

**SUBMISSION TO**

**THE SENATE EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION  
REFERENCE COMMITTEE:**

**INQUIRY INTO SMALL BUSINESS EMPLOYMENT**

**BY**

**PACIFIC ACCESS PTY LTD**

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## **EXECUTIVE SUMMARY**

Pacific Access Pty Ltd has prepared this submission to the Senate Inquiry into Small Business Employment. The findings contained within this submission are based on recent historical trends from the Yellow Pages® *Business Index – Small and Medium Enterprises*. The key findings based on this analysis are as follows:

- Businesses reporting employment growth were more likely to nominate the existence of employment barriers than businesses reducing employment.
- Businesses reporting employment growth and consequently the existence of employment barriers were more likely to be businesses actively seeking growth.
- Businesses reporting employment growth identified an escalating proportion of employment barriers over the four-year period (1998 to 2002), thereby constraining their ability to generate additional jobs.
- Broader Government policy settings that influence the total level of sales for an SME or the ability to locate suitable staff represented a greater barrier to employment than specific employment policies or regulations.
- Businesses expanding their employment levels were more likely to nominate finding suitable staff as an employment barrier.
- The specific SME policy issue that received the highest level of concern was taxation, but was distorted by one abnormally large result. However, on a consistent basis superannuation represented the most important employment barrier. On this basis, the issue of employment conditions/unfair dismissal policy came in as the second most important barrier.
- The least important employment barrier was workers' compensation.
- On the whole, businesses increasing employment were more likely to be generally supportive of Federal Government policies.
- The perception of Federal Government policies between business expanding employment and businesses reducing employment narrowed significantly during the period 1998 to 2002.
- The degree of support for Federal Government policies among employment generating businesses declined during the four-year period.
- The general perception of State and Territory Government policies among employment generating businesses were noticeably less supportive than for Federal Government policies.
- The perception of State and Territory Government policies among employment generating businesses declined markedly between 1998 and 2002.
- There is a strong correlation between businesses that actively seek growth and businesses that generate employment.
- Given that businesses that had growth strategies were more likely to increase employment, explains why businesses with increasing employment performance were more likely to identify the existence of employment barriers.
- Government strategies and policy instruments aimed at increasing the level of employment within the Australian SME sector should give greater consideration to the concerns of businesses that are actually increasing employment.

**SUBMISSION TO THE SENATE EMPLOYMENT, WORKPLACE RELATIONS AND  
 EDUCATION REFERNCES COMMITTEE: INQUIRY INTO SMALL BUSINESS  
 EMPLOYMENT**

***Introduction***

This submission to the Senate Inquiry into Small Business Employment has been prepared by the Business Commercialisation unit within Pacific Access Pty Ltd. Pacific Access Pty Ltd is a leading Australian advertising, information and directories business, providing print, voice and online products and services to nearly 400,000 customers nationally, about 90 percent of whom are small to medium enterprises (SMEs). As a national, wholly-owned subsidiary of Telstra Corporation Limited, Pacific Access manages two of Australia's leading brands, Yellow Pages® and White Pages™, along with the interactive mapping and guidance brand, Whereis™, and one of Australia's premier Internet service engines, the GOeureka™ site.

Pacific Access Pty Ltd has had a long-term commitment to the Australian SME sector through a broad range of initiatives and research activities. The pivotal component of this submission revolves around one of those activities, namely the Yellow Pages® *Business Index – Small and Medium Enterprises*. This is a regular quarterly survey of SMEs that dates back to 1993. Up until November 2000 the sample size consisted of 1,200 small businesses. Since then the survey has been expanded to include 1,800 small and medium enterprises (1,200 small businesses and 600 medium businesses). This makes the Yellow Pages® survey the largest quarterly private sector survey aimed exclusively at the Australian SME sector.

***The Impact of Barriers to SME Employment***

In addressing the issue of the importance and reasons for barriers to employment within the Australian small to medium enterprise sector, the intelligence that has been used is based on recent findings from the regular Yellow Pages® *Business Index – Small and Medium Enterprises*. Specifically, within the survey we ask the following pertinent questions of small and medium enterprises:

*Question 2g – Are there any particular barriers or impediments which prevent you from taking on new employees at the moment? (yes/no); and*

