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Small Business Employment  
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## BEC Australia



**Senate Inquiry: Submission, July, 2002**

*BEC Australia submission re Senate Inquiry into  
Small Business Employment*

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### Executive Summary

BEC Australia is the national association that represents the 136 community Business Enterprise Centres (BEC's) across Australia. With more than 260,000 client contacts per year, the network is the largest provider of small business programs and services to the small and micro-business sector.

Services include:

- Business counselling
- Training, seminars and workshops
- Business information
- Referrals to community professionals (accountants, solicitors, etc.)
- Business networking

The network recognises that employment in the small business sector is increasingly characterised by casual and part-time workers, and, lack of understanding or avoidance of statutory and legal obligations when employing staff.

Increased legislation for employment, higher compliance costs and more flexibility from employees and employers are discouraging small business from meeting their legal obligations when hiring staff. Or, they just don't know what they don't know.

The key to improving the situation is through education and information. However, no formal infrastructure exists at a Commonwealth level to coordinate, manage and distribute information to small business. This has led to considerable duplication, confusion and inconsistency with service delivery, particularly from government agencies and departments. As the majority of small businesses (75-85%) do not belong to industry or employer associations this presents a major barrier to providing relevant and current information on employment issues.

The Commonwealth, through its Office of Small Business must play a much more proactive role at coordinating and managing a consistent national strategy to small business assistance and improving employment understanding for small business.

The Commonwealth should assume responsibility for funding of community Business Enterprise Centres from the states and establish a national set of service standards and delivery. The BEC network should then become the Commonwealth's primary means by which to reach and help small business that do not belong to industry or employer associations. This would significantly reduce duplication, overlap and confusion from small business and enable a more coherent national strategy targeted at small business.

The Commonwealth should also develop a strategy for much more effective use of the accounting profession in providing information to small business.

## Introduction

The BEC network is the largest provider of programs and services to the small/micro business community in Australia. With 136 members in all states and Northern Territory they have over 260,000 annual client contacts in 300 communities. The majority of clients are micro-business, i.e. those with less than 5 employees and those that do not belong to industry associations (approx. 75 to 85% of all businesses).

BEC's are managed by their local community, employing experienced business facilitators and staff. They provide an important first contact and community link to people thinking of commencing their own business and those already established. They are the logical first choice for business guidance, information, training and referral.

As most micro-businesses do not belong to industry or employer associations, BEC's are a crucial link in the information and referral network. This is particularly for commencing businesses, home based and those established for up to 5 years.

It is these early stages where BEC assistance is most valuable and when business can least afford to pay for services, e.g. mentoring, training and information.

BEC Australia members service over 300 communities across the country from metropolitan cities, regional centres and small rural towns. This includes: Mt. Isa, Bundaberg, Coober Pedy, Devonport, Flinders Island, Brisbane, Esperance, Bairnsdale, Albury/Wodonga and many more.

## Small Business Overview

The Australian Bureau of Statistics (2001) report that there are almost 1.2 million small businesses (less than 20 employees) in Australia, half of which have been established since 1996. Approx. 89% employ less than 5 employees, 55% have no employees and 67% of all small businesses work from home.

In recent years small business has been responsible for the largest increase in employment growth with an annual rate of 3.1% compared to 2.9% for other businesses. The actual percentage of businesses employing less than 5 employees has remained relatively constant over the past 20 years at around 85%.

Small business employees are heavily concentrated in the Property and business services and Retail trade industries, each with 19% of the total, followed by Manufacturing and Construction industries, both with 10%.

These four industries account for 59% of all small business employees. In 1998/99 non-employing businesses represented 45% of total non-agricultural small businesses. Some 67% work from home.

## Employment overview

A recent study in South Australia on barriers to employment in four industries (printing, retail, construction and transport and storage) outlined the following issues that each industry faced.

*There were significant factors outside the industries that affected their ability to attract appropriate staff. These included indications that each industry:*

- *was hindered by stereo-typical views that related to the range of occupations within each industry, for example:*
  - *the construction industry was seen to equate to being a "brickie" or carpenter;*
  - *retail was predominantly associated with being "a shop assistant";*
  - *printing was stereotyped around "the printing press operator" covered in ink;*
  - *the transport and storage industry was perceived as employing "truckies".*
- *suffered from traditional views among the general population about:*
  - *the only pathway into careers in these industries being direct from school;*
  - *there being entrenched gender roles in the industries that make three of them unattractive to women and retail unattractive to men.*

The research also found:

