The CPA Australia Asia-Pacific Small Business Survey 2011

Australia, Hong Kong, Indonesia, Malaysia, New Zealand and Singapore

CPA AUSTRALIA

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Key findings

Overall

The survey demonstrates that in most markets, current global economic conditions are impacting small businesses, however the extent of that impact varies considerably. For example, while businesses in Indonesia seem relatively unaffected, Australian small business confidence remains as low as it was at the height of the global financial crisis. Rising business costs seem to be an increasingly important issue in all markets.

The survey was conducted from October 6 to 11 in Australia, Hong Kong, Indonesia, Malaysia, New Zealand and Singapore with small businesses with less than 20 staff. In this survey, we added Indonesia and New Zealand for the first time.

The key findings from each market surveyed are detailed below.

Australia

The growth expectations of Australian small business remain relatively low in comparison to the other markets surveyed. In fact, the survey results for Australia more closely resemble the negative sentiment from the July 2009 survey, which was at the height of the global financial crisis, than the slightly positive sentiment from the October 2010 survey.

This low level of confidence is in spite of Australia's relatively strong economic performance, particularly in comparison to Europe, Japan and the US. This reflects Australia's two-speed economy, that is, the strength of the mining and related sectors is pushing Australia's economic indicators up, hiding weaknesses in other sectors of the economy. We discussed this issue in our recent paper *Enhancing Australia's prosperity* (see the Leadership and Influence page of **www.cpaaustralia.com.au**).

In periods of economic uncertainty and tight lending conditions, businesses should put greater focus on management activities that strengthen cash flow and efficiency, however many Australian businesses continue to appear to be oblivious to the benefits of these activities. Without a greater focus on improving business and financial management skills, Australian small business owners and their employees are unlikely to enjoy the full profits from their labour, and the contribution of small business to the economy is likely to remain less than optimal. Governments, lenders, industry associations, accountants and small businesses in particular all have a role in improving such skills.

Hong Kong

In stark contrast to last year's survey, Hong Kong businesses recorded the lowest growth expectations of the Asian markets surveyed, although confidence is slightly above that of Australian small businesses. After expecting a strong year 12 months ago, many Hong Kong businesses appear to have been caught off guard by the decline in economic conditions this year. Unlike Malaysia and Singapore, Hong Kong businesses appear more likely to believe that the tough economic conditions will continue into 2012.

However, consistent with previous CPA Australia surveys that showed that Hong Kong businesses were generally well managed, it appears that many businesses have responded to the difficult trading conditions by consolidating their business and increasing external funding to support business operations rather than growth. Therefore, while the survey results indicate that the near-term prospects do not look good for many businesses, they are well placed to take advantage of any upturn in the economy and confidence.

Indonesia

It is clear from the survey that Indonesia is currently enjoying a strong economy and therefore business growth expectations are very high. Hence, Indonesian small businesses seem mostly insulated from the current global economic uncertainty at the moment.

With financing appearing relatively easy to access, Indonesian businesses are taking advantage of this by focusing on growing their business and seem willing to change business strategy to meet the changes within the economy. Businesses in other markets should see Indonesia as a potential market for their products and services.

Malaysia

Malaysian small businesses had a strong 12 months, despite weaknesses in the European and US markets, supply-chain disruptions from Japan, increasing business costs, tighter lending conditions and financial market volatility. Malaysian businesses anticipate these challenges to be temporary as their growth forecasts for 2012 are very strong.

While the overall outlook for Malaysian businesses seems very positive, there are a number of potential areas of concern. In particular, many Malaysian businesses seem focused on meeting short-term objectives, such as increasing stock levels to meet increasing sales. While such an approach is generally appropriate, it carries risks and therefore it is advisable that Malaysian small businesses develop some longer-term strategies to complement their shorter-term strategies.

It is also notable that while Malaysian small businesses appear to be experiencing the tightest lending conditions of the markets surveyed, this does not appear to have dampened confidence – demonstrating resilience and optimism of Malaysian small businesses.

New Zealand

As a new addition to this survey, it is interesting (but perhaps not surprising) that New Zealand businesses provided similar responses to those surveyed in Australia. However, they clearly differ from Australian business in being more optimistic on growth for both their business and the economy.

New Zealand businesses generally did not find borrowing conditions difficult during the past year, however given the low number that required external finance, these results may be skewed. Where funding was required, there is a high percentage that used bank finance though, interestingly, many also use personal credit cards to fund their business – possibly reflecting a low level of business and financial management skills among many small businesses. Like their Australian counterparts, New Zealand small businesses would be more successful and make a greater contribution to economic development and employment growth if they improved such skills.

Singapore

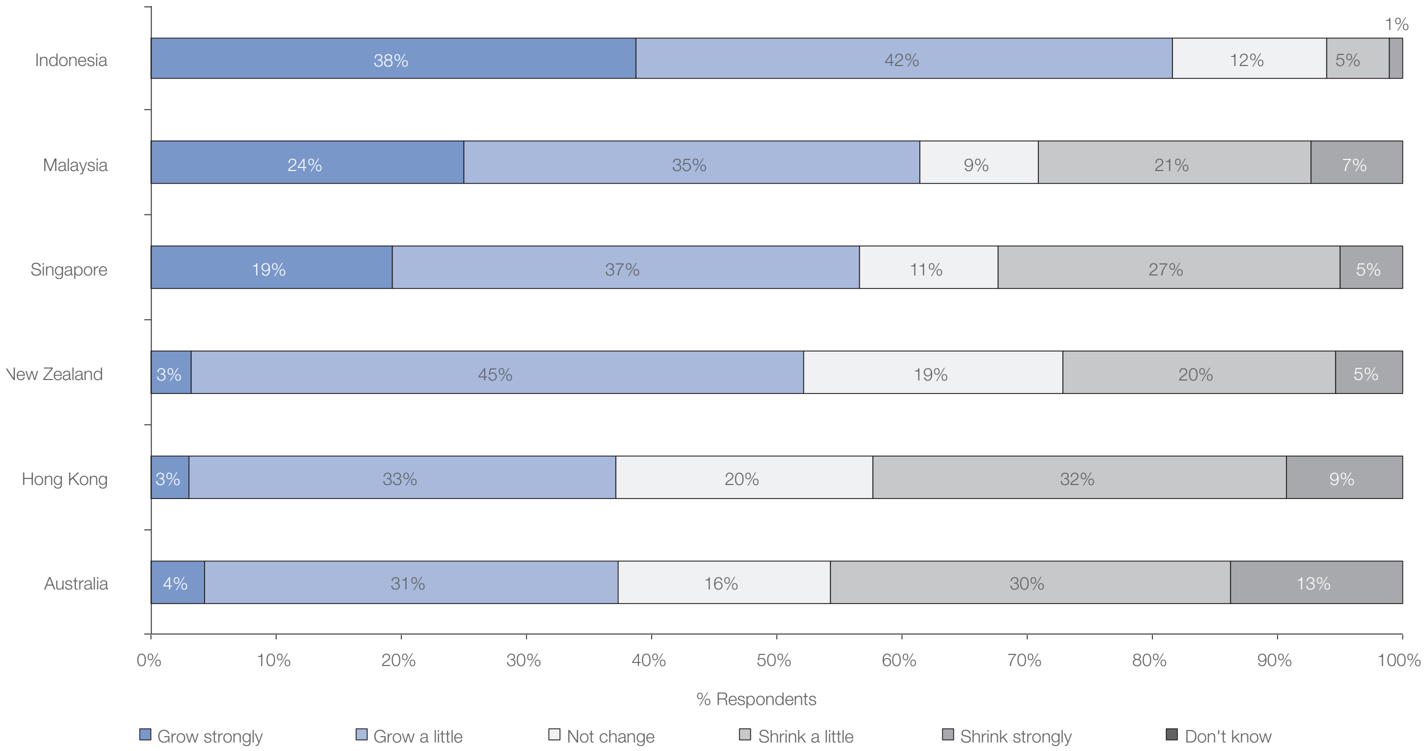
Over the last three surveys, Singaporean businesses have been notable for their consistently strong growth expectations, good financial and business management skills and investing for long-term growth. Given the overall economic environment and other challenges, such as rising costs, it is not surprising that growth expectations are down. What is surprising, however, is that these expectations are down only slightly, especially when compared with Hong Kong. This may show that Singaporean businesses believe that such challenges are temporary and that they typically remain optimistic about 2012.

In this challenging environment, and with tighter lending conditions, it is pleasing to see so many Singaporean businesses continue to show a strong focus on working capital management. However, Singaporean businesses could improve their performance further if they made greater use of external accountants for advice.

Economic outlook

Figure 1: Small business expectations for the economy

Q3-7 What is your view on the prospects for the economy in the next 12 months? (Single response) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)



Region

According to the International Monetary Fund (IMF) publication *Regional Economic Outlook: Asia and Pacific: Navigating an uncertain global environment while building inclusive growth October 2011*, growth in Asia[1] has moderated since the second quarter of 2011, mainly due to external factors, in particular weakening demand from the US and Europe. In spite of this, domestic demand has, in most markets, been generally resilient. In a number of economies there still remains the pressure on inflation, however this risk has moderated recently.

The IMF has slightly revised down its growth forecast for Asia to 6.3 per cent for 2011 and 6.7 per cent for 2012. According to the IMF report, this "somewhat weaker growth forecast for Asia mainly reflects the deteriorating outlook for exports to advanced economies." However the IMF also states that Asia's economic expansion will continue to be relatively high due to robust domestic demand and inflation is expected to recede modestly, after peaking in 2011. The Asian Development Bank's (ADB) growth forecast for Asia[2] is different, due to the different definition of Asia. The ADB forecast growth of 7.5 per cent for both 2011 and 2012.

The IMF points out that "nevertheless, risks for the Asia and Pacific region are also decidedly tilted to the downside. The sell-off in Asian financial markets in August and September 2011 underscores that an escalation of euro area financial turbulence and a renewed slowdown in the United States could have severe macroeconomic and financial spillovers to Asia".

As Figure 1 shows, the expectations of small businesses in Indonesia, Malaysia and Singapore seem resilient to the current global economic uncertainty. On the other hand, Australian and Hong Kong small businesses seem to have been more affected by the current uncertainty, with more small businesses in both markets expecting the economy to decline than grow in the next 12 months.

Australia

The IMF's forecast for Australia is gross domestic product (GDP) growth of 1.8 per cent in 2011 and 3.3 per cent for 2012. Similarly, in CPA Australia's recent survey of leading Australian economists, their average forecast for GDP growth for 2011 was 1.9 per cent, and if mining was taken out of their forecast, the average forecast was 1.3 per cent. For 2012, the average forecast of these economists was 3.7 per cent. When mining is excluded from their forecast, the average growth is only expected to be 2.2 per cent.

With Australian growth forecasts being the lowest of the six markets surveyed, it is not surprising that Australian small businesses are both the most likely to expect the economy to decline and the least likely to expect the economy to expand. It is also not surprising that Australian small businesses are least likely to expect their business to grow over the next 12 months.

It is also of note that while the Australian economy has continued to grow throughout the global financial crisis, our survey over the last three years has continued to show that Australian small business confidence has remained consistently low in comparison to the other markets surveyed. This is most likely due to the uneven nature of economic growth in Australia with some sectors, particularly mining, doing far better than many other sectors. Critical to addressing this issue and therefore improving small business confidence, is to improve Australia productivity. CPA Australia has set out a broad plan to address the productivity issue in its paper *Enhancing Australia's prosperity*.

With regards to unemployment, the IMF forecast the Australian unemployment rate to fall to 4.8 per cent in 2012. This should support growth in private expenditure. However, the Reserve Bank of Australia recently noted that labour market conditions are soft and this is impacting consumer sentiment.

The IMF forecast inflation to fall from an average rate of 3.5 per cent for 2011 to 3.3 per cent in 2012. This forecast may provide room for the Reserve Bank of Australia to reduce interest rates in the coming 12 months. The IMF also forecast Australia's current account deficit to widen to 4.7 per cent of GDP in 2012.

1. The IMF defines Asia to include Australia and New Zealand, East Asia, South Asia (except Pakistan) and ASEAN nations.
2. The Asian Development Bank takes a much broader definition of Asia and includes Central Asia and the Pacific islands but excludes Japan, Australia and New Zealand.

Hong Kong

The IMF's forecast for Hong Kong is GDP growth of 6 per cent for 2011 and 4.3 per cent for 2012. The ADB's forecast is for growth of 5.5 per cent in 2011 and 4.7 per cent in 2012. This decline in growth forecasts not only shows up in Figure 1 but also in the marked decline in the respondents' growth forecasts for their own business from the *Asia-Pacific small business survey 2010*. Being a trade-reliant economy, the Hong Kong economy is more exposed than most to global economic conditions, so the poor economic performance in Europe and the US, supply chain disruptions from Japan and the downturn on global financial markets can be keenly felt in Hong Kong.

With regards to the unemployment rate, the IMF forecast is for a slight rise from 3.6 per cent to 3.7 per cent in 2012. This may affect private consumption. Inflation is forecast by the IMF to fall from 5.5 per cent to 4.5 per cent in 2012, with the ADB forecasting inflation to drop from 5.2 per cent to 3.3 per cent. Both forecasts may reduce pressure on lending conditions, including interest rates in 2012. The ADB is also forecasting Hong Kong's current account surplus to remain strong at around 7.5 per cent of GDP in 2012, reflecting the externally focused nature of the economy.

Private consumption has remained strong, providing much of the growth in the Hong Kong economy. For trading businesses with little exposure to the Hong Kong market, such domestic demand would be of little consequence. Investment spending has also been relatively strong, boosted by continued expansion in public works.

Figure 1 shows that for many Hong Kong small businesses, the current global economic conditions are having an impact on their outlook for the economy in 2012. As the survey results show, the current global economic conditions are also having an impact on business operations, with many small Hong Kong businesses changing their strategy away from a growth focus.

Indonesia

The IMF's forecast for Indonesia's GDP growth is 6.4 per cent for 2011 and 6.3 per cent for 2012. The ADB's forecast is for growth of 6.6 per cent in 2011 and 6.8 per cent in 2012. Both of these forecasts show that the Indonesian economy is growing strongly, which is reflected in the very positive outlook Indonesian small businesses have for the economy and their businesses.

The ADB attributes the stronger growth, particularly in the first half of 2011, to fixed investment growth, growing private consumption (which is being driven by growing employment and improvements to consumer confidence) and strong export growth.

With regards to the unemployment rate, the IMF forecast is for the rate to fall from 6.8 per cent in 2011 to 6.55 per cent in 2012. This should further support private expenditure as consumers become increasingly confident to spend. Inflation on the other hand is forecast to increase from 5.7 per cent in 2011 to 6.5 per cent in 2012 (whereas the ADB forecast is for inflation to remain steady at 5.4 per cent on average due to falling fuel and food prices). This could lead to a tightening of monetary policy; however such decisions would have to be balanced against the ongoing weakness of the external environment. The ADB believes that private consumption growth is expected to remain robust, underpinned by rising employment, consumer growth and lower inflation.

The main downside risk to the Indonesian economy comes from inflation. If core inflation continues its upwards trend, then Bank Indonesia may need to increase interest rates (even though it has been cutting rates recently). If global credit conditions worsen, Indonesia may also experience sudden foreign capital outflows as foreign investors repatriate their funds to their home markets.

