



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION  
REFERENCES COMMITTEE

**Reference: Small business employment**

WEDNESDAY, 14 AUGUST 2002

SYDNEY

BY AUTHORITY OF THE SENATE

## **INTERNET**

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

**SENATE**  
**EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION**  
**REFERENCES COMMITTEE**

**Wednesday, 14 August 2002**

**Members:** Senator George Campbell (*Chair*), Senator Tierney (*Deputy Chair*), Senators Barnett, Carr, Crossin and Stott Despoja

**Substitute members:** Senator Conroy for Senator Carr and Senator Cherry for Senator Stott Despoja

**Participating members:** Senators Abetz, Boswell, Buckland, Chapman, Cherry, Jacinta Collins, Coonan, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Hutchins, Knowles, Lees, Lightfoot, Ludwig, Mason, McGauran, Murphy, Nettle, Payne, Sherry, Watson and Webber

**Senators in attendance:** Senators Barnett, George Campbell and Conroy

**Terms of reference for the inquiry:**

To inquire into and report on:

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 government inhibits growth or performance in the small business factor.
4. Measures that would enhance the capacity of small business to employ more people.

**WITNESSES**

<b>CARRAD, Mr Brian, President, Restaurant and Catering Australia.....</b>	<b>582</b>
<b>GIBSON, Mr Brian (Private capacity).....</b>	<b>572</b>
<b>HART, Mr John, Chief Executive Officer, Restaurant and Catering Australia.....</b>	<b>582</b>
<b>HODGKINSON, Associate Professor Ann Thelma (Private capacity) .....</b>	<b>611</b>
<b>MOORE, Mr Stan, Policy Director, Australian Retailers Association .....</b>	<b>600</b>
<b>VAUGHAN, Ms Sonya, Policy Officer, Australian Retailers Association .....</b>	<b>600</b>



**Committee met at 11.02 a.m.**

**CHAIR**—I declare open this public hearing of the Senate Employment, Workplace Relations and Education References Committee. On 20 March 2002 the Senate referred to its Employment, Workplace Relations and Education References Committee an inquiry into small business employment. The terms of reference focus on broadly two main issues: first, the effects of government regulation on the performance of small business, including the complexity of these regulations and the overlap between Commonwealth, state and local government regulations; and second, the special needs and circumstances of the sector, particularly in regard to the capacity of small business to employ more people. Some of these issues were canvassed by this committee in its inquiry into regional unemployment, which reported late in 1999. The committee acknowledges the vital importance of small business in the Australian enterprise structure and the need to ensure that the sector has the capacity to grow and to increase the size of the labour market. Of particular interest to the committee is the challenge of transforming successful small businesses into dynamic, medium sized industries capable of driving employment growth and employment. The committee has received submissions from a wide range of small business interests and is conducting public hearings in most states as well as less formal, roundtable discussions with local businesspeople.

Before we commence taking evidence today, I wish to state for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to the evidence provided. Parliamentary privilege refers to special rights and immunities attached to the parliament or its members and others necessary for the discharge of parliamentary functions without obstruction and fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given before the Senate or any of its committees is treated as a breach of privilege.

**GIBSON, Mr Brian (Private capacity)**

**CHAIR**—Welcome, Mr Gibson. Do you have any comments to make on the capacity in which you appear?

**Mr Gibson**—I appear as an individual but with a background of research and teaching in the small business area, primarily at the University of Newcastle.

**CHAIR**—The committee has before it submission No. 77. Are there any changes you wish to make to it?

**Mr Gibson**—No.

**CHAIR**—The committee prefers all evidence to be given in public, although the committee will also consider any request for all or part of the evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. Do you wish to make an opening statement?

**Mr Gibson**—Yes, just briefly. Thank you for the opportunity to make what is a late submission. But, being aware that you had more than 75 submissions, I suspected a lot of issues that I might otherwise have directed my attention to would probably have already been covered, so I attempted to make a submission that concentrated on just a few issues that may be important. I will quickly summarise those issues.

One of the concerns I have is that there is a significant proportion of the total number of small enterprises that exist that operate under what we would define as a ‘capped growth’ or a ‘constrained growth’ approach to their business, which means that they do not have long-term aspirations for growth. As a consequence, whilst solving some perceived problems in terms of employment activities within those firms may be a desirable and equitable outcome, that in itself is unlikely to generate circumstances where there is strong potential for employment growth. The strong potential for employment growth comes out of a small proportion of firms that have a strong growth orientation. The unfortunate aspect of that is the tremendous deal of difficulty we have in actually identifying which are the firms with the greatest possibility of growing. Being an academic, I finished off my submission with an appeal for more access to funding to provide research that can answer some of those fundamental questions and help us to try and address the issue of being able to identify growth firms that have the greatest potential to generate employment through the economy.

**Senator BARNETT**—Thank you for your submission, Mr Gibson. I would like to ask a few questions, firstly about the red tape and regulation that seem to constrict small business and prevent them from growing. In one case in Tasmania we had a petrol station and general store that, following its research, found that it had to comply with up to 20—in fact in excess of 20—separate licences, permits and approvals to establish and operate that petrol station and general store. Does that surprise you or do you think that that type of regulatory environment is consistent Australia wide from the research you have done? The second part of that question relates to the quality versus the content of the regulations. Is it more about the amount of red

tape or is it about the quality of the red tape which would make it easier for small business to comply with? I have a view that a lot of small business, and microbusiness in particular, would not be aware of their obligations and legal requirements and therefore not meeting them—that, through no fault of their own, they are just not aware of the regulations that exist.

**Mr Gibson**—If I could deal with the last bit first, I would totally agree with that. I think that there are a significant proportion of small firms who are not fully aware of their legal obligations. For many of those firms, therefore, bureaucratic red tape is not an issue, because they simply ignore it.

I am not surprised by your opening comment that there are firms that have to deal with a significant amount of form-filling, red tape and bureaucratic activities—or activities that are often viewed in that way. I would just make the comment that, going back about 10 years, I conducted a research project—commissioned by the Australian Taxation Office, in fact—to deal precisely with the issue of compliance and red tape. It was not a broad-based research project; it was a case study, and we identified about 12 individual businesses around Australia. We visited them on a regular basis and asked them what they were doing and what problems they were experiencing.

On the basis of that—a much more in-depth understanding of what small businesses were doing than you might get out of just a questionnaire, which is the common way that we have available to us of obtaining information—there was a general perception in the majority of those firms that the majority of the red tape or the form-filling was necessary. Small firms I think recognise that they have obligations to society generally and that that requires complying with regulation.

I think what concerns them more than anything else is that, firstly, there seems to be a lot of duplication and, secondly, there are some areas in which there is an underlying concern about who should really be responsible for the licensed or controlled activity. What came through from three or four of those cases—and bear in mind that it was 10 years ago and therefore prior to the current tax regime—was that superannuation was viewed as a significant problem by many of those firms, partly because they did not believe that the firm should be responsible for controlling the long-term retirement activities of its employees. They believed that that should be the employees' responsibility.

An added concern was that a couple of them were small employers who employed a lot of casual people and they doubted that there were institutional procedures in place which would really be able to track the employment movements of those people. Because they did not trust the institutional mechanism for tracking the employees they felt that a lot of the contributions they were making by law on behalf of their employees might never ultimately reach them. That was one area where the objection was not so much to the requirement to complete forms and advise on superannuation issues but more an underlying concern that maybe it was not the responsibility of the employer to make those contributions. In an associated area to that—because we had several construction firms in the sample—there was a concern about withholding tax under the prescribed payment system. Again, there was a feeling that if people chose to operate as businesses then they should be responsible, not the major contractor, for looking after their own taxation requirements.

**Senator BARNETT**—On this issue of the number of licences, permits and approvals, does it surprise you that a microbusiness employing five or fewer people would have to complete and fulfil obligations as for 20-odd?

