

***Senate Employment, Workplace Relations and Education
References Committee***

Inquiry into Small Business Employment

Submission by

Melbourne Development Board

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This submission addresses the following key issues as outlined in the Terms of Reference to the Senate Employment, Workplace Relations and Education Reference Committee's Inquiry Small Business Employment:

- *The special needs and circumstances of small business and the key factors that have an effect on the capacity of small business to employ more people.*
- *Measures that would enhance the capacity of small business to employ more people.*

Introduction

Melbourne Development Board is part of a national network of over 50 Area Consultative Committees (ACCs) first established by the Federal Government in 1995 to develop local responses to regional employment needs.

Melbourne Development Board comprises fifteen members drawn primarily from the key business sectors represented in our region. Other labour market interests are also represented including Local Government and the education sector. The Board is supported by some forty-four Sub-Committee and Reference Group members working in the fields of Industry and Economic Development, Employment and Skills.

The Melbourne Development Board conducts its day-to-day business in accordance with the principles of the National ACC Charter, which have continued to evolve since 1995 and now challenge ACCs to provide a social coalition between the Commonwealth Government, business and local communities to build stronger regions and communities. This is achieved by generating opportunities for employment, business success and sustainable regional economic growth and development.

As a body representing the interests of the Commonwealth Government and our regional community, Melbourne Development Board is ever mindful of its legal responsibilities and accountability. We conduct our dealings in a professional manner, applying principles of honesty, integrity and sound corporate governance.

The Region

The Melbourne Development Board's region covers the seven LGAs of Bayside, Glen Eira, Kingston, Melbourne, Monash, Port Phillip and Stonnington. The area covers some 330 square kilometres and at the 1996 Census recorded a population of just over 700,000 and a resident labour force of around 345,000. The region extends southwards from the Central Business District, taking in the densely populated urban villages that ring its perimeter including Port Melbourne, St Kilda, Prahran and South Yarra and runs along the Bay through prime residential areas that extend from Elwood and Brighton to Black Rock and Beaumaris. The region then stretches further south and east taking in beachside suburbs from Mordialloc to Patterson River and swings back into less densely populated and more industrial Braeside, Moorabbin and Heatherton. The region to the East takes in primarily residential areas from Caulfield to Bentleigh and extends into the more industrialised areas of Oakleigh and Clayton, and further east to embrace the more prosperous residential areas of Glen Waverly and Wheelers Hill.

Business

Number and Type of Business

Table 1: Key Industry Sectors Of Employment -Number Of Businesses

	<i>Bayside</i>	<i>Glen Eira</i>	<i>Kingston</i>	<i>Melbourne</i>	<i>Monash</i>	<i>Port Phillip</i>	<i>Stonnington</i>	<i>Total MDB</i>	<i>Total Melb</i>
Agriculture	11	4	41	12	15	9	9	101	3401
Mining	1	2	8	42	4	18	3	78	187
Manufacturing	221	283	1493	416	798	354	185	3750	15461
Electricity, gas and water			6	25	6	1	1	39	195
Construction	506	626	901	204	949	337	140	3663	20918
wholesale trade	311	426	1073	1039	896	692	289	4726	14340
retail trade	613	918	1200	1828	1318	848	861	7586	27972
accom, cafes and rest.	130	137	113	848	169	401	257	2055	5360
transport & storage	102	167	323	731	337	283	78	2021	7905
comm services	32	43	56	114	76	72	22	415	1368
finance and Ins	281	344	252	1376	423	570	260	3506	8030
property & Bus	1475	1700	1314	4203	2037	2882	1304	14915	38985
govt. admin & defence	9	12	20	243	18	26	12	340	729
Education	110	135	114	195	199	111	62	926	3795
Health & comm serv	431	638	412	1280	633	455	437	4286	14467
cultural and rec services	208	178	157	361	152	566	194	1816	4576
personal	270	340	336	618	399	419	292	2674	8996
Total	4711	5953	7819	13535	8429	8044	4406	52897	176685

Business Size

Small Business

A major feature of the Region's business sector is the predominance of small businesses. In fact, the Region includes the industrial area of Moorabbin, which comprises the highest concentration of small to medium sized industry in Australia. Across the Region 94% of businesses employ less than 20 people. The tables below provide a comprehensive picture of the nature and location of these businesses. Table 2 shows the industry sectors where small businesses predominate while Table 3 looks at the spread of such businesses across the Region's LGAs.

