

## Preface

Small business is a vital part of the Australian economy and community. Almost half of all those employed in the non-agricultural private sector work in small business either as owners or part-owners or employees. Small business accounts for one-third of Australia's GDP and plays a critical role in developing new goods and services. The small business sector is also playing an increasingly important role in lifting Australia's export performance. No less importantly, small businesses have a unique and important role in the social and economic life of communities, particularly in regional Australia.

The focus of this inquiry is on the factors that determine employment in small business and measures that governments can take to assist small business to employ more people. The committee has also been asked to consider the effect of regulation on small business and its capacity to increase employment. A key aim is to draw together the range of evidence on small business employment issues and provide a more informed basis for debate about policies and programs that would enhance small business' capacity to employ. The committee has drawn on research by the Productivity Commission and the OECD as well as evidence to the inquiry from small business proprietors, their representatives and advisers and academics and service providers. These highlight the diversity within the sector, the complex range of factors that determine employment levels in small business and our limited understanding of these, and the difficulties inherent in framing policies to increase employment. They also indicate the need for measures that would improve our understanding of the dynamics of small business growth and employment generation.

The clear message is that employment growth in small business depends on business growth. Business growth occurs when small businesses are able to increase sales and grow their markets. Raising productivity or profitability in small business can also provide a platform for growth. Business growth also depends on the growth aspirations and business management skills of small business owners and the skills and productivity of their workforce. The inquiry found that many small businesses have limited growth aspirations, with a minority having both the desire and potential to grow significantly. The major employment contribution of many small businesses is to provide jobs for the owner, some family members and one or two others. This contribution should not be under-valued but it indicates the need for a realistic appraisal of the scope for government initiatives to lift employment across the sector.

Small business owners and service providers also told the committee that, despite being highly skilled and capable in many areas, many proprietors lack the business management skills they need to compete effectively in today's more competitive, deregulated environment. The lack of these skills is a major cause of under-performance, business failure and untapped potential in the small business sector.

This is not a new finding, or one confined to Australia: the need to improve the business management skills of small business owners has been identified by almost all

small business reports and studies over the past twenty-five years in Australia and other OECD countries. Governments at all levels and from both major parties have acknowledged this need to varying degrees and there have been many worthwhile developments and initiatives. But it is clear that current initiatives fall short of providing the level, quality and type of business development support that would allow small business to reach its full potential and the committee has made a number of associated recommendations. There is also need for a greater focus on developing a more skilled small business workforce.

Two other themes to emerge in the inquiry were the challenge of effective communication with a sector as large, diverse and fragmented as small business and the need for a more coordinated approach to policy and program development and delivery. The problems and challenges facing the small business sector and the barriers to effective communication between government and small business are not unique to Australia, although they are undoubtedly complicated by our federal system of government. Much has been done in the past decade by governments at all levels, and by local communities as well as industry and business associations, to reach out to small businesses and support their efforts at enterprise development and much has been learnt about the attributes, needs and preferences of small business and the effectiveness of different approaches. But the committee was left with the strong impression small business still considers that its needs are not adequately considered by government and that the current suite of government programs and policies have evolved 'like topsy' in an ad hoc, uncoordinated manner, with both duplication of effort and gaps and a striking lack of consistency and continuity. It is little wonder that small business is often confused and frustrated in its dealings with government and many small businesses are unaware of the scope and nature of available assistance.

The committee believes that much more needs to be done to build on past and current efforts so that small business can realise its full potential to contribute to a more vibrant and dynamic Australian economy. The time has come to consider a national approach to small business development and support and to reform of regulations affecting business. Governments at all levels need to develop a more coordinated approach to small business policy and programs based on common objectives, individual responsibilities and accountabilities, information and resource sharing and a whole of government approach to service delivery. The increasing need and potential for small business to diversify its customer base and service markets outside its local, state and even national boundaries, provides additional impetus for such an approach.

The second focus of the inquiry is the effect of government regulation on small business. Several inquiries or studies in Australia and the OECD over the past decade have examined this issue. In Australia, a House of Representatives inquiry reported in 1990 on the effect of government policies and regulation on small business and in 1996 the Small Business Deregulation Task Force (the 'Bell Task Force') made a large number of recommendations with the aim of halving the burden of regulation on small business. In 2001 the OECD reported on the effect of government 'red tape' on small and medium enterprises.

