

The Senate

Employment, Workplace Relations
and Education References Committee

Small business employment

February 2003

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Terms 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.
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.

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Abbreviations/Acronyms

ABS	Australian Bureau of Statistics
ACC	Area Consultative Committee
ACCI	Australian Chamber of Commerce and Industry
ANTA	Australian National Training Authority
ATO	Australia Taxation Office
BAS	Business Activity Statement
BEC	Business Enterprise Centre
COAG	Council of Australian Governments
COSBOA	Council of Small Business Organisations of Australia Ltd
GST	Goods and Services Tax
HECS	Higher Education Contribution Scheme
NTS	New Tax System
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational Health and Safety
OSB	Office of Small Business
RAP	Regional Assistance Program
RIS	Regulation Impact Statement
SBECF	Small Business Enterprise Cultures Program
SME	Small or Medium Enterprise
STS	Simplified Tax System
VET	Vocational Education and Training

Recommendations

Chapter 2

Recommendation One – page 20

The committee recommends that governments consider appropriate ways of developing a better understanding of micro-business and home-based business and their potential.

Chapter 3

Recommendation Two – page 32

The committee recommends that the Commonwealth Government resumes the Business Longitudinal Survey, in close consultation with the small business community.

Recommendation Three – page 35

The committee considers that governments should promote awareness among the small business community of avenues open to them to improve business performance and to enhance their attractiveness as employers through improving the quality of jobs without necessarily adding to costs.

Recommendation Four – page 48

The committee recommends that the Small Business Ministers Council commissions research into measures to assist small business to become employment ready and to enhance its capacity to recruit appropriate employees including through identifying:

- **the attributes and skills that small business needs in its employees;**
- **ways in which the Job Network could better meet the recruitment needs of small business; and**
- **tools to assist small business make more informed decisions about employment arrangements, including the basis of employment.**

This research should include consideration of how the competency standards and key performance indicators developed by the Industry Training Advisory Bodies could be more effectively used by small business in recruitment, training and performance management.

Chapter 4

Recommendation Five – page 63

The committee recommends that the Small Business Ministers Council develops a national framework for small business support, with each tier of government having agreed areas of responsibility and more formalised information sharing arrangements. Within the framework, the Council should develop a national strategy with identified priorities for small business assistance based on a thorough needs analysis and evaluation of the effectiveness of current programs.

Recommendation Six – page 69

The committee recommends that the Commonwealth government examines the feasibility of developing a virtual small business department with more interactive support and clearer, simpler information delivery.

Recommendation Seven – page 69

The committee recommends that the Small Business Ministers Council undertakes a pilot project to trial the feasibility of introducing one-stop shops of government information and assistance for small business, with an evaluation of the project to be conducted after the first year.

Recommendation Eight – page 69

The committee recommends that the Small Business Ministers Council develops a national small business support program, incorporating Commonwealth and state and territory programs, within the context of a national framework and with a clear and distinctive national brand.

Recommendation Nine – page 73

The committee recommends that the Small Business Ministers Council considers options to improve the capacity of small business to put its case to government and for individual small businesses to have improved representation in their dealings with government and big business.

Recommendation Ten – page 78

The committee recommends that the Commonwealth Government examines the feasibility of options to improve small business access to finance, including improved information on finance options and pathways and an income contingent loan scheme for small business modelled on Higher Education Contribution Scheme (HECS).

Recommendation Eleven – page 80

The committee recommends that the Small Business Ministers Council considers the following initiatives to foster enterprise development in Indigenous communities:

- financial and administrative support for an Indigenous small business association;
- consideration of ways of adjusting small business assistance programs to better meet the needs of Indigenous people; and
- the development, in conjunction with ATSIC, of guidelines to assist Commonwealth and state and territory agencies proposing regulatory change to better accommodate the information needs of Indigenous entrepreneurs.

The Committee also recommends that the Commonwealth discuss with ATSIC the need for any special provision under the Small Business Answers program for advisers to work with Indigenous business people.

Chapter 5

Recommendation Twelve – page 92

The committee recommends that the Small Business Ministers Council examines the feasibility of introducing a small business training and accreditation program with the following components:

- a start-up kit, including a checklist of the skills required to run a business, contact details for training course providers, and advice on regulation requirements to be provided to all those registering a new business;
- a system of accreditation in business management for those who have successfully completed an approved business management skills course and are able to demonstrate appropriate competencies; and
- an analysis of the availability of training programs for start-ups across Australia against current and future needs, with a view to developing an expanded range of opportunities if required.

Consideration should be given to the introduction of a mandatory licencing regime once the voluntary program has been in operation for two years.

Recommendation Thirteen – page 94

The committee recommends that the Commonwealth Government supports the establishment of a professional development program for incubator managers across Australia.

Recommendation Fourteen – page 98

The committee recommends that the Commonwealth Government undertakes a feasibility study of the establishment of a national mentor program that would include training, accreditation and support for business mentors across Australia. The study should also examine the scope for an online advisory and mentoring service. A pilot study should form part of the feasibility study.

Recommendation Fifteen – page 102

The committee recommends that the Small Business Ministers Council commissions a needs analysis of training programs targeting established small business and an assessment of the extent to which the current range of training programs meets the needs. This should occur in conjunction with the development of the integrated national framework for small business support recommended in Chapter 4 and the analysis of training programs for start-ups.

Recommendation Sixteen – page 103

The committee recommends that the Commonwealth government undertakes a feasibility study of a program to foster the establishment of several centres of excellence in business development for the small business sector, with a focus on the needs of high growth business. The study should examine international experiences with this approach and ways in which any such centres could be integrated with the broader structure of small business development support.

Chapter 6**Recommendation Seventeen – page 113**

The committee recommends that the Commonwealth Government undertakes a follow-up to the Bell Task Force survey of the time and money that small business spends on compliance related matters. The committee also recommends that the Commonwealth Government, in consultation with state and territory governments, develops a consistent methodology for measuring the compliance burden of government regulations. It also recommends that the Commonwealth proposes to the OECD that it undertakes regular reviews of the effect of compliance on small and medium enterprise, with Australian participation, as a further means of tracking changes in the regulatory burden over time.

Recommendation Eighteen - page 115

The committee recommends that the Commonwealth Government maintains and publishes an annual consolidated register of regulatory changes with a summary of their objectives and impact on business as a tool to monitor the growing body of regulation. State and territory and local governments should consider a similar mechanism.

Recommendation Nineteen – page 117

The committee recommends that all levels of government introduce rolling programs of regulatory review to assess whether existing regulations are continuing to achieve their objectives as simply and efficiently as possible and to identify the need for any changes to regulations or administrative requirements.

Recommendation Twenty – page 119

The committee recommends that the Productivity Commission be asked to report to the Council of Australian Governments (COAG) on the most appropriate body to monitor and manage a continuing program of cross-jurisdictional regulatory review and coordinate the rolling programs of regulatory review to be undertaken by all tiers of government.

Recommendation Twenty-one – page 123

The committee recommends that the Commonwealth and state and territory governments introduce a range of initiatives to assist small business to identify, understand and implement new and existing regulatory requirements. Information programs for small business should involve all components of the small business network.

Recommendation Twenty-two – page 129

The committee recommends that:

- the Commonwealth Government reports to Parliament at the end of 2003 on the takeup of the Simplified Taxation System (STS) across the small business sector and on the extent to which the STS has reduced the compliance burden of participating businesses; and
- in the event that there is not both a significant takeup of the STS and evidence that the STS is producing the benefits expected in terms of reduced compliance burden, the Government should examine other measures to reduce the compliance burden of the taxation system on small business.

Recommendation Twenty-three – page 131

The committee recommends a follow-up education and assistance program for the New Tax System to ensure that all small businesses, particularly in regional areas, are aware of the requirements and have access to appropriate assistance. The program should be developed in conjunction and consultation with the various accountancy organisations, Area Consultative Committees and Business Enterprise Centres from regional areas and other members of the small business network.

Recommendation Twenty-four – page 135

The committee recommends that the Commonwealth and state and territory governments develop a range of strategies, including software tools, information materials and training programs to assist small business to identify and understand their employment-related obligations.

Recommendation Twenty-five – page 137

The committee recommends that the Commonwealth and state and territory governments develop a range of suitable, free of charge, information materials and training programs on unfair dismissal legislation for small business. Information materials should be disseminated widely, including through the small business network. The committee also recommends that the Commonwealth Government introduces a simplified process for considering unfair dismissal claims.

Recommendation Twenty-six – page 140

The committee recommends that the Commonwealth Government amends the Regulation Impact Statement (RIS) guidelines to require that agencies provide quantitative estimates of compliance costs, based on detailed proposals for implementation and administration. It also recommends that the Commonwealth Government commissions regular reviews of the accuracy of compliance estimates in the RISs for regulations with a major impact on business.

Recommendation Twenty-seven – page 141

The committee also recommends that the Commonwealth and all state and territory governments review their current regulation impact assessment arrangements to ensure that they meet best practice standards with regards to minimising the compliance burden on small business.

Recommendation Twenty-eight – page 144

The committee recommends that the Commonwealth and the states and territories, in consultation with local government, develop national model legislation for home-based business.

Recommendation Twenty-nine – page 144

The committee recommends that all states and territories develop model legislation for use by local governments in developing regulations within their jurisdictions.

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

Chapter 1

Introduction and Background to the Inquiry

1.1 The Senate referred this inquiry into small business employment to the Employment, Workplace Relations and Education References Committee on 20 March 2002, with a reporting date of 19 November 2002. On 23 October 2002 the date was extended to 12 December 2002, and on 12 December 2002 it was extended again to 6 February 2003.

1.2 The committee was asked to examine and report on the following matters:

- 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;
- 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;
- 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; and
- measures that would enhance the capacity of small business to employ more people.

Conduct of the inquiry

1.3 A media release was distributed to major media outlets on 21 March 2002. The inquiry was advertised in the *Australian Financial Review* of 22 March 2002 and the *Weekend Australian* of 23–24 March 2002. Information on the inquiry was also disseminated to networks of academics with an interest in small business. Submissions were invited from a wide range of interest groups and organisations and individuals with an interest in small business employment or regulatory reform issues. Relevant Commonwealth government and state and territory ministers were also invited to make submissions.

1.4 A total of 96 submissions were received, predominantly from organisations, including a significant number from industry associations and regional groups. Very few submissions were received from small business, although the committee subsequently consulted a large number of small business proprietors through a series of roundtable discussions in cities across Australia.

1.5 Most state and territory governments chose not to make submissions or formal appearances before the inquiry. The Western Australian government, however, provided submissions on both small business and training issues and gave evidence at the public hearings in Perth. The Queensland government provided a submission and

evidence on industrial relations matters and provided an informal briefing on small business policies and programs during the committee's visit to Brisbane. The South Australian government assisted the committee by arranging a visit to its Centre for Innovation, Business and Manufacturing at Woodville and provided information on small business policies and programs. The committee appreciates those contributions but also regrets that more governments did not contribute and provide their perspectives on small business employment and regulation issues.

1.6 The committee conducted public hearings and roundtables with small business proprietors or their representatives in Perth and Albany in Western Australia and in Melbourne, Launceston, Sydney, Brisbane and Adelaide and held 2 days of public hearings in Canberra. It also visited the Eastern Suburbs Business Enterprise Centre in Sydney, the Capital Region Enterprise and Employment Development Association (CREEDA) business incubator in Canberra and the Port Adelaide business incubator. An informal lunch meeting with small business owners was hosted by the owners of the Hughenden Hotel, Sydney, for which the committee expresses its appreciation. The committee wishes to thank all those who assisted with the roundtables and site visits which provided an opportunity for it to hear directly from small business people and obtain an appreciation of the impact of Commonwealth and state government programs on small business. In particular, the committee also wishes to thank the small business proprietors and advisers who gave up their valuable time to attend the roundtable discussions and share their concerns, insights and suggestions. Their participation made a significant contribution to the report.

Context of the inquiry

1.7 Small business plays a significant role in the Australian economy and society:

- it accounts for 96 per cent of all business in the private sector (excluding agriculture): there were 1,122,000 small businesses in the non-agricultural private sector in 2001;
- it provides employment for over three million people (3,300,000) or 47 per cent of the non-agricultural private sector workforce;¹ and
- it accounts for approximately one-third of Australia's GDP.

1.8 Indeed, the Australian economy is sometimes described as a 'small business economy' because the small business share of private sector employment (outside agriculture and mining) is larger than in most industrialised countries apart from Italy, Spain and Denmark.²

1.9 For many Australians, owning their own business is a cherished dream, providing a rare opportunity for independence and self-fulfilment. Australia has one of

1 Australian Bureau of Statistics (ABS), *Small Business in Australia 2001*, 16 October 2002, 1321.0, 2001, p. 9

2 Productivity Commission, *Small Business Employment*, August 1997, pp. 11–12

the highest rates of business start-up in the world.³ With many traditional and ‘standard’ jobs disappearing in recent years, and a growing demand from men and women for more flexible ways of balancing work and family, an increasing number of Australians, including women and Indigenous people, see self-employment, particularly in home-based business, as their most promising career path.

1.10 Small business also contributes to the quality of life and sense of community for many of those Australians who do not work in the sector. Small businesses provide many of the daily goods and services for the local neighbourhood; compared with larger businesses and chains, they are more likely to use local suppliers and thus re-invest in the local community; the proprietors often contribute financially, and in other ways, to support community projects; and they are more likely to provide flexible, personalised services to meet the needs of local customers. At least one in ten homes across Australia now hosts a home-based business. As a Western Australian businesswoman explained:

Small businesspeople underpin our communities...They’re the people who provide the soft drinks for the tee-ball wind-up, the people who operate the pharmacy up the road. They’re the people who live and work and play next to you and I think they have a really big impact on our lives but we tend not to look at them in that way. We often see big businesses as heroes, but I think some small to medium businesses are the real unsung heroes.⁴

1.11 In regional areas, small businesses play an even more significant role because, along with agriculture, they are often the main drivers of economic activity. A recent policy options paper on regional development concluded that:

At the end of the day, most regional communities will only survive through the efforts of entrepreneurial businesspeople continuously making successful investment decisions so that the local economy constantly reinvents itself.⁵

1.12 There is increasing recognition of the potential for small business to contribute to economic development, innovation and export growth. Information and communications technology are opening new opportunities for small business to market its goods and services outside the local area including in international markets. Small business is lifting its export performance at a faster rate than medium or larger businesses.⁶ There is a growing interdependence between small and larger businesses as larger firms and public sector agencies outsource non-core functions to small,

3 K. Hindle, and S. Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 7

4 ‘From Pressure and Success, the Western Australian 1998’, article on Joanna Ballantyne reproduced at: www.secondskin.com.au/

5 T. Sorensen, ‘Regional Development: Some Issues for Policy Makers’, *Parliamentary Library Research Paper No. 26, 1999–2000*, 27 June 2002, p. 18

6 Submission No. 58, Austrade, p. 3

specialised firms. The OECD has identified the role of small and medium enterprises in promoting innovation and economic growth and development as an important area of policy interest for member governments.⁷ This includes small business' role as the seedbed for entrepreneurial talent.

1.13 Small business is also of increasing interest to policy makers because it accounts for almost half all private sector employment nation-wide, and often more in regional areas or less urbanized states. Employment growth in small business began to outstrip that in medium and larger size firms from the 1980s to late 1990s, but the pace of growth subsequently slowed,⁸ prompting interest in employment determinants and the role of government interventions or policy settings. The Productivity Commission study of small business employment in 1997 set out, in part, to address this question. It concluded that the factors that determine small business employment are complex and not well enough understood and cautioned against unrealistic expectations that selective assistance to small business will translate into increased employment.⁹ Evidence to this inquiry reinforced this finding. The OECD, while recognising the difficulties in framing effective policies and programs for small business, supports the need for encouragement of entrepreneurial activity and for governments to address areas of small business disadvantage, including in relation to information, new technology and innovation. A key aim of this inquiry is to develop a better understanding of the factors that determine employment growth in small business as the basis for more informed debate and policy development.

1.14 The relationship between regulation and employment in small business is a particular area of interest because of small business complaints that an increasing burden of regulation and government 'red tape' is stifling its capacity to employ more people. At the same time, some segments of the small business community, particularly those in highly competitive, price-driven markets dominated by large corporations, see the regulation of anti-competitive practices as the key to their survival.

1.15 The complaint of excessive red tape and the burden of government regulation is not new. The Small Business Deregulation Task Force was established in 1996 to recommend measures aimed at halving the regulatory burden on small business. Many of the recommendations have been implemented but the pace of regulation continues: in 1999–2000, the Commonwealth government alone made around 2,000 regulations, of which 207 had an impact on business.¹⁰

7 See for example, *SMEs: Employment, Innovation and Growth—the Washington Workshop*, OECD, 1996, p. 7

8 ABS, *Small Business in Australia 2001*, 1321.0, 2001 p. 13

9 Productivity Commission, *Small Business Employment*, 1997, p. 69

10 Productivity Commission, *Regulation and its Review, 1999–2000*, Commonwealth of Australia, 2000, p. 3

1.16 A CPA Australia survey in July 2002 identified compliance costs as among the major risks to small business profitability. These include: the compliance costs associated with the GST/BAS (29 per cent); too much paperwork (14 per cent); government bureaucracy (10 per cent); and, legislation changes (10 per cent).¹¹ To put this in perspective, other major risk factors are big business and other competition (21 per cent); other matters related to the GST, such as impact on cash flow (21 per cent); slowing economy (15 per cent); and cash flow (10 per cent).

1.17 The problem of an increasing regulatory burden is not unique to Australia. In its recent review of small business views on red tape, the OECD acknowledged the continuing need for regulation to protect the public interest but urged governments to find better ways of minimising the adverse effects on business and entrepreneurship.¹² This inquiry provides a useful opportunity to draw together the findings of that review and to assess what has been achieved following the implementation of the Government's response to the Small Business Deregulation Task Force report, and what remains to be done.

Overview of submissions and key issues

1.18 Submissions were received from the following groupings:

- Commonwealth and state government agencies and local councils;
- regional development bodies or organisations, including Area Consultative Committees and regional development boards;
- national, and in some cases state-based, industry associations;
- organisations representing segments of the small business community or broader business interests;
- professional associations and unions; and
- organisations and associations providing services to small business, general interest groups, academics, and individual small business people or advisers.

1.19 Issues raised in submissions often reflected the particular interest or focus of the submitter. Industry associations such as the Australian Retailers Association and the National Association of Retail Grocers of Australia raised predominantly industry-specific issues such market concentration in the supermarket sector and the need for reform of competition laws and retail tenancy issues; the Pharmacy Guild raised concerns about the compliance burden of current arrangements for GST collection in the pharmacy industry; and the Housing Industry Association identified problems with the planning and development approval processes. Several submissions also expressed concerns with the personal services income taxation legislation.

11 CPA Australia, *Small Business Survey Program: Perceptions of Risk*, August 2002

12 *Businesses' Views on Red Tape—Administrative and Regulatory Burdens on Small and Medium-Sized Enterprises*, OECD, Paris, 2001

1.20 Submissions from regional organisations understandably highlighted the problems facing small business in regional areas but also provided many useful insights into ways to reduce the burden of regulation on small business and suggested initiatives to assist small businesses to grow, prosper and employ more people. Small business associations raised a broad range of issues, including the need for governments to reduce the compliance burden and improve their assistance to small business. Two of the issues that were raised in a large number of submissions, the need for stronger competition laws to protect small business from anti-competitive practices and the high cost and limited availability of public liability insurance, are not dealt with in any detail in this report as they are subject of separate government or parliamentary inquiries.

1.21 The key issues that emerged in the inquiry are:

- the enormous diversity within the small business sector and its relatively fragmented, isolated and unorganised nature, which complicates the tasks of consultation, information dissemination, and policy formulation and implementation;
- the changing nature of small business and the environment in which it operates, including the rise of home-based business, the growing number of small business exporters, the increasing participation of women and Indigenous people in small business and the challenges, opportunities and potential arising from more open, globally oriented markets, the knowledge economy and technological change;
- the determinants of employment in the small business sector are complex and not well enough understood so developing a better information base is an important precondition for more effective policy development. Business growth is clearly a precondition and an area where a range of government interventions could be effective;
- the critical role that business management skills play in the survival and growth of small business and the need for many small business operators to upgrade their skills in this area, including their people management skills;
- the difficulties and disadvantage that small business faces in obtaining the key inputs of capital and skilled labour, and the less favourable treatment that it receives from big business in many areas including settling of accounts, terms of trade, and bank fees and charges;
- the *ad hoc* and disparate range of Commonwealth, state and local government assistance programs for small business, the large number of agencies and organisations involved and the lack of formal coordination arrangements is confusing for small business and limits the effectiveness of the total investment; and
- the compliance burden associated with government regulation is a major and growing concern for small business (although this varies with the business size and industry sector), with many small business operators unaware of the full

extent and nature of their obligations and many others struggling to come to terms with identifying, understanding and meeting those obligations. Regulatory requirements associated with taxation (particularly the new taxation system and the Goods and Services Tax or GST), employment and the environment are particular areas of concern along with the pace of change and growing complexity of requirements.

1.22 This report deals with these main themes in the following five chapters:

- Chapter 2 provides an overview of the small business sector, highlighting areas of common ground and points of diversity;
- Chapter 3 assesses the evidence on the nature of employment in small business and the factors that affect employment potential and trends;
- Chapter 4 provides an overview of current government programs and policies and identifies areas where improvements are needed;
- Chapter 5 discusses the business management skills of small business operators and the broader skills of the small business workforce; and
- Chapter 6 discusses how regulation affects small business and considers ways in which further progress could be made in reducing the burden of regulation.

1.23 The committee has chosen to focus its discussion on these issues at the level of broad or general principle. In the time available it would not have been able to do justice to the very diverse and specific matters of concern to small business. It also considers that the most constructive contribution that it can make is to focus on the issues that were identified as of greatest importance and relevance to the sector as a whole. Inevitably this means that some of the issues of concern to specific industries or segments of the small business community are not addressed in any detail. The committee considers that those industry specific issues are best dealt with in other contexts.

Chapter 2

Understanding Small Business

We talk about the small business sector as if it is some sort of market niche and I do not know how 96 per cent of anything can be a market niche. It is a massively heterogeneous group and I think we could do far more in terms of segmentation: which segments we want to work with and how we develop the capability to work in that sector.¹

What do we mean by small business?

2.1 The term ‘small business’ conjures up images and stereotypes often based on individuals’ personal experiences with neighbourhood firms such as grocers, specialist retailers or cafes. The reality underneath the stereotype is far more complex. This chapter is concerned with providing a general overview of small business in Australia today, identifying both the most important common elements and points of diversity. This will set the scene for discussion of key issues in subsequent chapters.

2.2 A business is a legal entity (individual or organisation) which provides goods or services.² A term such as ‘small business’ implies that size is an important attribute or way of thinking about business. Some submissions questioned the value of using size, as measured by employee numbers, as a primary means of differentiating business.³ For example, the Australian Catholic Commission on Employment Relations (ACCER) argues that other attributes of a business may be equally or more important than size,⁴ a point echoed by the Australian Council of Trade Unions (ACTU):

...the definition of small business is unhelpful given the diversity in small business. Whether it is the income from small business earnings, whether it is the nature of small business, whether they are part of a supply chain, whether they are emerging and incubation businesses, it is so complex that the small business tag—drawing a line under 20 employees—is not helpful. From our perspective, of course, business groups know well that we say you cannot divide human and labour rights simply because you might employ less than 20 people.⁵

1 Dr Tim Atterton, Director, Entrepreneurship and Business Development Unit, Curtin Business School, *Hansard*, Adelaide, 10 October 2002, p. 970

2 Australian Bureau of Statistics (ABS), *Small Business in Australia 2001*, 1321.0, 2001, p. 3

3 Submission No. 31, Australian Catholic Commission on Employment Relations (ACCER), pp. 6–7

4 *ibid.*, p. 8

5 Ms Sharan Burrow, President, ACTU, *Hansard*, 24 July 2002, Melbourne, p. 230

2.3 The committee's view is that, while size is only one of several business attributes that are important and there is a need to consider each policy issue affecting small business on its merits, small businesses share some common characteristics and needs that justify a special policy focus.

2.4 The Committee has adopted the Australian Bureau of Statistics (ABS) approach to identifying and defining small business. Under this approach, a business is regarded as small if it is:

- is a private sector business outside of agriculture with fewer than 20 employees;⁶ or
- a private sector business in agriculture with an Estimated Value of Agricultural Operations (EVAO) of between \$22,500 and \$400,000. (In agriculture, EVAO, which relates to the scale of crop and livestock production, is considered to be a more meaningful indicator of size than the number of employees because of the highly seasonal nature of most agricultural employment).⁷

2.5 The quantitative measures used by the ABS are designed to capture the essential or defining feature of small business, that is, its management and ownership structure. Small business typically has a management structure based on: independent ownership and operation; close control by the owners who also contribute most, if not all, the operating capital; and principal decision-making by the owners.⁸

2.6 ABS research indicates that, for non-agricultural enterprises, the number of employees is a reliable measure of these more qualitative characteristics: that is, the great majority of businesses with fewer than 20 employees have these management characteristics while this is far less true for those with more than 20 employees.⁹ Evidence to the Committee indicating that small business often needs to change its management structures to grow successfully beyond 20 employees, supports the existence of a link between management structures and this employment number.¹⁰

2.7 Across OECD countries, definitions of small business vary, but most are based on a firm's status as an independent, non-subsidiary firm with fewer than a given number of employees and a financial asset ceiling. The given number of employees varies across countries, although small firms are generally considered to have fewer than 50 employees.¹¹

6 ABS, *Small Business in Australia 2001*, 1321.0, 2001, p. 1

7 *ibid.*, p. 2

8 *ibid.*, p. 1

9 ABS, *Small Business in Australia 1999*, 1321.0, 1999, pp. 135–49

10 Submission No. 7, Professor Ann Hodgkinson, p. 1

11 *OECD Small and Medium Enterprise Outlook*, OECD, Paris 2000, p. 7

2.8 While the ABS definition of small business is widely used, different government agencies or policies may use different criteria to target assistance or concessions to small business. For example, to be eligible to opt into the Simplified Tax System, a business must have annual turnover or receipts of less than \$1 million. The Australian Taxation Office estimates that this covers 95 per cent of businesses, approximately the same percentage covered by the employment definition of small business.¹² Ausindustry uses a \$5 million annual turnover figure for its programs targeting small business.¹³ There are also several legislative exemptions targeting small business that use financial criteria or different employment criteria.

2.9 The committee notes a proposal by the Small Business Coalition for a consistent definition of small business to be used across all government policies, programs and legislation. The aim is to reduce some of the confusion that arises when a small business cannot easily determine eligibility under different programs and legislation, to provide a more consistent approach and to enable government to better understand issues facing small business.¹⁴

2.10 This report does not deal with the substance of that proposal as it was not raised as an important issue by submissions or witnesses. That said, the Committee is inclined to take the view that while a more consistent approach to defining small business may be useful, it has not seen any evidence suggesting that this is an overriding objective. The most appropriate way of targeting small business, given its diversity, may depend on the nature of the policy or program under consideration. There may be cases where the broad schema of a piece of legislation, including the scope and nature of the Commonwealth's powers, dictates a particular approach. Further work would need to be done before this issue can be resolved. In the meantime there may be value in all programs, policies and legislation targeting small business reporting in terms of the ABS definition as well as any other criteria that used to determine eligibility. This would assist governments to gain a better understanding over time of the relationship between employment numbers and other aspects of small business. The committee also notes in this context, that the diversity of small business places a requirement on government to build more flexibility into the design of its small business support programs.

How small business operates

2.11 The management structure of small business can be both a strength and weakness. Limited management layers are an advantage in making quick decisions and responding swiftly and flexibly to changes in the market. However they can also be a disadvantage, because:

12 Submission No. 68, Dr Binh Tran-Nam and Dr John Glover, pp. 3–4

13 Mr Drew Clarke, Executive General Manager, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 8 October 2002, p. 910

14 Professor Scott Holmes and Mr Brian Gibson, *Definition of Small Business*, Final report, University of Newcastle, 5 April 2001, p.1

In a rapidly changing environment, small business operators do not necessarily have the capacity to adapt to that change as quickly as corporations with a multitude of layers able to focus on single issues, particularly in the areas of technology and accounting.¹⁵

2.12 There is also less scope for small business operators to spend time away from core business functions that directly generate sales and revenue. The National Institute of Accountants commented that:

Small businesses, although a difficult term to define, are unique as they lack economies of scale, meaning that small business operators have to tackle a whole range of tasks, (which they are not necessarily skilled to do) in order to ensure their on-going viability. Small business operators must undertake tasks that larger businesses would split between employees, to ensure costs remain as low as possible. Governments must assist those operators by having as few additional tasks as possible. In addition, governments must do all they can to ensure the overheads to running a business are minimal.¹⁶

2.13 Small business also differs from large business in that it is less likely to be incorporated under corporations law as a legal entity separate from the owners. Most small businesses are either sole traders (a single person operating a business using their own name or under a business name, who is legally responsible for the actions, debts and obligations of the business); or partnerships (two or more people operating a business using their own name or business name who are separately and jointly legally responsible for the actions, debts and obligations of the partnership).

2.14 The limited financial resources of many small businesses is also a constraint on their capacity to weather revenue downturns and grow and compete with larger businesses. Many small businesses operate on small margins, with highly variable cash flow, particularly in their early years.¹⁷ As a result they have little capacity to absorb delays in payments. Late payments were raised as a problem by several witnesses, including Family Business Australia and small business participants at a roundtable in Brisbane, who reported that the problem is particularly acute when GST remittances are due.¹⁸

2.15 Most small businesses rely on their own equity or borrowings, frequently using the family home as security. This is a particular problem for those in areas with depressed housing markets, including some rural and regional areas. In addition, small business is often subject to higher interest rates, and higher bank fees and charges,¹⁹ partly because of a more limited bargaining capacity and also because of perceptions of increased risk. In the words of one witness:

15 Submission No. 36, Canberra Business Council, p. 3

16 Submission No. 73, National Institute of Accountants, p. 3

17 Submission No. 18, CPA Australia, p. 9

18 Mr Leslie Howson, *Hansard*, Roundtable, Brisbane, 12 September 2002, p. 799

19 Submission No. 14, National Federation of Independent Business, p. 2

Unlike big business, small to medium businesses tend to operate on much tighter inventory controls, have less financial flexibility and are more closely monitored by their banks. They are more susceptible to being given risk finance and require a strong cash-flow and ability to repay debts. It is a true adage that if you owe the bank \$100 million it is their problem but to owe them \$1 million it is your problem!...Banks, for instance, tend to find small customers more of a burden than the larger corporations by way of service costs. It seems that there is a need to re-evaluate exactly how much small business impacts on the economy and for banks, insurance companies and the like to adopt different approaches to their issues.²⁰

2.16 The committee is concerned that this less favourable treatment by larger businesses, including banks, insurance companies and creditors, can undermine small business profitability and even viability. There is a role for government in promoting greater recognition of the important economic and social contribution of small business, both within the community generally and with big business in particular.

2.17 Technology, including information and communications technology (ICT), is increasingly essential to businesses' capacity to compete effectively. It can open new markets by lowering the costs of production, including for customised products, and allowing small business to service markets well beyond the local neighbourhood. At the same time, as larger businesses and government adopt more advanced technology, there is increased pressure on small business to keep pace just to retain existing markets.²¹ The Melbourne Development Board identified this as an issue for small manufacturing businesses in their region, many of which appear to be lagging in their uptake of ICT.²² A witness from Western Australia explained that businesses wishing to tender for components of major projects in the area now need internet capacity and expertise because:

Every single contract was to be let online and the outcome of the tender process was to be online, so if you did not have access to technology you would not be doing business in a multibillion dollar project.²³

2.18 The relatively slow adoption of e-commerce by small business also risks undermining its competitive position. More education and training in both technology and business practice, and government assistance with these, are seen as critical to improving the sector's capacity to move to e-commerce or even make informed assessments about the value of e-commerce for their business.²⁴ Improved access to

20 Submission No. 66, Brisbane Office of Economic Development, p. 4

21 Submission No. 35, Melbourne Development Board, p. 8

22 *ibid.*

23 Mr John McIlhone, Director, Southwest Group of Councils, *Hansard*, Perth, 17 July 2002, p. 51

24 *Australian SME E-Commerce Forum Taskforce: Accelerating the Uptake of E-Commerce by Small and Medium Enterprises*, July 2002, compiled by E. Brown Small Enterprise Telecommunication Centre (SETEL), p. 4; See also Submission No. 35, *op. cit.*, p. 11

high quality telecommunications services is also important. Many small businesses are located outside the central business districts and lack access to low cost, high speed telecommunications.²⁵

2.19 The management practices of many small businesses are relatively unsophisticated and this can present a major risk for business survival. A worrying number are highly exposed to changes in market conditions due to over-reliance on a handful of suppliers or customers and a lack of risk management strategies. A recent CPA Australia survey of small business found that:

Sixteen per cent of small businesses generate 80 per cent of sales from less than five customers and 47 per cent are dependent on fewer than five suppliers. CPAs say that half these businesses would struggle to survive the loss of a major customer or supplier, yet 76 per cent don't think their clients have strategies.²⁶

2.20 Accountants are the primary source of professional and management advice for most small businesses. However the demands of the current taxation system means that they have less and less time to provide business improvement and accounting advice to their small business clients, even at critical stages such as early growth points. One observer summed up the situation this way:

If you add that to our comments about the banking sector being perhaps underdeveloped and an accounting profession that focuses on compliance, I think you have a pretty lonely small business sector.²⁷

2.21 The isolation is compounded by low levels of participation in industry or similar business associations. Industry associations are an important source of information for their members on matters such as changes in government policies and regulations, developments in industrial relations, and in the industry or the broader economy. They also provide a source of information for government on industry concerns and issues. Businesses that do not belong to such organisations may find it harder to access information critical to their survival and are more dependent on information from official sources such as government. On the other hand, there is a view among some small businesses that industry associations do not always represent the needs of their small business members.

Categories of small business

2.22 The small business sector covers a wide range of enterprises, from a single tradesperson or consultant working from home to a manufacturing business employing up to 20 people and perhaps engaged in export. The need to recognise and respond to

25 Mrs Beverley Nowotny Ford, *Hansard*, Roundtable, Albany, 18 July 2002, p. 157

26 CPA Australia, *Small Business Survey Program: Perceptions of Risk*, August 2002, p. 4

27 Dr Tim Atterton, Curtin Business School, *Hansard*, Adelaide, 10 October 2002, p. 971

the diversity within small business was a consistent and powerful message to the Committee:

...you cannot just block in small business; you have got to look at home based business, micro-business, small small business, small business and medium business. All their needs are different. It has just come to me that we are discussing generally all small business but the needs of the different stages of small business are a lot different.²⁸

2.23 Small business can be further broken down into:

- non-employing businesses, comprising sole proprietorships and partnerships without employees;
- micro-businesses, employing fewer than five people (which includes non-employing business); and
- other small businesses, or businesses employing five or more but fewer than 20 people.

2.24 Medium businesses are those employing between 20 and 200 people and large businesses are those employing 200 or more people.

2.25 More than half of all small businesses outside of agriculture, that is 582,100, are 'non-employing'.²⁹ They account for 22 per cent of the total small business workforce outside of agriculture, or 713,200 persons.³⁰ They are concentrated in construction (26 per cent) and property and business services (17 per cent).³¹ Over the past 17 years, these businesses have grown more slowly than small business overall, although in the past three years non-employing businesses have grown at a faster rate than employing business.³²

2.26 A witness from the Micro Business Network suggested the need for greater policy recognition of the significance of this segment of the small business community and its role in contributing to overall employment:

Another issue that needs to be addressed—and again I have seen no evidence of it—is the fact that many of these people are employing themselves. They call themselves a business but they do not truly see themselves as a business. They see themselves as employing themselves. There is lots of support and help to get more employees into the work force

28 Mr Graeme Harris, *Hansard*, Roundtable, Perth, 19 July 2002, p. 185

29 ABS, *Small Business in Australia 2001*, 1321.0, 2001, p. 9

30 *ibid.*, pp. 9–10

31 *ibid.*, p. 10

32 *ibid.*, pp. 13; 15

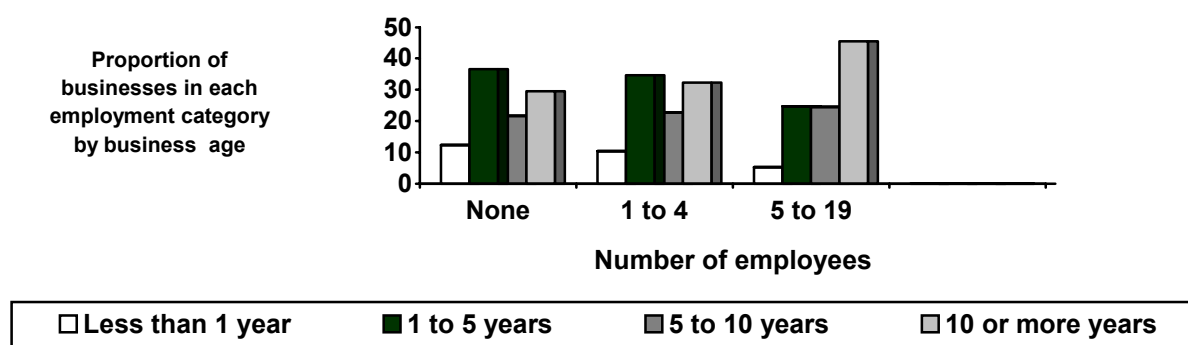
but I have seen no evidence of support to self-employ rather than go on the dole or whatever.³³

She suggested that government could recognise and support this contribution by providing access to a small financial grant, repayable on an income contingent basis, along the lines of the Higher Education Contribution Scheme (HECS).³⁴ This issue is taken up further in Chapter 4.

2.27 It should not be assumed that all non-employing businesses will remain that way. While some are clearly oriented to self-employment, a proportion are also likely to be newly established businesses, which may grow over time if successful. As an indicator: in 2002, thirty-nine per cent of non-employing businesses had been in operation for less than one year;³⁵ and 35 per cent of a sample of non-employing businesses in Australia surveyed as part of an international study, indicated that they intend to employ in the future.³⁶

2.28 To a large extent, small business in Australia means micro-business. Over 85 per cent of all small businesses are micro-businesses employing fewer than five people, with 52 per cent of these being non-employing and the remaining 34 per cent employing one to four people.³⁷ Over the past 17 years employing micro-business has performed most strongly in terms of employment growth, although this has slowed significantly over the past three years.³⁸

TABLE 1—Small Business: employment numbers by years established



[Data source: ABS, *Characteristics of Small Business*, 8127.0, 2001, Table 3.1, p. 44]

33 Ms Barbara Gabogrecan, Managing Director, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p. 234

33 *ibid.*, p. 235

34 *ibid.*

35 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 40

36 K. Hindle and S. Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 21

37 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 39

38 ABS, *Small Business in Australia, 2001*, 1321.0, 2001, pp. 14–15

2.29 Many submissions highlighted the importance of this segment and suggested that it is often overlooked in policies and programs targeting the larger end of the small business community. The Melbourne Development Board argued that micro-business, and in particular home-based micro-business, is an economic trend that has been largely ignored in the development of public policy. In their view:

...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.³⁹

2.30 Home-based businesses are those operated *from* the owner's home (for example, a tradesperson who does not have separate business premises) or *in* the owner's home, for example a consultancy business. The common feature of home-based business is the absence of any other premises for conducting the business.

2.31 Home-based business is of interest for a number of reasons. First, it is the most significant segment of small business: 67 per cent of all small business is home-based business.⁴⁰ Second, in recent years it has been growing more rapidly than small business overall (16 per cent per annum compared with 11 per cent per annum for small business in general). Business that is primarily conducted *in the home* rather than simply *from the home* has grown even more rapidly than home-based business in general (18 per cent growth rate).⁴¹ This group of home-based business has a relatively large and growing representation of female business operators,⁴² which may reflect a shift to self-employment as a means of balancing work and family commitments.

2.32 Another perspective on home-based business is its penetration in residential neighbourhoods. Estimates suggest that at least one in ten households in Australia hosted a home-based business.⁴³ The committee was told that this figure may now be even higher.⁴⁴ Local government zoning laws, which generally stipulate the conditions

39 Submission No. 35, op. cit., p. 9

40 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 80

41 *ibid.*

42 *ibid.*

43 A. Stanger, 'Home-Based Business Marginality: A Review of Home-Based Business Performance and its Determinants', *School of Commerce Research Papers Series 00-17*; ISSN 1441-3906, p. 5; also note that the ABS *Characteristics of Small Business* (Cat. No. 8127.0) reported 778 400 home-based businesses in June 2001; and the last Census gave the number of occupied private dwellings as 7 072 202, indicating that 11 per cent of households hosts a home-based business.

44 Mr Murray Geddes, Honorary Development Officer, Home-Based Business Association of the ACT, *Hansard*, Canberra, 6 August 2002, p. 524

under which businesses can operate in residential neighbourhoods, are therefore a major issue of concern for home-based businesses.

2.33 Home-based business is often considered synonymous with self-employment and the development of the non-standard labour market and there is some evidence to support this. A series of focus groups with home-based business in two Australian regions found that many had been started by people who were forced out of the mainstream workforce due to illness, injury or other factors, but retained entrepreneurial drive and ability.⁴⁵ A representative of the Home-Based Business Association of the Australian Capital Territory (ACT) argued that the growth in home-based business in the territory reflects not only personal lifestyle choices but also deep structural forces shaping modern economies like the ACT.⁴⁶

2.34 Small business participants in a roundtable also emphasised the important role of technology in enabling the formation of a home-based business:

What I find is that technology is great. It allows you a low-cost business set up. A \$400-machine lets me do my faxes, my scanning and my printing or whatever. Add a computer and a couple of phone lines and basically you are in business. It makes it pretty easy...We do not have to bring people into our homes or into 'a business'...So we are not intrusive as far as the community around us is concerned; they probably would not even know that we have a business.⁴⁷

2.35 One challenge for governments is that home-based business is relatively isolated and hidden, and an 'obscure group to try to work with'.⁴⁸ These businesses may not need to register with local councils, and many prefer not to, from fear of being penalised either by councils, neighbours or service providers.⁴⁹ In these circumstances, councils often have little idea of the number and nature of home businesses in their jurisdiction:

Usually you come across them. You cannot point your finger at a house and say: 'There is a business in that house,' but you can do that in a commercial street.⁵⁰

45 K Houghton and Capital Region Enterprise and Employment Development Association (CREEDA), *Home-Based Business in Two Australian Regions. Backyarders and Frontrunners*, December 1999, p. 24

46 Submission No. 76, Mr Murray Geddes, p. 2

47 Mr Bernard Duke, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 460

48 Mrs Marilyn Horgan, Project Officer, Perth Area Consultative Committee (ACC), *Hansard*, Perth, 17 July 2002, p. 39

49 Mr Euan Miller, op. cit., p. 950

50 Ms Allison Oldfield Hiosan, Executive Officer, Perth ACC, *Hansard*, Perth, 17 July 2002, p. 34

2.36 Councils vary significantly in their attitudes to home-based business, with some being quite ‘friendly’ or supportive and others being more concerned about residential amenity and complaints. There was a general recognition of the need for a more consistent approach by councils to home-based business, as a foundation for policies designed to foster the development of this segment of small business.⁵¹ Home-based businesses are also starting to become more organised and the committee heard that a growing number of regional self-help associations have agreed to cooperate nationwide.⁵² The Commonwealth could provide some leadership in supporting a more consistent approach to home-based business, a point that is taken up in more detail in Chapter 6 on regulatory issues.

