



Inquiry into Small Business Employment

Submission

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Prepared by

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&

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A submission compiled by the Small Business Research Unit, Victoria University and Melbourne's West Area Consultative Committee

1. INTRODUCTION

This document is submitted to the Senate Employment, Workplace Relations and Education References Committee in order to provide a better understanding of the issues that influence small businesses in their employment decisions.

The data presented in this submission has been mainly drawn from a current project titled *Growing Employment by Identifying and Supporting Growth Firms*, which was commenced in the Western Metropolitan Region of Melbourne in November 2001 and is due for completion in October 2002. Data from 61 businesses involved in this project is presented. In addition, information from the Submission to the *Economic Development Commission Inquiry into Youth Unemployment*, as well as two other recent studies by Hall, Buchanan and Considine (2002) and CPA Australia is also discussed.

The submission has been compiled by the Small Business Research Unit (SBRU), which has worked with small businesses since 1993 together with Melbourne's West Area Consultative Committee (MWACC), which is involved in facilitating projects that lead to business growth and employment creation in Melbourne's western metropolitan region.

2. BACKGROUND

The Growing Employment by Identifying and Supporting Growth Firms Project, is a Regional Assistance Program funded by *Department of Transport and Regional Services*, which aims to offer business growth support to pro-growth firms in the Western Metropolitan Region of Melbourne. The central aim of the project is employment generation by supporting small and medium enterprises that are currently growing or willing to grow in the future.

Over the past seven months data about growth inhibitors and support needs has been gathered from these businesses. The data presented in this submission draws on questions, which related to recent changes in employment mix within the businesses and major employment challenges confronting these firms. Additional information is also drawn from previous studies for comparative purposes.

The submission addresses three of the four terms of reference as outlined by the Senate Committee and includes:

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

3. FINDINGS

For the purposes of this submission we have defined small business as those firms in non-manufacturing sectors with less than 20 employees and those with less than 100 employees in the manufacturing sector. However, approximately 70% of the businesses involved in this study have less than 20 employees.

Of the 61 businesses interviewed 59 responded to the question concerning the major employment challenges or problems in their business and 55 operators responded to the question, which related to views on recent changes in employment mix within their business.

Overall eighty-seven per cent of the 61 businesses interviewed indicated that they had not changed their employment mix in recent years. However, most of these businesses expressed concern about employing and supporting staff.

It should be noted that the comments made by businesses, which are summarised in the following section, were responses to the two general questions about employment. No attempt was made by the researchers to explore specific issues such as legislation, employment costs, skill needs or industrial relations.

3.1 Costs Associated with Employment

Ten of the 59 respondents (17%) referred to the cost of employing and supporting staff as being an impediment. Four of these respondents specifically referred to the impost of payroll tax as being a disincentive to employing new staff. The other six respondents found workcover costs including the processing costs and dealing with the regulations as inhibitors to employment. They further indicated a preference for employing subcontractors as an alternative.

It is interesting to note that, in the small business survey conducted by CPA Australia in March¹, payroll tax was a barrier to employment for 40 per cent of small businesses whilst fewer (25 %) firms were concerned about workcover.

Several other firms indicated that they were using more casual and part time workers to provide greater flexibility in their workforce. This is most likely a response to the cost issue.

These findings are supported by a larger study conducted by Deakin University in 1999². The researchers found that the indirect costs associated with workcover premiums, superannuation contributions, payroll tax, leave loading and fringe benefit tax were a major deterrent to employment for small firms.

¹ CPA Australia, (2002). Small Business Survey Program: Employment Issues, March.

² Raar, J., E. Smith, et al. (2000). Critical Factors Influencing Employment: A Study of Small Manufacturing Firms in South-east Australia. Melbourne: 1-34.

3.2 Paperwork and Government Regulations

Workers compensation was the second most frequently cited employment challenge. It was mentioned by seven of the business operators. They described workers compensation insurance as a costly activity that involved the operator in paperwork processing and also involved dealing with complex regulations. One operator felt that the implementation of OHS related legislation was beyond his capability and that outside assistance was required.

Five respondents indicated that the legal issues associated with employing staff were an issue, with two of these businesses highlighting the unfair dismissal laws in particular.

Although the number of firms that mentioned legislation as an employment issue in this study is small, other studies such as that conducted by Deakin University (1999) and CPA Australia (2002) found that legislation (unfair dismissal) was influencing small business managers in their staffing decisions.

3.3 Attitude

Ten businesses referred to issues related to employee attitude, culture or motivation as major employment challenges (problems) in their business. However, in another separate phone survey, of 9 companies who indicated that they had problems filling vacancies with suitable staff, only one attributed the reason to the poor attitude of jobseekers. Nevertheless, in a survey of Job Network Providers, factors related to attitude and social issues, such as homelessness and drug abuse, were cited as barriers to youth employment. Conversely, a good attitude was the attribute most cited by the Job Network as being common to young people who gained employment.³

3.4 Skills, Flexibility and Casualisation

Responses indicated that there was a tension between the perceived need for increased usage of casual and contract employees in order to increase flexibility, and the need to maintain the skill level and quality output of employees. Of the 26 responses that referred to the employment arrangements of their employees, eight indicated that they employed at least some casuals. Another indicated that part-time hours have increased and that full-time hours were also expected to do so. Another indicated that it may employ more casuals to deal with a backlog of work, and another said it was looking to employ more sub-contractors and one full-time office manager.

