IMPACT ECONOMICS AND POLICY

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The Bigger Picture: How Mid-Sized Businesses Are Powering Our Future Economy

MARCH 2025

Executive summary

The strength of mid-sized businesses (defined in this report as having 20-500 full-time employees (FTEs) or revenue between $5m-$200m) has come to the fore over the past decade, with the sector's productivity rising faster than both the small and large business sectors.

Despite only accounting for just under 3 per cent of all Australian business entities, mid-sized businesses have delivered around 30 per cent of private-sector gross-value added and employment over the last 15 years. Continued innovation, strong research and development (R&D) investment, and resilience in a competitive market further drive its success.

Key findings

- In trend terms, the productivity of the mid-sized business sector has increased at a faster rate than that of large and small businesses. This has resulted in the gap between the level of mid-sized business productivity and large business productivity narrowing considerably in recent years, partly due to higher participation and technical efforts in particular industries.
- Mid-sized businesses have a significant productivity advantage, stemming from greater financial resources to invest in efficiency-drivers than smaller businesses, and greater agility than larger enterprises.
- Mid-sized businesses continue to play a central role in Australia's broader business ecosystem – particularly as 'connectors' between larger and smaller enterprises. This position sees their influence permeate through supply chains – taking on bigger firms and improving competition, or demonstrating innovation and technological leadership with smaller firms as they collaborate on relevant ventures.
- The mid-sized sector is of particular importance in Australia's regional communities, where owners are often long-term, and even multi-generational operators, who are deeply invested in their industry and their local community.
- Mid-sized businesses are most responsive to customer needs, leading in both the introduction and development of new goods and services, surpassing both large and small businesses in innovation.
- The mid-sized business sector is also becoming an increasingly important hub for research and experimental development (R&D) activity in the Australian economy. Mid-sized business' importance for R&D now almost rivals that of the large business sector.
- Looking ahead, key strategies for mid-sized businesses to adopt new technologies involve investments in AI and machine-learning based tools. Other top sources of potential productivity improvements will include firm-based investments in business management software and systems.
- This innovation would be further accelerated by a greater understanding of technology needs and/or available products, as well as increasing skills to support uptake and maximise use once implemented. Resolving these constraints is crucial for higher rates of technological adoption.

Introduction

Mid-sized businesses are crucial to Australia's economy – driving innovation and employment and supporting economic resilience. Comprising around 70,000 private-sector business entities, the sector bridges the gap between agility and scale, enabling unique adaptability as well as stability in the business environment.

The mid-sized business sector is central to Australia's business ecosystem and, as such, is a key area of focus for business management platform MYOB. While the sector accounts for a small proportion of the total number of Australian businesses, its impact and influence extend beyond the sector's boundaries to both the small and large business cohorts, and the Australian economy.

> This report combines MYOB research from a new survey of 500+ Australian businesses (with 20-500 FTEs or revenue above $5m), with industry and government insights to paint a picture of the mid-sized business landscape, exploring opportunities and challenges as well as analysing the sector's performance and impact.

As is the case for the broader business community, the past few years have presented challenging conditions for the mid-sized business sector. A recent survey of mid-sized businesses reveals that 51 per cent expect to continue to experience cost and margin pressures over the short term – down only slightly from two years ago.[1]

Looking further ahead, the ongoing fast pace of technological advancement ensures that a key longer-term challenge for mid-sized businesses will be keeping up with their larger business peers.

That said, mid-sized businesses are already leading the way in productivity and R&D, outpacing both smaller and larger firms. This report highlights their essential role in fuelling the Australian economy and how we can unlock their full potential by rallying behind these strengths.

Mid-sized businesses: small in number, large in impact

While small in number, mid-sized businesses are crucial to the ongoing dynamism and growth of the broader Australian business community and the Australian economy.

Historically, there has been no strict definition of a mid-sized business. Typically, size-based categories for business entities relate to either the number of employees or total annual turnover/income. Within size-based categories, the mid-sized sector can include a range of vastly different organisational structures.

MYOB's chosen definition of a mid-sized business entity for the purposes of this report is one that employs 20 to 500 people, or has total annual turnover of $5 million to $200 million. Using these definitions, there were around 70,000 mid-sized business entities in Australia that met these criteria as of June 2024.[2] With regard to organisational structure, MYOB survey data confirms that the dominant form of mid-sized business is the private incorporated business, followed by partnership and publicly listed company (Table 1).[i]

i Note that much of the analysis in this report relates to businesses that fall within the standard ABS definition of 20 to 199 employees, as the bulk of published business-related statistics relate to this cohort.

Table 1 Mid-sized businesses, by organisational structure[3]

Organisational structure	Per cent
Proprietary company	34
Partnership	17
Publicly listed company	11
Joint venture	11
Private equity owned	10
Indigenous corporation	10
Co-operative	5
Franchise	1
Other	1

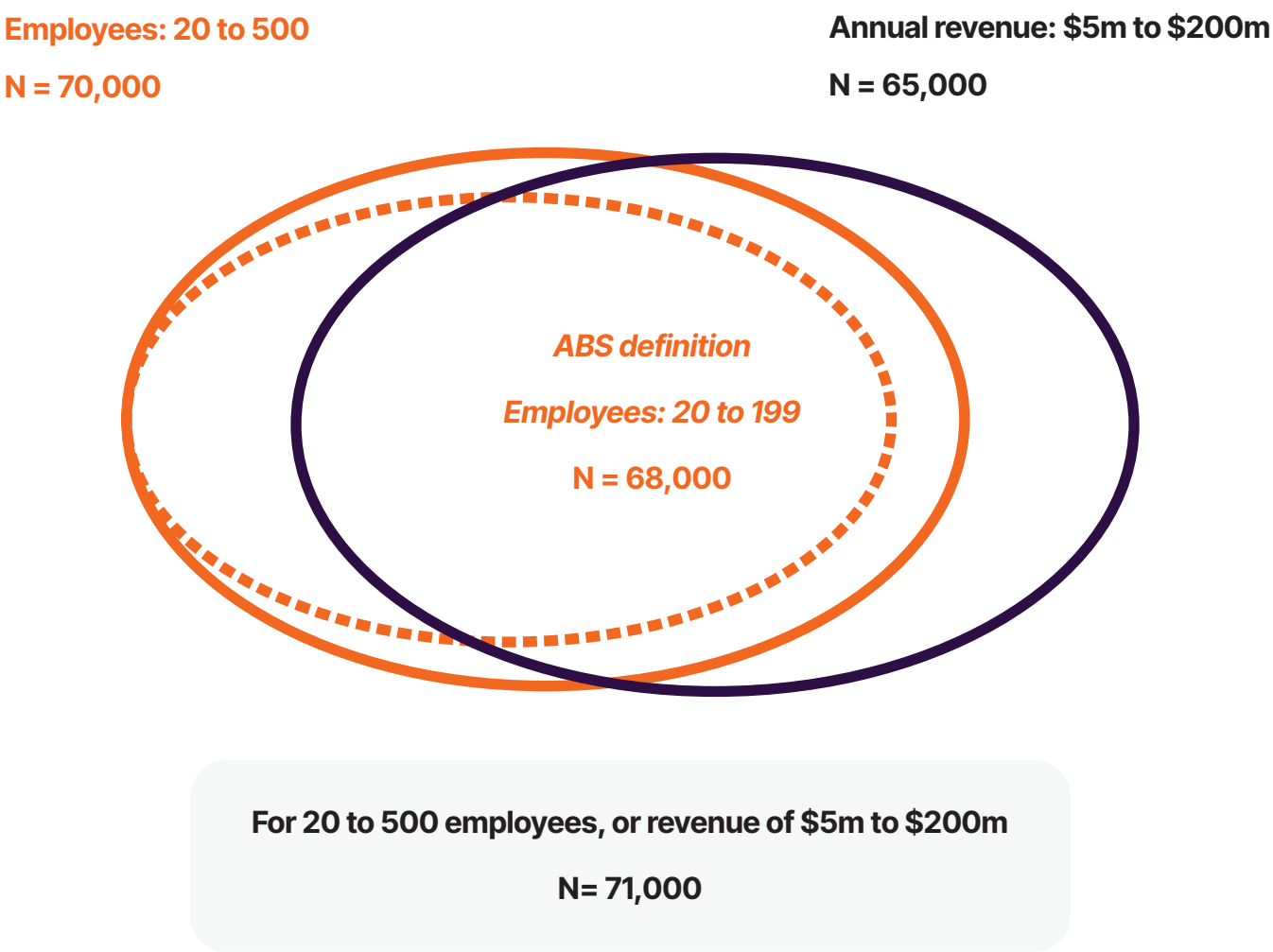
Source: MYOB.

The Australian Bureau of Statistics (ABS) uses a narrower definition for what it terms a 'medium-sized business' in most of its business-related statistical publications. The ABS typically stratifies business entities by the number of employees (but also by annual turnover in some cases). Accordingly, a medium-sized business has 20 to 199 employees, while a small (employing) business has 1 to 19 employees, and a large business has 200 or more employees. Using these definitions, there were around 68,000 medium-sized business entities as of June 2024.[4] For a 'medium-sized business' an equivalent range for annual turnover is approximately $5 million to $50 million.[ii]

Figure 1 shows the boundaries of the different definitions of a mid-sized business, and the corresponding number of businesses as of June 2024.

ii Note that the Australian Taxation Office (ATO) also uses sized-based categories for business entities. A 'medium-sized business' is defined as having total income ranging from $10 million to less than $100 million. According to this definition, just over 23,000 (private-sector) medium-sized businesses operated during FY2021-22, as well as around 4,000 entities with other types of organisational structure.

Figure 1 Stylised representation of the mid-sized business sector[5]



Source: ABS and Impact Economics calculations.

Irrespective of which definition is used, the mid-sized business sector comprises a relatively small proportion of the total number of Australian business entities: around 7 per cent of all private-sector business entities with employees, and around 3 per cent of all private-sector business entities (Table 2).[6]

Table 2 Number of Australian business entities, by number of employees (June 2024)[7]

Business category	Number	Per cent of employing businesses	Per cent of all businesses
Non–employing	1,663,800		62.5
Employing			
1 to 4 employees	693,500	69.4	26.0
5 to 19 employees	232,200	23.3	8.7
20 to 500 employees*	70,000	7.0	2.6
More than 500 employees	3,000	0.3	0.1
Total	2,662,600		
**20 to 500 employees OR annual revenue of $5m to $200m*	*71,000*	*7.1*	*2.7*

Source: ABS and Impact Economics calculations.

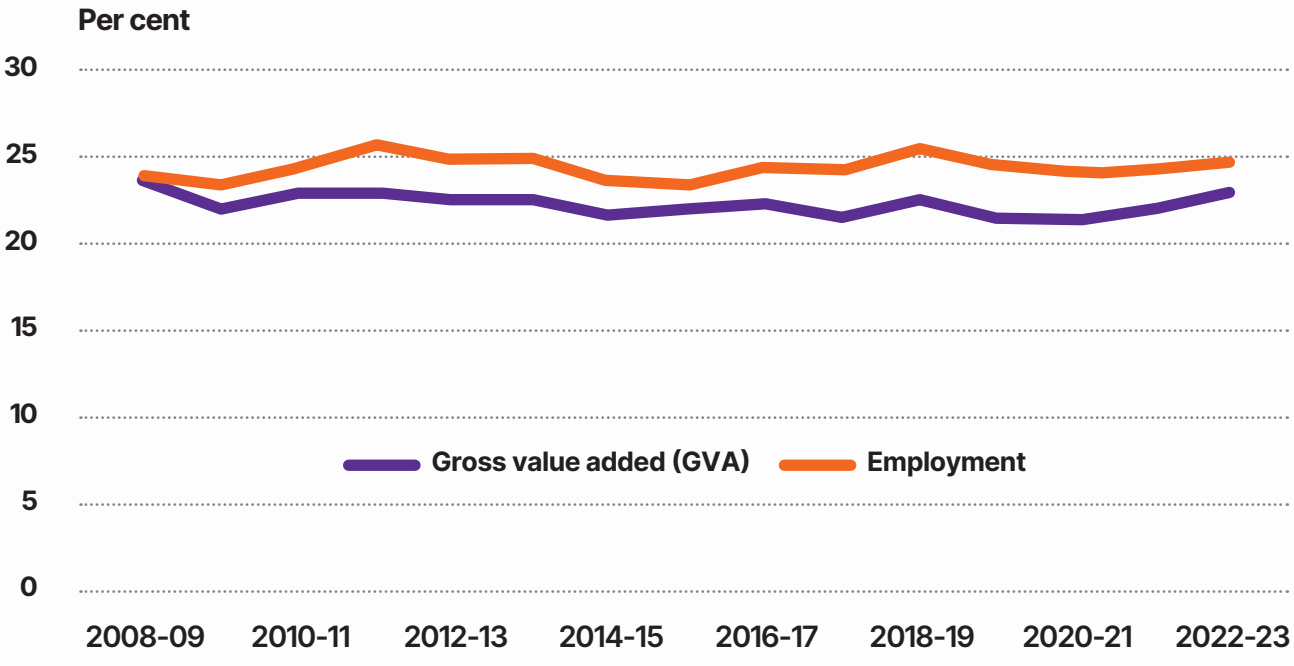
The mid-sized business sector accounts for a large share of Australia's economic activity and employment

While the mid-sized business sector represents a small proportion of the total number of Australian business entities, it accounts for a disproportionately large share of Australia's economic activity and employment.