Malaysia

The IMF's forecast for Malaysia's GDP growth is 5.2 per cent for 2011 and 5.1 per cent for 2012. The ADB's forecast is growth of 4.8 per cent in 2011 and 5.1 per cent in 2012. Both of these forecasts show that the Malaysian economy continues to recover strongly from the economic contraction of 2009, when the economy shrank 1.7 per cent.

Other key economic indicators from the IMF show that Malaysian unemployment is likely to remain low at 3.1 per cent in 2012, which should support private expenditure. Also, the inflation rate is forecast to fall to 2.5 per cent, as increases in fuel and food prices subside. This could lead to a loosening of monetary policy, particularly if the external environment remains weak.

The main downside risk to the Malaysian economy comes from weakness in the recovery of the US, Europe and Japan. Domestically, the main downside risk is if there are major delays in the government's Economic Transformation Programme.

As can be seen in Figure 1, the majority of small businesses in Malaysia share the confidence of the IMF and ADB in the Malaysian economy. It is possible that many of the 28 per cent of Malaysian businesses that expect the economy to shrink are in businesses that are exposed to the weaknesses of the US and European economies.

New Zealand

The IMF's forecast for New Zealand's GDP growth is 2 per cent for 2011 and 3.7 per cent for 2012. This positive growth forecast is reflected in the relatively neutral-to-positive expectations that many New Zealand businesses have on the economy.

With regards to unemployment, the IMF forecast is for the rate to fall from 6.4 per cent in 2011 to 5.6 per cent in 2012. This should support growth in private expenditure. The IMF forecast inflation to fall from 4.4 per cent in 2011 to 2.7 per cent in 2012. This forecast may reduce pressure on lending conditions, including interest rates. The IMF is also forecasting New Zealand's current account deficit to widen to 5.5 per cent of GDP in 2012.

The impact of the deterioration in the global outlook on New Zealand has been relatively mild to date due to strong terms of trade and a relatively strong domestic economy. This is flowing through to consumer confidence which may be holding up relatively well due, in part, to the positive influence of New Zealand hosting (and winning) the 2011 Rugby World Cup.

Singapore

The IMF forecast for Singapore's GDP growth is 5.3 per cent for 2011 and 4.3 per cent for 2012. The ADB forecast 5.5 per cent growth for 2011 and 4.8 per cent for 2012. According to the Monetary Authority of Singapore's (MAS) Monetary Policy Statement for October 2011, the Singaporean economy has weakened over the last six months due to supply-chain disruptions from Japan and weaker global demand.

The MAS forecast that economic activity in the second half of 2011 will be affected by subdued demand from Europe and the US, volatility on global financial markets and inflationary pressures. These pressures will be particularly felt by trading and trade-related businesses, however robust demand from Asia should help offset these challenges. The MAS further forecast that in 2012, "given the stresses and fragility in the advanced economies" Singapore's economy could fall below its potential growth rate of 3 to 5 per cent.

With regards to unemployment, the IMF forecast the rate to remain steady at around 2.2 to 2.3 per cent. This should see private expenditure continue to grow strongly. The IMF also forecast inflation to fall from 3.7 per cent in 2011 to 2.9 per cent in 2012, while the ADB forecast inflation to drop from 4.3 per cent to 2.4 per cent. Both forecasts may reduce pressure on lending conditions, including interest rates. The ADB also forecast Singapore's current account surplus to remain very strong at around 19 per cent of GDP, reflecting the externally focused nature of the economy.

Figure 1 shows that Singaporean businesses are generally positive about the economy; however 32 per cent of small business respondents anticipate the economy to shrink in 2012. This could reflect the external focus of many Singaporean businesses, and hence their exposure to the weaknesses in the US and European economies. However, as the survey shows, while some Singaporean businesses are cautious about the economy, that does not necessarily mean they believe poor economic conditions will impact their business.

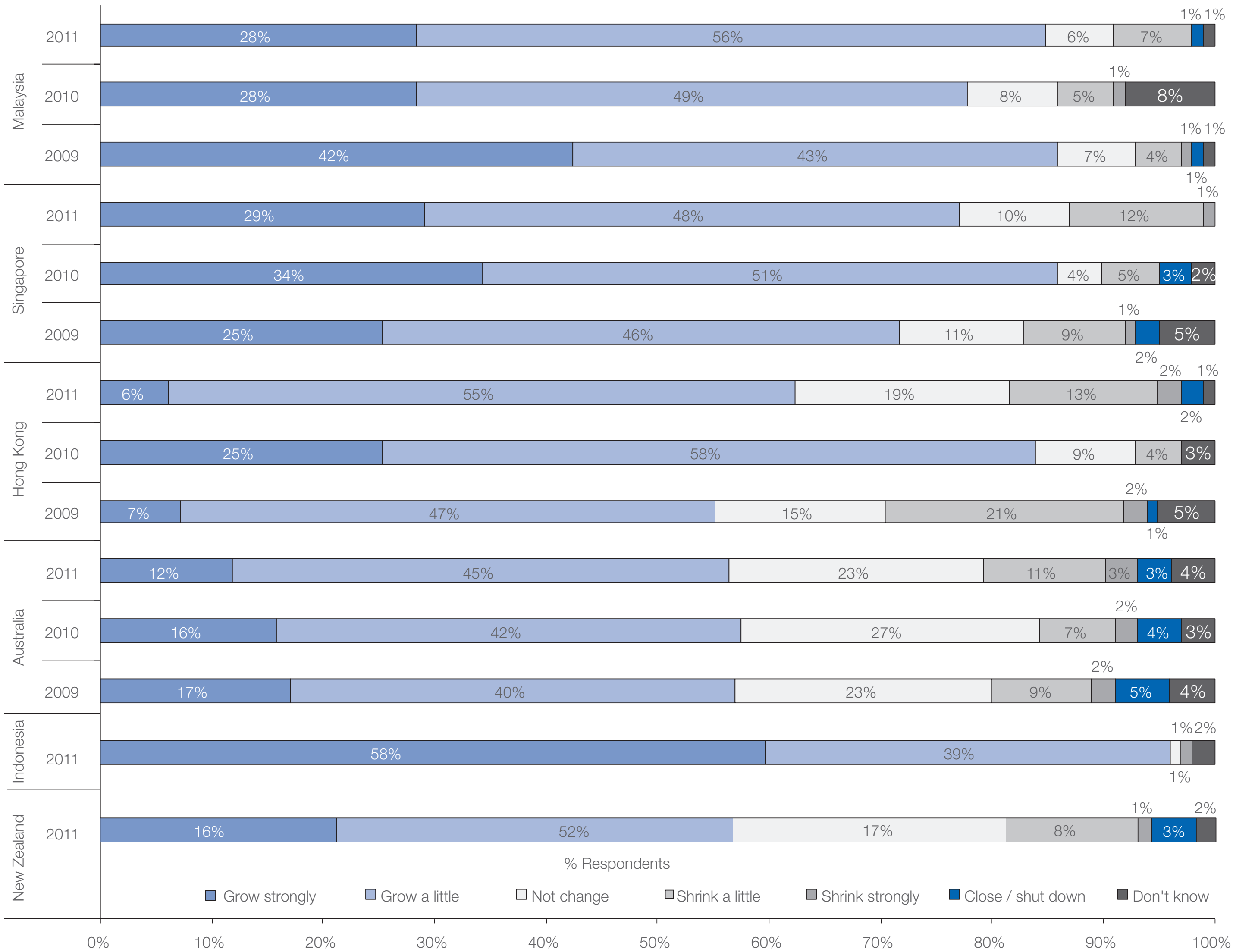
Survey findings

Small business growth expectations

Figure 2: Business growth expectations in the next 12 months – comparison of 2009, 2010 and 2011 results

**New Zealand and Indonesia were new countries for 2011, therefore, no longitudinal data is available.*

Q3-6 *In the next year do you expect your business to ... (Single response) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)*



More than 55 per cent of all businesses surveyed in the six markets expect to grow in the next 12 months. The stand-out markets for this survey are Indonesia, with small business having very high growth expectations for their business, and Hong Kong, with a significant drop in confidence from the 2010 survey to the 2011 survey.

Indonesian business confidence is the real stand-out in this survey, with the respondents' overwhelmingly positive view about their growth prospects in the next 12 months. This reflects the very positive view the respondents have on the economy and Indonesia's strong economic data. This confidence is shared fairly evenly between small businesses with differing numbers of employees; with a remarkably high 68 per cent of Indonesian respondents with 10 to 19 employees expecting their business to grow strongly over the coming 12 months. Businesses in other markets should see Indonesia as an opportunity.

Hong Kong business confidence is also a stand-out for the opposite reasons. Of the markets that were previously surveyed, Hong Kong businesses have experienced the most significant shift in growth expectation, with a decline from 83 per cent expecting their business to grow in the 2010 survey, to 61 per cent in this survey. This marked decline in confidence in Hong Kong businesses. It is not necessarily consistent with Hong Kong economic data, which is generally positive. This view may be a result of the exposure of many Hong Kong businesses to the difficult external environment, particularly in US and Europe. When looking at a breakdown of Hong Kong businesses by number of employees, it should be of concern that 15 per cent of Hong Kong businesses with nil employees expect to shut in the next 12 months and that 26 per cent of businesses with 10 to 19 employees expect to shrink in the next 12 months.

After Indonesia, the next most positive market for small business confidence is Malaysia, with 84 per cent of businesses expecting to grow in the next 12 months. However, in comparison to Indonesia, only 28 per cent of Malaysian businesses expect to grow strongly. The level of confidence is slightly up from the 2010 survey and reflects the generally positive view of Malaysian businesses towards the economy and Malaysia's positive economic data. In a reverse of Australia, New Zealand and Singapore results, Malaysian businesses with nil employees are more confident about their growth prospects than any other group and businesses with 10 to 19 employees are the least confident with 77 per cent expecting to grow. This shows that the benefits of economic growth are being felt by businesses of all sizes.

Singaporean small businesses are also strongly confident about their business in the next 12 months, with 77 per cent expecting to grow. This number is down slightly from the 2010 survey and in that sense it is somewhat at odds with their view of the economy and the moderate Singaporean economic data released recently. This may be an indication that Singaporean small businesses may be less exposed to external problems than the broader economy, and / or small business see the current issues as being temporary. The strongest growth expectations are with businesses with 10 to 19 staff, of whom 89 per cent expected to grow and 40 per cent expect to grow strongly. Generally, smaller businesses have lower growth expectation, with businesses with five to nine staff having the lowest growth expectations (64 per cent) and the highest percentage that expect to shrink (21 per cent).

New Zealand small businesses are reasonably confident about their growth prospects over the next 12 months. This is fairly consistent with their view of the economy and recent economic data on New Zealand. Like Australia and Singapore, the smaller the business, in terms of staff, the lower the levels of confidence.

Figure 3: Comparison of business growth expectations with previous surveys of Australian small business

	2003	October 2007	May 2008	June 2009	October 2010	October 2011
Grow strongly	20%	20%	24%	17%	16%	12%
Grow a little	39%	46%	43%	40%	42%	45%
Growth sub-total	59%	66%	67%	57%	58%	57%
No change	33%	23%	23%	23%	27%	23%
Decline	7%	8%	8%	11%	9%	14%
Close / shut down*	–	–	–	5%	4%	3%
Don't know	1%	3%	2%	4%	3%	4%

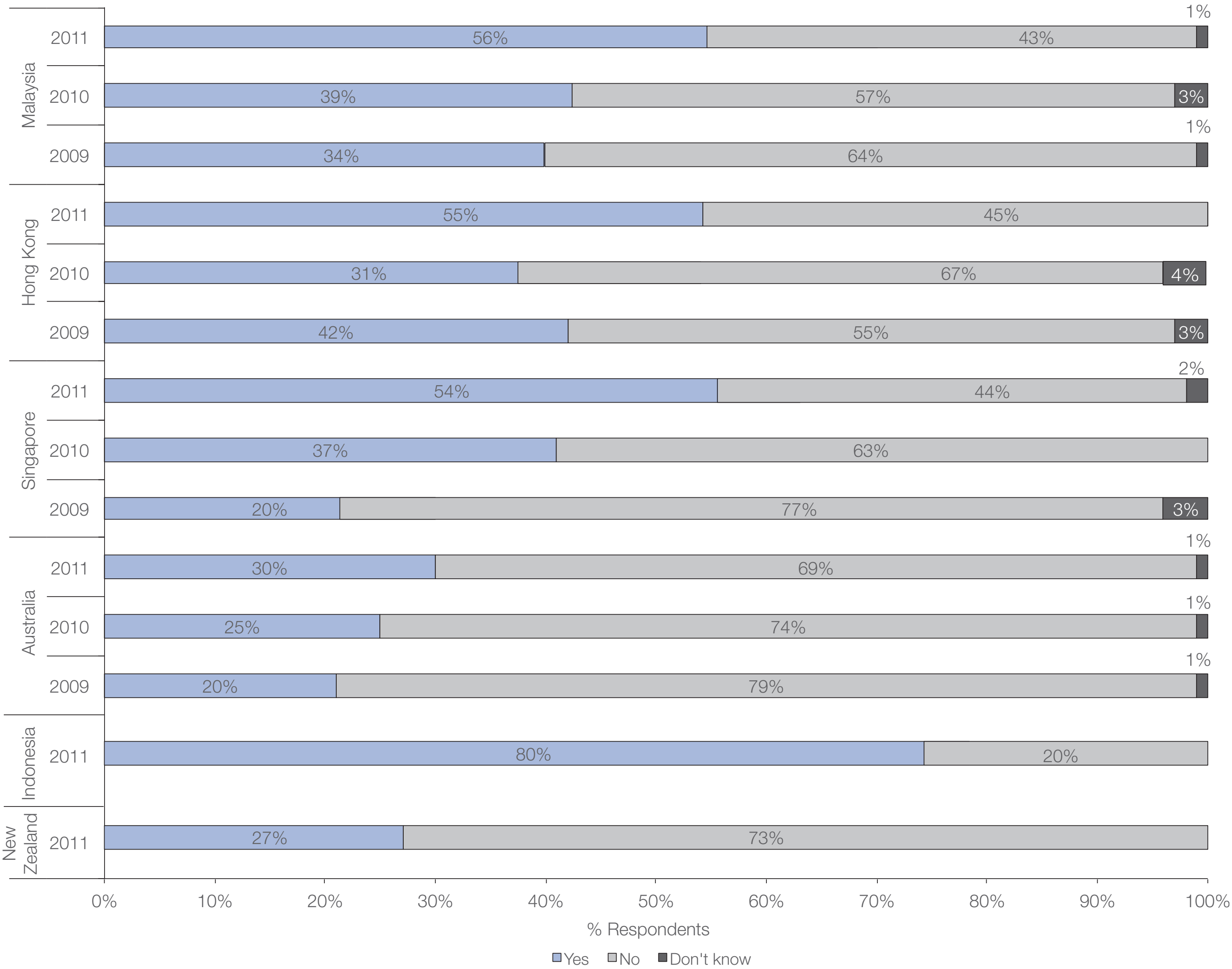
*This option was not available in all surveys

The growth expectations of Australian small businesses have barely changed throughout the three years of the global financial crisis. Confidence levels remain about 10 percentage points below the confidence levels pre-crisis. CPA Australia would have expected that business confidence would have started to recover, however fewer Australian businesses than ever before are expecting to grow strongly and more Australian businesses are expecting to decline. This sentiment is actually more positive than the small business view of the economy, reflecting the resilient nature of Australian small business. As with New Zealand and Singapore, the larger the small business in terms of staff numbers the higher the growth expectations, with 65 per cent of respondents with between five to 19 staff expecting to grow in 2012, compared with 49 per cent for businesses with nil employees.