2.37 Telstra charging policies may also discourage home-based businesses from self-identifying, which can complicate planning for traffic capacity. One witness suggested that Telstra consider adopting the approach of Telecom New Zealand in striking a special rate for home-based businesses as a means of encouraging them to ‘come out’ as it were.⁵³

2.38 While there were varying views on the employment aspirations and potential of home-based businesses, a number of witnesses argued that there is untapped growth and employment potential in the sector.⁵⁴ The committee was told of a project in Joondalup, Western Australia that, by working with home-based business, had stimulated the creation of a significant number of new jobs.

2.39 There is a strong overlap between small and micro-business in particular, and family businesses. Many small businesses are family businesses in the sense that the owners and managers are family members. A CPA Australia survey suggested that a small majority employ family members of the owner, usually the spouse.⁵⁵

2.40 Family businesses are of interest because they have some specific features or characteristics that affect their capacity to grow and to manage conflict. CPA Australia argued that family businesses have different employment relationships and needs to businesses that are ‘non-family entities’.⁵⁶ In its view family businesses combine two ‘inherently incompatible systems’: a family, with a primary social function of caring for its members and a business, where the primary goal is wealth generation,⁵⁷ complicating enterprise management and growth.

51 Mr Euan Miller, *op. cit.*, p. 950

52 Submission No. 76, *op. cit.*, pp. 1–2

53 Mr Euan Miller, *op. cit.*, p. 51

54 Ms Oldfield-Hiosan, *op. cit.*, p. 31; Submission No. 35, *op. cit.*, pp. 9; 12

55 Submission No. 18, *op. cit.*, p. 7

56 *ibid.*, p. 7

57 *ibid.*, p. 7

2.41 Managing conflict and succession planning are particular challenges for small business and, as a result, family-controlled small businesses generally last for a shorter period than non-family controlled enterprises.⁵⁸ Family businesses may also be affected differently by the regulatory framework: CPA Australia argued that current rules for Capital Gains Tax and the superannuation legislation may act as disincentives for a family business to grow.⁵⁹ The representative of Family Business Australia argued that the needs of family business need to be better represented in policy development although no specific areas of current disadvantage or neglect were identified.⁶⁰

2.42 Austrade highlighted the growing importance of micro and other small business in strategies to improve Australia's export performance. While relatively few small businesses in Australia export, and certainly fewer than in other OECD countries, small businesses are now entering the export market at a faster rate than medium and larger businesses. Austrade's target of increasing the number and proportion of exporting businesses by 2006 will rely on a doubling in the numbers of small business exporters over that period. In the view of Austrade, the next generation of exporters is likely to comprise small or micro-businesses increasingly operating outside of the major metropolitan areas.⁶¹ The committee commends the Austrade focus on the export potential of small business and considers that governments at all levels should examine ways in which their programs and services for small business can support this objective.

Comment

2.43 Not enough is known about micro-business and home-based business in particular. Governments need to consider ways of improving their understanding of these categories of small business, so that they can formulate appropriate policies and programs.

Recommendation One

The committee recommends that governments consider appropriate ways of developing a better understanding of micro-business and home-based business and their potential.

Characteristics of business operators

2.44 An ABS survey in 2001 provides a useful snapshot of the individuals who operate Australia's more than 1 million small businesses. The latest survey information indicates that most small business operators:

58 *ibid.*, p.7

59 *ibid.*, p.7

60 Ms Julie Cambage, National Executive Director, Family Business Australia, *Hansard*, Melbourne, 24 July 2002, p. 216

61 Submission No. 58, Austrade, p. 4

- are male (67 per cent): but between 1999 and 2001, the number of female business operators increased at a slightly faster rate than the number of males (10 per cent compared with 8 per cent);⁶²
- are aged between 30 and 50 years of age;⁶³
- have either no post-school qualifications (41 per cent), or certificate level qualifications (38 per cent), with 21 per cent having diploma level or above qualifications;⁶⁴
- work full-time in their business, that is work at least 35 hours a week in the business (71 per cent). Forty-six per cent work between 35 and 50 hours each week, 22 per cent between 51 and 75 hours and 3 per cent more than 75 hours a week.⁶⁵ However a minority of female operators (42 per cent) work full-time in their business;
- were born in Australia (although 28 per cent were born overseas);⁶⁶
- operate home-based businesses (67 per cent);⁶⁷
- use computers in their business operations (67 per cent of all small businesses and 89 per cent of those with 5–19 employees, compared to 56 per cent of non-employed businesses);⁶⁸
- have access to the internet (53 per cent);⁶⁹ and
- have been operating the business for less than 10 years (68 per cent).

2.45 Small business owner–managers are also reported to have some common or prevailing attitudes and behavioural styles that influence their desire and capacity to grow. Research into entrepreneurial personality, behavioural patterns and management styles in the US and Europe suggests that entrepreneurs often demonstrate ‘Type A’ behaviour patterns with the following characteristics: high levels of optimism; a reluctance to read and write with a preference for learning by doing and making mistakes; a desire for a high level of independence and control; difficulty in forming an objective assessment of their own business and its strengths and weaknesses; and an operational rather than strategic focus.⁷⁰

62 ABS, *Characteristics of Small Business 2001*, 8127.0, 2001, p. 7

63 *ibid.*, p. 13

64 *ibid.*, p. 10

65 *ibid.*, p. 11

66 *ibid.*, p. 12

67 *ibid.*, p. 80

68 *ibid.*, p. 42

69 *ibid.*, p. 43

70 Submission No. 92, Dr Tim Atterton, p. 2

2.46 A small business adviser commented that there is a ‘huge and diverse range of personality types that enter small business’ but that isolation is a common factor and may determine a preference for a more personal approach to obtaining information:

You are quite isolated. You cannot talk to your staff about your problems. Your wife or husband does not really want to hear about it at the end of the day. Often, you struggle with things and keep them very private...we all know that the Internet is a very efficient way of delivering information and

the Business Entry Point and sites like that have served a very useful purpose...but there is nothing like that human contact of one person sitting down with another.⁷¹

2.47 Policies and programs targeting small business need to recognise these personal characteristics as they can influence operators’ preferences for information and participation.

Business life cycle

2.48 The small business sector can also be segmented in terms of the age of the business or stage of business development, including key points such as the engagement of a first employee or entry into the export market.

2.49 A snapshot of small business operators in mid-2001 revealed that almost half (49 per cent) had been operating for less than five years, with 14 per cent operating less than one year. Nineteen per cent has been in operation between five and 10 years and 32 per cent more than 10 years.⁷² Businesses employing more than five people were more likely to be more than 10 years old (50 per cent).⁷³

2.50 One witness who provides advisory services to small business suggested that there are four very distinct phases in small business. She identified the first stage as:

...the period from nought to two years, or start-up...I call it the Nike phase: ‘Just do it’. They lose money, they are focused on systems and product and they have not really got it together.

The second phase, ‘the take-off period’, occurred at about four years:

...[when] one of three things happens. The first is that the business fails. One of the reasons it fails is that there was no market, it was insufficient. The business owner decides that they want to go back to corporate life and do something else. The other thing that happens is that they make a conscious decision to structurally stay the same, so they do not hire staff or they look at other revenue sources. The take-off phase is when they identify

71 Ms Clare Loewenthal, *Hansard*, Sydney, Roundtable, 14 August 2002, p. 632

72 ABS, *Media Release*, 19 March 2002, 8127

73 ABS, *Small Business in Australia, 2001*, 1321.0, 2001, p. 40

a new market for their existing product or they identify another product for their existing market. If they get over that four-year phase, they then usually experience fairly rapid growth and that is where a lot of your employment comes from—that very intense phase where they suddenly grow. In my work as a consultant, they know where they want to go but they are not quite sure how to get there.⁷⁴

The next stage occurs at around seven years:

That might be called the seven-year itch. It is consolidation. All the systems that they set up on day one, and that ranges from the computer systems and their phone systems, to the way they communicate with their staff, start to wobble because the volumes increase to such a point where they can no longer cope. The revenue is coming in but it is all the underpinnings. That is the next key phase. If you can imagine it, the type of business support and training that is needed for a consolidation business is completely different to our Nike phase.⁷⁵

For those that succeed, the last stage is from eight to ten years, when the business can move to major expansion. The area of business that expanded then begins to act like a start-up.⁷⁶

2.51 The Committee heard that the start-up phase is a particularly critical stage, when businesses need to establish effective processes and management arrangements. A small business operator at a roundtable on small business issues stated that:

A lot of people start their businesses and they say, ‘I will deal with that later.’ A fundamental thing, when you first start your business, is that you need to have a template of how you are going to do your accounting. A lot of people do not do that and get themselves into trouble down the track.⁷⁷

Comment

2.52 Programs or policies targeting small business may also need to take account of the different needs at different points in the growth cycle. There appears to be a growing recognition of this, but it is not clear that the current array of programs, particularly for management development, goes far enough.

The external environment

2.53 While owner characteristics, size and internal management and financial arrangements are important determinants of business needs and circumstances, the

74 Ms Linda Hailey, Director, Hailey Enterprises Pty Ltd, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 631

75 *ibid.*, pp. 631–33

76 *ibid.*

77 Ms Amy Lyden, Company Director, Bow Wow Meow Pty Ltd, *Hansard*, Sydney, Roundtable 15 August 2002, p. 684

industry or market in which business operates may be as important, and in some cases, even more important.

2.54 A few industries are dominated by small business: 99 per cent of all business in the construction industry are small, while 92.8 per cent of manufacturing businesses and 88.7 per cent of businesses in the accommodation, cafe and restaurant industry are small.⁷⁸ Over the past two years small business growth was strongest in the property and business services, health and community services and education services industries; the lowest growth rates were recorded in retail trade, wholesale trade and transport and storage.⁷⁹

2.55 The Australian Retailers Association argued the overriding importance of industry sector in determining the primary concerns of small business:

While there are some common characteristics of small businesses, the major concerns of small business often depend on the industry in which they operate. Retail tenancy legislation and practice is a major concern of retail business, where occupancy or rental costs are one of the major cost items.⁸⁰

2.56 Submissions from other industry associations, such as the National Association of Retail Grocers of Australia (NARGA) and the Motor Trades Association also raised industry-specific issues, such as the market dominance of large supermarket chains and market practices in the motor trades industries respectively, as the key concerns of their members. Competitive practices and competition laws are a major concern of small businesses operating in these industries and the extent to competition, or anti-competitive practices by large firms, is regulated may be the main determinant of their profitability and survival.

2.57 Small businesses are often found in industries or sectors where they can have a comparative advantage such as in serving the local neighbourhood market, or where low overheads and personal service are an advantage, or niche markets that may be unprofitable for larger business. The submission from the Micro Business Network highlighted the enormous diversity within the sector, many servicing niche markets: ‘from milking venomous snakes, to needle craft, to consultants, to bed and breakfast—the range is enormous.’⁸¹ This very diversity underscores the limited scope for many to be represented by industry associations.

2.58 The inquiry received a large number of submissions from regional organisations, reflecting the important role of small business in regional areas, where it is often collectively the largest employer. There is a strong interdependence between small business and regional development, and a particular need to build the potential of existing small business:

78 ABS, *Small Business in Australia, 2001*, 1321.0, 2001, p. 21

79 *ibid.*, p. 15

80 Submission No. 4, Australian Retailers’ Association, pp. 6–7

81 Ms Barbara Gabogrecan, *op. cit.*, p. 242

In rural and regional Western Australia, the greatest way to improve economic growth is through small business—not just through the establishment of new small businesses but also through helping those that we already have improve their lot in life, because the easiest small business to keep in a rural and regional area is the one you already have.⁸²

2.59 Location can be, and often is, a fundamental determinant of business profitability or viability. Submissions and evidence to the committee from a number of regional organisations highlighted the range of constraints and higher overheads facing businesses in regional, and particularly in remote, Australia including:

- limited infrastructure and services and high transport and communication costs;⁸³
- freight, repairs, telephone costs, fuel and travel;⁸⁴
- high telecommunication costs and limited facilities such as fast internet or mobile phone access;
- reduced population and support services from government, resulting in shrinking markets and less business support facilities; and
- the flow-on effect of an agricultural downturn or drought and reduced farm incomes on non-farm enterprises in the affected region.⁸⁵

2.60 Several submissions suggested that a regional development approach or regional employment strategy is the best way to assist regional small business.⁸⁶ Project funding under the Small Business Enterprise Cultures Program and the Regional Assistance programs can be very useful in this regard because of the scope for a tailored, multi-faceted regional approach. The committee also heard evidence that current program arrangements, in particular the lack of continuing programs for business skills development, mentoring and networking in regional areas, can be a constraint on the development of regional small business. This issue is taken up in Chapters 4 and 5.

Comment

2.61 Understanding small business, while a precondition for effective policies and programs for the sector, is a major challenge for governments. The diversity of the sector means that generalisations and broad scale policies may be ineffective and inappropriate. At the same time, the committee considers that there are some common features to small business that justify a special policy focus.

82 Mrs Vicki Brown, Small Business Assistance Officer, Great Southern ACC, *Hansard*, Albany, 18 July 2002, p. 80

83 Submission No. 6, Gulf Savannah Development, pp. 4; 8–9

84 Submission No. 24, Great Southern Development Commission, Attachment 1, p. 16

85 Submission No. 23, Great Southern Area Consultative Committee, p. 2

86 Submission No. 32, Institute of Chartered Accountants of Australia, p. 3

2.62 Governments need to consider ways of developing better information sources on small business and improved ways of communicating with the sector. Programs and policies may need to be tailored to the needs of the various segments of the sector, although this further complicates policy and program delivery. There is a need for a more coordinated national approach and for more flexibility in programs and policies to meet these diverse needs.

Chapter 3

Small Business and Employment

...small firms do not set out to create employment; they take on employees out of necessity...it is not the number of small businesses or the jobs they create that is important but the quality and durability of both the business and the jobs.¹

Small business employment in perspective

3.1 Small business has made a major contribution to employment growth in Australia, as in other OECD countries² over the past two decades. This has generated a focus on the potential of the sector as an important source of new jobs. Increasing employment in small business should not, however, be an end in itself but rather a means of achieving the broader objective of increasing the number of quality and durable jobs in the economy as a whole.

3.2 Small business, collectively, is the largest private sector employer in Australia. In 2000–2001, out of a total of 6.9 million people employed in the private sector (outside of agriculture), 3.3 million or 47 per cent were working in small business either as employees or business operators. More than a third of these were business owners or operators ('own account workers' or partners in employing businesses). The remaining two thirds, were employees of small business, with most of these employed in businesses with more than four employees.³ It is apparent from these figures that self-employment is a major feature of the small business sector in Australia.

3.3 Medium and large business, however, employs more than 60 per cent of the *employees* (that is excluding owner-operators) in the non-agricultural private sector. Almost half of these were employed in large businesses, that is those employing 200 or more people. The relative employment contribution of small, medium and large business is illustrated in the following two charts. The first chart shows the total number of people, including small business owners, employed in each category of business; the second shows the total number of *employees* (that is excluding business owners) in each category.

1 Dr Tim Mazzarol, Chairman, Centre for Regional Innovation and Enterprise, *Hansard*, Albany, 18 July 2002, p. 96

2 *OECD Small and Medium Enterprise Outlook*, OECD, Paris, 2000, p. 7

3 ABS, *Small Business in Australia 2001, 1321.0, 2001*, p. 7

Figure 1—Total Employment: small medium and large business

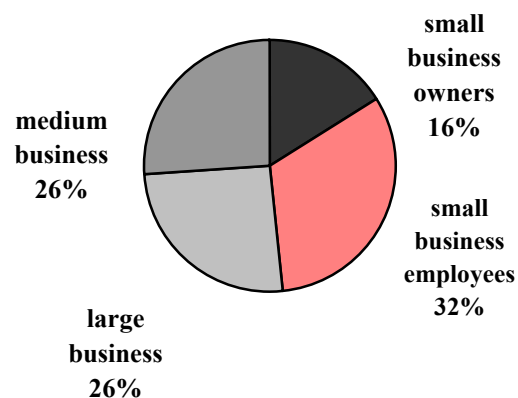
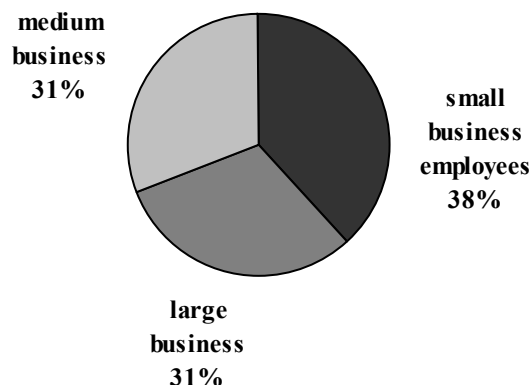


Figure 2—Employees only: small, medium and large business



[Data source: ABS, *Number of Businesses and Employment by Size of Business*, Industry Overview, 22 January 2002, pp. 1–2]

Trends in small business employment

3.4 From the mid-1980s to mid-1990s, small business accounted for a disproportionate share of new jobs (53 per cent of new jobs, out of an employment share of 47 per cent) and, as a result, increased its share of employment.⁴ Similar trends occurred in other OECD countries inspiring a new interest in understanding the small business sector and its role in economic and employment growth, particularly in the ‘new’ or post-industrial economy.⁵ Over the 17 year period 1983–84 to 2000–01, the average annual growth in employment in small business was 3 per cent, higher than the combined average growth rate in medium and large business of 2.5 per cent.⁶ However, for the three years 1997–98 to 2000–01, when employment growth in small business began to slow, the average annual growth in small business employment fell to 2.5 per cent.⁷ Employment growth in large business outpaced that in small business in the past few years.⁸

4 Productivity Commission, *Small Business Employment*, August 1997, p. ix

5 *OECD Small and Medium Enterprise Outlook*, 2000 Edition, OECD, Paris, 2000, p. 7

6 ABS, *Small Business in Australia 2001*, 1321.0, 2001, pp. 13–14

7 *ibid.*, p. 13

8 M. Priestley, Parliamentary Library Research Note: Small Business Employment, No 10, September 17, 2002. p.1

3.5 Interpreting employment trends in small business is complicated by ‘category shifting’. Category shifting occurs when a small business increases its employment to the point that it moves into the category of ‘other business’ (20 or more employees) or when an ‘other business’ decreases its employment to fewer than 20 employees. Small business employment can therefore increase as a result of additional employment being created by small business or downsizing or disaggregation by larger businesses.⁹

3.6 Employment growth in small business is therefore not necessarily a positive indicator because it may be the result of other, less desirable, changes in the economy. For example, the small business share of employment tends to increase in times of recession, sometimes quite sharply,¹⁰ due to labour shedding by larger businesses along with a tendency for small business to reduce staff hours rather than staffing numbers in times of economic downturn.¹¹ There is also the tendency for small business to function as a ‘labour sponge’¹² or haven from unemployment.

3.7 Other structural changes in the economy and the labour market can also have an effect on small business employment share. Outsourcing and downsizing by both government and large private sector employers and the growth of the non-standard workforce have both contributed to a shift towards self-employment and growth in the business services segment of small business. Technological change, including the advent of the internet and powerful personal computers has altered the costs of production in some industries and also opened up new opportunities for small business to service more dispersed markets. In other industries, including grocery retail and some of the motor trades, the increasing concentration of large business has led to a reduced small business employment share.¹³

3.8 The OECD, noting that the size of the average enterprise has decreased in recent years, has speculated that the increasing employment growth in small and medium enterprises since the 1980s may reflect fundamental structural changes in developed economies and the emergence of the ‘new economy’.¹⁴ Another view is that the changes are temporary and ephemeral, reflecting a phase in the economic cycle. This is supported by evidence that, over the longer term, the small business share of employment has remained relatively stable, as well as a recent slowing of small business employment growth.¹⁵ The Australian experience over the past two

9 Productivity Commission, *Small Business Employment*, August 1997, p. 6

10 *ibid.*

11 This may reflect the ‘more personal’ nature of employment relations in small business compared with other business, in the AWIRS survey (Productivity Commission, *Small Business Employment*, August 1997, p. 66).

12 Productivity Commission, *Small Business Employment*, p. 75

13 *ibid.*, p. 42

14 *OECD Small and Medium Enterprise Outlook*, 2000 Edition, OECD, Paris, 2000, p. 8; *SMEs: Employment, Innovation and Growth*, the Washington Workshop, OECD, Paris 1996, p. 9

15 B. Harrison, *Lean and Mean—the Changing Landscape of Corporate Power in the Age of Flexibility*, Basic Books, US, 1994; Productivity Commission, *Small Business Employment*, 1997, p. 13

decades appears to offer some support for this view: the proportion of businesses with less than five employees has not changed in the sixteen years between 1984 (when it was 81.47 per cent) and 2000 (when it was 81.46 per cent).¹⁶ ABS data for 2001 also highlight the fluctuating nature of employment trends in small business over time: for example, the number of non-employing businesses decreased between 1997–98 and 1998–99 and then increased each year from 1999 onwards.¹⁷

3.9 This analysis underlines the need for caution when drawing any hard and fast conclusions from the recent slowing in the growth of small business formation and employment. Between 1997–98 and 2000–01, the average annual growth in the number of small businesses was 2.7 per cent, below the average annual rate of 3.5 per cent for the period 1983–84 to 2000–01; and, as noted, total small business employment increased at an average rate of 2.5 per cent compared with an average of 3 per cent over the period 1983–84 to 2000–01.¹⁸ The slower growth in small business employment appears to be mainly the result of a slower growth in the number of employers and own account workers in small business, as the growth in small business employees was on a par (0.1 per cent below) with the 17 year average.¹⁹ There could be several explanations including a move out of ‘involuntary’ self-employment in a more favourable employment market. Another possibility is that deeper structural changes in OECD economies such as Australia may be eroding some of the advantages enjoyed by small business, particularly in the services sector, during the 1980s. For example, in the USA and Japan larger businesses have started to increase their share of the services sector at the expense of small business.²⁰ An analyst has suggested that, in the USA, the long-term small business share of total employment will soon settle to about the same level as in the 1960s.²¹

3.10 The point of this analysis is to underline the complex factors that play a role in determining overall employment levels in the small business sector, including structural changes in the economy, and our limited understanding of how these operate. This implies the need for a degree of caution about the scope for government policies or interventions to increase employment in small business, other than at the margins, as well as the need for a better information base. The Productivity Commission report on small business employment put it this way:

It is...therefore a true, albeit glib, assertion that if every small business took on one more employee, there would be no unemployment problem. But this sort of simple arithmetic ignores more fundamental and interesting questions about the role of small business in employment generation...[it]

16 Submission No. 77, Mr Brian Gibson, p. 2

17 ABS, *Small Business in Australia 2001*, 1321.0, 2001, pp. 14–15

18 *ibid.*, p. 13

19 *ibid.*

20 Productivity Commission, *Small Business Employment*, p. 13

21 B. Harrison, *op. cit.*, p. 13

may be due to shifts in demand for services where small business has a comparative advantage.²²

3.11 The Office of Small Business in its submission noted that ‘there has been limited research on the factors that affect small business employment and barriers that prevent small business taking on new employees’.²³ The Business Growth and Performance Survey, known collectively as the Business Longitudinal Survey, which was conducted from 1994–95 to 1997–98, was partly designed to remedy that deficiency. The survey captured information on the growth and performance of Australian employing businesses along with selected economic and structural characteristics of those businesses. Information from the survey has been used by Austrade to develop a better understanding of the export performance of small business and by the Office of Small Business to identify the extent to which new and existing businesses are responsible for generating employment.²⁴

3.12 Although it has been a valuable source of information on small business, the survey was discontinued in 1999. At the time small business advisers, including CPA Australia, argued that the decision was short-sighted because of the unique and valuable data about small business the survey provided. CPA Australia commented that:

If the BLS is axed we must expect that in future businesses will suffer from poor and ill-conceived policy decisions...small business performance is likely to become a guessing game.²⁵

3.13 In response to a question on this issue from the committee, the Productivity Commission advised that the survey, while involving a higher compliance burden than many other surveys, provides some useful insights into business dynamics and overcomes the problem of ‘category shifting’. The Commission also noted that the survey had been designed to minimise compliance costs as far as possible. In summary, it advised that:

Overall, the BLS has proved to be a useful survey that has been ‘mined’ by public sector and university researchers for some rich insights into business dynamics. Clearly the dataset is now somewhat dated, though it is still being used. A further similar survey would enable examination of contemporary issues and has the potential to make a significant contribution to the analysis of many policy-related matters.²⁶

3.14 The committee acknowledges that surveys can add to the paperwork burden on small business and should only be undertaken where the benefits clearly outweigh

22 Productivity Commission, *Small Business Employment*, p. 1

23 Submission No. 71, Office of Small Business, p. 4

24 *ibid.*, p. 16

25 CPA Australia, ‘Government Must Reinstate Small Business Surveys Say CPA’, *Media Release*, 2 March 1999 at: www.cpaonline.com.au/Archive/mr1999/pg_mr990302.html

26 Productivity Commission, response to Questions on Notice, 15 November 2002, p. 2

the costs. However, in view of the significant potential for a survey of this kind to lead to more informed policy formulation, including for strategies to increase employment in small business, the committee considers that the survey should be resumed, in close consultation with the small business community to ensure that any compliance burden is minimised.

Recommendation Two

The committee recommends that the Commonwealth Government resumes the Business Longitudinal Survey, in close consultation with the small business community.

3.15 Following sections of this chapter assess the views presented to the committee on factors that could provide more favourable conditions for employment growth in small business.

Characteristics of employment in small business

3.16 When assessing small business' contribution to employment, it is also important to consider the nature and quality, as well as the number of jobs. Lower quality jobs can act as a brake on employment growth in the longer term because they may restrict the capacity of small business to recruit and retain skilled employees. This can, in turn, reduce productivity. Key elements of job quality include job security, skill levels, wage rates, employment conditions, and training and development opportunities.

3.17 Employment in small business, like small business itself, can be highly volatile. New businesses account for almost half of all the jobs created by small business. As a result, job security can be very limited, particularly in the years soon after business formation when the risk of business failure is relatively high. Measures that would promote more sustainable small businesses can therefore contribute to more durable jobs.

3.18 Jobs in small business have generally been considered to be of lower quality than jobs in large businesses.²⁷ The ACTU submitted that employees of small business are generally paid 34 per cent less than those in large firms.²⁸ A community-based organisation in regional Western Australia told the committee that:

The quality and sustainability of employment created by small business particularly in smaller rural communities is tenuous at best and is often casual or part-time dependent on seasonal conditions. Even in larger centres where work is often slightly more secure the employment opportunities can

27 Productivity Commission, *Small Business Employment*, p. 61

28 Ms Sharan Burrow, President, ACTU, *Hansard*, Melbourne, 24 July 2002, p. 223

still be casual or part time with jobs that are low skilled or have limited career potential.²⁹

3.19 There could be several reasons for this, including the greater reliance of small business on awards for setting terms and conditions of employment, the prevalence of low skill jobs and the limited financial resources of many small businesses. By definition, small business generally offers less scope for career development and progression than large business.

3.20 At the same time, there are also many well-paid, highly skilled professional and trades jobs in small business, for example in pharmacies, engineering firms, consultancies and information technology firms. Small businesses that export regularly are likely to pay higher wages and provide better terms and conditions than other small businesses.³⁰

3.21 Employment practices and relations in small business have been characterised as personal, informal and less sophisticated than in larger business, reflecting the lack of management layers, the small size of the workforce and owner's personal involvement with all aspects of the business. Small business owners also have high expectations of their employees: they expect their employees to contribute a similar level of loyalty, commitment and work ethic as they do.³¹ One submission noted that:

In small business, every employee plays a significant role and has a real impact—positive or negative—on business performance and, therefore, is vitally important. On the other hand, employees want the best return from employment. They may see multi-tasking as a burden, and they often do not see small business employment as maximising their potential; it is rarely their first choice.³²

3.22 These high expectations are not always matched by a capacity to offer a competitive remuneration package, and this can make it more difficult for small business to attract and retain staff. On the other hand, the more personal management style of small business can be an attraction for some employees. CPA Australia argued that small business needs to capitalise on its capacity to offer staff more flexible employment conditions, such as flexible hours, family friendly environments, job sharing, training and development opportunities, equity incentives, management responsibilities and succession options. Their recent survey of small business suggested that there is a trend in this direction.³³

3.23 The committee notes in this context that a universal, government-funded paid maternity leave scheme could benefit small business by enabling it to match an

29 Submission No. 23, Great Southern Area Consultative Committee, p. 3

30 Mr Tim Harcourt, Chief Economist, Austrade, *Hansard*, Sydney, 15 August 2002, p. 664

31 Ms Judith Hartcher, Business Policy Adviser, CPA Australia, *Hansard*, Melbourne, 24 July 2002, pp. 200–01

32 *ibid.*

33 Submission No. 18, CPA Australia, p. 6

important benefit offered by many larger employers, at no significant cost to the business. While employees of small business are already eligible for the standard period of unpaid maternity leave, small businesses and their representatives made it clear to the committee that they do not have the capacity to cover the costs of an *employer-funded, paid leave* entitlement. One consequence is that, as more large and medium employers begin to offer paid maternity leave, small business may be left behind and become less attractive as an employer. The committee was told that Business and Professional Women Australia supports a universal, government-funded maternity leave scheme as a means of ensuring that all working women, including the self-employed and small business employees, have access to paid maternity leave.³⁴

3.24 Training and development opportunities contribute to both the quality of jobs and the level of innovation and productivity in the business. But small business is dramatically under-represented in formal training: 10 per cent of micro-businesses, which account for the lion's share of employment in small business, undertook formal training in the late 1990s compared with more than 80 per cent of large businesses.³⁵ Small business is more actively involved in informal training,³⁶ and this may be an appropriate outcome for some small businesses that are based on a 'low cost, low skill' business model. For many other small businesses, however, survival and growth will depend on their capacity to innovate and continually increase productivity, in order to remain competitive. Training, both formal and informal, will play an important role in this area. This issue is discussed in more detail in Chapter 5.

3.25 There has been a trend towards casual employment in small business over recent years. CPA Australia's survey found that 35 per cent of small business employ casuals and 24 per cent of these will employ more next year. A range of reasons was mooted, including the desire to avoid coverage of unfair dismissal laws, but the most common motivation appears to be a desire for flexibility and the capacity to adjust employment and costs in line with fluctuating demand and turnover.³⁷ This is in line with the general evidence from small business people and their representatives. At the same time, many small businesses recognise that too great a reliance on casual labour can adversely affect business performance.³⁸ A representative of the Melbourne West Consultative Committee told the inquiry that:

...a number of small business responses indicated that they needed to employ more casual labour and subcontractors because they needed the labour flexibility to try and maintain or control costs. However, quite a

34 Mrs Mary Dean, Vice President, BPW Australia, *Hansard*, Launceston, 26 July 2002, p. 416, 426; BPW Australia, *Media Release*, 27 April 2002 (tabled documents)

35 Kearney, P., *Size Matters—Small Business, Small Workplaces*, National Summative Evaluation Report of the Small Business Professional Development Programme 1996–2000, Commonwealth of Australia 2000, p. 7

36 Kearney, *Big Pictures from the Small End of Town*, 1998 Small Business Professional Development Evaluation Report, Commonwealth of Australia, 1999, p. 14

37 Submission No. 18, *op. cit.*, pp. 3, 9

38 *ibid.*, p. 3

number of respondents said that they were not interested in employing casuals or contractors and that it was very important for them to have full-

time, permanent staff because they were concerned that they maintain their skills and produce quality products. I think that was quite an interesting finding: the tension between those two.³⁹

3.26 There is some evidence that small business over-estimates the flexibility and cost savings associated with casual employment, because of a misunderstanding of employment obligations owed to casual employees. CPA Australia suggested the development of tools that would enable small business to make more informed cost-benefit calculations of various forms of employment.⁴⁰

3.27 A witness from Business Enterprise Centres in South Australia (BEC SA) gave an interesting illustration of the role that job quality can play in employment and productivity in an industry. Employers in the market garden industry north of Adelaide have been trained in human resources management and ways of restructuring jobs to provide full-time employment. The project shows promise of overcoming the staff shortages that have plagued the industry because of low pay and poor employment practices.⁴¹

Comment

3.28 The committee believes that the quality of the jobs in small business is as important as the number of jobs created. Many small businesses are unable to offer the same wage rates or employment conditions as larger businesses. However there is scope for them to improve the quality of jobs through measures such as more flexible working conditions, better training and job design, and reduced reliance on casual employment. Better quality jobs have the potential to enhance small businesses' capacity to recruit and retain skilled staff, increase their productivity and performance, and thus generate more sustainable employment. Government could assist in a range of ways, including developing information and training for small business on the relationship between job quality and productivity. Specific measures such as a tool to assist small business to assess the costs and benefits of different employment options, as suggested by CPA Australia, should be considered.

Recommendation Three

The committee considers that the governments should promote awareness among the small business community of avenues open to them to improve business performance and to enhance their attractiveness as employers through improving the quality of jobs without necessarily adding to costs.

39 Mr Michael Iaccarino, Executive Officer, Melbourne West Area Consultative Committee, *Hansard*, Melbourne, 24 July 2002, p. 304

40 Submission No. 18, op. cit., pp. 4, 17

41 Submission No. 88, Business Enterprise Centres SA Inc., p. 2

Factors that influence employment in small business

3.29 Several surveys in recent years have reported on small business employment intentions. These include the Yellow Pages survey of small and medium business by Pacific Access, the employment survey of small business and their accountants by CPA Australia, and the business survey by the Australian Chamber of Commerce and Industry. As the results have been canvassed widely in the media and in the context of debates on unfair dismissal laws, this report will not attempt to recover the same ground, although may draw on some of the survey findings as appropriate. As a general caveat, the committee notes that the main evidentiary value of surveys is to provide a snapshot of small business opinions.

3.30 A clear message from all surveys and from evidence presented to the committee is that, while the factors that determine employment trends in the small business sector are complex, business growth is an essential precondition.⁴²

Business growth

3.31 Like business everywhere, small business will generally only employ more people either in response to, or anticipation of, increasing sales or profitability. The Yellow Pages survey identifies a lack of sales or demand as the most important impediment to increasing employment and as a key factor in decisions to reduce staffing.⁴³ Sales, profitability and productivity are in turn dependent on a range of other factors including the economy and the regulatory environment as well as the skills of the owner and employees. Growth prospects also depend on factors specific to industry sectors.

3.32 Evidence to the inquiry suggested that businesses in labour-intensive industries dominated by small firms, such as the restaurant and catering industry may be more likely to translate any increase in sales or profits into increased employment.⁴⁴ Small businesses in competitive environments with price-driven markets, such as the grocery retail sector, may have limited scope to grow their profits and therefore employment.⁴⁵ The National Association of Retail Grocers of Australia (NARGA) cited research from 1999 indicating that, in the retail grocery sector, for every job that is created in the major retail chains, 1.7 jobs are lost in the independent retail sector, presumably because small grocers, lacking the economies of scale of the majors, are more labour-intensive businesses.⁴⁶ The increasing market concentration of the major chains therefore has an adverse effect on employment levels overall as well as employment in the small business sector.

42 Dr Timothy Mazzarol, op. cit., p. 96

43 Submission No. 48, Pacific Access, p. 4

44 Submission No. 19, Restaurant and Catering Association, p. 9

45 Submission No. 36, Canberra Business Council, p. 4

46 Mr Alan McKenzie, Director, National Association of Retail Grocers of Australia, *Hansard*, Canberra, 8 October 2002, p. 880

3.33 Cost structures are also important. Tenancy costs are a major cost item for retailers, particularly those in large shopping centres. The Australian Retailers' Association (ARA) submitted that these costs have increased significantly in recent years, particularly for small, speciality retailers, as the result of what they describe as a monopoly hold on shopping centre development by the major shopping centre developers. The ARA estimates that the higher tenancy costs translate into a loss of between 11,000 and 30,000 jobs.⁴⁷

3.34 Government policies and regulation can influence cost structures and business profitability in a range of ways. Compliance costs associated with government regulation add to the costs of doing business and reduce profitability, particularly where businesses are unable to pass on the additional costs. As previously mentioned, a recent CPA Australia survey of identified compliance costs as the greatest risk for business profitability.⁴⁸

3.35 A witness from the Council of Small Business Organisations of Australia (COSBOA) explained how the compliance costs associated with the GST affect employment, particularly for small businesses employing three or four people, where:

...the key man should be out there getting work, ensuring he has got continuity of work for employment. This links back into employment. The only way he can be guaranteed of employing people is by guaranteeing a flow of work. The best way that a key man in a small business can guarantee a flow of work is by not being diverted by unnecessary administrative things. The small business community has been made a tax collector and the burden falls more heavily on them. This is why COSBOA is suggesting that they get to keep some percentage of the GST—I think they have mentioned 2½; I have just forgotten—to recognise that difference.⁴⁹

Growth aspirations and business management expertise

3.36 Many witnesses argued that the management skills or capacity of the owner is the main determinant of business growth. These comments from the Far North Queensland Area Consultative Committee are typical:

...the key factor that prevents small businesses from employing more people is simply the lack of ability of small businesses to reach their true potential in production and profitability. This lack of ability stems from small business owners and managers lacking the skills and discipline to manage the more administrative side of their business as distinct from the technical side...Out of 400 business people counselled an estimated 90 per cent of

47 Submission No. 4, Australian Retailers Association, pp. 6–8

48 CPA Australia: *Small Business Survey Program: Perceptions of Risk*, August 2002

49 Mr Peter Middleton, Member, Council of Small Business Organisations of Australia, *Hansard*, Canberra, 6 August 2002, p. 527

these were struggling with their businesses because of a lack of strategic planning.⁵⁰

3.37 Witnesses who took this view, including the Canberra Business Council, argued that the best way to encourage increased employment by small business is for governments to support programs to enhance the general business skill levels of small businesses: ‘This means government support through appropriately delivered programs of financial management, marketing and other specific business skills’.⁵¹

3.38 Participants in a roundtable discussion between the committee and small business advisers and counsellors took a similar position:

Mr Peters...The common denominator of all of these failings is the business principal’s lack of skills. If I were to invest my time and effort, I would invest it first in the business principal before anybody or anything else. If you want change, you start from the top.

CHAIR—Do you all agree with that?

Mr Small—Yes, definitely.⁵²

3.39 These views are supported by research on small business development. An OECD study of Small and Medium Enterprises (SMEs) and employment concluded that governments need to explore ways to encourage entrepreneurial activity and promote training to maximise the employment and growth potential of the sector.⁵³ The 2001 Global Entrepreneurship Study of Australia found that education, along with experience, is considered to be the main way to improve entrepreneurial capacity.⁵⁴

3.40 Not all small businesses have the desire and capacity to grow, even given the necessary management expertise. According to the Yellow Pages surveys, there is a strong, although not determinative, relationship between business growth aspirations and employment growth: some small businesses with no growth aspirations do increase employment.⁵⁵ Mr Brian Gibson stated that a significant proportion of small businesses choose a ‘capped growth’ path and will not grow their business (or employment) beyond a set target under any conditions.⁵⁶ This may reflect a preference for independence, both from financial accountability to lenders or investors and from management responsibilities:

50 Submission No. 38, Far North Queensland Area Consultative Committee, p. 1

51 Mr Craig Sloan, Vice Chairman, Canberra Business Council, Hansard, Canberra, 6 August 2002, p. 473

52 *Hansard*, Roundtable, Sydney, 14 August 2002, p. 636

53 *SMEs: Employment, Innovation and Growth, the Washington Workshop*, OECD, Paris, 1996, pp. 7–8

54 K. Hindle and S. Rushworth, *Global Entrepreneurship. Monitor Australia 2001*, Yellow Pages, p. 28

55 Submission No. 48, op. cit., p. 7 (Table 4)

56 Submission No.77, op. cit., pp. 1–2

They do not like an employer-employee relationship, so they seek to break out of that by going into business and maintaining independence.⁵⁷

3.41 The witness from Pacific Access argued that addressing the impediments to employment growth for these companies can be futile because:

They are in business for family, lifestyle, social, working-hour issues—a whole range of things. The issue that I really wanted to stress in part today is that you have to understand the mindset of those businesses, otherwise, if you are trying to apply certain filters over that and trying to interpret what the key employment barriers are, you may come up with the wrong conclusions, because they do not want to grow.⁵⁸

3.42 Similarly, the Business Enterprise Centres (BECs) in Western Australia, argued that 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.’⁵⁹

Proportion of businesses seeking growth

3.43 The committee heard varying estimates of the proportion of small business with the aspiration and capacity to grow.

3.44 On one academic model of small business growth, small and medium businesses can be classified into three main growth paths:

- Traditional SMEs: these follow a low growth path and generally have few if any growth aspirations and exist principally to provide their owners with a source of employment and income (70 per cent of small and medium enterprises).
- Capped growth SMEs: these follow the moderate growth path. Growth is often capped to the point that limits dependence on external financing (25 per cent of small and medium enterprises).
- Entrepreneurial SMEs: these follow a high growth path and are often associated with entrepreneurial attitude and technical and commercial innovation (5 per cent).⁶⁰

3.45 Of the 61 businesses surveyed by the West Melbourne Area Consultative Committee, 87 per cent indicated that they had not changed their employment mix in

57 Mr Brian Gibson, *Hansard*, Sydney, 14 August 2002, p. 574

58 Mr Steven Shepherd, Senior Economist, Pacific Access, *Hansard*, Melbourne, 25 July 2002, p. 332

59 Submission No. 40, Western Australia BEC Managers, p. 4

60 J. Jones, ‘Business Growth and Industrial Relations and HRM Practices: a Longitudinal Study of Australian Manufacturing SMEs’, *Research Paper Series:01-6*, Flinders University, School of Commerce, ISSN 1441-3906

recent years,⁶¹ suggesting that only 13 per cent had grown. CPA Australia interpreted its survey results to suggest that:

...about 18 per cent of small businesses have the capacity to grow; closer to 40 per cent or 50 per cent will not grow, no matter what. In our survey, 10 per cent of businesses said that they would not employ—nothing would make them employ and they had no intention of ever employing.⁶²

3.46 The Pacific Access survey results suggest that around 50 to 60 per cent of small and medium businesses are seeking growth of some unspecified kind and that these are more likely than other businesses to be increasing employment, as the following table illustrates:⁶³

TABLE 2—Impact of SME Growth Strategies on Employment Trends (1998 to 2002)

Period	May 1998			August 2000			May 2002		
	Up	Down	Total	Up	Down	Total	Up	Down	Total
SMEs seeking growth	79%	51%	61%	66%	52%	51%	77%	51%	61%
SMEs not seeking growth	21%	49%	39%	33%	45%	48%	23%	49%	39%

3.47 The spread of results from these surveys and other sources suggests that anywhere up to 50 per cent of small business are likely to grow to some extent, albeit growth may be quite limited in many cases. Conversely it appears that around half or more of small businesses are unlikely to grow under any circumstances. These are likely to be those on the moderate or capped growth path which have reached a set limit.

