

ACTU Submission to Senate Inquiry into Small Business Employment

Introduction – the myth of small business employment

According to the most recent ABS data, there were an estimated 1,051,900 small private sector non-agricultural businesses in Australia in 1998-99 (as defined as those with less than 20 employees), representing 95 per cent of all private sector businesses. At the same time, small businesses employed approximately 48 per cent of all private sector employment – or almost 3.4 million people.

Approximately 45 per cent of all private sector non-agricultural small businesses do not employ any staff – and are instead made up of what the ABS defines as 'Own Account Workers'.

Around 2.4 million persons are employed in the remaining 527,800 private sector non-agricultural small businesses which do employ staff, however some 300,000 of these are in fact persons employed within their own business. The end result is that approximately 2.1 million employees (wage and salary earners) are employed within the private non-agricultural small business sector – or approximately $\frac{1}{4}$ of all employed persons – despite small businesses accounting for 95 per cent of all private sector businesses. [ABS, Cat. No. 1321.0 – *Small Businesses in Australia – 1999*]

It is clear from this data that, despite the constant rhetoric from the Government and business lobby groups, it is in fact the small number of medium and large businesses in Australia which indeed employ the largest proportion of wage and salary earners, despite the countless concessions made to small businesses.

Small businesses also pay on average lower wages than other employers. In May 2000, the Average Weekly Ordinary Time Earnings (AWOTE) for non-managerial employees working for an employer with less than 20 employees was \$622.60.

This compares with an AWOTE of \$698.40 for all non-managerial employees, and \$738.00 for those working in firms with between 100 and 499 employees. Small businesses clearly are low wage employers, and are also exempt from payroll tax. This disparity is even larger for female employees.

At the same time, employees who work in small businesses also work longer hours than any other group. (ABS Cat No. 6306.0 – *Employee Earnings and Hours – May 2000*).

Lower wages amongst employees of small business reflect the high prevalence of individual agreements and award dependence. According to the latest ABS figures, 68.5 per cent of employees of small businesses are employed under an 'Individual agreement', with most of the rest (27.5 per cent) dependent upon an Award.¹ (Only 4.0 per cent of employees of small businesses are covered under a collective agreement).

Those under individual agreements in small business are paid considerably less than those in larger businesses (around 20 per cent less than all employees under individual agreements, and around 34 per cent less than those employed in firms with between 100 and 499 employees) (ABS Cat No. 6306.0 – *Employee Earnings and Hours* – May 2000).

What are the main determinants of small business employment decisions ?

The ACTU recently polled a random sample of 300 small businesses² within three of the Liberal Party's own electorates – Higgins, Hindmarsh, and Warringah, to ask what they thought were the major impediments to them employing more staff.

When asked what was the main reason for not recruiting more employees, an overwhelming 79 per cent stated that it was either because of insufficient work or need for additional staff or outlook for expansion of the business.

Other reasons given by respondents included, lack of available or adequately qualified employees (ie. skill shortages), inadequate infrastructure to expand or funds to do so, employment costs and paperwork, or that they had just completed the last hiring cycle. Interestingly, not one respondent suggested 'unfair dismissal legislation' as an impediment to employing more staff– even in Minister Abbott's own electorate.

These small businesses were then asked to identify what efficiency changes they would like to make within their business, but were currently unable to. Respondents strongly identified with issues such as need to improve/change their current infrastructure (buildings and/or machinery and equipment), technology, productivity, quality of staff and staffing numbers, additional training of staff, and some workplace relations issues such as penalty rates, or lack of enterprise agreement at their workplace.

Finally, small businesses were asked to suggest what current Government policy most concerns them. Four suggested responses were put to respondents (the GST, Payroll issues, Unfair Dismissal, and Workcover), as

¹ These 'Individual Agreements' are predominantly simple over-award agreements. Formalised Individual Contracts (such as AWAs and state-based equivalents) cover an insignificant number of employees in the small business sector.

² As defined as those businesses employing fewer than 20 employees. The polling was undertaken during February and March 2002, by telephone.

well as offering the small businesses to nominate any other policies they saw as more concerning.

An overwhelming 45 per cent of all respondents suggested the GST was their main concern – dwarfing the other responses. In Minister Abbott's electorate of Warringah, an even greater 52 per cent agreed with this proposition. 18 per cent of respondents regarded Workcover as their greatest concern, followed by 8 per cent and 7 per cent who respectively nominated Unfair dismissal and payroll.