Small business access to finance

Figure 4: **Businesses that currently have a loan – comparison of 2009, 2010 and 2011 results***

Q2-15 Do you currently have any business loans? (Single response,2011) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)



New Zealand and Indonesia were new countries for 2011, therefore, no longitudinal data is available.

Australia and New Zealand small businesses are very similar in the low incidence of small businesses that indicate that they currently have a business loan. This possibly reflects the high percentage of micro businesses in the sample from those markets (that is, businesses with nil to four staff and an annual turnover of less than A$200,000). Such micro businesses may have less of a need to borrow funds, and given the older age profile of Australian and New Zealand respondents, the business owners may also be able to self-fund the business without relying on external funding.

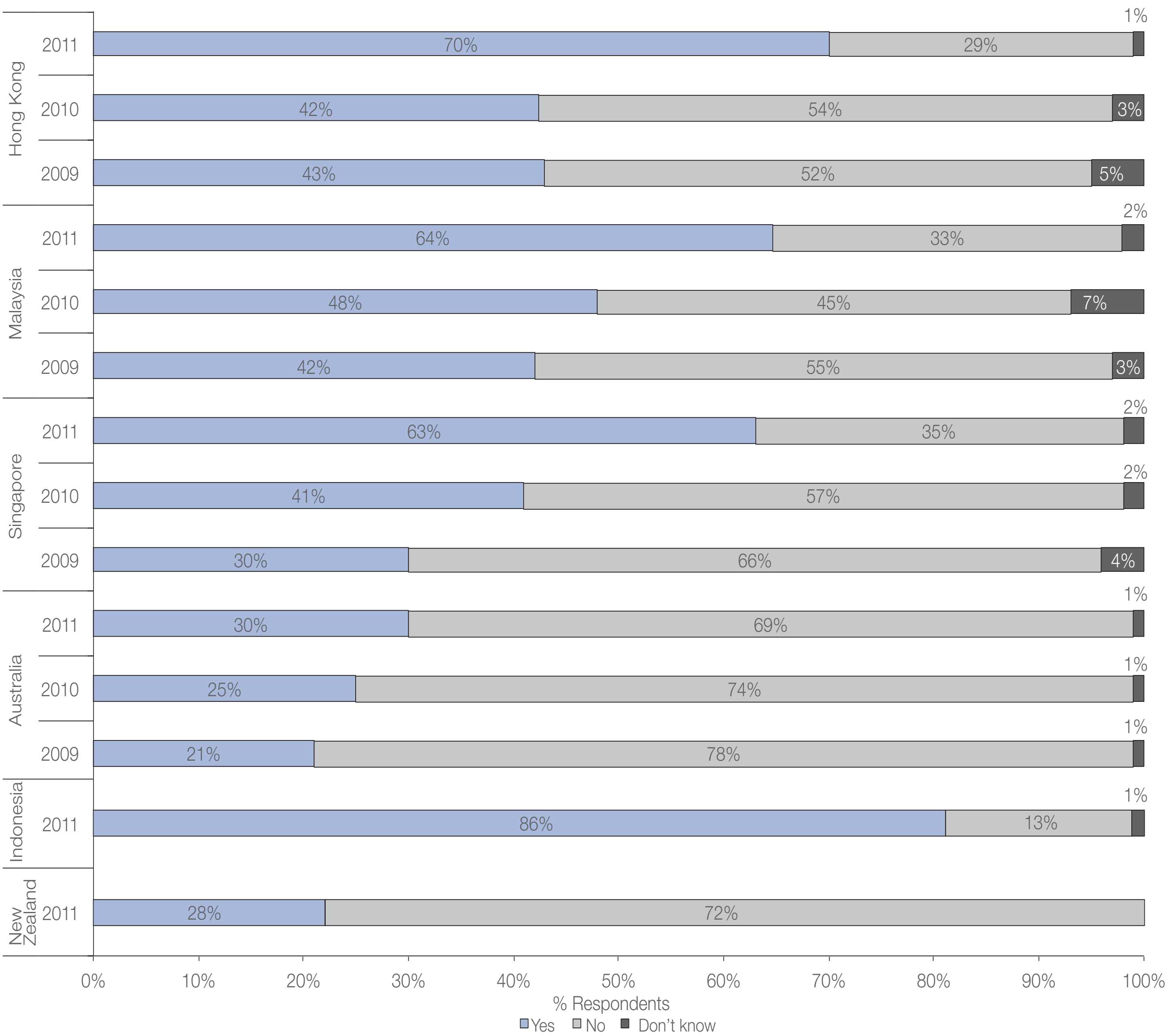
The results of the survey show that in all markets previously surveyed, the percentage of businesses that currently have a business loan has increased. Of these markets, Hong Kong, Malaysia and Singapore have reported a significant increase in the number of businesses with a loan. This is consistent with the responses in Figure 5, where there has been a significant jump in the number of businesses from those markets reporting needing additional finance in 2011 and the strong forecast demand for finance from those markets in 2011.

Indonesian businesses are significantly more likely to report having a business loan. This reflects the high business growth expectations, good economic conditions and relatively easy access to funding.

The need for finance

Figure 5 **Need for additional funds in the past year – comparison of 2009, 2010 and 2011 results***

Q2-2 *In the last year, have you required additional funds to support your business operations outside of your existing cash resources? (Single response, 2011) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, New Zealand n=201, Indonesia n=219)*



*New Zealand and Indonesia were new countries for 2011, therefore, no longitudinal data is available.

Reflecting the fast growing Indonesian economy, Indonesian businesses were significantly more likely to demand finance in 2011 than any of the other markets surveyed. The strength of the demand for finance is across the board, regardless of the number of employees. The confidence that Indonesian businesses have is reflected in the majority of businesses using that borrowing for business growth (see Figure 6A).

Australia and New Zealand business had a low demand for finance in the past 12 months. This may be because of the very high proportion of nil to four employees in the sample for both markets. This also corresponds with Figure 4, where Australian business had the lowest incidence of having a current business loan. For Australia, the figure requiring finance in the last 12 months is approximately the same as the percentage of Australian small businesses that expected to borrow in 2011 as stated in our 2010 survey (see Figure 6 of the 2010 survey). Generally for Australian and New Zealand businesses, the larger the business, the more likely they were to demand finance in 2011. New Zealand businesses with nil employees were marginally more likely to demand finance than their Australian counterparts.

The large increase in demand for additional funds in 2011 for Malaysia, Hong Kong and Singapore was relatively close to the expected demand for finance in each of those markets from the 2010 survey (in 2010 there were large discrepancies between those that definitely expected to need finance and those that did seek finance. This possibly reflects the need for small businesses in each market to improve their planning).

The demand for finance by number of employees also showed that:

- in Malaysia, like Indonesia, the demand for finance was strong regardless of how many staff the business employed
- for Hong Kong, the demand for finance increased significantly as the number of employees increased

Reason for seeking additional funds

Figure 6A: Reasons for seeking additional finance

Q2-4 And which of the following best describe the reasons for the "required additional funds"? (Multiple response) (Australia n=152, Hong Kong n=140, Malaysia n=129, Singapore n=128, Indonesia n=188, New Zealand n=56)

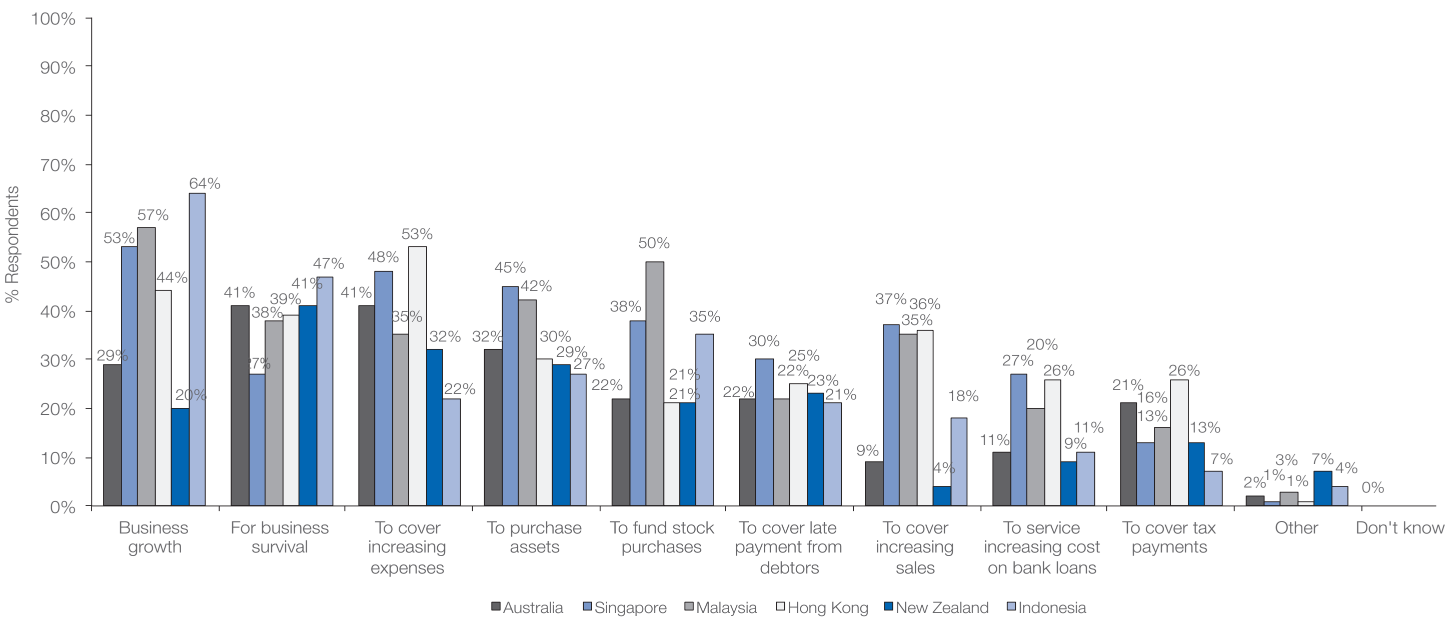


Figure 6B: Reasons for seeking additional finance – comparison of 2009, 2010 and 2011 results*

Reason	Australia			Singapore			Hong Kong			Malaysia		
	2009 (n = 113)	2010 (n = 128)	2011 (n = 152)	2009 (n = 61)	2010 (n = 85)	2011 (n = 128)	2009 (n = 87)	2010 (n = 85)	2011 (n = 140)	2009 (n = 86)	2010 (n = 96)	2011 (n = 129)
To cover increasing expenses	29%	30%	41%	38%	21%	48%	32%	39%	53%	31%	23%	35%
Business growth	29%	28%	29%	56%	59%	53%	61%	51%	44%	73%	71%	57%
For business survival	42%	27%	41%	43%	21%	27%	20%	27%	39%	45%	17%	38%
To purchase assets	31%	19%	32%	41%	45%	45%	51%	47%	30%	36%	41%	42%
To cover late payment from debtors	17%	19%	22%	21%	21%	30%	17%	28%	25%	28%	29%	22%
To fund stock purchases	26%	18%	22%	26%	34%	38%	37%	16%	21%	36%	46%	50%
To service increasing cost on bank loans	5%	9%	11%	11%	13%	27%	13%	11%	26%	7%	16%	20%
To cover tax payments	11%	8%	21%	11%	6%	13%	15%	16%	26%	6%	6%	16%
To cover increasing sales	4%	4%	9%	13%	21%	37%	21%	32%	36%	20%	21%	35%
Other	2%	6%	2%	8%	0%	1%	0%	0%	1%	2%	1%	3%
Don't know	2%	6%	0%	8%	0%	0%	0%	0%	0%	2%	1%	0%

**New Zealand and Indonesia were new countries for 2011, therefore, no longitudinal data is available.*

In Indonesia, there is not a strong correlation between borrowing for business growth and related reasons (purchasing assets, funding stock purchases and to cover increasing sales). However, it it seems incongruous that while 64 per cent of Indonesian businesses are borrowing for business growth, 47 per cent borrowed for business survival – meaning that there are some small businesses in Indonesia that borrowed for both growth and survival reasons. This could be a cultural factor with some Indonesian small businesses, regardless of size, equating growth with survival.

It is of interest that borrowing to cover increasing expenses featured so prominently this year in each market surveyed. That increasing expenses is up is not a surprise due to strong inflation in each market, but with a large proportion of small business borrowing to cover those expenses, this may indicate that some small businesses are not passing on their increasing costs to clients. While a business can do this for a short period of time, businesses that continue to bear increasing expenses reduce their profitability and therefore may become less viable over the medium- to long-term. In Hong Kong, the significant rise in the need to borrow to cover increasing expenses could be one of the key reasons behind their marked decline in business confidence. However, Singaporean businesses had a similar significant rise in this area but only had a slight decrease in business confidence.

The differing motivations for borrowing between Hong Kong, Malaysia and Singapore for business growth are worth noting. Businesses in these markets went into 2011 with high levels of confidence and hence many forecast a need to borrow. However, in Hong Kong and Malaysia the number of businesses borrowing for survival increased significantly. For Hong Kong, this was reflected in the marked decline in confidence in this survey, however business confidence in Malaysia actually increased in this survey from the last, indicating that many of those Malaysian businesses that have experienced difficulty this year see it as a short-term issue that will pass in 2012. Hong Kong businesses on the other hand have been clearly affected by a worse than expected 2011 and expect this trend to continue into 2012.

It is also interesting that Malaysian businesses are more likely to borrow to fund stock purchases than their Singaporean counterparts, who are more likely to borrow to fund asset purchases. Such a difference shows that some Malaysian small businesses have a shorter-term outlook as they seek to take advantage of good economic conditions by increasing sales through higher stock levels, rather than investing in assets. This also tends to indicate that Malaysian businesses expect their economy to continue to grow strongly, and therefore they have less motivation to invest for a “rainy day”. This trend seems to be strongest in Malaysian businesses with five to nine staff. Malaysian businesses with 10 to 19 staff were more likely in 2011 to used borrowed funds to purchase assets, indicating that group of Malaysian businesses have a stronger longer-term focus.

As in 2009 and 2010, Hong Kong, Malaysian and Singaporean businesses were again much more likely to borrow for business growth purposes than Australian small businesses (however as the number of staff increase at an Australian small business, the likelihood of borrowing for growth is stronger, particularly for Australian businesses with 10 to 19 staff).

Other interesting results include:

- Borrowing to cover increasing costs on bank loans rose. This reflects higher interest rates across much of the region. If a business needs to borrow to cover the costs of a bank loan then maybe they have the wrong sort of financing. In Australia and Hong Kong, this issue was particularly important for businesses with five to nine staff.
- Borrowing to cover tax payments was up in all markets previously surveyed, especially Hong Kong and Australia. This may be as a result of the revenue authorities in those markets taking a more aggressive (and back to normal) approach to revenue collection than the more flexible approach at the start of the global financial crisis.