**Mr Gibson**—It surprises me a little that it is that high because I know that there has been a concerted effort by many state and federal government departments over the last 10 to 15 years to reduce the number.

**Senator BARNETT**—What if it were half that number—say, 11? That would still seem to be an impediment.

**Mr Gibson**—It is certainly an impediment. One of the issues I make in the submission is that it also unfairly burdens the small firm. To fill out a form takes an hour whether you are filling out a form for five employees or 500 employees. So there is an inequity there.

**Senator BARNETT**—But in terms of proportions, they are primarily state government regulations, then local government regulations—and then the federal government has one, two or three regulations, depending on the situation. Is it consistent with your research into regulations for small business that they are primarily state government regulations?

**Mr Gibson**—The research that I have done in that area is primarily about taxation regulation rather than broad ranging. But clearly there is a lot of form filling required. It depends on the business, of course. Different businesses have different community concerns and therefore different requirements.

**Senator BARNETT**—You have talked about the capped growth scenario in your submission. Do you think that is largely due to the lifestyle situation? We have heard submissions from a number of witnesses, including witnesses from WA, who say that the majority of small businesses are sole proprietors and owner-operators. Many of them who work in home based businesses do it for lifestyle reasons. Does that fit with your capped growth scenario or is that a different scenario?

**Mr Gibson**—I think it is part of that. One of the explanations of why some firms do not want to grow is because they have a lifestyle preference and they go into business for lifestyle reasons. Associated with the lifestyle issue, another significant reason that people go into small business is that they want to maintain a degree of independence. They do not like an employer-employee relationship, so they seek to break out of that by going into business and maintaining independence. They feel, perhaps, that they are going to start to lose some of that independence if they become too large. All of a sudden, maybe it is not an employer but it is the bank or other financial institutions providing control and accountability requests that they do not want because they want to maintain the independence. Certainly, from a finance perspective, explaining the capped growth phenomena is often done from the point of view of this accountability and control issue.

**Senator BARNETT**—Focusing on the growth issue and picking up some of the well made points in your submission, would you hazard a guess at the type of industry where small business is likely to grow? As a supplementary question, do you think that high-tech or 21st



century IT benefits will flow through to small business? Will that be a boost to them and help them in their efficiency gains and progress towards growing?

**Mr Gibson**—In terms of the first part, where I see potentially more firms growing is probably in information technology areas, new retail communications outlets and things like that, because they are reflective of where society is going. Small business has always been probably the first area where business has emerged to deal with those changes in consumer preference. From the other side, in terms of businesses taking advantage of those advances in information technology, yes, I think small businesses will benefit from that, in part because we now have a generation of people moving into small business who have a much stronger background of computer literacy. You probably do not want to hear too many old warhorse stories but I can remember, from when I first started as an accountant in practice over 20 years ago, that the number of places I visited where the computer had been purchased, the computer had been tried and the computer was sort of sitting under the front desk, never to be used again, was astronomical. There was a lack of understanding of the benefits and, of course, the software programming was not as good as it is now in terms of face-to-face usage.

**Senator BARNETT**—Finally, you have had a couple of months overseas doing some research. Are there any lessons that you would like to draw from your overseas experience that would help our committee in our work?

**Mr Gibson**—Not in terms of the direct research that I was involved in. But an observation from the opportunity that I have had to go to many countries around the world—sometimes for long periods of time and sometimes for short—is that Australia's problems are not unique. Puerto Rico, where I was just recently, have very similar problems. In fact, they have—I do not know whether it is a government inquiry—people looking at the issue of generating small business activity, because they believe it is a potential generator of employment. I cannot inform you of the level at which that is occurring, but it may well be a government inquiry. It is a common problem; it is not a problem that is in any way unique to Australia.

**CHAIR**—On the last comment that you made, are we making a mistake in looking at the sector in terms of employment growth as we understand it—that is, an employer-employee relationship being established—when we should really be looking at what the capacity is to generate self-employment opportunities for individuals who otherwise may not be gainfully employed, such as the NEIS scheme that is currently running?

**Mr Gibson**—I do not think that it is a mistake to concentrate on the small business sector generally, but I have personal misgivings about the ultimate benefits of a NEIS type scheme. We have known for a long time that small businesses generally have management deficiencies in terms of being effective and efficient. Even those that have a capped growth do not necessarily have strong managerial skills. That is not totally a problem, because they still manage to survive and provide valuable inputs to business activity. I sometimes wonder whether the appropriate qualifications of the people that are introduced into self-employment through schemes such as NEIS are the people who have the ability to sustain self-employment in the long run. Having said that, I do not follow that area closely and there could well be research results that indicate the alternative is in fact true—that they do maintain long-run sustainable businesses—but I have some concerns about that.

**CHAIR**—I do not think it has been operating long enough to make those judgments at this point in time. The issue you raise about management skills is something that has consistently been raised with us right across this whole inquiry. Probably the major issue that stands out in all the discussions we have had with small business is the fact that the vast majority, the very substantial majority, of small business proprietors enter small business with very little or no managerial skills base. A corollary of that is that, while a lot of them may not necessarily go bankrupt or finish up going belly-up, there is a lot of anecdotal evidence to suggest that for most of them there is a loss of equity in their businesses as a result of that. The value of the equity that is lost as a result of them finding that they are not as successful as they otherwise would be is not measurable. We have looked at the issue on the basis that there may be a way in which we would be able to have a certification regime before we allow people to spend their \$200,000 or \$300,000 superannuation payout or what have you setting up a restaurant or cafe. We ought to see that they have some basic skills in place, like we do with plumbers or carpenters or other people, before they start down that road. There are pluses and minuses with that sort of proposal, but what is your general view about doing something like that?

**Mr Gibson**—It is a solution that sounds relatively straightforward, but the problem that I see is 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.

In fact, the only area of correlation is that small firms that grow, become more successful and become bigger are likely to introduce planning and some of those management practices because of the complexity. So some of that good management practice comes as a consequence of growth, and until you get a trigger that says, 'Hey, I'm at the stage where I need to be a little more serious about managing my business,' there is no evidence to suggest one way or the other that planning is good and that a lot of these 'good management practices' are necessarily going to result in more effective and efficient businesses. There are a lot of successful businesses out there that are being managed by people who left school at the age of 15, started in trades and then moved on to be very successful business managers and who, under the 'you need a certificate' regime, may not have been able to ever start a business. I think there are potentially as many downsides as there are upsides to that sort of approach.

**CHAIR**—You said there is inadequate research data to assist in identifying those small businesses that potentially will grow as opposed to those that will forever stay the size that they are. Have you got any views or experiences about what distinguishes those types of companies or enterprises from the ones that want to simply stay at the level that they start out at? Are there any features that stand out that differentiate them from the others?

**Mr Gibson**—It is extremely difficult to identify, but it is attitude: the owner's attitude; the owner's desires; what the owner wants to do. Many of them have capped growth—they want the lifestyle; they want the independence. The ones that have the greatest potential to generate

growth are those that want to generate growth and act in that manner. They are the firms that probably do not identify the inhibitors to employment in the same way that others do. To them, there is a problem there: 'If I want to grow, I need to overcome the problem.' So they do something about overcoming the problem. I mention an example in my submission. One example of that was that many firms were experiencing problems with employment. The way they thought was a smart way to overcome that was to shift the risk onto former employees. In various industries—as you would be aware—employers encouraged former employees to go and set themselves up as consultants or subcontractors. That has been successful for the firms that moved that proportion of their risk onto those other people, but now those other people are being treated as if they have done something wrong. There is now a regime that says you are not entitled to a full range of business deductions because you are not really a business, but of course they do not get any work unless they structure as a business. That is evidence of firms taking steps to overcome problems rather than simply asking for help to overcome those problems. The fact that it resulted in a shift in the underlying mix of activity in the work force or in the total employment force meant that the tax office felt the need to take some action over that. That is an example of firms being proactive about overcoming problems. The firms that overcame the problems are still not being in any way criticised or made to jump through new hoops but, through that structure, those who used to work for them are. They are a new breed of small businesses that are seeing problems.

