

The Secretary  
Senate Employment, Workplace Relations  
and Education References Committee  
Suite S1.61, Parliament House  
CANBERRA ACT 2600

Wednesday, June 05, 2002

Dear Secretary

Thank you for the opportunity for the WA Business Enterprise Centre Managers Association (BMA) to provide some input into the **Senate Inquiry into Small Business Employment**.

There are 37 Business Enterprise Centres (BEC) in Western Australia and our major objective in providing assistance to both potential and existing small business people is to create employment.

The BEC approach to small business assistance generates some 95,000 contacts per annum and in 2001 assisted 1,879 business starts which had an approximate economic value to the state of \$469 million. The BEC Network also generated some 4,754 jobs with an economic value of \$208 million.

By any measure, this is a sizeable achievement.

Attached to this letter is a submission from the BMA which addresses the issues you have requested in your terms of reference and a copy of the WA BEC 2001 operational summary.

Please do not hesitate to make contact should you require any specific information on our submission or if you would like us to appear before the inquiry if it sits in Perth.

Yours sincerely

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## **RESPONSE TO THE SENATE INQUIRY INTO SMALL BUSINESS EMPLOYMENT FROM THE BEC MANAGERS ASSOCIATION (WA)**

The BEC Managers Association (BMA) is an organisation representing the managers of the Business Enterprise Centres throughout Western Australia. A copy of the BEC Operational Summary for 2000 is attached for informational purposes..

This is a submission that addresses the terms of reference outlined by the Senate Inquiry. It should be noted that separate submissions may have been sent independently from individual BEC Committees or managers addressing matters of specific importance to them.

### **Term of reference 1:**

**The effect of government regulation on employment in small business, specifically including the areas of workplace relations, taxation, superannuation, occupational health and safety, local government, planning and tenancy laws.**

Some Government regulation has obviously had positive impacts on small businesses. The impact of such policies is likely to differ across businesses and industries. So too do the negative impacting regulations, and our submission will focus upon a number of these. Also of importance is the size or scale of the small firm's operations. For example, micro businesses with less than 5 employees (Most with none other than the owner-manager or immediate family) will experience different impacts from such regulation than medium-size businesses with between 100 and 200 employees.

Most small businesses start up with few employee resources other than the owner-manager(s) and the volunteer assistance of their families. (An estimated 66 per cent of small businesses in WA during 2001 were home-based) The majority of the Small Businesses in Australia are micro-businesses

Discussions with small business owner-managers suggest that government regulations are of major concern to some – either real or perceived. Most don't become concerned over such regulations until they attempt to undertake a particular task or strategy and find that they are restricted from doing so by government regulation. Compliance issues such as workers compensation and compulsory superannuation levies are viewed by most small business owners as necessary 'evils' that simply add substantial 'on-costs' to their payroll. (Though to many the cost of them is a hurdle that can prohibit the employment of staff)

Particular issues that have been noted by small business owners are the inability to pay workers award rates for night or weekend work where the job requires it - particularly in the hospitality industry where many workers are happy to receive a flat hourly rate. The alternative is to be out of work altogether.

Another key area of concern for small businesses is the industrial relations legislation where it is perceived by many to be almost impossible to terminate employment for an employee who does not comply with agreed standards. Many owner-managers are also fearful of employees making wrongful claims of unfair dismissal against them. Such claims – even if unfounded – usually incur court or solicitors fees and place substantial stress on the owner. (and unlike civil courts, no restitution to the employer can be granted)

The recent public discussions relating to the introduction of employer funded maternity leave is a further example of how small businesses may become caught in the negative aspects of an otherwise desirable social policy decision. An initial reaction by employers contacted is that they will further cut back staff numbers, or, be very reluctant to employ females of a child bearing age. Exemption from the industrial relations legislation should be granted to all small businesses where intolerable hardship can be an effect.

Research suggests that the main areas involving industrial disputes within small businesses are over wages, leave and dismissals or disciplinary action by employers. It is simply unrealistic to require the village hairdresser to be subject to the same set of rules as the corporate giants. There are significant differences for the large businesses who tend to have a much wider range of issues to address, particularly health and safety and general working conditions. Most small businesses lack the in-house human resources capabilities of large businesses and work on the basis of trust and personal relations to ensure smooth employee relations.