Sources of additional funds

Figure 7A: **Sources of additional finance**

Q2-3 *And from which of the following sources were those "required additional funds" obtained? (Multiple response) (Australia n=152, Hong Kong n=140, Malaysia n=129, Singapore n=128, Indonesia n=188, New Zealand n=56)*

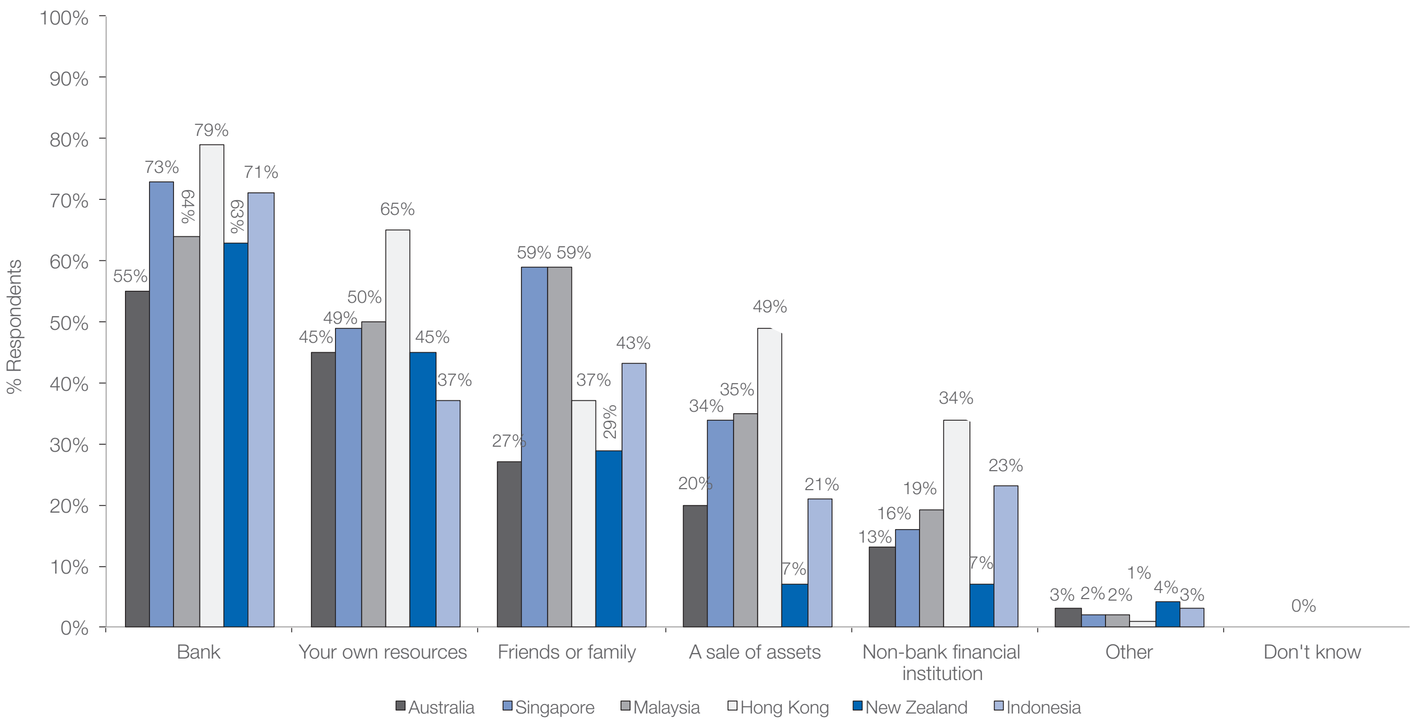


Figure 7B: **Sources of additional finance – comparison of 2009, 2010 and 2011 results***

Financing forms	Australia			Singapore			Hong Kong			Malaysia		
	2009 (n = 113)	2010 (n = 128	2011 (n = 152)	2009 (n = 61)	2010 (n = 85)	2011 (n = 128)	2009 (n = 87)	2010 (n = 85)	2011 (n = 140)	2009 (n = 86)	2010 (n = 96)	2011 (n = 129)
Bank	50%	50%	55%	59%	56%	73%	74%	76%	79%	78%	70%	64%
Your own resources	38%	41%	45%	43%	54%	49%	43%	58%	65%	44%	39%	50%
Friends or family	25%	18%	27%	44%	54%	59%	43%	45%	37%	50%	57%	59%
A sale of assets	13%	13%	20%	7%	27%	34%	26%	26%	49%	24%	19%	35%
Non-bank financial institution	7%	4%	13%	10%	12%	16%	13%	13%	34%	9%	14%	19%
Other	7%	7%	3%	5%	2%	2%	1%	0%	1%	2%	4%	2%
Don't know	7%	7%	0%	5%	2%	0%	1%	0%	0%	2%	4%	0%

**New Zealand and Indonesia were new countries for 2011, therefore no longitudinal data is available.*

Banks remain the most popular source of financing in each market surveyed. Given that small businesses have limited funding options this result is not surprising. As was demonstrated in 2009, this reliance on banks as the major source of funding also presents risks to small businesses if lending conditions become too tight and / or costs of borrowing become too high.

There seems to be a positive trend in Australia, Hong Kong and Malaysia towards funding from multiple sources, not just banks. Hong Kong and Malaysian businesses in particular became more likely to source funding from their own resources or from the sale of assets in 2011. This may, in part, be because of the increasing cost of bank finance as identified in Figure 6B, the difficulty of accessing funding from banks and a possible reflection of more money becoming available from those alternative sources. For this trend to continue, businesses need to have in place strong working capital management, otherwise liquidity may become an issue as businesses use up too much of their cash resources.

It may be a concern to the long-term viability of businesses if small businesses are selling the fixed, long-term assets of the business. Fixed assets are required to grow the business and should only be sold if they become surplus to requirements or obsolete. This is particularly an issue if a business is selling productive long-term assets to purchase short-term assets, such as stock, which may be the case for some small businesses in Malaysia

It is interesting that in each market, non-bank lenders were increasing their market share (from a low base), possibly reflecting greater competition to the established banks.

Reasons for not seeking additional finance

Figure 8: **Reasons for not seeking additional finance**

Q2-8 *Which of the following best describes the reason for not applying for additional funds in the past 12 months? (Multiple response) (Australia n=352, Hong Kong n=59, Malaysia n=67, Singapore n=70, Indonesia n=28, New Zealand n=145)*

Reason	Australia 2011 (n = 152)	Singapore 2011 (n = 70)	Hong Kong 2011 (n = 59)	Malaysia 2011 (n = 67)	Indonesia 2011 (n = 28)	New Zealand 2011 (n = 145)
The business did not need additional funds	57%	66%	37%	45%	43%	72%
The business had sufficient funds under its existing arrangements	33%	53%	49%	48%	64%	39%
The risk of not being able to repay the loan	16%	16%	14%	36%	14%	10%
Interest rates were too high	11%	14%	19%	34%	18%	5%
Procedures to obtain funding from a financial institution are too complicated	7%	10%	14%	25%	29%	3%
The business no longer needed additional funds (for instance, cancelled investment plans)	10%	6%	10%	16%	43%	1%
The likelihood of unreasonable terms and conditions	8%	11%	7%	13%	4%	3%
It was considered unlikely a financial institution would provide the funding required	6%	10%	8%	10%	7%	4%
The potential to lose control of the business	4%	9%	3%	7%	7%	4%
A previous loan was rejected	2%	1%	2%	3%	0%	0%

Consistent with last year's results, by far the most important reason businesses did not borrow this year was either they had the money or did not need the additional funds. However, lending conditions and the cost of finance became more important reasons in dissuading business from borrowing this year than in 2010.

The 2011 survey shows that for markets where the survey was repeated, higher interest rates have become a more prominent factor in not seeking finance, especially in Malaysia. The cost of borrowing and the fear of defaulting on loans as a reason not to borrow has jumped in Malaysia from around 15 per cent for each reason to 34 and 36 per cent respectively.

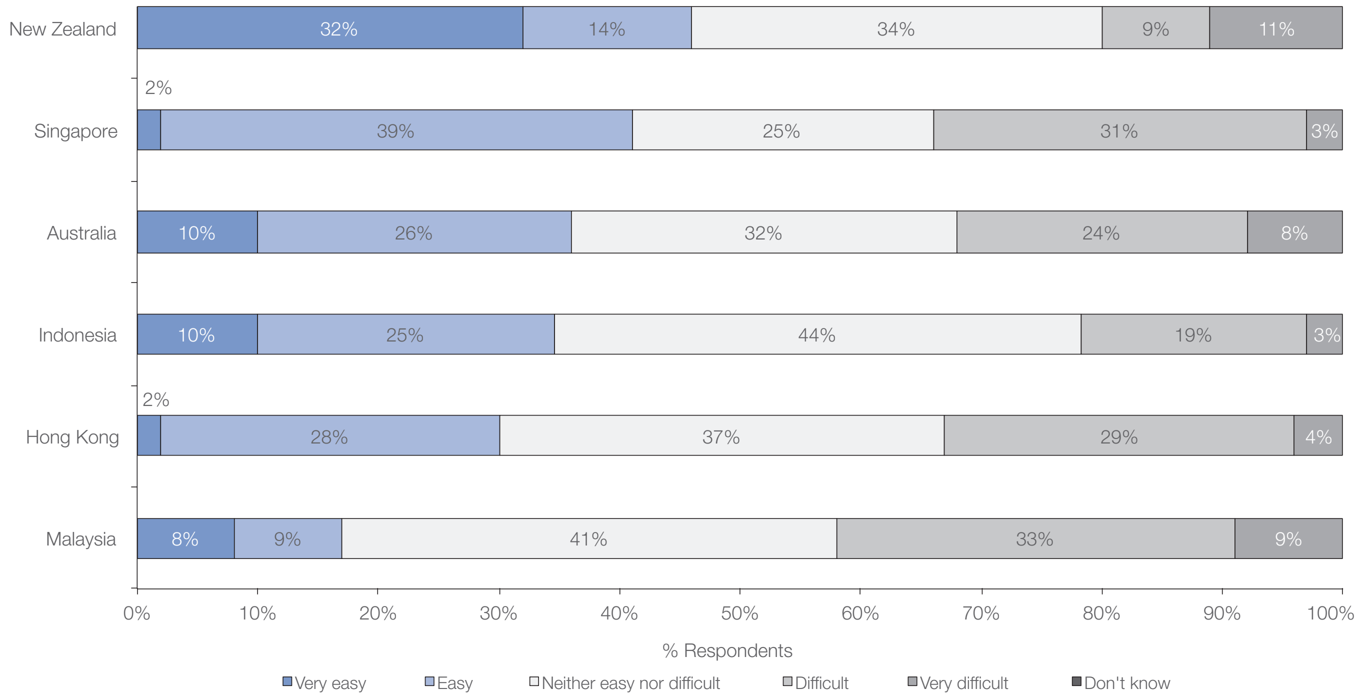
The 2011 survey also shows that for the markets where the survey was repeated, the procedures to obtain finance from banks became a more prominent factor behind some businesses not seeking finance, particular Malaysia. Given this, one picture to emerge from the 2011 survey is that Malaysian small businesses in particular are experiencing rising borrowing costs and tighter lending conditions. However, this experience is not translating through to lower levels of confidence (in fact Malaysian small business confidence is up). This could partly be due to such businesses expecting that borrowing costs and lending conditions will ease, they can source funding from cheaper sources, such as family and friends, and that the Malaysian economy will continue to grow strongly.

Businesses that have been dissuaded from borrowing due to difficult lending conditions may benefit from professional advice, such as from an accountant to increase the likelihood of accessing finance. CPA Australia continues to receive member feedback that small businesses are often their "own worst enemy" in seeking finance as many do not keep adequate financial accounts and fail to undertake other basic financial management activities.

Ease of access to additional funding

Figure 9: **Ease of access to additional funding**

Q2-5 *Please indicate how easy or difficult it was for your business to access the additional funding. (Single response) (Australia n=152, Hong Kong n=140, Malaysia n=129, Singapore n=128, Indonesia n=188, New Zealand n=56)*



Malaysian businesses found accessing finance the most difficult and they found borrowing much more difficult than they expected in 2011. This result was fairly uniform regardless of how many employees the small business had. In the 2010 survey, more than 45 per cent of respondents thought borrowing would be easy or very easy in 2011. As outlined above, respondents believe this figure to be closer to 17 per cent. This response is consistent with a general tightening of credit conditions in Malaysia in 2011 and possibly helps explain the shift in Malaysian businesses towards using their own funds or using funds from the sale of assets.

Hong Kong businesses also found their expectations of the ease of borrowing in 2011 (as expressed in the 2010 survey), overly optimistic when compared to the results of the 2011 survey. This is most likely because lending conditions in that market tightened and interest rates rose. However, in contrast to Malaysian businesses, Hong Kong businesses confidence is markedly down from the 2010 survey, possibly indicating that many Hong Kong businesses expect tight lending conditions to continue to have an impact on their business and the economy into 2012.

The actual borrowing experience of Australian and Singaporean businesses in 2011 was more positive than they forecast in 2010. While around 20 per cent of Australian businesses that intended to borrow in 2011 thought the experience would be easy to very easy in 2011, 36 per cent of businesses actually had that experience. Further emphasising this point, 70 per cent of businesses that expected to borrow in 2011 thought the experience would be difficult to very difficult, however only 32 per cent had such an experience. Given feedback CPA Australia received from members on lending conditions, this result is somewhat surprising and may indicate that the Australian banks are improving their small business lending or that business perceptions of what is difficult has changed to reflect the "new normal" lending conditions.

It is CPA Australia's view that it is important that lenders try to strike the right balance in their lending criteria. As the global financial crisis demonstrated, easy lending conditions are just as dangerous, if not more so, to the economy and business as difficult lending conditions.

Difficulty accessing finance

Figure 10: Reasons why accessing finance was considered difficult

Q2-6 *And which of the following best describes the reasons why you found accessing the additional funding difficult or very difficult? (Multiple response) (Australia n=48, Hong Kong n=46, Malaysia n=53, Singapore n=44, Indonesia n=41, New Zealand n=11)*

Reason	Australia 2011 (n = 48)	Singapore 2011 (n = 44)	Hong Kong 2011 (n = 46)	Malaysia 2011 (n = 53)	Indonesia 2011 (n = 41)	New Zealand 2011 (n = 11)
The cost of funding was higher than you forecast	27%	41%	67%	43%	32%	18%
The types of security required	35%	52%	41%	32%	37%	27%
The terms and conditions imposed by the financier	23%	36%	35%	62%	39%	27%
Difficulty in finding a financier willing to provide funding to your industry	52%	30%	35%	45%	29%	27%
The value of the security required	21%	43%	37%	34%	39%	18%
The amount of funding provided was lower than was sought	19%	25%	39%	40%	24%	9%
The term of the funding was shorter than you sought	13%	34%	39%	32%	12%	18%
The compliance/information requirements imposed on you	27%	32%	37%	34%	2%	9%
The skill level of your business banker	8%	18%	13%	25%	7%	9%
Other	15%	7%	0%	6%	2%	36%
Don't know	4%	0%	0%	0%	5%	0%

While the number of responses to this question is small, the following broad conclusions can be drawn:

In Malaysia, the terms and conditions imposed by lenders caused the most difficulty to borrowers as was the difficulty caused by lenders willing to provide financing to their industry. This again indicates that lending conditions in Malaysia were tight in 2011. Better communication by lenders and improved financial management by small business can assist in overcoming such issues.