**CHAIR**—With the issue of the distinction between the firms that want to grow and the firms that do not, is there any adequate form of research that could be conducted that would identify the difference or could establish a difference? Could that have been established through that longitudinal survey that ABS was conducting that has now been shelved?

**Mr Gibson**—In terms of that particular project, the answer is no. The reason is that it did not ask sufficient questions about the background characteristics and attitudes of the owner-managers. To be able to do that you need to have some degree of capacity to sit down with the people involved and talk to them. Again, if I go back to my finance background, if you think in terms of venture capitalists, they fund some businesses, especially growth orientated businesses, at a rate of two in every 100 applications getting as far as being financed. If you talk to any venture capitalist, the thing that makes the decision for them about whether they invest in this firm as opposed to another firm is the management team—the people involved—and their perceptions of their attitudes and capacity to go forward. It seems to me that identifying characteristics of growth orientated firms requires an ability to identify characteristics of the owner-managers of the firms and make assessments. We can still be wrong in those assessments, but the chances of being wrong are reduced if we can generate a research background that deals with that.

There have been attempts to try and pick the winners. I was talking about this before the session started today. One area in which we attempted to pick winners was the finance area—I guess it was about 15 years ago, but maybe a bit longer than that. A number of research projects were conducted to try to use financial information about a firm in order to predict firms that were likely to grow as opposed to firms that were likely to fail or discontinue. The underlying financials for both groups of firms were exactly the same. So the characteristics of firms that are about to grow, from a financial perspective, are that they have liquidity problems and a range of problems with financial management and accessing finance and all of those problems, but they are exactly the same problems that firms on the verge of failure face.

That is an area where we have made an attempt, and you are not able to do that because of the similarities that exist. I suspect that what overcomes that, when you then look at the firms that have those sorts of problems but go on to succeed, is the attitude of the owner-managers and their vision and capacity and innovative activities that carry the firms forward. That is where we need to be able to focus on research activity. On reflection, I do not think a broad Australian Bureau of Statistics funded project would do that, because I do not know that the ABS would necessarily have that capacity. To get genuine responses to those sorts of questions I think you need to be sitting face to face with the owners rather than sending out questionnaires.

**CHAIR**—It needs to be more qualitative?

**Mr Gibson**—Yes.

**CHAIR**—In your submission you talk about your own research on the clusters of firms that are centred on finance structures. Can you give us a bit more detail of what you mean by that and what you are actually looking at there?

**Mr Gibson**—It is in many ways related to this issue of capped growth. Again, there is this perception that there is a finance gap where small firms have problems getting hold of finance. But the intent of what I am trying to do is identify that the reality is that there is a very large proportion of firms who never ever want to go looking for external finance, be it debt or equity—of any significant amount—because of this capped growth phenomenon or whatever, and who rely on simply using their own equity and the retained profits that the businesses generate. Essentially that is the basis of the research. So what I have been able to do is to break firms up into clusters—I think in the submission I only identify three; there are actually five, but there is one which is the dominant one where the majority of firms sit and their main source of finance is equity and retained profit from the owner-managers. They have short-term borrowings to cover the fluctuations and things of that nature, but they do not have long-term bank borrowings or any other external equity. There are other firms that do rely mainly on bank debt but, as a proportion of the total number of firms, they are a smaller group than the group that relies predominantly on equity financing. I have not done research on this yet but I suspect those firms are on the smaller side and less inclined to grow. I am fairly sure that it is part of the capped growth phenomenon.

**CHAIR**—There is a lot of anecdotal evidence—and there has been for some time—that one of the problems with our businesses in Australia in particular has been this reluctance to take equity into businesses. That is a different issue from putting additional equity in yourself, but there has been an attitude for a long time that we are trying to fund the growth of businesses through debt rather than taking on equity partners. There has been a bit of frustration from the venture capital sector as well as other sectors about that attitude—and it seems to be an attitudinal thing. Does that also come through in your research?

**Mr Gibson**—Yes, and that is clearly a reflection of the independence issue. Associated with that is the concern about accountability and control. One aspect of being independent is that you do not want anybody else influencing the decisions you have to make. I think the perception is very strong that if you take on another equity provider then that equity provider is rightly going to expect to be able to exercise some control and you are going to have to be accountable to that

person. So it is this aversion to accountability and control, associated with independence, that is a characteristic of the people who manage small businesses that results in that outcome.

**CHAIR**—Has that been an impediment to growth over the years?

**Mr Gibson**—I do not think so, because I think it is those firms that have a capped growth attitude anyway. I think firms that genuinely want to grow see problems that they can overcome and they go about overcoming them. The venture capitalists tell me that they only accept two or three out of every hundred applications which cross their desks, which means that people are out there trying to get equity finance. If the research from other countries is true, that firms with growth aspirations are only about four or five per cent of the total number of small businesses, then that is still 50,000 businesses out there around Australia that are likely to be interested in gaining equity finance to fund their growth. I do not say that they all will, but they are more likely to be interested in attracting genuine equity finance to fund their growth.

**CHAIR**—You referred in your submission to a survey that was done in 1994-95 into the cost of compliance for small businesses. I think you set out figures of \$1,000 per turnover at \$24.71, compared with 0.98c for a medium sized business and negative for large businesses. I do not know where you draw the line between the various groups, but has that data been updated to take into account the current tax regime and compliance costs under the current regime?

**Mr Gibson**—Firstly, it is not my research; it was just some research that I thought was relevant to the compliance cost issue. I would be fairly confident in saying yes, it has been updated. I would be fairly confident that lots of people are looking at compliance costs in the new regime. My suspicion would be that the differential would not be quite as great now because of the advantages that large firms had, especially in terms of being able to hold back lots of the tax that they collected. That is the reason they had a negative cost: they were able to generate benefits from withholding tax for certain periods of time—which was quite legal—before they passed it on to the government. I think the government has tightened that up fairly extensively under the new regime, so companies do not get over 12 months to pay their income tax now; they need to make ongoing payments of tax they collect. Taxes such as pay-as-you-go instalments and GST all need to be paid much more quickly now. But the fact that it takes as much time to fill out the appropriate forms for a firm with three employees and a million dollars turnover as it does for a firm with 300 employees and \$20 million turnover means that the relative proportion, which is what those figures are, would still be much greater for smaller firms than it would be for medium sized and larger firms.

**CHAIR**—Is the research that has been done in this area adequate in identifying the key issues that need to be addressed in terms of the small business community, do you know?

**Mr Gibson**—In terms of the compliance costs or—

**CHAIR**—I think generally across the board. I do not know how familiar you are with the programs that the national Office of Small Business, for example, has put in place since 1996 to reduce the impact of red tape. I must admit they listed them for us last week and I was more confused after they listed them than I was before. Hopefully when I get the *Hansard* I might be able to understand what was actually said to us. We have asked them to identify the things they have done to reduce that red tape. It seems to me probably not much overall has emerged as a

result of that. Are you familiar with those programs? Is there much that you can do, other than perhaps taking a radically different approach to small business?

**Mr Gibson**—I am certainly of the opinion that the vast majority of small firms do not really want a great deal of help. They would like to see anything that they see as an unnecessary cost or an impediment to doing things removed. I could probably use the expression ‘level playing field’ because I have used it for a long time. They want a level playing field; they do not want to see the goalposts moved all the time.

But I do not think the vast majority are all that concerned, and there has certainly never been any indication that the vast majority are going to go looking for help. Rightly or wrongly, they are primarily interested in looking after their own interests. The proportion that do identify a need for help need to be able access it. I think that is the benefit of those programs—that what I suspect is about 20 per cent of firms that identify that they need help should be able to get help. What is important is that they be able to identify where they can get that help and then go and get it. Beliefs that we can make the other 80 per cent change their attitudes to business management are ill-founded.