3.48 High-growth businesses, sometimes known as ‘gazelles’ are an important subset of growth-oriented businesses and, along with new small businesses, known as ‘mice’, are considered responsible for most of the employment growth in the sector. Gazelles are estimated to represent usually 5 to 10 per cent of small business but have a disproportionate impact on employment growth in the sector.⁶⁴ No definition of a gazelle or high growth firm was presented to the committee, although an international study suggests that ‘high growth start-ups’ are likely to employ 50 people within five

61 Mr Michael Iaccarino, op. cit., pp. 303–04

62 Ms Judith Hartcher, op. cit., p. 201

63 Submission No. 48, op. cit., p. 7

64 Productivity Commission, *Small Business Employment*, August, p. 29

years.⁶⁵ A recent survey estimated that 5 per cent of Australian start-ups are in this category, which places Australia fourth in an international ranking of this dimension of entrepreneurship.⁶⁶

Implications for policies aimed at employment growth

3.49 International research indicates that, across the board, most of the employment growth in small business comes from the formation of new firms and the expansion of the small group of high growth firms. At the same time, the picture may differ significantly from region to region, so that in rural or remote areas, for example, existing businesses, that are not necessarily high growth, may make the greatest contribution to employment. There are various points at which management support may be useful.

3.50 Several witnesses suggested that a focus on high growth firms is likely to generate the greatest benefit in terms of employment outcomes.⁶⁷ This assumes that they can be readily identified. Evidence to the committee on this matter suggested that this is not easy to do. Mr Brian Gibson advised that he was not aware of any reliable way of identifying these firms⁶⁸ and considered there was a need for more research in this area. The Capital Region Enterprise and Employment Development Association (CREEDA) also argued for increased research to develop a better understanding of factors affecting the growth potential of small business.⁶⁹

3.51 Dr Tim Atterton told the committee that policy could also usefully focus on a subset of business that is not realising its potential to grow substantially. There is, in his view, a significant number of ‘growth’ or ‘premium’ small businesses in ‘steady state’ mode that have the desire and capacity to grow but lack the management skills to achieve their goals. These businesses need more management education and support to help them overcome the barriers to sustainable growth.⁷⁰

3.52 Another witness identified the need for support to exporting businesses that reach a point where they must make careful decisions about whether to expand their capacity in the hope of generating additional sales.⁷¹ A small business adviser also identified the scope for increased growth in those micro-businesses that are capped ‘simply because of incompetency’:

When I say that, I do not mean it cruelly; I mean they just do not know how to do better. A lot of micro businesses that I have come across would love to

65 Hindle and Rushworth, *Global Entrepreneurship. Monitor Australia 2001*, Yellow Pages, p. 21

66 *ibid.*

67 Submission No. 77, *op. cit.*, p. 4; see also Submission No. 89, CREEDA, p. 2 which argues for an increased focus on these businesses

68 Submission No. 77, *op. cit.*, p. 4

69 Submission No. 89, CREEDA, p. 2

70 Dr Tim Atterton, *op. cit.*, p. 959

71 Associate Professor Ann Hodgkinson, *Hansard*, Sydney, 14 August 2002, p. 612

know how to grow, but they simply do not and they live a life of frustration and misery, too often.⁷²

3.53 Management or business development assistance can help some businesses realise their growth aspirations. It can also help others that are on a growth path to manage their growth successfully: the committee heard evidence from a number of sources that successful small businesses may subsequently fail because of an inability to manage growth.

3.54 Evidence from Austrade suggests that a focus on small business with the capacity to export also has the potential to grow employment. Small and, in particular, micro-businesses are now entering the export market more rapidly than medium or large exporting businesses. Austrade research indicates that increasing the numbers of these businesses will mean more small businesses with better growth prospects and an enhanced capacity to create more jobs.⁷³

3.55 According to the Business Longitudinal Study for 1997–98 (latest period for which data is available), new businesses are responsible for almost half (46 per cent) of all employment generated by small business: 224,000 jobs in 1997–98.⁷⁴ One policy implication is that strategies for increasing employment in small business need to have a strong focus on facilitating the formation and survival of new small business.

3.56 Taken together, the evidence seems to suggest that a multi-pronged approach may be necessary to reflect the various paths to growth and the areas of untapped potential in small business. In similar vein, a witness argued the need to recognise that enterprises grow—and therefore grow employment—in three ways:

- new enterprises starting up which are taking advantage of sustainable competitive advantages such as natural or cultural assets;
- expansion of existing enterprises; and
- small business that kick forward because they are able to tap into national or international markets.⁷⁵

3.57 Different forms of intervention may also be necessary to help realise small business potential. The Western Australian Business Enterprise Centre suggested that industry development strategies should form part of government approaches to increase employment, particularly in regional areas, where small industries dominate.⁷⁶ A number of witnesses highlighted the benefits of strategies such as the development of business clusters and networks. These can take different forms from

72 Mr Kit Peters, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 635

73 Submission No. 58, Austrade, p. 4

74 Submission No. 71, op. cit., p. 16

75 Mr Michael Edgecombe, Executive Officer, SA Regional Development Boards SA, *Hansard*, Adelaide, 10 October 2002, p. 948

76 Submission No. 40, op. cit., p. 3

general information sharing to closer collaboration between businesses to pool expertise and capacity as a means of generating efficiencies or servicing new markets. OECD research suggests that clusters and networks offer significant promise as a means of promoting innovation and enterprise development in small and medium enterprises.

Comment

3.58 The evidence on the growth potential of small business, like much else in small business, presents a very mixed picture. The consensus of opinion among academics and those working with small business suggests that a proportion of small business has no intention of growing employment, or expanding beyond certain limits, although it is difficult to estimate the precise size and characteristics of this segment. One implication is that extreme care needs to be taken in extrapolating the results of surveys of employment intentions from a sample of small businesses to the sector at large. The evidence also suggests that government assistance in developing the management expertise of small business and through industry, regional development and export initiatives, and in reducing the burden of compliance, may assist small businesses to realise their growth potential. The different needs and circumstances of small business, and the range of paths to growth, will require a diverse range of assistance mechanisms and greater flexibility within business support programs to accommodate these needs and circumstances.

Barriers to employment

3.59 The full employment potential of businesses with growth aspirations and capacity may not be realised if there are barriers to employment. According to Pacific Access, companies with growth aspirations are more likely to identify impediments to employment,⁷⁷ presumably because they satisfy the other preconditions for employment growth. Pacific Access submitted that the government should give greatest weight to the issues and concerns of growth-oriented businesses and focus on the key barriers they have identified, mainly lack of sales and finding suitable staff.⁷⁸

3.60 A similar approach was taken by Mr Brian Gibson who argued that:

While business owners may express concern about issues such as employment it is unlikely that correcting the problems will result in significant changes in employment levels. The problems identified by small firms are undoubtedly identified in good faith. However while they may inhibit additional employment at the margin or encourage an alternate employment mix (full time or casual), they are unlikely to overcome the capped growth approach to business operations that is so dominant in the sector. Even if all the apparent barriers to employment were removed, the

77 Submission No. 48, op. cit., p. 1

78 *ibid.*, pp. 1–2

vast majority of small firms in Australia would not actively pursue growth resulting in employment generation.⁷⁹

3.61 With those caveats in mind, evidence to the committee identified a number of impediments to employment across the sector. These generally included both external and internal factors. One list comprised:

- time-poverty—this is where government regulation really hits;
- limited access to personal and investor capital;
- uncertain cashflow streams—this is amplified in regional economies by fluctuations in commodity markets;
- a shortage of skilled tradespersons and professional skills;
- the costs of employing, including recruitment, training, leave and conditions, insurance and superannuation, and payroll tax;
- the potential negative consequences of employing staff if problems arise;
- a shortage of the enterprise skills required to grow businesses; and
- limited or inadequate regional infrastructure, particularly constrained electricity and water networks, lack of filtered water, lack of piped gas, and sub-standard telecommunications services.⁸⁰

3.62 Other submissions identified the costs involved in bringing infrastructure up to an acceptable compliance and quality standard, particularly in industries that are capital intensive or dependent on specialised equipment, cash flow, technology, management skills and the costs of factory/office space.

Regional development

3.63 Chapter 2 noted that location can play an important role in determining the growth prospects for small business. In regional areas the fate of the region and its small businesses are closely intertwined. Submissions from the southwest of Western Australia highlighted the difficulties facing small business in a region where agriculture has suffered a severe downturn in recent years. The market and profit margins for small businesses had been reduced as a result. Some submissions argue that rural small businesses should be eligible for income supplements or assistance on a similar basis to agriculture in such circumstances. Others highlight the potential for various interventions, such as clustering and mentoring, to assist rural small business to develop new or substitute markets or improve profitability and viability in other ways. The common message was the need for some form of assistance to non-agricultural small business in agriculture-dependent regions experiencing drought or serious downturn, as a complement to assistance provided to agriculture.

79 Submission No. 77, op. cit., p. 4

80 Submission No. 95, Adelaide Hills Regional Development, pp. 2–3

3.64 Many submissions also emphasised that higher cost structures and limited infrastructure in many parts of regional Australia are impediments to small business growth. This can further constrain economic growth in the region. These submissions argued for increased government investment in regional areas, in both physical infrastructure and education and training opportunities, to provide a more favourable environment for small business growth. The committee notes that the Regional Business Development Analysis currently in progress will be examining the options for development of sustainable regional businesses.⁸¹

Access to finance

3.65 Although access to finance did not figure as one of the most prominent issues in the inquiry, lack of access to finance on reasonable terms is clearly a growth inhibiting factor for many small businesses. Access to start-up capital is a particular problem for those business intenders who lack the capital or resources to secure against borrowings. This issue is discussed in more detail in Chapter 4.

The effect of regulation generally, including cash flow issues

3.66 Regulation can affect the capacity of small business to employ more people in several ways. Funds spent on compliance can affect cash flow and reduce profit margins, making businesses more wary about absorbing additional costs. Compliance with regulations is seen as an ‘unproductive’ activity which eats into managers’ time. One business proprietor singled out the effect of the GST, and the requirement to pay out money that has not been yet been collected:

In terms of cash flow—and I know one of the terms of reference for the inquiry was about small businesses’ ability to employ people—if you are constantly struggling with your cash flow, your ability to employ people is crippled because you think, ‘Sure, I’ve got the business, I’ve got enough work to take on an extra person but I’m not sure that I’m going to be able to pay them. My cash flow is on a roller-coaster ride because I have to pay out money I haven’t collected.’⁸²

Recruitment-related issues

3.67 Surveys consistently find that small business has difficulty recruiting staff with the appropriate skills and attitudes. This maybe the single greatest impediment to increased employment by those businesses with the desire and capacity to grow. According to CPA Australia estimates, a shortage of skilled and motivated employees is an impediment to employment growth in 52 per cent of small business.⁸³ Various reasons are suggested. One witness noted that ‘for the right people, there is no career path, so attracting good people to small business is an inherent problem in the first

81 Submission No. 96, Department of Transport and Regional Services, p. 1

82 Ms Suzanne Sheil, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 689

83 Submission No.18, op. cit., p. 3

place'.⁸⁴ Another submitted that TAFE graduates, who provide the main pool of potential employees, lack the required level of skills, implying a training deficiency.⁸⁵

3.68 The reluctance of small business to invest in training, and a preference for employees who are fully trained, can also act as a brake on employment, as the pool of such employees is limited. CPA Australia recommended more research into the employment needs of small business and in particular the attributes and skills that small business is seeking in its employees, and for these to be articulated to schools and training providers.⁸⁶ The committee considers that there is much merit in this proposal.

3.69 Current employment services arrangements are also an impediment to recruitment, according to the Melbourne Development Board, because the number of different employment programs and Job Network providers presents a maze too complicated for many small businesses to navigate.⁸⁷ Restaurant and Catering Australia was also sceptical about Job Network's capacity to meet its members' needs, suggesting that the agencies appeared to concentrate on larger employers, who are presumably more profitable clients.⁸⁸

3.70 Small businesses may also find it difficult to recruit staff because they do not know how to accurately determine the skills they require in an employee. This is not surprising: as noted, small business managers have many roles and responsibilities but few have the specialised human resources expertise usually found in the corporate areas of larger companies. However, most industries have developed packages outlining the competencies and key performance indicators that are needed for the major occupations. These could be a very useful tool for small businesses in their recruitment exercises. The committee notes that the CPA Australia survey in March 2002 found that up to 75 per cent of small business do have a list of the skills and qualifications attached to a job but only 53 per cent have a written job description and 14 per cent were dissatisfied with the last person employed.⁸⁹ These findings suggest that, while there are many small businesses that use best practice recruitment practices, a significant number could benefit from improved focus on recruitment. Research on the recruitment needs of small business should also examine the role of competency packages in assisting small business to adopt more successful recruitment strategies.

3.71 The committee also heard evidence that skill shortages in some regions and industries are acting as a brake on employment. The Western Australian Branch of the Motor Trades Association of Australia (MTAA WA) stated that a shortage of trade skills is an impediment to economic health of the automotive industry and must be

84 Mr David Byrne, *Hansard*, Adelaide, 10 October 2002, p. 973

85 Submission No. 53, Australian Property Institute, p. 3

86 Submission No.18, op. cit., p. 3

87 Submission No. 35, Melbourne Development Board, p. 8

88 Submission No. 19, op. cit., p. 17

89 CPA Australia, *Small Business Survey Program: Employment Issues*, March 2002, p. 11

addressed for small businesses in that industry to remain viable.⁹⁰ The Northern Territory Chamber of Commerce and Industry Skill also identified skills shortage as an impediment to growth.⁹¹

3.72 The committee notes that the government reports a number of initiatives to address skill shortages in particular industries and that the Senate has asked it to conduct an inquiry into the general question of skill shortages, which will provide an opportunity to investigate these concerns.

3.73 Even when suitable staff can be found, small business may balk at employing because of the additional compliance obligations and management responsibilities. According to the Canberra Business Council, many home-based and micro-businesses with high growth potential are therefore ‘caught in the nervous territory between whether they should or shouldn’t employ.’⁹² Other witnesses emphasised that employing the first staff member is an enormous step for small business because:

It increases overheads dramatically and requires the business to comply with numerous acts and legislation. Many small business operators have little or no experience of recruiting, supervising and managing employees. In previous occupations they may have had interaction with their immediate supervisor or manager but few have training, either formal or job specific, in ‘hiring & firing’ and the many associated areas. Anecdotal evidence in the small business sector (1–5 employees) suggests that too often the decision to employ someone is made with little consideration given to a range of issues that impact on an effective *employer–employee* relationship.⁹³

3.74 The scale and complexity of employment-related regulations in particular can act as a deterrent to employment:

There is a growing number of home based businesses and there is a growing number of owner-operators who are reluctant to take that next step of becoming owner-managers and starting to employ people. There is a perceived barrier there: the barrier of suddenly having to employ people. There is a whole heap of regulations and red tape that they need to come to grips with. For me, as an owner-operator, it is a lot easier to work 65 hours a week than to suddenly take the next step and say, ‘Well, hang on, maybe I could work 35 hours a week, grow the business a bit further and employ somebody.’⁹⁴

3.75 Many submissions identified the need for assistance to small business to help them become ‘employer ready’.⁹⁵ This includes both general people management

90 Submission No. 51, Motor Trades Association of Western Australia, pp. 4–5

91 Submission No. 57, Northern Territory Chamber of Commerce and Industry, p. 10

92 Submission No. 36, op. cit., p. 2

93 Submission No. 39, Greater Brisbane Area Consultative Committee, p. 1

94 Mr Danny Keep, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 460

95 Submission No. 39, op. cit., p. 2

skills, for example in recruitment, training and management of staff, as well as assistance with identifying and understanding employer obligations. The committee heard evidence that the Human Resource Advisory service project funded by the South Australian government, which provided small businesses with access to subsidised human resources advisers, has resulted in a measurable increase in employment in small businesses using the service. The Business Enterprise Centres of South Australia stated that:

The program has been an outstanding success with between one and two jobs created with each consultancy and given small business the confidence to employ more. Over half of the businesses surveyed after 3 months indicated they intend to take on even more staff.⁹⁶

3.76 Other suggestions include development of software tools and manuals to help small business identify and work through their employment obligations, as well as better access to advice, either through e-mail, phone or in person.⁹⁷ The Business Enterprise Centres of Australia (BECA) recommended that the Commonwealth develop a training program on employing staff, to be delivered through business networks, including accountants and the BECs, to assist small business to engage more full-time employees.⁹⁸

3.77 The committee is convinced of the need to provide more assistance to small business to help it become employment-ready. Many of the proposals made in the inquiry appear constructive and practical but would require more detailed investigation as to their feasibility. The committee therefore considers that the Commonwealth, state and territory governments, ideally under the leadership of the Small Business Ministers Council, should undertake research to identify the most appropriate measures. A consistent, national approach should be adopted in line with the committee's general findings about the need for more coordination and integration of government programs for small business. A broad range of small businesses and their advisers, including Business Enterprise Centres, Small Business Answers advisers and accountants should be consulted in the course of the research.

3.78 The issue of compliance obligations related to employment is taken up in more detail in Chapter 6.

Recommendation Four

The committee recommends that the Small Business Ministers Council commissions research into measures to assist small business to become employment ready and to enhance its capacity to recruit appropriate employees including, through identifying:

96 Submission No. 88, Business Enterprise Centres of South Australia, p. 1

97 Mr Ian Davis, Deputy Chair, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, p. 473

98 Submission No. 72, Business Enterprise Centres of Australia, p. 9

- **the attributes and skills that small business needs in its employees;**
- **ways in which the Job Network could better meet the recruitment needs of small business; and**
- **tools to assist small business make more informed decisions about employment arrangements, including the basis of employment.**

This research should include consideration of how the competency standards and key performance indicators developed by the Industry Training Advisory Bodies could be more effectively used by small business in recruitment, training and performance management.

Costs of employment

3.79 The cost of employing staff was raised as a deterrent to employment by a number of witnesses. Particular areas of concern are the compulsory employer superannuation contribution, penalty rates and payroll tax. Occupational health and safety standards and workers compensation premiums are also factors that some small businesses see as deterrents. While most small businesses accept the need for compulsory superannuation contributions to provide for employees' retirement, many are concerned that under the current arrangements casual employees may have small amounts accumulating in many different areas, undermining some of the objectives of the scheme. There is also a common view among small business employers that employees do not consider superannuation contributions as part of their total remuneration. It was suggested that compulsory employee contributions might result in a greater appreciation of the value of the employers' contribution.

3.80 While payroll tax was not raised as a major issue by most small businesses, it was raised as a concern by some interest groups and some small businesses approaching the threshold at which exemptions no longer apply. These comments illustrate how exemptions can function as a cap on small businesses growing beyond a certain point.

Unfair dismissal laws

3.81 Unfair dismissal laws were raised by a number of industry and business associations and small business people. However, consistent with the results of the various surveys of small business,⁹⁹ they did not emerge as a major point of concern

99 For example, the committee received a copy of the report of the Illawarra Regional Workplace Relations Survey which indicated that, although there had been a total reduction in the region's small business workforce in 1996 as a result of terminations (mainly due to lack of work) and resignations, very few firms experienced difficulty in terminating employees for any reason. It found: 'Unfair dismissal legislation was an insignificant consideration in recruitment, termination or disciplining of employees'. See 'Illawarra at Work, A Summary of the Major Findings of the Illawarra Regional Workplace Relations Survey', Labour, Human Resource and Regional Studies Centre, University of Wollongong, *Industrial Relations Report No. 4*, 2001, p. 21

or a determinant of employment. For this reason, and because the issues have been extensively canvassed in other fora, the committee will not deal with this issue in any detail. For a detailed discussion of the arguments from both sides, readers are referred to Senate Employment, Workplace Relations and Education Legislation Committee reports on the various bills proposing a small business exemption from the Commonwealth laws. Unfair dismissal is discussed in Chapter 6 on the effect of regulation on small business.

Comment

3.82 An employment creation strategy needs to be based on an understanding of areas where intervention can be effective, of where there is scope and motivation to increase employment. Evidence to the committee suggests that the determinants of employment in small business are complex and, as yet, not well understood. However business growth is clearly a key factor. The most effective way to grow employment in small business is to focus on ways to assist enterprises to expand to their full potential, whether through developing individual capabilities or the overall capacity of an industry or region. A focus on assisting new small businesses to become sustainable enterprises is also likely to be effective, given the significant contribution they make to the creation of new jobs in the sector. Strategies that maximise the skills and capabilities of small business owners and groups of small business are also valuable because, irrespective of any contribution they may make to employment growth, they can contribute to the development of a more productive, profitable and innovative small business sector.

3.83 Growth aspirations and potential vary significantly across the sector and the characteristics of the various segments are not well understood. This limits the scope for extrapolating from survey results on impediments to employment outcomes unless researchers can be confident that the survey sample contains a representative selection of businesses with various growth aspirations and capabilities. Effective strategies to increase employment in small business will require a better information base than is currently available. In the meantime, governments could usefully investigate ways to assist business to reach its growth potential and address some of the main barriers to employment identified in by businesses seeking growth, including tools and programs that could assist small business to better meet their staff recruitment and management needs. In selected industries and regions other strategies that could be effective include development of the regional infrastructure and capacity. Action to address key costs to small business, including retail tenancy, may also be useful.

Chapter 4

Government Policies and Programs

...we believe that small business needs many things from government. In general it needs advice, information and support, and it needs a way to access that information.¹

Small businesses do not differentiate between different levels of government. They just see a service, a suite of packages.²

The role of government

4.1 The rationale for government assistance to small business is not necessarily self-evident or explicit. The implicit economic rationale is that small business makes a significant contribution to economic development and employment, and that government has an interest in assisting the sector to maximise that contribution. By addressing some of the disadvantages that small business faces in complying with regulatory requirements and obtaining information, resources or expertise for enterprise development, innovation or export, government assistance can be effective in stimulating business growth and development (and therefore, to some degree, employment).

4.2 Small business is also seen as deserving of support because of its distinctive economic and social contributions. The OECD made the following argument for appropriate government support for small business:

SMEs [Small and Medium Enterprises] are at the core of future economic growth in OECD countries. Productivity growth is fuelled by competitive processes in industry, which, to a large extent, build on the birth and death, entry and exit, of smaller firms. Over 95 per cent of enterprises in the OECD are SMEs, which account for 60–70 per cent of jobs in most countries. They are the source of most new jobs and make significant contributions to innovation and high-technology employment. In addition, they are of considerable importance for regional development and social cohesion. However, less than one-half of small start-ups survive for more than five years and only a fraction develop into high-performance firms. Governments need new and improved approaches for maximising the small firm contribution to economic and social well-being.³

1 Mr John Macdonald, Executive Officer, Melbourne Development Board, *Hansard*, Melbourne, 24 July 2002, p. 253

2 Ms Cindy Ford, Executive Officer, Ipswich and Regional Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 64

3 *OECD Small and Medium Enterprise Outlook*, OECD, Paris 2000, p. 7

4.3 The small business contribution to innovation is of increasing interest to government. A sector that is responsible for one-third of GDP and almost half of private sector employment outside agriculture is clearly fundamental to the development of a more innovative private sector. In addition, while small business may invest less in research and development than large business, it appears to play a distinctive and critical role in renewing the economy through the introduction of new ideas, products, processes and services. In the words of a US report on small business:

New and small firms play a key role in the experimentation and innovation that leads to technological change and economic growth. They are continual sources of new ideas that might otherwise remain untapped—and their experiential efforts are an essential part of the organic and ever changing... economy.⁴

4.4 Appropriate assistance to small business may also pay dividends in the form of improved export performance. Small business has entered the export market at a faster rate than large business in recent years and Austrade estimates that there is significant capacity to increase that rate, with appropriate government support.⁵ The important social contribution of small business, particularly in regional areas, was discussed in Chapter 1. The committee believes that government support for small business is also, and appropriately, based on an implicit recognition of the broader social and community contribution of small business.

The policy framework

4.5 There is a strong argument that the most important role for government is to provide a sound economic and institutional environment, within which small business can prosper.⁶ Regulation to prevent or minimise the abuse of market power by larger business and a coherent, streamlined and workable regulatory environment are important elements of such a framework. Successive Commonwealth governments have highlighted the provision of a sound macro-economic and micro-economic framework as key planks of small business policy.

4.6 However, a sound economic and institutional environment is not, by itself, enough. Small business suffers from a number of handicaps or disadvantages that, if not addressed, limit its capacity to fulfil its economic, employment and social potential. As indicated in Chapter 2, these include limited management and financial resources, few sources of advice or information, and small scale which is a disadvantage in negotiating favourable terms of trade or accessing up-to-date information or technology. To put these factors in perspective, a study of Australian business exits found that while economic factors, primarily interest rates, appear to

4 Submission No. 91, National Centre for Vocational Education Research, Section 3, p. 53, quoting a United States Small Business Administration report to the President

5 Austrade, *Knowing and Growing the Exporter Community*, pp. 6; 54–55

6 Productivity Commission, *Design Principles for Small Business Programs and Regulations*, Staff Research Paper, 21 August 1998, p. xix

play a role in 22 per cent of business bankruptcies, in at least 14 per cent of cases, inadequate business skill or management practices are the main factors.⁷ By addressing some of these areas of disadvantage, government can assist small business to fulfil its potential, with benefits for the wider economy and society.

4.7 In Australia, all levels of government have some involvement in policies and programs for support of the small business sector, although their respective roles and responsibilities are not well defined. At the Commonwealth level, the focus is twofold: providing an economic and regulatory framework that allows business to operate more efficiently; and, addressing areas of market failure that may undermine the competitive position of small business.⁸ The Office of Small Business within the Department of Industry, Tourism and Resources acts as a focal point for policy advice to the government on small business issues and identifies areas where Commonwealth assistance or programs can make a contribution to small business development. Commonwealth programs and policies generally either reflect its areas of responsibility, for example, for Commonwealth regulation, or address ‘gaps’ in the provision of services or support. Other Commonwealth policies such as those designed to promote employment and e-commerce, to stimulate industry, exports and the development of regional Australia or to assist Indigenous Australians, may include some support for small business.

4.8 State and territory governments have primary responsibility for providing support programs and services for small business within their borders. Programs and services vary significantly from state to state but typically include training programs, as well as an array of programs targeting particular segments of small business such as women, high-growth firms or firms in specific regions and industries, consistent with the government’s prevailing social and economic development objectives. Most state and territory governments also fund other organisations, primarily the independent community-based Business Enterprise Centres (BECs), to deliver small business programs, advice and training, primarily, but not only, to business ‘intenders’ or new starters. In conjunction with the Commonwealth, they also fund business incubators to support a subset of new or growing small business. State government assistance for small business may also be channelled through regional development programs.

4.9 Traditionally, local government has mainly supported small business through the provision of local infrastructure and services such as roads, parking, land-use policies and local amenities.⁹ Increasingly, but unevenly, and depending on their resources and priorities, local councils are also becoming more actively involved in promoting economic development within their jurisdictions. Programs and services are varied but can include information, advice and referrals to individual business on both regulatory requirements and government assistance programs, as well as

7 Productivity Commission, *Business Failure and Change; an Australian Perspective*, December 2000, p. 50

8 Office of Small Business at the Department of Industry, Tourism and Resources website: www.industry.gov.au/

9 Submission No. 90, Local Government Association of South Australia, p. 2

programs to stimulate business development through initiatives such as the formation of industry clusters, collaborative networks and skill registers.

Commonwealth programs

4.10 The key Commonwealth programs for small business are:

- the Business Entry Point (BEP), designed to provide business with an on-line ‘one-stop shop’ for information, programs and some transactions services across all levels of government. A revised version of the BEP was launched at the end of October 2002 to provide an enhanced level of information support; and
- the Small Business Assistance program, under which the Commonwealth provides \$36 million to agencies providing services or projects to support skills development in small business (the Small Business Enterprise Culture Program) and for the establishment of small business incubators (the Small Business Incubator Program) and \$24 million towards the costs of providing advisory and support services for small business (the Small Business Answers Program). Funding under the Small Business Assistance Program is disbursed over 4 years.

4.11 The Small Business Answers program is a competitive grants program replacing the Small Business Assistance Officers program from early 2003. Under the Small Business Answers Program, successful bidders will be funded to provide advice for small business on government regulations, programs and services. Priority will be given to funding services in regions not already served by existing advisory bodies.¹⁰

4.12 The Regional Assistance Program (RAP), the Regional Solutions Program (RSP) and the Dairy Regional Assistance Program (DRAP), funded through the Department of Transport and Administrative Services, also provide an important source of funds for programs to support small business in regional areas, consistent with the broader regional development priorities. The local community-based Area Consultative Committees (ACCs) play a key role in identifying local needs and nominating projects for support. There has also been a link to date between Small Business Assistance Officers (SBAOs) and Area Consultative Committees, in that the SBAOs have been located with ACCs for administrative support purposes. In contrast, advisers appointed under the Small Business Answers Program may be associated with, and presumably located with, a range of different organisations including BECs and private sector agencies, depending on the successful bidders. While there may be benefits in expanding the range of service providers for small business assistance in this way, the new arrangements are also likely to add to the fragmentation of services.

4.13 Small businesses may also be eligible to apply directly for some of the 24 industry assistance programs funded by Ausindustry. These programs, seven of which, according to Ausindustry, directly or indirectly target the small business sector,

10 See: www.ausindustry.gov.au/content/content.cfm?ObjectID+A1EF8466-1F40-4D4A

typically include financial and other support for research and development or commercialisation of new technology, access to technology, government purchasing or similar objectives. The nominal value of these programs is estimated at around \$1.7 billion per year. Approximately 9,000 businesses receive assistance under the programs, about half of which have a turnover of \$5 million per year or less.¹¹ There is currently no way of knowing how many of those meet the ABS definition of a small business as this information has not been recorded to date. Austrade also provides advice and assistance, including management advice where appropriate to assist small and medium businesses enter the export market.

4.14 Other Commonwealth portfolios provide programs targeting segments of the small business sector. The New Enterprise Incentive Scheme, administered by the Department of Employment and Workplace Relations, provides business management training and income support for eligible unemployed people starting a small business. The Aboriginal and Torres Straits Islander Commission (ATSIC) administers a range of programs designed to assist Indigenous people, including communities, to establish or grow a small business.

State and territory programs

4.15 State and territory governments adopt varying approaches and administrative arrangements for small business assistance and support. The range of programs and services also varies considerably. The following examples provide an illustration of the range of approaches.

4.16 In Western Australia, the Small Business Development Corporation (SBDC), is a statutory authority with a broad charter of assistance to small business including: championing the cause of small business; developing programs and services to meet the needs of small business development; and, establishing and strengthening relationships between SBDC and key agencies. One strength of the SBDC is its direct links with the small business community. It acts as an intermediary for small business needing advice or support from other government agencies and seeks direct e-mail input from small business through the 'Ready Response Network'. Business assistance programs include mentors, workshops, training and referral and advice services, some of which may be delivered through the network of Business Enterprise Centres.

4.17 In Queensland, the Department of State Development provides a range of services for business generally and small business in particular. These include training programs, workshops and an online and telephone advice and referral service. Unlike Western Australia and most other states, the state government does not fund the Business Enterprise Centres to provide services, relying instead on its networks of State Development Centres. The Department also funds a Red Tape Reduction Task

11 Mr Drew Clarke, Executive General Manager, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 8 October 2002, p. 910

Force of business representatives and advisers to advise it on ways of reducing the burden of regulation on Queensland business.

4.18 In South Australia the Centre for Innovation, Business and Manufacturing (CIBM), with a staff of fourteen, is the main provider of small business services. CIBM staff provide information, government licensing and regulatory help and business advice and referrals. Specialist advice is provided to businesses in selected industries including assistance with enterprise development, export and business growth. Enterprise improvement workshops, special grant assistance for various initiatives including export development and assistance with mentoring and coaching are also provided. A Business Owners Coaching program provides networking support and mentoring assistance for 155 participants. The state government also provides support for BECs and works with local government, BECs, Regional Development Boards and local business associations to provide support networks for local business. The Small Business Government Network in South Australia includes representatives of local, state and Commonwealth government to coordinate activities and assistance to small business and identify opportunities for more effective assistance.

4.19 A small business owner in Sydney described some of the ‘fantastic programs offered through the NSW Department of State and Regional Development’:

Not many people know that they exist, which is part of the problem... These cover all aspects from growing your business to how to implement IT into your business more effectively. I find that really helpful. Also, the other good program was the Women in Business Mentor Program... As a mentor, I have been through the program twice and have seen the benefits of it. I particularly come across women in business a lot. They have no idea about this amazing resource that is offered by the government. Part of it is getting the promotion out there. I do not know how to do it, but I think you have to let people know that the resources are there.¹²

4.20 As noted, all states and territories have introduced Business Licence Information Services, to provide streamlined access to the licences or approvals required to start a business or enter a new market. The Business Licence Information services, which have received Commonwealth funding support, have been developed to various degrees of sophistication.

Business Enterprise Centres

4.21 The independent, community-based Business Enterprise Centres are an important part of the framework for delivery of government sponsored support for small business in Australia. The 136 BECs have governing boards usually comprising local business people, government and community representatives.¹³ They are responsible for raising their own funds and most rely on a combination of grants from

12 Ms Amy Lyden, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 684

13 Submission No. 72, Business Enterprise Centres Australia, p. 1

state and local government with support from the local business community, as well as earned income, from fee-for-service programs and government or business contracts. BECs in Queensland and Victoria are not funded by the state governments, which instead fund their own agencies to provide business advisory services. BECs commonly offer advisory services and one-on-one counselling to ‘business intenders’, provide resources and information on business related products and services, and a range of services such as referral and advice, seminars, workshops and counselling. A number are also active in promoting the development of business networks and the broader local business community. The exact range of services provided by each BEC varies, depending on the priorities of the BEC board and management, local demand and the level of resources. Across Australia BECs receive approximately \$10 million annually from state governments, averaging \$50–75,000 for each BEC.¹⁴

4.22 Because BECs operate in every state and territory they effectively comprise a national network of small business service providers. BEC Australia (BECA) argues that the Commonwealth should make greater use of the BEC network for both policy development and program delivery, in view of its significant ‘reach’ and links to the small business community and capacity to provide a national perspective. The BECA estimates that the network, with 260,000 client contacts per year, and databases or records for 300,000 small businesses, is the largest provider of small business programs and services to the small and micro-business sector.¹⁵

Local government programs

4.23 A number of local governments are becoming active in fostering economic development. Witnesses gave a range of examples of local government business support initiatives:

- the Southwest Councils near Perth, Western Australia, have established a program, Industry Direct, that provides an online register of the capabilities of businesses in their jurisdiction, as a means of promoting investment and facilitating collaboration and contracts with major contractors in a new marine complex;
- 40–50 professional staff are employed by councils in South Australia with a particular focus on economic development or tourism development;¹⁶
- economic development officers in the Gold Coast City councils assist local businesses and industry associations by pointing them to Commonwealth and state assistance programs that may be suitable;¹⁷

14 Mr Colin O’Brien, Business Enterprise Centres Australia, *Hansard*, Melbourne, 24 July 2002, p. 273

15 Business Enterprise Centres Australia, *Capability Statement, 2001*; Submission No. 72, op. cit., pp. 1–2

16 Submission No. 90, Local Government Association of South Australia, p. 5

17 Submission No. 86, Gold Coast City Councils, p. 5

- a number of local councils in South Australia have introduced ‘business charters’ or commitments to services for business;¹⁸ and
- local councils may contribute to regional development organisations or business enterprise centres providing business advice and education services.

4.24 There is clearly some ambivalence within the business and broader community about the scope for local councils to be a focal point or conduit for government assistance to small business. This appears to be partly a reflection of the enormous variation in resources and capacities across local government. The submission from the Ipswich Area Consultative Committee argued strongly against any increased role for local government in providing services to small business, largely because of the limited resources of many councils outside major metropolitan areas.¹⁹ In contrast, a witness from the International Womens’ Business network saw local councils as the natural point of grass roots communication with business.²⁰ A witness from the BEC argued that local governments should not provide business advisory services, such as those provided by the BECs, but focus their support on more general economic development.

4.25 The remainder of this chapter discusses the issues raised during the inquiry about the current arrangements for government support for small business. The committee would also like to flag its own concern that, despite the current investment from all levels of government in small business assistance, many small business people that it consulted appeared to be either unaware of the current programs or do not see them as providing tangible benefits. When the committee asked small business people to identify government programs or services that had made a difference to them, there was little positive response. The exchange below during a roundtable in Western Australia is indicative of the general response:

Senator MURRAY—Is there nothing that anyone has built or done—any policy, program or money given to you—that has made your lives better?²¹

...

Mrs Nowotny Ford—I did think of a good thing that has affected us all. Through the Area Consultative Committee and what was DEWRSB, we got funding for the HMAS *Perth* to be sunk in Albany. It took me a while, but I did think of something.²²

4.26 If nothing else, this response illustrates the difficulties inherent in providing programs and services to meet the needs of more than one million small businesses scattered across Australia. In the committee’s view it also suggests the need for more

18 Submission No. 90, op. cit., p. 4

19 Submission No. 85, Ipswich and Regional Area Consultative Committee, p. 2

20 Mrs Diana Abruzzi, Executive Chairman, International Business Women’s Network, *Hansard*, Roundtable, Melbourne, 25 July 2002, p. 369

21 *Hansard*, Roundtable, Albany, 18 July 2002, p. 163

22 *ibid.*, p. 164

effective information strategies and perhaps better ‘branding’ of small business programs and services as a means of promoting awareness. It may also be an indicator that the current suite of programs is not meeting the needs of a large segment of the small business community, particularly micro-business.

The need for national coordinated policy and program development

4.27 It is apparent that the framework for small business policy and program development is complex and fragmented with significant scope for overlap and duplication. Programs from all levels of governments have evolved in a piecemeal fashion, in an environment where the relative responsibilities of each level of government are not clearly defined, and without the benefit of a coherent, overriding policy framework or effective mechanisms and structures for coordination and leadership. The need for better coordination and a more coherent policy framework for small business assistance and a more informed approach to program development has been identified since at least 1997.²³

4.28 The Small Business Ministerial Council, established in 1998 and comprising the Commonwealth, state and territory ministers directly responsible for small business issues,²⁴ is the primary mechanism for promoting more coordination and a national approach. The charter of the Council, which meets annually, is to:

- provide a forum for Ministers to discuss small business issues of mutual interest;
- promote a national, consistent and coordinated approach to small business policy and development; and
- where appropriate, provide the means to achieve integration of action by governments on small business issues.²⁵

4.29 The Council is supported by a senior officials group comprising state and Commonwealth officials which, the committee was told, promotes further information exchange.²⁶ According to Commonwealth officials, the Commonwealth takes account of the various state support programs for small business when developing its industry assistance programs and ‘overwhelmingly the programs that are introduced in any one year complement or fill a gap in relation to the other offerings in that area’.²⁷

23 Productivity Commission, *Design Principles for Small Business Programs and Regulation*, Staff Research Paper, 21 August 1998, p. 1

24 Office of Small Business, at departmental website

25 Office of Small Business, at departmental website

26 Mr Antony Brugger, Acting General Manager, Office of Small Business, *Hansard*, Canberra, 8 October 2002, p. 917

27 Mr Drew Clarke, Executive General Manager, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 8 October 2002, p. 916

4.30 However, the weight of evidence to the inquiry suggested that effective coordination and integration is still far from being realised. The committee heard many examples of inconsistency and lack of integration of small business programs. The Ipswich Region Area Consultative Committee (IRACC) explained that many small business development support projects require a ‘cocktail of funding’ from the different levels of government, but this is difficult to achieve when there is ‘no alignment of processes or synergies in guidelines’. The IRACC recommended a whole-of-government approach to assistance to overcome this problem.²⁸

4.31 A witness from an Area Consultative Committee (ACC) advised the committee that, while ACCs have a brief of providing a whole-of-government service to small business, they are ‘trying to do that almost at the bottom end of the scale’. There appears to be a need for more coordination at the Commonwealth level as well as between the different tiers of government:

It is not particularly useful for us to try to bring programs together if, at the departmental level, when programs are being developed, departments are not talking to each other or there are overlapping issues. We find that a real issue.²⁹

4.32 The Canberra Business Council described the current arrangements for incubator support as requiring labour-intensive negotiation:

The logical and efficient way to do it would be for the state or territory governments to say, ‘We will support the acquisition of property,’ or something like that, ‘for the purpose of business incubators,’ and for the Commonwealth to say, ‘We will provide you with some start-up funding for business incubators...It seems illogical to negotiate on an individual basis.’³⁰

4.33 A recent report on Australian entrepreneurship found that government programs for small and medium business lack an overall framework and that it is not clear how they fit together, or indeed if they do, the long-term objectives and how success is to be measured. Programs are often considered misdirected and based on a lack of misunderstanding of the entrepreneurial process and the needs of the sector, and to be motivated by a wish to be seen to be doing something rather than responding to a genuine need in an effective way.³¹ The report’s key messages were that well-designed government programs, developed in consultation with stakeholders, have a positive impact on entrepreneurial activity but that a lack of a long-term vision

28 Submission No. 85, op. cit., p. 2

29 Mr John Macdonald, op. cit., p. 254

30 Mr Ian Davis, Deputy Chair, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, p. 478

31 K. Hindle and S. Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 27

or framework diminishes the effectiveness of programs and impedes learning from experience.³²

4.34 In response to questions about the extent and adequacy of coordination, the officials responsible for small business issues at the Commonwealth level told the committee that:

...it is extensive and improving. As to whether or not it is adequate, there are always going to be issues where consultation will not be sufficient but, by and large, we have a very significant degree of interaction with our state colleagues in particular, particularly on issue based matters. Just last week the state-Commonwealth body which looks at retail tenancy issues met. So on a specific issues basis it is very good. With the Small Business Ministerial Council over the top there is an overview approach as well. More could be done, but more could almost always be done on all consultation.³³

4.35 The Canberra Business Council proposed that the Commonwealth take the lead in promoting a more consistent national approach by assuming greater responsibility for small business, rather than leaving it largely to states and territories, 'to the disadvantage of the smaller and lower resourced states and territories.'³⁴ Under this arrangement, the Commonwealth would provide the leadership for the development of a coordinated national approach:

There is always an enormous amount of dispute or friction between the states and territories on the one hand and the Commonwealth on the other as to what areas of small business each is responsible for. I think there would be an enormous benefit if there was some sort of protocol between the governments to identify what general areas of responsibility within the small business sector each had. I know this has been discussed because I have read the communiques from the Commonwealth-state small business ministers' meeting. This was discussed in a very loose way at that meeting but there has been no decision made to identify the areas of responsibility.³⁵

4.36 A similar, but even stronger, view was presented by the national association for Business Enterprise Centres (BECs) which advocates that the Office of Small Business play a proactive role in coordinating and managing a consistent national strategy for small business assistance and improving employment understanding for small business.³⁶ Witnesses from the BEC suggested that Australia could learn from the approach taken in the United Kingdom and the United States where there is a more consistent and coordinated approach. The committee was told that the US Federal

32 *ibid.*

33 Mr Antony Brugger, *op. cit.*, pp. 917-18

34 Mr Craig Sloan, Vice Chairman, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, pp.473-74

35 Mr Ian Davis, *op. cit.*, p. 477

36 Submission No. 72, Business Enterprise Centres Australia, p. 3

government funds a lead agency in each state and that agency in turn funds grass roots community-based Small Business Development Centres to deliver small business support. They suggested that Australia could adopt a similar approach by the Commonwealth funding the network of BECs to become the primary delivery point for Commonwealth government assistance to small business, and establishing a national set of standards for service delivery. BECs could then become the Commonwealth's main avenue of reaching small businesses that do not belong to industry associations.³⁷

4.37 The Australian National Training Authority (ANTA) also identified the need for training for small business, including that provided through the Vocational Education and Training (VET) sector, to be better integrated with other government-funded business support programs. In its view, a whole-of-government approach to business support should include government-funded training programs, whether offered through BECs or other agencies, or the VET sector.³⁸

4.38 Improved coordination at the highest level is likely to result in more informed policy and program development, with better information sharing across agencies and jurisdictions on program effectiveness, best practice and areas of unmet need. While the committee heard many examples of excellent working relationships and collaboration across agencies and tiers of government, the absence of formal relationships and structures restricts information sharing and genuine collaboration.