A further 22 per cent nominated other policies of their own choosing, which ranged from inadequate funding of education and training, industry deregulation and competition policy, paperwork complication and compliance issues, taxation, trading hours to human rights issues such as concern over the Government's stance on refugees. There was also a number of surprising responses from small businesses who were concerned over the poor treatment of casual employees.

The conclusion which can be drawn from this polling is that the major impediments for small businesses increasing employment are economic, not regulatory, and that where respondents were asked to identify their major concerns with Government regulation, they overwhelmingly nominated the GST and the red-tape and paperwork imposed upon them.

The main factors which effect the capacity of small businesses to employ

The evidence of our recent survey suggests that there are clearly two major identifiable factors which determine recruitment of new employees within small business:

- 1) Growth of the business (or lack thereof)
- 2) Insufficient scale, resources or available staff

To this we may add:

- 3) Willingness to expand, and entrepreneurship
- 4) Level of managerial skill or time
(including the ease of dealing with administrative, statutory and accounting requirements)

Growth of business

What was most clear from our polling was that the absolutely overwhelming determinant of employment intentions amongst small businesses is the level of growth, and need for additional employees.

Small businesses appear to be overwhelmingly reactive to market forces, rather than forward thinking about their businesses decisions.

As such, employment decisions by small businesses generally arise out of the need for additional staff to meet additional output and workload as the business responds to new market conditions and demand for its output.

Clearly then, the major factors affecting employment decisions are the effect of overall economic growth on demand for their products, and the ability for small businesses to expand their operations and seek out new markets and opportunities.

There are a number of ways in which businesses can attempt to boost the demand for their products, but these largely fall into two categories:

- (a) those which seek to boost production efficiency and therefore reduce costs and final price of the product to existing customers; and
- (b) those which seek out a new customer base for current products either by advertising, geographical expansion or managerial entrepreneurship or by expanding the business into new areas of production or service provision.

Seemingly, the second of these two is limited largely by the ability or willingness of proprietors to engage in this type of activity, rather than any form of government regulation or workplace relations issues. Small business operators, for example, may have little expertise in undertaking entrepreneurial activities or tapping into new networks. They may even lack the desire to expand (being satisfied with maintaining the business on a small scale). Further the firm may be restricted by lack of resources, infrastructure, available staff or disincentives to expand (see below).

In regards to seeking to increase production efficiency, small business may be hampered by their ability to source better equipment or their knowledge of how best to organise their operations or utilise new technology to get the most out of their production process. There may therefore be need to better educate small business operators about the ways in which they can better organise their business or use new technology to boost productive output.

Willingness to expand and insufficient scale, resources or available staff

As demonstrated above, one of the reasons given for small businesses not employing staff, is associated with the limited desire, or ability to expand.

It should firstly be identified that many small businesses operators may feel content to keep their enterprise at its current size. For example, many family run businesses may have as their business goal the desire to earn enough to put a roof over their head, and live comfortably. For such business operators,

time spent with family rather than slaving over a business empire may be more appealing. Further, given many small businesses are actually single operator sub-contractors (who have taken on business status for tax minimisation purposes), and have never had any intention to expand or employ staff. Other single-operator enterprises provide a veil over unemployment or underemployment for prime age and mature workers without regular jobs – often setting themselves up as consultancies.

For those small businesses wishing to expand there may, however, be a number of impediments to growth. Firstly as has already been identified, expansion often involves greater managerial expertise and time, which may be beyond the current operator. The operator may have to begin paying staff to manage the business on their behalf (which for many small businesspeople contradicts the reason they went into business in the first place, as well as being potentially very expensive).

Inability to source staff

Secondly, small businesses may find difficulty in sourcing additional staff to expand their workforce. As was identified earlier, one of the consistent problems identified by the small business operators polled in employing more staff, was the availability of staff to do the job.

This may vary from limited availability of qualified staff (skill shortages), to a lack of willingness on the behalf of potential employees to work for these businesses.

A number of small businesses suggested that lack of skilled employees or the quality of their skill was a major impediment to employing more staff. This suggests a need to concentrate greater public funding on education and training of Australia's workforce. Many employers in fact nominated insufficient funding by the Federal Government on education and training as a major issue.