**CHAIR**—We did have some people say to us in Perth that the compliance regime was so substantial at this time that they were virtually put in a position of having to make decisions about either operating illegally and avoiding it—in other words, getting involved in the cash economy, and there seems to be a lot of anecdotal evidence that that is on the growth path—or getting out of business altogether. ‘It just was not worth it’ is essentially what they were saying to us. Do you have much experience with businesses saying similar things to you?

**Mr Gibson**—No, not recently, because I have not been as directly involved with business over the last few years since the new tax regime came in. I have seen plenty of anecdotal evidence about firms that perceive that they have very serious compliance problems as a consequence of business activity statements and the related GST activities. I can understand how many firms find that to be a difficulty, especially as it is something they have to do now that they did not have to do before. So it has considerably increased the compliance activity that they needed to be involved in. There will be some, of course, who will argue that that is a good thing, because now they are being forced to keep records that might make it easier for them to manage their business.

**CHAIR**—Some have argued that; that is right.

**Mr Gibson**—That is the tax office’s argument. In fact, the tax office has been quite active in encouraging people to spend time with them developing good accounting systems so that they can provide the information the tax office wants. But the tax office argues that it also gives them the opportunity to have the information—

**Senator CONROY**—The Treasurer announced, in many press releases, that it was a big opportunity for small businesses to modernise their businesses.

**CHAIR**—A lot of them also add the comment that they now understand when they are going broke, so they can get out quicker!

**Senator CONROY**—They do not lose as much, because they can jump earlier because they have worked out they are going under.

**Mr Gibson**—The underlying assumption there is that these firms are doing something wrong and they need to be coerced into doing something that is beneficial for the organisation. As I say, I am not quite convinced that that is necessarily true, as often as we think it might be.

**CHAIR**—Thank you very much, Mr Gibson.

[11.45 a.m.]

**CARRAD, Mr Brian, President, Restaurant and Catering Australia**

**HART, Mr John, Chief Executive Officer, Restaurant and Catering Australia**

**CHAIR**—I welcome representatives of the Restaurant and Catering Association of Australia. The committee has before it submission No. 19. Are there any changes you wish to make to the submission?

**Mr Hart**—There are no changes. We have a couple of updates which we would like to provide in the course of our responses.

**CHAIR**—The committee prefers all evidence to be given in public, although the committee will also consider any request for all or part of the evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. Do you wish to make an opening statement?

**Mr Carrad**—Yes. The restaurant industry is made up of 29,000 businesses. Last year we turned over \$9.3 billion, and we employ some 217,000 people. The labour intensive nature of the industry is such that labour issues are the greatest deterrent to employment. Wage rates, employment conditions and the characteristics of employees are the greatest deterrents to further employment. In a recent survey by Restaurant and Catering Australia prepared for this inquiry, over two-thirds of restaurant operators said that they would employ at least one more person if they were more profitable off the same customer base. Consistent with the submission to the inquiry, the greatest deterrents to profitability were rising labour costs, both indirect and direct, the GST and factors such as unfair dismissal arrangements.

**Mr Hart**—Since the submission was made to the inquiry we have received additional responses to the survey. These were consistent with the findings that we cited in the submission. We did mention in the submission that we were still receiving responses. We have received in total 112 of those responses. One of the important aspects of the links that were drawn within the submission was that between profitability and employment. Whilst this link might seem obvious, the point needs to be reinforced that if restaurants make more in profits they employ more people. Even given the same number of customers, in making more in results there is increased employment. Forty-two per cent of those surveyed were looking for staff at the time of the survey—and that is fairly consistent with the numbers that we were quoting in the submission to you—and on average they were looking for 2.3 people, so there was inherent underemployment of about 6.5 per cent. I think underemployment within the industry was seven per cent at the time that we made the submission. Therefore overcoming barriers to employment would create immediate employment in the restaurant and cafe industry.

**Senator BARNETT**—Chair, will that update be tabled?

**CHAIR**—Mr Hart, would you table a copy of that?



**Mr Hart**—Yes, we will.

**CHAIR**—As there is no objection, it is so ordered.

**Senator CONROY**—In terms of your opening presentation, I got the impression, from looking at the graph on page 9 of your submission, that you say profitability was narrowly the greatest inhibitor—if there was an inhibitor—being just ahead of wage rates. Am I reading that correctly?

**Mr Hart**—Yes indeed.

**Senator CONROY**—While I appreciate a lot of things get tied up in profitability, could you expand on what you think the survey returns meant by profitability? Is it the fact that wage rates were too high and therefore profitability was low? Is it the fact that it has been a tough 12 months for small businesses in catering and they have been hit, therefore income and costs are in balance?

**Mr Hart**—I should perhaps give a snapshot of the 12 months leading into the end of 2001, which is basically the setting for this submission, and since then there has been a bit of additional information received. Towards the end of 2001 turnover was continuing to increase. We got about an eight per cent growth in turnover in 2001, yet at the same time we had growth in average weekly earnings of 6.5 per cent in our industry and we had growth in the cost of food of about 7½ per cent, yet CPI reports were of absolutely flat restaurant pricing. So really we had a situation where competition was keeping a lid on prices—

**Senator CONROY**—And you had to absorb a lot of those cost increases?

**Mr Hart**—Yes, we had to absorb those cost increases, the keys to those being, of course, wage costs and food costs, so it is a matter of increasing costs.

**Mr Carrad**—That also followed on from absorbing a lot of the GST costs.

**Senator CONROY**—Sure, I think it is acknowledged now that Fels's campaign to terrorise business, particularly small business, was successful. It worked, and there was a lot more absorption than I think even Treasury estimated. Treasury said inflation would be this, which would mean it was being passed on. It was actually quite a bit lower than even Treasury calculated, which can only have meant one thing: that in the competitive end the business community—small business in particular—just absorbed by a long shot more of the GST costs than they would have wanted to.

**Mr Carrad**—That was particularly so in New South Wales. We had a very tough time leading into the Olympics: it was in the middle of that year that GST started. That was followed by smoking legislation in New South Wales, which drove diners out of a lot of restaurants and increased our local government costs in putting furniture on the street to accommodate those people. That also happened at the time. There were some quite dramatic rises.

**Senator CONROY**—Why more in New South Wales? I would have thought that if anybody had the best of the economic climate it would have been New South Wales, with the Olympics

being plonked on top of you, and that it would have pulled you out more than the rest of the country.

**Mr Carrad**—Draw your own mind to what you were doing when the Olympics were on—

**Senator CONROY**—I was having a party—don't worry. It was great!

**Mr Carrad**—Everybody was either going there, watching it at home or enjoying public transport rides where everybody was smiling at each other—but they were not going to restaurants. We had a Friday night when we had five people, as opposed to 150, because everybody was watching the opening ceremony. When Cathy Freeman ran we had two people. The next time somebody like that was up—the swimmer—I closed the restaurant and went to the Olympics myself. You might as well have watched concrete dry. Of course some areas of Sydney did absolutely huge business.

**Senator CONROY**—Around here—this is where I wandered around.

**Mr Carrad**—Around Circular Quay I know of one business that virtually paid off over \$1 million worth of renovations in a period of time. They had a month of Olympics, leading in and after. But the majority of restaurants in the suburbs and so forth did little or no business. There was the increased impact of compliance costs and state government legislation on smoking.

**Senator CONROY**—And then business dried up for a month.

**Mr Carrad**—There was the local government increases in charges, the Olympics and then a quieter Christmas. The recovery rate has been very slow. Then, as Mr Hart mentioned a little while ago, there was the impact the following year of rises in food prices and wages. In Sydney we also suffered, I think, a 3 per cent decrease in restaurant prices and there was no restraint on more restaurants and cafes opening. I noted before that Senator Campbell asked about people putting their superannuation into businesses without some level of entry. We talk about this constantly in our industry. If you want to be an electrician or a plumber you have to get a licence. While we are not advocating licences for our industry—because some of our best and brightest chefs have never done any training; they just have an in-built ability to recognise food and what to do with it—the people coming into our industry do not generally have any sort of training for our industry. They might have some business training, which we certainly welcome for new entrants, but they are also sometimes employing people who have a lack of training in our industry.