## **Term of Reference 2:**

### **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.**

As a general principle, small businesses rarely set out with the intention to employ staff. Employment comes out of economic necessity – a chef cannot serve thirty people AND look after the kitchen.

Unfortunately the actual track record of small businesses in generating employment has been modest. Although Small Businesses certainly make a strong contribution to employment, the level of this contribution is much less than originally predicted. Within the small business sector at any time there is a high incidence of change where large numbers of new start-ups are being matched with equally large numbers of small business closures.

At least five factors are important here. The first is the rate of employment turnover and business start-up and mortality within the small business sector. The second is the quality of the jobs created. The third is the nature of the business at start up. A fourth is the capability of the new business operator to have the time and expertise to grow the ‘good idea’ into a business. The fifth factor is the provision of a facilitation mechanism that would ‘drive’ new industry development – particularly in regional areas.

For governments seeking to encourage additional employment through the creation and growth of small business, the challenge is to encourage those owner-manager/entrepreneurs who have the desire and the capacity to grow sustainable employment generating businesses. The challenge therefore may not be in the quantity of new enterprises, but in the quality.

Government policy should recognise that few small businesses will actively seek to employ large numbers of workers and most will be focused on life-style rather than growth. Attention should be given to encouraging those enterprises that have the potential for growth and therefore employment.

Within Australia the medium-size enterprise sector is poorly understood and frequently disadvantaged by policies that are directed at either the smaller or larger businesses. Privately owned, mid-sized businesses within regional areas are usually viewed as 'large' employers and their loss can have significant impacts on local economies. Such businesses are vulnerable to competition from large multi-domestic or multi-national corporations, which can target them with lower prices, higher quality or more aggressive marketing.

Many mid-sized enterprises within regional areas do not invest adequately in R&D, training or capital expenditure. Such businesses cannot afford to be complacent about innovation, investment and growth yet they frequently don't think and act globally or benchmark themselves against international best practice.

Australian government policy needs to recognise that employment growth within the small business sector is contingent on business growth and that business growth is contingent on the character, attitude and expertise of the owner-manager or entrepreneur. Attention needs to be given to creating the conditions that will encourage the emergence of entrepreneurial managers with the ambition to create and grow businesses able to offer quality, sustainable employment. Recognition MUST be given to small business start-ups where the imposition of full blown industrial relations protocols will automatically doom the venture to failure

Within regional and rural areas where local government authorities lack the resources for dedicated business or economic development staff, consideration should be given to establishing regional officers jointly funded by multiple councils. (In similar vein, and complementary to, the Western Australian version of Business Enterprise Centres) The three tiers of government could put political points scoring behind them, and combine their efforts in the implementation of credible new businesses.

### **Term of Reference 3:**

#### **The extent to which the complexity and duplication of regulation by Commonwealth, state and territory governments inhibits growth or performance in the small business sector.**

Small businesses generally have little direct input into the policy making of State and Federal Government. Ideally the three tiers of government would work in harmony to ensure that small businesses find it easier to interpret and deal with legislation, regulation and compliance, unfortunately this is not the case.

The reality of how the three tiers of government frequently work at a regional level is unnecessary duplication of services, and often encumbered by divided political loyalties and aspirations. This is evidenced in such areas as industrial labour awards, telecommunications, transport and trade practices. For example, small business development, planning and support services within regional WA are provided by a variety of local, state and federal government agencies including: the BEC network, WA Department of Agriculture, Federal Small Business Assistance Officers, ATSIC Aboriginal corporations, WA Department of Industry and Technology, Regional Development Commissions, the Telecentre network, Regional Transaction Centres and contracted private sector Consultants.

Although each agency is dedicated and competent the impression made on many small business owner-managers is that of a confusing array of bureaucratic entities each with various missions and responsibilities that are largely unknown. Further, they will require such assistance 'just-in-time' and usually will not want to devote significant time or resources to obtaining information or filling out paperwork.

Government agencies at both the federal, state and local levels should seek to enhance their level of coordination and contribution to provide assistance to small business owners in a timely manner and without increasing the complexity or compliance burden. Many small business owners with whom we have contact do not take advantage of the assistance available from government agencies because the process of application is considered too time consuming and complicated.