*Question 2h – What would these barriers be? [Open-ended question].*

**TABLE ONE: THE IMPACT OF BARRIERS TO SME EMPLOYMENT ON EMPLOYMENT  
 PERFORMANCE (1998 TO 2002)**

PERIOD	MAY 1998		AUGUST 2000		MAY 2002	
	UP	DOWN	UP	DOWN	UP	DOWN
EMPLOYMENT TREND						
Total SMEs	15%	13%	10%	9%	9%	9%
Barriers (% of Change in Employment)						
- Yes	37%	20%	44%	21%	47%	56%
- No	63%	80%	56%	79%	53%	44%
Key Barriers (% of Total)						
Lack of sales	27%	40%	19%	30%	6%	9%
Cost of employing	11%	19%	5%	5%	8%	4%
Finding suitable staff	8%	10%	20%	10%	24%	5%
Employ. conditions/unfair dismissals/i/r policy	3%	4%	1%	6%	8%	7%
Superannuation	6%	8%	1%	5%	11%	5%
Workers Comp'n	1%	2%	1%	1%	2%	1%
Taxes (Payroll/GST)	4%	1%	2%	5%	31%	3%

Table One demonstrates the impact of employment barriers on the actual employment performance of small and medium enterprises. In undertaking this analysis three periods over the past four years have been selected to identify any consistent patterns that may have emerged. Those periods are May 1998, August 2000 and May 2002.

### ***Employment Barriers and Trends – 1998***

Commencing with an analysis of the May 1998 results, the first observation to be made is that the proportion of businesses reporting an increase in employment during that quarter (at 15 percent) was slightly higher than the proportion of businesses reporting a decline in employment (13 percent). Amongst those businesses increasing employment the percentage that identified barriers to taking on additional employees was 37 percent. This was higher than the proportion of businesses reducing employment, with only 20 percent of these businesses citing employment barriers.

In terms of the importance of potential employment barriers a number of trends are readily apparent. First, that sales performance is more important than government policy issues as a potential barrier to employment. Of businesses that had both increased employment and identified an employment barrier, some 27 percent identified a lack of sales. While for businesses reducing employment that had identified an employment barrier, an even higher 40 percent had nominated a lack of sales.

Second, that sales performance is more important as an employment barrier for businesses reducing employment relative to businesses increasing employment. Third, the costs of employing and finding suitable staff were viewed as more important employment barriers within businesses reducing employment relative to businesses increasing employment.

Fourth, within businesses increasing employment the major government/regulatory issues of concern, in order of priority were, superannuation (six percent – of total identified barriers), taxes (four percent) and industrial relations (three percent). The fifth and final point that needs to be made is that within businesses that were reducing employment the major issues of concern over government/regulatory issues, in order of priority, were superannuation (eight percent), industrial relations (four percent) and workers' compensation (two percent).

### ***Employment Barriers and Trends – 2000***

Just as the May 1998 results demonstrated a higher level of perceived employment barriers among businesses with rising employment levels, so too did the August 2000 results demonstrate a similar trend. This was reflected in the higher proportion of businesses (44 percent) that reported existing barriers to employment, whereas less than half that percentage (21 percent) reported similar employment barriers among businesses actually reducing employment.

Once again businesses reducing employment were noticeably more likely to identify a lack of sales (30 percent) than was the case for businesses increasing employment (19 percent). For businesses increasing employment the issue of finding quality staff was a significantly higher concern than for businesses reducing employment.

In terms of the impact of government/regulatory issues on businesses reducing employment, the major issues in terms of priority were, industrial relations (six percent), superannuation (five percent) and taxes (five percent). For businesses increasing employment the most significant individual government/regulatory issue was taxes at a relatively low two percent response rate.

### ***Employment Barriers and Trends – 2002***

The previous trend in terms of businesses expanding employment identifying a higher incidence of employment barriers was reversed in the May 2002 results. This was reflected in the result where 47 percent of businesses expanding employment identified employment barriers compared to 56 percent of employment-contracting businesses.

During May 2002 there was a noticeable decline in the proportion of SMEs identifying a lack of sales as an important barrier to employment. However, while there was a decline in this as an issue, the gap between employment-contracting and employment-expanding businesses remained consistent with the earlier trend. This was evidenced by the nine percent of businesses reducing employment that identified this as a barrier compared to the six percent of businesses that were increasing employment. Finding suitable staff was clearly a significantly more important barrier to employment for businesses increasing employment (24 percent) than it was for businesses reducing employment (five percent).

In terms of government-regulatory issues the major barriers identified by businesses increasing employment were as follows: taxes (31 percent), superannuation (11 percent) and industrial relations policies (eight percent). For businesses that were reducing employment the major barriers were as follows: industrial relations policies (seven percent), superannuation (five percent) and taxes (three percent).

### ***Key Findings***

During the period under investigation, businesses that were in the process of increasing employment were generally more likely to nominate employment barriers than businesses that were decreasing employment levels. A key factor that would explain this trend is that SMEs actively seeking growth strategies were more likely to experience employment growth, which is discussed in more detail towards the end of this submission. As a result, these businesses were more likely to identify barriers to employment growth than businesses not seeking to expand.