**Senator CONROY**—I particularly noted that issue, which I found extraordinary, when you searched for best practice. Has that improved at all? The fact that Job Network are just not bothering because they do not get enough take-up—that is an extraordinary statement for them to be making.

**Mr Hart**—We have now done three different surveys based on the same sorts of characteristics, the latest being the one we did for this inquiry. There has been no change.

**Senator CONROY**—No change!

**Mr Hart**—Certainly the service that we are receiving from the Job Network is less than what you could conceive as being satisfactory.

**Senator CONROY**—That is an extraordinary outcome for something that was championed as making things easier. I guess when you are in the pointy end of the market where you guys are, all of a sudden there is an economic incentive for them not to bother servicing you. That is quite an extraordinary outcome particularly when, as you say, you have tried to get them involved and they do not even bother nominating to be part of a best practice program. I would have thought it should be mandatory on them to participate in things like that. When the major body says, ‘Hello, we’ve got a real problem with what you are supplying us; let’s sit down and talk,’ they go, ‘Yes, good idea, but see you later.’ That is an extraordinary situation to develop.

**Mr Hart**—Certainly one of the characteristics of this industry is that we do not have any big businesses to drive the agenda. I keep saying that this is very different to an industry where there is a small business dominance with big business players to drive the agenda. In our case, we are absolutely small business dominated with no big players to drive the agenda. In circumstances like that Job Network circumstance it really plays out as being a huge difference.

**Senator CONROY**—Do you try to work with the hospitality courses at the TAFE institutions and places like that as a feeder for yourselves? How do you get around this other than putting an ad in the paper and taking the most acceptable person who walks in, or an ad in the window which you often see at a restaurant: ‘Part-time waiter wanted.’

**Mr Carrad**—That is a lot of it. I have had an ad in the window now for the past month and I have not had one person walk through the door. One thing that alleviates this problem a little is of course working holiday-makers. We do not hire them because they are cheaper or for any reason apart from the fact that they actually come here looking for a job. Now we are being asked to be immigration officers and make sure they are all legal.

**Senator CONROY**—You are tax collectors; there is no reason why you shouldn’t be an immigration officer as well!

**Mr Carrad**—I am running out of time to actually be a hospitality person. That working holiday situation is such that we have made submissions about the superannuation that we pay for them. The government has decided to give them back all the money that they pay in superannuation. That is another cost where we ask that that money could be churned into training, for example, and stay in the country rather than go with a working holiday-maker. Therefore it would not encourage us to employ any more of those people and at least the money would go back into the industry.

**Senator CONROY**—It would get a benefit out of it.

**Mr Carrad**—We had a pretty good reception from our operators. They do not particularly want a separate rate of pay for those people; we are happy to have it all go into the system.

**Senator CONROY**—How would you envisage that money being used—to expand TAFE courses, or set up a training academy of your own?

**Mr Hart**—There is a process in place through the Australian National Training Authority to determine the priorities for the expenditure of dollars in particular industry areas. That priority-setting arrangement works in the main, but I guess what we were suggesting through that mechanism is to have some way of getting dollars that are contributed by the industry directed and targeted to industry based programs. With regard to what they are spent on down the track, there is a priority-setting arrangement in place. To have further dollars flow through to those industry targeted programs would have been an advantage, but at this stage we have a situation where working holiday-makers will receive that refund when they are leaving the country rather than it being contributed back to the industry that is making those payments on their behalf.

**Senator CONROY**—I am still stunned by the Job Network's approach.

**Mr Hart**—We have actually done some further work in that regard. I should say that the survey work we did suggested that very few operators were using the Job Network and also very few were using any other sort of employment agency.

**Senator CONROY**—So they had just given up.

**Mr Carrad**—I used to use the old CES office. We are looking, in this instance, at a fairly unskilled sort of person. We had a restaurant in Penrith; we would ring CES up and they would send down 15 applicants. To our restaurant in Balmain they would send down two or three. That was fine; they passed them on. That just does not happen now.

**CHAIR**—Why do you think Job Network is less responsive than the old CES?

**Senator CONROY**—Page 17 of their submission states:

... the 'strike rate' from applicant to interview is too low for them to be able to 'make money'.

It is just an extraordinary position.

**Mr Hart**—Because the employment service market has been decentralised and made competitive, you now have a number of players servicing different regional markets. It means that in any particular industry area—or particularly in an industry area like ours—there is not enough of a concentration in the business profile of each of those employment service providers to make putting resources in that particular industry market worthwhile. They do not have the concentration of business in hospitality to make an investment in that industry profile worthwhile so, for them, investing time and effort in understanding the way that the hospitality industry employment market works does not stack up financially. They are better off going for industry areas where they do have a concentration, such as some areas where they can guarantee supply from a big business in their geographical area. They invest time and money in those markets but not in the hospitality market where there is this proliferation of small businesses. There are obviously a number of full-time positions, but because a number of the jobs are part-time positions which sit below what they will be paid for, that market is simply not worth servicing—whereas in the old days the CES, because they were going across the market, could do so.

**Senator CONROY**—It created an economic disincentive to service the people who need the jobs.

**Mr Carrad**—If you look at them as a profit-making company, they are doing the right thing. But if you look at it from the other situation, it is very frustrating.

**Senator CONROY**—I thought they were a service provider. I always thought that was the plan.

**Senator BARNETT**—I would like to turn, firstly, to your survey and to page 2 of your supplementary paper. In the graph entitled ‘Impact on profitability’, what is the difference between labour costs and wage rates on profits? They are the two top impediments to profitability.

**Mr Carrad**—One was looking at the wage rates, as in the amount that is paid as wages, and labour costs looked at rising labour costs. So one is the impact of rising wage rates or labour costs, including direct and indirect costs—that is, it includes the cost of superannuation, workers compensation and so on. The other is the wage rate itself, and it is much more specific in its deterrent effect on profitability.

**Senator BARNETT**—How do you have a wage rate on a profit?

**Mr Carrad**—It is the effect of wage rates on profits; it is the impact of net wage rates on profitability.

**Senator BARNETT**—Do all of these factors noted here impact on profits?

**Mr Carrad**—Correct.

**Senator BARNETT**—So you have ‘on profits’—

**Mr Carrad**—Yes, we have added that in.

**Senator BARNETT**—I am trying to get my head around it so that I understand your survey.

**Mr Carrad**—While I was prepared to, I had not intended to table this document.

**Senator BARNETT**—I find it interesting. You have updated it and it is essentially consistent with your original document, which is excellent because we know where you are coming from and what the industry is thinking. I notice that, in the graph entitled ‘Impact on employment’, you have profitability, wage rates, lack of applicants with the right attitude and, of course, unfair dismissal, which is No. 4 in terms of priority. You have appeared before this committee in another forum with regard to unfair dismissal laws and the industrial relations system. Are your views about support for a more flexible industrial relations system still consistent with your previous submission?

**Mr Hart**—In that regard, our views are consistent.

**Senator BARNETT**—On page 11 of your submission you state:

Workplace Relations regulation creates a huge cost burden on restaurateurs—

I am amazed at some of these figures, in the same way that Senator Conroy is amazed about the Job Network.

As labour intensive service businesses, any employee related matter will impact disproportionately on restaurants. In a recent survey (conducted for another Senate Inquiry<sup>1</sup>) it was found that '38% had defended an unfair dismissal claim in the past three years – in these cases the defense was at an average cost of \$3,675.00 and 63 hours away from their businesses'. Of these businesses the average number of claims was 2.7 per in a three year period.

So those figures are obviously correct.

**Mr Hart**—They are correct.

**Mr Carrad**—And they were in the other submission.

**Senator BARNETT**—When was that survey done?

**Mr Hart**—In February-March of this year, from memory.

**Senator BARNETT**—You go on to state:

Taken at face value these statistics suggest that the cost of defending unfair dismissal claims is \$18.2 Million in direct costs and \$15.5 Million in indirect costs ...