In Singapore, issues around security caused the most difficulty to borrowers. This indicates that Singaporean bankers were risk adverse and there may be issues around asset valuations.

In Australia, the predominant issue was banks not willing to lend to a particular industry. While it is understandable that banks may have had to rebalance their lending portfolios for prudential and risk reasons, better communication with borrowers and potential borrowers about which industries they will not lend to, may reduce this as an issue. This issue also highlights the "one-size fits all" approach of Australian banks, where for example they take a decision not to lend to particular industries, denying funding even to good businesses in an industry. If lenders wish to improve the relationship with small business, they have to be more tailored in their decision making. This may require reinstating much of the authority that business bankers once had. However, given concerns members and business have over the skills and experience of many business bankers, such reinstatement of authorities will have to take time. Members continue to inform us that better communication from their bank and more certainty in their banking relationship are critical to restoring the relationship between small business and their bank.

In Hong Kong, the cost of borrowing was the most likely factor why borrowing was difficult, which may help to explain why Hong Kong businesses increasingly fund their operations in 2011 from their own resources. In Indonesia, on the other hand, there was no real stand-out issue causing difficulties. The number of respondents in New Zealand was too small to draw any meaningful conclusion.

Finance accessing issues

Figure 11: The impact the difficulty of accessing finance on the business

Q2-7 And which of the following best describes the impact of the difficulty you had accessing additional funding? (Multiple response) (Australia n=48, Hong Kong n=46, Malaysia n=53, Singapore n=44, Indonesia n=41, New Zealand n=11)

Impact	Australia 2011 (n = 48)	Singapore 2011 (n = 44)	Hong Kong 2011 (n = 46)	Malaysia 2011 (n = 53)	Indonesia 2011 (n = 41)	New Zealand 2011 (n = 11)
Impacted your ability to grow the business	38%	52%	39%	51%	61%	36%
Your cash position declined	52%	36%	54%	47%	22%	36%
Profitability declined	38%	23%	46%	42%	32%	45%
Required you to alter your business strategy	42%	39%	50%	36%	17%	27%
Delayed your plans to purchase business assets	35%	32%	33%	40%	22%	36%
Delayed stock purchases	27%	32%	17%	58%	32%	27%
You made greater use of your own cash resources	50%	36%	26%	36%	12%	18%
Impacted your ability to innovate	23%	25%	39%	32%	34%	9%
Sales declined	17%	18%	24%	40%	12%	27%
Delayed your plans to recruit staff	25%	23%	33%	15%	27%	0%
Encouraged you to become more efficient with your existing resources	25%	32%	22%	21%	12%	9%
Your business declined	15%	14%	13%	19%	17%	27%
You reduced staff numbers	27%	5%	20%	8%	5%	27%
Had no impact	4%	2%	4%	0%	0%	18%
Other	0%	0%	2%	4%	2%	0%
Don't know	0%	0%	0%	0%	2%	0%

Interestingly in Hong Kong, the difficulty in accessing finance only impacted the ability of 39 per cent of businesses (that experienced such difficulty) to grow their business, indicating that businesses were generally able to get around the tighter lending conditions. Hong Kong businesses responded to such difficulty by drawing on their resources and / or adjusting to the new environment by altering their business strategy. Either approach requires good business practice to be in place. In Indonesia, on the other hand, it seems that businesses that faced difficulty borrowing money from the bank did not necessarily turn to their own resources to replace bank borrowing or alter their strategy.

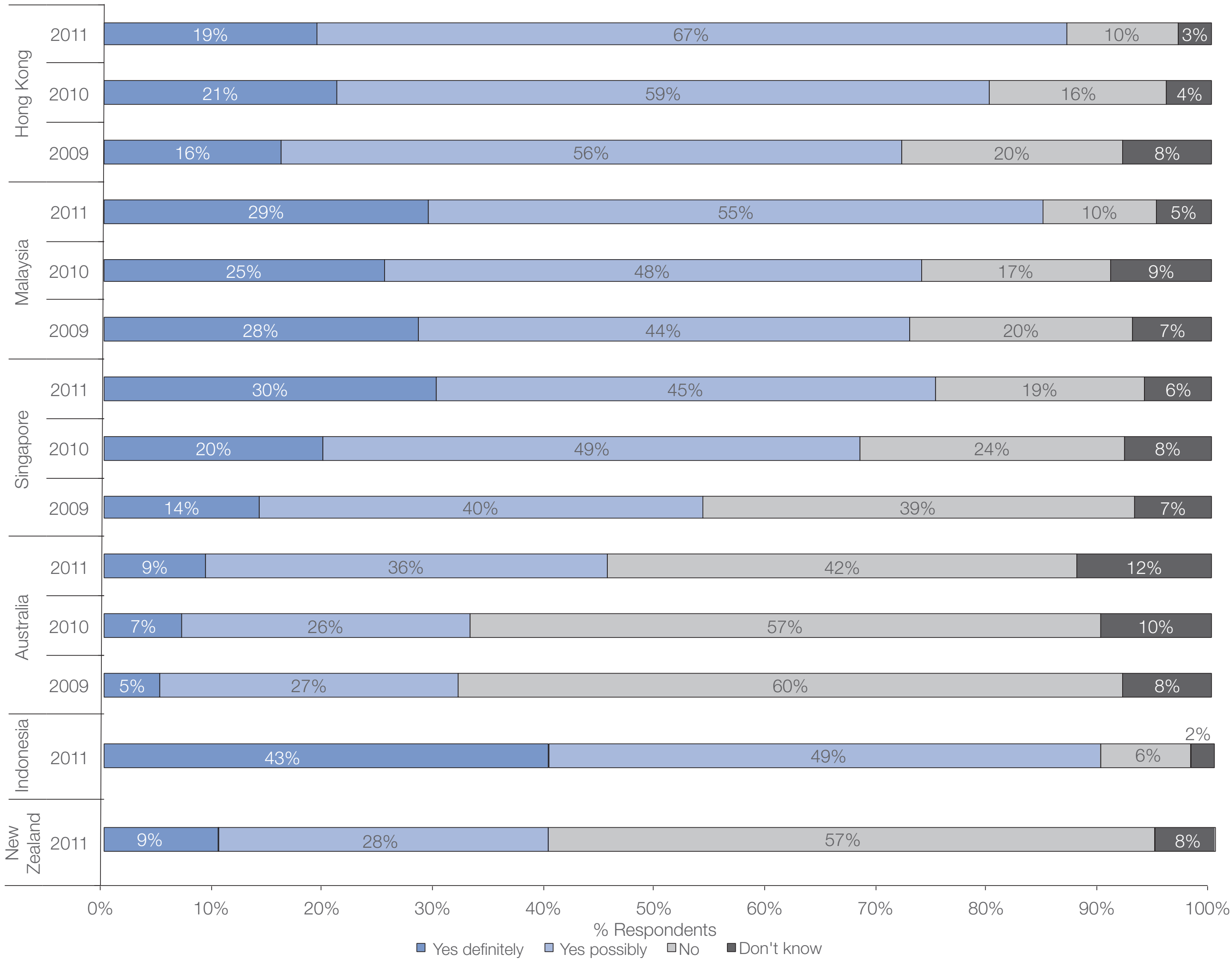
Most Malaysian businesses responded to such difficulties by delaying stock purchases, which impacted sales and the ability to grow the business. This further supports other results in this survey, which indicate that many Malaysian businesses are pursuing short-term growth strategy focused on increasing sales and are therefore increasing the stock on hand. Potentially, this strategy is risky as any problems in raising money to fund stock purchases may leave businesses without the stock they need to meet sales.

It is surprising that more businesses did not indicate they altered their business strategy as a result of difficulty in raising funds. Revisiting a business plan or strategy when conditions change is good business practice.

Future need for additional funding

Figure 12: Expected demand for funding next year - comparison of 2009, 2010 and 2011 results*

Q2-9 Do you envisage that your business will seek additional funds over the next 12 months? (Single response) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)



**New Zealand and Indonesia were new countries for 2011, therefore no longitudinal data is available.*

There continues to be a low proportion of businesses that indicate they will definitely require finance in the next 12 months. While this is an indication of uncertainty given the fragile nature of the global economy, it is most likely due to poor planning. A well-run business will know whether they will be borrowing in the next 12 months and the reason for such planned borrowing. For instance, Singaporean businesses with 10 to 19 staff are more certain about their future funding needs, indicating better planning among that group.

Reflecting the high proportion of businesses in the sample with less than five staff and a turnover of less than A$200,000, a smaller number of businesses in Australia and New Zealand anticipate seeking external finance in the next 12 months. However, while Australian businesses with higher staff numbers are more likely to expect to borrow in the next 12 months, such expectations are still significantly lower than small businesses of similar size from the Asian markets surveyed.

Interestingly, New Zealand borrowing expectations do not match their robust growth expectations for their business. Many New Zealand businesses must expect to grow their business in the next 12 months from existing resources.

For Hong Kong small businesses, as Figure 14 shows, the vast majority of businesses expect to borrow, and that such borrowing is more likely to be used to meet expected increases in expenses and business survival than business growth. Many Hong Kong businesses must have concluded that the conditions that affected their business in 2011 (higher costs and weak external environment), will continue in 2012. Given this, Hong Kong businesses should be considering how best to manage costs and improve cash flow, so that they rely less on external funding to meet operational expenses.

The high proportion of businesses that envisage borrowing in the next 12 months in Indonesia, Malaysia and Singapore aligns with the growth expectations in those markets.

Most likely sources of future funding

Figure 13A: Most likely source of additional funds required next 12 months

Q2-10 *From which of the following would you be most likely to seek those additional funds? (Multiple response) (Australia n=232, Hong Kong n=174, Malaysia n=169, Singapore n=152, Indonesia n=202, New Zealand n=74)*

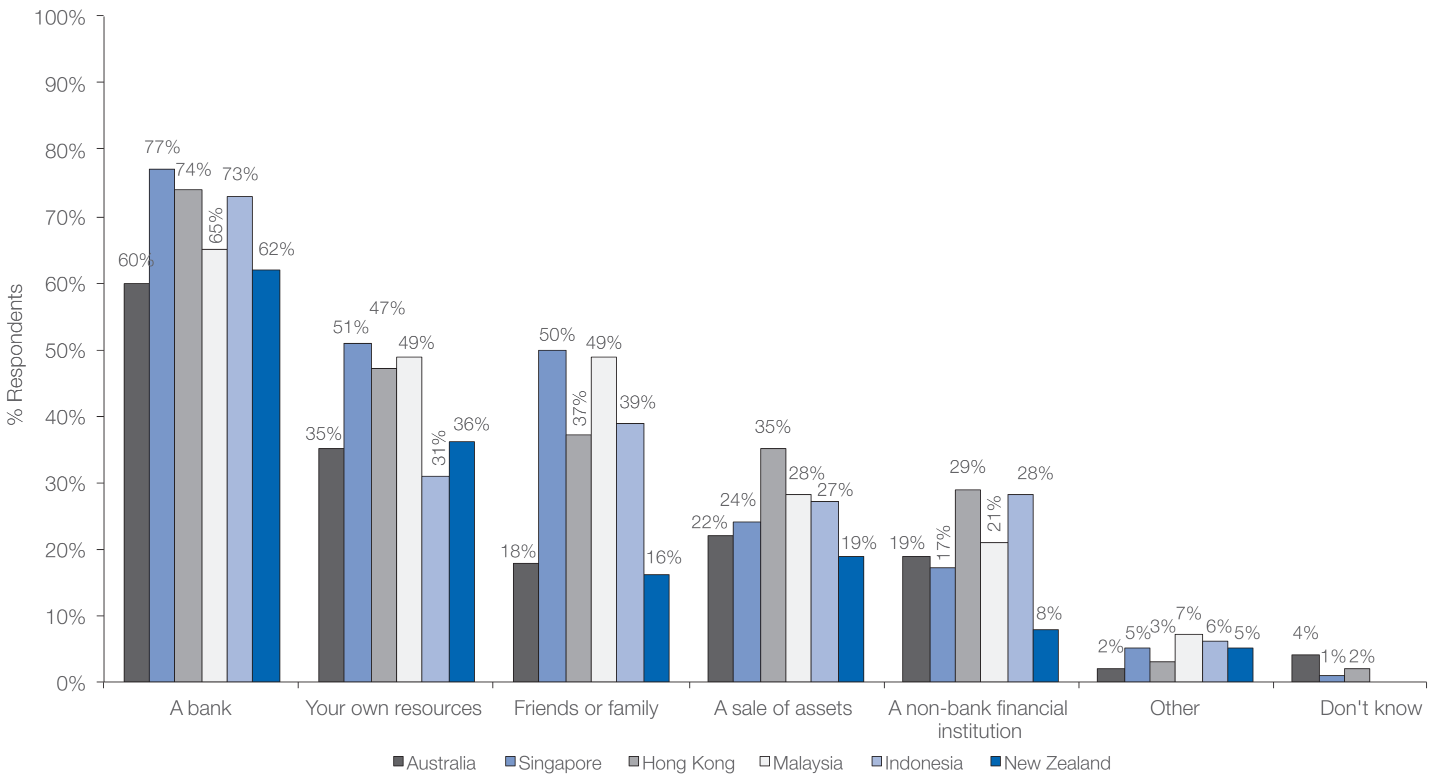


Figure 13B: Most likely source of additional funds required next 12 months – comparison of 2009, 2010 and 2011 results*

Financing forms	Australia			Singapore			Hong Kong			Malaysia		
	2009 (n = 178)	2010 (n = 169)	2011 (n = 232)	2009 (n = 111)	2010 (n = 142)	2011 (n = 152)	2009 (n = 148)	2010 (n = 161)	2011 (n = 174)	2009 (n = 149)	2010 (n = 148)	2011 (n = 169)
A bank	61%	64%	60%	64%	71%	77%	79%	78%	74%	77%	80%	65%
Your own resources	34%	32%	35%	45%	54%	51%	38%	47%	47%	42%	36%	49%
Friends or family	18%	15%	18%	41%	35%	50%	41%	37%	37%	30%	44%	49%
A non-bank financial institution	16%	N/A	19%	15%	N/A	17%	11%	N/A	29%	15%	N/A	21%
A sale of assets	19%	14%	22%	12%	21%	24%	22%	19%	35%	15%	11%	28%
Other	4%	6%	2%	9%	4%	5%	0%	7%	3%	8%	10%	7%
Don't know	3%	4%	4%	2%	0%	1%	1%	1%	2%	0%	1%	0%

*New Zealand and Indonesia were new countries for 2011, therefore no longitudinal data is available.

Bank funding is a clear first choice for small business seeking finance over the next 12 months. Good business practice would be for business to diversify their funding sources. However, given the lack of alternatives for small business, such diversification can, for most small business, only be done in a small way. This lack of alternatives presents a clear risk to the economy if another disruption to the banking system were to occur or if lenders reduce their exposure to small business as a consequence of new banking regulation.