### **Term of Reference 4:**

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

As noted above, attention needs to be given to the development of industry policies that encourage the creation and growth of sustainable small businesses with the opportunity for stable employment and future growth potential. A deregulated or spasmodic approach to economic growth is not likely to succeed in achieving this. However, government intervention in the process via attempts to 'pick winners' is also unlikely to bring about an optimal result.

The needs of the proprietor and those of his/her employees should be addressed together and not as a result of political whim. Two basic types of new enterprise appear to be common at time of start up.

The first are those who launch a business venture in order to take advantage of perceived opportunity for growth or self-fulfillment. Such individuals are typically among those that develop sustainable, growth-focused businesses with the potential to employ. The second are those that enter self-employment due to a lack of alternatives. Such individuals are frequently undercapitalized and lacking in strong market or product development capability. Less employment generation is likely from the latter type of small business owner.

Also of importance is how experienced the entrepreneur is in terms of business. Too often government assistance programs are targeted at novice entrepreneurs with an aim to encourage more small business start-ups. However, the high 'churn over' rate among small businesses means that such new venture creation may have limited sustainable impact on employment growth and that established businesses might offer greater potential for development and thus employment.

Attention should be given to policies that encourage and reward successful, experienced small business owner-managers to network with other like-minded entrepreneurs both within their region and nationally. Government agencies should encourage collaborative networking among successful business operators in order to foster innovation and competitive benchmarking.

Employment within businesses should be encouraged via innovative remuneration schemes such as profit sharing and share options. Government regulation should be tailored to assist such businesses to implement these schemes or at least not work against their implementation.

At the other end of the scale, government policy should concentrate on establishing focused industry programs to encourage the growth of existing industries and to the enhancement of innovation and international competitiveness.

Assistance should be provided to all industries, not just 'favorites', with the understanding that while there may be uncompetitive businesses, there should be no such thing as an uncompetitive industry. Enhancing industry competitiveness requires attention to be given to the structure of industry supply chain relationships as well as interactions among businesses within the industry and across industries.

Employment generation within industries is likely to be enhanced if impediments to productivity and competitiveness are removed. The public liability insurance issue is one such impediment.

Finally, attention should be given to indigenous enterprise to enhance the self-employment capacity of Aboriginal and Torres Strait Islander communities and reduce dependency on government income support. ASTIC currently supports a variety of employment and enterprise initiatives via CDEP programs. Although there are examples

of successful enterprise and employment creation emerging from these programs there is concern over the proportion of budgets that are consumed in administration. Accusations have been leveled of excessive bureaucracy within ASTIC sponsored employment and enterprise programs leading to reduced opportunities at the community level.

Our own research within the Aboriginal community suggests that there is strong desire and ability to achieve employment and even self-employment. However, Aboriginal people generally have less family and personal experience of self-employment. Aboriginal people are more likely to experience significant barriers from a lack of business skills and confidence and securing finance and family support than non-Aboriginal people. Their ability to secure effective business support and information in the form of mentoring and training is likely to be critical to success.

### **Recommendations:**

That government policy recognises the special nature of small businesses in lacking the resources, time and expertise to deal with unnecessary compliance burdens.

That government policy recognises the financial impact – both in direct and indirect costs – of labour compliance to small business.

That the government develops specific strategies targeted at segments within the small businesses sector namely:

Micro-enterprises (with <5 employees) including home-based businesses

Small businesses (with 5-20 employees)

Medium size businesses (with 20-100 employees).

That assistance and incentives be provided to local government authorities to develop enterprise creation and growth strategies targeting small businesses with particular focus on the utilisation of community business or economic development facilities.

Government policy should focus on the owner-manager or entrepreneur not the business and attention should be given to successful, experienced entrepreneurs who operate existing businesses, as well as novice entrepreneurs with start-up businesses.

In the drafting of policy change, government should determine that there is no detriment to small business management and conduct.

Government policy should focus on the creation of regional networks and alliances of businesses and industries that foster innovation and productivity enhancement with specific attention to be given to mapping industry value chains and clusters.

That government policy encourage enterprise and innovation attitudinal behaviour within the education and training system to generate skilled and responsive employees who can assist the development of existing businesses.