For example, using the standard ABS definition of a mid-sized business (20 to 199 employees), the sector has averaged almost one-quarter (22 per cent) of private-sector production over the past 15 years, and around one-quarter (24 per cent) of private-sector employment (Chart 1).[8] Private-sector production is measured in terms of gross-value added (GVA), which for the mid-sized business sector is the total value of goods and services produced by the sector less the total value of inputs (from all sectors) used in producing those goods and services. In FY2022-23, the mid-sized sector accounted for 23 per cent of private-sector GVA and 25 per cent of employment.[9]

Using the extended definition of 20 to 500 employees, the mid-sized business sector accounted for around 30 per cent of private-sector GVA and employment in FY2022-23.[10]

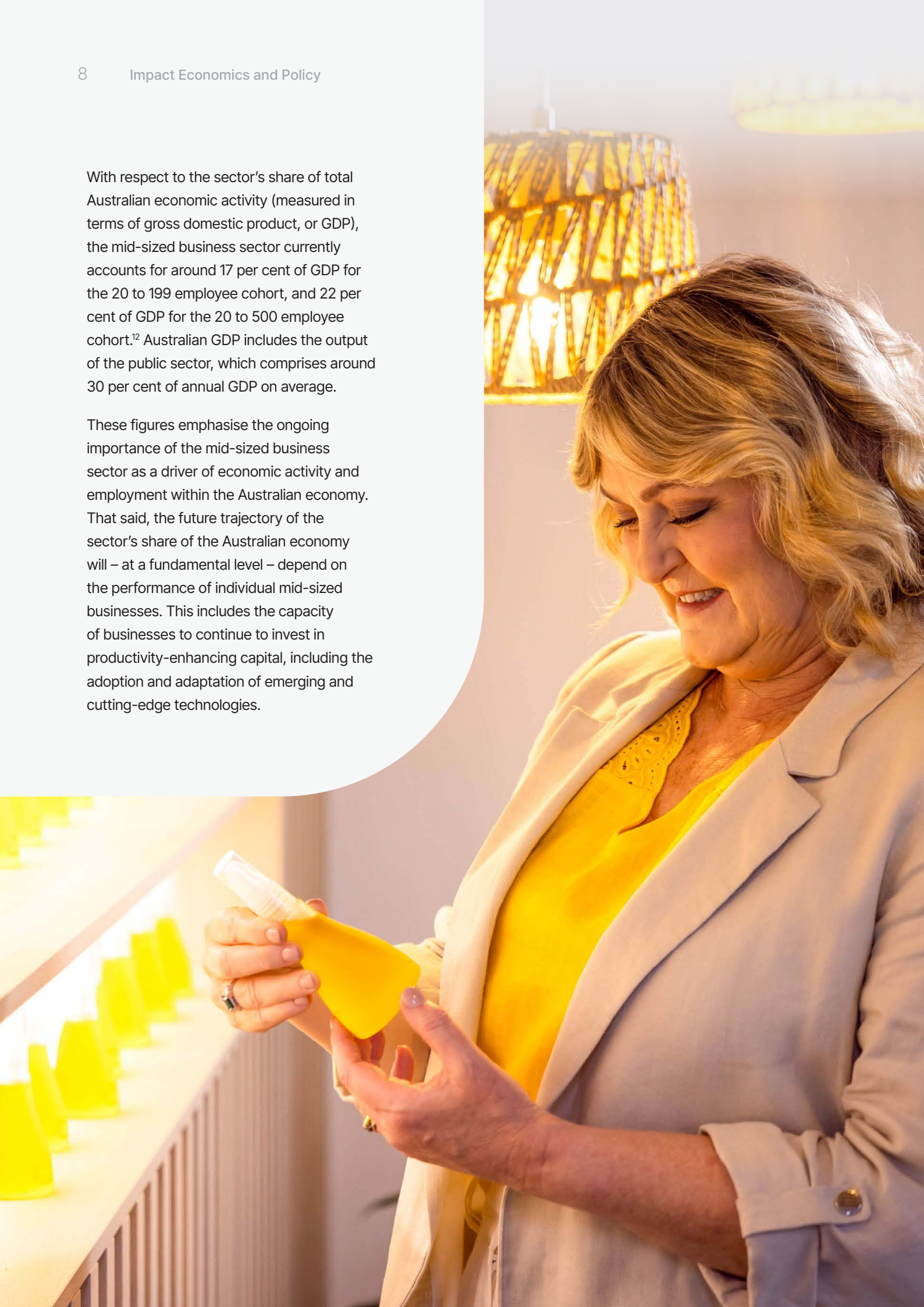
Chart 1 **Mid-sized business sector: share of private-sector GVA and employment**[11]



Source: ABS and Impact Economics calculations. **Note:** GVA share in nominal terms.

With respect to the sector's share of total Australian economic activity (measured in terms of gross domestic product, or GDP), the mid-sized business sector currently accounts for around 17 per cent of GDP for the 20 to 199 employee cohort, and 22 per cent of GDP for the 20 to 500 employee cohort.[12] Australian GDP includes the output of the public sector, which comprises around 30 per cent of annual GDP on average.

These figures emphasise the ongoing importance of the mid-sized business sector as a driver of economic activity and employment within the Australian economy. That said, the future trajectory of the sector's share of the Australian economy will – at a fundamental level – depend on the performance of individual mid-sized businesses. This includes the capacity of businesses to continue to invest in productivity-enhancing capital, including the adoption and adaptation of emerging and cutting-edge technologies.



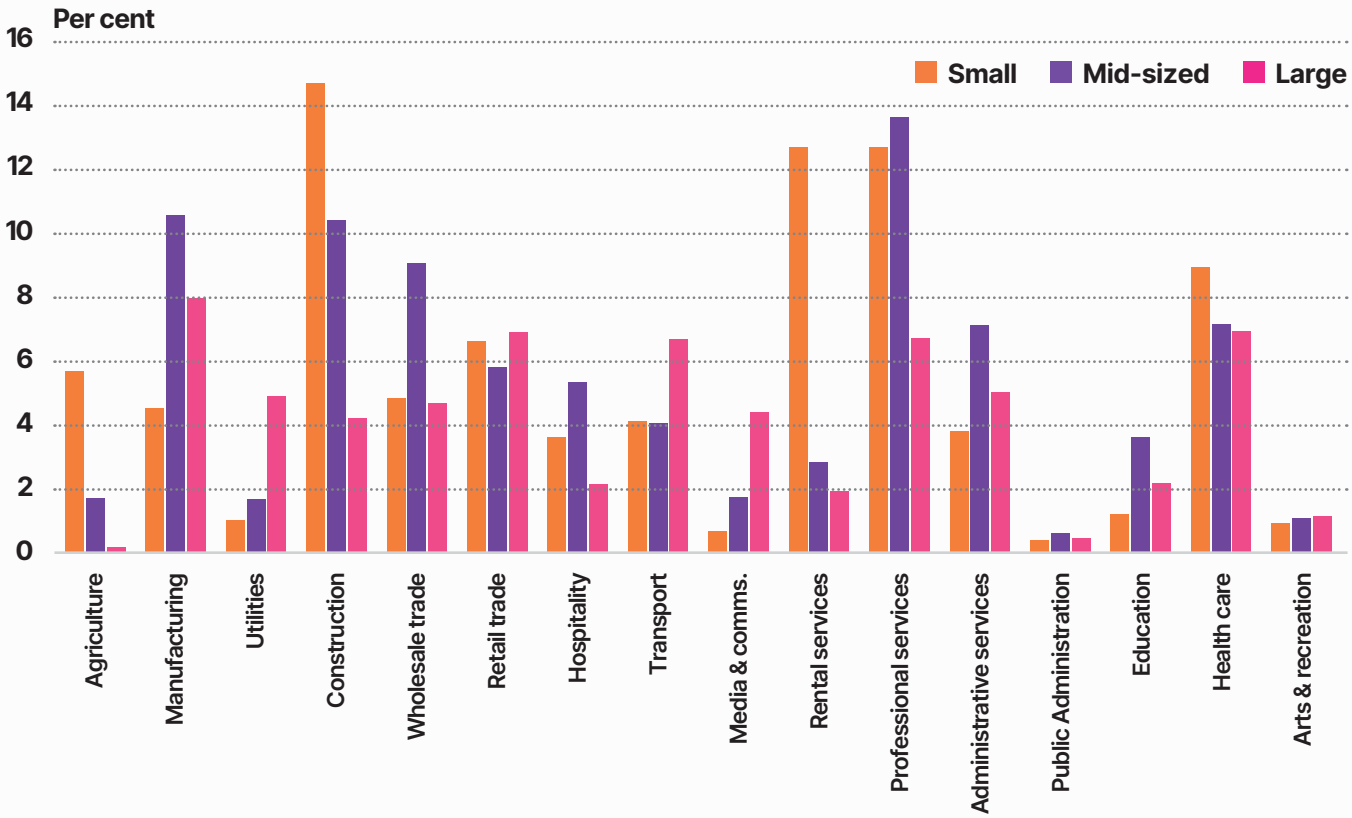
Mid-sized advantage drives continued evolution of industry base

The industrial composition of the mid-sized business sector differs markedly from the small and large sectors. The evolution of the mid-sized sector's industry mix reflects the degree of comparative advantage of mid-sized businesses (vis-a-vis small and large businesses) within industries, the degree to which scale is a factor within certain industries, and the role of mid-sized business within different supply chains.

For the three key business-size cohorts, Chart 2 shows the distribution of (private-sector) business GVA by industry. With respect to differences in proportions, Chart 3 shows the difference in GVA shares between the mid-sized sector and the small business sector, while Chart 4 shows the difference between the mid-sized sector and the large business sector (see Appendix A for details of industry categories).

- Compared with the small business sector, the mid-sized sector has a relatively high representation in manufacturing and wholesale trade, while a relatively low representation in rental services (in particular, real estate) and construction.
- Compared with the large business sector, the mid-sized sector has a relatively high representation in professional services and construction, while a relatively low representation in utilities and transport.

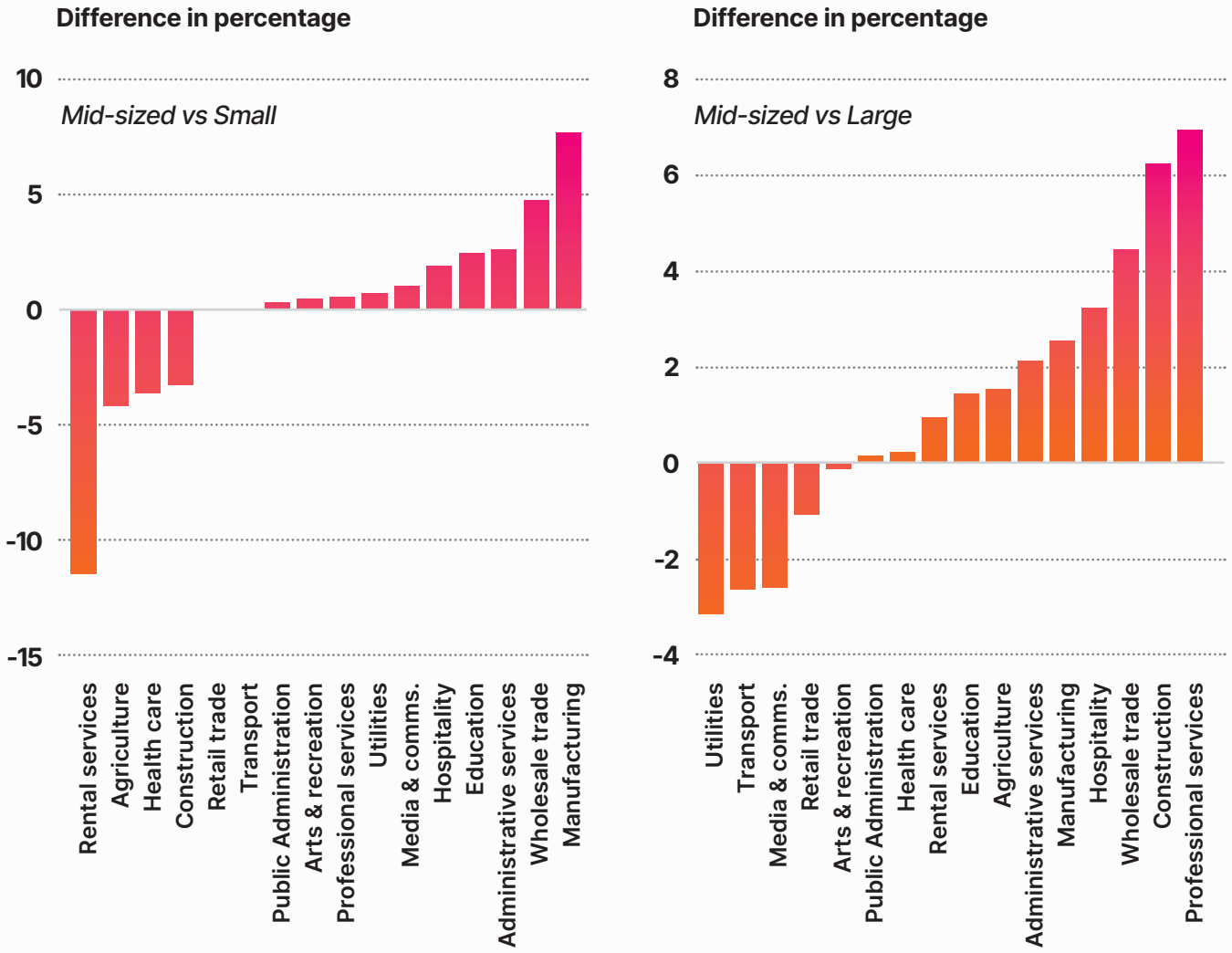
Chart 2 Industry distribution of business GVA (2022-23)[13]



Source: ABS and Impact Economics calculations. **Notes:** 'small' comprises 5 to 19 employees; 'mid-sized' comprises 20 to 199 employees; 'large' comprises 200+ employees. The analysis excludes the mining industry.[iii]

iii The mining industry is excluded from cross-industry comparisons in this report due to its out-sized impact on aggregate measures of productivity, both in terms of scale and range of outcomes. This is standard practice.