It is interesting that Malaysian small businesses expect to reduce their need to borrow from banks in the next 12 months and predominately make up that gap through funding from their own resources and through the sale of assets. This shift most likely indicates the difficulty some Malaysian businesses had accessing finance in the past 12 months, and the increasing cost of bank finance.

It may be better practice for many businesses to increase funding of business operations from profit and cash reserves. This may help to keep costs down (by reducing the cost of borrowing), it allows the business to have greater control over its direction (as it becomes less reliant on third parties for funding) and it reduces funding risk (for example, a lender unilaterally deciding to no longer lend to a business). To achieve this, businesses need to improve their working capital management.

Businesses in Hong Kong, Indonesia, Malaysia and Singapore continue to be much more likely to access funding from family and friends than businesses in Australia and New Zealand. In Singapore, family and friends as an expected source of funding has increased significantly from the 2010 survey. The heavy involvement of family and friends in Asian businesses is also reflected in them being a prominent source of advice for small business.

Reasons for expecting to obtain funding

Figure 14: Reasons for expecting to obtain additional funding over the next 12 months

Q2-11 And which of the following best describe the reasons why you believe your business may seek additional funds over the next 12 months? (Multiple response) (Australia n=232, Hong Kong n=174, Malaysia n=169, Singapore n=152, Indonesia n=202, New Zealand n=74)

Reason	Australia 2011 (n = 232)	Singapore 2011 (n = 152)	Hong Kong 2011 (n = 174)	Malaysia 2011 (n = 169)	Indonesia 2011 (n = 202)	New Zealand 2011 (n = 74)
Business growth	40%	54%	34%	66%	66%	47%
For business survival	28%	32%	43%	33%	52%	27%
To cover increasing expenses	31%	48%	48%	30%	22%	27%
To purchase assets	34%	43%	22%	39%	32%	23%
To fund stock purchases	19%	27%	16%	46%	29%	22%
To cover increasing sales	12%	37%	28%	32%	17%	8%
To cover late payment from debtors	18%	28%	22%	21%	13%	23%
To service increasing cost on bank loans	10%	25%	20%	17%	11%	4%
To cover tax payments	16%	14%	14%	9%	7%	12%
Other	3%	4%	3%	5%	5%	4%
Don't know	1%	0%	0%	0%	0%	0%

It is difficult to fully understand why Indonesian businesses are borrowing for both growth and survival. This is not the case in other markets surveyed where it is either one or the other, not both. This may indicate that in Indonesia, growth is equated with survival.

Expected borrowing for growth is high in Indonesia and Malaysia, which mirrors their growth expectations for 2012. Interestingly, while Singaporean small businesses have a similar level of growth expectations as Malaysia, they are less likely to borrow specifically for business growth. Singaporean small businesses are more likely to borrow for growth-related investments, such as purchasing assets, which is essential for long-term growth. On the other hand, Malaysian businesses are much more likely to expect to borrow to fund stock purchases. If the Malaysian economy grows as expected, this will lead to growth in such businesses. However, if this growth does not eventuate then many Malaysian small businesses may be left holding excess stock and be in a poor working capital position.

Singaporean businesses have expressed a high level of confidence about their business and the economy, however they seem concerned with increasing expenses. This concern, unlike Hong Kong, has only had a minor impact on growth expectations. This could be because Singaporean businesses believe they can manage through this challenge which, as previous small business surveys show, is possible as Singaporean businesses are generally well managed. However, previous surveys have also shown that Hong Kong businesses are also generally well managed. It could therefore be that Singaporean businesses are more likely to expect cost increases to come under control in the next 12 months. For businesses experiencing increasing costs, they should review their costs to determine possible savings.

Given the high number of Hong Kong businesses that expect to borrow over the next 12 months and the relatively low growth expectations, it is not surprising that 43 per cent of Hong Kong businesses are borrowing for business survival. It is also interesting to note that Hong Kong is the only market where business survival is a more important reason to borrow than growth. Hong Kong businesses should therefore consider reducing their external borrowings and instead make greater use of internal sources of funding.

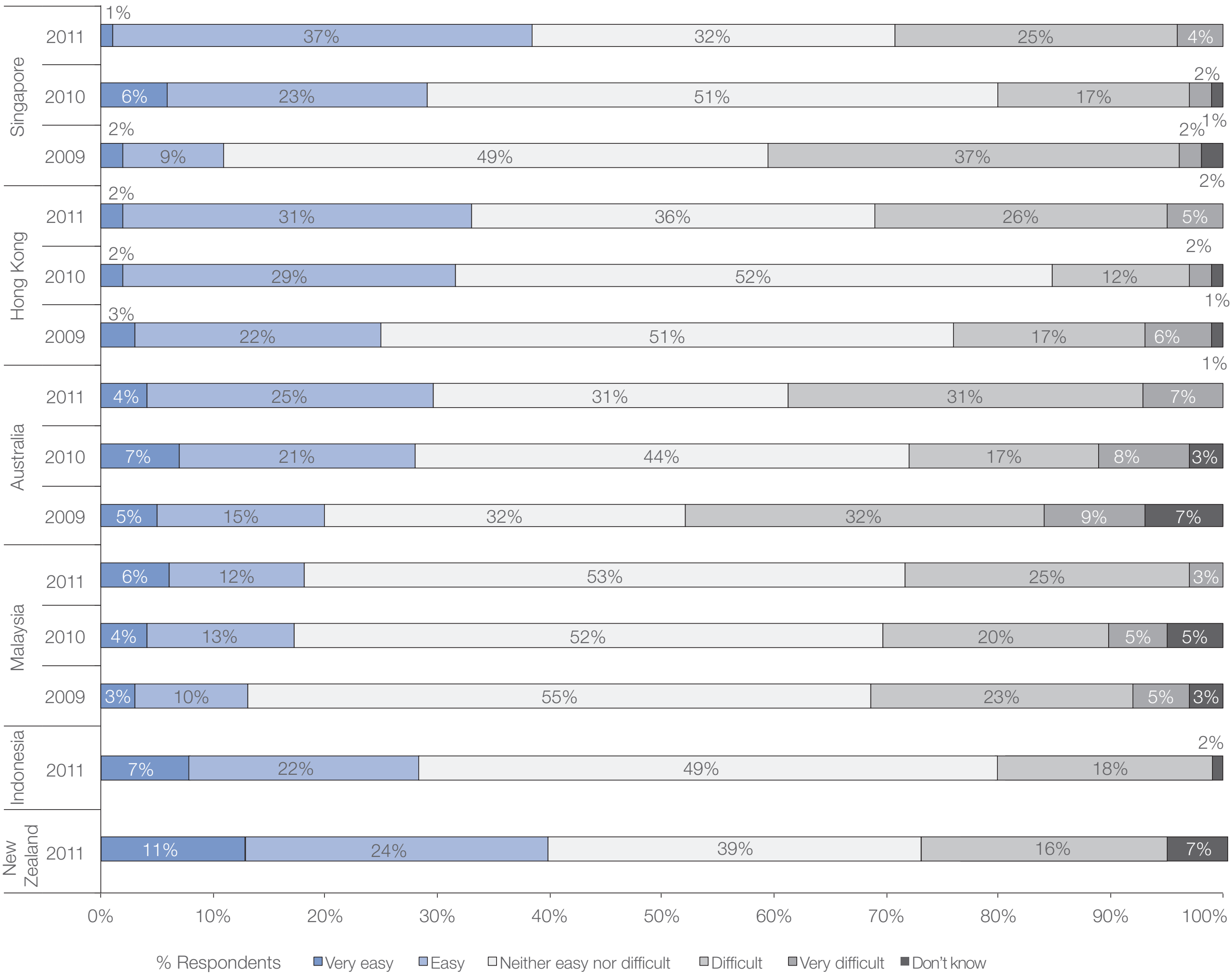
Australian and New Zealand businesses are more likely to expect to borrow for growth than survival, which is the opposite to the reason for borrowing in the last 12 months (see Figure 6A).

Reflecting continuing concerns about increasing business costs, borrowing to cover increasing expenses is expected to be a major reason for borrowing in the next 12 months as it was in the last 12 months for many business across the region, however according to official sources, inflationary pressure has moderated recently. Business should, where possible, make greater use of internal sources of funding to cover operational items such as increasing expenses.

Expected ease of borrowing over the next 12 months

Figure 15: Expected ease of borrowing over the next 12 months – comparison of 2009, 2010 and 2011 results*

Q2-13 *Please indicate how easy or difficult you think it is going to be for your business to raise or borrow the additional funds over the next 12 months. (Single response, 2011) (Australia n=232, Hong Kong n=174, Malaysia n=169, Singapore n=152, Indonesia n=202, New Zealand n=74)*



*New Zealand and Indonesia were new countries for 2011, therefore no longitudinal data is available.

The expected ease of borrowing among businesses anticipating to borrow in the next 12 months is fairly consistent between markets. Since 2009, there has been a small trend in each market previously surveyed for small businesses to expect borrowing to be easier.

Many Malaysian businesses seem to continue to believe that neutral to tight lending conditions will continue in 2012. This is consistent with other results that show that some Malaysian businesses are shifting from bank financing to their own sources of financing over the next 12 months. One wonders if such tight lending conditions may eventually dampen consumer and business sentiment in Malaysia.

For Australian businesses expecting to borrow, they are more likely to expect borrowing to be difficult to very difficult than any other market. The borrowing expectations of Australian small business in this survey is now more similar to the 2009 survey results, which was conducted at the height of the global financial crisis, than last year's survey. This reflects anecdotal evidence that CPA Australia have received in consultation with members on this issue. Access to finance for small business therefore remains an important issue for Australian businesses, lenders and government. In stating this, it would also be of concern if there was a substantial increase in businesses that thought borrowing would be easy or very easy.

Possible impact of future difficulty in accessing funding

Figure 16: Possible impact of future difficulty in accessing funding

Q2-14 And which of the following best describes the impact of the difficulty in accessing additional funding? (Multiple response) (Australia n=87, Singapore n=44, Hong Kong n=54, Malaysia n=47, Indonesia n=40, New Zealand n=17)

Impact	Australia 2011 (n = 87)	Singapore 2011 (n = 44)	Hong Kong 2011 (n = 54)	Malaysia 2011 (n = 47)	Indonesia 2011 (n = 40)	New Zealand 2011 (n = 17)
Negatively impact your ability to grow your business	45%	52%	43%	53%	58%	53%
Require you to alter your business strategy	39%	48%	46%	43%	43%	29%
Impact your cash position	47%	55%	43%	38%	13%	29%
Lead to you providing more cash from your own resources to the business	41%	32%	37%	40%	10%	41%
Reduce profitability	25%	20%	41%	53%	33%	29%
Impact your ability to purchase the business assets you want to purchase	33%	30%	35%	30%	28%	18%
Lead to delaying stock purchases	20%	27%	13%	53%	33%	18%
Lead to you reducing the size of your business	20%	18%	41%	32%	15%	35%
Negatively impact your plans to innovate	26%	30%	30%	21%	33%	18%
Impact your ability to recruit new staff	14%	20%	33%	19%	18%	6%
Lead to you reducing the number of staff	10%	14%	30%	26%	10%	6%
No expected impact	1%	2%	4%	9%	3%	0%
Other	1%	2%	0%	2%	5%	6%
Don't know	1%	0%	0%	0%	5%	6%

Where business expect accessing finance to be difficult, not surprisingly they anticipate that such difficulty will have an impact on their business. The most likely impact is on business growth. Related to the impact on business growth is that businesses expect such difficulties may cause them to alter their strategy It is pleasing to see that a large proportion of small businesses in the Asian markets surveyed expect to alter their business strategy in response to such difficulty. Australian and New Zealand businesses should be doing the same.

It is also not surprising that many businesses that are expecting difficulty in accessing funding anticipate such difficulty to affect their cash position. That is, to get around difficulties in accessing external funding, businesses should shift to internal sources of finance if such money is available.

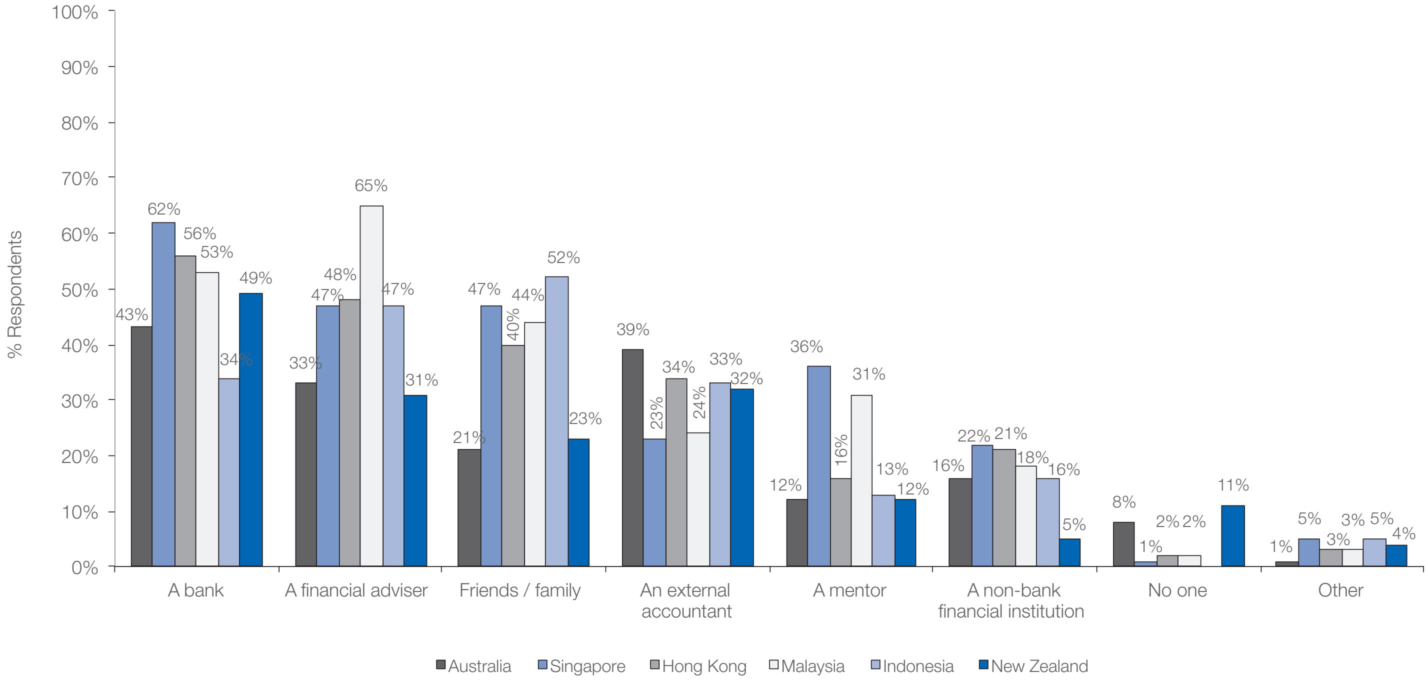
With the exception of Hong Kong and Malaysia, the difficulty in accessing finance is not expected to have a significant impact on staff numbers.