4.39 BEC representatives told the committee that, while they participate in the Small Business Minister's Forum, there is no formal mechanism for them to provide feedback on small business needs or other issues to Commonwealth agencies.³⁹ A representative of an Area Consultative Committee (ACC) advised the committee that it is not necessarily consulted on changes to the Small Business Assistance programs funded by the Department of Industry, Tourism and Resources. There appear to be few if any mechanisms for including local government in consultation on policies and programs at the broadest level. Western Australia's Small Business Development Corporation has developed an online clearing house for information on small business program initiatives across all state, territory and Commonwealth jurisdictions.⁴⁰ While this is a laudable initiative, a more formalised approach to information sharing, ideally under the umbrella of the Small Business Ministers Council would be preferable.

Comment

4.40 While the Small Business Minister's Council and related officials groupings have led to improved coordination of Commonwealth and state and territory policies and programs, there is a need to go further and develop a national, integrated policy and program framework for small business support. A framework of this kind offers

37 *ibid.*, pp. 1–2

38 Submission No. 84, Australian National Training Authority (ANTA), p. 13

39 Mr Colin O'Brien, *op. cit.*, pp. 268–69

40 Submission No. 47, Small Business Development Corporation of Western Australia, p. 13

better prospects for developing more flexible, customer-focussed programs and new and improved approaches for maximising the small firm contribution to economic and social well-being as recommended by the OECD. The framework should be underpinned by a thorough needs analysis and a mapping and evaluation of the complete suite of Commonwealth, state and local government support programs as the foundation for small business support strategy. The small business sector and all elements of the small business network should be consulted in development of the framework.

Recommendation Five

The committee recommends that the Small Business Ministers Council develops a national framework for small business support, with each tier of government having agreed areas of responsibility and more formalised information sharing arrangements. Within the framework, the Council should develop a national strategy with identified priorities for small business assistance based on a thorough needs analysis and evaluation of the effectiveness of current programs.

Program delivery, including information strategies

4.41 There is also a need for more coordinated approaches to program delivery and marketing. Many witnesses explained that the enormous number of different programs and products, the range of agencies involved at all levels and the constant changes, creates confusion and limits awareness of available programs and services. Few small businesses have the time to work through the maze of information and options to select the most appropriate program or source of information. A small business adviser told the Committee that:

It is frustrating for me to know that there are a myriad of good programs that can assist my readers in developing their business, but most of the time they simply do not know that they exist.⁴¹

4.42 Even industry associations find it difficult to ensure that they are across the range of services and can point members to appropriate programs and services, because ‘there are so many people dealing with so many different issues; we are not aware of them all, so it is very hard for us to let our membership know where they can go for more assistance.’⁴² An academic working with small business on development projects in Western Australia also identified this as a major problem:

...there are frequently too many agencies seeking to ‘assist’ small to medium enterprises. Individually they are excellent in what they do, but

41 Ms Clare Loewenthal, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 638

42 Mrs Su McCluskey, General Manager Policy, National Farmers’ Federation, *Hansard*, Canberra, 6 August, p. 505

they do not always coordinate well with each other. This is particularly noticeable at a regional level.⁴³

4.43 A similar point was made by the Western Australian Business Enterprise Centres, which stated that:

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...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.⁴⁴

4.44 More coordinated service delivery can be achieved either by rationalising the number of agencies involved or through 'one-stop shop' approaches that bring all services from different agencies together at a single delivery point. Calls for rationalisation arise mainly in relation to regional areas which are host to a broad range of Commonwealth and state government agencies. The Adelaide Hills Regional Development Board (AHRD) submitted that there are significant opportunities for rationalisation of the (state-based) Regional Development Boards and the ACCs in South Australia to reduce administrative overheads. The AHRD argued that the Small Business Assistance Officer program duplicates the functions of regional development boards resulting in 'business confusion, and communication and coordination issues'.⁴⁵ It suggests that the Commonwealth should provide more resources to regional development boards to extend their existing business facilitation services instead of funding additional advisory services.⁴⁶ The committee notes that the new Small Business Answers Program will minimise the risk of duplication by focusing on areas lacking adequate advisory services, particularly in regional areas.⁴⁷ However this approach, while from one perspective an efficient use of resources, can perpetuate and even exaggerate the current complex patchwork of service delivery arrangements.

4.45 A representative from a Hunter regional development association argued the case against rationalisation of agencies. In his view, a multiplicity of organisations

43 Dr Timothy Mazzarol, Chairman, Centre for Regional Innovation and Enterprise, *Hansard*, Albany, 18 July 2002, pp. 96–97

44 Submission No. 40, Western Australia BEC Managers, p. 5

45 Submission No. 95, Adelaide Hills Regional Development Board, p. 4

46 *ibid.*, pp. 4–5

47 Mr Antony Brugger, *op. cit.* p. 917

provides an opportunity for specialisation and for people to ‘come together to give their energy, enthusiasm and skills to the particular set of issues in front of them’, while a rationalisation would result in a reduction of the total quantum and quality of effort invested.⁴⁸ Other witnesses expressed similar concerns about the reduced capacity to meet specific needs that would follow any rationalisation. The committee notes that questions or potential questions of overlap and complementarity in regional business development are part of the terms of reference of the regional business development analysis currently in progress.⁴⁹

4.46 Many witnesses supported the need for a whole-of-government approach to small business program delivery. It is not clear whether this simply entails all service providers being able to act as information brokers on all the available support options, as occurs with the Small Business Assistance Officer program and will occur with its successor, the Small Business Answers Program, or whether a different organisational approach is needed. The Small Business Assistance Officers program is seen as providing a form of whole-of-government service delivery, as explained by a Department of Industry, Tourism and Resources representative:

...there is an individual who understands the maze and who can cut through it and say to the company, ‘These are the three programs that might be relevant to you; I will set up the introductions,’ or, ‘I will track it down myself and advise you.’ That is one of the things that the SBAOs have proven quite effective in doing.⁵⁰

An Area Consultative Committee officer confirmed:

we do not necessarily eradicate some of the other levels of government, but actually take the lead role in working them together.⁵¹

4.47 Several witnesses suggested that a ‘one-stop shop’ was the best means of helping small business to obtain information on relevant government programs or services as well as on government regulatory and other requirements.⁵² A participant at the roundtable in Albany proposed a model of ‘G shops’ or government one-stop shopfronts across the country in regional areas to provide a first point of contact with government.⁵³

4.48 While there was broad acceptance of the merits of a one-stop shop approach, a number of witnesses were cautious about how easy it would be to achieve in practice. The representative of the Melbourne Development Board considered that the

48 Dr Allan Pattison, Chair, Hunter Economic Development Board, *Hansard*, Sydney, 15 August 2002, p. 655

49 Mr Antony Brugger, *op. cit.*, p. 917

50 Mr Drew Clarke, *op. cit.*, p. 916

51 Ms Cindy Ford, *op. cit.*, p. 763

52 Mr Keith Rice, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 453

53 Mrs Beverley Nowotny Ford, *Hansard*, Roundtable, Albany, 18 July 2002, p. 160

proposal has potential, but that it would need to be sensitively implemented through an inclusive approach, drawing on the genuine cooperation and support of the different tiers of government and the agencies concerned. Careful consideration would also need to be given to the appropriate locations and ‘host organisation’ on a case by case basis:

You do not necessarily need them everywhere but, by the same token, you would not solve the problem by just putting one in Sydney, one in Melbourne or one in Perth or wherever. Businesses need access points on a regional basis. I am not saying that you would solve the problem by simply having small business assistance offices with every ACC, because many small business operators do not know about an ACC or where they might find an ACC. I think you need a flexible arrangement that looks at the appropriate delivery points in a particular region. In a regional centre, the most appropriate point might be the council or the local government authority. If the council or the economic development people in that particular area are proactive and are known to be the best reference point, that is where businesspeople will go. So I believe you need a multi-tiered approach, but that will require a long-term commitment and it will certainly come at much more expense than a bunch of web sites.⁵⁴

4.49 Commonwealth agencies were cautious and even sceptical about the need for and merits of a one-stop shop. They commented that, while there may be 10 or so agencies provide support for businesses in regional Australia, a number of these are co-located, reducing the number of actual points of contact. Agencies also attempt to keep abreast of other each other’s programs so that they can refer businesses onto other agencies if needed.⁵⁵ Privacy concerns, particularly relating to tax affairs, may also deter some business people from using one-stop shops.⁵⁶

4.50 Existing state and territory one-stop shops could be possible models for one-stop shops with a more national focus. In addition any, one stop shops focused on business would need to include consideration of their role relative existing state or territory government one-stop shops that may have a focus wider than business.

4.51 The committee was also told that the ‘one-stop shop’ approach should have several dimensions:

- a central phone line—small businesses need to be able to look up a phone book under small business and find a direct contact to answer their questions or direct them quickly to the appropriate person or agency;⁵⁷

54 Mr John Macdonald, op. cit. p. 255

55 Mr Antony Brugger, op. cit. p. 913

56 *ibid.*, pp. 920–21

57 Ms Judith Hartcher, Business Policy Adviser, CPA Australia, *Hansard*, Melbourne, 24 July 2002, p. 210

- an internet site—for a better integration of information from different portfolios and across the three levels of government. Ideally this should be interactive to some degree so that business can define their needs and interests and obtain relevant information, as occurs with the business licensing program. CPA Australia proposed a ‘virtual small business department’ that can provide responses to frequently asked questions and feedback to the small business community about the total range of programs;⁵⁸ and
- an outreach advisory program—to provide one-on-one advice and information along the lines of the Small Business Assistance program and its successor. The Office of Small Business stated that small businesses with no previous contact with government prefer their first contact to be through a site visit.⁵⁹

4.52 The Business Entry Point was introduced following the government’s response to the Bell Task Force to provide a centralised point of information on all government business programs and regulatory requirements. However, a common theme throughout the inquiry was that, while this is a useful service, an internet based information point is not sufficient to meet the needs of the diverse small business community. In part, this is because many businesses do not have the time or inclination to search for information, meaning information strategies need to reach out to small business in a more active way:

There is no point putting up policies and programs and waiting for business to access them. We have to take them out there one on one. We have to knock on doors and find out their issues. We do what we call a business analysis process where we go out, knock on doors and meet and greet, but we then analyse where they are at with their business—are they happy; are they comfortable; do they have a good turnover et cetera. Once you analyse that business, you can then start to map out where the assistance is need.⁶⁰

4.53 In addition, many small businesses do not use the internet⁶¹ and those that do, often lack the time and expertise to search for the right information. They may also not know the right question to ‘ask’ in terms of information searches, because they do not know what is available. The relatively lonely and isolated nature of their work also means that many prefer a more personal approach than the internet can provide. Businesses located on the wrong side of the so-called ‘digital divide’, usually in regional areas with inadequate bandwidth, may also find the internet inaccessible for all practical purposes. Internet-based information is often not presented in an intuitive format or from the perspective of the small business client. This limits its value for small business, although it can be a very useful resource for small business advisers and service providers. A Small Business Assistance Officer told the committee that:

58 CPA Australia, Additional information.

59 Mr Antony Brugger, *op. cit.*, p. 914

60 Ms Cindy Ford, *op. cit.*, p. 760

61 Ms Judith Hartcher, *op. cit.*, p. 201

I do not get too many phone calls from people saying, 'I am very good at using the Internet. I am not having any problems. Please don't come and see me.' I use the various portals for business information and I tend to work as a bit of a translator or broker for many businesses. A fairly big chunk of my work is doing research on the Internet and picking bits out for people to go into, because some of the sites are unwieldy to say the least.⁶²

4.54 More interactive support, such as an online questionnaire to allow business to define its needs, would increase the value of internet based one stop shops. E-mail access to business advisers would be a useful component of such a program:

It seems to me that a core resource which is really lacking at the moment is this online resource that provides the stream, if you like, to put people in touch with all of the other facilities.⁶³

4.55 The Office of Small Business advised that it is using a syndication approach to attempt to address the need for internet-based information to be filtered or packaged for small business. Under the syndication program, government information is packaged around businesses or business cycles and is delivered online to intermediaries, such as accountants, banks and some peak bodies. While this appears to be a useful development it would not appear, on the face of it, to address the need for information obtained through the Business Entry Point to be available in a more user-friendly, interactive way.

Comment

4.56 The need for more coordinated service delivery and information provision for small business is compelling. A range of different approaches have been trialed or proposed, and many of these have merit. The Business Entry Point or some variation is clearly part of the solution and is a particularly useful resource for small business advisers and for those businesses with the necessary time, expertise, inclination and bandwidth. The committee is convinced of the need for some form of one-stop shop in regional areas as a supplement to the Business Entry Point and Small Business Assistance program. The large number of Commonwealth government access points across Australia suggests that it may be feasible to provide a dispersed network of such 'Business Entry Point' shopfronts using existing resources. The committee is aware of the complexities and difficulties with such an approach and considers that some of these could be explored through a pilot of the concept in several locations across Australia, to be evaluated after 18 months.

4.57 More coordinated service delivery arrangements need to include consideration of the role of Business Enterprise centres and industry organisations, as well as government agencies or entities such as the Area Consultative Committees. The Commonwealth government should host an annual meeting of the various government

62 Mr Fred Marchant, Small Business Assistance Officer, Far North Queensland Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 746

63 Mr David Bainbridge, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 628

or government-funded agencies involved in providing small business support to discuss program delivery and effectiveness issues.

4.58 There is also a need to formalise relationships with members of the small business network, including accountants, so that they are included in the information distribution arrangements for business support programs. The committee notes the syndication approach to information delivery being introduced by the Commonwealth and suggests that this be evaluated after 12 months operation, in consultation with the small business network.

4.59 Assistance available through the Business Entry Point also needs to be more user-friendly; for example, by providing an interactive service which allows business to define their needs and circumstances and in response compiles a list of relevant programs from all levels of government, which might assist them. The committee believes that the Commonwealth government should examine the feasibility of developing the Virtual Small Business department as proposed by CPA Australia with more interactive support and clearer simpler information delivery.

4.60 In the longer term, a national, more unified approach to information and program delivery, with a clear 'brand' will be needed to overcome some of the current confusion and to promote greater awareness of, and access to, available services and programs. A possible model of effective branding is the 'FarmBis Program', which aims to develop the business management skills of the agricultural industry. Farmbis has both a national and a Commonwealth/state component and is an example of where Commonwealth and state governments have worked together to provide and deliver a clearly branded suite of services to meet the needs of a sector.

Recommendation Six

The committee recommends that the Commonwealth Government examines the feasibility of developing a virtual small business department with more interactive support and clearer, simpler information delivery.

Recommendation Seven

The committee recommends that the Small Business Ministers Council undertakes a pilot project to trial the feasibility of introducing one-stop shops of government information and assistance for small business, with an evaluation of the project to be conducted after the first year.

Recommendation Eight

The committee recommends that the Small Business Ministers Council develops a national small business support program, incorporating Commonwealth and state and territory programs, within the context of a national framework with a clear and distinctive national brand.

Consultation

4.61 Consultation with the small business sector is necessary to ensure that policies and programs reflect their needs and circumstances, and that the sector is informed and aware of available policies and programs. The Commonwealth and all state and territory governments and some local governments have a range of consultative arrangements but there were many criticisms that consultation is still inadequate.

4.62 The two main consultative mechanisms at the Commonwealth level are:

- the National Small Business Forum, in which representatives of thirty-four peak industry and professional associations representing small business meet, once or twice annually, with representatives of the Government, usually including the Minister for Small Business and officials from the Office of Small Business, to exchange information and views on small business issues; and
- the Small Business Consultative Committee, comprising four small business people as well as a number of accountants and taxation advisers or specialists. The Committee was initially established to provide advice to government on matters related to the New Tax System but since mid-2001 has had a broader charter of advising the government on issues affecting small business as well as possible solutions to compliance concerns.

4.63 Government agencies such as the Australian Taxation Office may also have their own consultative arrangements, based on either a formal, ongoing consultative committee or mailing lists of associations and individuals to be consulted as the need arises. The Small Business Minister's Council has endorsed guidelines for government on consultation with small business particularly on regulation change, and the Office of Small Business can offer advice and assistance to other agencies on strategies and contacts if necessary.

4.64 State and territory governments also have consultative arrangements, usually based on a committee or council of small business people who meet regularly with the relevant ministers to address issues of concern. These may be supplemented by other meetings or mechanisms such as taskforces or networks of small businesses and open meetings on specific issues.

4.65 Effective consultation with a sector as diverse and fragmented as the small business sector is a particular challenge. This is complicated by a low level of participation in industry or other associations: it is estimated that more than 70 per cent of small business do not belong to any industry association or similar interest group.⁶⁴ In addition, while many industry associations claim to represent small businesses, they generally also represent larger businesses in their industry, which may have different interests and concerns. Large businesses may also have a disproportionate influence within an industry association because of their capacity to

64 Submission No. 72, op. cit, pp. 1–2

make larger financial contributions and provide advice or arguments drawing on internal policy or research resources.

4.66 Small business-specific organisations can also represent the interests of small business. Australian examples include the Council of Small Business Associations (a peak body of small business organisations, industry groups and individual firms), the Small Business Coalition of the Australian Chamber of Commerce and Industry, the Micro Business Network, the Home-Based Business Association and the National Federation of Independent Business. Family Business Australia also claims to represent some of the small business community although its membership also includes medium and larger family businesses. Despite the range of organisations, their total coverage of the sector is still relatively small. In addition, and perhaps as a consequence, they appear to have limited administrative and professional or research resources and this undoubtedly limits their capacity to argue their case to government and act as a conduit between business and government. One result, according to a witness at a roundtable discussion in Melbourne, is that governments ‘become seduced by big business’ because of its greater capacity to put a well-researched and well-reasoned case. Small business, lacking access to the professional advice of larger business organisations, tends to present more emotional arguments:

Small business is usually represented by small associations that spend a lot of time trying to remain in existence and cannot quite fund their way through to these things. So, if ever small business is going to be better represented, someone needs to look at how it is funded.⁶⁵

4.67 Information on small business needs and circumstances can also be provided by the small business ‘networks’ of service providers and advisers. These include government agencies and non-government or community organisations, such as the ACCs and BECs that work closely with small business in their regions. Accountants are also recognised as another important source of information and can provide a useful conduit between government and small business, particularly those small businesses that are not members of any association. The Commonwealth government has identified the need to work more closely with these intermediaries to channel information to the small business community. The committee would urge all state governments that have not done so to also work closely with the small business network in terms of seeking and providing information.

4.68 While there were many calls for more effective consultation between government and small business during the inquiry, there was little unanimity on appropriate solutions. Suggestions included:

- making membership of either an industry association or chamber of commerce compulsory so that there is a potential information conduit between government and each small business in Australia;

65 Mr Alan Giles, *Hansard*, Roundtable, Melbourne, 25 July 2002, pp. 371–72

- government support for small business organisations particularly those representing micro-business and home-based business;⁶⁶
- government working more closely with organisations such as industry associations, accountancy bodies, Business Enterprise Centres and Area Consultative Committees—and in some cases providing financial support for those organisations—to better utilise their capacity to act as a conduit between business and government;
- the establishment, at the Commonwealth level, of a Small Business Advisory Council to provide advice to government on a range of small business issues;⁶⁷
- greater support for local councils to increase their capacity to work more effectively with businesses in their local areas in advising them of the full range of available assistance;⁶⁸ and
- formalising the relationship between government and the business network, particularly in relation to regulation.⁶⁹

Comment

4.69 There is a clear message that small business considers that its ‘voice is not yet heard’ or its interests sufficiently represented to government as a whole. Governments need to find ways to encourage small business, particularly home-based business, to join organisations or associations that can represent them and act as a conduit between the sector and government. They also need to continue to find innovative and effective ways to use the small business network to reach small business. However measures that would mandate membership of an organisation, or provide continuing financial support to industry organisations representing small business are problematic. In particular, there is no way of being certain that businesses would derive an appropriate benefit from their membership fees or from any government support.

4.70 There appear to be two main aspects to the need for a stronger voice for small business. First, there is a role for an organisation or entity that could represent the interests of individual small businesses in their dealings with government and big business, in an advocacy or ombudsman-type role. Second, there appears to be a need for a permanent body, such as an advisory council, with a level of resources that enables it to effectively represent the interests of the sector on broad policy issues. The committee considers that the current consultative arrangements, while valuable, do not meet these needs and that the Small Business Minister’s Council should

66 Mr Murray Geddes, Home-Based Business of the ACT, *Hansard*, Canberra, 6 August 2002, pp. 524–25

67 Mr Peter Fitzpatrick, Motor Trades Association of Western Australia, *Hansard*, Perth, 17 July 2002, p. 4

68 Mrs Diana Abruzzi, *op. cit.*, p. 369

69 Mrs Su McCluskey, *op. cit.*, p. 504

consider options along these lines to improve the capacity of small business to put its case to government.

Recommendation Nine

The committee recommends that the Small Business Ministers Council considers options to improve the capacity of small business to put its case to government and for individual small businesses to have improved representation in their dealings with government and big business.

Program design

4.71 While concerns about the broader framework of small business assistance dominated the inquiry, some more specific criticisms of small business or industry assistance programs were also raised. In general, there was insufficient evidence on particular points for the committee to form any specific conclusions.

4.72 The key Commonwealth assistance programs of the Small Business Enterprise Cultures Program and the Regional Assistance Program are based on a competitive grants model under which organisations bid for funding to undertake projects to develop the skills or capacity of local businesses. These can include mentoring projects, networking programs or a range of other strategies designed to support the development of individual businesses or the business community as a whole. The emphasis is on one-off projects, including demonstration projects, that will be either self-supporting in the longer-term or enable access to other, longer-term sources of funding. The benefits of this approach, in terms of providing a catalyst for experimentation and new approaches, as well as meeting a wide variety of needs, is apparent, but there are also a number of limitations. Advice to the committee is that there is no clear mechanism to disseminate the benefits or findings from projects across the range of agencies involved in small business assistance or even within the one tier of government or from one Area Consultative Committee to another.⁷⁰

4.73 Lack of continuity of Commonwealth funding for successful models was also raised as a problem. The manager of the Eastern Suburbs Business Enterprise Centre explained it had pioneered an online business advice and referral service known as ‘Business Buddies’, which is successful in meeting an otherwise unmet need, but that the program may not be able to obtain further funding.⁷¹ This results in a proliferation of ‘one-off’ projects, which can be confusing for small business people and complicates the communication and marketing task. A witness from the Far North Area Consultative Committee told the committee that:

...the small business enterprise culture program...is a small program that I believe is an excellent model. However, because it is a grants based program, you do not have the continuity. One of the issues that we have in rural and remote Australia is people coming in and developing rapport only

70 Mr Paul Goodwin, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 626

71 Mr David Baumgarten, *Hansard*, Roundtable, Sydney, 14 August 2002, pp. 627–28

to be gone six months later, then another person comes in that has been able to access that program and they are now saying, 'We're the funded small business enterprise culture program, and we're here to help you.' If you have this kind of pattern going on year after year, you have business people that cannot develop a long-term relationship with anybody who is able to offer them that assistance. So, while we think that is a great program, we think that there needs to be more of it and in a sustained way, not this one-off grant sort of model that you have got going.⁷²

4.74 The committee believes that these concerns are understandable and that the government should consider whether there needs to be more continuity and consistency of support, particularly for small business in regional areas. Development of a national, integrated support policy framework for small business might also ensure more continuity of programs, and allow for targeted ongoing or extra support to be provided.

4.75 The criteria and procedures for some of the Ausindustry and Regional Assistance Programs were criticised as being pitched too far above the average small business⁷³ (which by definition is likely to be a micro-business); with overly elaborate and time-consuming application processes. Decision processes for the Regional Solutions Program are said to be too lengthy (up to 12 months) with the decision-process lacking in transparency and feedback on reasons for lack of success.⁷⁴ While the committee heard similar comments from a range of witnesses or submitters, there was insufficient evidence for it to form a judgement on the issue. The criticisms may be an indicator that government is not drawing on the advice of all relevant parties in evaluating the appropriateness of programs. All elements of the small business network should be included in future consultations on program development or evaluation.

4.76 Current business support programs were also criticised as not meeting the diverse needs of small business. The Western Australian Business Enterprise Centres identified the need for more segmentation of programs, with different programs targeting micro-business, small business and medium businesses.⁷⁵ While the need for different programs may be intuitively appealing, the committee does not consider that there is a *prima facie* case for programs to be provided for each segment of the small business community. However, all programs need to be flexible enough to meet the diverse needs of all segments of small business, including home-based business. As a first step, government needs to develop a better understanding of some segments of the sector, such as micro-business, as recommended in Chapter 2.

72 Mr Tomas Vieira, Executive Officer, Far North Queensland Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 742

73 Mr Euan Miller, Executive Officer, Business Enterprise Centres SA Inc, *Hansard*, Adelaide, 10 October 2002, p. 952

74 Submission No. 90, Local Government Association of South Australia, pp. 7–8

75 Submission No. 40, *op. cit.*, p. 6

Level of funding and unmet needs

4.77 Some witnesses raised questions about the adequacy of the funding levels for current business support programs. A South Australian regional development organisation claimed that many current small business support programs (which may have included the RAP) are often under-resourced, with approval determined by the level of funding rather than the quality of applications.⁷⁶ There was also an argument for increased Commonwealth funding for small business from BECA. Contrasting Commonwealth funding for small business programs in Australia unfavourably with that provided by the UK and the USA, the BECA commented that:

In my view, we do not really do much to support small business here in Australia, particularly at a national level. We talk about it, but we do not actually support it.⁷⁷

4.78 The need for additional funding was not, however, a consistent or prominent message during the inquiry. Because small business benefits from a range of Commonwealth programs, other than those specifically targeting small business, such as those administered by Ausindustry, it is difficult to determine the total Commonwealth support for small business development. Information on total state and local government expenditure on small business is also not readily available. In those circumstances it is difficult to make any informed assessment about Australia's support for small business relative to that of other countries. That said, there is some evidence of under-resourcing, particularly in relation to business management support (discussed in more detail in Chapter 5). For example, the manager of a Business Enterprise Centre in Tasmania advised the Committee that he did not advertise to the small business community because he only had sufficient funds to service those who walked in the door.⁷⁸ The committee notes that the best approach to determining the appropriate level of funding is through a needs analysis and evaluation of existing services and programs as suggested in the previous section.

Finance

4.79 A number of submissions and witnesses identified the need for more government support for small business seeking access to finance. This is a particular issue for micro-business. The committee was told that many small businesses have difficulty obtaining funding for start-up, growth, working capital or large expenses. This was raised in a number of contexts:

- a witness from the Gulf Savannah regional organisation argued for incentives for small business, whether in the form of revolving loans or tax concessions;⁷⁹

76 Submission No. 95, op. cit., pp. 3–4

77 Mr Colin O'Brien, op. cit., p. 269

78 Mr Danny Keep, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 454

79 Ms Kathryn Sutcliffe, Chief Executive Officer, Gulf Savannah Development Inc, *Hansard*, Brisbane, 12 September 2002, p. 739

- the Albury–Wodonga Area Consultative Committee identified a lack of programs to assist micro-businesses needing finance to expand, but falling below the \$250,000 eligibility threshold for state government assistance;⁸⁰
- the Micro Business Network argued for the provision of a small start-up grant for small business, perhaps along the lines of the Higher Education Contribution Scheme (HECS), to be repaid as financially viable;⁸¹ a similar suggestion was made by a witness from an ACC in Queensland;⁸²
- many small businesses are said to have difficulties paying for trading stock and banks are reluctant to lend for such purposes;⁸³
- the Restaurant and Catering Association (RCA) stated that many restaurant businesses start out under-capitalised or need a capital injection at some stage within their first five years of operation. Lacking other finance options, restaurateurs often bring in a partner or draw down further funds on the mortgage of their own homes. These means of finance are both limited and problematic;⁸⁴
- the National Federation of Independent Business (Gold Coast) considered there should be an alternative to bank finance, particularly for those businesses whose landlords require that they spend large amounts on regular refitting in order to renew the lease. Banks currently require that most restaurateurs mortgage their homes for this form of finance;⁸⁵
- a participant in the Small Business Roundtable in Perth also argued for government support for financing for small business start-up, in view of the lack of support from most of the banking sector;⁸⁶ and
- a role for financial intermediaries was identified in Tasmania.⁸⁷

4.80 Governments can assist by acting as information brokers or intermediaries and an advocate for small business with the financial sector. The Great Southern Development Corporation suggested that state governments open negotiations with banks over relaxing criteria for security and financing of trading stock for small business.⁸⁸ Restaurant and Catering Australia stated that its members would value

80 Submission No. 44, Albury Wodonga Area Consultative Committee, pp. 3–4

81 Mrs Barbara Gabogreca, Managing Director, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p. 234

82 Ms Cindy Ford, *op. cit.*, pp. 752–53

83 Submission No. 24, Great Southern Development Corporation, p. 7

84 Submission No. 19, Restaurant and Catering Australia, p. 17

85 Mr Vincent Schofield, President, National Federation of Independent Business (Gold Coast), *Hansard*, Brisbane, 12 September 2002, pp. 730–31

86 Mr Louis Symes, *Hansard*, Roundtable, Perth, 19 July 2002, p. 182

87 Mr Richard Zawadski, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 461

88 Submission No. 24, *op. cit.*, p. 7

information on investment pathways and options, and that investors need complementary advice on investment in small businesses in its industry.⁸⁹ Witnesses in Tasmania identified a need for financial intermediaries to match up investors and those seeking funds. The Canberra Business Council noted that the absorption of local financial institutions by major banks had resulted in a loss of knowledge among potential lenders of local business opportunities: the few small venture capital funds and other financing organisations that are locally based need assistance to help them match up with business seeking finance. The committee notes that the Australian Banking Association was invited to make a submission to the inquiry but declined, so it does not have the benefit of the banking sector's perspective on this issue.

4.81 Above all, there is a role for government to assist small business obtain finance on reasonable terms. This is an area where Australia lags behind other countries. An international entrepreneurial effectiveness scorecard ranked Australia 17 out of 25 countries in terms of availability of capital.⁹⁰ The study also found that access to early stage capital and patient capital, while improved, remains a problem for smaller businesses, with banks being highly conservative.⁹¹ In the United States, Small Business Administration provides a Small Business Loans program under which small businesses that cannot obtain financing in the private marketplace, but can demonstrate loan repayment capacity, can obtain a government guaranteed or insured bank loan. Loans of an average value of \$US225,000, up to a maximum of \$US500,000, are available for expansion of facilities, to purchase building equipment or materials or for working capital.⁹²

4.82 In Australia, the main general purpose Commonwealth program is the Pooled Development Fund, designed to increase the pool of equity funds available for growing small and medium enterprises by providing tax concessions for investors in venture capital funds targeting small and medium business.⁹³ Equity finance will, however, only meet the needs of a small proportion of the sector. It will not be attractive to the large group of small businesses that wish to retain the independence and control that comes with full ownership. It will also not be available to the greater majority of small businesses that, while viable and successful, are not growth-oriented or do not meet the other criteria for most venture capital lending.

Comment

4.83 Calls for additional financial aid for small and micro-business indicate that this is an area where the market is failing to adequately support small business. The committee considers that the government should examine the feasibility of a range of

89 Submission No. 19, op. cit., pp. 17–18

90 Hindle and Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 42

91 *ibid.*, p. 2

92 See Catalogue of Federal Domestic Assistance, Small Business Administration website: www.cfda.gpv/public/viewprog.asp?progid=763

93 See Pooled Development Funds at: www.grantslink.gov.au/grants_finder/search_advanced_detail.cfm?selected=130

proposals to promote better access to affordable finance by small business, including negotiation with the banks, developing information brokerage services for small business, and introducing an income contingent loan arrangement along the lines of the HECS scheme. Unlike with HECS, a loan scheme for small business could be based on real interest rates provided they are at the lower end of the prevailing market rates.

Recommendation Ten

The committee recommends that the Commonwealth Government examines the feasibility of options to improve small business access to finance, including improved information on finance options and pathways and an income contingent loan scheme for small businesses modelled on Higher Education Contribution Scheme (HECS).

Indigenous small business

4.84 Governments are increasingly realising the potential of enterprise development to promote better employment and social outcomes for Indigenous people. The committee also heard from a witness from Far North Queensland that there is a growing interest in Indigenous communities in business formation: ‘We are certainly getting a lot busier in that area and they are expressing a lot of interest. In terms of existing businesses, there are very few. In terms of the real opportunity to move into business, it is very limited.’⁹⁴ ATSIIC advised that progress in Indigenous enterprise development is slow compared with that in other countries such as Canada, New Zealand and the United States.⁹⁵ On its estimates, based on the business development programs that it administers, there are at least 800 Indigenous small businesses in 2002. This compares with 20,000 such businesses in Canada, with the caveat that there is no information on the total number of Indigenous small businesses in Australia.⁹⁶

4.85 In ATSIIC’s view, the current array of Commonwealth and state and territory programs are not well known and do not meet the needs of Indigenous Australians. The committee commends the Small Business Ministers Council’s agreement for governments to consider adjustments to business support programs to better meet the needs of Indigenous communities.

4.86 ATSIIC highlighted the important contribution of its two programs designed to meet the specific needs of Indigenous people. These are the Business Development Program (BDP) designed to assist Indigenous Australians start new businesses, which ATSIIC administers, and the Indigenous Small Business Fund (ISBF), an element of

94 Mr Tomas Vieira, Executive Officer, Far North Queensland Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 743

95 Submission No. 87, Aboriginal and Torres Strait Islanders Commission (ATSIIC), p. 2

96 *ibid.*, pp. 1–2

the Indigenous Employment Program (IEP), which ATSIC co-manages with the Department of Employment and Workplace Relations.

4.87 Some witnesses were critical of ATSIC programs, including the complexity of the documentation required and the 25 per cent equity required for a loan under the BDP.⁹⁷ ATSIC agreed that the equity requirement restricts access but noted that the program is based on commercial criteria.⁹⁸ One witness suggested there should be low-interest loans specifically for Indigenous people to address the shortage of finance:

We are hearing stories of Indigenous groups approaching overseas organisations who have set up these soft loan facilities. It is a disgrace: we have not yet got those sorts of programs up in our country and you have Indigenous groups looking overseas to get venture capital. It is not good enough.⁹⁹

4.88 The complexity of the regulatory environment is also said to be a major threat to Indigenous small business. In some cases, for example with the introduction of the GST, ATSIC developed information packages targeted to assist Indigenous business people.¹⁰⁰ The committee agrees with ATSIC that this should be the responsibility of the regulatory agencies that are funded for this purpose.

4.89 ATSIC advised that Indigenous people are less likely than other small business owners to affiliate with outside organisations, which isolates them from information and policy development processes. The committee notes ATSIC's proposal that an Indigenous Chamber of Commerce and Industry unit be established within the Australian Chamber of Commerce and Industry. It considers that there is a case for government financial support for the formation of an Indigenous small business association, as a means of improving communication between government and Indigenous small business, and fostering Indigenous enterprise development.

Comment

4.90 The committee agrees that enterprise development can be an important path to better economic, employment and social outcomes for Indigenous Australians and also notes the significant barriers they face in establishing and maintaining viable enterprises. Some of these barriers relate to broader infrastructure and other constraints in communities that lie outside the terms of reference of this inquiry. The limited evidence on Indigenous enterprise programs and the soft loan proposal makes it difficult for the committee to form any firm conclusions on these. One solution may be to target Indigenous small business requirements in the design of any income

97 Mr Tomas Vieira, op. cit., p. 744

98 Mr Philip Neal, Acting Program Manager, Aboriginal and Torres Strait Islanders Commission *Hansard*, Brisbane, 12 September 2002, p. 769

99 Mr Tomas Vieira, op. cit., p. 743

100 Submission No. 87, op. cit., para 1.6.5

contingent loan arrangement. The committee is persuaded by arguments that there should be greater recognition of the requirements of Indigenous Australians in mainstream small business programs, better information on regulatory change for Indigenous Australians, and that assistance should be provided for the formation of an Indigenous small business association.

Recommendation Eleven

The committee recommends that the Small Business Ministers Council considers the following initiatives to foster enterprise development in Indigenous communities:

- **financial and administrative support for an Indigenous small business association;**
- **consideration of ways of adjusting small business assistance programs to better meet the needs of Indigenous people; and**
- **the development, in conjunction with ATSIIC, of guidelines to assist Commonwealth and state and territory agencies proposing regulatory change to better accommodate the information needs of Indigenous entrepreneurs.**

The Committee also recommends that the Commonwealth discuss with ATSIIC the need for any special provision under the Small Business Answers program for advisers to work with Indigenous business people.

Chapter 5

Skills Development for Small Business

Compelling evidence exists, world-wide, to support the view that building managerial competence is the key ingredient in unlocking the potential of the SME sector.¹

If this Senate inquiry achieves nothing else it will have succeeded if it helps create a climate and the environment for small business employment development. This will mean training and educational opportunities, the only route which will lead to increased small business prosperity and employment opportunities.²

5.1 Strategies to improve the business management skills of small business owners and the skill level of the small business workforce were identified during the inquiry as one of the most important measures that governments could take to enhance the capacity of the sector to employ more people. Appropriate strategies can include measures to promote the value and importance of business management skills and skills development of the workforce, and to develop the capacity of the formal and informal education sector to meet the training needs of small business owners and employees.

5.2 That business management skills in small business could be better is not a new finding. It has been the theme of reports on small business issues at least since the Bolton Committee in 1971 identified a lack of training and information on finance, marketing, personnel management, technological change and production scheduling. In the intervening years governments have become more active in investing in programs to support business management training, but the investment has been uneven and falls short of providing an effective framework for business management development.

The importance of business management skills

5.3 Managing a successful small business generally requires a combination of technical skills, entrepreneurial skills and management skills. Technical skills are those required to produce goods or services, whether manufactured goods, or professional, trade, business or personal services. Entrepreneurial skills include vision, drive and the capacity to identify and exploit an economic opportunity. Core business management skills include financial management skills, the capacity to implement systems to support the production of goods or services (such as stock control systems), marketing skills, an understanding of any relevant legal or compliance obligations and the capacity for effective business planning, including strategic

1 Submission No. 93, Dr Tim Atterton, p. 3

2 Submission No. 67, Motor Trades Association of Western Australia, pp. 1–2

planning. Employing businesses require skills in human resources management and an understanding of the regulatory framework relating to employment. Specialised business management skills include those necessary to manage growth and to successfully export. In most small businesses, these skills must reside in the owner/manager.

5.4 The lack of business management skills is regarded as one of the main causes of small business failure. Less visibly, but no less importantly, it can also result in an erosion of the owner's equity in a business, a problem which may only be realised at the time of sale, perhaps in preparation for retirement.³ The costs of this failure go beyond the individual to the community at large:

Small businesses continue to suffer a high percentage of failure and in doing so, add to the burden of other businesses and community social services. These costs to our society remain hidden and immeasurable. Statistics of small business failure seem to be accepted as a given and an acceptable casualty of life. This same thinking used to be applied to child mortality.⁴

5.5 This problem has been recognised for at least 25 years and while there have been constructive efforts made at all levels of government to address it, these have been piecemeal and uncoordinated. And yet in today's more competitive environment, effective management skills are more essential than ever. As one witness told the Committee:

I think it was a lot easier postwar to get a foothold into a small business in Australia, because you just seemed to need to sacrifice a lot of things for your children by working very hard and long hours...But today, we are having to caution people that you need more than that now. You need a fair bit of cash, a fair bit of money, behind you. You need to know the rules of the game, which are much tougher today. It is not just about competition, although competition is a lot fiercer. In Victoria, until recently, our corner stores—our once ubiquitous milk bars—had an advantage in that there were restricted trading hours and the big end of town closed up at the weekends and late in the day. That is all out the door now, so that segment has taken a shock. You cannot, any more, just walk into a milk bar type operation and hope to make a living; you have to be a skilled operator.⁵

5.6 The growing complexity and sophistication of the regulatory environment also demands greater management skills. The implementation of the Goods and Services Tax (GST) is a case in point. The reporting requirements and training programs for the GST clearly assumed a level of record-keeping and financial management capability that many small businesses currently lack. Evidence to the committee suggests that, without additional support in developing basic business

3 Mr David Russell, *Hansard*, Roundtable, Melbourne, 25 July 2002, p. 375

4 Submission No.38, Far North Queensland Area Consultative Committee, p. 2

5 Mr Allen Roberts, *Hansard*, Roundtable Melbourne, 25 July 2002, p. 365

management skills, including financial management, and arguably some improvements to the current compliance requirements, many small businesses will continue to struggle with the complexities of the tax system.