- *in the decade from 1984-85 to 1994-95 employment in the small business sector increased by an estimated 1.1 million, compared to an increase of only 270,000 for large business and a reduction in public sector employment of 150,000 over the same period;*
- *total small business employment increased by 59 per cent (3.1 per cent per annum) between 1983-84 and 1998-99 rising to 3.1 million people or 47 per cent of the private sector workforce.*

*This has had a substantial effect on the employment of women, with the proportion of women working in their own businesses growing rapidly since the mid-1980s, especially in the context of self-employment. The largest numbers of women who work in their own businesses are found in the retail trade and property and business service industries. The increase in the number of women working in their own*

*businesses has tended to concentrate in the service, rather than non-service industries. The effect of small business on the employment of young people is much more limited except in casual and part-time employment. This is largely because young people do not see small business as a viable or worthwhile long-term career option, in part because of perceptions passed on by parents and the general community.*

### **Effect of Government Regulation**

Small and micro-business find it very difficult to understand and cope with the complexity of regulation impacting upon them. They have little interest in understanding any details other than what the immediate impact is upon their business. In many instances they are not even aware which legislation affects them...and may never know until such time as act is contravened and they are charged.

Examples of such legislation can include taxation, unfair dismissals, superannuation, and worker's entitlements.

As further legislation is introduced or amended it merely adds to the confusion and compliance costs of small businesses and their ability to understand the changes. The perception often created in the media merely creates further uncertainty when frequently the issue is not as complicated or difficult as portrayed.

*Awareness and understanding are the keys.*

In the past couple of years the pace and amount of taxation reform has created the greatest difficulty for small business and has increased both their time and cost to comply. This has a direct effect upon their motivation to employ. Some of the legislation to be considered includes:

- ◆ Tax reforms such as GST, CGT, STS, BAS obligation, PAYG, FBT
- ◆ Food safety regulations
- ◆ Unfair dismissals
- ◆ Superannuation
- ◆ Occupation Health and Safety
- ◆ Proposed maternity leave
- ◆ Worker's Compensation Insurance

A CPA survey in 2002 of 600 small businesses stated:

"...that of the 23% of small business that had no employees, 57% had made a conscious decision not to employ. While the question was not asked of the respondents, anecdotal responses suggest that the compliance burden is a major burden against employing."

The research further suggests that another common reason is that there is no clear evidence that "...the cost of supervising the employee combined with the wages and on-costs cannot be recovered in additional sales."

This research is supported by the experience of BEC Australia and regular anecdotal feedback from the BEC network. These are major impediments to small business when thinking of new or additional employees. Unfortunately, due to the nature of small business, the decision to add an employee is usually made at the time when the need arises, rather than with some planning and preparation.

As many of them are uncertain what the financial cost/benefits of an additional employee are, they are likely to "not employ" or adopt a flexible approach to hiring, e.g. casual, part-time or contractor.

### **Small Business approach to employment**

It is quite common for many small businesses to employ people without being aware of many of their compliance obligations. For example, awards and conditions, contractor V's employee. Not until a problem arises do many of them become aware of their legal obligations.

As only 15 to 25% at most belong to an employer or industry association they find it difficult to easily access information regarding these obligations. While that information may be available elsewhere it is:

- ◆ difficult to locate
- ◆ not in one location
- ◆ usually written in "government or legal speak" and is difficult to understand
- ◆ More than one government department is usually required to be contacted, e.g. worker's compensation insurance, correct award, taxation obligations, superannuation fund, unfair dismissal legislation

With uncertainty over future income, compliance obligations, increased legislative changes effecting small business employment it is not surprising that small business prefers to either, sub-contract out its services to other businesses or employ contractors, casual or part-time employees.

#### **Example of employment flexibility:**

Many businesses employ people on a permanent basis by adapting what they regard as a flexible approach, e.g. by paying casual hourly rates over the award that includes holiday pay, sick leave and leave loading. Employee taxation and superannuation obligations are met by the employer.

This approach does not meet their formal obligations or legal requirements but pragmatism rules the day, i.e. it simplifies the process, and reduces their time and compliance burden.

### **Difficulty in regulation compliance**

In the past two years small business have had increased difficulty with taxation reform and its regulatory obligations. In the CPA's research (March, 2002) taxation reform and "...complexity of compliance burden associated with employment" were the two areas of greatest concern.

In particular, because of increased time spent on taxation compliance they feel as though they have become unpaid tax collectors for the government.

How to dismiss employees as per the legislation is not understood by 42% of small business (CPA, March 2002) with 62% believing the process is complicated. With approximately "...40% of the workforce in casual, contract, labour hire-and other non-traditional employment, the small business employer has a much more complex, legalistic environment to navigate.