Malaysian responses stand out in that they anticipate that any difficulty in accessing finance will impact the operations side of their business – that is, it will impact stock purchases and reduce profitability. This further demonstrates the risks of relying excessively on increasing short-term sales for business growth. Such risks include holding excess of obsolete stock, reducing profitability and can impact on the cash position of the business as too much money is tied up in stock. Longer term, Malaysian businesses should be considering investing the proceeds of this expected positive period into business assets.

Sources for advice if considering seeking finance

Figure 17: Sources of advice if considering seeking finance

Q2-12 If you are considering seeking financial advice, will you seek advice from … (Multiple response) (Australia n=232, Hong Kong n=174, Malaysia n=169, Singapore n=152, Indonesia n=202, New Zealand n=74)



Banks, not surprisingly, are the main source of advice on small business financing in Australia, Singapore, Hong Kong and New Zealand. In Malaysia and Indonesia, financial advisers are the main source of advice for businesses considering seeking external finance.

It is disappointing that external accountants are not a more important source of advice on seeking finance in the Asian markets surveyed. Accountants can provide an independent source of advice on financing options and can help small businesses meet the requirements of lenders.

Reflecting the more prominent role family and friends seem to play in small business in Asia in comparison to Australia and New Zealand, family and friends are the most prominent source of advice for businesses in Indonesia when they are seeking finance.

It is also interesting that Singaporean and Malaysian businesses seem to make much greater use of mentors as a source of advice on financing. Mentors can be a very positive influence on a business if they have the appropriate skills and experience.

Forms of finance

Figure 18: Forms of financing used – comparison of 2009, 2010 and 2011 results*

Q2-1 Which of the following types of business financing has your business ever used? (Multiple response, 2011) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)

Financing forms	Australia	Singapore	Hong Kong	Malaysia	Indonesia	New Zealand
	2011 (n = 509)	2011 (n = 202)	2011 (n = 202)	2011 (n = 201)	2011 (n = 219)	2011 (n = 201)
Credit cards	66%	59%	44%	41%	30%	58%
Bank loan (secured)	41%	53%	49%	54%	62%	37%
Overdrafts	34%	32%	33%	30%	0%	46%
Leasing	28%	32%	25%	21%	21%	13%
Loan or equity injection from family or friend	24%	35%	39%	36%	32%	25%
Hire purchase	19%	32%	44%	44%	12%	25%
Bank loan (unsecured)	17%	34%	42%	15%	8%	13%
Chattel mortgage	12%	10%	23%	6%	2%	5%
Vendor financing	6%	21%	27%	13%	14%	8%
Debtor financing	7%	23%	24%	12%	7%	3%
Inventory financing	6%	26%	26%	12%	24%	2%
International trade financing	5%	17%	25%	12%	12%	5%
Other	2%	6%	2%	7%	5%	8%
None	18%	11%	8%	10%	8%	16%

Credit cards are an increasingly popular form of financing in Australia (and are similarly popular among New Zealand's small businesses), even though it may not be the most appropriate form of financing. In fact the survey results show that the larger the small business in terms of number of employees, the more likely they are to use credit cards. This may be a result of tighter lending conditions on other forms of finance, the ease which credit cards can be obtained and the ease of use.

Working capital facilities such as debtor and inventory financing can reduce costs, be a better match to what they are financing and free up working capital. As CPA Australia have said in previous survey reports, lending institutions, governments, industry associations and accountants as key business advisers all have a role to play in helping Australian (and New Zealand) small business better understand the different financing options and when such options are most appropriate.

Indonesian businesses seem very reliant on secured lending from a bank when compared to other markets in the survey. This form of financing may not be the most appropriate form of financing in all situations. Like Australian and New Zealand businesses, Indonesian businesses should be made more aware of the financing options available to them and when they are the most appropriate form of financing.

Australia and New Zealand are the least likely to use any form of financing, which may be consistent with the higher proportion of the sample in those markets that are older business operators and who may be better placed to fund their business from their own resources and micro-businesses who may have a smaller need for finance.

It is interesting that while 2011 appears to be a worse year than expected for many Hong Kong businesses and international trade was generally weak, there was a large jump in the percentage of small businesses that used international trade finance. In breaking down this figure by number of employees, it is Hong Kong businesses with five to nine staff that were by far the most likely to access international trade finance. Hong Kong businesses of this size were by far the most confident section of Hong Kong small business.

Contrary to previous statements in this report on the focus of Malaysian businesses on achieving growth predominately through sales, it seems that Malaysian businesses are acquiring assets through hire purchase or leasing (with hire purchase being a very popular form of financing for businesses with five to 19 staff).

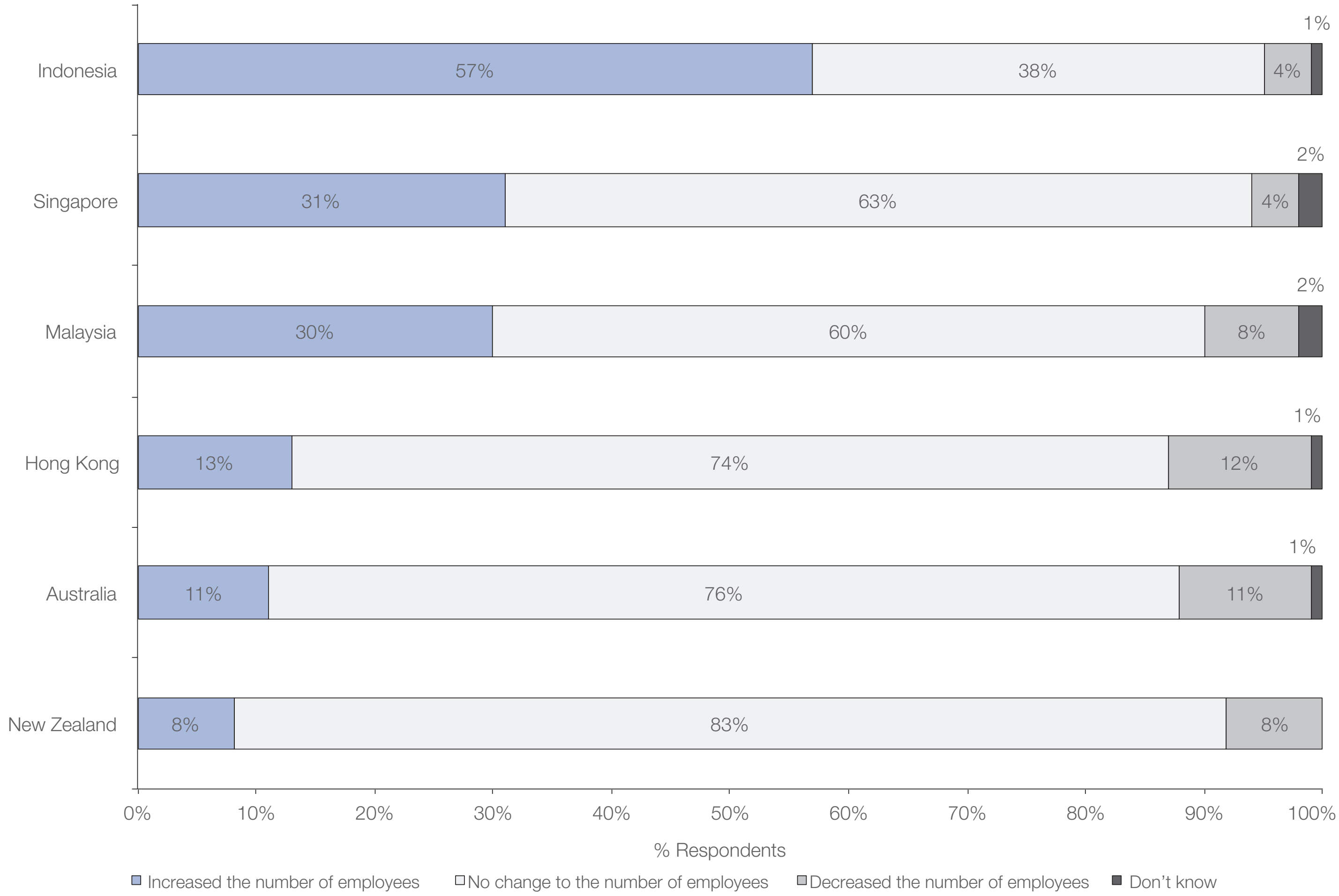
Reflecting tighter lending conditions in Malaysia, there is a large increase in secured lending, while unsecured lending has fallen. It is interesting that while many Malaysian businesses are increasing their purchases of stock to meet higher demand, working capital financing options remain relatively low.

It is of some concern that New Zealand businesses are very likely to rely on short-term (and possibly expensive) forms of financing – being credit cards and overdrafts. It is a basic business principal that long-term funding should pay for long-term assets. If New Zealand or any other businesses are using credit cards or overdrafts to pay for long-term assets, this can be a considerable business risk.

Small business employment

Figure 19: Changes in employee numbers over the past 12 months

Q3-4 In relation to the number of employees in your business, could you indicate whether over the past 12 months your business has … (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)



There is a big increase in the number of Indonesian small businesses that hired additional staff in the last 12 months, reflecting the business confidence in the Indonesian market. This growth was in all sizes of Indonesian small business, with 69 per cent of businesses employing 10 to 19 staff, putting on new staff in 2011.

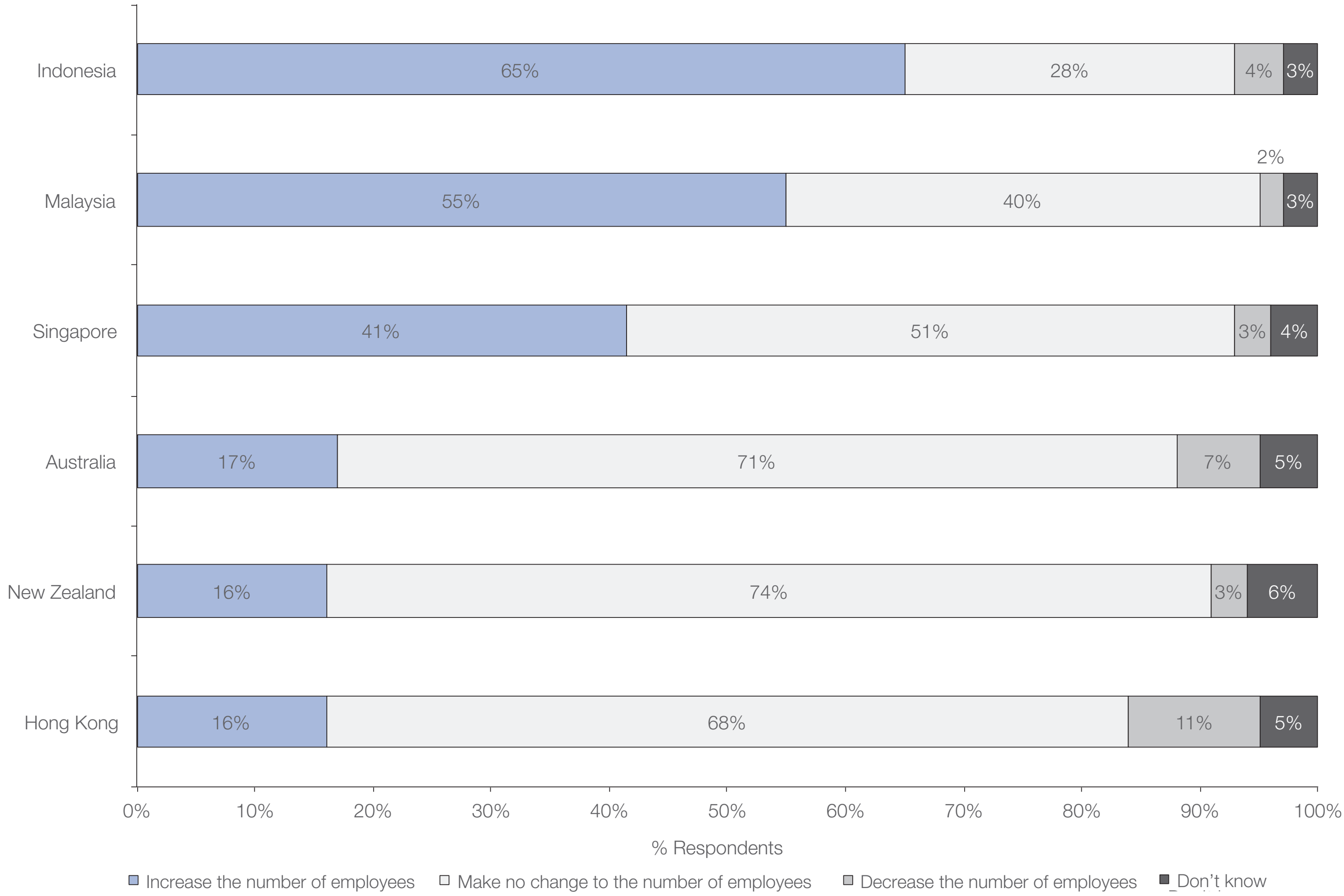
On the other hand, small businesses in Australia, Hong Kong and New Zealand were generally unlikely to employ new staff in the past 12 months. This reflects the lower levels of business confidence in those markets compared to the other markets in the survey. In breaking down the Australian data further, nearly a third of business with 10 to 19 staff put on staff in 2011, while businesses with five to nine staff were more likely to have reduced staff numbers than increase staff numbers in the past 12 months.

In comparison to a similar question in the 2010 survey (which asked about changes in full-time employment), the percentage of Malaysian and Singaporean businesses that increased employee numbers in 2011 is roughly equivalent to the expected increase in full-time employment for 2011 from the 2010 survey.

In contrast, in the 2010 survey, more than 25 per cent of Hong Kong businesses expected to increase full-time employee numbers in 2011, however only 13 per cent increased employment. This supports the contention that 2011 fell short of expectations for many small Hong Kong businesses.

Figure 20: **Expected changes in employee numbers over the next 12 months**

Q3-5 *In the next 12 months, do you expect your business to ... (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=219)*



Reflecting strong confidence levels, small businesses in Indonesia, Malaysia and Singapore are significantly more likely to anticipate an increase in staff numbers in the next 12 months. This expectation is strong, regardless of the size of the business, for instance 57 per cent of Malaysian businesses with one to four staff members are expecting to employ more staff in the next 12 months.

Given other results that tend to point towards many Malaysian businesses growing by increasing sales, it is easy to speculate that much of the new staff they intend to hire will be sales focused. For Singapore, which has a very low unemployment rate, businesses may find it difficult to meet their employment expectations unless they pay higher salaries than competitors or seek alternatives to meet their labour needs such as outsourcing.

Reflecting the lower confidence levels in Hong Kong and Australian small business, small businesses in those markets will not be a major source of employment growth or decline in the next 12 months. However, it must be stated that a reasonable proportion of Australian businesses with five to 19 staff will be looking to increase staff numbers in 2012.

While the hiring intentions of New Zealand businesses basically match that of Australia and Hong Kong, they are less likely to intend to reduce staff numbers. This reflects the more positive outlook they have to their Australian and Hong Kong counterparts.

