Skilled labour*: Growth and sustainability of small businesses is heavily dependent on their ability to source and retain skilled employees, and the challenges in doing this are especially acute in regional and remote areas.[7]
- *Accessible information and support*: Many regional and remote small businesses have low awareness of, or limited access to, government services, regulatory guidance and business support.
- *Telecommunications services*: Rural small business stakeholders often highlight the persistence of telecommunications blackspots and lack of internet access in regional and remote areas.
- *Banking services*: Regional bank branch closures weaken local business relationships, reduce access to finance and affect the ability of small businesses to invest, employ and grow.[8]
- *Digital capability*: Many regional and remote small businesses operate with limited digital infrastructure and capabilities, reducing their ability to leverage the opportunities of e-commerce, social media, data analytics and artificial intelligence.

For small businesses in regional and remote Australia, many of these challenges are interrelated and their cumulative effect can have a significant impact on business dynamism.

Community relationships are a major contributor to the dynamism of small businesses

The challenges faced by rural and regional small businesses need to also be understood through the prism of the community in which they are embedded. ASBFEO advocates for greater recognition of the value of relationships — including across businesses, communities, governments — as a foundation for effective entrepreneurial responses to communal problems which cannot be addressed by government and market interventions alone.

The councillor of one rural shire indicated to ASBFEO that small businesses can simultaneously be one of the most vulnerable and most important elements of the community:

> *In a rural and regional community such as ours, there are very few corporates. So small business is the heart and soul of the community. Small business is the biggest employer. Small business is the one who's carrying the load if the community has been hit by a natural disaster. But their businesses have also taken a direct hit at the same time. So, they're trying to ensure their employees remain employed, but are struggling to remain sustainable. They're giving the financial, the emotional, all the other support to the community. But at the same time, they are arguably the most vulnerable pillar of our community.*

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[7] A Madgavkar *et al, A microscope on small businesses: Spotting opportunities to boost productivity*, McKinsey Global Institute, May 2024, p 17.
[8] At least 92 bank branch closures have been made final or slated since the release of the Regional Banking Taskforce's final report on 30 September 2022: Australian Small Business and Family Enterprise Ombudsman (ASBFEO), "Submission to the Senate Standing Committee on Rural and Regional Affairs and Transport": Inquiry into bank closures in regional Australia, ASBFEO, 6 April 2023.

Shared ownership structures, including, for example, co-operatives and mutual enterprises (CMEs) and employee ownership trusts, provide a practical but under-utilised solution to this challenge.[9] These models can provide an alternative pathway for small businesses to overcome some of these barriers — including limited purchasing power, difficulty achieving economies of scale, and challenges accessing markets and service — and build resilience, competitiveness and long-term sustainability.[10]

In Australia, it is expected that more than 1.4 million business owners, employing over 7.9 million people and contributing almost $500 billion to GDP, will retire over the next decade.[11]

> *…a grey tsunami is quietly reshaping the business landscape: hundreds of thousands of baby boomer owners are approaching exit, most without a succession plan, placing millions of jobs and decades of accumulated enterprise value at risk of absorption by larger interests, offshoring, or quiet closure.*[12]

This presents a significant challenge for small businesses in regional and remote communities, where barriers to growth, investment and succession are often more pronounced, and where the loss of a local business can have wide-reaching economic and social impacts. If retiring business owners cannot identify suitable successors, communities risk losing valued businesses, services, skills and employment opportunities. Shared ownership structures can play an important role in responding to the growing challenge of small business succession.

The social and geographic context for small business dynamism provides a foundation for understanding some of the key barriers to small business entry, expansion and exit.

Some key barriers to small business entry, expansion and exit

Regulatory complexity

Regulation can either enhance or reduce business dynamism, depending on how it is designed and implemented.[13] The volume and complexity of regulation in Australia has increased significantly in recent years and this imposes a disproportionate compliance burden on small businesses.[14] Regulatory complexity is widely recognised as one of the main barriers to expansion and growth for small businesses.[15]