### **Main barriers to employment**

The major barriers to increasing employment in small business are:

1. Uncertainty of future income
2. Compliance and uncertainty with taxation and regulations
3. Perceived cost V's benefits of employing
4. Compliance costs, i.e. increased time
5. Perceived lack of suitably qualified staff
6. Time and cost required to recruit, employ, train and manage
7. Where to go for quick, straightforward advice and information

### **Compliance obligations and confusion for Small Business**

The following are some of the compliance and regulatory obligations that small business is required to be aware of when employing part or full-time staff.

- ◆ Unfair dismissal legislation
- ◆ Correct award for staff wages and salaries
- ◆ Workcover obligations and correct assessment
- ◆ Superannuation, e.g. how much, when to pay, which fund, the cost
- ◆ Occupational health and safety obligations, e.g. should it cover casual employees
- ◆ Equal opportunities legislation, discrimination and sexual harassment (even if not falling under the legislation)
- ◆ Terms of employment: contractor or employee
- ◆ Taxation deductions for employees and year-end group certificates

### **Where does small business go for information and advice?**

At present there are far too many organisations offering help and support to small business in a wholly uncoordinated way. There is incoherence and inconsistency

among these providers with many working uncooperatively. This includes a plethora of government agencies and departments. The business community regards this duplication as confusing and complex, and is uncertain who to ask for help.

Furthermore, there is a lack of understanding, particularly from government agencies and departments. There is also inconsistent quality among advisors, many of whom do not have the necessary skills and experience (to help micro/small business).

Small business programs and services are not coordinated nationally and there are no national standards or guidelines for delivery.

In 2000 the United Kingdom government undertook a detailed analysis and report of small business services across the country. It was titled:

***Integrating the Business Support Infrastructure for SME's: A National Framework for Business Support***

It focussed on the effective provision of public sector funded business support for SME's in England.

Some of the key findings were:

- ◆ There was duplication of services, inconsistency and no coordination
- ◆ Government's objective was to develop the public sector end of the market to achieve greater coherence and clarity (of small business services)
- ◆ Few taxpayers were interested in how any national small business service may be managed, but they wanted to know such public sector programs were "...well organised, professionally managed and cost-effective."
- ◆ There was "...significant evidence that public sector subsidy of advice (**coordinated**) can build the market overall, by encouraging SME's to get into the practice of taking external advice."
- ◆ While there was a general perception there was some competition among small business advisory services (funded) and Industry Associations, the report concluded that small business only seek out associations for sector-specific advice. They go to the community small business advisors for general business support
- ◆ The government strongly recommended continued support and expansion of the advisory capacity of the national network of Business Link in the UK (read BEC's in Australia) for local, long-term support of small business.

The position is similar in Australia, making simple and easy access to small business information cumbersome, uncertain and confusing. The Commonwealth's Office of Small Business is a policy unit with no overall management or coordination of small business information and programs across Australia. This adds to the confusion, duplication and inconsistency of information and services to the sector.

## **Conclusions & Recommendations**

With growing complexity and compliance in legal requirements, a need for flexibility in employing staff, the perception that potential employees are difficult to find and a lack



of awareness and understanding of their statutory obligations are barriers to employment

BEC Australia believe that an ongoing advisor, education and information program, coordinated at a national level and delivered through business organisations will help towards creating a more positive environment to add full-time employees in small business.

Our major recommendations:

- Establish a Commonwealth Small Business Advocacy & Information unit with the following objectives:
  - Review all proposed and existing legislation that is likely to (or does) effect small business
  - Obtain the views of members of the Small Business Coalition and other interested parties on the proposed or existing legislation
  - Make recommendations to the Commonwealth Government on proposed amendments to legislation
  - Introduce legislation that requires the Commonwealth to seek comment from the Advocacy unit on new legislation that will effect small business before it is introduced
- The Office of Small Business to be given the responsibility of producing and distributing information on all Commonwealth programs effecting small business. The information to be distributed to all coalition members and/or their members and other relevant associations or organisations
- The Commonwealth Government, to develop a training program (e.g. 7 hours) (reviewed and modified annually) on the key issues to consider when employing new staff for small business advisers, e.g. accountants, Business Enterprise Facilitators. Program content to cover:
  - Overview of major taxation issues
  - Unfair dismissals
  - Superannuation and workers compensation
  - Contractor V's employee and legal obligations
  - Cost benefits of employing additional staff (a financial model)
  - Guide on recruitment, selection, training and management of staff
  - Guide sheet on the major statutory obligations of employing additional staff
- Contract the services of existing business networks for the distribution of information to the small business sector, particularly those that do not belong to trade and industry associations, e.g. local accountants and Business Enterprise Centres.