TABLE 2: NUMBER OF SMALL BUSINESSES BY INDUSTRY SECTOR

	number businesses > than 20 employees	Total Businesses	small businesses as % of total
Finance and Insurance	3085	3373	91.5
Mining	69	76	90.8
Personal Services	2448	2569	95.3
Property and Business	13653	14341	95.2
Retail trade	7391	7732	95.6
Transport and Storage	1585	1724	91.9
Wholesale Trade	3965	4269	92.9
Govt Admin & Defence	123	264	46.6
Health and Community Services	3849	4057	94.8
Manufacturing	3014	3628	83.1
Construction	3620	3724	97.2
Cultural and Rec Services	1551	1692	91.7
Education	684	894	76.5
Electricity Gas and Water	16	32	50
Accomm. Cafes and Rest.	1592	1880	84.7
Agric. & Fishing	103	106	97.2
Communication Services	296	374	79.1
TOTAL	47044	50735	92.7

TABLE 3: PERCENTAGE OF SMALL BUSINESSES BY LGA

Number of small businesses by LGA	number businesses > than 20 employees	Total Businesses	small bus' as % of total
Melbourne	7080	8071	87.7
Port Phillip	7437	8044	92.5
Stonnington	7337	7708	95.2
Monash	7786	8429	92.4
Bayside	4514	4711	95.8
Glen Eira	5716	5953	96
Kingston	7174	7819	98
TOTAL	47044	50735	92.7

TABLE 4: PERCENTAGE OF MICRO BUSINESSES BY LGA

	number businesses > than 5 employees	Total Businesses	micro business as % of total
Melbourne	4855	8071	60.2
Port Phillip	5524	8044	68.7
Stonnington	5763	7708	74.8
Monash	5996	8429	71.1
Bayside	3824	4711	81.2
Glen Eira	4778	5953	80.3
Kingston	5116	7819	69.9
TOTAL	35856	50735	71.4

Large Businesses

The number of large enterprises in the Region is not significant. Ranging from 3% of the total in the City of Melbourne to 0.6% in Bayside and Glen Eira, across the Region there are only 712 companies, or 1.4% of the total business sector employing 100 or more people. The majority of these businesses are in Property and Finance, and in Manufacturing. In Monash and Kingston (our manufacturing areas) only 1.6% and 1.2% of businesses employ over 100 people.

	Bayside			Glen Eira			Kingston			Melbourne			Monash			Port Phillip			Stonnington		
	<20	Total	%	<20	Total	%	<20	Total	%	<20	Total	%	<20	Total	%	<20	Total	%	<20	Total	%
Accomm. Cafes and Rest.	111	130	85.4	125	137	91.2	91	113	80.5	458	557	82.2	139	169	82.2	340	401	84.8	328	373	87.9
Agric. & Fishing	11	11	100	4	4	100	39	41	95.1	7	7	100	15	15	100	8	9	88.9	18	19	94.7
Communication Services	31	32	96.9	35	43	81.4	51	56	91.1	33	60	55.0	58	76	76.3	59	72	81.9	29	35	82.9
Construction	503	506	99.4	616	626	98.4	875	901	97.1	45	53	84.9	930	949	98.0	315	337	93.5	336	352	95.5
Cultural and Rec Services	194	208	93.3	167	178	93.8	140	157	89.2	122	146	83.6	137	152	90.1	520	566	91.9	271	285	95.1
Education	85	110	77.3	100	135	74.1	79	114	69.3	80	96	83.3	144	199	72.4	97	111	87.4	99	129	76.7
Electricity Gas and Water	0	0	0.0	0	0		2	6	33.3	9	18	50.0	3	6	50.0	1	1	100	1	1	100
Finance and Insurance	280	281	99.6	335	344	97.4	239	252	94.8	840	1035	81.2	406	423	96.0	529	570	92.8	456	468	97.4
Govt Admin & Defence	4	9	44.4	7	12	58.3	10	20	50.0	67	162	41.4	11	18	61.1	14	26	53.8	10	17	58.8
Health & Community Serv	395	431	91.6	593	638	92.9	390	412	94.7	603	611	98.7	609	633	96.2	433	455	95.2	826	877	94.2
Manufacturing	183	221	82.8	267	283	94.3	1203	1493	80.6	163	179	91.1	624	798	78.2	301	354	85.0	273	300	91.0
Mining	1	1	100.0	2	2	100.0	7	8	87.5	37	38	97.4	4	4	100.0	13	18	72.2	5	5	100
Personal Services	264	270	97.8	329	340	96.8	318	336	94.6	308	347	88.8	387	399	97.0	395	419	94.3	447	458	97.6
Property and Business	1458	1475	98.8	1674	1700	98.5	1273	1314	96.9	2392	2701	88.6	1975	2037	97.0	2711	2882	94.1	2170	2232	97.2
Retail trade	593	613	96.7	881	918	96.0	1153	1200	96.1	1224	1290	94.9	1244	1318	94.4	816	848	96.2	1480	1545	95.8
transport and Storage	97	102	95.1	164	167	98.2	299	323	92.6	306	362	84.5	317	337	94.1	259	283	91.5	143	150	95.3
Wholesale Trade	304	311	97.7	418	426	98.1	1003	1073	93.5	386	409	94.4	783	896	87.4	626	692	90.5	445	462	96.3
Total	4514	4711	95.8	5717	5953	96.0	7172	7819	91.7	7080	8071	87.7	7786	8429	92.4	7437	8044	92.5	7337	7708	95.2