The main reason given for using casuals or contractors was the need for greater flexibility in the use of labour.

Nevertheless, it was evident that some small business operators preferred full-time employees, because they valued their skills and the quality of their output. Six of the respondents employed casuals as a screening process, with a view to providing full-time positions to those who were deemed to be suitable. Another seven respondents indicated that they needed skilled full-time employees, and one more said that it was not using part-time labour any more 'due to the need for quality workmanship'.

³ Submission to the Economic Development Commission Inquiry into Youth Unemployment, Melbourne's West Area Consultative Committee, Melbourne City Mission, Maribyrnong/Moonee Valley and Wynbay Local Learning Employment Networks, June 02

3.5 Recruitment

Recruitment of suitable employees was cited as the major challenge (in terms of number of respondents identifying it as a major employment challenge) to small business. Seventeen of the 55 respondents (31%) referred to difficulties finding people with the required skills, qualifications or training. Another five referred to the difficulty of finding people with the right attitude.

In the phone survey of small businesses in the western region, to gather information for a submission on youth unemployment,⁴ the reason most often given for the difficulty in filling vacancies was the lack of availability of skilled people. This correlates with the views of the Job Network providers, where the most commonly cited barrier to youth employment was lack of experience and lack of education, with the most often cited key factor to assisting young people to find work being effective education and training.

3.6 Training

Training was mentioned as a major employment challenge by 7 businesses. Four indicated that the challenge was to implement suitable training programs, and in training older tradesmen who don't see the need for further training. One mentioned the lack of a training facility and one mentioned the problem of losing employees, who had been trained, to larger companies. One mentioned the need to implement a communication program (this was extrapolated by the researcher as an indicator of the need for training).

There were other responses that related to training and which suggested that employers were looking for skilled employees who had already been trained, rather than being prepared to take people on and train them. As mentioned above under 'Recruitment', seventeen of the 55 respondents referred to difficulties finding people with the required skills, qualifications or training.

Hall, Buchanan and Considine⁵ report that individuals are bearing an increasing proportion of the cost of their training, with a reduction in the Government and employer contribution. They observe that there has been a general decline in employer provided training during the 1990's with the exception of 1993, which was the third year of operation of the Training Guarantee Levy.⁶ They argue that if Australia is serious about becoming a knowledge economy, there needs to be a greater investment in training for high skill jobs, particularly by Government and employers, and that appropriate standards need to be applied to ensure that training delivers the required skills.

3.7 Industrial Relations

Twelve respondents referred directly to industrial relations issues as being a major employment challenge to their business. Three firms indicated that there were union/IR problems associated with taking on new staff.

Three mentioned that negotiating fair enterprise agreements was a major employment challenge. Three others referred to the legal issues associated with employing staff and a further two specifically mentioned that the unfair dismissal laws presented a major employment challenge.

⁴ *ibid*

⁵ Hall, R., Buchanan, J. and Considine, G. (2002). 'You Value What You Pay For: Enhancing Employers' Contributions To Skill Formation and Use', a discussion paper for the Dusseldorp Skills Forum, ACIRRT, University of Sydney.

⁶ *Ibid.* p.9.

4. SUMMARY

This data indicates that although in the past few years, these small businesses have not made drastic changes to the way in which they employ workers, a number of issues impede or make employment difficult for them. A small number of these businesses stated that with added pressures and changing work demands they would change their employment mix in the future.

Although small businesses believe that government regulations impede employment, this is not the biggest problem. The inability to find the right employees with the right skills and attitudes is a key employment impediment together with the costs of taking on new workers.

It is interesting to note that although this study involved less than 60 businesses most of the concerns mentioned are similar to those identified in other recent studies. These concerns together with findings from other studies in this area are discussed in the following sections.

4.1 Special Needs Of Small Business

Researchers from the SBRU, who have worked with small businesses for several years, understand that they operate differently to larger firms. Although small businesses value full-time workers, because they provide stability and quality outputs, they also need some flexibility in their workforce in order to cater for changing work demands. However, small businesses do not have the resources to recruit and train employees. In addition, operators are not prepared to take on workers who may be inappropriate because of associated costs and potential industrial relations problems. There is also anecdotal evidence to suggest that small businesses do not know how to go about seeking external support. Employment support services are viewed as inaccessible by some businesses.

4.2 Government Regulation

Although not the most important issue the combined costs of workcover premiums, payroll tax and superannuation requirements place financial pressures and administrative burdens on small businesses

4.3 Measures That Would Enhance Employment Capacity

Actions that would enhance the employment capacity of small businesses should focus on helping small business in a number of ways.

Firstly small businesses need assistance to source the right employees to meet their immediate and long term needs. Presently operators do not have the time and do not know where to go to get this help. A better way of getting this information about support available to small businesses is needed.

Secondly the combined costs of workcover premiums, payroll tax and superannuation requirements are a problem for small businesses. The size of the small business (e.g. micro compared to firms employing 15-19 employees) may be relevant to the way in which these costs impact on the firm's resources. A review of these areas with a specific focus on their overall impact across industry sectors and firm size is required.

Finally, an education campaign, which focuses on the importance of and good practice in effective recruitment and training for small business may help alleviate employment problems.