A consistent trend over the period was that businesses experiencing a decline in employment (relative to businesses with higher employment) were more likely to identify a lack of sales as the major reason. For both businesses experiencing either a rise or decline in employment levels were generally more likely to nominate a lack of sales as an employment barrier, relative to any government-regulatory issues. Given that sales are more influenced by general macro-economic policy settings, the Federal Government can have a greater influence on ameliorating employment barriers by focusing energies in this area relative to specific regulatory issues.

Generally, SMEs that were increasing their employment levels were more likely to nominate finding suitable staff as an employment barrier. This reflects that such expanding businesses were more likely to be concerned over the quality of future employees than businesses that were actually reducing their employee numbers. Interestingly, there was no consistent pattern in the impact of the costs of employing staff between businesses either expanding or contracting employment.

In terms of specific regulatory policies that impact on SMEs the issue that received the highest level of concern as an employment barrier was taxes (particularly payroll taxes). However, this result was largely distorted by one abnormally high result (May 2002 for SMEs with increasing employment). On a more consistent basis, the issue of superannuation recorded a high level of concern among SMEs as a barrier to employment. The second highest level of concern on a consistent basis involved employment conditions/industrial relations/unfair dismissal policies. By far and away, the least significant regulatory issue in terms of its potential impact as an employment barrier was workers' compensation.

### ***Federal Government Policy Impacts***

In examining the full and potential impact of Federal Government policies on SMEs employment and growth activities, further reliance has been made of the Yellow Pages®

*Business Index – Small and Medium Enterprises.* As a result, analysis has been undertaken of the regular questions on the impact of Federal Government policies, which read as follows:

*Question 9a – Overall, do you believe that the Federal Government’s current economic and other policies are supportive of small business in general, work against small business, or have no real impact either way? (supportive/work against/no impact); and*

*Question 9b – Why do you say that?* [Open ended question].

It is apparent from the results contained in Table Two that SMEs increasing employment were more likely to have a positive attitude towards Federal Government policies. For example, in 1998 businesses that were increasing employment recorded an overall net positive balance of nine percent that believed the Federal Government’s policies were supportive of SMEs. However, for businesses reducing employment the overall perception of Federal government policies was a negative eight percent. This differential trend in attitudes between the two groups of businesses was consistent over the three observed periods.

**TABLE TWO: THE IMPACT OF SME ATTITUDES TOWARDS FEDERAL GOVERNMENT POLICIES ON EMPLOYMENT PERFORMANCE (1998 TO 2002)**

PERIOD	MAY 1998		AUGUST 2000		MAY 2002	
EMPLOYMENT TREND	UP	DOWN	UP	DOWN	UP	DOWN
Total SMEs	15%	13%	10%	9%	9%	9%
Federal Government Policies						
- Work against SMEs	21%	25%	29%	35%	30%	27%
- Support SMEs	30%	17%	34%	35%	30%	25%
- Net Impact	9%	-8%	5%	0%	0%	-2%

The reasons that businesses identified Federal Government policies for working against SMEs, changed noticeably during the period. For example, in 1998 the key concerns were that the Federal Government was only concerned with big business, there was too much government interference and charges, taxation was too high and there was too much paperwork. Whereas, in 2002 SMEs were much more likely to identify specific regulatory issues such as GST or industrial relations policies.

Interestingly, the gap in perceptions of the Federal Government’s policies between businesses expanding employment relative to those reducing it, narrowed markedly over the four-year period (from 17 percentage points to only two percentage points).

**State and Territory Governments Policy Impacts**

In analysing the complete picture in terms of the potential impact of State and Territory Government policies on SMEs, further use has been made of the Yellow Pages® *Business Index – Small and Medium Enterprises*. As part of this, reliance has been made of the findings for the regular series of questions on State and Territory Government policies, which are as follows:

*Question 10a – And, overall, do you believe that your State (or Territory) Government’s economic and other policies are supportive of small business or have no real impact either way? (supportive/work against/no impact); and*

*Question 10b – Why do you say that?* [Open-ended question].

It is worthwhile noting in Table Three that the perception of State and Territory Government policies was noticeably more negative than the corresponding result for Federal Government policies. This was particularly the case for businesses increasing employment. During 1998

key issues of concern to businesses associated with State and Territory Governments were as follows: the view they were only concerned with big business, that there was too much government interference and that they imposed too many costs. In 2002 the major issues involved specific regulatory issues such as: workers' compensation, industrial relations and payroll taxes.