- The Commonwealth's Business Entry Point to be the primary web site for provision of information on employment, ie. cost benefit analysis for new/additional employees and small businesses statutory and compliance obligations
- The Office of Small Business to fund research into the number of government agencies and departments at state and commonwealth level that have a role in the regulation of employment. The research would consider taxation, apprenticeships, OH & S, Workers Compensation Insurance, superannuation, wages and entitlements. Upon completion of the research recommendations would be made on reducing duplication and inconsistencies across the various jurisdictions.
- Recognition that until such time that the Commonwealth looks seriously at the impact of legislation and regulation upon small business, the sector will continue to adopt a flexible approach to employment (regardless of whether or not they are complying with the law).
- The Commonwealth to assume responsibility for funding Business Enterprise Centres across Australia, and, working in cooperation with the states, establish national guidelines for service standards and delivery
- Establish a national, accredited mentor scheme, similar to the USA SCORE program that can provide confidential mentor/counselling assistance to small business

**Appendix 1:**

**BARRIERS TO EMPLOYMENT PROJECT, for  
Adelaide Metropolitan Area Consultative Committee, 2001**

**RETAIL INDUSTRY STRATEGIES FOR THE FUTURE:**

**South Australian Study**

<b>BARRIERS EXPLICIT TO THE RETAIL INDUSTRY</b>	
<b>General</b>	
Image of the Industry	Seen as temporary or casual job Low status job Stereo typical view of jobs – checkout operators and shelf fillers Industry seen as doing little to promote itself – career

	options and pathways
<b>Working Conditions</b>	<p>Irregular hours</p> <p>Low wages</p> <p>Tiring nature of the work</p> <p>Having to deal with unpleasant customers</p> <p>Inflexible nature of work – no control over your daily routine</p> <p>Having to start “at the bottom”</p> <p>Fear of new technology for mature workers</p>
<b>Industrial Issues</b>	Unfair dismissal laws
<b>For young people</b>	<p>Lack of information about the industry – career paths</p> <p>Extended working hours clash with social lives of young people</p> <p>Not seen as “glamorous”</p> <p>Parental attitudes discourage children pursuing a long term career in retail</p> <p>Attitudes of employers – see young people as unreliable, not wanting to work</p>
<b>Educational Factors</b>	<p>Low literacy/numeracy standards</p> <p>Lack of good interpersonal and communication skills</p> <p>Lack of life and work skills</p>
<b>For women</b>	<p>Lack of awareness by employers of the need for flexible working hours to fulfil child rearing responsibilities</p> <p>Women in retail contributing second family income – not essential</p> <p>“Glass ceiling” effect limiting numbers of women in senior management positions</p>
<b>For Others</b>	<p>Men put off by “powerlessness” of entry level positions</p> <p>Belief that men are disadvantaged in the fashion area</p>

**Appendix 2:**

<b>BARRIERS EXPLICIT TO THE CONSTRUCTION INDUSTRY</b>	
<b>General</b>	
Educational factors	Career counsellors lacking accurate knowledge of the industry

	<p>Applicants not “work ready”</p> <p>Low literacy/numeracy standards</p> <p>“At risk” students being directed to the industry</p> <p>Racism a factor for Aboriginal employees</p>
Image of the Industry	<p>Dirty, hard, rough dangerous work</p> <p>Long hours</p> <p>Perceived as using antiquated systems and processes</p>
Working Conditions	<p>Continuity of work</p> <p>Casualisation - implications of this for training</p> <p>Wages</p> <p>Communication within the industry seen as poor</p>
Training Issues	<p>Some larger companies claiming that training offered through the ITAB was not meeting their needs</p> <p>Recruitment of apprentices difficult with an aging workforce</p> <p>Lack of funding for training in civil construction</p>
Industrial issues	<p>Work cover and unfair dismissal legislation</p> <p>Disputes over who has responsibility for OH&amp;S</p> <p>Lack of industrial conditions reported by unions</p> <p>No award for sub-contractors</p> <p>Lack of flexibility in current award</p>
<b>For young people</b>	<p>Lack of information about the industry and career paths within it</p> <p>Seeing construction as a “dead end” job</p> <p>Driver’s licence and own vehicle</p> <p>Employer perceptions of young people</p>
<b>For women</b>	<p>Harsh “blokey” environment</p> <p>Lack of “on-site” facilities for women</p> <p>Perceived as “men’s work”</p> <p>Perception that women do not want to work in the industry</p>

### Appendix 3:

#### Senate Inquiry Terms of Reference

#### Small business employment

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