5.7 Inadequate business management skills can also result in significant business under-performance, representing an opportunity cost not only for the individual business, but also for the broader economy and society. The Karpin task force into enterprise management highlighted the importance of management skills, including strategic management skills, in improving the productivity of Australian enterprises, large and small. Effective business management skills also underpin the capacity to innovate, successfully adopt new technologies such as e-commerce, and to export successfully. The SETEL report on e-commerce found that strategies to promote the adoption of e-commerce must include an emphasis on broader business planning and strategy.⁶ Austrade identified the financial and human resource management skills of small business as critical to the government's strategy of doubling the number of small business exporters.⁷

5.8 While most witnesses strongly support the proposition that sound business skills are essential to business survival and success, not all agree that the relationship is so simple. Mr Brian Gibson of the University of Newcastle advised the Committee that:

...we do not know that, simply because a person does not have that mix of skills we think is important, they will necessarily run a business poorly—or, alternatively, that they will run a business well because they have those skills. There is very little evidence to go one way or the other. I have been involved in areas which are associated with this. In the managerial skills area there are constant requests for small businesses to be more involved in developing good, solid business plans because that captures the essence of good management practices. I have conducted some research recently which suggests that successful, continuing small businesses that plan are no more likely to succeed or have better performance over time than those that do not. There is simply no correlation.⁸

5.9 In the committee's view, however, the weight of evidence suggests that there is a strong and positive relationship between business management skills and business performance and profitability.

5.10 It has long been recognised that, while most small business people have excellent technical skills, many lack strong entrepreneurial and management skills. This phenomenon is the basis for a well-known guide to small business management,

6 SETEL, *Australian SME E-Commerce Forum Taskforce Accelerating the Uptake of E-Commerce by Small and Medium Enterprises*, July 2002, compiled by E. Brown Small Enterprise Telecommunication Centre, p. 23

7 Austrade, *Knowing and Growing the Australian Exporter Community*, p. 55

8 Mr Brian Gibson, *Hansard*, Sydney, 14 August 2002, p. 576

‘The E–Myth’ by Michael Gerber. According to Gerber, there are two aspects to the ‘E-Myth’. First is the ‘entrepreneurial myth’ that most people who start small businesses are entrepreneurs; and the fatal assumption that an individual who understands the technical work of a business can successfully run a business that does that technical work.

5.11 Evidence to the inquiry confirmed that many, and perhaps the majority, of small business proprietors in Australia lack basic enterprise management skills, including an understanding of financial fundamentals. Many examples of limited financial understanding were cited to the committee:

- poor financial management has been one of the top three reasons for small business failure over [...the past 17 years];⁹
- a recent survey in a small town in NSW revealed that 85 per cent of businesses were not keeping records and so had no idea whether their revenue would increase or decrease;¹⁰
- small business people attending information seminars on the New Tax System in regional Western Australia were often unable to benefit from the information because ‘they didn’t even know what a profit and loss statement was...or what a profit margin was’;¹¹
- some small businesses do not know their financial position until the end-of-the-year financial statements and most do not undertake any long-term business planning;¹² and
- CPA Australia reported that many small businesses seem to lack a fundamental understanding of whether they are making a profit and of how to manage their cash flow.¹³

5.12 More general management skills, including strategic management, are also lacking. The committee heard a range of examples:

- representatives of the housing industry told the committee that management training is almost non-existent in the housing industry: ‘It is not a good ethic with regard to training and we do not know how we fix that; we do everything we can to get people trained’;¹⁴

9 Mr George Etrelezis, Managing Director, Western Australia Small Business Development Corporation, *Hansard*, Perth, 17 July 2002, p. 19

10 Ms Linda Hailey, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 645

11 Mrs Beverley Nowotny Ford, *Hansard*, Roundtable, Albany, 18 July 2002, p. 151

12 Ms Vicki Brown, Small Business Assistance Officer, Great Southern Area Consultative Committee, *Hansard*, Albany, 18 July, 2002, p. 88

13 Ms Judith Hartcher, Business Policy Advisor, CPA Australia, *Hansard*, Melbourne, 24 July 2002, p. 204

14 Mr John Gaffney, *Hansard*, Roundtable, Melbourne, 25 July 2002, p. 366

- small business people in regional Western Australia told the committee that the sector operates in ‘an atmosphere of salvage rather than of strategic planning’ and businesses tend not to seek help unless and until in dire straits;¹⁵
- a Gold Coast City Council identified a paucity of ‘higher order’ management skills amongst small business owner–operators in the marine industry, especially in business planning (less than a quarter of small businesses on the Gold Coast have a business plan), marketing, financial and human resources management;¹⁶ and
- the Melbourne Development Board advised that, of the approximately 45,000 small businesses in their district, many are:

excellent widget makers or whatever the specific skill of the business involves, but they invariably lack the planning, entrepreneurial, new technology and training skills that go hand in hand with running a successful business in today’s market.¹⁷

5.13 The most recent report on Australia’s comparative performance regarding entrepreneurship found that, while Australia rates highly on some entrepreneurial dimensions, including the number of business start-ups, our small businesses often lack meticulous planning, acquisition of necessary skills, knowledge intensity and focus on export from the outset. As a result, the businesses we create are small, ‘getting smaller and dying younger’.¹⁸

5.14 The majority of witnesses argued that, in this context, developing the management skills of small business is one of the best investments that governments can make in building a more dynamic and prosperous small business sector:

In terms of education, I think we do no favours to people who want to invest money in small business with the amount of education that is around at the moment. I do not believe that really tells the truth about the demands upon small business...education in my view is the most important area which is lacking for small business. I do not know how to solve it. I have no great answers for you, other than to say that somewhere along the line there has to be a partnership between government and business, and not big business but small business and maybe through the associations.¹⁹

15 Mrs Vicki Brown, Small Business Assistance Officer, Great Southern Area Consultative Committee, *Hansard*, Albany, 18 July 2002, p. 86

16 Submission No. 86, Gold Coast City Council, pp. 1–2

17 Mr John Macdonald, Executive Officer, Melbourne Development Board, *Hansard*, Melbourne, 24 July 2002, p. 253

18 K. Hindle and S. Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 22

19 Mr Richard Evans, *Hansard*, Roundtable, Melbourne 25 July 2002, p. 373

5.15 The committee agrees that governments need to provide improved opportunities for developing the skills of small business owners and employees. More effective ways of promoting to small business owners the value of a greater investment in their own management development and the skills development of their employees should also be found.

Current arrangements for business skills training

5.16 While it is possible to identify the ‘core competencies’ of effective small business management, small businesses have varying needs for business management development and support. A person proposing to open a small business with no business experience and no employees has different needs from the manager of an established business of several years’ duration, or the manager of an employing business or a business that begins with a complement of staff and a high growth and or export focus. Support needs also vary at different stages in the business life cycle, and in some cases, with the industry in which the business operates. A range of different training products or services has been developed in response. These include business counselling, particularly initial advice for business intenders on the viability of a business proposal, training courses on business fundamentals, business diagnostics or one-on-one assessments, mentoring and coaching, advisory and referral services and support for the formation of business networks and clusters.

5.17 Several agencies and organisations are involved in providing management support to small business, with some specialising in different types of support. The main providers are:

- Business Enterprise Centres (BECs) which provide one-on-one counselling and training courses with a particular focus on business intenders and start-up businesses in most states. (State Development Centres provide this form of assistance in Queensland and the Victorian government provides this service through its own agencies in Victoria);
- Business incubators which provide intensive assistance and mentoring to a segment of newly established or growing businesses;
- State government agencies which may fund a range of business assistance programs including mentoring programs, programs for women in small business and other specialised or general business programs. In some cases these are delivered by BECs or other agencies. Some state governments also provide more intensive and tailored assistance to high growth or high growth potential small businesses;
- ACCs, local councils, regional development organisations and other organisations may draw on Commonwealth and state and territory funding under programs such as the Small Business Enterprise Cultures Program and the Regional Assistance Program to develop and deliver support programs for local businesses; and

- the Vocational Education and Training sector (VET) conducts training courses for small business, based on the Business Services Training Package. Courses provided by Technical and Further Education (TAFE) institutes usually lead to the awarding of certificate and diploma level qualifications. Private providers or registered training organisations (RTOs) may also draw on the training package to provide smaller modules of training and some of these, along with the BECs, may be contracted to provide training under the New Enterprise Incentive Scheme (NEIS).

5.18 The introduction of the Business Skills Training Package in late 2001 under the Australian National Training Authority (ANTA) framework, has the potential to promote a more consistent and flexible approach to small business management training. The package outlines the competency standards for business management, provides a framework of qualifications for occupations or occupational levels, and sets out assessment guidelines for competency measures. Elements of the package can be provided as separate components or modules, or in combinations of modules to meet a specified need, including for award of certificate or diploma qualifications. The committee suggests that the package be evaluated after the first eighteen months, with input from BECs and NEIS managing agents and other providers of small business training, as well as from the VET sector, accountants and small business people.

5.19 Proposals for increased investment in small business management training raise a number of questions including: how the assistance should be targeted; what type of development support should be provided; and, which organisations or agencies should be responsible. The committee heard both that there is a need for a greater focus on training for new business owners and that the current arrangements over emphasise assistance for business start-ups at the expense of support for established business. There were also arguments for greater investment in business skills training for the small proportion of businesses that have the desire and capacity to grow significantly.

New entrants

5.20 There is a view that much of Australia's current investment in business skills training targets new businesses, either 'intenders' or 'start-ups' (new firms). As noted, the BECs, and in some cases state government agencies, assist intenders and start-ups by providing counselling on the feasibility of proposals, business planning advice, and in some cases introductory training programs. In the VET sector, many TAFEs and some RTOs also provide small business management courses for business owners or intenders. Unemployed people who meet certain criteria can obtain management training and mentoring support as well as income support under the NEIS.

5.21 Tens of thousands of new businesses are established each year in Australia. There is no way of knowing how many of the owners obtain some form of business skills training from BECs, TAFEs or private providers, in part because not all TAFEs keep statistics on business owners or intenders attending their courses. It is reasonable to assume from the evidence to the inquiry, however, that the greater majority of new entrants do not undertake any significant training, partly because they do not

recognise the need and also because they are not aware of the available assistance. As one small business adviser told the committee:

...they do not know what they do not know. In other words, they do not know anything about cash flow, bank recs and all those sorts of things. Therefore, they do not ask and they do not look. I am saying that somewhere along the line they need to be informed about these issues so they can actually say: 'Hang on, there's a problem here. Can I afford to go into this?' I think that needs to start before they go too far down the track into the business, because they do not know that they do not know.²⁰

5.22 Various suggestions were proposed as a means of ensuring a better take-up of business management training by new starters. One proposal was to require licensing of all new entrants, as occurs in some European countries. The Holiday Coast Area Consultative Committee put the argument this way:

Only 20 per cent of business start-ups survive past year five (ABS figures). In part this is due to a lack of management skill provided by the business operator. If business operators were better able to reach business sustainability then the prospects for better use of the community's financial and human capital and for employment growth would be considerably enhanced. One simple mechanism to assist in this regard would be the introduction of a license to operate a business, required by all those starting a new business. The license would require passing a short operators course covering legal, finance and management information and skills.²¹

5.23 A compelling argument for compulsory pre-start-up training is that once a business is in operation, it is extremely difficult for the owner/manager to find the time or opportunity to undertake training. One small business operator commented that:

I think that the horse has bolted once you have gone into business and are finding it hard. Whatever help you get after that, you are only ever going to get a small percentage of the benefit you could have had if there were rules in place to say, 'You must do a course before you start.' Then you would think twice before you went into business.²²

5.24 Responses to the licencing proposal were mixed. Many, including small business owners were in favour, but there were also many others opposed in principle or believing that such a 'regulatory approach' would not be successful in Australia. The following sample of responses provides a flavour of the reaction. From a supporter of the concept:

20 Mr Harold Handley, *Hansard*, Roundtable, Adelaide, 10 October 2002, p. 1001

21 Submission No. 27, Australia's Holiday Coast Area Consultative Committee, p. 2

22 Mr Paolo Lionetti, *Hansard*, Roundtable, Albany, 18 July 2002, p. 136

I am a long-time, laissez-faire, right-wing entrepreneur—somewhat less so now—and I have thought a lot about the business licence idea. I must say I have come to the conclusion that, yes, it would be a great thing—well, a good thing. You could say it is like licensing a gun so that somebody can shoot themselves in the foot, but at least you know that the gun is bloody well there.²³

From a small business person opposed to the concept:

If I wanted to start a new business—and I would not want to lose my equity and I would not like to lose my money or whatever—if I had a dream, and I had to fill in a form and get an official okay for my dream, I would start to feel confined. I would be so regulated that I could not even have my dream. I would like us to leave people alone. I would like us to be intelligent enough to pick up a course if we need one...I want to do my business. I do not want to be getting a licence for a dream.²⁴

And in response:

I understand what you are saying, but I do not necessarily agree with that point...If I had had a specific level of knowledge that I had to achieve before I started my business, I know I would have achieved my dream a lot more easily and a lot sooner than I did...you need help not only to protect yourself and make sure that you achieve the dream but also to protect other people like your employees or those who are using your business and your facilities—to protect everyone involved. It would be not another complicated thing but a helping thing.²⁵

5.25 Some witnesses suggested a less prescriptive approach could be effective, without some of the drawbacks of a mandatory program. Key elements of such an approach would be a mechanism to prompt intenders to assess their skills against those needed to run a business and identify available training and similar support services. Participants in roundtables in Sydney and Adelaide suggested that those seeking to register a business with the Australian Taxation Office (ATO) should be required to complete a checklist or questionnaire identifying the skills required to operate a small business successfully. Contacts for suitable training programs and information on compliance requirements should also be included.²⁶ In a similar vein, one witness suggested that there should be some incentive to undertake a ‘NEIS based program’ before starting a business.²⁷

23 Mr Kit Peters, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 641

24 Ms Elizabeth-Anne Gervay, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 688

25 Ms Narelle Whyte, *Hansard*, Roundtable, Sydney, 15 August 2002, pp. 688–89

26 Mr Luke Torrevillas, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 688; Mrs Susanne Gibbs, *Hansard*, Roundtable, Adelaide, 10 October 2002, p. 993; Ms Susan Lee, *Hansard*, Roundtable, Adelaide, 10 October 2002, p. 1001

27 Ms Katrina Drake-Mundy, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 453

5.26 Incentives to undertake start-up training could include an accreditation system, under which those completing an approved program or being assessed as having basic management skills are officially recognised or certified. A marketing program could also highlight the benefits of training and access to any government sponsored finance scheme could also be tied to achievement of agreed competencies.

5.27 Proposals for a licencing or accreditation arrangement raise the question of whether the current 'supply' of management training programs for new businesses is sufficient to meet the current level of demand, let alone any increase that would follow the introduction of a licencing/accreditation regime. The evidence to the inquiry on this matter was inconclusive. Small business training programs that may be suitable for start-ups are available through TAFEs and private providers, from BECs and equivalents, and also through the NEIS program. The number of training programs provided by BECs depends not only on demand, but also on available funding, which is often limited. Training under NEIS is limited to eligible unemployed people and has a set number of places each year. A common message throughout the inquiry was that the NEIS program should be expanded and made available to a broader range of people beyond the unemployed, implying that there is an unmet demand for this form of initial training. For example, a witness from the Micro Business Network advised the committee that:

A number of people have told me that they have made out that they are unemployed to be able to qualify for [NEIS] because they recognise that they need the training. I guess if you want to improve the success rate of small businesses, you do need to educate them in proper management techniques and you need them to understand how to work with government, local people and the media et cetera. The NEIS program is an excellent way of doing that...That is an example of a federal scheme that really does work.²⁸

5.28 The NEIS program, with its combination of structured training program, mentoring and support, appears to be widely viewed within the small business community as an excellent model for training those starting a business. Training programs provided through TAFEs and the BECs may include some of the same general skills and principles, but without the benefit of the personalised support and mentoring through NEIS. The National NEIS Association supports the extension of the training, and possibly mentoring components of the program beyond the unemployed and has estimated up to 22,000 people annually could benefit from an expanded program.²⁹ This compares with current program numbers of 7,500,³⁰ for eligible unemployed people. When asked about the case for an expanded program, officials from the Department of Employment and Workplace Relations suggested that

28 Ms Sue Vitnell, Newcomers Network, *Hansard*, Melbourne, 24 July 2002, p. 246

29 Ms Irene Dewsbery, Treasurer, National NEIS Association, *Hansard*, Brisbane, 12 September 2002, p. 710

30 *ibid.*

any expansion beyond current levels could lead to problems, including a decline in the quality of business proposals and concerns from existing businesses about additional competition.³¹ In the committee's view, while these concerns might apply to the expansion of places in the 'fully-funded' version of NEIS, that is including income support, they are not persuasive arguments against extending the availability of the training and mentoring components of NEIS. It is difficult to see how a greater availability of this form of training would, in itself, lead to greater competition: the great majority of people who wish to start a business will do so anyway, irrespective of whether they are trained. Moreover, as the committee heard from representatives of Restaurant and Catering Australia, unskilled new entrants can have a very significant negative impact on an industry by driving down prices to unsustainable levels.³²

5.29 Any strategies to increase small business participation in training will need to involve the small business network. Small businesses often look to their trusted advisers, including accountants, and industry or similar associations for advice and information. These networks are important channels for both promoting the value of training and the availability of training programs, as well as, in some cases, providing training using centrally developed materials. The GST training model, under which core materials are developed and then distributed freely through a multitude of different avenues and channels to the small business community, was identified as an ideal way to reach small business. A representative of CPA Australia commented that:

There is no one perfect way for every person coming into business to learn those skills. For some, TAFE is appropriate. For some, industry associations are more effective. Others want to know neither of those bodies; they might get the information from their local council or from a business enterprise centre or from a local accountant who is running sessions in their own community. Developing the core modules and then disseminating them through as many channels as possible is probably the most appropriate way to go.³³

5.30 Technology related skills, including internet use and an understanding of the principles and potential of e-commerce, are arguably now core competencies for small business proprietors. Training for new starters should include the fundamentals of these technology skills.

Comment

5.31 While some witnesses question the value of a focus on training for start-up businesses, the committee believes that it is fundamental to any strategy to improve the performance and profitability of the small business sector. Investment in basic business training at this point is likely to reduce business failures, resulting in a net

31 Mr Ken Douglas, Group Manager, Department of Employment and Workplace Relations, *Hansard*, 6 August 2002, p. 559

32 Submission No. 19, Restaurant and Catering Australia, p. 18

33 Mrs Judith Hartcher, *op. cit.*, p. 211

employment benefit and provide a sound foundation for new businesses to develop a learning culture and orientation. It will also provide an opportunity to develop better channels of communication between small business and government, through establishing contacts with service providers at an early stage.

5.32 The committee is attracted to the licencing proposal as a means of ensuring that small business owners undertake some minimum standard of training before starting a business. A licence would have the added benefit of providing an opportunity to ensure that intenders are made aware of the regulatory requirements associated with starting and opening a business, and of the range of government information and assistance resources and contact points. The committee recognises, however, that despite the merits of a mandatory licencing regime, some significant cultural and attitudinal barriers would need to be overcome before it would gain the acceptance of the small business community. It also has a concern, given the evidence on the unmet demand for new start training along the NEIS lines, as to whether the current availability of training places is sufficient to meet the any increased demand that would result from a licencing requirement.

5.33 There is, however, the need to improve on the current situation. As a first step, those registering a new business with the ATO should be provided with a 'Business Start-up kit' comprising a checklist of the skills required to successfully run a business and contact points for training courses and information, including on licensing and regulatory requirements in their state or territory. There may be scope, as part of this process, for small business people to choose to undergo some brief, informal assessment process, such as a referral to a BEC for a competency assessment using an interview or on-line quiz. As a related measure, consideration could be given to the introduction of an accreditation system for people who complete the required training or possess the relevant skills.

5.34 An assessment also needs to be made of whether the supply of training programs for business start-ups cross Australia can meet the demand associated with an accreditation or licensing program. Extension of the training and mentoring elements of the NEIS program to all new starters or, given the cost of that model, those new starts assessed as having the desire and capacity to grow employment or develop an export orientation, should form part of the assessment. In the longer term, the effectiveness of the voluntary system should be reviewed and the feasibility or appropriateness of a mandatory system be evaluated.

Recommendation Twelve

The committee recommends that the Small Business Ministers Council examines the feasibility of introducing a small business training and accreditation program with the following components:

- **a start-up kit, including a checklist of the skills required to run a business, contact details for training course providers, and advice on regulation requirements, to be provided to all those registering a new business;**

- a system of accreditation in business management for those who have successfully completed an approved business management skills course and are able to demonstrate appropriate competencies; and
- an analysis of the availability of training programs for start-ups across Australia against current and future needs, with a view to developing an expanded range of opportunities if required.

Consideration should be given to the introduction of a mandatory licencing regime once the voluntary program has been in operation for two years.

Business incubators

5.35 One means of supporting newly established, or ‘fledgling’, businesses is through the program of business incubators. Business incubators can assist new and growing businesses to become established and profitable by providing premises, access to shared equipment and services and business advice and other support. They also provide access to a ready-made business network. The Commonwealth, state and territory governments support incubators by the provision of facilities at peppercorn rentals and funding establishment costs and business and management development support.³⁴ Incubators are expected to be financially viable, taking account of government support, occupant charges and other sources of income. The ‘incubation period’ for an individual business is normally from one to three years.

5.36 One criticism of incubators is that they are based on erroneous assumptions about the demand from those in home-based businesses to move into office accommodation, in some cases to overcome local government regulations restricting the numbers of employees or types of business operations. The Micro Business Network argued this view, noting that home-based business is a lifestyle choice for many and is an ultimate goal, not simply a step along the path to becoming a larger and employing business.³⁵

5.37 While a number of incubators have failed, the committee heard that these are a minority that did not conform to the principles of good incubator policy and practice. A review of incubators undertaken on behalf of the Commonwealth in late 1999 found that they are a worthwhile concept, contribute to the achievement of employment outcomes and can be effective in assisting in the development and survival of new small businesses around Australia. Changes were recommended to the administration and design of the incubator program to improve its overall effectiveness and the committee understands that these have subsequently been implemented. Representatives of the Capital Region Enterprise and Employment

34 Mr Julian Webb, Chief Executive Officer, Capital Region Enterprise and Employment Development Association (CREEDA), *Developing Incubation Policy—A Discussion Paper*, July 2002, p. 5

35 Ms Barbara Gabogrecan, Managing Director, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p. 248

Development Association (CREEDA) submitted that incubator support and management policies have been refined over the past few years and that there is a view in the industry that the current policy settings are about right. In support of the value of incubators, they cited survival rates for their graduates of 80 per cent after several years compared with an average new business survival rate of approximately 20 per cent.³⁶

5.38 CREEDA argued that the time has now come for the business incubation program to be integrated with other Commonwealth, state and local government programs and targeted more closely at those businesses that want to grow and have the capacity to employ. It also identified a need for a clear agreement between state and Commonwealth governments on funding and support principles for incubators and for a program to develop the capacity of business incubator managers. Incubation management is a specialised skill and CREEDA argued that Australia needs access to the professional, specialised training now available in other countries, so that incubator managers can provide more effective support. The committee agrees that this form of professional development and capacity building is an appropriate area for the Commonwealth to support.

Recommendation Thirteen

The committee recommends that the Commonwealth Government supports the establishment of a professional development program for incubator managers across Australia.

Established businesses

5.39 A common refrain throughout the inquiry was the relative lack of training and management support for established businesses. One witness told the inquiry that, while there are many courses for businesses starting up, there are few for those who, several years after commencement, have a greater appreciation of the importance of business plans, cash flow issues and regulations.³⁷ Representatives from the WA Department of Training endorsed this view, noting that once someone is in business, there is an expectation that they ‘look after their own development.’³⁸ A similar view was put by a small business management training expert with extensive experience in the United Kingdom, Europe and more recently Australia. He observed that the small business support industry in Australia appears to have ‘stalled’ at the business start-up stage:

36 Mr Ian Davis, Deputy Chair, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, p. 482

37 Mrs Mary Storch, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 684

38 Mr Richard Strickland, WA Department of Training, *Hansard*, Perth, 17 July 2002, p. 77

it has not made the evolution that other developed countries have made about trying now to develop the stock that has already been established.³⁹

5.40 One consequence is that the sector is not able to realise its growth and employment potential. The Western Australian Business Enterprise Managers' Association suggested that a greater emphasis on support for established businesses might lead to a better return on the training investment:

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.⁴⁰

5.41 A possible explanation for this relative neglect is that established business requires a more sophisticated, customised, flexible response than current structures can easily support. Generic training courses, with a set 'curriculum' or menu of management issues are often of little interest or relevance. The ideal training for an established business is that which addresses the businesses' individual needs and circumstances,⁴¹ and can be delivered in the workplace, on a one-one-one basis, both for practical reasons⁴² and out of 'privacy' concerns. One witness explained:

...they are time poor, so people need to be taught before they go to work or after they finish work and they need to have their training in pieces. They do not want to do a course. They have an immediate issue that needs to be addressed, so there needs to be a module that can address that issue.⁴³

Mentoring and business advisory programs

5.42 In practice this means an extensive range of business advisory, counselling, coaching and mentoring services, as well as a broad menu of short, sharp training programs on specific issues such as e-commerce or marketing, to address a specific need. At this point it is necessary to define what we mean by a mentor. One witness described a mentor as an experienced business person who:

39 Dr Tim Atterton, Director Entrepreneurship and Business Development Unit, Curtin University, *Hansard*, Adelaide, 10 October 2002, p. 961

40 Submission No. 40, Western Australia A BEC Managers Association, p. 7

41 Ms Linda Hailey, *op. cit.*, p. 624

42 Ms Mary Dean, Vice President, Business and Professional Women's Association, *Hansard*, Launceston, 26 July 2002, p. 410

43 Mr Euan Miller, Executive Officer, Business Enterprise Centres SA Inc, *Hansard*, Adelaide, 10 October 2002, p. 955

can facilitate information, contacts and other...needs...and be a reflective counsel...The most effective mentors are those who can help open a door somewhere when you need it and get you to think the right way.⁴⁴

5.43 While there has been an increase in the number and range of mentoring programs in recent years, including under the Small Business Enterprise Culture Program, the committee heard that the demand still falls well short of supply, particularly in regional areas. Representatives from the ACC in Far North Queensland identified mentoring support as the greatest need in their region, particularly for those businesses that are outside the larger towns and are struggling.⁴⁵ Established businesses would also benefit from assistance in the form of ‘diagnostics’ or business counselling and advice: ‘That is where that third person comes in, sits around the table and says, ‘Hey, what do you need?’⁴⁶ A variation on this would be visits from an experienced small business person who could assess a small business’ bookkeeping arrangements, for example, and suggest practical improvements.

5.44 A case was also made for additional mentoring assistance for graduates of the NEIS program to help them manage the early phase and, ideally, expansion of their business.⁴⁷ A representative of a Queensland ACC told the committee that:

It is okay to get a person to the point of understanding how to fill out a business plan and do a cash flow projection and get them to the point where they have identified their market—that is great. But when they are ready to rock and roll and get into business they are out on their own. They walk out of that NEIS program and there is nothing to flow on from that. The coaching and mentoring is required to take them on from that NEIS step...Coaching and mentoring is also required for businesses that are ready to expand. Many of the successful businesses tend to stay where they are, in their comfort zone. I think quite often we have an opportunity to grow our regional areas through the existing businesses that are already working well and we need to coach and mentor them into export markets et cetera.⁴⁸

5.45 NEISA also acknowledged the need for more training or support for NEIS graduates but suggested that this be confined to the small percentage that are likely to grow employment, even to a modest extent.⁴⁹

44 Dr Timothy Mazzarol, Chairman, Centre for Regional Innovation and Enterprise, *Hansard*, Albany, 18 July 2002, p. 107

45 Submission No. 38, op. cit., pp. 1–2

46 Mr Robert Griffith, Secretary, Centre for Regional Innovation and Enterprise, *Hansard*, Albany, 18 July 2002, p. 102

47 Submission No. 85, Ipswich and Region Area Consultative Committee, pp. 1–2

48 Ms Cindy Ford, Executive Officer, Ipswich and Regional Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 759

49 Submission No. 80, National NEIS Association, p. 32

5.46 Industry organisations also supported the value of mentoring as the best, and perhaps only, way to upgrade some of the management skills of their small business members. This was regarded as being particularly important in times of significant change, such as during the introduction of de-regulated trading hours in Tasmania:

We believe that there is a need for innovative approaches to the skilling and training of people. Getting people away from small business is a challenge. We spent time earlier this morning talking about a couple of initiatives we are working on with our training partner to develop a fairly targeted mentoring arrangement to help small business to look at not only how they develop their product or service but also how they manage, market and administer themselves. At the moment it is going to be an area of some considerable challenge—when do seven-day-a-week operators running a small business get the time? Forget getting them to come out into a formal class environment. At the end of the day it almost has to be a one-on-one mentoring arrangement.⁵⁰

5.47 There are two main constraints on the expansion of mentoring services to meet the demand: limited funding by Commonwealth, state and local governments and the supply of suitable mentors.⁵¹ The latter problem may be more a manifestation of the fragmented nature of small business support programs than a genuine shortage of mentors: the National NEIS Association indicated that they have a large network of qualified mentors who could be available to contribute to other programs if agreed.⁵² Other mentor programs currently operating, including Mentor Resources Tasmania and the e-mentoring program introduced by the Association of Professional Engineers and Managers of Australia (APESMA), also draw on the resources of small business mentors.

5.48 BECs may provide mentoring services when they are funded for that purpose by the states or the Commonwealth or they can support provision from their own resources.⁵³ Access under many current programs is often restricted to the ‘target groups’ for which the program was established; for example, the ‘Women in Business Mentors program’ or programs developed under the Small Business Enterprise Cultures Program or Regional Assistance program, usually for businesses in a specific region as part of a broader support strategy.

5.49 Lack of continuity is a related complaint because mentoring is often funded under project-based grants, such as the Small Business Enterprise Culture Program. The National Institute of Accountants attested to the benefits of mentoring programs,

50 Mr Peter Fehre, Executive Director, Retail Traders Association of Tasmania, *Hansard*, Launceston, 26 July 2002, p. 424

51 Mr Andrew Maurice, op. cit., p. 28

52 Ms Irene Dewsbery, op. cit., p. 721

53 Mr Andrew Maurice, op. cit., p. 28

but lamented the lack of follow up: ‘So if there is a mentoring program it needs to be an ongoing program’.⁵⁴

5.50 With the proliferation of mentoring programs, the question arises as to whether there is a need for a more coordinated and professional approach, including quality assurance arrangements and a better use of available resources. Mentor programs are often established and then simply ‘let flow’,⁵⁵ without there necessarily being any evaluation or follow up. BEC Australia also identified this as an issue and recommended that Australia consider establishing a national accredited mentor scheme, similar to the United States’ SCORE (Service Corps of Retired Executives) program, to provide greater consistency and continuity of assistance.⁵⁶ The committee believes that the current range of mentoring programs should be assessed and consideration given to the best way for these services to be provided in future, including the need for professional development and establishing best practice principles for mentors and service providers. The feasibility of establishing a national mentor program based on the US model, with a clear ‘brand’, continuity of service and the capacity for small business people to apply directly for assistance as and when needed, should also be investigated.

5.51 The committee also notes a proposal from CREEDA for the development, in conjunction with CPA Australia, of an online program to provide small business training and information, interactive business assessment tools, business discussion groups and an on-line mentoring and professional referral service.⁵⁷ This may be particularly useful for small businesses in areas where there may be a lack of suitable mentors. The committee considers that an online advisory program of this kind could be a useful complement to a national mentor program and is worthy of further consideration as part of the feasibility study. An examination of the need for and role of a national mentor program should include consideration of the role of current mentoring programs, such as Mentor Resources Tasmania, and government support for these programs, as part of a broader national program.

Recommendation Fourteen

The committee recommends that the Commonwealth Government undertakes a feasibility study of the establishment of a national mentor program that would include training, accreditation and support for business mentors across Australia. The study should also examine the scope for an online advisory and mentoring service. A pilot study should form part of the feasibility study.

54 Mr Gavan Ord, Technical Policy Manager, National Institute of Accountants, *Hansard*, Launceston, 26 July 2002, pp. 441–42

55 Dr Tim Atterton, op. cit., p. 970

56 Submission No. 72, op. cit., p. 10

57 Mr Julian Webb, Chief Executive Officer, Capital Region Enterprise and Employment Development Association (CREEDA), *Hansard*, Canberra, 10 October 2002, pp. 936–37

Training programs

5.52 However mentoring alone is often not enough; the best management development solution often requires a combination of mentoring and formal training,⁵⁸ or mentoring and networking. The committee was told that a program in Western Australia, funded under the Small Business Enterprise Culture Program—based on a combination of mentoring, training and networking—had significantly increased the profitability of participating businesses.⁵⁹ Representatives from the BECs also submitted that many small businesses require a combination of training and mentoring and that the ‘the two dovetail’. A similar view was put by a trainer from the Small Business Centre at Adelaide TAFE, when extolling the virtues of the Young Entrepreneurs program, although he noted that it is a very expensive option.⁶⁰

5.53 As with training for start-up businesses, it is not clear whether the supply of training programs for established small business meets the need, either in terms of availability or relevance. TAFE is probably the largest single provider of business management training in Australia, with more than 22,000 enrolments in units related to small business management in 2000,⁶¹ although many BECs also provide training, often in the form of short courses, workshops or seminars, on specific management issues such as marketing, e-commerce and so on, depending on demand and available funding.

5.54 The committee heard many complaints that training programs currently available are not adequate, particularly for small businesses outside the major metropolitan centres. Typical comments include:

- the complaint that there is ‘very little [training] support...on the financial management of a business’ or...on the technical side of a business...in Albany because the local BEC is only funded to provide marketing training;⁶²
- the submission from the Business and Professional Women in the Northern Territory stated that that there is very little training available for business owners in the territory;⁶³
- while there are government subsidies to provide training courses to industry association members ‘every time you get a good course going and you get some sort of government subsidy to do it, it gets ripped away at the next budget’;⁶⁴ and

58 Dr Timothy Mazzarol, op. cit., p. 107

59 Ms Sally Haigh, Senior Development Officer, Great Southern Development Corporation, *Hansard*, Albany, 18 July 2002, p. 109

60 Mr David Byrne, *Hansard*, Adelaide, 10 October 2002, p. 980

61 Submission No. 84, Australian National Training Authority, p. 5

62 Ms Nowotny Ford, op. cit., p. 135

63 Ms Nowotny Ford, op. cit., p. 135

64 Mr Peter Fitzpatrick, Executive Director, Motor Trades Association of Western Australia, *Hansard*, Perth, 19 July 2002, p. 180

- BECs acknowledge that the programs and services that they can offer vary significantly, are limited by funding and that small business would benefit if BECs could be better resourced to enable a more strategic approach.⁶⁵

The role of VET

5.55 There are differing views on the capacity of TAFE to meet the training needs of established businesses. In many respects, the VET sector, with its broad responsibility for vocational training, is the natural or obvious provider of small business training. However most of the evidence to the inquiry suggested that, under current arrangements, TAFE programs do not meet the needs of established businesses. There are several criticisms. TAFE teachers are said to lack small business experience, and therefore credibility with their small business clients.⁶⁶ Course times and locations are often inflexible or unsuitable.⁶⁷ The emphasis on formal qualifications, which requires completion of a 200 hour program, usually needing three to four years to complete part-time, is at odds with business preferences for short and sharp programs, with qualifications being of secondary importance. There is also a well-recognised aversion by many small business for formal, classroom type training and the TAFE 'banner'.⁶⁸ TAFE is also seen as focusing primarily on school-leavers. The result is that, in the common, although by no means unanimous, view of witnesses to the inquiry, small businesses are not interested in TAFE programs.⁶⁹ Industry associations or other sector support bodies are, it has been argued, more likely to appeal to small business as training providers.

5.56 The committee heard from the Australian National Training Authority (ANTA) and the National Centre for Vocational Education Research (NCVER) that the VET sector is aware of these criticisms, recognises the need to better orient their training offer to the needs of small business and has introduced several initiatives to achieve that goal. A detailed active research program, the Small Business Professional Development Best Practice Program, was undertaken in the late 1990s to explore effective approaches to promoting small business professional development. The Program identified the value of learning communities and networks and the combination of mentoring and other business-specific approaches to training. A range of 'How to' Manuals, drawing on the program, have been distributed to VET providers.⁷⁰ ANTA has also identified the need for the VET sector to enhance its capacity to meet small business needs, including a greater focus on small bites of training that are directly relevant to a business need. Projects are trialing ways of

65 Mr Andrew Maurice, op. cit., p 16

66 Mr Ian Reid, Business Consultant, *Hansard*, Melbourne, 24 July 2002, p. 278

67 Mr Euan Miller, op. cit., p. 995; Mr Michael Edgecombe, Executive Officer, Regional Development South Australia, *Hansard*, Adelaide, 10 October 2002. p. 956

68 Ms Mary Dean, Vice-President, BPW Australia, *Hansard*, Launceston, 26 July 2002, p. 414

69 Mr Richard Strickland, WA Department of Training, *Hansard*, Perth, 17 July 2002, pp. 68-9

70 Submission No. 84, op. cit., p. 6

developing VET providers' capacity to better those needs.⁷¹ The need to better orient VET to meet small business needs will also be one of the issues considered during the national consultations as part of the process for developing a national strategy for VET for 2004-2010.⁷² ANTA also identified the need to promote the value of the Business Services Training Package to other organisations, such as BECS, which are outside the VET sector but provide advice and training for small business⁷³ as well as to small business networks. The underlying objective is to promote the value of training, the resources that are available and a more consistent approach to small business training, which will ultimately facilitate the integration of formal and informal training.⁷⁴

5.57 There are a number of impediments to the VET sector meeting the training needs of small business. Current funding arrangements are perhaps the most important. As ANTA acknowledges, the current funding, planning and enrolment systems are designed around attainment of qualifications, contrary to the focus of most small business people.⁷⁵ A representative from a regional association told the committee that the state training plans, that are the basis of ANTA funds allocations, do not reflect the needs of regional areas, which are for more flexible, patchwork training arrangements.⁷⁶ Despite these barriers, TAFE programs can meet the needs of small business, if carefully planned. The committee heard that the Small Business Centre at Adelaide TAFE, enrolled 30 per cent of small business people in its classes (with the remainder being business intenders).⁷⁷ Programs at the TAFE are 'short, relevant and gutsy'; have a good selection of subjects and are offered frequently, to enable learning when needed; trainers have small business experience and credibility; price is pitched appropriately; learning materials are small business orientated, assessment tasks are based on participants' own businesses; and delivery is flexible allowing enrolment in any subject on any day of the year.⁷⁸

Comment

5.58 The committee considers that the VET sector has a potentially important role to play in meeting the training needs of small business. It recognises and endorses the efforts that are being made within the sector to provide more flexible ways of meeting those needs and urges Commonwealth and state and territory governments to give priority to these efforts and to ensure that future funding and planning arrangements support more flexible, business-oriented training approaches. The committee also

71 *ibid.*, p. 11

72 *ibid.*, p. 3

73 *ibid.*, p. 10

74 *ibid.*, p. 12

75 *ibid.*, p. 12

76 Mr Michael Edgecombe, *op. cit.*, p. 956

77 Mr David Byrne, *op. cit.*, p. 974

78 *ibid.*

supports efforts to promote the greater involvement of business networks in promoting and delivering training for small business and to better integrate formal and informal training for small business. Better integration is desirable as a means of promoting a more consistent approach and also enhancing the scope for the investment in informal training to count towards award of qualifications, where that is a goal of the business owner.

5.59 The committee also strongly endorses ANTA's view that training needs to be better integrated with other government support services for small business. This could form part of an integrated strategy for small business support as recommended in Chapter 4.

5.60 The committee considers that there is a need for an assessment of the complete range of small business training programs targeting established business, including those offered by the formal and informal sector, complemented by a needs analysis. This should occur in conjunction with the development of the integrated national framework for small business support recommended in Chapter 4 and the analysis of start-up training programs. Particular attention should be given to the need for training programs in the areas of e-commerce and technology, including internet skills in view of the growing importance of the internet in business.

Recommendation Fifteen

The committee recommends that the Small Business Ministers Council commissions a needs analysis of training programs targeting established small business and an assessment of the extent to which the current range of training programs meets the needs. This should occur in conjunction with the development of the integrated national framework for small business support recommended in Chapter 4 and the analysis of training programs for start-ups.

The role of universities

5.61 While universities offer a range of business management programs, it is difficult to determine the extent to which these meet the needs of small business. Courses in entrepreneurship, commercialisation and new venture funding are conducted within the business management schools of a number of universities but these are not specific to small business and no records are kept on the participation by small business people. There are also a number of programs targeting small business people, including two programs at Curtin University, a Growth Program and a Business Improvement Program. Other universities may offer units specialising in aspects of small business management.⁷⁹ The committee gained the impression that universities currently play a marginal role, at best, in developing the business management capacity of the small business sector.

79 Letter from Professor Sandra Harding to Senator Campbell 12 November 2002 (additional information).

5.62 The director of the business training centre at Curtin University, Dr Tim Atterton, told the committee that a major gap in skills training for small business in Australia is in the area of management support for established ‘premium,’ or high growth small businesses. A percentage of these businesses, which he estimated at about 15-20,000 businesses in Australia, stall after three to five years because they lack the management skills for sustainable growth. In his view, the higher and further education sector in Australia is currently ill-equipped to respond to this management training need, partly because they do not understand the need and also because they do not have the capability.⁸⁰ He suggested government could address the current market failure by investing in the development of a management development capacity for small business, particularly growth oriented businesses.⁸¹ Investment could be in the form of pump priming several centres of excellence, based on some key principles; including partnership with small business and staff with real small business experience and a close understanding of contemporary small business issues. The centres would aim to develop a new cadre of small business educators combining real small business experience and an understanding of business issues and to develop best practice training models.⁸² The findings of the Global Entrepreneurship Monitor offer some support for this view: the report found that Australia’s entrepreneurial capacity is low, entrepreneurial skills are not widely taught, we have few experienced entrepreneurs to act as mentors and few managers to work alongside entrepreneurs to bring systematisation to fast-growing ventures.⁸³

5.63 The committee considers that there is value in considering this proposal as another means of promoting improved business management in the small business sector. The diversity of the sector suggests a range of different approaches and strategies may be needed, and that the higher education sector may have a role to play in developing managerial capacity, along with the VET sector and informal training providers, particularly in relation to high growth potential businesses. The role of such centres in a broader strategy of small business management development would need to be clearly defined and appropriate links established.

Recommendation Sixteen

The committee recommends that the Commonwealth Government undertakes a feasibility study of a program to foster the establishment of several centres of excellence in business development for the small business sector, with a focus on the needs of high growth business. The study should examine international experiences with this approach and ways in which any such centres could be integrated with the broader structure of small business development support.