Was that in your other submission?

**Mr Hart**—That was not in the other submission; that was a calculation done specifically for this submission. In this submission we were trying to draw down what the costs and impacts of these initiatives are on employment. We were trying to draw down some of the dollars, which we did not do previously.

**Senator BARNETT**—I am interested in that analysis, because I have not seen it before. It seems to be a very significant sum of money. You are telling us that the cost of defending those unfair dismissal claims is calculated at that sum and that the indirect cost is based on the time the operator has put in to defend that claim?

**Mr Hart**—Indeed.

**Senator BARNETT**—At \$50 an hour?

**Mr Hart**—At \$50 an hour based on the 63 hours away from their businesses.

---

<sup>1</sup> Inquiry into the provisions of the Workplace Relations Amendment Bills 2002

**Senator BARNETT**—So you have multiplied the 63 by 50, and so on?

**Mr Hart**—Correct.

**Senator BARNETT**—What is your analysis then of that survey and those figures?

**Mr Hart**—That survey quite adequately reflected our belief that the current arrangements for unfair dismissal were creating a huge burden on our businesses. Certainly, the time away from the businesses is very significant. The figure of \$15.5 million is based on half of the businesses in the country being non-employing businesses, so we have extrapolated that from only half of the businesses in the industry. We know that these things do take an amazing amount of time. When our members think about how they can handle the issue I think the expression they use is ‘cognitive load’.

**Senator BARNETT**—Many of them are microbusinesses or small businesses, and they would be thinking about it at night, which creates a little bit of stress, family upheaval and that type of thing.

**Mr Hart**—Absolutely. It is 63 hours that they do not have. The amount of hours that restaurant operators spend in their businesses are extreme, to say the least. To then add a burden of 63 hours to deal with an unfair dismissal claim is—

**Senator BARNETT**—On top of the 63 hours, they probably have that cognitive time, as you call it, maybe at home talking to the spouse or family and feeling a bit stressed about it.

**Mr Hart**—Absolutely.

**Mr Carrad**—Particularly in regional areas where they have to travel to go to the place where the hearing is held. That is also pretty stressful.

**Senator BARNETT**—Is that taken into account in your survey?

**Mr Hart**—That is, yes. That is part of the 63 hours.

**Senator BARNETT**—Does this provide added impetus then for an exemption for small business for unfair dismissal? What about the exemption for short-term casuals, as you refer to it in your submission?

**Mr Hart**—The short-term casual exemption is particularly important for our business, given the number or percentage of casuals we have—that is, about 50 per cent of our employees are casual. It has an extremely large impact on us. We repeated the interrogation of the membership of our state associations on this matter only very recently, and they have demonstrated again their interest in some form of differential treatment or an acknowledgment that small business cops this burden unfairly. There is no doubt that in a business that employs an average of eight people, as restaurants do, that this amount of load unfairly falls on their shoulders.

**Senator BARNETT**—Yes, it seems to. In relation to this information that you have pulled together for the committee, is this the first time that it has been made available?

**Mr Hart**—Yes, indeed. This is the first time that we have expressed it in that way.

**Senator BARNETT**—Thank you for your analysis. Obviously some people will now try to see if that sort of analysis can apply to their industry or their small business. You represent restaurateurs and caterers, but, quite frankly, a lot of small businesses around the country feel similarly to you and feel similarly concerned about it. You note your view about the high rate of casualisation in your industry. Is there any other way to address that casualisation issue, or is the main way to deal with it and to make it work better through the IR system? Is the fact that it is such a high rate a problem, or can you live with it?

**Mr Hart**—I think you would look at it in two ways. In one way the casualisation serves a need in the labour market. There is no doubt that we employ a large number of students, and not only do we meet their needs by allowing them to earn an income for working hours that they would not usually be able to work, but also that student market is servicing a need of the industry to employ people for a small number of hours. It does fulfil a role in the labour market more broadly, but, at the same time, in terms of loyalty, retention and so on, it creates a burden on the industry. We have looked in the submission at a number of different ways that we could start to decasualise the industry. Some burdens, such as taxation burdens, act like disincentives. For example, the fringe benefits tax acts as a disincentive for corporates to dine at lunchtime. In that environment, if we were to cut out those disincentives, we would be able to employ more full-time people because you would have a spread of business across an average working week. There are other initiatives, besides industrial relations initiatives, that impact on the rate of casualisation. It is a good and a bad thing.

**Senator CONROY**—So the industry was more permanent before the FBT was introduced pre-1985. Would you be able to give us some statistics that show that casualisation leapt after 1985?

**Mr Hart**—It is not an analysis that we have been able to do, because there have been so many other things that have changed as well. I do not know that we are going to be able to get to a point of saying that, prior to fringe benefits tax being introduced, the industry employed more full-time people. What we can say with confidence is, looking forward, if we were to have a change in trading patterns such as fringe benefits tax removal might create in the industry, we would be able to employ more full-time people. I do not know that we can look back and justify it on the basis of those numbers. What we can do is look at trading patterns forward and prove that, if there were to be an initiative that would remove the fringe benefits tax on legitimate business meals, there would be more full-time people employed. We have several exercises that demonstrate that quite conclusively, one from Access Economics that we distributed previously, and another from the University of Newcastle.

**Senator BARNETT**—Are you advocating that your industry move further under the federal IR jurisdiction or are you happy to live under state and federal jurisdiction? What would be the ideal world, let us say 10 years down the track, for our IR system in Australia? What would fix the problem? Do you want just one system or do you want consistency across the country?



**Mr Hart**—In the submission, we have suggested that, with a movement towards instruments such as Australian workplace agreements, where there is a degree of flexibility able to be built into the employment arrangement, that sort of flexibility is where we see the key. Whether that is under an agreement through an AWA under the federal jurisdiction or whether it is under such an agreement on a state basis, the same benefits accrue. Where we do see an element of concern is in forum shopping in the unfair dismissal area, for example, where we have employees who are looking to some jurisdictions because it might be easier for them to demonstrate that they have been unfairly dismissed in a particular state jurisdiction. Consistency would obviously benefit there and we would not get that degree of shopping around jurisdictions. In terms of unfair dismissal, a degree of consistency is important. We would certainly advocate the flexibility that individual agreements would bring, be they through Australian workplace agreements or other similar instruments. We have mentioned, in terms of initiatives such as the fee for lodgment, that some degree of consistency across the country would be worth while.

**Senator BARNETT**—Yes, you have. You mentioned earlier the proportion of the total costs in your business. Can you confirm with us what the proportion would be for labour? I assume that would be the largest cost expenditure item. You also mentioned food. Can you summarise that component for us?

**Mr Hart**—It is about a 30 per cent, 40 per cent mix, so it is about 30 per cent food cost and about 40 per cent labour cost. I can get exact figures for you in that regard, but the ABS published a series in 2000 drawing on 1998 and 1999 data. In that, it was a percentage of about 30 to 40 per cent. Between the two, it is certainly around 70 per cent.

**Senator BARNETT**—Yes, exactly. Labour is clearly the big one, though, at 40 per cent.

**Mr Hart**—Absolutely.

**Senator BARNETT**—Are you saying that, if we can build a better system and make that more cost-effective and more flexible, then, if there was one thing that you would want government to do, fixing the labour relations arrangements would be the way to go?

**Mr Hart**—I would say that whatever impacts on the cost of labour for our industry is absolutely our overriding concern. That is what impacts on us greatly. Service industries, being 70-odd per cent of industry activity are labour-intensive industries and, in industries like ours, the labour cost is it.

**Mr Carrad**—Certainly, in New South Wales the impact of the gambling dollar is beating us over the head like crazy. We now have pubs and clubs; pubs were awarded poker machines because they were getting beaten over the head by the clubs because they had cheaper beer. Now that the pubs have got poker machines, they are beating the restaurants over the head because they can reinvest the money in better food outlets.