Chart 3 & 4 Differences in industry GVA shares[14]



Source: ABS and Impact Economics calculations. **Notes:** 'small' comprises 5 to 19 employees; 'mid-sized' comprises 20 to 199 employees; 'large' comprises 200+ employees. The analysis excludes the mining industry (see footnote iii).

One indication of a competitive and dynamic business environment is that economic activity gravitates towards more productive ends. In this regard, the particular industry mix that has evolved for the mid-sized business sector (as shown above), in part reflects where the relative productivity advantages are greatest for mid-sized business. Ultimately, this is reflected in the relatively strong productivity outcomes for the sector in aggregate – as discussed in the next section – which are bolstered by the greater dexterity of the sector, an advantage over its larger counterparts. Looking ahead, this very same process – whereby resources tend to be channelled to more productive ends – fundamentally will hinge on the ongoing dynamism of, and innovation by, individual mid-sized firms.

Mid-sized business productivity outperforming large and small business sectors

In trend terms, the productivity of the mid-sized business sector has been increasing at a faster rate than productivity for both the large and small business sectors.

Labour productivity (from here on, productivity) is the economic output generated per unit of labour input, typically measured as either output per worker or output per hour worked. The key factors that boost productivity include more capital per worker (or capital deepening), technological advancement, improved worker skills and better management practices.[15]

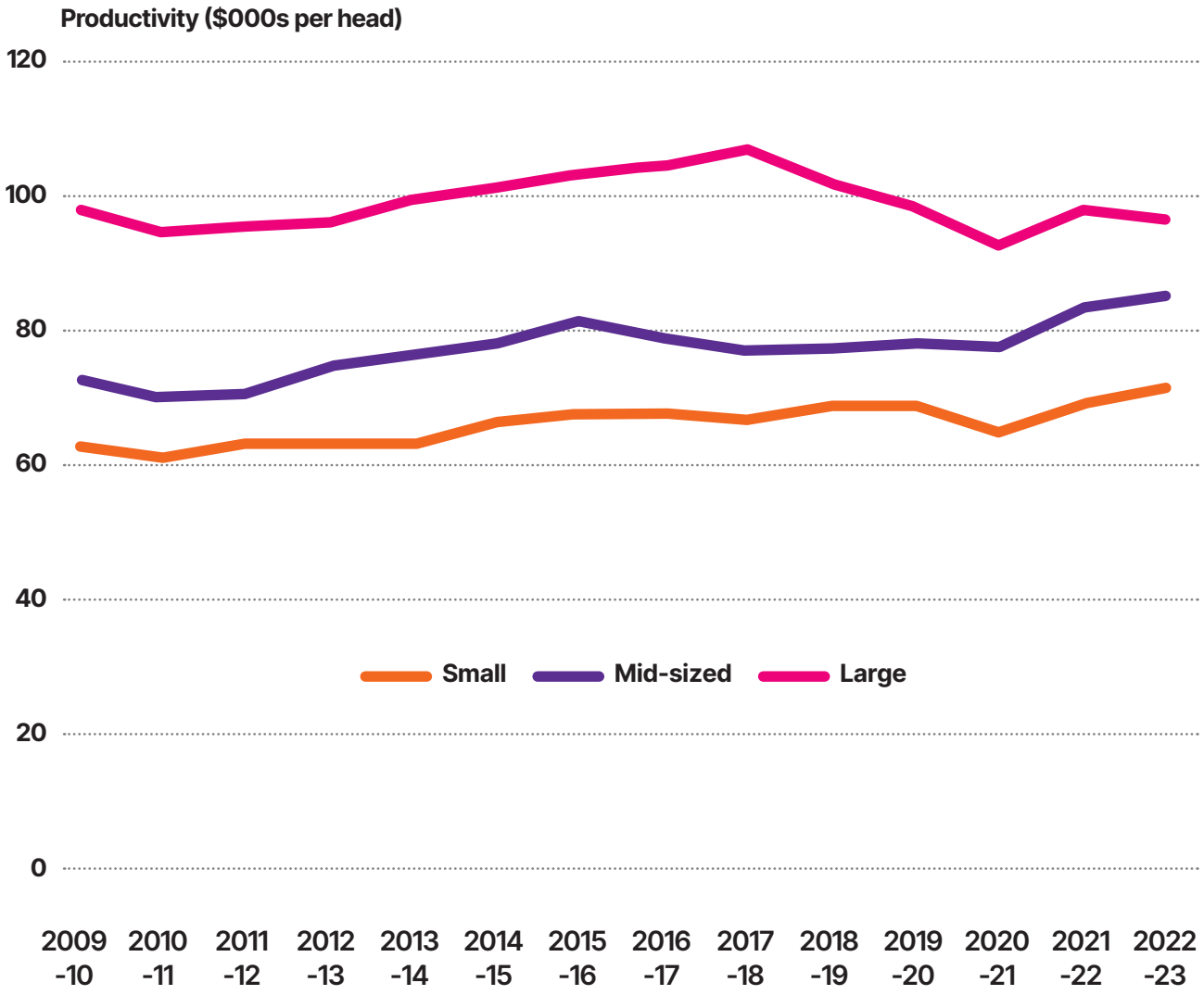
In general, large businesses have a 'productivity advantage' over small and mid-sized firms, which can reflect (among numerous factors); greater financial resources to invest in new technologies; greater capacity to provide formalised training for staff; and greater scope to utilise scale for specialisation. That said, mid-sized businesses can benefit from being less constrained than large businesses by internal bureaucracy, so can therefore be nimbler in making investment decisions.

Over recent years, the productivity performance of the broader Australian economy has been a source of concern among policy makers – in particular, that reduced business dynamism has tempered the impetus for firms to strive for productivity improvements.[16] Indeed, annual productivity growth (output-per-worker basis) for the Australian economy – which includes the private and public sector – has averaged just 0.6 per cent since 2009-10,[17] compared with the long-run average of around 1.5 per cent.[18]

However, within Australia's private-business ecosystem, the mid-sized sector has been the best performer. Chart 5 shows the level of aggregate productivity for each of the three key business-size cohorts since 2009-10. Productivity for the mid-sized sector has risen by around 1.2 per cent per annum, while productivity for the large business sector has been broadly flat. As a result, by the end of FY2022-23, the gap between the level of mid-sized productivity and large business productivity had narrowed considerably – to around 12 per cent. Compared with the small business sector, mid-sized productivity has risen at a slightly faster rate, and the gap between mid-sized productivity and small business productivity has widened to around 16 per cent.[19]

Chart 5 Labour productivity, ex. the mining sector[iv]

Output-per-worker[20]



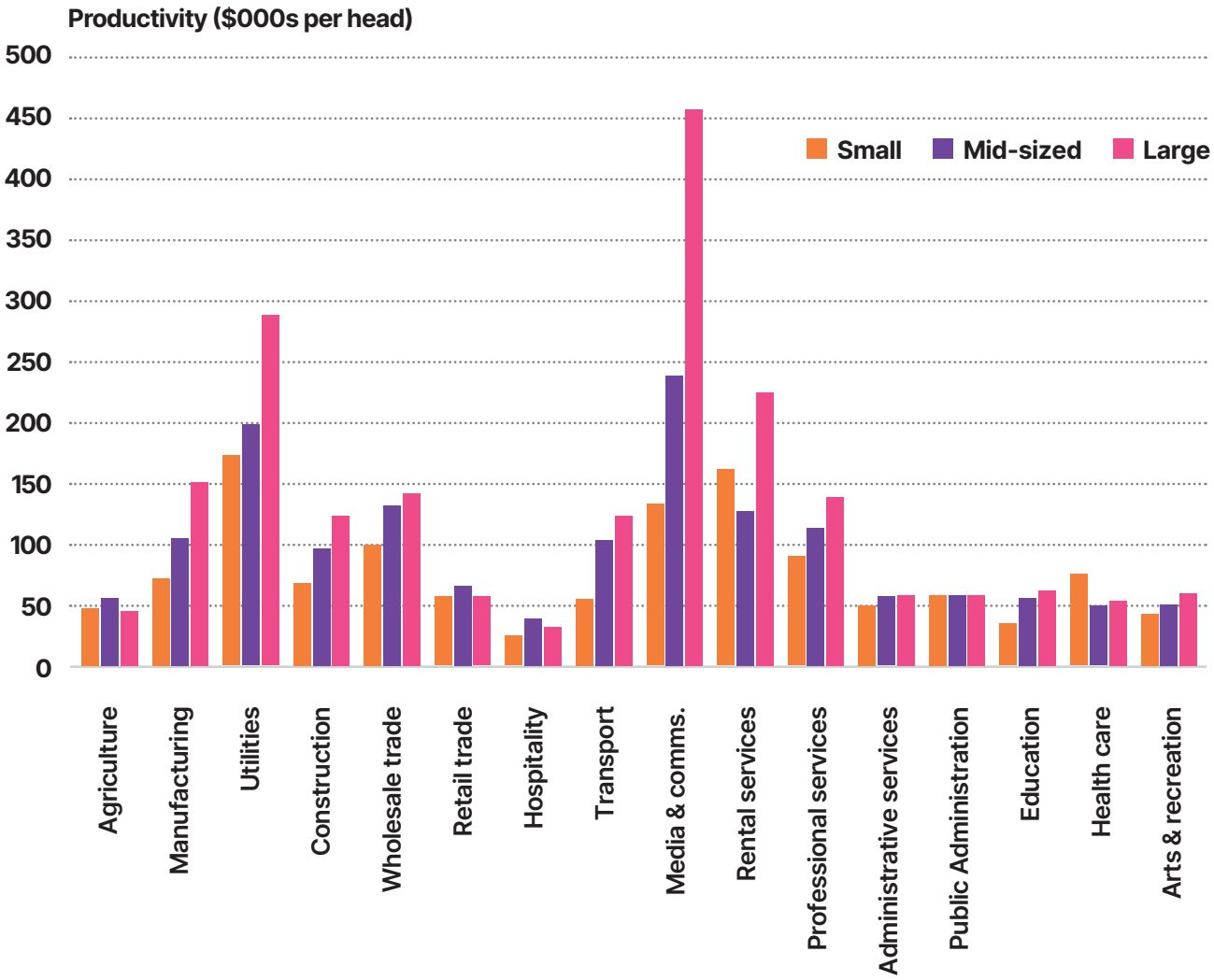
Source: ABS and Impact Economics calculations. **Notes:** 'small' comprises 5 to 19 employees; 'mid-sized' comprises 20 to 199 employees; 'large' comprises 200+ employees. The analysis excludes the mining industry (see footnote iii).

The strength of the mid-sized sector's productivity performance is underscored by productivity outcomes by industry (Chart 6). Indeed, much of the current productivity differential between the mid-sized and large business sectors is driven by three industries: media and communications, rental services, and utilities – where the productivity differential for each is approximately 90 per cent, 75 and 50 per cent, respectively.

iv For the purposes of assessing productivity, the ABS determines the timing of productivity cycles. Chart 5 and the associated analysis covers the most recent completed cycle (FY2009-10 to FY2017-18), and the current, incomplete cycle. See ABS, *Estimates of Industry Multifactor Productivity*, 2023-24 (https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release).