80 Dr Tim Atterton, op. cit., p. 961

81 *ibid.*, p. 960

82 *ibid.*, p. 968

83 K. Hindle and S. Rushworth, op. cit., p. 29

Developing a training culture in small business

5.64 There is a widely held view that small business owners do not see the value of training, particularly in something that may seem remote from daily pressures, such as business management. Statistics bear this out to some extent: ANTA surveys identify small business owners as over-represented in the category of those who are ‘not interested’ in formal training and under-represented in attendance at short, sharp training courses conducted within the VET sector, even though the latter are the types of programs that they identify as most appropriate to their needs.⁸⁴ Various reasons were suggested during the inquiry, including the fact that many of those who establish small businesses are ‘fiercely independent and very confident in their own abilities’;⁸⁵ that proprietors ‘want to maximise their time in business as much as possible and sometimes forget that some of the back-end stuff is just as important’⁸⁶; and that proprietors have difficulty in focusing on something that is not an immediate problem.⁸⁷ Negative attitudes to formal training are also said to be common.⁸⁸ Resistance may be more to the idea than the reality and the right marketing is very important: smuggling training to small business in the guise of solving a problem can be effective⁸⁹ and there is likely to be a greater response to a ‘workshop’ or ‘seminar’ than a training program.⁹⁰

5.65 The extent of this lack of interest can, however, be over-stated, particularly with regards to less formal training programs. The committee heard many examples of an active interest in training by small business: a survey of small businesses conducted by a BEC in NSW indicated that many business owners, along with their staff, would be prepared to spend up to two hours a week on learning business related skills and information, provided the time, topics and formats met their needs;⁹¹ there are many instances of night courses or similar programs run by councils and others which are unable to meet the demand, including from outside the local region; a program conducted by Curtin University for small business regularly attracts interest from 500 businesses. The import of this evidence was that ‘getting the training offer right’ can go a long way to stimulate greater demand.

84 Submission No. 84, op. cit. p. 8

85 Mr Robin Taylor, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 626

86 Mr Gavan Ord, op. cit., p. 432

87 Ass Professor John Breen, Head, Small Business Unit, Victoria University, *Hansard*, Melbourne, 25 July 2002. p 303

88 P. Kearney, *Big Pictures from the Small End of Town*, 1998 Small Business Professional Development Programme Evaluation Report, Commonwealth of Australia, 1999, p. 8

89 Ass Professor John Breen, op. cit., p. 310

90 Mr David Baumgarten, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 621

91 *ibid.*

5.66 Small business also invests in less training for its employees, or at least in less formal training, than larger business. Once again several factors come into play: small businesses lack the internal resources to design and deliver structured training programs. They are therefore more reliant on external providers such as TAFEs.⁹² The increasing use of casual and contract labour and a fear that an investment in training will be wasted if the employee leaves, possibly to start their own business in competition,⁹³ also act as deterrents. With approximately 40 per cent of all Australian employees working in the small business sector, this relative under-investment in skills development can seriously undermine Australia's efforts to develop a more productive, competitive and innovative economy. A reluctance to invest in training can also make it more difficult for small businesses to recruit, as there may be a shortage of people with the full complement or combination of skills required. The proposed training programs for small business recommended in Chapter 3 should assist small business to develop the skills and confidence to develop and conduct training programs for new staff or identify suitable external courses.

5.67 At the same time, there is significant training undertaken by the employees of small business. Employees of small businesses enrol themselves in study towards full qualifications at the same rate as employees of other businesses⁹⁴ despite the fact that a smaller percentage of them receive employer support for study. Small business employees are also more heavily represented in VET enrolments than other employees: in 2001 one quarter already held VET qualifications.⁹⁵ Small businesses are also heavy users of the group training scheme.⁹⁶

5.68 Attitudinal factors are also important: proprietors who have undertaken training are more likely to invest in training for their employees. Finding ways to lift the participation of small business owners in training is therefore likely to lead to pay significant dividends. Several states, including Western Australia, have used a system of training vouchers for small business as a means of encouraging greater participation.⁹⁷ The Dusseldorp Foundation suggested that a more coercive approach may be needed and that there could be a case to introduce a variation of the former Training Guarantee Levy scheme, requiring business to spend a minimum amount on training their employees, or pay the equivalent in a levy.⁹⁸ While most small business people and their representatives acknowledged the importance of small business investing in more training for their employees, few were enthusiastic about a levy. There was far greater support for more extensive incentives: one small business

92 Submission No. 84, op. cit., p. 8

93 Mrs Barbara Enright, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 696

94 Education and Training Experience Australia, ABS 2001

95 Submission No. 84, op. cit., pp. 7-8

96 Submission No. 94, Department of Education, Science and Training, p. 7

97 Mr David Strickland. op. cit., p. 68

98 Dr John Spierings, Research Strategist, Dusseldorp Skills Forum, *Hansard*, Melbourne, 25 July 2002, p. 351

person suggested that businesses be able to seek a tax deduction not only for the cost of training programs but also for the value of the employees' time.

5.69 Changing the training culture in small business is likely to be an important part of the solution,⁹⁹ although this is not an easy task. It also requires a change to the culture of the broader society and a public policy framework in which the value of training and development is deeply embedded. In the view of a representative of the ACCI training is:

a cultural issue; it relates to our innovation culture, our entrepreneurial culture. It also relates to the recognition that your own management skills and the skills of your employees go to the very heart of the success of your business. Over time we would hope that businesses recognise how important education and training are. They need to be embodied in the government's policies in terms of vocational education and training and higher education. A need exists to bring together all of those policies with its general policy on innovation. I do not have a simple answer for you. We would not support a training levy; but we recognise that this is an ongoing issue for business to address, together with governments at the state and federal level and, more generally, with the community.¹⁰⁰

5.70 Dr Atterton of Curtin University suggested a range of ways that governments could stimulate demand for management development for premium growth oriented small and medium enterprises (SMEs) as part of a broader strategy for developing small business managerial competence. These include greater links with SME stakeholders and identification of the triggers to management development as part of a national campaign to promote interest in growth-oriented SMEs.

Comment

5.71 The committee considers that there is a role for government in promoting the value of business skills development to small business owners. Promotion of the value of investing in skills development for their workforce should form part of a broader campaign. The small business network should be actively involved in any such campaign.

Summary

5.72 Small business is a critical part of the Australian economy and needs to be included in strategies to develop a more competitive, productive and export-oriented economy. Australia needs to build on past and current efforts to develop business management skills by developing and upgrading training support structures, including professional development programs and sharing best practice approaches. There is a

99 Mr Andrew Maurice, *op. cit.*, p. 17

100 Ms Karen Curtis, Director, Industry Policy, Australian Chamber of Commerce and Industry, *Hansard*, Canberra, 6 August 2002, p. 542

role for government in promoting the value of training to the small business community, in partnership with the networks. Strategies are needed to promote a better takeup of training by new starters and to ensure that there is sufficient training and mentoring support to meet the needs of small business. The ultimate goal is for all components of the formal and informal training sector need to work together as part of an integrated framework for small business management development. This needs to be integrated with the broader program of small business support.

Chapter 6

Reducing the Burden of Regulation

Reducing the regulatory burden on small firms is one of the greatest spurs to entrepreneurship...Small firms have reduced capacity to absorb unproductive requirements because they have less capital as well as fewer managerial resources. [Small and Medium Enterprises] identify high compliance costs, extensive and complicated paperwork and economic regulations that prohibit certain activities as the most onerous burdens they face.¹

6.1 This chapter is concerned with assessing the affect of regulation on small business and identifying measures to minimise or reduce the burden. The diversity of small business and its concerns, and the broad scope of the inquiry's terms of reference, mean that it has not been possible to examine specific regulatory issues in any detail. Instead, the focus is on examining the main sources and causes of regulatory burden, the efficacy of current policies and programs to minimise the burden, and possible improvements.

The role of regulation

6.2 'Regulation' commonly refers to both 'black letter' laws such as acts of Parliament, regulations, ordinances and by-laws and the growing body of so-called 'grey-letter law' or quasi-legislation such as codes of practice. It also embraces the administrative procedures and reporting requirements which, from the point of view of those affected, form part of the total 'regulation package'. Although regulation carries some negative connotations of restriction and control, bureaucracy and red tape, it is important to remember that governments regulate to protect and advance the public interest or the interests of a segment of the community. Regulations are often made in response to community concerns and demands: for example food safety regulations, gun control laws and occupational health and safety legislation. A demand for governments to regulate is one of the most common community responses to an identified problem.

6.3 Regulation also plays an important role in protecting the small business sector. The proper regulation of financial services, tenancy laws and various types of legal reporting requirements can protect small business operators from the activities of unprincipled competitors or suppliers. Competition policy and trade practices legislation can also be a means of protecting the interests of small business. The WA Small Business Development Corporation (SBDC) commented that, from a small business perspective:

1 *OECD Small and Medium Enterprise Outlook, 2000 Edition*, OECD Paris 2000, p. 17

Government regulation should therefore not be seen as wholly undesirable, but rather a process that should seek to balance the need for adequate protection of the community as a whole, without unnecessarily detracting from the core activities of small business operators. To achieve such a balance, government regulation must be easy to understand, not unnecessarily onerous or time consuming, and the need for regulation justified and communicated.²

The burden of regulation

6.4 Regulation also brings costs. Governments incur administrative costs such as those associated with providing information, changing computer systems, or enforcing regulations. Business and other sectors of the community may also incur costs in complying with regulations. These compliance costs include direct costs, such as product labelling and inspection charges and indirect costs such as time spent on record-keeping. By diverting financial and managerial resources away from productive activities, compliance costs reduce a firm's capacity to innovate and maximise operational efficiency.³ The totality of compliance costs is known as the 'burden of regulation'.

6.5 Governments and legislators have been concerned about the burden of regulation on small business for some time. A series of inquiries or reviews since 1990, including the Small Business Deregulation Task Force (the Bell Task Force), have examined the issue. The Australian Chamber of Commerce and Industry (ACCI) regular surveys of critical issues facing business consistently rank regulatory concerns, particularly the frequency and complexity of tax changes, as among businesses' greatest concerns.⁴

Measuring the burden of regulation

6.6 Measuring the burden of regulation is difficult, partly because compliance activities are not always easy to separate from other business activities. For example, revenue records may be kept for both internal financial management and taxation purposes. Despite these difficulties, attempts have been made in Australia and other countries to quantify the burden. The main finding is that taxation (46 per cent), employment (35 per cent) and environmental regulations (19 per cent) are responsible for most of the burden of regulation in Australia and other OECD countries.⁵

6.7 Small businesses across the OECD spent an average of \$US25,000 per firm on complying with taxation, employment and environmental regulations in 1998,⁶ or

2 Submission No. 47, Small Business Development Corporation of Western Australia, p. 3

3 OECD, *Businesses' Views on Red Tape—Administrative and Regulatory Burdens on Small and Medium Enterprises*, OECD, Paris, 2001, p. 32

4 Submission No. 37, Australian Chamber of Commerce and Industry (ACCI), p. 7

5 OECD, *Businesses' Views on Red Tape*, p. 21

6 *ibid.*, p. 23

an average of \$US4,610 per employee.⁷ In contrast, medium businesses spent an average of \$US1,500 per employee and larger firms spent an average of \$US900 per employee. Australian figures are slightly below the OECD average.⁸ The Bell Task Force estimated in 1996 that the average Australian small business spent 4 hours a week on government paperwork, of which 3 hours related to taxation, and \$A7,000 a year on related costs including external advice and the costs of the operator's time.⁹ Bell found that the aspects of regulation that are of greatest concern relate to the quality of regulation and its administration, including issues of complexity, uncertainty, the pace of change and the nature of record keeping requirements.

6.8 The burden of regulation falls most heavily on small business because the bulk of compliance costs are fixed costs, which apply irrespective of the size of the firm, and therefore account for a greater proportion of small firms' managerial and financial resources. For the same reason, micro-businesses, particularly those that employ people, are likely to suffer an even greater compliance burden than other small businesses. The OECD explained that the 'dramatic regressive' nature of regulation can have a snowball effect as resources devoted to compliance run down firms' financial reserves, making them more vulnerable to financial distress, reducing opportunities for growth and restricting job creation; unit margins are increased to cover costs, which may adversely affect productivity; and the owner/manager spends time away from management of the business and generating sales and revenue.¹⁰ Constant changes to regulatory requirements also make it more difficult for business to plan and make sound investment decisions and may inhibit investment, with flow-on effects for productivity and profitability. An excessive burden of regulation may also have the effect of reducing the level of compliance. The committee heard evidence that, when the burden of regulation becomes too great, some small businesses are likely to throw up their hands and cease complying.

6.9 The extent and nature of the burden varies significantly from business to business, depending on the industry sector and sometimes also location. The compliance burden of the GST, for example, is likely to be far greater for businesses such as grocery retailers with large sales volumes and a mixture of GST-exempt and GST-liable products at one end of the spectrum, compared with business consultants with a small number of customers at the other end. Businesses in regional areas without easy access to advice and assistance from government, accountants or occupational health and safety inspectors can face an additional compliance burden.

6.10 There is a general acceptance that, across the OECD, the cost of complying with regulations is increasing each year.¹¹ Small business operators and their advisers confirmed that this is also true in Australia:

7 *ibid.*, p. 21

8 *ibid.*, p. 21

9 *Report of the Small Business Deregulation Task Force*, p. 14

10 OECD, *Businesses' Views on Red Tape*, p. 24

11 *ibid.*, p. 30

All this paperwork and red tape...has not eased up over the years. In fact, I have been in business for many years and I think it is becoming more and more complex all the time rather than simplified.¹²

I must say that I do not think I could survive another two years of simplification like the last two! I have been deluged with so much paper that I cannot grasp where anything has been simplified. I can certainly grasp the fact that my compliance staff, of which I have two, are tearing their hair out and there do not seem to be enough hours each week for them to comply. I have a total staff of 20, so it astounds me that I have to have a very expensive computer system and that amount of staff time applied to compliance. I have been in business basically on my own for 40 years, and 40 years ago I could do the paperwork on the back of an envelope. Nowadays, it takes two staff and a computer and I still cannot do it—in fact, I have given up. I now walk away from it and say, ‘I pay you; you do it. It is beyond me. I have to go and make some money.’ So I no longer attempt to do it myself. On top of that, I engage outside accountants to check up on what they are doing to make sure that they have got it right.¹³

6.11 ACCI appeared to agree, submitting that the burden of regulation on small business is likely to have increased since 1996, largely as a result of the introduction of the New Tax System and new environmental regulations.¹⁴ The government had established the Bell Task Force to further its pre-1996 election commitment to halve the burden of regulation on small business. On the advice of the Office of Small Business, the great majority of the commitments made in *More Time for Business*, the government’s response to the Bell Task Force report, have been implemented.¹⁵ When asked whether the result had been a halving of the regulatory burden, the Office of Small Business responded:

The government’s objective is to reduce the overall regulatory burden on small business. When the commitment was made in 1996 and then taken up by the Bell task force following the election, it concluded that the 50 per cent policy objective for a substantial reduction should not be seen as some sort of arithmetic goal as such. A number of initiatives such as changes to the ABS data collection have seen substantial reductions in the paperwork burden. More importantly, there has been an increasing systemic change in how policy and regulation is made to better account for the needs and considerations of small business. One of the most recent was last September when the government announced that proposals to go to cabinet need to be assessed for their impact on small business by the Office of Small Business and a statement has to be made to cabinet in the documentation so cabinet is fully aware, when making decisions, of the potential impact on small

12 Mr Edward Smith, Member, Great Southern Area Consultative Committee, *Hansard*, Albany, 18 July 2002, p. 89

13 Mr Graeme Hollidge, *Hansard*, Adelaide, Roundtable, 10 October 2002, p. 1007

14 Submission No. 37, op. cit., p. 11

15 Office of Small Business, response to Question on Notice, Attachment A

business. I am pleased to say that is being implemented and, on an operational level, we are seeing an increasing amount of material coming through.¹⁶

6.12 While quantitative measures of regulatory burden have their limitations, they do provide a very useful indicator of the *effect* of regulation on business and changes over time. It would be possible and instructive to use the same survey methodology that Bell used in 1996 to measure the time and money now spent on compliance. Regular quantitative and qualitative assessments of the regulation burden on small business would also provide a means of tracking changes over time and identifying problem areas. This would best be done by developing a consistent methodology for monitoring regulatory burden in Australia and by Australia participating in regular OECD surveys of the type undertaken in 1998 and reported in 2001.

Recommendation Seventeen

The committee recommends that the Commonwealth Government undertakes a follow-up to the Bell Task Force survey of the time and money that small business spends on compliance related matters. The committee also recommends that the Commonwealth Government, in consultation with state and territory governments, develops a consistent methodology for measuring the compliance burden of government regulations. It also recommends that the Commonwealth proposes to the OECD that it undertakes regular reviews of the effect of compliance on small and medium enterprise, with Australian participation, as a further means of tracking changes in the regulatory burden over time.

Components of regulatory burden

6.13 Both the volume and quality of regulation determine regulatory burden. Good quality regulations are consistent with other regulations, flexible enough to be implemented efficiently by business, achieve their objectives as simply as possible and are easy to understand. Changes should be predictable and manageable. The quality of the administration, including the information provided by governments and government responses to requests for advice or decisions on applications, is also important.¹⁷

The volume of regulation

6.14 The sheer volume of regulation and pace of change are major sources of regulatory burden. Without an active program of red tape reduction, the number of regulations that business must comply with will increase each year, as parliaments pass new laws and amend others. There are approximately 100 Commonwealth organisations, national standards setting bodies and ministerial councils with the power to prepare and administer regulations as well as a multiplicity of state, territory

16 Mr Antony Brugger, Acting General Manager, Office of Small Business, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 6 August 2002, p. 560

17 OECD, *Businesses' Views on Red Tape*, pp. 33–36

and local government regulatory agencies. Each year these bodies produce thousands of pages of new regulations to add to the thousands of pages that already exist;¹⁸ each year about 140 proposals for regulatory change at Commonwealth level require a Regulation Impact Statement because of their impact on business.¹⁹

6.15 The Recruitment and Consulting Services Association (RCSA) explained how the volatile regulatory environment for employment adds to the workload of their members:

...many small business owners run their business during traditional business hours 8.30am to 5.30pm and use the hours before and after to update documentation and research new legislation. Members rely on scanning the media, and their membership of the RCSA to ensure that they are up to date on changing legislation, and more importantly on how it affects their business.²⁰

6.16 A chartered accountant with a small business clientele identified the need to keep track of the constant changes to superannuation legislation as a major issue:

...superannuation has only been changed about 50 times in the last 10 years! How do you keep up to date? How does small business keep up to date with these changes in legislation? From an accounting point of view, it has been very difficult to do that. But, from a small business point of view—as they do not have the skills to understand what has been going through—it has been quite difficult and in some ways unfair on them to have to have dealt with those legislative changes.²¹

6.17 Clearly, from these comments, change is a particular problem when the arrangements to inform business of changes, and in particular of the implication of those changes for their business, are less than satisfactory. This appears to be an area where governments can do more to reduce the burden of regulation and will be taken up as an issue later in this chapter.

6.18 One tool that has been suggested to limit the inexorable increase in regulation is the regulatory budget. The logic underlying this concept is that, in an environment favouring balanced or surplus budgets, there is more incentive for governments to reduce or contain administrative costs than to contain compliance costs, which are largely unseen and not monitored.

6.19 The Productivity Commission indicated that this approach, while potentially providing some discipline or constraint on regulatory inflation, has never been used in Australia or overseas and has a number of problems. These include an undesirable constraint on regulation that would have a net community benefit, the lack of a clear

18 Mr Gary Banks, Chairman, Productivity Commission, *Hansard*, Canberra, 17 October 2002, p. 1013

19 *ibid.*, p. 1015

20 Submission No. 41, Recruitment and Consulting Services Association, p. 1

21 Mr Harold Handley, *Hansard*, Roundtable, Adelaide, 10 October 2002, p. 1009

basis for establishing budgets and a greater stringency being applied to new, compared with existing, regulation.²² The committee notes these comments and agrees that they provide a good basis for rejecting the notion of regulatory budgets. A less prescriptive requirement, such as a consolidated, annual register of Commonwealth regulatory changes could be compiled from the regulatory plans that agencies are now required to produce. The register could be included in the annual report of the Productivity Commission on regulation review and also published separately on the Business Entry Point. A consolidated register would highlight the extent and nature of new and amended regulation and provide a useful running record or checklist for businesses and their advisers on regulation changes. Ideally this approach should be replicated at all three levels of government.

Recommendation Eighteen

The committee recommends that the Commonwealth Government maintains and publishes an annual consolidated register of regulatory changes with a summary of their objectives and impact on business as a tool to monitor the growing body of regulation. State and territory and local governments should consider a similar mechanism.

The quality of regulation and its administration

6.20 Conflicting or inconsistent requirements from the different tiers of government are also a source of regulatory burden. The Bowen Collinsville Enterprise explained that arrangements for regulating aquaculture developments in Queensland require operators to seek licences from two state agencies and two Commonwealth agencies, but the guidelines and policies used to assess applications are not consistent.²³ The submission argued that:

The complex web of licensing, approvals and regulations, and the lack of a coordinated approach to the process from different agencies is leading to significant delays in the process. A prawn farm proponent in Bowen Shire has been advised by their planning consultants that it will take 2 ½ years to navigate the proposed project through the various processes. Each approval (GBRMPA, EPA, DPI, Environment Australia) is assessed independently of each other. There is little formal discussion between agencies, and often there is disagreement between agencies on standards, practices and policies.²⁴

6.21 The committee notes with approval that the Queensland government, which has an active program of red tape reduction, is developing a more coordinated approach to regulation of aquaculture in Queensland.²⁵

22 Productivity Commission, response to Questions on Notice, 15 November 2002, p. 13

23 *ibid.*, p. 1

24 *ibid.*, p. 4

25 Letter from Mr Tom Barton, Queensland Minister for State Development, 16 May 2002

6.22 The quality of regulation continues to be a problem. The OECD report on regulatory burden on small and medium enterprises found that Australian small businesses are among the most critical of the quality of regulation: 69 per cent considered that regulations are not easy to understand; 89 per cent considered that regulations do not achieve their objectives as simply as possible; 88 per cent considered that regulations are not flexible enough to be implemented efficiently; 75 per cent considered that regulation changes are not predictable; 77 per cent considered that regulations are not consistent with each other; and, 62 per cent considered that it is not possible to comply fully with all regulations.²⁶

6.23 The submission from the Small Business Development Corporation in Western Australia conveyed a similar message arguing that small business considers itself not only to be over regulated, but to be regulated by governments that do not adequately understand its needs or circumstances. Concerns include unidentified and unintended consequences, unnecessarily complex or onerous processes, insufficient lead time or insufficient support to assist the sector manage change.²⁷

6.24 While the quality of administration of regulations in Australia is rated more favourably,²⁸ there are still problem areas, including timeframes for decisions. The committee was told that Salisbury Council in South Australia has reduced the time for a decision on 'non-notified applications' to 3.2 days, but other councils still take up to 5 months.²⁹ A representative of the Brisbane Office of Economic Development pointed to the need for agency response timeframes to match the environment in which small business operates:

...we have to make an effort to try and ensure that the legislation matches what modern society and business require... It is no use saying you need 12 months to approve something when that small business might need it in three months. We have to find a way to match the three months.³⁰

6.25 This problem could be overcome if clear service standards that are supported by business as workable in the commercial environment are attached to any new or amended regulatory requirement, involving a decision or service from government. Estimates of the administrative costs of regulatory proposals should be based on the resources required to provide the appropriate level of service. Issues related to improving the quality of regulation are discussed further in the section on Regulation Impact Statements.

26 OECD, *Businesses' Views on Red Tape*, Table 3, p. 117

27 Submission No. 47, op. cit., p. 15

28 OECD, *Businesses' Views on Red Tape*, Table 4, p. 119

29 Mr Greg Waller, Director, Development and Environment Services, Salisbury City Council, *Hansard*, Adelaide, 10 October 2002, p. 945

30 Mr Richard Joel, Chief Executive Officer, Brisbane Office of Economic Development, *Hansard*, Brisbane, 12 September 2002, pp. 756–57

Comment

6.26 The regulation impact assessment processes introduced by the Commonwealth and all states and territories apart from the Northern Territory (which is in the process of introducing a tool to assess business impacts) should ensure that regulatory quality issues, including business impacts, are examined carefully for all new or amended legislation. However, there is currently no equivalent scrutiny applied to existing regulations apart from instances of specific or *ad hoc* reviews or red tape reduction exercises. The committee considers that the Commonwealth and state and territory governments and local councils should each undertake an ongoing program of systematic review of regulations affecting business to assess whether they are still necessary and achieving their objectives as simply and efficiently as possible. Particular attention could be given to areas where regulatory requirements, including administrative arrangements, unnecessarily burden business, for example through poor drafting, duplication, unnecessarily rigid requirements or the interaction with other regulatory requirements. Reviews could also consider whether the regulations are being administered in way that minimises the compliance burden.

Recommendation Nineteen

The committee recommends that all levels of government introduce rolling programs of regulatory review to assess whether existing regulations are continuing to achieve their objectives as simply and efficiently as possible and to identify the need for any changes to regulations or administrative requirements.

Complexity of regulations resulting from multiple jurisdictions

6.27 The three tiers of government in Australia, and instances of overlapping responsibility add a significant layer of complexity to the regulatory environment. This complexity can be addressed or reduced in various ways. For example, mechanisms such as the Business Licence Information System (BLIS) draw together or coordinate the licensing requirements of all levels of government. Overlap and duplication can also be reduced at source by careful design of new or amended regulations, for example, by modifying an existing form to incorporate new requirements. Model or template laws and uniform legislation simplify compliance for businesses that operate across more than one jurisdiction. The most ambitious reform proposals involve removing one or more layers by creating single jurisdictions for particular policy areas.

6.28 Measures that aim to draw together requirements of each tier of government, such as the Business Licence Information System (BLIS), the Business Entry Point, or one-stop shops or services, such as the Small Business Assistance Officer program, need to be supported by formalised agreements and processes of information sharing between agencies and levels of government. The committee was told that this does not occur in all cases at present.³¹ There is also a more general need for improved

31 Submission No. 23, Great Southern Area Consultative Committee, p. 4

information sharing on regulatory reform initiatives across each level of government. This issue was identified by the Western Australian SBDC, which has developed a website to share information on initiatives to benefit small business.³² The Local Government Association of South Australia also identified the need to give some attention nationally to how jurisdictions, including local government, might better exchange best practice information in relation to small business support and deregulation. It suggested that the Development Assessment Forum is an effective model in the planning field which could achieve more if better resourced.³³

6.29 Consistent or common approaches to a problem also help to minimise problems associated with multiple jurisdictions. Witnesses from Western Australia advised the committee that they had attempted to introduce a model scheme for home-based business so business across the state would be subject to the same local laws, forms, and application processes.³⁴

6.30 There was no unanimity on the merits of proposals to move to a single industrial relations system. Participants in a roundtable in Perth took different positions: while acknowledging the benefits of a single system, they were also wary about relying on a single system, particularly a national system, to reflect local needs. This is a particular concern in relation to industrial relations where the policies and programs of the main parties often differ significantly. Business people took the view that a single national system could be an advantage if it was more aligned to their priorities but a disadvantage in other cases.³⁵ The result is that they may prefer to have ‘a bet each way’.

6.31 The committee sought advice from the Productivity Commission on mechanisms to promote greater regulatory consistency across multiple tiers of government. The Commission pointed to the requirement in the Regulation Impact Statement (RIS) procedures for agencies to identify the interaction between a proposed regulation and existing regulation, from whatever tier of government. It also identified a range of bodies that play a role in regulatory reform or review from a multi-jurisdiction perspective, including the Council of Australian Governments (COAG), Ministerial councils, national standards setting bodies, the Australian Local Government Association, National Competition Council, and the Commonwealth-State Committee on Regulatory Reform (CRR), which reports to COAG on national competition policy and regulatory reform, and noted the role of the Mutual Recognition Agreement.³⁶

32 Mr George Etrelezis, Managing Director, Small Business Development Corporation of Western Australia, *Hansard*, Perth, 17 July 2002, p. 14

33 Submission No. 90, Local Government Association of South Australia, p. 6

34 Mr George Etrelezis, *op. cit.*, p. 20

35 Chair, *Hansard*, Melbourne, 25 July 2002, p. 316

36 Productivity Commission, response to Questions on Notice, pp. 17–22

6.32 It is not readily apparent whether one of these existing bodies or mechanisms would be appropriate to draw together and monitor the systematic regulatory review efforts of the Commonwealth and states and territories as recommended in the previous section and to undertake a program of cross-jurisdictional review or whether a new body is required. For example, the CRR, which appears to have a role in regulation reform supporting COAG, has no separate organisational support and relies on the existing resources of member governments to undertake the task.

Comment

6.33 The committee considers that there is a need for a standing cross-jurisdictional body with an agenda of regulation reform and review, focused on reducing regulatory burden, backed up by appropriate resources and authority. It has a preference for a ministerial level body with a clear brief of pursuing a continuing program of cross-jurisdictional regulatory reform, but is mindful of the range of different mechanisms and the need to avoid duplication. It therefore recommends that the Productivity Commission, given its charter of advising the Commonwealth Government on regulatory reform, be asked to report on the most appropriate mechanism for undertaking a continuing program of cross-jurisdictional regulatory reform and to coordinate the ongoing programs of regulatory review.

Recommendation Twenty

The committee recommends that the Productivity Commission be asked to report to the Council of Australian Governments (COAG) on the most appropriate body to monitor and manage a continuing program of cross-jurisdictional regulatory review and coordinate the rolling programs of regulatory review to be undertaken by all tiers of government.

6.34 The remainder of this chapter focuses on issues relating to regulation raised during the course of the inquiry.

Information, advice and assistance

6.35 In order to comply, small business needs easy access to accurate, up-to-date and clear information on regulatory requirements and, ideally, the implications for their business. Current arrangements clearly fall short of providing this level of support.

6.36 The submission from ATSIC argued that the lack of ‘easily accessible, easily comprehended information’ at all levels of government, increases the burden on those new to business,³⁷ and is a particular problem for Indigenous business people who may lack the education, and in some cases mastery of the English language, needed to digest complex, technical information. CPA Australia submitted that many small business operators do not even know what they need to know, and as a result:

37 Submission No. 87, Aboriginal and Torres Strait Islanders Association, p. 2

They can operate in some areas unaware of their compliance obligations. This is particularly the case for changes in awards and conditions of employment where a business does not belong to an employer association. Often ignorance of compliance obligations only surfaces after a business has made and implemented a decision that breaches requirements.³⁸

6.37 Regulatory information is available from the Business Entry Point and state and territory government equivalents. While providing a useful service, internet-based information is not a complete solution. Not all small businesses have access to the internet and for those that do, finding the relevant information is not easy. The Business Entry Point in particular does not locate all regulatory information in a single area. A small business operator explained:

I know the government has been quite proactive in putting a lot of information on web sites, but finding that information is still very difficult. I know the government has a small business web site that has certain small business information on it but, again, the way that is structured is perhaps not suitable for most small businesses, and you can spend a lot of time trying to find that sort of regulatory information and other information, which may or may not be there. It would be a suggestion to keep web sites up to date and to perhaps look at the structure of those web sites, so that compliance issues, regulations and other governmental information is available for small business in a centralised location.³⁹

6.38 Education and information is particularly important at the time of regulatory change, so that businesses and their representatives or advisers are informed of the new requirements. Guidelines do require agencies to consult with business at an early stage about proposed regulation and new or amended regulation, but the committee was told that these are often not adhered to. As a result, the National Farmers' Federation reported that it is very difficult, even for industry associations, to keep up to date with all the changes:

People in business spend their time trying to earn their money, making a living and focusing on the bottom line. It is very easy to see how they would not go and surf various web sites just to see whether a change has been made to the law that may impact upon them. That is a lot of the feedback we get from government departments: 'It was on the web site.' We say, with all due respect, small businesses do not go looking for that; they need to have their attention drawn to it. So it is very hard.⁴⁰

6.39 Reaching the more than one million small businesses is clearly a challenge for government. CPA Australia suggested that education or awareness programs for new or amended legislation should follow the GST model of central development of information resources with distribution through as many diverse channels of the small

38 Submission No. 18, CPA Australia, p. 6

39 Mr Paul Wilson, *Hansard*, Sydney, Roundtable, 15 August 2002, pp. 681–82

40 Mrs Su McCluskey, General Manager, Policy, National Farmers Federation, *Hansard*, Canberra, 6 August 2002, p. 501

business network as possible.⁴¹ Accountants are a useful point of contact for businesses that are not members of industry associations. Industry associations and small business associations can also play a valuable role by tailoring information to the needs of their members, for example, preparing model or template contracts, and identifying implementation issues. An industry association representative advised the committee that they can distribute information easily now more than 60 per cent of their members are on e-mail.⁴²

6.40 The committee was told that the Commonwealth Government has introduced a syndication program to electronically distribute packets of information about matters such as regulatory changes to organisations such as CPA Australia and industry associations. This is a potentially valuable development, and the Commonwealth should undertake an evaluation of its effectiveness as an information distribution mechanism within the next 12 months, in close consultation with the small business community. Other members of the small business network such as BECs and ACCs, as well as state government agencies responsible for small business and local councils, should be included in the syndication program. If this is not possible in the short term, there needs to be some e-mailing or other information distribution system for these agencies.

6.41 Businesses also need easy ways to find out about existing regulatory requirements when the need arises, for example when they first decide to employ. As most small businesses see their accountants at least once a year, CPA Australia suggested that governments provide accountants with fast and easy access to regulation information and resources to which they can direct their clients. Information needs to be in a more useable, accessible form than that currently provided through the Business Entry Point or state government equivalents, because 'like small businesses, many accountants do not have time to web-surf to find information or to chase from agency to agency.'⁴³ CPA Australia suggested that government consider a 'virtual small business department'. The virtual department would provide a higher level of integration and useability than the Business Entry Point, which requires that businesses search or 'shop' across a range of websites. As one roundtable participant commented:

We cannot get away from the government stuff but we need to make it very easy. I think we can make it easy by providing a clearing house of easily understood information, rather than find that small business owners have to shop from point A to point B to point C to find that information.⁴⁴

6.42 The upgrade to the Business Entry Point in late 2002, while an improvement on previous versions by linking users directly to a specific entry under the relevant Commonwealth, state or territory website, still falls short of the level of integration envisaged by most witnesses.

41 Submission No. 18, op. cit., p. 18

42 Mr John Gaffney, *Hansard*, Melbourne, Roundtable, 25 July 2002, p. 384

43 *ibid.*, p. 15; see also Submission No. 63, National Farmers' Federation

44 Mr Danny Keep, *Hansard*, Launceston, Roundtable, 26 July 2002, p. 449

6.43 Business also needs help in interpreting regulations, once located. Regulations are often detailed and complex and few are set out in plain English or accompanied by plain English explanations.⁴⁵ There is also little or no information on how they apply in practice. CPA Australia voiced a common complaint when it stated that ‘Government sets the rules for compliance but is often slow in giving practical guidance about the implications or implementation of those rules’.⁴⁶ Small businesses need such practical guidance on implementation because they lack the specialist staff who interpret compliance requirements for larger organisations. A representative of the independent retail sector advised the committee that, without such support, many small businesses are likely to fall foul of the law through lack of understanding.⁴⁷ Occupational health and safety legislation is an example of where business needs assistance in identifying how legislation applies in practice:

If you are a small business and you have to wind your way through it yourself, it is quite difficult. If you have a look at some very large organisations, they will run training courses for a week on the management of occupational health and safety. You cannot do that in a small business, so we have to help them do it. When the legislation is drafted, I do not think the total ramifications are really thought through, to use the term used earlier, at the micro business level.⁴⁸

6.44 A number of suggestions for assisting small business to identify and meet their compliance obligations were made in addition to the proposal for a virtual department:

- training courses or seminars for small business, perhaps tailored to specific industries, to assist small businesses to determine if they are compliant;⁴⁹ the RCSA suggested that government should consider funding industry associations to provide seminars on new or changed requirements;⁵⁰
- advisers who can visit a business on request to assess their level of compliance and any need for change, as occurred with financial record keeping in the initial stages of the GST implementation;⁵¹
- a clearing house of information in an easy to understand format;⁵²
- a single point of contact in government for small business with compliance enquiries, using a case manager approach, along the lines of the approach being introduced by the Environment Protection Agency (EPA) in Queensland;⁵³

45 Submission No. 37, op. cit., p. 25

46 Submission No. 18, op. cit., p. 15

47 Mr Peter Wise, General Manager, Tasmanian Independent Wholesalers, *Hansard*, Launceston, 26 July 2002, pp. 401-402

48 Mr Peter Cowley, *Hansard*, Melbourne, Roundtable, 25 July 2002, p. 371

49 Ms Mary Storch, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 685

50 Mr Charles Cameron, Recruitment and Consulting Services Association, *Hansard*, Melbourne, 25 July 2002, p. 320

51 Mrs Beverley Farmer, *Hansard*, Albany, Roundtable, 18 July 2002, p. 135

52 Mr Danny Keep, op. cit., p. 448

- ensuring that all the relevant information is available with every potential point of contact. For example, when small businesses register for PAYG prior to engaging employees, information could be provided on superannuation and WorkCover obligations if required; similarly when registering for WorkCover, they should receive information on tax obligations;⁵⁴
- a repository of forms, tax tables and other information related to employment on the internet;⁵⁵ and
- a Business Referral Service, as operating in Queensland, to provide business with access to experts and detailed information on government regulations.⁵⁶

Comment

6.45 While some progress has been made in providing information to business on regulatory requirements at the Commonwealth and state and territory levels, it has been uneven and there remains a long way to go. Small businesses and their representatives made it clear to the committee that they need more advice and assistance than most levels of government currently provide, particularly in identifying the implications of regulatory change for their business. Governments at all levels need to consider a range of initiatives to provide the assistance required. These include business referral services—comprising both a single point of telephone/e-mail contact in government and a ‘case manager’ approach to ensure that any question is satisfactorily addressed. Circulation of the first draft of a Regulation Impact Statement can be one way of improving and enhancing consultation on proposed regulation.

Recommendation Twenty-one

The committee recommends that the Commonwealth and state and territory governments introduce a range of initiatives to assist small business to identify, understand and implement new and existing regulatory requirements. Information programs for small business should involve all components of the small business network.

Quality and flexibility of regulation and its administration

6.46 The quality of regulation and its administration is important. Good quality regulation can be easily understood and implemented, achieves its objectives as simply and efficiently as possible with predictable and manageable changes. Business needs flexibility, fairness and time to adapt to regulation especially for major

53 Ms Helen Jentz, *Hansard*, Brisbane, Roundtable, 13 September 2002, p. 844

54 Ms Judith Hartcher, Business Policy Adviser, CPA Australia, *Hansard*, Melbourne, 24 July 2002, p. 202

55 Mr Paul Wilson, *op. cit.*, p. 707

56 Productivity Commission, responses to Questions on Notice, 15 November 2002, p. 10

changes.⁵⁷ Legislative phase-in periods can be an important element of good quality regulation:

Small businesses require adequate notice whenever major regulatory changes are made by decision makers. They must be provided with adequate time to acquaint themselves with impending changes and implement processes to conform with new regulatory requirements. The lack of in-house expertise already discussed means that small business operators also require assistance in making a transition to any new regulatory framework. The negative impact of major regulatory changes can also be reduced through proper phase-in periods.⁵⁸

6.47 A study on the effect of tax compliance on small business identified the short time frame for implementation as contributing to the burden associated with the New Tax System:

...too many reforms were pushed through in too short a time frame. Australian businesses needed more time to adjust to changes than a three-year timetable would allow.⁵⁹

6.48 Flexibility and a facilitative, educational approach, in place of an enforcement or ‘policeman’ mentality, is also important.⁶⁰ It is not regulation as such that most business objects to, but inflexible or unrealistic administrative requirements and heavy-handed enforcement. The complexity and technicality of some of the occupational health and safety (OHS) requirements and the large penalties for breaches are concerns for some small businesses.⁶¹ Approaches that encourage and reward good practice, such as reducing workcover premiums for businesses with appropriate OHS risk management plans, as occurs in New South Wales,⁶² and free initial assessments by OHS specialists were commended. Longer timeframes for making payments or providing information can also be important. One small business operator told the committee that:

I do not think that the government is going to change things so that you do not have to follow XYZ regulations, but what might help us is if we had more time, as small business operators, to comply. I will give you an example. For the period ending 30 June, superannuation has to be paid on 28 July. That is only four weeks. Would it really hurt anyone if you gave us another four weeks or another 10 weeks to do that? I cannot see that extending the period of compliance for payment of superannuation is really going to upset anybody’s superannuation funds or limit the amount of money that it makes...the emphasis should not be on ‘we do not want to comply’—because I think we all agree that it is not going to happen—but

57 Mr George Etrelezis, *op. cit.*, p. 13

58 Submission No. 47, *op. cit.*, pp. 12–13

59 Submission No. 68, Dr Binh Tran-Nam and Dr John Glover, p. 19

60 Submission No. 66, p. 3; Submission No. 82, p. 8

61 Submission No. 82, *op. cit.*, p. 8

62 Ms Helen Jentz, *op. cit.*, p. 851

rather on making it easier for us to comply and giving us more time to comply.⁶³

6.49 Overly complex or prescriptive record keeping, reporting and administrative requirements add to the burden. The taxation and superannuation reporting requirements are said to continue to impose an ‘undue impost’ on small business. To avoid this outcome in future, it was suggested that small business be given an opportunity, perhaps on a fee for service basis, to trial proposed arrangements before implementation.⁶⁴ The committee agrees with this proposal and with the suggestion that the detailed administrative arrangements associated with any change to superannuation legislation involving choice of fund should be first trialed with small business.

Licensing and business start-up requirements

6.50 The number of licences required to start a business can be an impediment to business formation. Most licences are imposed at either the state or local government level although there are also Commonwealth requirements. The committee heard that up to 26 licences and approvals may be required to operate a petrol station and general store in Tasmania and, depending on the products or services offered by the business, and up to 11 extra may be needed.⁶⁵ Several years ago there had been 48 separate licences required to open a tourist resort on a Queensland island.⁶⁶ Many licences involve a cost or charge to the applicant.

6.51 A key government commitment in *More Time for Business* was for Commonwealth and state and territory governments to agree to pursue common licence approaches and streamline licensing requirements. The Business Licence Information Services (BLIS) in each state and territory allow business to identify all the licences required, be they Commonwealth, state or local government, depending on their proposed business activities. In Queensland, the SmartLicence system is particularly helpful, taking applicants through a series of questions about their proposed business and, based on their responses, linking them to appropriate licence application and information forms.⁶⁷ Few, if any of the licensing services allow business people to complete and lodge all licence requests on line. The committee believes that such one-stop service should be the ultimate goal of business licensing services and that the three tiers of government should consider how this could best be achieved. If necessary, additional Commonwealth funding should be provided for this purpose.