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[9] As of 2026, there are 1810 CMEs in Australia, employing nearly 95,000 Australians and estimated to contribute around 8.3% of Australia's GDP: Business Council of Cooperatives (BCCM) *Co-operatives and mutuals demonstrate resilience with another year of strong revenue and earnings growth* [website], BCCM, 17 June 2026, accessed 2 July 2026.
[10] Australian Small Business and Family Enterprise Ombudsman (ASBFEO), "Submission to the Department of the Treasury": Compensation Scheme of Last Resort – enhancing professional indemnity insurance, ASBFEO, 6 February 2026.
[11] Price Waterhouse Cooper Australia (PwC) *Succession Planning* [Website], PwC, n.d. accessed 2 July 2026.
[12] P Cohen, A McMullen and Y von Gellecum (2026) *Employee and community ownership in Australia: a practical path for succession, shared prosperity and resilience*, RMIT University, p 1.
[13] *Better Competition, Better Prices: Report on the inquiry into promoting economic dynamism, competition and business formation*, [report], Parliament of Australia, March 2024, p 12.
[14] The cost to Australian businesses of complying with Commonwealth regulation estimated to have risen from $65 billion in 2013 to $160 billion in 2024: Mandala Partners, *$160bn and counting: The cost of Commonwealth regulatory complexity*, Australian Institute of Company Directors, November 2025.
[15] See, for example: J Douglas & A Land Pejoska, *Regulation and Small Business*, The Treasury, Australian Government, 2017, p 1.

This is illustrated, for example, by the regulatory regime governing Australia's skilled migration program, which presents challenges for small businesses seeking to find skilled labour for hard-to-fill-roles. The process is opaque, requires extensive documentation and involves lengthy timeframes, while high fees deter many small businesses from hiring qualified candidates. Many small businesses lack the capacity to meet complex compliance requirements, resulting in missed opportunities to recruit and retain talent, and fill critical roles. These challenges not only disadvantage small businesses but also exacerbate labour shortages across key sectors, constraining productivity and economic growth.

Regulatory complexity can be reduced by obligations that are proportionate and risk-based, with compliance requirements taking into account the administrative capacity — reflected in limited time, staff, finance, HR, legal and compliance capability — of small businesses. Regulatory design should be informed by an understanding of how small businesses operate, which can be gained through their early engagement in the policy development process.

Regulatory design should also start with, and default to, policy settings recognising that the vast majority — 97% — of Australian businesses are small. ASBFEO's view, however, is that regulations are typically designed without considering small business impacts, instead defaulting to large business needs, and providing exemptions and transition periods for small businesses when their needs have been heard and understood. This presumption needs to be reversed.

Regulatory measures designed without considering the potential flow on effects of compliance are also well illustrated by the 'white tape' which routinely impacts small businesses in a supply chain or procurement arrangement.[16] White tape refers to regulatory, compliance, reporting or operational requirements that are imposed on small businesses by larger enterprises in a business-to-business relationship. The ASBFEO is currently undertaking the White Tape Review in response to a request from the Minister for Small Business, the Hon Anne Aly, for advice on the nature, extent and impact of white tape on small businesses .

White tape adds to small businesses' compliance burden, can increase costs within a supply chain and act as a barrier to participation. For example, we heard of contractors imposing modern slavery-related reporting obligations on sub-contracted small businesses, requiring them to undertake extensive processes of risk assessment and self-certification, and without a proportionate adjustment to the value of the relevant contract.

<u>The need to build business skills and capability, and provide targeted and practical support, from entry to exit</u>

Small businesses often struggle with compliance because they lack the capacity to understand complex regulations and the administrative resources to meet obligations. A small business owner must also manage the full spectrum of business functions — including finances, employees, customers and marketing — simply to survive.

[16] B Billson, *When rules go rogue – Why we need your stories of white tape and right sizing regulation,* Business Builders [website], 9 February 2026, accessed 2 July 2026*;* Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Quarterly Report Q1 2026*, ASBFEO, May 2026, p 9.

These challenges are reflected in Beyond Blue data for the January-March 2026 quarter, which highlighted that the top 4 work related stressors for their small business clients are (in order): lack of professional confidence; new business pressures; work life balance; and work demands.[17]

Meeting these challenges is partly about access to support — which could include, for example, practical guidance and trusted advice. But there are more fundamental causes of this lack of capacity, and better support alone is not enough to bridge it.