Chart 6 Labour productivity, ex. the mining sector[v]

Output-per-worker[21]



Source: ABS and Impact Economics calculations. **Notes:** 'small' comprises 5 to 19 employees; 'mid-sized' comprises 20 to 199 employees; 'large' comprises 200+ employees. The analysis excludes the mining industry.

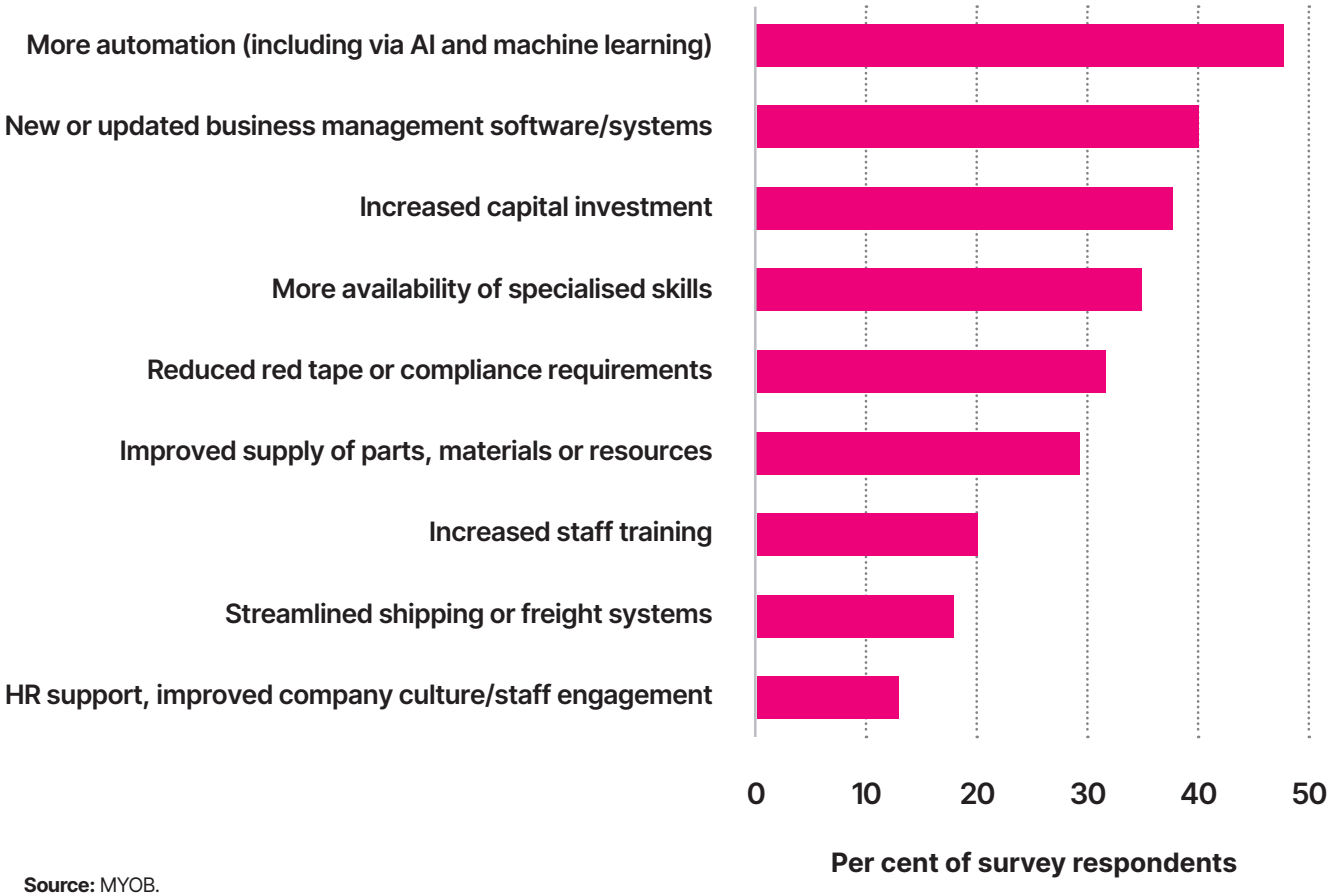
In each case, the large differential reflects (in part) fundamentally different business models between the mid-sized and large sectors, and the presence of significant scale economies with respect to the latter. For example, utility provision by the large business sector is dominated by large-scale power generation, transmission and distribution, whereas utilities provision in the mid-sized sector reflects smaller-scale power operations and waste management services.[22]

For the remaining 13 industries, the average productivity differential had narrowed to just 8 per cent by the end of FY2022-23.

v Average productivity for the current, incomplete productivity cycle. See ABS, *Estimates of Industry Multifactor Productivity*, 2023-24 (https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/latest-release).

For individual mid-sized businesses, strategies that seek to capitalise on strengths or address key challenges can help boost firm-level productivity. In general, these involve some combination of investment in new technologies, improvements to worker skills and enhancements to business processes. In this regard, a recent survey of mid-sized businesses undertaken by MYOB reveals which factors are considered most likely to have a positive impact on firm-level productivity (Chart 7).

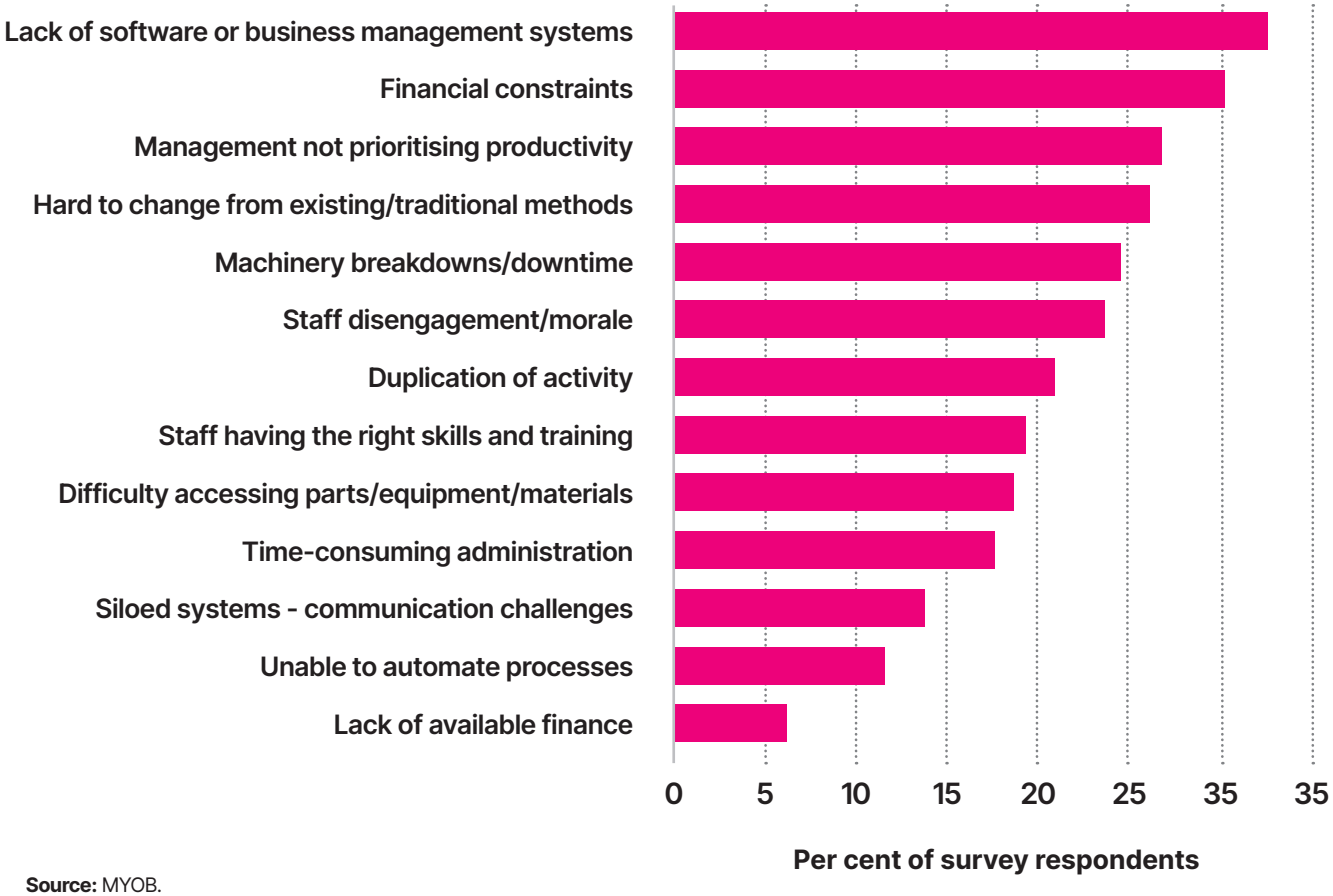
Chart 7 Factors mid-sized business considers have a positive impact on productivity



Source: MYOB.

By a significant margin, the most important factor identified by mid-sized business is greater automation (or capital deepening). This includes more intensive use of physical capital (for example, machinery) in business processes, but also new AI and machine-learning based tools. Mid-sized businesses recognise the potential productivity gains from incorporating emerging technologies into business processes. Other top sources of potential productivity improvements include firm-based investment in business management software and systems, and greater availability of specialised skills in the workforce – a result which, in part, reflects still-elevated skill shortages with respect to around one-third of occupations in the Australian labour force.[23]

Chart 8 Constraints on mid-sized business improving productivity[24]



Source: MYOB.

Mid-sized businesses can however face constraints to improve their productivity performance (Chart 8). Unsurprisingly, difficulty in obtaining required finance is the top-ranked constraint. While less constrained than small businesses, mid-sized firms still face similar challenges in accessing capital, and this has become more challenging over the last two years.[25]

Other key constraints largely relate to internal processes and systems. Indeed, around one-quarter of the survey respondents reported that siloed internal systems and/or administrative delays were hindering improvements to firm-level productivity. Within the overall mid-sized business cohort, smaller firms tend to face more acute constraints with respect to staff skills, whereas larger firms tend to be more constrained by internal bureaucracy. Again, the former constraint reflects, in part, the current state of the Australian labour market.

Turning to the future, crucial to the sector's productivity performance will be the degree to which external barriers to productivity-enhancing initiatives moderate and individual businesses are able to resolve internal constraints, where they arise. As far as addressing external barriers, government policy initiatives aimed to encourage new capital investment would assist in supporting productivity gains, for example. To this end, MYOB has advocated for the establishment of a mid-sized business policy team within Treasury to develop targeted recommendations to government on how mid-sized businesses can be harnessed for productivity reform.

Playing a critical role in Australia's business ecosystem

An important development for business this century has been the ongoing reorganisation of production at both the national and international level – in particular, greater outsourcing within the business ecosystems through increasingly integrated business-to-business networks.

This has had significant effects on the mid-sized and small business sectors – providing opportunities for smaller players that otherwise might not have existed. Outsourcing provides increased opportunity for specialisation, which has increased the opportunity for small and mid-sized businesses, in turn driving competition. Nimble mid-sized and small firms can position themselves quickly to take advantage of new market demand.[26]

> This ongoing process is central to the competitive dynamic within the markets that mid-sized firms operate.