**TABLE THREE: THE IMPACT OF SME ATTITUDES TOWARDS STATE AND TERRITORY GOVERNMENTS POLICIES ON EMPLOYMENT PERFORMANCE (1998 TO 2002)**

PERIOD	MAY 1998		MAY 2002	
	UP	DOWN	UP	DOWN
EMPLOYMENT TREND				
Total SMEs	15%	13%	9%	9%
State/Territory Government Policies				
- Work against SMEs	16%	25%	33%	26%
- Support SMEs	16%	16%	18%	23%
- Net Impact	0%	-9%	-15%	-3%

It is worthwhile noting that over the four-year period the general assessment of State and Territory Government policies was that they had become, on average, noticeably more negative in terms of their perceived impact on small businesses. However, more disconcerting is that for businesses actually increasing employment, those businesses' perceptions' of both Federal and State/Territory Government policies had become noticeably more negative over the four-year period.

***The Impact of Growth Aspirations of SMEs on Employment Trends and Barriers***

In gaining a greater understanding of the role and importance of employment barriers on employment performance, it is essential to examine the different growth aspirations and strategies of the SME sector. Once again the Yellow Pages® *Business Index – Small and Medium Enterprises* provides critical insights into this. Specifically within the survey the following question is asked of small and medium enterprises:

*Question 5 – Please think for a moment about the future of your business. Which of the following statements best describes your plans?*

- *We are actively seeking significant expansion;*
- *We are seeking to grow moderately;*
- *We are seeking to stay the same size;*
- *We are seeking to become smaller; or*
- *None of these.*

**TABLE FOUR: THE IMPACT OF SMEs GROWTH STRATEGIES ON EMPLOYMENT TRENDS (1998 TO 2002)**

PERIOD	May 1998			Aug. 2000			May 2002		
	Up	Down	Total	Up	Down	Total	Up	Down	Total
EMPLOYMENT TREND									
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%

Table Four demonstrates quite clearly a strong relationship between an SMEs employment performance and its overall business and growth strategy. For example, in 1998 while the total proportion of all businesses that were actively seeking to expand was 61 percent of all

SMEs. However, the percentage of businesses that experienced employment growth during that period that were seeking to expand was a noticeably higher 79 percent. Conversely, the percentage of businesses reducing employment at that stage that actively sought growth was a relatively low 51 percent.

The consistent trend that emerged over all three periods was that SMEs seeking growth had a relatively higher incidence of increasing employment trends within their businesses. Whereas SMEs that were not seeking to grow had a greater incidence of reducing employment trends within their businesses. This intelligence is highly instructive in explaining why businesses that were increasing employment levels were more likely to nominate the existence of employment barriers. Given that businesses that were reducing employment were more likely to be businesses that were not seeking to expand, this explains why they were less likely to nominate employment barriers. This reflects that businesses not seeking expansion were less interested in increasing employment, and therefore were less likely to identify potential barriers.

Given this intelligence, it is relatively more important that the Federal Government give greater weight to the issues and concerns of businesses seeking to expand relative to businesses that are reducing employment. In order to assist SMEs undertake greater levels of employment, it is imperative to focus on the key barriers identified by expanding businesses (such as lack of sales, finding suitable staff etc.).

### **Conclusion**

The analysis undertaken in this submission by Pacific Access is based on the recent findings from the Yellow Pages® *Business Index – Small and Medium Enterprises* and draws together a range of very important conclusions for the Government's deliberations. They are as follows:

1. Businesses reporting employment growth were more likely to nominate the existence of employment barriers than businesses reducing employment.
2. Businesses reporting employment growth and consequently the existence of employment barriers were more likely to be businesses actively seeking growth.
3. Businesses reporting employment growth identified an escalating proportion of employment barriers over the four-year period, thereby constraining their ability to generate additional jobs.
4. Broader Government policy settings that influence the total level of sales for an SME or the ability to locate suitable staff represented a greater barrier to employment than specific employment policies or regulations.
5. Businesses expanding their employment levels were more likely to nominate finding suitable staff as an employment barrier.
6. The specific SME policy issue that received the highest level of concern was taxation, but was distorted by one abnormally large result. However, on a consistent basis superannuation represented the most important employment barrier. On this basis, the issue of employment conditions/unfair dismissal policy came in as the second most important barrier.
7. The least important employment barrier was workers' compensation.
8. On the whole, businesses increasing employment were more likely to be generally supportive of Federal Government policies.
9. The perception of Federal Government policies between business expanding employment and businesses reducing employment narrowed significantly during the period 1998 to 2002.
10. The degree of support for Federal Government policies among employment generating businesses declined during the four-year period.
11. The general perception of State and Territory Government policies among employment generating businesses were noticeably less supportive than for Federal Government policies.
12. The perception of State and Territory Government policies among employment generating businesses declined markedly between 1998 and 2002.



13. There is a strong correlation between businesses that actively seek growth and businesses that generate employment.
14. Given that businesses that had growth strategies were more likely to increase employment, explains why businesses with increasing employment performance were more likely to identify the existence of employment barriers.
15. Government strategies and policy instruments aimed at increasing the level of employment within the Australian SME sector should give greater consideration to the concerns of businesses that are actually increasing employment.

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