The ACTU supports the need to boost funding to education, training and apprenticeships, so that job seekers have the necessary skills to find employment in these areas. In particular it supports the need to focus resources on training or retraining of the most vulnerable members of the labour force, the long-term unemployed and the young unemployed. The ACTU sees the Federal Government's failure to supply the additional necessary funding to Australia's education and training systems as one of the major causes of unemployment, and calls on the Government to address this growing problem.

Further, there has been a growing shift over the past decade away from training being provided in-house by business themselves. It is clearly not acceptable for businesses to renege on their obligation to provide quality training to their staff, while at the same time demanding better skilled job applicants.

Infrastructure and resourcing

Many of the small businesses polled by the ACTU also raised the concern of inadequate infrastructure to accommodate an increased workforce.

This may take the form of larger premises and new building works, to the need to obtain new, updated or additional equipment and machinery. Without such infrastructure, it may be difficult for small businesses to make full use of additional staff, thereby restricting their employment.

Additional infrastructure of this type, however, may take some time to come on board, or be prohibitively expensive for small firms to fund. This can pose a problem for many small businesses, which does not to the same extent affect larger businesses, because of their inability to source additional capital funding.

Small businesses often have limited collateral upon which to seek funding from financial institutions. In many cases this collateral may even only be the proprietor's residential dwelling, which poses further concerns over willingness to risk future indebtedness. There may also be a long time lag taken in obtaining financial loans for small businesses given these restraints, which can hamper the ability for small business to exploit new opportunities when they arise.

How does the complexity / duplication of regulation inhibit growth and performance in the small business sector ?

As evidence from our polling has already identified, small businesses operators consider the Government's GST to be their major concern.

This highlights a broader issue of concern to small business, that of the cost of compliance with administrative, accounting and statutory requirements imposed upon them by governments, and the time involved by proprietors in undertaking this workload.

It is a constant 'catch-cry' from small business that what they most dislike about government involvement is all the paperwork. In understanding the burden that this places upon small businesses, it is again necessary to contemplate who runs small businesses. The answer to this is almost invariably those who perform at least some of the work in the business themselves. Small business operators are often the tradespeople, professionals, storekeepers etc who do the work in their business themselves. Management of their business is merely a secondary task of the proprietor.

As such, these people often have little time or experience in organising the day to day financial and managerial tasks required by their business, even after enlisting the assistance of the local accountant.

The administrative burden (which increases with the size of the firm) is thus a major disincentive for the employer to expand and employ more staff. The administration of the Government's GST has been identified time and time again by small business operators as a particularly time consuming and costly exercise for small businesses to undertake.

Unfair Dismissal

What is particularly interesting from the ACTU's polling of small business operators outlined earlier, is their responses with regard to unfair dismissal legislation.

When asked what where the impediments to recruiting new staff, not one business mentioned the unfair dismissal laws. Further, when they were specifically asked to rate their concern for the unfair dismissal legislation amongst a range of other government policy matters, only 8 per cent of all respondents mentioned the said it was their main concern of the policies suggested. The GST, Workcover legislation, and 'other' responses all heavily outweighed the unfair dismissal response.

It is also important to note that the level of concern has not been accounted for, therefore the degree to which these 8 per cent considered the unfair dismissal provisions a concern is not obvious.

The ACTU has already made detailed submissions in regards to this matter in relation to the Workplace Relations Act Amendment Bills presently before the Senate. In those submissions the ACTU draws in part on the recent decision by the Full Court of the Federal Court of Australia in *Hamzey v Tricon International Restaurants trading as KFC* [2001] FCA 1589 (16 November 2001). As is stated at greater length in earlier submissions the Full Court came to the conclusion that:

"In the absence of evidence about the matter, it seems to us the suggestion of a relationship between unfair dismissal laws and employment inhibition is unproven.

...

Whether the possibility of encountering an unlawful dismissal claim makes any practical difference to employers' decisions about expanding their labour force is entirely a matter of speculation.

...

... there is no basis for us to conclude that unfair dismissal laws make any difference to employers' decisions about recruiting labour."

[Federal Court Decision, para 70]

Other regulatory impediments

Finally, there are a raft of regulations and government policies which actually discriminate in favour of small businesses, and thus may act as a disincentive to small businesses to expand. The obvious example here is payroll tax from which small businesses are exempt from, but which they could become liable for as the capital value or employment numbers within the business expand.