In particular, where mid-sized firms act as 'connectors' between larger and smaller enterprises, competitive pressure on mid-sized firms can permeate through supply chains.[27]

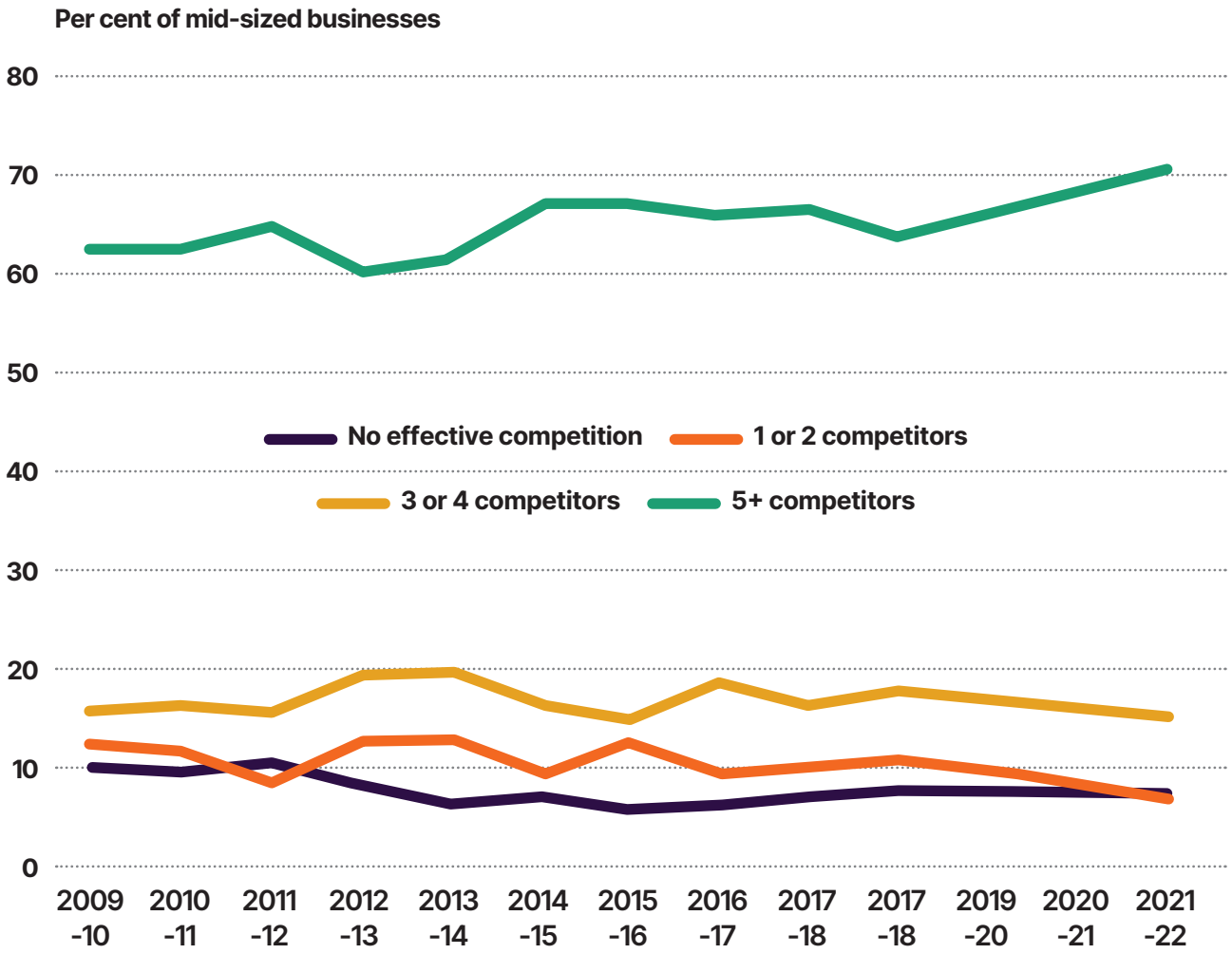
In general, competitive markets encourage efficiency and innovation, deliver more attractive combinations of prices and quality, and provide choices that better reflect customers' preferences. Concentrated markets dominated by few players often feature diminished competitive pressure that can result in elevated price premia and innovation stagnation.[28]

Mid-sized businesses typically operate in markets with a relatively high degree of competition, where the intensity has tended to increase over time. Indeed, the proportion of mid-sized businesses that face competition from five or more competitors has increased from around 60 per cent to around 70 per cent over the past decade or so (Chart 9). Conversely, the proportion of businesses that face relatively little, or no, competition has fallen.[29]

Rising market concentration in Australia, and its impacts, has been a concern for policy makers for some time.[30] That said, the available empirical evidence suggests that while market concentration is increasing in some Australian industries,[31] this appears to be mostly limited to a relatively small proportion of industries that are already highly concentrated, such as large-scale retailing and agriculture.[vi]

vi Sub-industries identified as having a high a degree of concentration (regardless of whether concentration has risen over the past two decades), include: supermarkets, fuel retailing, domestic air transportation, liquor retailing, depository banking, telecommunication services, electricity transmission, television broadcasting. For details see Sasan Bakhtiari (2021), 'Trends in market concentration of Australian industries', *The Australian Economic Review*, vol.54, no.1, March 2021, pp.57-75 ((https://onlinelibrary.wiley.com/doi/abs/10.1111/1467-8462.12393).

Chart 9 **Degree of competition that mid-sized businesses face**[32]



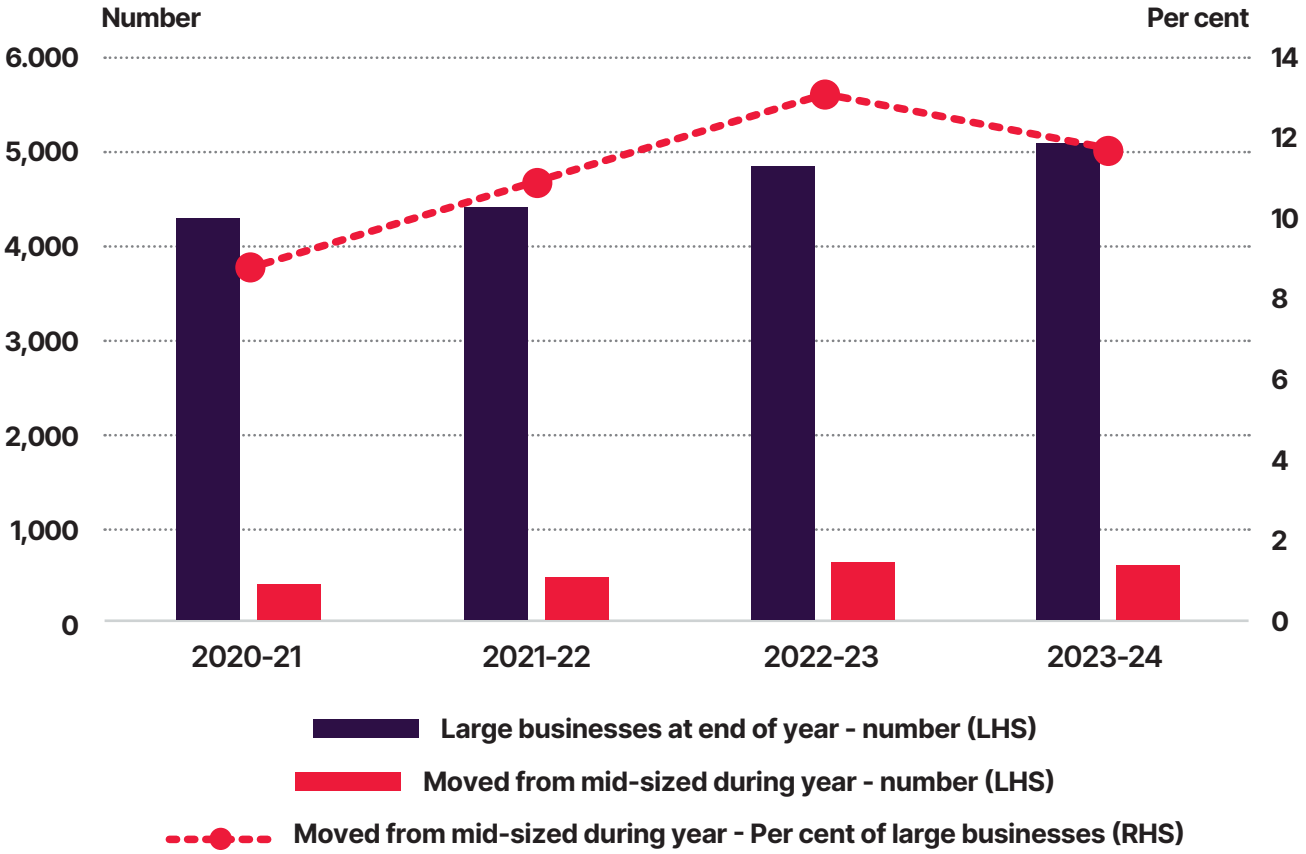
Source: ABS.

One feature of the mid-sized business sector's role in the Australian business ecosystem is as a source of new, large-scale enterprises.

It is certainly the case that not all mid-sized businesses aim to increase in scale to become large enterprises. As noted above, many mid-sized businesses thrive by occupying specialised market niches that neither small nor large firms can effectively serve. These firms play a critical role in production chains, supplying essential components and expertise.

That said, many mid-sized owners are highly motivated to grow their business. Indeed, MYOB survey data reveals that for around half of mid-sized businesses at the larger end of the mid-sized cohort, achieving growth goals is among their top strategic priorities, and second only to improving firm-based productivity.[33]

Chart 10 **Flow of mid-sized businesses into the large business sector**[34]



Source: ABS and Impact Economics calculations.

In this regard, the available ABS data highlights the relatively high degree of penetration of mid-sized businesses into the large business cohort. Over the last three financial years, 450 to 650 mid-sized businesses have entered the large business sector each year (ABS basis - Chart 10). This represents around 11 to 13 per cent of the total number of large businesses at the end of each corresponding financial year. This ongoing flow of mid-sized businesses into the large business sector provides a potential source of greater competition for large incumbent firms.

From a broad economy-wide perspective, a dynamic and competitive business ecosystem is crucial to engendering long-term productivity growth. In this regard, diminishments in competition and dynamism – wherever it may occur in the economy – present risks to Australia's productivity outcomes. This can include where markets are dominated by small numbers of large players, and there are barriers to entry for new, smaller players (including mid-sized businesses). Government policy that seeks to address such barriers – where they emerge – will help to promote well-functioning markets and broad-based improvements in productivity.[vii]

vii Note that the relationship between market concentration and productivity is complex. Concentration, by itself, is not necessarily associated with lower productivity. See Productivity Commission (2023), *Submission to the House of Representatives Standing Committee on Economics' Inquiry into Promoting Economic Dynamism, Competition and Business Formation* (https://www.accc.gov.au/system/files/Submission%20-%20Economic%20Dynamism%2C%20Competition%20and%20Business%20Formation%20-%20ACCC.pdf).

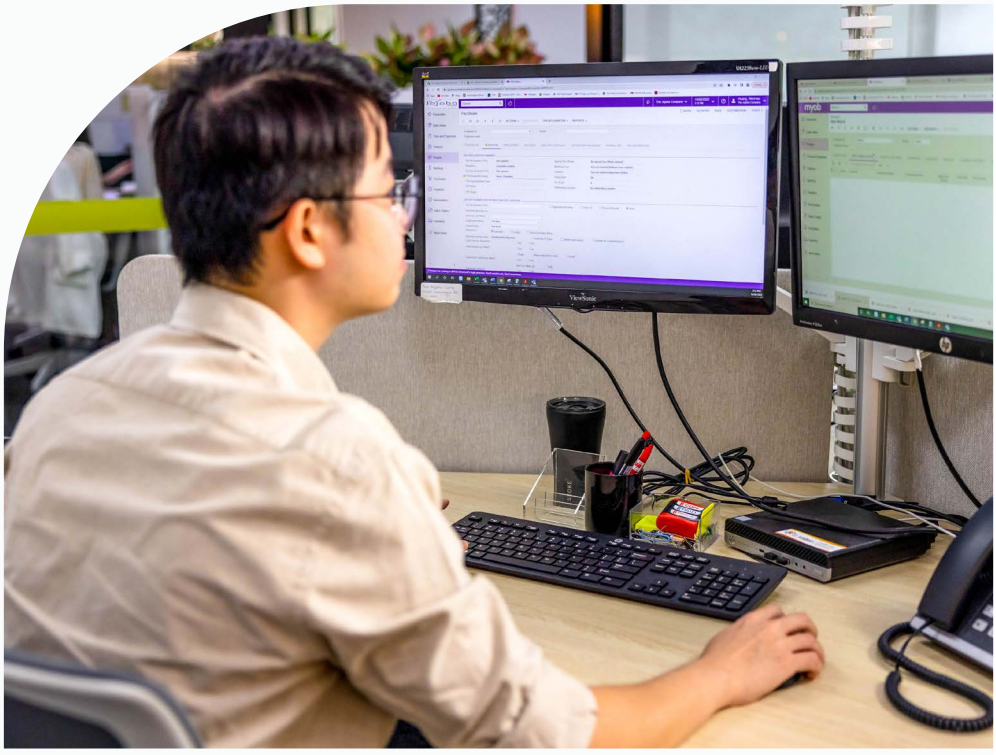
Mid-sized business spark innovation

Within the Australian economy, the mid-sized business sector is a key source of innovation activity – that is, where business (but also government) creates or adopts new technologies.