Australia's education system equips people for professional or vocational careers but does not embed the fundamental skills needed to run a small business. This means many small business owners — including those 'accidental entrepreneurs' who start a business based on a skill, idea, passion or opportunity — are not equipped to manage the practical realities of running a business, whether it be financial management, regulatory compliance, taxation, employment obligations or business planning. Without the fundamental skills and access to targeted, practical support, they can quickly become overwhelmed and prematurely exit a potentially viable business.

To address these challenges, policymakers need to take a broader view of what enables successful small business ownership — prior to the point at which owners take steps to establish a business, through to exit. That would recognise the relative ease with which businesses can be established in Australia and, as a result, how unprepared new owners often are to meet the many challenges of small business ownership. It would also recognise that if it is so easy to establish a business, it should be similarly easy to fail, early, constructively and with dignity, and in a way which minimises avoidable harms, for example, through insolvency (see below).

This could be addressed by embedding into school curricula and apprenticeships the fundamental skills needed to run a business. Policy makers should also consider how to plant the seeds of a more entrepreneurial culture in Australia, through education and otherwise, which recognises business failure as a platform for future learning, revival and success.

From entry to expansion, a broader conception of support would also ensure the many useful sources of guidance and capacity building available to small businesses reach the hands of their owners with a minimum of friction, and when they need them. Such support should target the most critical points of vulnerability through the business lifecycle, including: the first 2-3 years of a small business's life, when they are most likely to fail; and the point at which a small business decides to expand, by employing staff for the first time and by stretching their skills, potentially to the point of breaking, across a range of new or unfamiliar 'managerial issues.[18]

Effective support should, as much as possible, be repeatable and scalable, so it can be shared through trusted, locally recognised organisations and used across industries and regions (including, for example, local government and local chambers of commerce). It should be designed on the premise that most small businesses want to comply with regulatory requirements, but need 'guidance and information that is relevant, clear, concise and easily accessible', and from credible and trusted sources, to enable them to do so.[19]

[17] Beyond Blue (unpublished), *Small Business Stakeholder – NASBO Quarterly Update January to March 2026*, accessed 3 July 2026.
[18] S Nicholls & D Orsmond, *The Economic Trends, Challenges and Behaviour of Small Businesses in Australia* [website], Reserve Bank of Australia, 2015, accessed 2 July 2026.
[19] Department of Finance (Finance), *Regulator Performance (RMG 128) - Principle 3: Collaboration and engagement* [Website), Finance, Australian Government, 30 June 2023, accessed 2 July 2026.

Australia's insolvency system creates unnecessary drag for small business dynamism

Many small businesses face the risk of insolvency, whether due to cashflow pressures, difficult trading conditions, poor strategic management, or inadequate financial controls.

Insolvency can be devastating for the small businesses which experience it, and it comes at a significant personal cost for business owners and their families. The impact of a small business insolvency can reverberate through other small businesses, local supply chains, employees, creditors and local communities.

In particular, an insolvent small business often leaves behind it a large number of unpaid invoices, and associated payment disputes. Most creditors are unlikely to have their debts secured, and rarely recover much, if any, of what they are owed. This in turn poses a significant risk to the solvency of other small businesses, as well as mental health impacts for their owners.

The risk of insolvency for small businesses is higher than for larger businesses. In 2026, Australian small businesses are facing a multitude of challenges, including higher fuel costs, unpredictable business conditions and changing compliance obligations. ABS data indicates that in June 2026, 29% of small businesses reported finding it very difficult (9%) or difficult (20%) to meet their financial commitments in the next 4 weeks.[20]

Small business restructuring (SBR) is a tool for helping viable small businesses recover from financial distress. It allows eligible businesses to remain in control of their business, while working with a restructuring practitioner to develop a plan with creditors.[21]

After initially slow uptake there was a significant rise in the number of SBR appointments between July 2023 and March 2025, followed by a decline in SBR appointments. Since the inception of the SBR regime, the ATO has been the biggest, and sometimes only, creditor in appointments, and it has been suggested that the decline can be partly attributed to ATO's increasingly stringent approach to accepting restructuring plans.[22]

ASBFEO considers that the current SBR framework is not yet well suited to the operating realities of small businesses. The process focuses primarily on restructuring debt, rather than identifying the underlying causes of financial distress, for example, poor cash flow management, limited financial capability or operational challenges.