63 Ms Emma Larkins, *Hansard*, Sydney, Roundtable, 15 August 2002, p. 703

64 Mr Craig Sloan, Vice Chairman, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, p. 473

65 Submission No. 9, Tasmanian Independent Wholesalers, p. 12

66 Mr David White, *Hansard*, Roundtable, Brisbane, 13 September 2002, p. 855

67 Mr George Etrelezis, op. cit, p. 26

6.52 There also appears to be scope to reduce the number of licences required. The committee was told that a new licence has been proposed for the motor trades industry in Western Australia, even though an existing licence could be modified to accommodate the requirement.⁶⁸ Best practice would suggest that whenever a new licensing requirement is identified, consideration should be given to amending an existing licence to incorporate the new requirements. The BLIS registers of existing licences are a useful starting point for any such exercise.

6.53 Some states and territories have moved towards integrated or multipurpose licences. A review of licensing requirements in Queensland resulted in the elimination of at least 50 licences.⁶⁹ Other useful developments include providing rewards or concessions for businesses that demonstrate good compliance with requirements over time, for example by reducing the requirements for reporting and extending licence periods from one year to three years.⁷⁰ The committee considers that all levels of government should review their licensing, including licence renewal arrangements, to identify areas where requirements can be eased, streamlined or simplified, without compromising the underlying objective.

Taxation

6.54 The compliance requirements associated with taxation and the New Tax System, including the Goods and Services Tax (GST) in particular, are a major concern for many small business people. At one end of the spectrum, the committee heard that some businesses have chosen to move to the ‘black’ or cash economy ‘simply to cut down on time and paperwork’.⁷¹

The GST has brought about an administrative system which means that people who are on the cusp move out of legitimate businesses. The typical example of that would be a repairer who might run a small repair shop who decides that he is sick of sitting up all day Saturday or at night-times filling out GST forms to complete his BAS.... The record-keeping requirements for car dealerships—for used car dealerships particularly, and these are the ones which are likely to drift into the black economy—are fierce. New Zealanders were smart enough to have one type of input tax. We have notional and real input tax credits, and we have to keep a double accounting system on them. We have to track them to each vehicle. People are caught up in a massive amount of record keeping and there is a temptation for them to simply disappear into the black economy.⁷²

6.55 The Western Australia Small Business Development Corporation (SBDC) identified taxation and GST reporting as ‘by far the most onerous regulatory burdens

68 Mr Peter Fitzpatrick, Executive Director, Motor Trades Association of Western Australia, *Hansard*, Perth, 17 July 2002, p. 9

69 Mr David White, *op. cit.*, p. 855

70 *ibid.*

71 Mr Craig Sloan, *op. cit.*, p. 470

72 Mr Peter Fitzpatrick, *op. cit.*, p. 5

that have been placed on the small business sector'. Feedback from the SBDC's Ready Response Network indicated that that 54 per cent of respondents believed improvements could be made to GST reporting options. The Corporation concluded that:

This data suggests that GST reporting is the most notable regulatory impediment to the small business sector. The further streamlining of GST reporting will reduce administration costs and permit small businesses to spend more time on core business activities leading to improved opportunities for small business growth and employment.⁷³

6.56 The problems experienced with the administrative arrangements and initial reporting requirements for the New Tax System and communication with the Australian Taxation Office (ATO) suggest the need for a more client-focused approach to small business. The committee notes the ATO advice of its current consultative arrangements, including the Small Business Consultative group and the Small Business Advisory Group, and proposals for industry or issue based consultation to involve small business. However evidence to the committee of problems with the implementation and administration of taxation regulations suggests that these do not go far enough in identifying the special needs and circumstances of small business or assisting it to meet its taxation obligations.

6.57 The committee considers that the ATO needs to take a number of measures to improve the current level of service to small business. More regular meetings with small business operators and grass roots representatives are an important means of identifying any emerging or residual problems with taxation policy or administration, developing a more facilitative, educational role and improving the standard and content of information and advice, whether by means of telephone contact, the ATO website or printed information. All changes to taxation forms, reporting requirements or administrative arrangements affecting small business should first be trialed, as far as possible, with a representative group of small business people from a range of industries.

6.58 The compliance costs associated with the GST remain a major concern of the Gold Coast National Federation of Independent Business (NFIB), which estimates that the costs for small business at \$60 per \$10,000 of turnover, compared with 60c per \$10,000 for larger business.⁷⁴ A similar message came from the Australian Property Institute, which argued, along with the NFIB, for some form of payment or subsidy to businesses for their work in collecting the GST.⁷⁵

6.59 In 1999, the Review of Business Taxation (the Ralph review) considered whether small business should be compensated for its disproportionate compliance burden in undertaking taxation functions on behalf of government. It noted estimates

73 Submission No. 47, op. cit., p. 7

74 Submission No. 14, National Federation of Independent Business (Gold Coast), p. 2

75 Submission No. 53, Australian Property Institute, p. 2

that small business incurs almost 40 per cent of the estimated \$9 billion taxation-related compliance costs incurred by Australian business⁷⁶ and judged that there is a need to recognise and respond to this disproportionate burden. However, the review concluded that compensation arrangements would not be workable:

...the diversity of functions performed and the diversity of small business itself made it difficult to design an effective response that could be delivered efficiently through the tax system. The Review is firmly of the view that some recognition of this [disproportionate compliance burden] is justified and this was a supporting argument in favour of reducing small business costs directly associated with the business tax system.⁷⁷

6.60 The Simplified Taxation System (STS) was proposed as the means of reducing the costs.⁷⁸ The STS was introduced from 1 July 2001; eligible businesses could elect to use the system in their 2001/2002 tax returns.⁷⁹

6.61 A team of academics studying the effect of the changes to the new taxation system on small business questioned whether the STS will achieve its stated objective. Their initial impressions are that the \$1 million turnover criteria may be too low and that many small businesses may not be aware of or eligible for adoption of the Simplified Tax System:

A few tentative views can be expressed. Options of cash accounting, simplified depreciation and trading stock offer few advantages to many small businesses. The STS is unsuitable for businesses with high creditors and low debtors. The STS offers little to businesses with low levels of depreciable plant and equipment, or which already account on a cash basis. A low STS threshold unaccountably excludes many otherwise eligible enterprises with high turnover levels.⁸⁰

6.62 The ATO responded that the STS provides an alternative method of determining taxable income for eligible small businesses and is aimed not at all small businesses but primarily at small, closely held family businesses with few or no employees and relatively simple financial arrangements. The STS will reduce the level of tax paid and the compliance costs of participating small businesses.⁸¹ The ATO estimates that over 95 per cent of businesses in Australia should satisfy the STS criteria.

76 *Report of the Review of Business Taxation*, July 1999, para. 114

77 *ibid.*, paras 336–42

78 *ibid.*

79 ATO website: <http://www.ato.gov.au/content.asp?doc=/content/Corporate/mr200230.htm>

80 Submission No. 68, *op. cit.*, p. 20

81 Australian Taxation Office, response to Question on Notice, 6 August 2002

6.63 On take-up rates, the ATO stated that since the STS first applied for the financial year ending 30 June 2002, it was not yet possible to determine a take up rate, although interest in the system is steadily increasing.⁸²

Comment

6.64 Evidence during the inquiry indicates that the introduction of the New Tax System has further added to the disproportionate compliance burden that small businesses face in undertaking taxation collection functions on behalf of the government. The committee notes the Ralph review finding that designing appropriate arrangements to compensate small business for the compliance burden is problematic and its proposal for the STS to reduce some of the compliance burden. Concerns have been raised about whether the STS will benefit the majority of small business in the way that the Ralph review envisaged although it is too early to form a judgement on this matter. However, the committee believes that there is an onus on government to closely monitor and review the take-up of the STS over the next year and report to Parliament at the end of 2003. The government should also commission appropriate research on the extent to which the STS reduces the compliance burden of participating small businesses. In the event that the take-up of the STS is limited or any evidence that it is not reducing the compliance burden for participants, government should examine alternative measures to reduce the compliance burden of the taxation system on small business.

Recommendation Twenty-two

The committee recommends that:

- **the Commonwealth Government reports to Parliament at the end of 2003 on the takeup of the Simplified Taxation System (STS) across the small business sector and on the extent to which the STS has reduced the compliance burden of participating businesses; and**
- **in the event that there is not both a significant takeup of the STS and evidence that the STS is producing the benefits expected in terms of reduced compliance burden, the Government should examine other measures to reduce the compliance burden of the taxation system on small business.**

6.65 Evidence from small business people and their representatives indicated that, while the changes that have been made to the arrangements for the NTS, including the BAS, have been an improvement on the original reporting requirements, further simplification is needed.⁸³ In response to a question on whether further changes to the BAS were under consideration, the ATO stated:

82 *ibid.*

83 Submission No. 47, *op. cit.*, p. 7; Submission No. 19, Restaurant and Catering Association, p. 21; Submission No. 26, Retail Traders Association of Tasmania, p. 3

Business and instalment activity statements were introduced in July 2000. They were subsequently redesigned by the ATO in February 2001 to accommodate the simplification changes to goods and services tax (GST) and pay as you go (PAYG) income tax instalments (which included the introduction of GST reporting options 2 and 3). Design of the forms was done in consultation with taxpayers, tax practitioners, industry groups and Treasury...In recent consultation with the community, feedback from taxpayers indicates that the activity statement forms should not be changed. Taxpayers and tax practitioners are familiar with the current designs. At this point in time the ATO is not looking at changing the current design of the activity statements. Should new forms be created to accommodate legislation requirements, the structure of these forms will be consistent with the existing design.⁸⁴

6.66 One limitation of the changes is that they do not cater for the circumstances of all small businesses. The submission from the Council of Small Business Organisations of Australia (COSBOA) noted that independent grocery stores are unable to use the simplified accounting methods or BAS reporting option either because their turnover is in excess of \$2 million or because they operate bar code scanning systems.⁸⁵

6.67 The National Association of Retail Grocers of Australia (NARGA) also criticised the restrictive requirements of the simplified GST accounting methods introduced to assist smaller food retailers. NARGA noted that most independent grocers are not able to satisfy the requirements for adoption of the method. The committee is concerned about the apparent delay by the Australian Taxation Office in addressing these concerns. It urges the Commonwealth Government to hold discussions with representatives of small food retailers as soon as possible with a view to implementing changes that better reflect their circumstances.

6.68 The need for further education and assistance remains. Several submissions and witnesses, particularly from regional areas, reported that there are still many small businesses that have not yet come to terms with the new tax system including the GST and need further advice and assistance.⁸⁶ This is a problem in remote areas where there is no ready access to the skills of bookkeepers and accountants.⁸⁷ The committee considers that there is an onus on the Commonwealth government to address this by providing more hands-on assistance with GST related matters, including bookkeeping and accountancy advice, in these areas in the short term. A training strategy to develop

84 Australian Taxation Office, Response to Question on Notice, BAS

85 Submission No. 56, Council of Small Business Associations (COSBOA), Attachment, p. 1

86 Business and Professional Women Australia, response to Question on Notice, 26 January 2002; Submission No. 6, Gulf Savannah, pp. 6–7

87 Submission No. 6, *ibid.*, pp. 6–7

bookkeeping skills of small business people or service providers in relevant regions will be necessary to meet the longer term need.⁸⁸

Recommendation Twenty-three

The committee recommends a follow-up education and assistance program for the New Tax System to ensure that all small businesses, particularly in regional areas, are aware of the requirements and have access to appropriate assistance. The program should be developed in conjunction and consultation with the various accountancy organisations, Area Consultative Committees and Business Enterprise Centres from regional areas and other members of the small business network.

6.69 Concerns about aspects of the Personal Services Income (PSI) legislation were raised by several organisations including the Institute of Engineers, Australia (IEA) and the Association of Professional Engineers, Scientists and Managers, Australia (APESMA), the Managers and Professionals Association and the Professional Officers Association of Victoria. According to the IEA, 9,000 of its 65,000 members are contractors who are affected by the legislation which limits work-related taxation deductions for income generated by personal services, even where the income is earned through a company or partnership, unless one of four tests are satisfied. The IEA argues that the tests do not take account of the unique circumstances of engineering contractors, reducing their profitability and, in some cases, threatening the viability of their business. While contractors can individually seek determinations from the Australian Taxation Office (ATO) to clarify their situation, IEA argues that this is costly and time-consuming. A better solution, in their view, is for the ATO to provide a ruling clarifying the application of the legislation to the circumstances of engineering contractors.⁸⁹

6.70 APESMA similarly argued that the legislation has imposed additional costs on a significant number of genuine independent contractors and consultants and needs revision or clarification to ensure that it reflects the circumstances of genuine contractors.⁹⁰

6.71 The committee urges the Commonwealth Government to respond to the concerns of many professional and other contractors by clarifying the operation of the PSI legislation as it applies to genuine contractors.

Employment

6.72 As noted, the compliance burden associated with employment regulations is second only to that associated with taxation. One of the main problems is the complexity of the system and the lack of accessible information materials in plain

88 *ibid.*, pp. 6–7

89 Submission No. 16, Institute of Engineers, pp. 1–3

90 Submission No. 2, APESMA, pp. 5–6; 10

English. Awards, which cover many small businesses, are a particular problem. The recent award simplification process does not appear to have addressed this concern. The Australian Catholic Commission on Employment Relations (ACCER) submitted that:

... the presentation of industrial legislation, regulation and awards, and importantly the rights and responsibilities of employers and employees, be set out in an easily understood format and written in plain English. The current revision of awards for the purposes of simplification has predominantly concentrated upon the removal of non-allowable matters. There is a real need to rewrite awards, as well as legislation and regulation, in a manner that is free of jargon, legalese and ambiguity.⁹¹

6.73 The Capital Region Enterprise and Employment Development Association (CREEDA) which also identified this as a problem, proposed a solution involving more interactive assistance on employment related issues, and awards in particular, through the Business Entry Point (BEP). Under the proposal, which they stated could be implemented through proven, albeit leading edge, software, a business wishing to employ someone in a particular occupation would access the relevant section of the BEP and, in response to a series of prompts, enter relevant information about the proposed employment. The system would advise the appropriate pay and condition entitlements and produce a draft letter of offer. This proposal overcomes the need to find and interpret the relevant award, or indeed, for the awards to be rewritten in plain English (although that would presumably assist). The software used to develop an intelligent system of this kind is apparently currently in use by Centrelink and the Department of Veterans' Affairs to calculate payment of entitlements. CREEDA's advice is that, while the software is expensive, 'there is great potential to provide a very real service to small businesses that will provide no end of help in the industrial relations area'.⁹²

6.74 There may be potential to develop a more general software tool to assist small business to identify and interpret their broader employment obligations. The CPA Australia proposal for a software tool to allow a simple comparison of the relative costs of employment for casual, permanent part-time and contractors, aims to address another aspect of the problem, and was discussed in Chapter 3. There are other aspects of employment obligations that are also a concern, including the need to identify the whole range of employment obligations including workcover payments and occupational health and safety obligations.

6.75 A particular source of confusion is the 'plethora of legislation, both state and Commonwealth, using different and conflicting definitions of employees and contractors for particular purposes, while the common law tests are subjective, uncertain and for practical purposes unreliable.'⁹³ The ACCER submitted that some

91 Submission No. 31, Australian Catholic Commission on Employment Relations, p. 15

92 Mr Julian Webb, Chief Executive Officer, CREEDA, *Hansard*, Canberra, 8 October 2002, pp. 937–38

93 Submission No. 46, Housing Institute of Australia, p. 8

employers do not realise that the definition of employee for superannuation purposes includes an independent contractor where the contract is wholly or principally for labour.⁹⁴ The Bell report had recommended introduction of a common definition of employee to address this problem. The Office of Small Business advised that, while the government is sympathetic to this, achieving a common definition is an extremely complex task that is likely to require more resources than the benefit would justify.⁹⁵ Instead, it is ensuring that new regulatory proposals draw on existing definitions so that greater consistency is achieved over time.

6.76 A related concern is the different monetary thresholds that govern different employee entitlements or related obligations: the Albury Wodonga Area Consultative Committee noted that the threshold for a requirement for PAYG is wages in excess of \$115 a week; for superannuation it is wages in excess of \$450 a month; and for Workcover (in Victoria) it is wages in excess of \$7,500 per year.⁹⁶

6.77 One consequence of this complexity is that, ‘faced with regulatory requirements that appear vast, complicated, expensive to comply with and, most importantly, often uncertain and ambiguous, [small business] can be reluctant to commit to engaging more employees’.⁹⁷ CPA Australia made a similar point but also suggested ways of addressing the problem:

The employment system is becoming more complex, legalistic and difficult to navigate without access to specialised skills and knowledge. While tax compliance still tops the list of small business concerns, the paperwork associated with employment is increasing. Small business owners—and, to some extent, their advisers—have difficulty distinguishing between employment categories such as casual, part-time and contractor, which puts them at risk of claims against them. Access to information is essential, and the opportunity exists to ensure compliance information is coupled with management information that can add value to a firm. Our submission highlighted some options to improve small business difficulties with employment. These include multichannel delivery of compliance information, bringing together government resources in a ‘virtual

department’, better use of advisers as an avenue to small business, the development of cost benefit analysis tools, and education and training strategies.⁹⁸

6.78 Other suggestions on ways of making compliance with employment regulations simpler and more manageable for small business include:

94 Submission No. 31, op. cit., pp. 19–20

95 Office of Small Business, response to Question on Notice: Progress with implementation of the Bell Task Force report recommendations accepted by the government, Attachment A, p. 5

96 Submission No. 44, Albury Wodonga Area Consultative Committee, pp. 3–4

97 Submission No. 49 Australian Industry Group, AESA, p. 5

98 Ms Judith Hartcher, op. cit., p. 201; Submission No. 18, op. cit., p. 12

- as a longer term strategy, bringing all employment on-costs together into a single monthly payment to one entity which distributes allocations to appropriate agencies—both state and federal;⁹⁹
- a software based tool, along the lines of software for comparing bank loans, that allows small business to make an easy comparison of the different forms of employment, in terms of direct wage costs, oncosts (such as casual loading and superannuation), and compliance obligations;¹⁰⁰
- training programs for employers such as those recently introduced by the ACT government, to help make small business ‘employment ready’; and
- employment management schemes similar to the group apprenticeship schemes under which a community-based organisation functions much like a labour hire firm, taking responsibility for the compliance obligations associated with employment, with the business paying a premium of the employees’ time.¹⁰¹

6.79 A number of specific employment-related concerns were also raised. Some employers are concerned that employees do not recognise and value the employer contribution to their superannuation. The costs and obligations associated with occupational health and safety requirements are a problem for some small businesses, particularly in those states with a requirement to pay for the costs of inspections. Businesses in regional areas of Western Australia advised the committee that they pay a higher inspection charge than businesses in metropolitan areas to cover the time spent on inspectors’ travel.¹⁰² The committee notes that the government has announced that it will ask the Productivity Commission to inquire into the various work-related health and safety arrangements in each state and will develop terms of reference for the inquiry in conjunction with the states.¹⁰³ The committee considers that small business should be consulted in developing the terms of reference for that inquiry.

Comment

6.80 Compliance with employment-related regulations is clearly a major issue for small business and the costs, complexity and uncertainty can make small business reluctant to employ. Commonwealth and state and territory governments need to explore ways to make compliance simpler and easier for small business. The committee does not consider that deregulation or an exemption or ‘tiered requirement’ for small business is an appropriate way of addressing the problem, because it would require compromise of important public interest objectives and also lead to the development of small business as a second class employer, exacerbating its difficulties in recruiting suitable, skilled staff.

99 Submission No. 18, op. cit., p. 16

100 Ms Judith Hartcher, op. cit., p. 214

101 Submission No. 18, op. cit., p. 16

102 Submission No. 23, op. cit., p. 2

103 Office of Small Business, Response to Question on Notice, Attachment A, pp. 5–6

6.81 A better approach is to consider some of the useful and practical suggestions submitted during the course of the inquiry. The committee is particularly attracted to proposals to develop intelligent software tools that can identify the totality of employment-related obligations and payments that apply to a specific type of employment relationship. At the state or territory level, training programs, workshops and manuals to assist small business to understand their employment obligations, would assist many small and micro-businesses.

Recommendation Twenty-four

The committee recommends that the Commonwealth and state and territory governments develop a range of strategies, including software tools, information materials and training programs to assist small business to identify and understand their employment-related obligations.

Unfair dismissal

6.82 Consistent with survey rankings of small business concerns, unfair dismissal did not arise as a major issue during the inquiry: other issues such as the need for improved business management, problems with recruiting suitable employees, the compliance burden associated with the New Tax System and the total framework of employment obligations were far more prominent. Where unfair dismissal laws were raised as a concern, the main issues were a lack of understanding in how to dismiss staff consistent with the law, the costs and complexity of the current processes for determining claims and the uncertainty of outcomes. Family Business Australia commented that the ‘general feeling is that...the Unfair Dismissal legislation and process is cumbersome, time consuming and often difficult and tricky to work through’.¹⁰⁴ The Canberra Business Council commented that:

Small business has been somewhat spooked by the spectre of unfair dismissal and some of the resulting outcomes as these matters are treated by the legal system. More certainty is needed in this area.¹⁰⁵

6.83 Changes to the processes and requirements for unfair dismissal can make a difference: following the introduction of the *Workplace Relations Act 1996*, unfair dismissal cases in the Commonwealth jurisdiction fell from 14,499 for the twelve months ending 1996 to 8,631 for the twelve months ending September 1997; following changes to procedures and requirements in August 2001, the number of cases fell from 8,287 for the 12 months prior to September 2001 to 7,298 for the 12 months prior to September 2002.¹⁰⁶ The annual number of cases is now half of what it was six years ago.

104 Submission No. 62, Family Business Australia, p. 1

105 Submission No. 36, Canberra Business Council, p. 3

106 Data from the Department of Employment and Workplace Relations provided to Senator Andrew Murray

6.84 There were several suggestions for improving on the current arrangements, including a small claims procedure for determining cases where the employee seeks compensation rather than re-instatement and where the amount of compensation sought is within prescribed limits.¹⁰⁷ A similar suggestion was for a process to allow quick and simple *prima facie* assessment of the merits of a claim, before conciliation:

The conciliation is all about how much I will pay and how much he or she will accept. Why is that the first port of call? I do not understand. That should be the last port of call. The first port of call should be the arbitration where some third-party organisation—court, government or whatever—says, ‘Yes, you were unfairly dismissed; your employer did not abide by the regulations,’ or, ‘No, you were not unfairly dismissed.’ Then, if the unfair dismissal is kept standing, you work out how much it is worth. I do not understand why the money comes first. I think either 93 or 97 per cent of cases are settled before arbitration. That is phenomenal.¹⁰⁸

6.85 Evidence clearly indicates that there is a need for better training and information for small business on unfair dismissal requirements and procedures. The recent government-commissioned report on the effect of unfair dismissal laws on small and medium enterprises found that more than 60 per cent of all small businesses are not aware of the recent changes to the Commonwealth legislation governing unfair dismissals and that more than 30 per cent of businesses do not know whether they are covered by Commonwealth or state/territory laws on unfair dismissal.¹⁰⁹ The CPA Australia survey found that 42 per cent of small businesses do not know how to dismiss staff in line with the legislation, 62 per cent believe that the process is complicated and 30 per cent believe they will always lose an unfair dismissal claim.¹¹⁰ The Greater Southern Area Consultative Committee also identified the need for more training on this issue.¹¹¹ In a roundtable discussion a small business adviser told the committee that:

I think one of the issues for small businesses is that they treat business like family and staff like family members and then they do not know how to let family members go. So their expectations are probably more family based... I often find that people keep staff on who are unsuitable because they do not actually know how to get rid of them. So many people let a three-month trial period go by because they do not know how to deal with it.¹¹²

6.86 The Albury Wodonga ACC argued the need for simplified information to employers and for training seminars to be free of charge and at more suitable times:

107 Submission No. 31, op. cit., p. 18

108 Ms Emma Larkins, *Hansard*, Sydney Roundtable, 15 August 2002, p. 694

109 Harding, D., *The Effect of Unfair Dismissal Laws on Small and Medium Businesses*, Melbourne Institute of Applied Economic and Social Research, 29 October 2002, p. iv

110 Submission No. 18, op. cit., p. 3

111 Submission No. 23, op. cit., p. 5

112 Ms Linda Hailey, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 636

It is inappropriate to conduct seminars during daytime hours with a \$70 price tag and expect to attract small business operators. The Albury seminar had approximately 20 participants out of 5000 to 6000 small businesses in the region.¹¹³

6.87 The committee notes that, at the time of this report, the information on the Commonwealth laws on the Business Entry Point comprised a copy of a leaflet on recent changes to the Commonwealth law, with a link to the DEWR website for more information. A detailed search of that website provides an entry that allows enquirers to order a copy of the Booklet, *Hiring and Firing, Are You Complying?* for \$26. On training, the Department of Employment and Workplace Relations advised that their regional offices regularly conduct both free and fee-for-service seminars about the operation of Commonwealth unfair dismissal provisions and that a hotline has been established to provide information about the changes introduced in August 2001.¹¹⁴ The committee considers that all information seminars and information materials on unfair dismissal requirements for small business should be free of charge and, in the case of training programs, held at times and places convenient for small business.

Comment

6.88 Small business concerns about unfair dismissal indicate the need for greater training and support, including clear information materials, both with regards to hiring staff and the dismissal process. Information materials should be disseminated through the small business network, including industry associations, accountants, BECs and ACCs, together with information to help employers determine whether they are likely to be covered by Commonwealth or state legislation. Internet-based information also needs to be more helpful than the current Commonwealth material.

6.89 Proposals for providing a simplified and cheaper process for resolving claims also have merit.

Recommendation Twenty-five

The committee recommends that the Commonwealth and state and territory governments develop a range of suitable, free of charge, information materials and training programs on unfair dismissal legislation for small business. Information materials should be disseminated widely, including through the small business network. The committee also recommends that the Commonwealth Government introduces a simplified process for considering unfair dismissal claims.

113 Submission No. 44, Albury Wodonga Area Consultative Committee, p. 4

114 Submission No. 54, Department of Employment and Workplace Relations, p. 10

The Regulation Impact Statement

6.90 The Regulation Impact Statement (RIS) is the main mechanism at Commonwealth level, and in states and territories, to improve the quality of regulation. The Commonwealth government requires that a RIS be prepared for all reviews of existing regulation, proposed new or amended regulation and proposed treaties, which would directly or significantly affect business or restrict competition. Proposing agencies must assess the options for achieving a policy goal, the costs and benefits of each option, and recommend the most effective and efficient option. Agencies are also required to outline the consultation undertaken with business and any other affected parties. The Office of Regulation Review (ORR) in the Productivity Commission is responsible for providing advice to agencies on the RIS process and requirements and for reviewing whether proposed RISs conform to requirements.

6.91 All states and territories apart from the Northern Territory, which is introducing a form of business impact review, have some form of regulation impact assessment. The RIS process is designed to ensure that regulations are only introduced where the benefits outweigh the costs, minimising any ‘unnecessary’ or unavoidable burden of regulation. It is clear from evidence to the inquiry that the RIS process as it stands and is currently implemented is not a complete or adequate tool for minimising the burden of regulation.

6.92 For the RIS system to be effective, there needs to be a genuine embrace and application of the underlying principles: examination of the need for regulation, consideration of options including less prescriptive requirements, consultation with affected parties and cost benefit analyses based on detailed proposals for implementation. This is not happening to the extent required at present, either at the Commonwealth level or in the states. A member of the Queensland Government’s Red Tape Reduction Task Force told the committee that:

The process of RISs, I believe, should be the way the whole thing is done. There should not be a need for an RIS. If you took what is required in an RIS, if you have a problem you go and talk to people who are going to be affected by it at the very start. As I see it at the moment, we seem to be getting a lot of regulation written and the last thing to be done is a regulatory impact statement. This is then seen as a damn burden on everybody. It is not given much thought and a lot of people see it as a waste of time. People look at it as a fait accompli, the regulations will be coming through anyway, and doing that is not adding anything to it. But if the process of the regulatory impact statement was the total process and you went at the very beginning and called the people together who were going to be affected by it and looked at it at that point, then you could be looking at some alternatives to black letter regulation—that is, you could have some codes of conduct, some guidelines, some self-regulatory situations.¹¹⁵

115 Mr David White, *Hansard*, Roundtable, Brisbane, 13 September 2002, p. 842

6.93 While substantial progress has been made in increasing the attention given to the RIS process at the Commonwealth level, there are still too many instances where sponsoring agencies propose legislation without adequately considering the impact on business. Eleven agencies were identified as not reaching an adequate performance against the RIS guidelines in 2002–2001. A far larger number only satisfy the guidelines after further prompting and advice from the ORR.¹¹⁶

6.94 Analysis of compliance costs appears to be far from adequate in many cases. While the current guidelines require agencies to estimate compliance costs, these need not be quantified, although 20 per cent of RISs did provide quantitative estimates in 2000–2001. The Office of Regulation Review advised that it will now place greater emphasis on encouraging agencies to quantify costs, because ‘it is easy to dismiss something that does not have a number on it’.¹¹⁷ The committee strongly endorses that direction and believes that the guidelines should be amended to require that quantitative assessments of compliance costs are provided for all RIS, unless there are compelling reasons why this is impractical. Even in cases where the need for regulation is inherently compelling, estimating compliance costs is an important discipline, requiring close consultation with affected sectors and more careful consideration of the arrangements for implementation of the regulation.

6.95 Post-implementation reviews of RIS were suggested as a means of promoting greater accuracy and accountability in relation to compliance estimates.¹¹⁸ The proponent of this approach argued that the estimates associated with the change to the New Tax system were completely unrealistic:

The regulatory impact statement said it would cost \$7 million; sorry, it was some very minor amount. When they prepared the regulatory impact statement all they did was to say, ‘Okay, it will take 15 minutes to fill in the form.’ They did not take into account that it took three or four hours to get the information and collate it to actually complete the form. No-one went back and reviewed whether the regulatory impact statement was correct. There needs to be some kind of mechanism that can do it and then come with suggestions as to how legislation can be amended to meet the regulatory impact statement. The regulatory impact statement was the intent of parliament, but if the legislation in effect does not meet the intent of parliament then it should really be amended to meet that initial intent.¹¹⁹

Post-implementation reviews would provide some greater discipline on sponsoring agencies to develop accurate estimates.

6.96 The committee sought the views of the Productivity Commission on this proposal. The Commission considers that the principle has merit, but cautioned that

116 Mr Gary Banks, *op. cit.*, p. 1018

117 *ibid.*, pp. 1015–16

118 Submission No. 73, National Institute of Accountants, p. 3

119 Mr Gavan Ord, Technical Policy Manager, National Institute of Accountants, *Hansard*, Launceston, 26 July 2002, p. 439

the costs of a systematic review of all RIS is likely to be very high and by implication, may not be cost-effective. An alternative approach may be to review a sample of regulations, particularly those most likely to impose a significant burden, on a regular basis.

6.97 The committee was also told that there is a view that regulators do not give adequate attention to the effect of proposed legislation *in the context of the current requirements on business* but rather consider each change in isolation. The Small Business Development Corporation of Western Australia commented that:

The introduction of regulatory requirements each has a cumulative effect on the small business sector. While the imposition of a single regulatory requirement may in itself have only a minor impact on a small business, the cumulative effect of many such regulatory requirements can bog down a small business operator with excessive paperwork and result in a negative impact on the business. For this reason decision makers must consider the holistic impact of government regulation on the small business sector. Regulatory compliance cannot be thought of in terms of discrete requirements, but rather an overall requirement.¹²⁰

6.98 While the current Commonwealth RIS guidelines require that agencies consider interaction with other requirements and the need to avoid duplication and inconsistencies, there is no way of knowing how well this is achieved in practice. Much relies on the sponsoring agency correctly identifying possible points of interaction, but this is not aided by the fact that there appears to be no ‘master list’ of all government regulations.¹²¹ In these circumstances, consultation with those affected and with other tiers of government, where relevant, are the main means of identifying areas of duplication or overlap.

6.99 One apparent limitation of the RIS as a tool to reduce regulatory burden is that it is targeted at the policy aspects of proposals, rather than the detailed administration of regulation, which can be a major source of regulatory burden. The committee considers that the Commonwealth should examine whether the RIS can be amended to provide a greater attention to the administrative aspects of regulation or, if this is not appropriate, whether another mechanism is required to ensure that administration is given adequate attention.

Recommendation Twenty-six

The committee recommends that the Commonwealth Government amends the Regulation Impact Statement (RIS) guidelines to require that agencies provide quantitative estimates of compliance costs, based on detailed proposals for implementation and administration. It also recommends that the Commonwealth Government commissions regular reviews of the accuracy of compliance estimates in the RIS for regulations with a major impact on business.

120 Submission No. 47, op. cit., p. 16

121 Productivity Commission, response to Question on Notice, No. 2, 15 November 2002, p. 4

Recommendation Twenty-seven

The committee also recommends that the Commonwealth and all state and territory governments review their current regulation impact assessment arrangements to ensure that they meet best practice standards with regards to minimising the compliance burden on small business.

Local government issues

6.100 Evidence to the committee was generally critical of local government development, administration and enforcement of regulation. This appears to reflect, in part, a reduced acceptance of the importance of the matters subject to regulation and a lower tolerance of the ‘final tier’ of regulation. The following comments are indicative:

Today—if you leave out issues like taxation—most of the issues that affect small business are at a local government level. Small businesses are worried about where the planning is coming from, what their rates are and whether they will get their permits, so local government is a real issue for them.¹²²

Regional Businesses are finding too many barriers, with most relating to red tape and charges imposed by Local Government.¹²³

...local government is often viewed as the last obstacle when it comes to doing business, because it is just another layer of government.¹²⁴

We are finding that the straw that finally breaks the camel’s back is when a council imposes a cost but is not remotely interested in the fact that that is added to a cost that is imposed by a state government instrumentality, and they, in turn, are not interested in what the council does or what the federal government does. We are constantly adding single straws and eventually the camel’s back breaks. I will leave it at that for the moment.¹²⁵

6.101 Submissions and evidence from local government often acknowledged the problems that councils face in improving the quality of administration of regulation. Councils are said to be inadequately resourced for their range of responsibilities, which are increasing in number and complexity. Planning and related matters are a case in point:

Councils probably struggle just as much with the complexity of what land use planning schemes now require and the rolling in of environmental issues, licences and those sorts of issues, particularly as they are primarily

122 Mr Richard Joel, Chief Executive Officer, Brisbane Office of Economic Development, *Hansard*, Brisbane, 12 September 2002, p. 763

123 Submission No. 85, Ipswich Area Consultative Committee, p. 1

124 Mr John Ilhone, Director, Southwest Group of Councils, *Hansard*, Perth 17 July 2002, pp. 46–47

125 Mr Allen Roberts, *Hansard*, Roundtable, Melbourne, 25 July 2002. p. 366

responding to either state legislation or community expectation. In the last 10 years at least, there has been a significant increase in community expectations about environmental performance, amenity, urban design and those sorts of issues, which councils are seeking to implement in a policy sense and then apply...councils would acknowledge that there has been an increase in regulatory control through planning schemes in that regard... They may get elected on rates, roads and rubbish, but they are now faced with making decisions that are far more wide reaching than they ever had to make before. They have to approve things that they did not have to approve. They are approving recycling plants, when town-planners have always only been basically responsible for approving buildings and things like that. They are approving power plants. Approving a whole range of new industry, be it large or small, is very difficult. Sometimes we get regulations that are still 10 years behind where we are trying to take the world and that causes confusion and difficulty.¹²⁶

6.102 There is clearly an enormous variation in councils' resource bases and their capacity to provide a high quality regulatory service. Councils in metropolitan areas were generally seen to be better resourced and able to respond to and focus on the needs of business. Some councils have also been active in introducing services to assist business and others clearly consult closely with their local business community. However there is no formal requirement for the level of consultation that is now recognised as essential to quality regulation. In the words of one witness:

Nowadays local governments can make a local law in about a fortnight and they can impose legislation—in a fairly undemocratic process, in our view; there is no regulatory impact statement process—that sometimes applies \$2,000 or \$3,000 to a site that will be built upon. This is rampant at the moment and it is not uniform. It is that pace and cost of change to industry that I think is driving the big businesses to get bigger and the small businesses to either shut or specialise.¹²⁷

6.103 It was suggested that a requirement for a Regulation Impact Statement process at local council level would go some way to overcoming this problem.¹²⁸

6.104 Small business representatives also made suggestions for changes to local government processes, in requesting:

- a manual to guide business through planning approval and other application processes;¹²⁹
- contact points or persons to guide business through the process;¹³⁰ and

126 Mr Malcolm Griffin, *Hansard*, Roundtable, Brisbane, 13 September 2002, p. 843

127 Mr John Gaffney, *Hansard*, Roundtable, Melbourne, 25 July 2002, p. 386

128 Mr Allen Roberts, *Hansard*, Roundtable, Melbourne, 25 July 2002, p. 366

129 Submission No. 85, Ipswich Area Consultative Committee, p. 2

130 Mr Ian Abernethy, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 462

- one procedural manual to combine the varying record keeping requirements (eg. for environmental purposes, workplace health and safety etc).¹³¹

6.105 Home-based business is an area where local government regulations are considered to be impeding business growth and development. Complaints include lack of consistency from council to council as well as some policies being out of touch with the realities of home-based businesses operation. For example, the committee was told that a council north of Perth precludes a home-based business from operating except between nine and five on Monday to Friday, even if it is simply a consultancy business using internet and e-mail based communication;¹³² some local authorities require home-based businesses to re-register every 12 months, and pay a fee, while others charge no fees at all.¹³³ The result is that many home-based businesses operate ‘underground’, sometimes in contravention of the regulations in the hope that they will not be enforced.¹³⁴

6.106 To address this, and to promote greater consistency, the government of Western Australia has developed a model law for home-based business. But the committee was told that the real challenge is to have the 80 different councils in the state agree on the one set of policies underpinning the law.¹³⁵

Comment

6.107 Local government faces perhaps greater challenges in dealing with regulatory demands than the other tiers of government because, like small business, it lacks economies of scale in terms of financial and managerial resources. Common approaches and information sharing across local councils have the potential for promoting more efficient use of resources as well as increasing consistency. The area where this appears to be the greatest need at present is the regulation of home-based businesses. There would be benefit in developing a consistent or model approach to the regulation of these businesses across Australia.

6.108 Local councils also need to consider approaches to improve consultation with business on the development and administration of regulations, including options such as business service charters as developed in South Australia. Given the limited resources at local government level, the committee is reluctant to recommend a compulsory RIS at this stage. A better approach would be for state governments to introduce model or template legislation for use by local governments in introducing

131 Mr Mark Leyland, *Hansard*, Roundtable, Brisbane, 13 September 2002, p. 846

132 Mr Larry Davies, General Manager, Employment, Department of Training Western Australia, *Hansard*, Perth, 17 July 2002, p. 69

133 Mr John McIlhone, op. cit., pp. 46–47

134 Mr Ian Davis, Member, Canberra Business Council, *Hansard*, Canberra 6 August 2002, p. 475; Mr John McIlhone, op. cit., pp. 46–47

135 Mr John McIlhone, *ibid.*, p. 47

regulations governing business activities within their jurisdictions. This would promote greater consistency within each state or territory and reduce the workload associated with regulation development at local council level.

Recommendation Twenty-eight

The committee recommends that the Commonwealth and the states and territories, in consultation with local government, develop national model legislation for home-based business.

Recommendation Twenty-nine

The committee recommends that all states and territories develop model legislation for use by local governments in developing regulations within their jurisdictions.

Tenancy laws

6.109 Some submissions and evidence, primarily from retailers, raised concerns about tenancy laws. The Australian Retailers Association (ARA) submitted that the regulation of retail tenancy laws is the most important issue for its members. The National Federation of Independent Business (Gold Coast) (NFIB) which has a large proportion of members in the retail industry, also raised tenancy arrangements as a major concern. Both organisations are concerned that the anti-competitive arrangements that apply to lease renewal and rent review periods in major shopping centres, particularly in regional areas. Restrictions on the development of new shopping centres in some locations are said to provide owners of existing shopping centres with a monopoly position, resulting in harsh lease arrangements such as five year leases with no options to review, formula based rental reviews during the period of the lease, and a requirement for retailers to disclose turnover figures as a means of extracting a benefit during lease negotiations.¹³⁶

6.110 Both the ARA and the NFIB recommended uniform national retail tenancy legislation as a solution. The ARA recommends that best practice uniform retail tenancy legislation, which prohibits compulsory disclosure of turnover, be introduced with the agreement of the state and federal governments, through COAG.¹³⁷ In a similar vein, the NFIB strongly urged the committee to pursue the recommendations of the 1997 report of the House of Representatives Standing Committee on Industry, Science and Technology (the Reid report), for a uniform retail tenancy code for consideration by COAG. The Reid report made a number of related recommendations about key elements of the uniform code including the need for options to renew for

136 Submission No. 4, Australian Retailers Association, pp. 20–22

137 *ibid.*, pp. 20–22

sitting tenants.¹³⁸ The Government did not take up that recommendation as it stood, apparently due to the difficulties anticipated with obtaining agreement from a number of jurisdictions. It did however recommend minimum standards for retail tenancy laws, including the prohibition on the mandatory rent increase clauses. These have been introduced in all states and territories apart from the Northern Territory.

Comment

6.111 The committee did not have an opportunity to consider this issue in any detail as it was raised in a minority of submissions and evidence. With that caveat, on the evidence presented to it, the measures introduced to date do not appear to have addressed the concerns of small retailers. While there may be a case for states and territories to retain their own retail tenancy laws to meet local needs and circumstances as some suggest, there appears to be a need for the Small Business Ministers Council to revisit the extent to which current laws protect small retailers from unfair practices by shopping centre owners and the need for further reform.

138 Recommendations, *Finding a Balance—Towards Fair Trading in Australia*, Report of the House of Representatives Standing Committee on Industry, Science and Technology, May 1997.

GOVERNMENT SENATORS' RESERVATIONS

Government party senators are in general agreement with the report's findings and recommendations, although we would have given more prominence to small business concerns about workplace relations issues. While we also agree with the committee's decision that public liability insurance and the need for stronger trade practices powers are complex issues that are best dealt with by the specific inquiries into those issues during 2002, we think it important that this report records the need for governments to give the utmost priority to implementing policies to address small business concerns in those areas.

There are several issues where Government senators would have taken a different approach or produced stronger or different recommendations. In particular, Government senators believe that the report's treatment of the unfair dismissal issue is not sufficiently balanced and does not provide a comprehensive assessment of the evidence on this issue. This issue is dealt with in more detail in a later section of these comments.

Government senators also believe that the report should be looked at in the context of the government's impressive achievements on behalf of small business over the past 6 years. Any limitations of current policy and program arrangements, and suggestions for change, need to be seen in that perspective.