The creation of new technologies represents only a small component of innovation by Australian businesses (see next section). Adopting existing technologies (on masse, termed technological diffusion), is the far more important channel. Ultimately, over the long term, innovation – and the adoption of existing technologies in particular – is the key driver of improvements in Australia's productivity, living standards and prosperity.[viii]

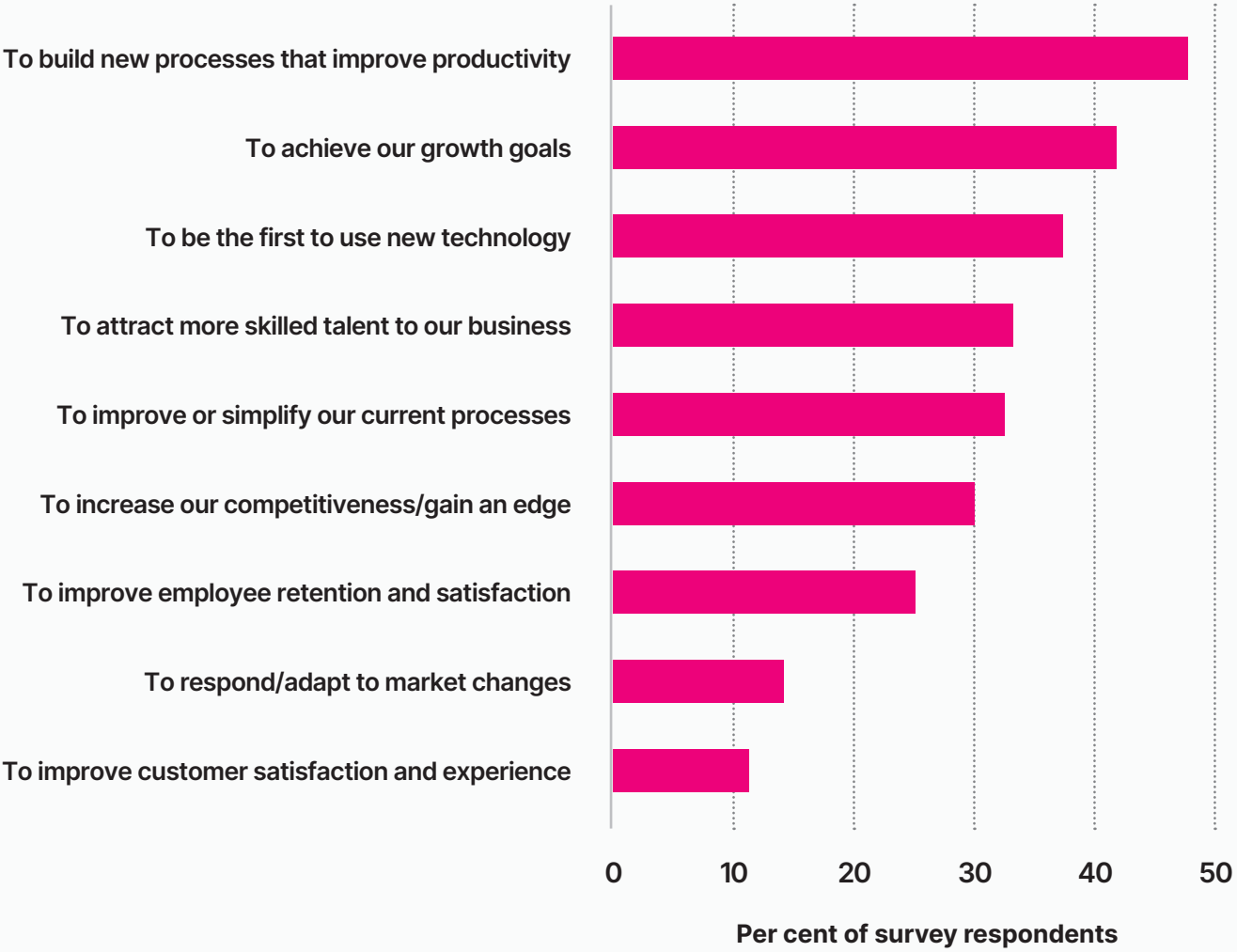
The benefits of innovation can extend beyond the innovating firm via technological 'spillovers' to connected businesses. Innovating mid-sized businesses, due to their 'connector' role within supply chains, can drive small businesses and large enterprises to adopt new technologies themselves. More formal spillover of technologies can occur via collaborative ventures between mid-sized businesses and other firms (mid-sized or otherwise).

For the mid-sized business sector, innovation is part of the broader competitive dynamic faced by firms. Innovation is the key means by which mid-sized businesses can boost productivity, reduce costs, improve resilience and adaptability, and create new offerings – as reflected in MYOB survey results below (Chart 11). As noted above, the adoption and adaptation of existing technologies is the main mechanism that enables mid-sized businesses to improve their internal processes and to produce better goods and services.



viii The Productivity Commission estimates that between 1 and 2 per cent of Australian businesses innovate in ways that are new to the world. See Productivity Commission (2023), *5-year Productivity Inquiry: Innovation for the 98%*, Inquiry Report Volume 5. (https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume5-innovation-diffusion.pdf).

Chart 11 **Motivators for mid-sized business to innovate**[35]



Source: MYOB.

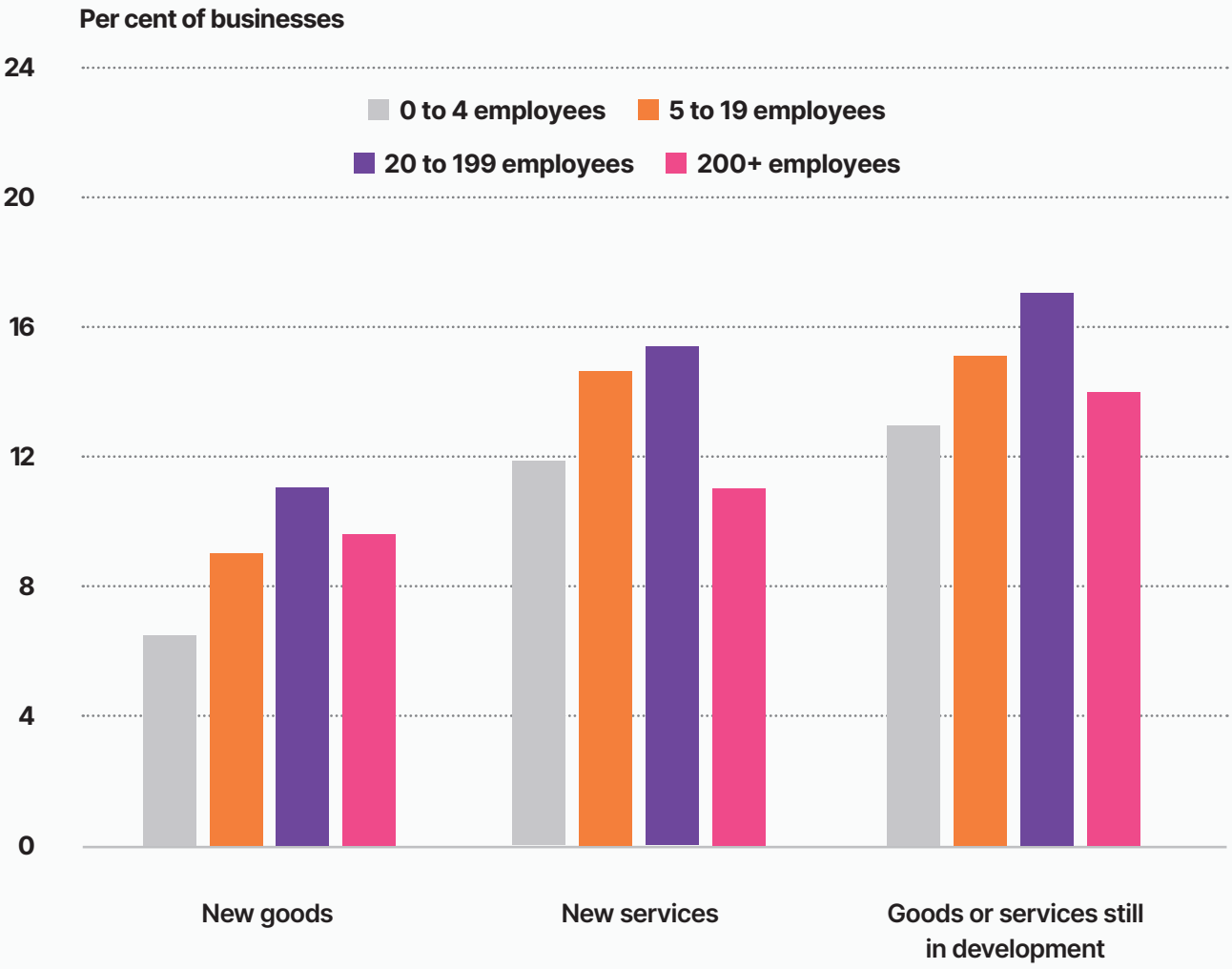
In this regard, mid-sized businesses have some advantages over small and large businesses, with more capital to invest in new technologies than smaller businesses – and where, by extension, cost is less of a barrier for businesses that are looking to innovate. However, while cost is likely to be more of a barrier for a mid-sized business compared to a large business – as noted above – mid-sized businesses are typically less constrained by internal bureaucracy around investment decisions.

> Recent survey data published by the Australian Industry Group highlights the high rates of general technological adoption by Australian mid-sized businesses.

The survey finds that 82 per cent of mid-sized businesses are currently undertaking active projects to adopt new technologies. This outcome is lower than for large businesses (100 per cent), but higher than for small businesses (62 percent).[36]

With respect to specific innovations to produced goods and services, the most recent data published from the ABS shows that, of all the four main business-size cohorts, mid-sized businesses were more likely to have introduced a new good or service, and more likely to be undertaking development of a new good or service (Chart 12).

Chart 12 Goods and services innovation (2019-20)[37]

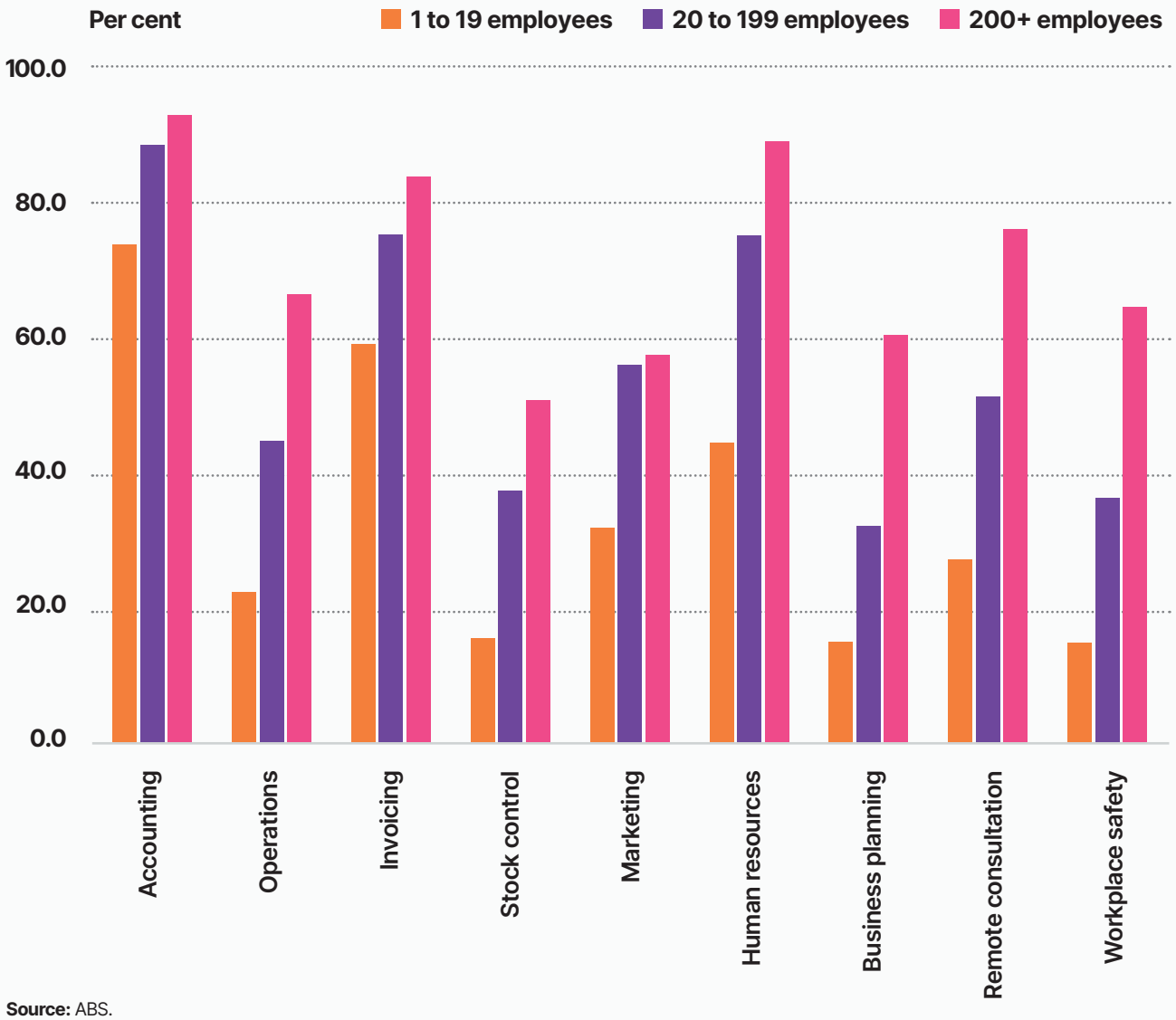


Source: ABS.