Role of the Melbourne Development Board

The Melbourne Development Board has adopted a priority to identify industry sectors, which are well represented in its region, and within that framework, to attempt to obtain funding under the current Regional Assistance Program (RAP) to engage effectively with businesses exhibiting growth possibilities. In that context, initiatives have been recently undertaken or are proposed in the following sectors:

- Marine Industry (boat building, accessories)
- Environmental Products and Services (recycling, triple bottom line)
- Film and Television
- New Media, such as Computer Games
- Export Market Development
- Micro Business growth, particularly Home Based Businesses
- Business/ Technology Incubators
- Defence Industry Networks
- Biotechnology, particularly animal and plant related

The clear priority of our Board has been to work with small and micro businesses on the basis that their needs are more likely to be acute than those of larger businesses, which have the benefit of greater human and physical resources. It is for this reason that Melbourne Development Board feels qualified to outline to the Senate Committee some of the issues that are regularly raised with us and our project partners in the course of our work with micro and small businesses. It must be highlighted that our project initiatives under RAP are usually carried out in collaboration with active project partners drawn from the three levels of Government, as well as Industry Associations, the Universities, TAFEs and other Registered Training Organisations. These project partners mainly provide co-funding to complement RAP funding, and are often the project proponents as well as the Project Lead Group.

The special needs and circumstances of small business, and the key factors that have an effect on the capacity of small business to employ more people

Small Business in General

There are a number of general factors that contribute significantly to the capacity of small businesses to employ more staff. These include issues of cash flow, technology, management skills and factory/office space.

Numerous small businesses face the problem of cash flow. Whilst a business may be growing, many do not have the time to regularly invoice clients and follow up the progress of their accounts. This inhibits a small business from employing new staff, even if the demand is there, as a small business must consider adding upwards of 30% to the cost of wages when hiring a new staff member, to cover superannuation, workcover and payroll tax if necessary. To a business with a cash flow problem, this is an extra expense that can often not be borne in the immediate future, leading to constraints on potential growth. Furthermore, the GST has impacted on small business cash flow, as businesses are required to pay income tax, GST and PAYG at the same time, as well as remitting GST before collecting it from customers. This has significantly increased the burden of payments on small business in some cases.

It is true that new technologies are creating in some cases, the capacity for small and medium-sized enterprises to deliver competitively priced customised products. In fact, many small and medium-sized enterprises are now able to compete in markets previously dominated by larger enterprises that had the capacity to mass produce. Small enterprises are gaining from the increasing trend for larger firms to confine their operations to their core business and to 'outsource' the supply of goods and services that are not a part of their core business. However, this trend towards high-tech, computer-based operations and machinery is also indirectly preventing small business from employing staff. Studies undertaken by the Dandenong, Kingston and Monash Councils covering part of the Melbourne Development Board's region, demonstrate a significant deficiency in the uptake of I & CT strategies by local manufacturing organisations. In fact, some organisations do not even own computers and many still operate their supply, transaction and finance systems manually. Obviously, this will have serious effects on the competitiveness of small business in today's global, high-tech society, which in turn will impede the employment of staff.

The lack of management skills in small firms is also a major factor inhibiting competitiveness and economic growth. Many small business operators do not have any formal training in the key areas of Business Management and Planning, Marketing, Human Resource Management and Recruitment. Growth is often unplanned and in many cases occurs too quickly, leading to the demise of the business. For SMEs to grow or expand their operations, the need to upskill and mentor owner operators/managers is a critical issue. Moreover, issues such as recruiting the right staff and developing a plan for retaining employees are usually low priorities when compared to managing the day-to-

day running of an operation, and in many cases, simply staying in business. Moreover, navigating the maze of recruitment agencies, Job network providers and Government subsidies and programs can prove too daunting for small businesses. This can have the effect of deterring them from recruiting new staff, and simply containing their growth, or it can lead them to recruit inappropriately and in desperation and end up with unsuitable or short-term employees. Business growth can therefore be severely stalled by the inability to recruit an appropriately skilled workforce.