Since coming to office in 1996, the Coalition government has been responsible for significantly increasing the priority and focus given to small business issues and has demonstrated that it listens to and acts on small business concerns. Some of the most important initiatives are:

- the appointment of a Minister for Small Business and establishment of an Office of Small Business, now within the Department of Industry, Tourism and Resources;
- the establishment of the Small Business Deregulation Task Force (the Bell Task Force) in 1996 to investigate and report on ways to reduce the compliance burden on small business. Almost all of the recommendations that the government agreed to adopt have been implemented, apart from those that have been found to be impracticable or that rely on the cooperation of state and territory governments;¹
- the introduction in 1997 of the requirement for a Regulation Impact Statement (RIS) for all regulatory proposals that impact on business, including a requirement that the impact on small business is explicitly considered.² A review

1 Office of Small Business, Response to Question on Notice, Attachment A

2 Productivity Commission, *Regulation and its Review 2001-02*, November 2002, p. xviii

of international practice suggests that Commonwealth RIS requirements have led best practice internationally;³

- the introduction of the Business Entry Point (BEP) to provide a centralised information point on government programs and legislation affecting business. The Commonwealth government has continued to refine and improve the service available through the Business Entry Point. It has also provided state and territory governments with assistance with online licencing information, through the Business Licence Information Services (BLIS);
- the establishment, in February 1998, of the Micro Business Consultative Group to advise the Government on options for development of the micro business sector;⁴
- the establishment in 1998 of the Small Business Minister's Council to promote increased coordination of Commonwealth and state and territory small business policies and programs;
- the establishment in December 1998 of the parliamentary joint inquiry into the retailing sector, with a specific focus on the degree of concentration in the sector;
- the introduction of the Small Business Enterprise Cultures program and the Small Business Assistance officers program (the latter being replaced with the Small Business Answers Program from early 2003) to meet the needs of small business for mentoring, networking support and referral and advisory services;
- the introduction of the Small Business Forum and Small Business Consultative Committee as means of improving consultation between the Commonwealth and small business. In March 2000, the Small Business Minister's Council endorsed guidelines requiring greater consultation with small business as part of the process of development and implementation of regulations;
- a requirement for all Cabinet submissions with proposals impacting on business to be referred to the Office of Small Business for an assessment of the small business impact; and
- reform of the workplace relations framework to provide more scope for businesses and employees to enter into agreements that meet their needs; and the introduction of legislation designed to address small business concerns, including an exemption from the Commonwealth unfair dismissals legislation.

These initiatives address many of the most pressing concerns and needs of small business and provide an effective foundation of support for small business. More

3 ibid, p. xix

4 *Under the Microscope, Micro Businesses in Australia*, Report of the Micro Business Consultative Group, February 1998

importantly, the Government's economic management has delivered a sound and supportive environment for business growth, with the lowest inflation in two decades and the lowest interest rates in three decades. Over 600,000 of the 1.2 million small businesses now in Australia were established since the Coalition government came to office in 1996.⁵ Over thirty-four percent of all small businesses are in regional Australia. The appendix to these comments illustrates the particular importance of small business in some of the less populated and urbanised states such as Tasmania. That said, government party senators agree that there is scope for changes to improve Commonwealth and state and territory support and services for small business and support recommendations in this report to that effect.

On the issue of unfair dismissal, Government senators believe that the submissions and evidence to this inquiry reinforce previous evidence on the adverse effect of unfair dismissal legislation on small business employment, productivity and profitability. As this report clearly identifies, small business is different. Small businesses have fewer management and financial resources than other firms, have less access to specialist advice and information from industry associations and less capacity to manage complex matters peripheral to their main activity: they are 'time poor' and 'money poor'. Small business owners often invest their life savings or mortgage their homes to finance their business and so the consequences of any unfair dismissal claim, including the time, worry and legal costs involved with court action, the costs of any settlement and even the costs of retaining under-performing employees, can be devastating for them and their families.

Many small business groups, representatives and proprietors raised unfair dismissal legislation as a concern during the inquiry. Their evidence indicates that unfair dismissal legislation affects small businesses in a number of ways. Fear of the consequences of recruiting an unsuitable employee discourages many small businesses from employing people outside their own family;⁶ it prompts some to turn to labour hire firms;⁷ it results in many others choosing to employ people as casual rather than permanent staff;⁸ and it deters many others from employing at all.⁹ The managing director of the Micro Business Network told the committee that unfair dismissal laws deter many micro businesses from employing: 'I constantly have people say to me. 'I won't employ because of the unfair dismissal [laws]....' That is

5 Mr Joe Hockey, Minister for Small Business, Question without notice, Economy; Small Business, 20 March 2002, *House Hansard*, p. 1682

6 Mrs Vicki Brown, Great Southern ACC, *Hansard*, Albany, 18 July 2002, p. 88

7 Mr Edward Smith, Great Southern ACC, *Hansard*, Albany, 18 July 2002, p. 94

8 Mr David Wilkes, Retail Traders Association of Tasmania, *Hansard*, Launceston, 26 July 2002, p. 419; Mr Vincent Schofield, NFIB Gold Coast, *Hansard*, Brisbane, 12 September 2002, p. 724 advised that all of his 12 employees have been engaged on a casual basis

9 Ms Emma Larkins, *Hansard*, Sydney Roundtable, 15 August 2002, p.682; Ms Barbara Gabogrecan, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p.234; Mr John Gilmour, *Hansard*, Melbourne Roundtable, 25 July 2002, p. 381

their sole reason for non-employment.’¹⁰ This evidence is consistent with the results of surveys undertaken by the Australian Chamber of Commerce and Industry (ACCI) which indicate that the unfair dismissals legislation is among the top five problems facing small business.¹¹ Small business proprietors also told the committee that they may be reluctant to terminate an under-performing, unsatisfactory or redundant employee for fear of the consequences of an unfair dismissal claim, even though this can result in a loss of business, reduced profit or a high turnover of other staff. As one small business people put it, ‘one person can wreck a lot in a short period of time’.¹²

Unfair dismissal claims also result in significant costs for small business owners. The Restaurant and Catering Association told the committee that its survey of restaurant owners found that 38 per cent had defended an unfair dismissal claim, at an average cost to the employer of 63 hours of their time and \$3675 in legal or settlement costs. These estimates translate into \$18.2 million direct costs and \$15.5 indirect costs (principally the manager's time) for the industry as a whole.¹³

One reason for the high financial and psychological costs associated with unfair dismissal claims is the complexity and ambiguity of the laws, procedures and requirements. One small business owner told of a case where an employee was permitted to bring a claim against the employer even though the statutory 21 days period since dismissal had passed.¹⁴ A participant at a roundtable in Perth told the inquiry that employees can be granted compensation or re-instatement simply because the processes leading to their dismissal had not been properly documented.¹⁵ The Department of Employment and Workplace Relations told the committee that it is not possible to fully address the problem of complexity and uncertainty by providing simple procedural information or advice for small business as there are so many factors that a court or tribunal may take into account in determining whether a dismissal falls within the terms of the legislation.¹⁶ Multiple jurisdictions add another layer of complexity: the committee was told of instances of ‘forum shopping’ where employees could choose between whether to pursue their case in either the state or Commonwealth jurisdictions, depending on which they judged most likely to provide a favourable outcome.¹⁷ It also complicates training and information. The committee was told of the difficulty of educating small business people in Albury-Wodonga,

10 Ms Barbara Gabogrecan, Managing Director, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p. 234

11 Australian Chamber of Commerce and Industry, *The Small Business Agenda for Change*, September 1998, p. 1; Submission No. 37, Australian Chamber of Commerce and Industry, p. 8 quoting 2001 survey.

12 Mr Edward Smith, op. cit., p. 94

13 Mr John Hart, Restaurant and Catering Association, *Hansard*, Sydney, 14 August 2002, p. 587

14 Ms Elizabeth-Anne Gervay, *Hansard*, Sydney, Roundtable, 15 August 2002, p. 682

15 Mr Anthony Thompson, *Hansard*, Perth, Roundtable, 19 July 2002, p. 175

16 Submission 54, Department of Employment and Workplace Relations, Attachment C, p. 9

17 Mr John Hart, op. cit., p. 591

where many could come under the Commonwealth or New South Wales legislation, depending on where the business is located, whether it is incorporated and other factors.¹⁸

The evidence collected during the course of the inquiry is consistent with the findings of the recent study by Dr Don Harding of the University of Melbourne. Dr Harding undertook an analysis of small and medium enterprise responses to a survey on the effect of unfair dismissals legislation on employment decisions. His survey used a screening approach to address and overcome the purported defects of previous surveys on this issue.¹⁹ It found that many of those small or medium employing businesses surveyed had altered their recruitment and selection processes as a result of unfair dismissal laws by resorting to greater use of fixed-term contracts (11.6 per cent); greater use of casual over permanent staff (21.3 per cent); or greater recourse to employment of family and friends (20.7 per cent).²⁰ Businesses surveyed also reported a reluctance to engage the long term unemployed or those who have changed jobs many times in the past; that management of their workforce has become more difficult as a result of the laws; and a reluctance to dismiss unsatisfactory employees, with adverse consequences for other employees.²¹ Eleven per cent of non-employing - but previously employing - businesses reported that unfair dismissals had been a factor in their decision to reduce the number of employees. This translates into more than 70,000 job losses where unfair dismissal laws played a role (of which 60,000 jobs are in small business).²² The report also found that unfair dismissal laws cost small and medium businesses \$1.3 billion each year.²³

Government party senators support the Commonwealth government's proposal to exempt small business from the Commonwealth unfair dismissals legislation as the most effective way of addressing the concerns of the small business community and the adverse effect on employment and productivity in small business. The committee majority advocates more training and information as a means of changing small business perceptions of unfair dismissal laws and presumably enhancing their confidence to employ and to dismiss. While government senators support increased training and improved information provision on unfair dismissal requirements, they do not consider that these will address the main problems with the legislation. Specifically, they do not address the high cost of defending unfair dismissal claims and the uncertainty and complexity of the process. In these circumstances, a better

18 Submission 44, Albury-Wodonga ACC, p. 3

19 D. Harding, *The Effect of Unfair Dismissal Laws on Small and Medium Sized Businesses*, Melbourne Institute, University of Melbourne, 29 October 2002, p. iii

20 *ibid.*, p. iv

21 *ibid.*, pp. iv -v

22 D. Harding, *The Effect of Unfair Dismissal Laws on Small and Medium Sized Businesses*, Melbourne Institute, University of Melbourne, 29 October 2002, p. vii

23 *ibid.*, p. 8

understanding of the requirements of unfair dismissal laws is unlikely to change business perceptions about the pitfalls of defending an unfair dismissal case.

Government senators also note that training and information can only ever be a partial solution to overcoming any lack of small business understanding. As this report indicates, it is difficult, if not impossible, to ensure that information and training programs reach all, or even the majority, of the more than 1.2 million small businesses dispersed throughout Australia. Without an exemption from unfair dismissal laws, many small businesses are likely to continue to decide that employing staff, or dismissing non-performers, is simply not worth the risk. The losers will be those most disadvantaged in the labour market, including the long term unemployed, those seeking entry level employment or less highly skilled jobs and people in regional areas.

Government senators also believe that moving to a single jurisdiction for industrial relations could do much to remove complexity and uncertainty from the employment framework and that this would be of significant benefit to small business.

Government senators would also like to record their views on some other matters raised in the report. As the report highlights, there is an urgent need to reduce the burden of government regulation on small business. Government senators support the recommendations in the report for systematic review of regulations but are concerned that the commitment to review may falter over time. Government senators believe that there is a case for considering other measures that would provide a stronger discipline for ensuring review. For example, governments should consider including sunset clauses in new regulations, wherever appropriate. Government senators also support regular and systematic reviews of legislation with a major impact on small business. They also strongly support the Government requirement that all Cabinet submissions affecting small business include a small business impact statement prepared by the Office of Small Business.

Government party senators note that small business owners raised concerns about the current operation of the superannuation contribution arrangements, including the fact that employees can have small amounts accumulating in a range of different accounts. Nationally there is \$7 billion in superannuation accounts where the owner cannot be located. Government senators therefore strongly support measures that would increase the recognition of the value and cost of employer contributions to superannuation. They also support government proposals for full disclosure and choice of superannuation fund.

The current workers compensation and occupational health and safety arrangements are extremely onerous for small business. Government senators commend the proposal for the Productivity Commission to inquire into the general issues of health and safety regulation and strongly support the report's view that small business be consulted on the terms of reference of the review. Indeed, small business should be closely consulted throughout the review.

Payroll tax is another area where the on-costs of employment are very high and, in the view of many small business owners, a deterrent to increasing employment.

Government senators consider that state governments should review payroll taxes with a view to phasing them out as state and territory government revenue from the GST increases.

As the committee's report notes, small businesses raised a number of concerns specific to particular industries, which it has not been possible to deal with in any detail. These include the effect of the extension of gaming facilities, and poker machines in particular, on the retail and restaurant and café industries and the effect of de-regulated shopping hours on small businesses in the retail sector. Government senators note the importance of these concerns to small business.

Finally, Government senators would like to note that while we support the report's recommendations for changes to small business programs to improve their effectiveness, we believe that, ultimately, the most effective way for governments to support small business, is to provide an economic environment within which business can achieve its full potential. This means an environment characterised not only by low inflation and low interest rates, but also by minimal government taxation or intrusion into the affairs of businesses and individuals. Most small business people are risk takers who are prepared to place their necks on the line and take responsibility for their business and investment decisions. They do not look to governments for assistance, support or handouts. Rather, in the words of one of the small business owners at a roundtable in Western Australia, they are looking for governments to 'get off their backs' and intrude as little as possible:

... if you really want to help us, and I sincerely mean this, leave us alone.
Do not get involved.²⁴

Government senators support a policy framework that minimises government expenditure and taxes and promotes an ethos of individual responsibility. Such an approach provides the best environment within which individuals and small business can flourish.

Senator J Tierney

Senator G Barnett

24 Mr Graeme Harris, *Hansard*, Roundtable, Perth, 19 July 2002, p. 195

SMALL BUSINESS EMPLOYMENT AS A PROPORTION OF PRIVATE SECTOR EMPLOYMENT – STATES AND TERRITORIES (2000-2001)²⁵

New South Wales	47.9
Victoria	43.3
Queensland	50.2
South Australia	46.4
Western Australia	49.4
Tasmania	50.5
Northern Territory	45.2
ACT	53.1
Australia	47.2

25 ABS, *Small Business in Australia 2001*, 1321.0. 2001, Table 4.1, p. 34

Appendix 1

List of Submissions

No.	Submission From
1	Mr Geoffrey Sandell, SA
2	Association of Professional Engineers, Scientists & Managers, Australia; Managers & Professionals Association; Professional Officers Association (VIC) – Joint submission
3	Building & Construction Council NSW Inc
4	Australian Retailers Association
5	Shop Distributive & Allied Employees' Association
6	Gulf Savannah Development, QLD
7	Associate Professor Ann Hodgkinson, (University of Wollongong), NSW
8	Mrs Liz Farmer, WA
9	Tasmanian Independent Wholesalers
10	Confidential
11	Australian Institute of Company Directors
12	Australian Federation of Business and Professional Women in Tasmania Inc
13	Chiropractors Association of Australia (Tasmania) Ltd
14	National Federation of Independent Business (Gold Coast) Inc, QLD
15	Australian Council of Trade Union
16	Institution of Engineers Australia
17	Transport Workers' Union of Australia
18	CPA Australia
19	Restaurant & Catering Australia
20	Confidential
21	Australian Nursing Federation

- 22 Albany Chamber of Commerce & Industry Inc, WA
- 23 Great Southern Area Consultative Committee, WA
- 24 Great Southern Development Commission , WA
- 25 Centre for Regional Innovation and Enterprise, WA
- 26 Retail Traders Association of Tasmania (RTA, Tas)
- 27 Australia's Holiday Coast Area Consultative Committee Inc, NSW
- 28 Local Government Association of Queensland Inc
- 29 Queensland Government Department of Industrial Relations
- 30, 30A Business Facilitation Services (trading as "The Enterprising Tortoise")
- 31 Australian Catholic Commission for Employment Relations
- 32 The Institute of Chartered Accountants in Australia
- 33 Perth Area Consultative Committee (Perth ACC)
- 34 Australian Regional Winemakers' Forum
- 35 Melbourne Development Board
- 36 Canberra Business Council
- 37 Australian Chamber of Commerce and Industry
- 38 Far North Queensland Employment Board Inc & Torres Strait Regional Employment Committee Inc
- 39 Greater Brisbane Area Consultative Committee
- 40 Western Australia Business Enterprise Centre Managers Association
- 41 Recruitment & Consulting Services Association
- 42 Greater Green Triangle Area Consultative Committee, VIC
- 43 Queensland Council of Unions
- 44 Albury Wodonga Area Consultative Committee
- 45 The Gold Coast and Region Area Consultative Committee Inc
- 46, 46A Housing Industry Association Ltd
- 47 Small Business Development Corporation

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- 48 Pacific Access Pty Ltd
- 49 Ai Group (Joint submission with EEASA)
- 50 Government of Western Australia
- 51 Motor Trades Association of Australia
- 52 NT Women's Advisory Council (Joint submission with
BPW Australia (NT Division))
- 53 Australian Property Institute Inc
- 54 Department of Employment and Workplace Relations
- 55 Master Cleaners Guild of WA (Inc)
- 56 Council of Small Business Organisations of Australia Ltd
- 57 Northern Territory Chamber of Commerce and Industry
- 58 Australian Trade Commission
- 59 The Greater Shepparton Business Centre, VIC
- 60 Employers First, NSW
- 61 The Pharmacy Guild of Australia
- 62 Family Business Australia, VIC
- 63 National Farmers' Federation
- 64 Victoria University of Technology
- 65 Micro Business Network
- 66 Office of Economic Development for the City of Brisbane Ltd
- 67 Motor Trade Association of WA
- 68, 68A Drs Glover and Tran-Nam
- 69 Bowen Collinsville Enterprise, QLD
- 70 South West Group of Local Authorities
- 71 Department of Industry, Tourism and Resources
- 72 Business Enterprise Centres Australia Inc
- 73 National Institute of Accountants

- 74 Dusseldorp Skills Forum
- 75 Mackay Whitsunday REDC
- 76 Mr Murray Geddes, ACT
- 77 Mr Brian Gibson, (University of Newcastle), NSW
- 78 Hunter Economic Development Corporation
- 79 Dr Richard Stuckey, QLD
- 80 National NEIS Association Inc
- 81 Mr Kit Peters, NSW
- 82 Queensland Fruit & Vegetable Growers
- 83 National Association of Retail Grocers of Australia
- 84 Australian National Training Authority
- 85 Ipswich and Regional Area Consultative Committee Inc
- 86 Gold Coast City Council
- 87 Aboriginal and Torres Strait Islander Commission
- 88 Business Enterprise Centre SA Inc
- 89 CREEDA
- 90 Local Government Association of South Australia
- 91 National Centre for Vocational Education Research Ltd
- 92 Dr Tim Atterton, WA
- 93 Mr David Byrne, SA
- 94 Department of Education, Science and Training
- 95 Adelaide Hills Regional Development, SA
- 96 Department of Transport and Regional Services

Appendix 2

Hearings and Witnesses

Perth, Wednesday, 17 July 2002

Motor Trade Association of Western Australia Inc

Mr Peter John Fitzpatrick, Executive Director

Ms Noelle Frances Simons, Divisional Manager

WA BEC Managers Association

Mr Andrew James Maurice, Chairman

Small Business Development Corporation

Mr George Etrelezis, Managing Director

Perth Area Consultative Committee

Mrs Marilyn Horgan, Project Officer

Ms Allison Jane Oldfied-Hiosan, Executive Officer

South West Group of Councils

Mr John McIlhone, Director

Master Cleaners Guild of Western Australia (Inc.)

Mr Frank Holguin, Member Portfolio

Mr Ian Davis, Executive Director

WA Department of Employment and Training

Mr Larry Davies, General Manager Employment

Mr Richard Jonathan Strickland, Executive Director Policy and Evaluation

Albany, Thursday, 18 July 2002

Great Southern Area Consultative Committee

Ms Heather Thaxton, Acting Chair

Mr Edward Smith, Committee Member

Mrs Kerry Palmer, Secretary and NEIS and Business Representative

Mrs Vicki Brown, Small Business Assistance Officer

Centre for Regional Innovation and Enterprise

Dr Timothy Mazzarol, Chairman

Mr Robert Griffith, Secretary

Mr Neal Shoobert, Committee Member

Great Southern Development Commission

Mr Maynard Rye, Deputy Chief Executive Officer

Ms Sally Ann Haigh, Senior Development Officer

Dr Graham Townley, Aboriginal Economic Development Officer

Albany Chamber of Commerce and Industry

Mrs Joanne Hummerston, Chief Executive Officer

Mr Neil Ramsay Smithson, Committee Member

Albany, Thursday, 18 July 2002 – Roundtable

Mr Morris Blake

Mrs Vicki Brown, Small Business Assistance Officer, Great Southern Area
Consultative Committee

Mrs Elizabeth Farmer

Mr Paolo Lionetti, Director, Supa Value

Mr John Maxwell, Principal, Maxwell Designs

Mr Mark McCrae, Proprietor, Pure Plantation Furniture and Albany Yacht Charter

Mr Barry North, Salesman, Albany City Realty

Mrs Beverley Ford

Mr Philip Tasker, Secretary, Southern Information Technology Association

Mrs Janine Waterman, Chairman, Albany City Heart

Perth, Friday, 19 July 2002 - roundtable

Ms Kirrily Davies, General Manager, Messages on Hold Australia Pty Ltd

Mr George Etrelezis, Managing Director, Small Business Development Corporation

Ms Loretta Evangelisti, Director-Owner, Oriel Cafe Brasserie

Mr Peter Fitzpatrick, Executive Director, Motor Trade Association of Western
Australia

Mr Tony Fitzpatrick, Director, Regional Training Services; and Director,
Skill Hire Pty Ltd

Mr Graeme Harris, President, Swan Chamber of Commerce

Mr Kevin Jackson, Owner-Managing Director, Jacksons Drawing Supplies Pty Ltd

Mr Steven McLean, Manager, Gingin Meatworks

Mr Gerard Peters, Managing Director, The Honda Shop

Mr Norman Skoglund, Executive Officer, Central Coastal Districts Business
Enterprise Centre

Mr Louis Symes

Mr Anthony Thompson

Mr Anthony Young

Melbourne, Wednesday, 24 July 2002**CPA Australia**

Mr Gary Addison, Senior Taxation Consultant

Mr Ian Brown, Member, Small Business Centre of Excellence

Ms Judith Hartcher, Business Policy Adviser

Family Business Australia Ltd

Ms Julia Inez Cambage, National Executive Director

Australian Council of Trade Unions

Ms Sharan Burrow, President

Ms Linda Rubinstein, Senior Industrial Office

Albury-Wodonga Area Consultative Committee

Ms Debbie Corbett, Small Business Assistance Officer

Newcomers Network

Ms Sue Vitnell, Managing Director

Micro Business Network

Ms Barbara Gabogrecan, Managing Director

Melbourne Development Board

Mr John Gerard Macdonald, Executive Officer

Mrs Jacqueline Kelli O'Toole, Project Manager

Business Enterprise Centres Inc. Australia

Mr Colin James O'Brien, Executive Officer

Mr Ian Black Reid, Business Consultant

Association of Professional Engineers, Scientists and Managers Australia

Mr Bruce Nadenbousch, Director Industrial Relations

Mrs Kim Rickard, Executive Officer

Greater Green Triangle Area Consultative Committee

Mr Timothy Michael Neeson, Small Business Assistance Officer

Mr Patrick Francis McAloon, Executive Officer

Melbourne's West Area Consultative Committee

Mr Michael Iaccarino, Executive Officer

Associate Professor John Patrick Breen, Head, Small Business Research Unit,
Victoria University

Melbourne, Thursday, 25 July 2002**Recruitment and Consulting Services Association Limited**

Mr Charles Cameron, Issues Management Consultant

Ms Kaye Strain, Life Member (Individual), Corporate Member (Company) Consultant

Online Industry Analysis, Pacific Access Pty Ltd

Mr Steven Shepherd, Senior Economist and Manager

Associate Professor John Glover, Monash University

Dr Binh Tran-Nam, Senior Lecturer, Australian Taxation Studies Program,
University of New South Wales

Dusseldorp Skills Forum

Dr John Spierings, Research Strategist

Melbourne, Thursday, 25 July 2002 – roundtable

Mrs Diana Abruzzi, Executive Chairman, International Women's Federation of
Commerce and Industry

Mr Peter Cowley, Executive Officer, Victorian Authorised Newsagents Association
Limited

Mr Richard Evans, Chief Executive Officer, Franchise Council of Australia

Mr John Gaffney, Executive Director Victoria, Housing Industry Association

Mr Alan Giles, Chief Executive Officer, Australian Hotels Association

Mr John Gilmour, Director-Proprietor, Gilmour's Shoes

Mrs Barbara Murdoch, Owner-Operator, IGA Supermarket, Chiltern, Victoria

Mr Allen Roberts, Executive Director, The Retail Confectionery and Mixed Business
Association Inc.

Mr David Russell, Manager, Corporate and Public Affairs, Victorian Automobile
Chamber of Commerce

Mr Douglas Wright, Managing Director, Wrights

Launceston, Friday, 26 July 2002

Tasmanian Independent Wholesalers

Mr Peter Wise, General Manager

BPW Australia

Mrs Mary Dean, Vice-President, Internal Policy

Retail Traders Association of Tasmania

Mr David Wilkes, President

Mr Peter Fehre, Executive Director

National Institute of Accountants

Mr Jonathan Burns, Manager, Tasmania Division

Ms Katrina Drake-Mundy, Immediate Past President

Mr Gavan Ord, Technical Policy Manager

Launceston, Friday, 26 July 2002 – roundtable

Mr Ian Abernethy, Manager, Strategic Development Division, Launceston City
Council

Mr Andrew Billing, Manager, Employment Services, Tasmanian Business and
Employment Centre

Ms Katrina Drake-Mundy, Public Practitioner, Immediate Past President, National
Institute of Accountants

Mr Bernard Duke, Owner/Partner, Tasmania Personalized Tours
Ms Lorraine Green, Executive Officer, Northern Midlands Business Association
Mr Wayne Guy, Chairman, Tasmanian Automobile Chamber of Commerce
Mr Leon Jones, National Group Employment Manager, Northern Group Training Ltd
Mr Danny Keep, Chief Executive Officer, Tasmanian Business and Employment
Centre
Mr Russell Balfour Reid, Chief Executive Officer, Northern Tasmanian Regional
Development Board
Mr Keith James Rice, Chief Executive Officer, Tasmanian Farmers and Graziers
Association
Ms Bronwyn Roney, Industrial Director, TPGA Industrial Association, Business
Development, Tasmanian Business and Employment Centre
Mrs Sheryl Thomas, Executive Officer, Tasmanian Employment Advisory Council
Mr David Wilkes, President, Retail Traders Association of Tasmania
Mr Craig Williams, Company Director, Senior Guide, Pepper Bush Peak's 4WD
Adventure Tours
Mr Richard Zawadzki, Small Business Assistance Officer, Tasmanian Employment
Advisory Committee

Canberra, Tuesday, 6 August 2002

Canberra Business Council

Mr Ian Davis, Deputy Chair, Capital Region Enterprise and Employment
Development Association; Member, Canberra Business Council
Mr Craig Sloan, Vice Chairman
Mr John Miller, Executive Director

Institution of Engineers, Australia

Mr John Boshier, Chief Executive
Mr Edwin Cooke, Contract Engineer
Mr Malcolm Palmer, Research Officer

National Farmers Federation

Miss Denita Harris, Policy Manager and Industrial Relations Advocate
Mrs Su McCluskey, General Manager, Policy

Australian Taxation Office

Mr Neil Mann, Deputy Commissioner—Small Business

Australian Chamber of Commerce and Industry

Mr Peter Anderson, Director, Workplace Policy
Ms Karen Curtis, Director, Industry Policy, Australian Chamber of Commerce and
Industry

Pharmacy Guild of Australia

Mr John Bronger, National President
Mr Stephen Gardner Greenwood, Executive Director
Mr Vasken Demirian, Director, Economic Analysis
Ms Wendy Phillips, Director, Strategic Policy

Council of Small Business Organisations of Australia

Mr Murray Geddes, Member, COSBOA; Honorary Development Officer, Home Based Business Association (Australian Capital Region) Inc
Mr Peter Middleton, Member

Department of Industry, Tourism and Resources

Mr Antony Brugger, Acting General Manager, Office of Small Business

Department of Employment and Workplace Relations

Mr Ken Douglas, Group Manager
Mr Paul Griffin, General Manager, Business Entry Point Branch
Mr John Rowling, Assistant Secretary, Safety and Compensation Policy
Ms Sue Sadauakas, Assistant Secretary, Framework Policy Branch, Workplace Relations Policy and Legal Administration Unit
Mr James Smythe, Chief Counsel

Sydney, Wednesday, 14 August 2002**Mr Brian Gibson****Restaurant and Catering Australia**

Mr Brian Carrad, President
Mr John Hart, Chief Executive Officer

Associate Professor Ann Thelma Hodgkinson**Australian Retailers Association**

Mr Stan Moore, Policy Director
Ms Sonya Vaughan, Policy Officer

Sydney, Wednesday, 14 August 2002 – roundtable

Mr David Bainbridge, Volunteer Business Facilitator, Business Buddies Committee Member and Coordinating Adviser for Young Achievement Group, Business Buddies
Mr David Baumgarten, Centre Director, Eastern Suburbs Business Enterprise Centre; and Chief Executive Officer, Business Buddies
Mr Paul Goodwin, Chief Executive Officer, GROW Employment Council Inc.
Ms Linda Hailey, Director, Hailey Enterprises Pty Ltd
Ms Clare Loewenthal, Publishing Director, Loyalty Australasia
Mr Kit Peters, Representative, Business Buddies

Mr David Small, Director, Symonds and Associates Pty Ltd
Mr Robin Taylor, Representative, Business Buddies

Sydney, Thursday, 15 August 2002

Hunter Economic Development Corporation

Dr Allan Pattison, Chair
Mr Giuseppe (Joss) De Iuliis, Board Director
Ms Gillian Summers, Chief Executive Officer

Australian Trade Commission

Mr Tim Harcourt, Chief Economist
Ms Meredith (Dee) Katherine Wiles-Bowes, Acting Manager, Government and Policy

Sydney, Thursday, 15 August 2002 – roundtable

Ms Carol Daunt, Managing Director, Learntel Pty Ltd
Mr Jason Elias, Director, Elias Recruitment
Mrs Barbara Enright, New South Wales President, Sign Association of Australia
Ms Elizabeth-Anne Gervay, Managing Director, Hughenden Boutique Hotel
Ms Annette Louise Heywood, Director and part owner, Healthy Business International Pty Ltd
Ms Emma Larkins, Director, Australian Security and Protection Pty Ltd
Ms Amy Lyden, Company Director, Bow Wow Meow Pty Ltd
Mr Paul Misbrener, Co-director, Side-On Enterprises Pty Ltd
Ms Doris Panossian, Managing Director, Kingsford Locksmiths
Mr Matthew Pettman, Director, VisibleIT Pty Ltd
Ms Suzanne Sheil, Director and Owner, Eastside Personnel Pty Ltd
Mrs Mary Storch (Private capacity)
Mr Luke Torrevillas, Director, Side-On Enterprises Pty Ltd
Miss Narelle Whyte (Private capacity)
Mr Paul Wilson, Owner and Creative Director, Hot Chilli

Brisbane, Thursday, 12 September 2002

National New Enterprise Incentive Scheme Association

Mrs Irene Helen Dewsbery, Treasurer

Ipswich and Regional Area Consultative Committee

Ms Cindy Ford, Executive Officer
Mr Jason Robert Harm, Small Business Assistance Officer and Small Business Assistance Officer, Gold Coast and Region Area Consultative Committee

Gold Coast and Region Area Consultative Committee

Mr Brian Gassman, Chair

Far North Queensland Area Consultative Committee

Mr Frederick Marchant, Small Business Assistance Officer

National Federation of Independent Business

Mr Vincent Schofield, President

Mr George Smith, Secretary

Gulf Savannah Development Inc

Ms Kathryn Sutcliffe, Chief Executive Officer

Far North Queensland Area Consultative Committee

Mr Tomas Vieira, Executive Officer

Office of Economic Development, City of Brisbane

Mr Richard Joel, Chief Executive Officer

Aboriginal and Torres Strait Islander Commission

Mr Philip Neal, Acting Program Manager, Customer Lending and Support Services
Centre

Mr Leslie O'Donoghue, Policy Officer, Economic, Employment and Training,
National Policy Office

Brisbane, Thursday, 12 September 2002 - roundtable

Mr Nick Czeperko, Managing Director, Crisp Technologies Pty Ltd

Mr Jim Daynes, Owner and Publisher, Dayheat Publishing

Mrs Irene Dewsbery, Treasurer, Business Success Group Pty Ltd; and Treasurer,
National New Enterprise Incentive Scheme Association

Mrs Dorothy Finlayson, Director, Aleis International Pty Ltd

Ms Kay Ganley, Owner and Managing Director, Charlton Brown Australia Nanny
College

Mr Edwin Gerns, Managing Director, Gerns Continental Smallgoods Pty Ltd

Mr Leslie Howson, Director, Les Howson Plumbing Service

Mr Robin Jaggessar, Head of College, In-Tech Training Institute

Mrs Judi Jaques, Owner and Managing Director, Cork'n Fork Winery Tours

Mr Graham Steadman, Managing Director, Die-Namic Dies

Mr Nigel Welsh, Managing Director, Australian Field Equipment

Mr Paul Willett, Owner and Managing Director, Bakenomics

Brisbane, Friday, 13 September 2002**Australian National Training Authority**

Ms Moira Scollay, Chief Executive Officer

Ms Margo Couldery, Director, Client Relationships

Gold Coast City Council

Mr Grayson Perry, Manager, Economic Development

Mr James Fountain, Economic Development Liaison Officer

Local Government Association of Queensland

Mr Malcolm Griffin, Planning and Development Policy Officer

Mr Mark Leyland, Finance and Governance Adviser

Department of Industrial Relations

Mr Robert Seljak, Acting Deputy Director-General

Mr Peter Lamont, General Manager, Private Sector Industrial Relations

Brisbane, Friday, 13 September 2002 - roundtable

Mr Malcolm Griffin, Planning and Development Policy Officer, Local Government Association of Queensland

Ms Helen Jentz, Principal Adviser, Public Policy and Economics, Commerce Queensland

Mr Mark Leyland, Finance and Governance Adviser, Local Government Association of Queensland Inc.

Mr Mark Panitz, Chief Advocate, Queensland Fruit and Vegetable Growers

Mr David White, Member, Small Business Centre of Excellence, CPA Australia

Canberra, Tuesday 8 October 2002**Australian Taxation Office**

Mr Neil Mann, Deputy Commissioner, Small Business

National Association of Retail Grocers of Australia

Mr Alan McKenzie, Director and National Spokesman

Mr Ken Henrick, Senior Policy Adviser

Australian National Training Authority

Ms Moira Scollay, Chief Executive Officer

Ms Margo Couldery, Director, Client Relationships

Office of Small Business, Department of Industry, Tourism and Resources

Mr Antony Brugger, Acting General Manager

AusIndustry, Department of Industry, Tourism and Resources

Mr Drew Clarke, Executive General Manager

Mr Paul Griffin, General Manager, Business Entry Point Branch

Department of Employment and Workplace Relations

Mr Finn Pratt, Group Manager, Job Seeker Support Group

Department of Transport and Regional Services

Mrs Robyn Beetham, First Assistant Secretary, Regional Programs Division

Ms Jan Lawless, Acting Assistant Secretary, Regional Network Branch

Department of Education, Science and Training

Mr Colin Walters, Group Manager, Vocational Education and Training Group

Capital Region Enterprise and Employment Development Association (CREEDA)

Mr Julian Webb, Chief Executive Officer

Mr Ian Davis, Deputy Chair

Adelaide, Thursday, 10 October 2002**Local Government Association of South Australia**

Mr David Dercho, Manager, Economic Development, City of Salisbury
Mr Greg Waller, Director, Development and Environmental Services, City of Salisbury

Business Enterprise Centres SA Inc

Mr Euan Miller, Executive Officer

Regional Development South Australia

Mr Michael Edgecombe, Executive Officer

Dr Tim Atterton, Director, Entrepreneurship and Business Development Unit,
Curtin Business School

Mr David Byrne, Lecturer, Small Business Training Centre, Adelaide Institute
of TAFE

Research and Evaluation, National Centre for Vocational Education Research (NCVER)

Dr Kaye Bowman, General Manager

Adelaide, Thursday, 10 October 2002 – roundtable

Mrs Susanne Gibbs, Owner and Managing Director, Professional Choice Financial Services

Mr Harold Handley, Proprietor, H.J. Handley

Mr Geoff Haygreen, Owner/Retailer/Managing Director, Parafield Betta Electrical

Mr Graeme Hollidge, Managing Partner, Scammell & Company

Ms Susan Lee, Director, Soniclean Pty Ltd

Mr Robert Saunders, Legal Practitioner, Andrew Rogers Lawyers

Ms Ellen Seymour, Director, Strategic Futures Pty Ltd

Mr Frank Sloan, Director, Century 21

Mr Ron Spain, Administration Manager, Calbic Pty Ltd

Mr Rick Stockley, Director, Carlec Pty Ltd

Mr Ron Watts, Chairman, Northern Adelaide Business Enterprise Centre Inc

Canberra, Thursday, 17 October 2002**Productivity Commission**

Mr Gary Banks, Chairman

Dr Stephen Rimmer, Assistant Commissioner, Office of Regulation Review

Appendix 3

Documents Tabled at Hearings

Hearing: Perth, 17 July 2002

Perth Area Consultative Committee: Policy, Regulations and Approaches to Home-Based Business in the Eastern Metropolitan Region; Additional information enlarging on submission [EWRE 31]

Hearing: Albany, 18 July 2002

Great Southern Development Corporation: papers related to project to develop small businesses [EWRE 109]

Hearing: Melbourne, 24 July 2002

Melbourne Development Board: Key points summary [EWRE 253]

Business Enterprise Centres Australia: Additional Information [EWRE 265]

Information on Farmbis; Weekly times article EWRE 268]

Hearing: Melbourne, 25 July 2002

Recruitment and Consulting services association: categories of membership [EWRE 312]

Hearing: Launceston, 26 July 2002

Tasmanian Independent Wholesalers: Executive summary of NARGA submission to Dawson inquiry [EWRE 399]

List of licences required in Tasmania [EWRE 401]

BPW Australia: Statement re BPW Australia; Media Release re paid maternity leave; submissions Tasmania and NT Branches [EWRE 406]

Hearing: Roundtable, Launceston, 26 July 2002

Mr Bernard Duke: Information on licence requirements [EWRE 456]

Hearing: Sydney, 14 August 2002

Restaurant and Catering Association: Responses to Survey [EWRE 582]

Australian Retailers Association: Briefing on Credit Card Reform and EFTPOS Review [EWRE 601]

Professor Ann Hodgkinson: Illawarra Workplace Relations Survey Report and Summary [EWRE 618]

Hearing: Brisbane, 12 September 2002

National Federation of Independent Business (Gold Coast): *NFIB Advocate* newsletter; Recommendations of Reid report [EWRE 723]

Hearing: Brisbane, 13 September 2002

Australian National Training Authority: National Marketing Strategy for VET Report; pie graphs re approach to learning [EWRE 806–808, 820]

Hearing: Adelaide, 10 October 2002

National Centre for Vocational Education and Research: Research at a glance [EWRE 977]

Hearing: Canberra, 17 October 2002

Productivity Commission: Opening statement; Regulation Impact Statement information [EWRE 1015]

Appendix 4

Further Information

Answers to questions on notice

Hearing 17 July 2002

Motor Trades Association of WA

- GST and small Business and effect of percentage of direct and indirect tax take;
- business licences required by service station operators
- public liability and insurance relief package
- conflicting state and territory legislation
- difficulties repair shops have with insurance companies
- AMBRA submission to the review of the TPA

Department of Training

- Report of pilot project on small business , smart business

Hearing 18 July 2002

Beverley Ford

- Evaluation of delivery of government services to small communities and suggestion to improve 'Whole of Government services' to Regional Australia

Hearing 24 July 2002

Business Enterprise Centres Australia Incorporated

- Rules of BEC Australia Inc
- Speech the Small Business Services UK CEO made in 2000 - proposed changes to the delivery of small business delivery in the UK.
- Integrating the Business Support Structure for SME's: A National Framework for Business Support.

APESMA:

- Evaluation of mentors program

Melbourne Development Board

- Copy of CD ROM - Small Business Sites - A Taste of the Web (CD only)

Pacific Access

Barriers to employment – Micro and other small business

Hearing 25 July 2002

Dusseldorp Skills Forum

- A discussion paper on enhancing employers contributions to skill formation and use (distributed as separate document)

BPW Australia

- Suggestions for GST and impact on cash economy

Hearing 6 August 2002

Office of Small Business

- Various including responses to subsequent written questions
Australian Taxation Office

- Various: Simplified Tax System; ATO services for small business; Subscription to ATO assist; Alienation Personal services income;:

Canberra Business Council

- Statistics on Home-based business in ACT

National Farmers Federation

- Taxation Zones and the City – Country Divide

Hearing 15 August 2002

Austrade

- Statistics on success of companies using programs; Feedback on Business Club Australia; and details of EMDG as they relate to business skills

Hearing 12 September 2002

National Federation of Independent Business (Gold Coast)

- Correspondence with Senator Coonan on compensation for GST

Hearing 13 September 2002

Australian National Training Authority

- Training module in the cleaning industry

Hearing 8 October 2002

Australian National Training Authority

- Coverage of training packages

Australian Taxation Office

- policy and strategy for reducing burden compliance; etax; industry partnerships; estimates of compliance costs GST cash flow problems; review time spent on NTS; estimating compliance burden tax changes; pilot test of regulations affecting small business; assessment of how regulation changes affect business; further changes to BAS; ATO to operate as information point; pharmaceutical products and GST; Fast sheets insurance settlement amounts

CREEDA

- Online interactive business support services
- Growing Micro and Home-based Business Report
- Backyarders and Front Runners
- CREEDA Incubator Operational review

Hearing 17 October 2002

Productivity Commission

- Responses – on a range of issues

Correspondence received by the committee:

Individual/Organisation	Document	Subject
Australian Business Deans Council	letter to chair	Programs run by universities

Additional information received at public hearings

Hearing: Perth, 17 July 2002

Motor Trades Association WA: Australian Motor Body Repairers Association Charter of Fairness [EWRE 4]

Motor Trades Association WA: Copy of report on survey on responses on red tape, BAS [EWRE 6]

Hearing: Melbourne, 24 July 2002

Association of Professional Engineers, Scientists and Managers: Attachments to submission [EWRE 278]

Hearing: Sydney, 15 August 2002

Austrade: Why Australia Needs Exports – discussion paper; Knowing and Growing the Exporter Community

Hearing: Canberra, 8 October 2002

Department of Industry Tourism and Resources: Location of offices of Ausindustry offices [EWRE 920]

Department of Education, Science and Training: Report of Small Business Professional Development Program [EWRE 925]

Information held on file at the Australian Archives.