

Exploring the Entrepreneurial Role in Determining the Liquidity of the Australian Small and Medium-sized Enterprises (SMEs) across Industries

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Principal Topic

The purpose of this paper is to explore the entrepreneurial role determining the liquidity of Australian small and medium-sized enterprises' (SMEs) across industries. Literature in the area of SME liquidity is limited and further research is needed to obtain a better picture of SME liquidity in Australia. This paper reports on an empirical study based upon a one period (1997-98) sample from the Australian Bureau of Statistics (ABS) Business Longitudinal Survey (BLS). Regression analyses were undertaken on both financial and non-financial variables to identify the determinants of SME liquidity for Australian businesses. Analyses of the results of the BLS data indicate that financial variables appear to be more important than non-financial ones and that SME liquidity varies depending on the industry in which the business operates. There also appear to be major differences between SMEs' liquidity depending on the size of the business. The results of this study have implications for both future research and policy makers.

Methodology/Key Propositions

The data in the ABS BLS are utilised for this study to investigate the determinants of liquidity in Australian SMEs across industries and to what extent the entrepreneur plays a role. The BLS is comprised of data from the 1994-95, 1995-96, 1996-97 and 1997-98 Business Growth and Performance Surveys. For this paper only the 1997-98 period has been used.

The BLS data set contains longitudinal panel data for 9,732 businesses and has 724 variables covering many different variables about productivity and performance of a business. It is by far the largest set of data on SMEs that is available at this point in time in Australia. It is also the most comprehensive set of data about the financial characteristics of SMEs that researchers could possibly hope to access and certainly contains a far greater set of data than an independent researcher could hope to obtain. Use of the BLS data also overcomes the constraints and difficulties associated with gathering financial information on businesses. The difficulties associated with obtaining reliable and consistent financial information from businesses has been acknowledged by many researchers and has long been an impediment in the development of any research involving the financial characteristics of businesses (Cassar & Holmes, 2001; Gibson, 2001; R.G.P. McMahon, 2000). Therefore, the data in the BLS are critical in enabling the current study to achieve its objectives.

Results and Implications

This paper has explored the entrepreneurial role that may influence the liquidity of Australian SMEs across industries. Any increase in the understanding of liquidity of SMEs would be advantageous to the businesses, the employees and the economy in general as it could reduce the failure rate of SMEs. It is particularly significant that variables influencing liquidity do not apply equally across all industry sectors. This point alone is important, as education strategies and government policy can be tailored to suit the industry, rather than being applied by the more wasteful and less successful broad brush approach. The importance of appropriate liquidity management cannot be overstated.

At this point three key financial variables; collateral, profit margin and bank overdraft have been identified as possessing some degree of predictive ability across industries. Coupled with these are a number of variables across all industries, as well as on an industry-to-industry basis, is warranted. Such an examination would further enhance the understanding of liquidity of an SME. As this has been the first examination of Australia's SME liquidity across industries, care should be taken when interpreting these results. The variate levels are very low in some industries. The limitations inherent in using the BLS data need to be recognised.

Further testing when new BLS data become available in 2007 may be able to rectify this problem. This should suggest a starting point to question the liquidity for each industry in Australia. However, the type of data collected by the BLS and the manner in which it is presented may need to if it is going to be able to clarify the issue.

Further research in this area may look to broaden the investigation of factors that affect the liquidity of SMEs including issues relating to credit and cash management. Such factors are also likely to be related to the liquidity and solvency issues of the SME.

In conclusion, what influences the liquidity of SMEs has been investigated which is clearly a function that requires the owner-manager and government to review the liquidity levels of SMEs in certain industries and, make the appropriate changes necessary to keep the SME liquid and solvent through a better understanding of the financial management issues in each industry.

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