Finally, many of the businesses that make up the small business sector operate out of home, mobile or shared offices. While the businesses can operate extremely successfully out of these limited spaces, the costs involved in graduating to a larger factory or office to accommodate new staff can be prohibitive. With property sale and rental prices at a premium the options for a growing small business are limited, and many opt to constrain growth to avoid the risk associated with moving to larger premises. Melbourne Development Board therefore strongly supports an expansion to the current Business Incubator Program to facilitate increased levels of mentoring and business planning support services for start-up firms.

Microbusinesses

A particular area of both opportunity and challenges is the significant growth of micro businesses, many of which are home based. To date this is an economic trend that has been largely ignored in the development of public policy. However, this trend is too important to ignore for much longer. There are substantial skills and potential for growth locked away in the micro based sector (particularly those that are home based) which are difficult to identify and even more difficult to engage with. These micro businesses are strongly independent and maintain low profiles, except with close networks of like-minded operators. Nevertheless, Melbourne Development Board's work with this sector is beginning to reveal areas where support facilitation is capable of producing growth and new employment opportunities

New Economy “sunrise” industries

Another sector, which has been significantly targeted for assistance via RAP, is the New Economy “sunrise” industries. This sector includes Film and Television, Biotechnology, and New Media. Our project initiatives under RAP are demonstrating that the new economy industries have particular needs of their own. These are outlined below:

The new media sectors such as computer games are dependent for growth on supporting infrastructure such as fast broadband, which is both accessible and affordable for micro businesses. Given the factors of cost and access, it is most likely that Internet broadband will need to be available on some sort of shared basis, rather than to expect each micro business, particularly those that are home based, to finance and support their own individual infrastructure.

Additionally, the more traditional media sectors such as Film and Television are also starting to require strong and coordinated support as the development and delivery of entertainment products necessitates multi platformed distribution. Video and DVD distribution is now just as important commercially as movie theatres, as is the venue for distribution.

The critical issue here is that these new growth sectors have the capacity to provide thousands of sustainable employment opportunities in the coming years. Yet, as growing industry sectors, they lack the infrastructure and lobby capacity to prosecute their case for State/Federal support.

Manufacturing Sectors

The Melbourne Development Board is also currently involved in project initiatives in several manufacturing sectors. In relation to the Environmental Products and Services Sector, this is a new growth sector and is characterised by micro and small businesses, which over time have the potential to grow into large businesses, provided that they are supported in their need areas.

These micro/small businesses are believed to be under strong pressure to conform to a growing number of government requirements such as the various returns associated with the implementation of the GST. At the same time businesses must cope with the rising costs of insurance, superannuation contributions and occupational health and safety measures, which are all placing cost and administrative pressures on these small businesses.

What is not generally recognised is that pressures are also being exerted on these and other small businesses from the large businesses to which they are suppliers, to move towards new levels of quality accreditation and to begin the process on triple bottom line performance improvements. When all of these pressures are combined they place a formidable load on the small and micro businesses sector.

Measures that would enhance the capacity of small business to employ more people

There are a number of methods for assisting small business growth, leading in turn to an increased capacity for employment.

There are a number of ways that the Federal Government can assist the small business sector to develop new technologies and products and grow new markets. The funding of a series of projects similar to Project Rex and E2Bec, which are currently being undertaken in the Northern and Southeast regions of Melbourne, is one method for addressing these issues. These projects aim to increase the use of e-commerce by small and medium sized organizations by utilising the skills of IT under-graduate students from local Universities

and TAFEs. By working with a business organisation on a project team, the students assist local companies to “get online”, and gain valuable skills and experience that will greatly assist them in gaining employment on completion of their course. A series of programs such as these are relatively inexpensive to develop and implement, and would improve the technological capacity of small businesses, as well as improving the employment opportunities, both within these organisations, and for the students developing the business technologies.

In addition, the Government should consider the development of business programs aimed specifically at improving the uptake of technology in small business. The current collection of business programs, at both the State and Federal level, is fairly ad hoc, and has often been developed in response to short term requirements. The result is a diverse selection of programs that is confusing, lacks direction and, is duplicative. Policies and programs should be implemented which enhance the availability and quality of technology in the enterprise, which in turn will encourage realistic and sustainable growth in the small business sector. The development of quality business programs aimed at developing management skills in small business should also be a priority for addressing the collective lack of such skills in small business.