In contrast, with respect to innovations to internal processes, the mid-sized business sector tends to lag the large business sector. ABS data (from the same survey) shows that, in general, large firms were more likely to have introduced a process-based innovation – with average rates of adoption of new process-based technologies around 10 per cent higher among large enterprises.[38]

With respect to the integration of information and communication technology (ICT) in particular, Chart 13 suggests that use rates for mid-sized businesses are below those for large businesses across the range of internal processes – although the mid-sized sector is well ahead of the small business sector.

Chart 13 **Business processes that use ICT[39]**

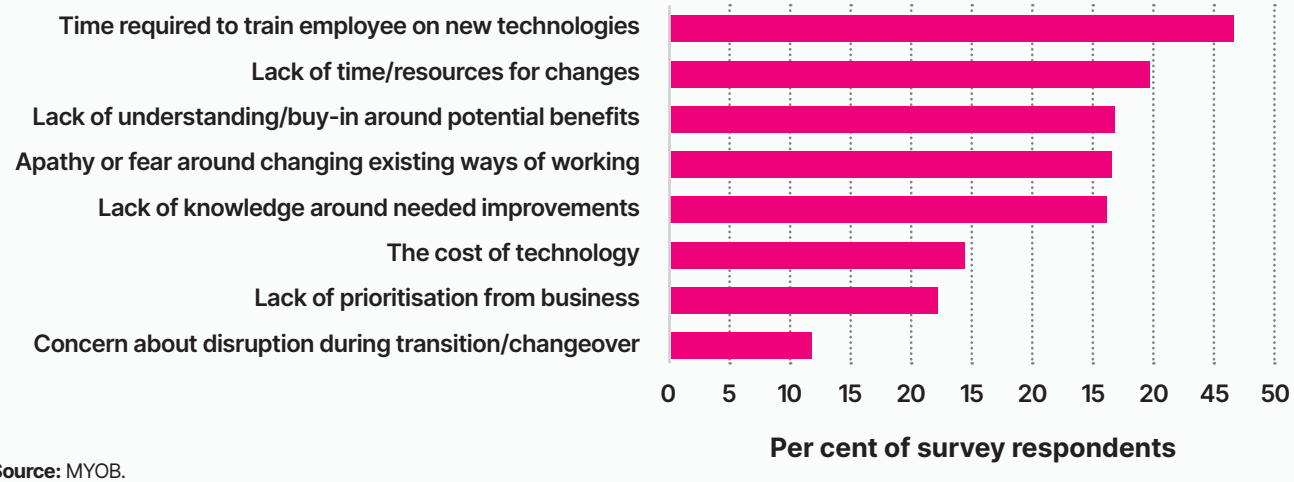


Source: ABS.

On average, ICT use rates for mid-sized businesses are around 16 percentage points lower than for large firms. The largest difference in ICT use rates relates to business planning and workplace safety, while the smallest difference relates to accounting software and marketing tools. In contrast, compared with small businesses, ICT use rates by mid-sized businesses are around 20 percentage points higher. Overall, the lower use rates for both mid-sized and small business is consistent with separate survey data from MYOB that finds that around 60 per cent of small and medium-sized enterprises experience 'bad digitisation'.[40]

The presence of differentials in use rates between mid-sized and large businesses suggests that mid-sized businesses can face significant constraints to adopt or implement new technology compared to their larger peers (Chart 14). This is particularly notable given the survey outcomes presented in the previous section (constraints on improving productivity in Chart 11), which show that mid-sized business ranks new technology as the primary factor for productivity improvement.[41]

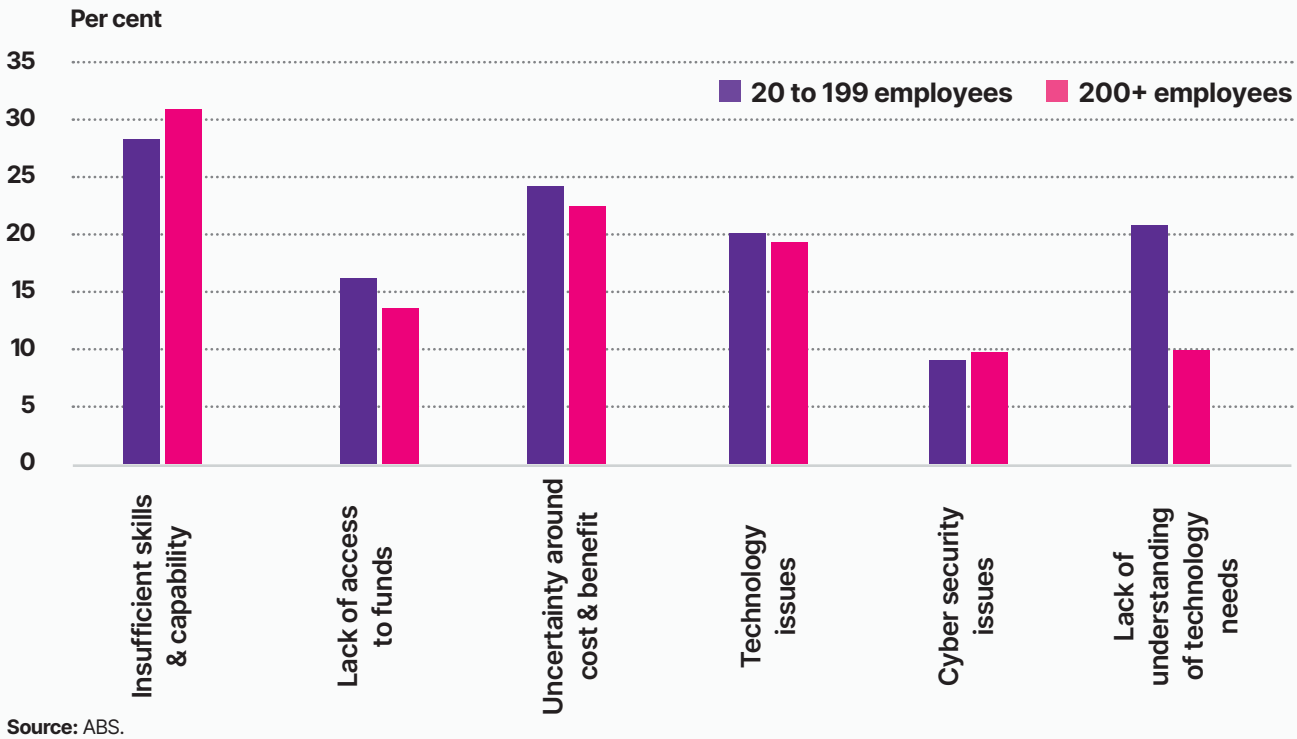
Chart 14 Constraints on mid-sized business to adopt or implement new technology[42]



Source: MYOB.

Survey data from MYOB reveal that the key constraints largely relate to the time and resources required for adopting new technologies. This accords with findings of the Productivity Commission that many SMEs are constrained from innovating by a lack of skilled labour, and that skilled-labour gaps are a more acute barrier for SMEs than for large firms.[43] That said, the nature of the constraints experienced by mid-sized businesses are commonly felt across the broader business ecosystem. With respect to ICT technologies specifically, ABS data suggests that there is not a marked difference between mid-sized and large businesses, aside from a lack of understanding of technology needs and/or available products (Chart 15), where mid-sized business fall well short of large enterprises.

Chart 15 Factors that limit the use of ICT[44]



Source: ABS.

Overall, for the mid-sized business sector, the rate of adoption of new technologies will have a significant bearing on the sector's future productivity and growth trajectory.

With adoption rates below the large business sector – reflecting a general differential in constraints – the mid-sized sector does face challenges to keep up despite their efforts to date. This is particularly pertinent given rapid pace of technological advancement in ICT.

Looking ahead, as is the case for productivity-enhancing initiatives more generally (previous section), it is crucial that individual mid-sized businesses focus on resolving internal constraints to technology adoption, where they exist. For policy makers, targeted Government policy initiatives help support broad-based adoption. For example, financial and tax incentives for mid-sized businesses to adopt new technologies, including AI would encourage many to businesses to address internal constraints and take advantage of emerging technologies.

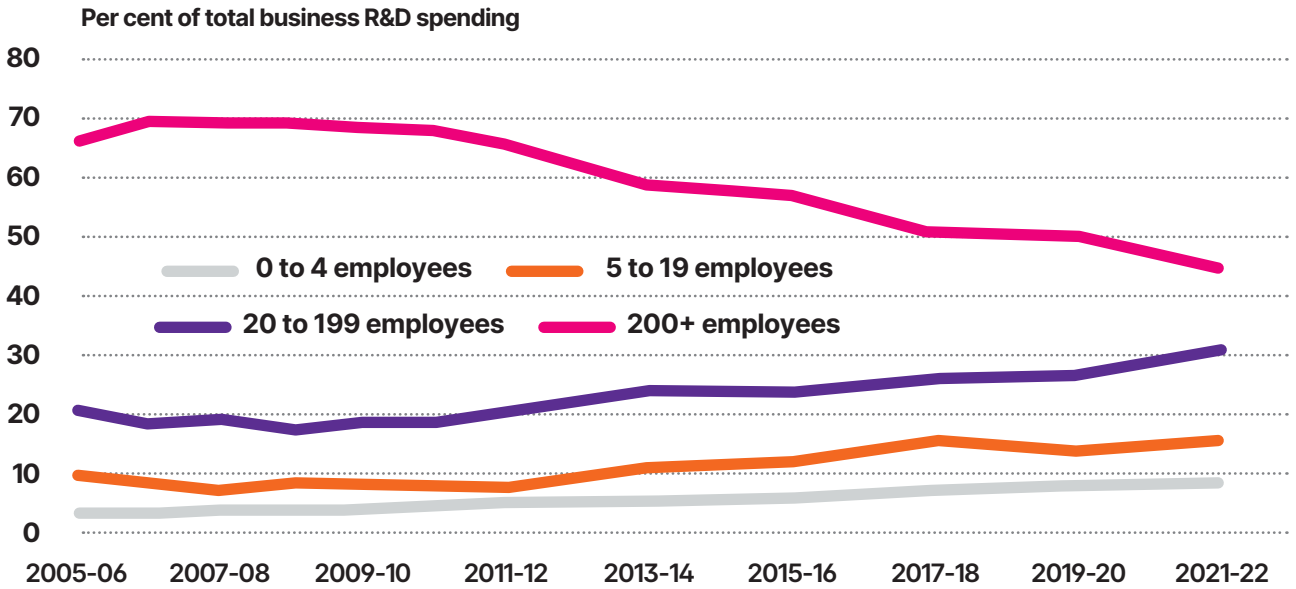
Mid-sized business leads the way in research and development

The mid-sized business sector is an increasingly important hub for research and experimental development (R&D) activity in the Australian economy. The sector's importance for R&D now almost rivals that of the large business sector.

R&D activities encompass knowledge advancement, product creation, and process improvement through financial and human resource investments. These activities fall into three categories: basic research, which expands scientific knowledge without immediate commercial application; applied research, which addresses specific industry challenges; and experimental development, which refines and tests innovations before market introduction.

Remarkably, for the mid-sized business sector, its share of total R&D expenditure by Australian business has risen over the last 15 years – from around 20 per cent to 30 per cent (Chart 16).[45] This is despite the fact that over the same period mid-sized businesses have accounted for a fairly steady proportion of total business GVA - as shown in Chart 1). While total business R&D expenditure increased by around 100 per cent over this period, spending by mid-sized businesses rose by around 200 per cent. In 2021-22, mid-sized businesses spent $6.5 billion on R&D out of a total of $20.6 billion.