These inquiries were prompted by perceptions of an increasing body of regulation affecting business and a growing recognition of the disproportionate burden on small business and the flow-on effect for business performance and productivity. In response to both reports, and other similar findings, the Commonwealth and state and territory governments have made some constructive efforts to reduce the regulatory burden. These include the introduction of Regulation Impact Statements, more streamlined licensing arrangements, internet-based centralised information on regulatory requirements and, in some cases, red tape reduction programs. And yet this inquiry found that the burden of regulation appears to have, if anything, increased over the past decade. The OECD report found a similar pattern in most member countries. The main areas of regulatory burden are in relation to taxation, employment and environment.

The inescapable conclusion is that while reducing the burden of regulation on small business is clearly one of the most important things that governments can do to reduce small business costs and increase profitability, there are no magic solutions. Governments continue to regulate in response to public policy goals and community concerns in areas such as taxation, environmental protection, occupational health and safety and employment conditions despite the additional, and disproportionate, imposts that such regulations often impose on small business. The body of regulations applying to business increases each year and it would be a brave politician who would promise that this situation can be easily reversed.

At the same time, the committee believes that governments can do much more to reduce the burden of regulation on small business. In a federal system such as Australia, the layers of regulation from the different tiers and jurisdictions of government is a major source of regulatory burden. There is no continuing and comprehensive program, across all levels of government, to identify and address existing areas of excessive red tape, including those stemming from the interaction of different regulations. Regulation Impact Statements (RIS), while a useful tool, are not implemented with sufficient rigour, and do not appear to give adequate attention to the compliance costs of regulation. Governments also need to provide more support to small business to assist it to identify and meet compliance obligations. A number of recommendations have been made in this area. The committee believes that the Commonwealth needs to provide stronger leadership for a continuing national focus and program to minimise the burden of regulation, particularly that associated with our federal system of government.

This inquiry follows a period of intense and often polarised political debate about the effect of unfair dismissal laws on small business employment. It also follows controversy and complaint about the significant compliance burden flowing from the introduction of the New Taxation System and the Goods and Services Tax (GST) in 2000. While this report will provide some assessment on the evidence in relation to these two matters, it will not deal with them in any detail because they have been canvassed so extensively in other contexts. The committee notes, however, a comparison of responses to these issues can help to illustrate how proposals for exemptions from regulatory requirements, be they unfair dismissal laws, tax collection reporting or compulsory superannuation contributions, often involve difficult trade-

offs between the interests of small business and the policy objective of the regulation. Claims for special treatment for small business depends on an assessment of both the effect of the regulatory requirement on small business and the importance of the policy objective. Irrespective of their commitment to small business, political parties can and do take different positions on specific proposals depending on the policy issue in question.

The committee majority also notes that while concerns about unfair dismissal laws were raised by small business people during the course of this inquiry, they did not figure prominently. Small business people and their advisers placed greater emphasis on the need for more support to develop their business management skills, including human resources management, in recruiting skilled staff, and in meeting their compliance obligations, including those related to employment and the New Tax System. The difficulties that small businesses face in attracting and retaining skilled people also suggest that it is not in the interests of the sector for it to be seen as a 'second class' employer.

In these circumstances, and the light of the general evidence regarding employment determinants in small business, the committee majority concludes that governments can best enhance the employment capacity of small business by providing a sound economic framework conducive to business growth and investing in interventions that would increase productivity in small business. Further efforts to reduce the compliance burden of regulation, including that associated with business taxation could also increase the productive capacity of all small businesses, which is a desirable objective, irrespective of whether it is translated into employment growth.

Finally, the committee notes that several specific issues dominated small business concerns during 2002. These include the escalating cost and reduced availability of public liability insurance and the need to strengthen some provisions of the Trade Practices Act to protect small business against predatory behaviour by big business. The latter is a particular concern in some industry sectors such as grocery retail trade and the motor trades.

The committee has chosen to not deal with these issues in any detail in this report in the light of its broad terms of reference and the government or parliamentary inquiries examining these matters concurrent with this inquiry. However it recognises that the cost and availability of public liability insurance is a major issue facing small business and that there is still need for action by governments and others to resolve the issue. It urges the Commonwealth government, and state and territory governments, to give utmost priority to measures that would address the concerns of small business.

The Committee also recognises that the exploitation of market power by large firms is one of the greatest challenges facing small business at this time and has the potential to threaten the viability of many small firms. The committee notes that the Dawson inquiry into the Trade Practices Act is examining this issue. In forming its response to the Dawson inquiry the government should give high priority to the concerns of small business.

Senator George Campbell  
Chair