**Senator CONROY**—You could install poker machines in your premises.

**CHAIR**—But you can now sell liquor without selling foods.

**Mr Carrad**—Not yet.

**CHAIR**—When does that come into effect?

**Mr Carrad**—Not fully. Our business is not going to change into a bar from a restaurant because of the availability of giving 30 per cent of your customers a drink without having a meal. I will not go into anecdotal references to it. There really are a number of different places. Some would maybe suit becoming a full-time bar because of their location; others would not. It is not what we are fully about. When two people come in and say, ‘Can we have a couple of beers, we just want to have a quick chat,’ and you go ‘Oh yeah, sure,’ we just want to know they are not actually licence police trying to set you up to breach you. That is part of what is going on. We have made tremendous ground in New South Wales; we introduced a nightclub licence to stop this sort of thing.

Just on the issue of gambling, gambling has had a massive impact on us. We do not object to it; there is no doubt that it has saved the hotel industry, and that is great. It was a government intervention. They saved it, but the cost to our industry has been very heavy. They have just got money to throw at things. You talk about percentages there—I know of one club in New South Wales which turned over \$9 million last year in its food outlets. That is a tremendous amount of money for a food outlet. With 50 per cent wage cost and 50 per cent food cost that is a good return for the members for a \$2 membership fee. We cannot compete.

One of the strengths of our industry has been the improvement in food for the public. That has been driven by restaurants in this country, not driven from the home like in Italy and the older countries. That, once again, has driven rural producers to improve their product, improve their land, improve their fish—improve the availability of fresh herbs and produce in the Sydney market alone. That was principally driven by one chef at the Regent Hotel. Serge absolutely drove that market; he drove producers to produce what he wanted. Then it filtered out through the industry. More than just the 217,000 people we employ will suffer if we start to lose that part of the market.

**Senator BARNETT**—I appreciate your bringing that up, because the last issue I was going to address was the gambling dollar. I notice that on page 20 of your submission, where you talk about gambling regulations, you talk about state legislation as an impediment. You have just spoken about gambling being a negative impact because you are all chasing that available dollar and gambling is grabbing it at your expense—is that in your submission? Can you draw my attention to it? You are making an extremely important point. It seems to me that it is an impediment to small business growth in your sector.

**Mr Carrad**—A lot of hotels are small business as well, but it means they have the available funds to reinvest in their business, coming in from what is almost a separate business. A hotel these days might have a separate drive-through bottle shop which is a business on its own. They have a separate gambling room which is a business on its own. They have a TAB which is a business on its own. Then they have a dining room which they now make to run at a profit. A club in the Newcastle area might charge \$28 a main course, whereas outside fine dining restaurants are only charging \$30 a main course—because that is all the market will wear. There is no profit in the \$2.

**Senator BARNETT**—You put it on the public record this morning, but is it not in your submission for a reason?

**Mr Hart**—If I can address it in this way: in terms of the gambling issue, it is really something that each of our state associations tend to work on rather than it being a matter for us. I note that this inquiry does draw attention to some of those issues in terms of state legislation, whereas the majority do not. It is something that we have addressed and that we are prepared to provide further information on, if you would like us to. We see it as being twofold. Firstly, there is the impact of declining spend in restaurants as a result of increasing gambling spend across the board. We have done some work for some of the other state associations looking at what the impact of that is from the numbers that were quoted in the Productivity Commission inquiry.

**Senator BARNETT**—Let me cut to the quick: do you have a position on gaming regulations in Australia? On page 20 of your submission, you state in the second paragraph:

In addition to smoking, the industry is discriminated against by gaming regulations. Hotels and Clubs subsidise the cost of food through gaming revenue, thereby lowering the market price of meals.

That obviously creates an unlevel playing field for most of your members, I would imagine. Do you have a position on it or does each state organisation have its own position?

**Mr Hart**—In general, our state associations would have a position, and those positions would vary from state to state.

**Mr Carrad**—Western Australia does not have poker machines, apart from the Birdwood.

**Mr Hart**—It is not a consistent position across the country. We do not have a position as a national association that is more robust than that one we put in the submission.

**Mr Carrad**—Once again, New South Wales has nearly 50 per cent of the restaurant business, which lowers our averages right across the board because of the impact of gambling there.

**Senator BARNETT**—I cannot understand why your members are not jumping up and down a little more vigorously about this issue when the gaming laws are obviously benefiting, on the whole, those who have the gaming machines, while others are adversely impacted by that—not to mention the personal and social misery that is imposed on members of the community and on the people with gambling problems.

**Mr Carrad**—We have to deal with the same minister. Licensing and gambling and racing come under the same minister, so it is hard to jump up and down about that and at the same time ask for 30 per cent of your area to be available for drinks without meals. It is like saying, ‘Gee, thanks a lot. It is great to see you. By the way, here is another knife in the back.’ It is not as cutthroat as that, really, but that is one of the issues. People are concerned about it. I must admit that we talk about it. We have a lot of regional meetings, particularly in New South Wales, and we are concerned about it from two angles—one is the business angle and, of course, the other is the social cost involved with it. Government have the same problem: they love the revenue but there is a tremendous social cost. What was it—\$14 billion or something like that?

**Senator BARNETT**—I will leave it there. Thank you for your responses to those queries.

**Senator CONROY**—You said that in terms of cost—40 per cent labour, 30 per cent food—you wanted a more flexible system, possibly AWA style, to try to deal with your labour costs. Are you aware of the proposals, particularly from food suppliers, advocating the right to collectively bargain in the upcoming Trade Practices Act review? Their argument is that at the moment they are being screwed downwards in terms of pressures. Have you got any concerns about food suppliers being able to collectively bargain? I presume, by definition, that means the price of food will go up to some degree, although I am not saying it will go up massively. In terms of the principle you are talking about of AWAs for employees, have you got any concerns that food suppliers might be able to collectively bargain? That would be farmers, Senator Barnett.

**Mr Hart**—I am aware of it. It is not something that we have assessed will have a significant impact on the cost of food.

**Senator CONROY**—They seem to believe that it will. They are saying that they are being absolutely killed at the moment and that is why they want it. They want to be able to collectively bargain to strike a higher price than they are currently getting.

**Mr Carrad**—If you are talking about farmers in particular, they have a particular problem. If the product is ripe, they have got no bargaining power if somebody is trying to screw them at that particular time. I guess, to a degree, if the price of raw produce goes up dramatically—

**CHAIR**—If there is industrial action against you, you may be in trouble, too.

**Mr Carrad**—It flows on, doesn't it?

**Senator CONROY**—I have just come from Darwin, where I was being told yesterday about mango producers—they have a three-week season in Darwin. They are treated like trash because the other 48 to 49 weeks of the year they are irrelevant. Mangoes are ripe at a particular time, and they find they are being absolutely massacred by the middlemen for you guys.

**Mr Carrad**—In the long run I will probably be very angry if they allow mangoes to come in from overseas as well. If they come in at a different time of year, that is okay.

**Senator CONROY**—So you think collective bargaining is going to be okay for food suppliers?

**Mr Hart**—It is an issue that we are aware of. It is an issue that we have undertaken some impact assessment of and it is not one that we believe will impact significantly enough on the cost of food to be a major issue for us.

**Mr Carrad**—Our industry to a degree does have a lot of above-award payments that take place, particularly in restaurants and cafes as opposed to five-star hotels. There are really no above-award payments in five-star hotels except maybe if you are a head chef and you are senior management. In restaurants and cafes you might have a really good barista in your cafe who can turn out the 600 or 700 coffees you might need to do at a particular level and looks after everything, so you certainly might pay them more, and you pay chefs and second chefs more. Even an 18-year-old, if he or she is doing the same job as somebody else, would get the same amount of pay. I think a lot of our people do that, and they are quite smart in that respect.

---

If people are good you certainly look after them. That is not to say that if they are bad you don't.