Small business management activities

Figure 21: Business management activities undertaken in the past 12 months – comparison of 2009, 2010 and 2011 results*

Financing forms	Australia 2011 (n = 509)	Singapore 2011 (n = 202)	Hong Kong 2011 (n = 201)	Malaysia 2011 (n = 201)	Indonesia 2011 (n = 219)	New Zealand 2011 (n = 201)
Increase marketing and promotion	24%	40%	35%	48%	62%	29%
Follow up on late payments from your customers	38%	43%	33%	33%	32%	47%
Use your personal credit card for business use	38%	34%	15%	28%	16%	40%
Offer discounts to customers to induce early payment	17%	33%	28%	38%	25%	18%
Received business advice from an accountant	32%	14%	15%	19%	25%	38%
Seek a short-term injection of funds	15%	28%	24%	28%	33%	15%
Take up early discounts from suppliers	18%	33%	20%	30%	17%	18%
Reduce levels of stock held	22%	19%	25%	31%	14%	20%
Sell excess / obsolete stock	16%	17%	27%	26%	26%	18%
Extend payment terms with suppliers	12%	30%	23%	22%	23%	10%
Decrease marketing and promotion	13%	12%	21%	14%	11%	14%
Sell personal assets to fund business activities	10%	14%	14%	20%	16%	10%
Sell business assets	8%	10%	15%	13%	11%	10%
None of the above	17%	7%	3%	4%	1%	8%
Don't know	1%	1%	1%	0%	0%	0%

Singaporean and Malaysian businesses increased their marketing spend in 2011. This is consistent with their strong outlook for 2011. As Malaysian businesses seem to be focused on sales, it is not surprising that nearly half of all respondents have increased their marketing.

It is interesting that while Hong Kong also had a very similar outlook for 2011 in 2010, and as a result 45 per cent expected to increase their marketing spend in 2011(see Table 10 of the 2010 survey), this did not eventuate. This reflects that 2011 did not meet the expectations of many Hong Kong businesses. Supporting this, Hong Kong businesses were most likely to reduce their marketing spend in 2011.

Again reflecting the tighter lending conditions in Malaysia, these businesses were the most likely to reduce stock levels and sell personal assets support the business. Given this experience, it does seem a little surprising that many Malaysian businesses seem to be increasing their inventory.

It is disappointing that such a large proportion of Australian businesses do not undertake any of the abovementioned business management activities. This can only contribute to their less confident view and may indicate that a proportion of Australian businesses are effectively "hoping for the best" rather than confronting their problems. On the other hand, it is good to see that compared with last year, businesses in Singapore, Malaysia and Hong Kong are all more likely to undertake at least one of the management activities listed. In the case of Hong Kong, this places them in a good position to manage through the difficulties they are currently experiencing and expect to continue in 2012.

It is disappointing that Australian and New Zealand businesses are most likely to use their personal credit card for business purposes. Good business practice, no matter what reason a person runs a small business, is to split personal affairs from the business.

Businesses in all markets could improve their management activities by following up outstanding payments as part of business practice and making greater use of their external accountant as a source of business advice.

Figure 22: **Business management activities expected to be undertaken in the next 12 months**

Q3-3 *And please indicate which of the following activities you expect to do in the next 12 months. (Multiple response, 2011) (Australia n=509, Hong Kong n=201, Malaysia n=201, Singapore n=202, Indonesia n=219, New Zealand n=201)*

Financing activities	Australia 2011 (n = 509)	Singapore 2011 (n = 202)	Hong Kong 2011 (n = 201)	Malaysia 2011 (n = 201)	Indonesia 2011 (n = 219)	New Zealand 2011 (n = 201)
Increase marketing and promotion	25%	38%	40%	44%	59%	36%
Follow up on late payments from your customers	31%	43%	26%	29%	33%	36%
Offer discounts to customers to induce early payment	16%	36%	29%	37%	31%	12%
Seek business advice from an accountant	30%	16%	21%	21%	30%	31%
Seek a short-term injection of funds	13%	24%	25%	31%	36%	10%
Take up early discounts from suppliers	16%	30%	21%	30%	18%	18%
Sell excess / obsolete stock	14%	16%	30%	27%	23%	15%
Extend payment terms with suppliers	8%	29%	24%	27%	27%	4%
Reduce levels of stock held	14%	22%	22%	29%	13%	15%
Use your personal credit card for business use	25%	18%	12%	20%	12%	26%
Decrease marketing and promotion	7%	13%	16%	15%	7%	6%
Sell business assets	6%	10%	14%	14%	8%	8%
Sell personal assets to fund business activities	8%	9%	11%	13%	12%	4%
None of the above	18%	8%	2%	5%	1%	13%
Don't know	7%	3%	1%	3%	1%	2%

As in the previous surveys too many Australian small businesses will continue to take a poor approach to the management of their business in 2012. Given the uncertain economic environment, this is of concern. This remains a problem that Australian Governments, together with lenders, industry associations and accountants, must think of creative ways of addressing.

Australian businesses are well down on expecting to increase their marketing spend compared with the other markets previously surveyed. However, only a small percentage is looking to decrease their marketing spend. This is to be expected given the relatively low levels of confidence of Australian small business. In such circumstances, good business practice would be to focus the marketing spend on more measurable activities.

It is surprising given the lower growth forecasts of Australian and Hong Kong businesses in comparison to the other markets surveyed, that less than a third of businesses from those markets expect to follow up late payments from customers. If businesses in both economies are expecting a downturn, then this should become a priority activity.

It is also interesting that while many Malaysian businesses are increasing stock levels, they should at the same time be expecting to reduce stock or sell excess or obsolete stock. This may indicate that some Malaysian businesses would benefit from investing in stock purchasing systems to assist them improving their stock management.

It is of no surprise that most businesses in Indonesia intend to increase their marketing spend next year as they seek to take advantage of the expected strong market conditions.

If a business is expecting tough trading conditions, they should be looking to improve their working capital position. With Australian and New Zealand businesses being less likely to undertake activities to improve their working capital position, it is likely that some small businesses in those markets will run down their cash position. Such businesses will be poorly placed to take advantage of any recovery in the economy. One has to question, given we are in the third year of the global financial crisis, how long such businesses can continue to run down their own resources. A renewed focus on improving their working capital position by chasing up late payments from customers, selling excess or obsolete stock, reducing stock levels and even offering discounts to induce early payment from customers should be part of the day-to-day activities of such businesses.

Survey sample details

Figure 23: Role of respondent in organisation

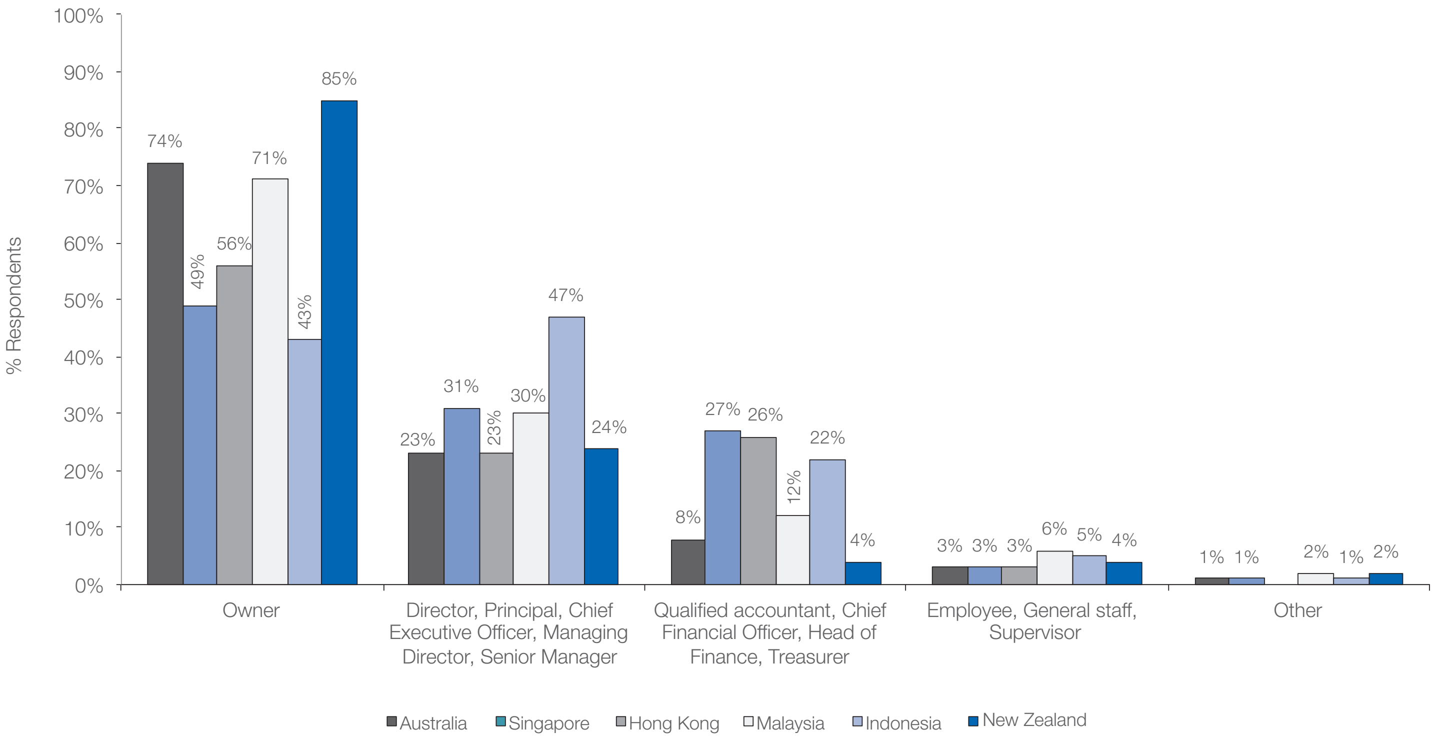


Figure 24: Number of staff, years in existence and age of respondent

Firmographics	Australia 2011 (n = 509)	Singapore 2011 (n = 202)	Hong Kong 2011 (n = 201)	Malaysia 2011 (n = 201)	Indonesia 2011 (n = 219)	New Zealand 2011 (n = 201)
Nil (Sole Trader)	38%	12%	13%	13%	11%	47%
1-4	34%	30%	19%	29%	20%	41%
5-9	15%	23%	37%	28%	32%	6%
10-19	14%	35%	31%	30%	37%	5%
Under 5 years	26%	38%	30%	47%	49%	34%
5-10 years	31%	32%	39%	35%	40%	35%
11-20 years	21%	22%	26%	11%	7%	18%
21+ years	20%	7%	4%	6%	3%	13%
Don't know	1%	1%	0%	0%	1%	13%
Under 30	8%	17%	12%	32%	49%	6%
30-39	20%	38%	32%	47%	41%	22%
40-49	27%	37%	42%	12%	8%	26%
50-59	26%	6%	11%	8%	1%	22%
60+	19%	2%	1%	0%	0%	23%
Don't know	7%	3%	1%	3%	1%	2%

Figure 25: Turnover of respondent

Australian dollars	% of respondents n = 509	Singapore dollars	% of respondents n = 202	Hong Kong dollars	% of respondents n = 201
Under $200,000	52%	Under $250,000	26%	Under $1.5 million	28%
$200,000 < $500,000	16%	$250,000 < $600,000	23%	$1.5 million < $3 million	15%
$500,000 < $1 million	11%	$600,000 < $1.2 million	17%	$3 million < $6 million	31%
$1 million < $2 million	6%	$1.2 million < $2.4 million	20%	$6 million < $12 million	19%
$2 million or more	4%	$2.4 million or more	5%	$12 million or more	3%
Prefer not to disclose	12%	Prefer not to disclose	8%	Prefer not to disclose	4%
Malaysian ringgit	**% of respondents n = 201**	**Indonesian rupiah**	**% of respondents n = 219**	**New Zealand dollars**	**% of respondents n = 201**
Under RM 600,000	50%	Under IDR2 billion	58%	Under $250,000	66%
RM 600,000 < RM 1.5 million	32%	IDR 2 billion < IDR 4.5 billion	24%	$250,000 < $650,000	15%
RM 1.5 million < RM 3 million	5%	IDR 4.5 billion < IDR 10 billion	5%	$650,000 < $1.25 million	4%
RM 3 million < RM 6 million	1%	IDR 10 billion < IDR 20 billion	3%	$1.25 million < $2.5 million	3%
RM 6 million or more	3%	IDR 20 billion or more	2%	$2.5 million or more	0%
Prefer not to disclose	8%	Prefer not to disclose	8%	Prefer not to disclose	10%

Appendix 1

About this survey

*The CPA Australia Asia-Pacific Small Business Survey 2011 i*s a survey conducted with owners or senior representatives (including those in senior financial roles) of businesses with less than 20 employees. The markets included in the survey were Australia, Hong Kong, Malaysia and Singapore with the survey expanded to include New Zealand and Indonesia for the first time in 2011. The survey was conducted during the period from 6 October to 11 October 2011.

The key objectives of the study were to:

- explore small business growth expectations
- understand small business attitudes and experiences regarding accessing finance and for what purpose such finance is being used
- identify possible changes to the frequency of certain business management activities
- identify possible changes in employment by small business

The CPA Australia Asia-Pacific Small Business Survey 2011 is part of a longitudinal study of small business being conducted by CPA Australia. The results present the cross-market comparisons between the six markets included in this study. The report also presents a comparison of the experiences of Australian small business as reported in this survey with their experiences as reported in the 2009 and 2010 survey (for the four markets where longitudinal data is available). In order to make this comparison, many of the questions in this survey were drawn from the 2009 and 2010 survey.

The 2011 survey was organised on behalf of CPA Australia by ORC International.

Interview method

In each market, the survey was conducted online among randomly selected owners or senior representatives of small businesses who were registered with a research panel managed by Research Now and AIP (in Indonesia). Specifically, respondents were required to be an owner, a manager (defined as being a director, a principal, a CEO, a senior manager or a managing director) of a small business, or to be a qualified accountant or the CFO (or similar title) within a business with less than 20 staff.

ORC International was responsible for all aspects of administering the fieldwork including questionnaire programming, coordinating selection of respondents from Research Now and AIP panels, forwarding the survey to respondents and processing the respondent data.

Sample

In total, 1533 respondents participated in the survey, including 509 participants in Australia, 202 participants in Singapore, 201 participants in Malaysia, 201 participants in Hong Kong, 201 participants in New Zealand and 219 participants in Indonesia.

Questioning

As noted earlier, many of the questions included in the 2011 survey were drawn from the 2010 survey which was conducted in October 2010. However, some of the 2010 questions were modified or removed, and new questions were included in the 2011 survey.

The Australian, Singaporean and New Zealand questionnaires were administered in English. The Hong Kong questionnaire was administered in both English and traditional Chinese, the Malaysian questionnaire was administered in both English and Bahasa Malaysia and the Indonesian questionnaire was administered in both English and Bahasa Indonesia. For each market, the questionnaire included a total of 27 questions including screening and firmographic questions. The questionnaire included a number of skips depending on particular responses provided by respondents. Accordingly, not all respondents were required to answer all 27 questions. Each respondent took approximately 10 minutes to complete the survey.

Rounding

All percentage results shown in this report have been rounded to the nearest whole number. This means that if you add up the full range of results for some single-response questions, the total may come to just under or just over 100 per cent.

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