Chart 16 Business expenditure on R&D[46]

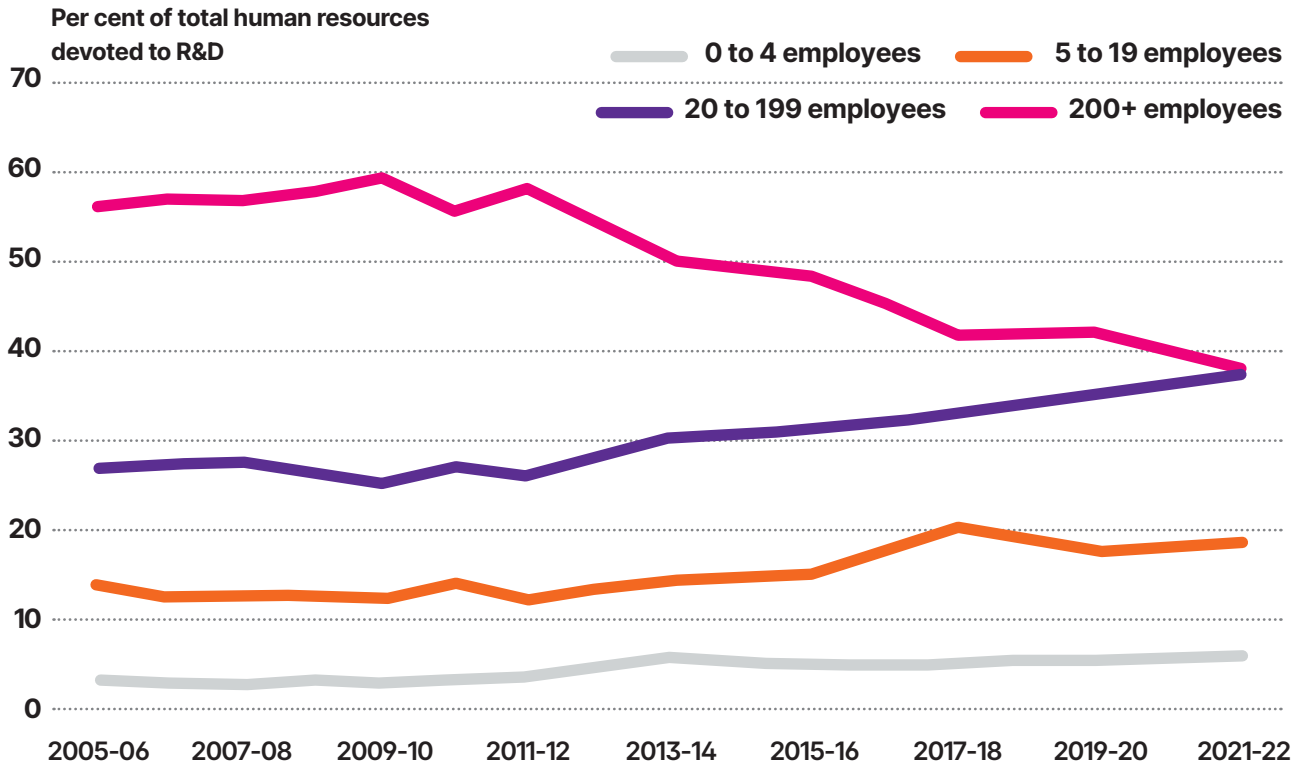


Source: ABS.

ix Human resources that are devoted to R&D is typically measured in terms of 'one person year of effort' (or PYE). One PYE is equivalent to a full-time employee whose time is wholly devoted to R&D for a whole year.

A starker indication of the (mid-sized) sector's importance to Australian R&D is the amount of human resources that mid-sized businesses devote to R&D activity. The mid-sized sector's share of R&D human resources has risen to almost 40 per cent, up from just under 30 per cent 15 years ago. Indeed, in this regard, the mid-sized business sector is now on par with the large business sector (Chart 17).[ix]

Chart 17 Human resources devoted to R&D[47]



Source: ABS.

Over the long term, R&D is a key driver of innovation, particularly for businesses aiming to succeed in global markets. Indeed, the ability of Australian mid-sized businesses to compete internationally is closely linked to their incentives to invest in R&D.[48] More broadly, strong R&D activity across the economy supports Australia's extension of new, innovative product and service offerings into export markets.[49]

> A continuation of the recent trajectory for mid-sized R&D resourcing would only strengthen the sector's position as a hub of cutting-edge innovation activity.

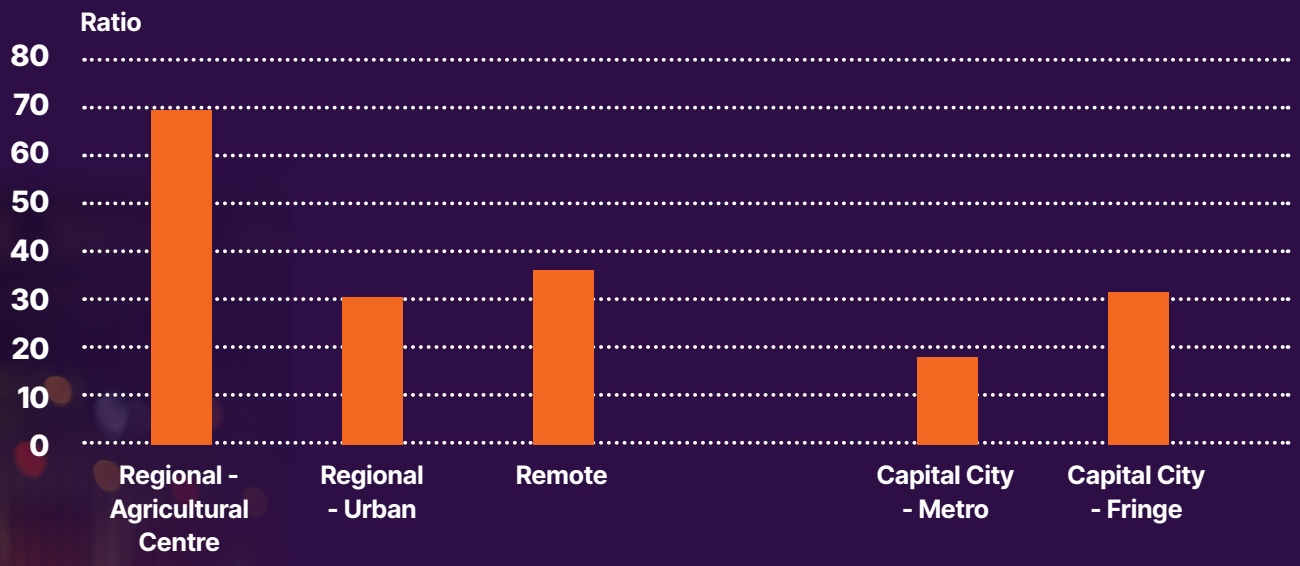
Domestically, technological advancement by mid-sized firms will diffuse through the Australian economy and help boost long-term productivity growth. It also will boost prospects for greater penetration into export markets. In particular, continual strong R&D activity in the mid-sized sector is likely to lift the volume of the sector's exports, and Australia's export volumes overall.

Supporting regional Australia

In addition to their broader contribution to the nation's economic performance, mid-sized businesses have a strong presence in regional Australia. Within Australia's regional areas, mid-sized ecosystems have developed to support broader regional economies and communities. Business owners in regional areas are often long-term, and even multi-generational, operators who are deeply invested in their industry and their local community.

Compared to the large business sector, the mid-sized business sector has a greater presence in regional Australia (Chart 18). In particular, in regional-agricultural areas of Australia, there are around 70 mid-sized businesses to each large business, compared with 20 to 30 in urban areas.

Chart 18 Ratio of number of mid-sized businesses to the number of large businesses[50]



Source: ABS.

In Australia's key agricultural areas, mid-sized businesses are relatively less prevalent in direct agricultural production than small – and in many cases, family-owned – businesses. However, mid-sized businesses provide a range of essential goods and services that support agricultural producers – both pre and post farm gate. This includes manufacturing of, and repairs to, tools and equipment. Indeed, mid-sized manufacturing represents a relatively high share of overall mid-sized GVA in agricultural areas compared with its shares elsewhere in Australia. Other essential, supporting industries include agricultural supplies and accountancy services. Other key industries where mid-sized businesses are particularly prevalent, and support local regional communities, include retail trade and health care.

> In more remote areas of Australia, mid-sized businesses are particularly important – they represent a relatively larger share of business activity overall.

This includes health care services, but also professional and technical services, and a range of services that complement government activity. Even more important than in agricultural areas, is mid-sized hospitality and accommodation for largely domestic tourists from Australia's urban areas.

For policy makers, strong cooperation and alignment between different levels of government is essential to ensure the infrastructure needed for businesses to thrive is planned for and appropriately invested in. Many regional and rural businesses struggle to attract workers, and the supply of housing for them to reside in has proved challenging in many communities.[51] Regional economic policy must take a holistic view of regional development for economic gains to be fully realised.

Conclusion

The mid-sized business sector is well-positioned to continue driving Australia's business ecosystem – and the performance of this segment is set to remain crucial to the nation's long-term growth, as it supports the employment of Australian workers, and provides a source of economic resilience courtesy of sector's rising productivity.

As a dynamic component within Australia's business network, mid-sized businesses – particularly as central players within supply chains – are poised to drive increased competition and innovation, with the benefits of their advancements flowing through to both the small and large business sectors and the Australian economy more broadly.

Fundamental to the sector's prospects will be the capacity for individual mid-sized businesses to continue to invest in capital deepening, including the adoption and adaptation of new technologies. However, removing external blockers and likewise resolving internal constraints – where they arise – will be a key challenge for this cohort.

Additional to their appetite for technological innovation, mid-sized businesses are also looking to grow their businesses by innovating the goods and services they are offering the market, and this is feeding into substantial R&D developments. Impressively, the contribution by mid-sized businesses to Australia's R&D activity is now almost on par with the large business sector – a remarkable achievement. Ensuring a continuation of the sector's trajectory in R&D resourcing will not only boost export outcomes for the innovating businesses, but will act as a source of diffused productivity growth for the broader business ecosystem.

Appendix A:
Australian Industry Classification

A		AGRICULTURE, FORESTRY AND FISHING
	01	Agriculture
	02	Aquaculture
	03	Forestry and Logging
	04	Fishing, Hunting and Trapping
	05	Agriculture, Forestry and Fishing Support Services
B		MINING
	06	Coal Mining
	07	Oil and Gas Extraction
	08	Metal Ore Mining
	09	Non-Metallic Mineral Mining and Quarrying
	10	Exploration and Other Mining Support Services
C		MANUFACTURING
	11	Food Product Manufacturing
	12	Beverage and Tobacco Product Manufacturing
	13	Textile, Leather, Clothing and Footwear Manufacturing
	14	Wood Product Manufacturing
	15	Pulp, Paper and Converted Paper Product Manufacturing
	16	Printing (including the Reproduction of Recorded Media)
	17	Petroleum and Coal Product Manufacturing
	18	Basic Chemical and Chemical Product Manufacturing
	19	Polymer Product and Rubber Product Manufacturing
	20	Non-Metallic Mineral Product Manufacturing
	21	Primary Metal and Metal Product Manufacturing
	22	Fabricated Metal Product Manufacturing
	23	Transport Equipment Manufacturing
	24	Machinery and Equipment Manufacturing
	25	Furniture and Other Manufacturing
D		ELECTRICITY, GAS, WATER AND WASTE SERVICES
	26	Electricity Supply
	27	Gas Supply
	28	Water Supply, Sewerage and Drainage Services
	29	Waste Collection, Treatment and Disposal Services

E		CONSTRUCTION
	30	Building Construction
	31	Heavy and Civil Engineering Construction
	32	Construction Services
F		WHOLESALE TRADE
	33	Basic Material Wholesaling
	34	Machinery and Equipment Wholesaling
	35	Motor Vehicle and Motor Vehicle Parts Wholesaling
	36	Grocery, Liquor and Tobacco Product Wholesaling
	37	Other Goods Wholesaling
	38	Commission-Based Wholesaling
G		RETAIL TRADE
	39	Motor Vehicle and Motor Vehicle Parts Retailing
	40	Fuel Retailing
	41	Food Retailing
	42	Other Store-Based Retailing
	43	Non-Store Retailing and Retail Commission Based Buying and/or Selling
H		ACCOMMODATION AND FOOD SERVICES
	44	Accommodation
	45	Food and Beverage Services
I		TRANSPORT, POSTAL AND WAREHOUSING
	46	Road Transport
	47	Rail Transport
	48	Water Transport
	49	Air and Space Transport
	50	Other Transport
	51	Postal and Courier Pick-up and Delivery Services
	52	Transport Support Services
	53	Warehousing and Storage Services
J		INFORMATION MEDIA AND TELECOMMUNICATIONS
	54	Publishing (except Internet and Music Publishing)
	55	Motion Picture and Sound Recording Activities
	56	Broadcasting (except Internet)
	57	Internet Publishing and Broadcasting
	58	Telecommunications Services
	59	Internet Service Providers, Web Search Portals and Data Processing
	60	Library and Other Information Services

K		FINANCIAL AND INSURANCE SERVICES
	62	Finance
	63	Insurance and Superannuation Funds
	64	Auxiliary Finance and Insurance Services
L		RENTAL HIRING AND REAL ESTATE SERVICES
	66	Rental and Hiring Services (except Real Estate)
	67	Property Operators and Real Estate Services
M		PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES
	69	Professional, Scientific and Technical Services
	70	Computer System Design and Related Services
N		ADMINISTRATIVE AND SUPPORT SERVICES
	72	Administrative Services
	73	Building Cleaning, Pest Control and Other Support Services
O		PUBLIC ADMINISTRATION AND SAFETY
	75	Public Administration
	76	Defence
	77	Public Order, Safety and Regulatory Services
P		EDUCATION AND TRAINING
	80	Preschool and School Education
	81	Tertiary Education
	82	Adult, Community and Other Education
Q		HEALTH CARE AND SOCIAL ASSISTANCE
	84	Hospitals
	85	Medical and Other Health Care Services
	86	Residential Care Services
	87	Social Assistance Services
R		ARTS AND RECREATION SERVICES
	89	Heritage Activities
	90	Creative and Performing Arts Activities
	91	Sports and Recreation Activities
	92	Gambling Activities

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