As stated earlier, Government initiatives to help these high technology/new economy industry sectors to develop, expand and advocate for greater levels of Government support will deliver increased job growth dividends. Furthermore, the difficulties these sectors face in attracting venture capital are widespread and are often cited as the reasons for the loss of innovative technologies (and the subsequent manufacturing processes) overseas. Greater levels of flexibility with AusIndustry’s innovation/technology programs are required.

To address the limitations that office/factory space places on small business, Government should consider expanding its Business Incubator Program. Business incubators are designed to assist new and growing businesses to become commercially viable by providing office space, mentoring and advice, administration services and equipment and support. A business is housed in the incubator for a period of one to three years, during which time they are able to grow and become profitable enough to graduate successfully into the wider business community. If the Government further developed its business incubator program, it would enable the participating small businesses to develop and build up a profit base through early years, without the added pressure of commercial rent and employing administrative staff, as well as having the benefit of advice and mentoring from established business operators. They would then be able to more easily make the transition to larger, commercial premises, which would subsequently enable them to employ staff as required.

To assist the microbusiness sector as a potential source of employment growth, there is a separate set of initiatives that the Government could consider. These include:

- *Increased participation in business networking, with networking initiatives developed and delivered through collaboration between the three tiers of Government that are active in the areas of business/ employment programs.*

- *Extension of the online business directories that are starting to emerge in many of the municipalities in which our Area Consultative Committee operates. These business directories are becoming reasonably comprehensive but they are not currently capturing listings from many micro businesses.*
- *Fostering strategic partnerships between these micro businesses given the fact that they are often too small to secure new work in response to tenders on their own.*
- *Segmenting the micro business market into those micro businesses that are looking for growth into commercial premises (often via business incubators), and*
- *Supporting those micro businesses that will always have their home office as their base. It is incorrect to assume that home based businesses which decide to always work from home offices are unimportant in terms of new jobs. It is only that these new job opportunities will occur in other micro (home based) businesses rather than in the particular business which is the prime business at any one particular time.*

Additionally, Melbourne Development Board believes that New Economy and Manufacturing industries can also be assisted via the development of effective business networks. Whilst there are some Government business support initiatives available to small businesses, these tend to be short-term measures lasting only three to four months. Under the Business Networking program through AusIndustry, there was support for business networks to function for up to three years, however this program has been discontinued. Melbourne Development Board recommends that some consideration be given to the reestablishment of some form of ongoing support that will facilitate growth amongst small businesses on a group or network basis.

The expansion of the Small Business Assistance Officer (SBAO) program to cover metropolitan ACCs is another approach that the Federal Government could take to enhance the capacity of small businesses to employ more people. As indicated previously, our region is home to over 47,000 SMEs (see Tables 2 and 3), and many:

- will not travel to the CBD for advice/support, or
- do not have access to the web, or
- do not have the time/inclination to wade through “one stop shop” websites (be they Commonwealth or State) that do not deliver on what they promise.

Therefore, the employment of an SBAO who was “outposted” to existing business sites in our region whenever possible (eg: business incubators, Council offices, employer groups such as VECCI and the Micro Business Network, and/or State Government sites) would appear to be an effective and essential process for assisting the growth of local small businesses.

While online “one stop shop” type assistance is currently being targeted towards SMEs by State/Federal Governments, as discussed previously, many SMEs do not have I& CT

capabilities at their workplace, so are unable to access these services. Moreover, those that do have access to the Internet often have difficulty locating relevant sites or justifying the time required to “surf the net”. Making available an SBAO to attend the workplaces of SMEs and Microbusinesses to advise them about the entire business cycle (from concept stage to wind-up stage) as well as regulatory, financial, legal and planning issues, would be a much more effective method for reaching and assisting this sector. Furthermore, as many SMEs don’t know the true nature of their needs – only the immediate problem with which they are faced, a skilled SBAO would be able to utilise information provided by each unique organisation to identify the real issues behind their problems and lead them to an appropriate solution.

The collection and analysis of appropriate Microbusiness data is also something that should be undertaken on a regular basis. As previously stated, there is very little data available on the numbers and nature of micro/home businesses, and what is available tends to become quickly out of date. Government could commission organisations such as the Microbusiness Network and Family Business Australia to collect and analyse information from their members on a regular basis, to provide to Government and other relevant business service providers to determine the extent to which these businesses have developed in Australia and the types of services and assistance programs that they require.

Finally, Melbourne Development Board strongly supports a “Whole of Government” approach to the delivery of business support to micro business and small businesses, and believes that the ACC’s are well placed to assume the role of facilitating access to these various Government` support programs on a regional level.