A more effective SBR model would help small businesses understand and address the causes of their financial difficulty, not just restructure existing debt — with the focus on facilitating recovery and re-entry into business if feasible. Without this broader support, SBR risks becoming a short-term debt solution that leaves businesses vulnerable to the same pressures in future.

Furthermore, failure to support timely recovery or necessary exit of a small business would leave many other businesses unnecessarily vulnerable to unpaid debts and, ultimately, insolvency. Restructuring should therefore be linked to practical education, early intervention, access to trusted professional advice and other forms of proactive, practical support.

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[20] Australian Bureau of Statistics, *Business Conditions and Sentiments* [Website], ABS, Australian Government, June 2026.
[21] Australian Securities and Investments Commission (ASIC), *Small business restructuring and the restructuring plan* [Website], ASIC, n.d. accessed 2 July 2026.
[22] A Bull & M Murray, *Insolvency Law in 2025: its present operation, its reform and its future,* Insolvency Law Bulletin, Vol. 24, No. 2- 3, December 2025, p 7.

The ASBFEO also supports proposals for creation of a Minimal Asset Procedure (MAP), which provides a simpler, faster and proportionate personal insolvency pathway for people who have low income, minimal or no assets, and no realistic ability to repay their debts. This is analagous to the role of the Official Trustee in Bankruptcy, established under the *Bankruptcy Act 1966*, to administer personal insolvency arrangements where the general administration of the matter is in the public interest, or it is not commercially viable for private trustees to do so.

Early advisory support is especially critical. Small businesses need access to qualified, affordable advisors before financial distress turns to insolvency. Insolvency lawyers, restructuring accountants and turnaround practitioners can provide practical advice on cash flow, creditor negotiations, business viability and restructuring options. Suitable professional advice can, however, be hard to find and difficult to fund.[23]

At the same time, there are long-standing concerns arising from 'the unscrupulous, unregulated and unlicensed advisors who prey around the edges of the insolvency system'.[24] The 2023 Parliamentary Joint Committee Inquiry into Corporate Insolvency in Australia addressed this tension in its report, highlighting the need to address a 'regulatory blind spot of "pre-insolvency" advisors'.[25] ASBFEO supports a stronger framework for trusted pre-insolvency advice, while ensuring regulation does not make legitimate advice harder to access.

The small business experience of Australia's insolvency system is also heavily shaped by the application of 2 overlapping regulatory regimes: corporate insolvency under the *Corporations Act 2001*, and personal insolvency under the *Bankruptcy Act 1966*. This distinction arises from the different constitutional heads of power which the 2 regimes rely on, and does not reflect the contemporary operational reality of most small businesses.

The financial position of owners' businesses and their personal financial arrangements are closely connected, and rarely distinct. A company facing insolvency will often have directors or owner-managers who are also personally exposed through guarantees, tax liabilities, unpaid entitlements, or personal assets used to support the business. This is partly reflected in the SBR regime, for example, which deals only with the debts of the 'small business company' and excludes small businesses operating through other legal structure.

The ASBFEO's long-standing view is that the 2 legislative frameworks should be harmonised into one. The ASBFEO acknowledges the process of legal harmonisation would be a complex and protracted undertaking, but would be worth the benefits, including:

- Lower costs
- Regulatory clarity and coherence
- Better restructuring and exit outcomes

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[23] Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Insolvency Inquiry Report*, ASBFEO, July 2020, p 6.
[24] M Murray, *The new law's limitations in controlling phoenix misconduct* [Website], Murrays Legal, 26 March 2025, accessed 2 July 2026.
[25] Parliamentary Joint Committee on Corporations and Financial Services, *Corporate insolvency in Australia* [report], Parliament of Australia, July 2023.

- Better creditor and debtor outcomes.

The benefits have been recognised by an increasing number of international jurisdictions — including the US, Canada and England — which have adopted, or are considering adopting, reforms to harmonise the 2 insolvency regimes.

While the insolvency system needs to better reflect the operating realities of small business, business dynamism is also supported where clearly unviable firms can exit in an efficient and dignified manner. Until aspects of the insolvency system are improved, and the associated stigma is reduced, Australia's approach to business failure will continue to act as an unnecessary drag on small business dynamism.

If you require any further information, please do not hesitate to contact the Policy and Advocacy team via email at advocacy@asbfeo.gov.au.

Yours sincerely

Lynda McAlary-Smith

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