**Senator CONROY**—Trying to obtain good staff would be a constant difficulty, I would imagine.

**Mr Carrad**—Yes. We are a very personal business. We work terrible hours, and not many people start to think about a social life at midnight. If you got home at 4 o'clock, 'Gee, that was an early night'—that sort of thing.

**Senator CONROY**—Let me introduce you to Senator Campbell!

**CHAIR**—On that issue, Mr Carrad—which was one I was going to raise anyway—in your submission you say that the vast majority of your employees are on minimum wages—it is one of your arguments that the impacts of national wage case decisions on your industry are greater than on others. I would suggest that they are not, but that is your argument. To what extent is there over-award payment in your industry, and to what extent are people working on the minimum rates?

**Mr Carrad**—Over-award payments would be very small. Let us take a cafe that might have three people in the kitchen. You might have one person above award there: the chef. In the front of house area you might have the barista above award, and that would be it. On that ratio you would probably have three or four waitresses or waiters, so you might have one or two people working on above-award wages. But once again, when you get to larger outlets, if you take something like the Black Stump, that would not be the case at all. You could not afford to have that flexibility; you would not allow it. Once you get into a chain operation—admittedly we have very few of them in this country—people like McDonald's and Kentucky Fried Chicken do not have above-award wages.

**CHAIR**—It is all minimum rate stuff?

**Mr Carrad**—Yes, the majority of it is.

**CHAIR**—To what extent do you have any figures on actual wage increases over the past four- to five-year period?

**Mr Hart**—From my recollection of what I put in the submission, we have included some data in the submission on increases. I think we have cited the increase to August 2001 of some six per cent in the average weekly earnings—up to \$332.60, from memory—so we certainly can cite some data on increased wage rates. We are also in the process of evaluating the last six months where movement has occurred. We also had some information in the submission we provided to the commission at the time of the safety net review. We have been tracking increases in overall wages: it is around the six per cent mark. In our submission to the commission we were able to demonstrate that the increase had been greater in our industry than it had been across the board. We cite those larger percentages—it is some 10 per cent greater—of employees that are on or around the minimum wage rate in our industry and also the larger than average percentage that are on penalty rates. Certainly the larger number of casuals magnifies the effect of a minimum rate increase.

**CHAIR**—To what extent are penalty rates being paid throughout your industry?

**Mr Carrad**—Being paid?

**CHAIR**—Yes. I know a number of people who own cafes who are not paying penalty rates.

**Mr Carrad**—I guess it is a bit like anything—I do not know what the percentage is for—

**CHAIR**—They would be breaking the law and that is another issue, but they are definitely not paying penalty rates.

**Mr Carrad**—I guess it is a bit like asking how many people are in prison as opposed to how many people are out of prison. Maybe it is the same percentage. I could not swear to what people are paying. The only thing I could say is that it was probably far greater 20 years ago than it is today. It is like everything else—people certainly comply with things far more than they ever did in the past, because there is a lot more to comply with. Once you start to look at things, you sit down and keep going through the regulations that are there and you just keep doing things.

**CHAIR**—I understand—

**Mr Carrad**—In New South Wales, for example, we put out a joint brochure with the Department of Labour and Industry recently. They did a survey in the eastern suburbs of Sydney. I think they surveyed about 300 outlets and they found about five or six that they had problems with. Two of those related to time sheets and the other related to an underpayment of about \$80. It is very low these days.

**CHAIR**—Would it be fair to say that, in this industry, there is a fair bit of cash in hand going on, particularly with waitresses and waiters?

**Mr Carrad**—Maybe a long time ago. I have had my current restaurant in Balmain for 13 years. When I took it over I would have done 80 per cent of business in cash and 20 per cent on credit cards. Today I am doing 85 per cent on credit cards and 15 per cent in cash.

**CHAIR**—I am talking about cash in hand for employees.

**Mr Carrad**—Yes, I know, but it is the availability—there is less cash in the business so it is eliminated. Where are you going to produce the money from to pay this cash in hand? When I first came into the industry as a waiter there was a lot more of it around, I can assure you, and you know darn well there was. These days it is not worth it. It is not worth it for the person, as those wrongful dismissals show, where you end up doing 63 hours on the stuff. The last thing anybody wants is to have an audit by the taxation department, not because they might be doing anything wrong, but because it is a nightmare. You do not want to be involved in it.

**CHAIR**—On this issue of the unfair dismissals, on the figures you have given here the average cost is \$3,600 and 63 hours away from businesses. I note that you say it is an average.

How many respondents were there to that survey that you have done and that these figures emerged from?

**Mr Carrad**—I am struggling for the figure—from memory it was about 120-odd respondents.

**CHAIR**—And that is out of a membership of 5,000?

**Mr Carrad**—Yes, 5,000 nationally.

**CHAIR**—That is out of 29,000 businesses in the industry?

**Mr Carrad**—That is correct.

**CHAIR**—So it is a relatively small sample. I think on this one you have done it is about 50 out of the—

**Mr Hart**—We have revised those figures.

**CHAIR**—So it is 62?

**Mr Hart**—Yes. There is absolutely no doubt that it is a small sample but, in any of survey work that we do, we have to work with a representative sample.

**Senator CONROY**—But is it representative? Does the intensity of wanting to tell the story make those people more likely to respond than the ones that did not?

**CHAIR**—That is the point I was trying to make.

**Senator CONROY**—So was this a survey you sent out or did you go and knock on doors and say, ‘Can we talk to you about this?’ Were these the responses you got unsolicited through a mail-out?

**Mr Hart**—These are responses that we got unsolicited. Around half went by fax and the other half went by email.

**CHAIR**—Have you attempted to qualify any of the data by seeking data from the industrial relations commissions at the state or federal level on the number of unfair dismissal claims lodged in your industry sector?

**Mr Hart**—We have certainly attempted to draw data from the commissions. We are concerned, though, that a number of claims do not get formally lodged, and certainly the information that we have received back from the survey work includes a number of claims that have not been formally lodged. A number of claims have been settled very early in the piece because the restaurateurs do not want to go through incurring the maximum of 63 hours away from their business. We have attempted to get data on some of the claims that do not reach the commission. Yes, we are certainly prepared to accept that there might be some skewing of the

sample by those that want to tell the story wanting to respond. We still rest, though, on the ground that these are real numbers that have come back from real businesses in the field.

**CHAIR**—I am not suggesting that they are not. I am trying to get a feel for—

**Mr Carrad**—We admit the sample is small, but it takes time for people to do these things, as well.

**CHAIR**—Did you ask them under which jurisdiction these claims were being made? Did you differentiate between federal and state jurisdictions?

**Mr Hart**—We did not specifically ask that question in the survey, but we know through the returns that we received what jurisdiction they would most likely be under.

**CHAIR**—The vast majority would be state, wouldn't they?

**Mr Carrad**—In Victoria and the ACT they are federal, and the others are all state.

**Mr Hart**—The 27 per cent we have included in the submission are those in our industry that we estimate would be in the federal jurisdiction.

**CHAIR**—You talked about flexibility through AWAs as a key issue that you look for in industrial relations. What is the flexibility that you are looking for?

**Mr Hart**—Members that have gone down the path of an agreement are basically looking for flexibility in rostering and flexibility in hours—being able to package up a rate of pay that absorbs penalty rates for example, so it is a flat rate of pay across a week. That sort of flexibility is what they most often attempt to achieve through the agreement making process.

**CHAIR**—Even if you went down the road of AWAs, how would you achieve that, given that you would still be bound to meet the no disadvantage test?

**Mr Hart**—Certainly they would go through a process of demonstrating that the rate of pay that they were striking was not placing their employees in a disadvantageous situation. They would be demonstrating that the rate of pay that they were striking across the week would adequately compensate them for what they would achieve under a penalty rate regime. What it does provide for, though, is a situation whereby the restaurateur can have a flat rate of pay across the week. They can be in a situation where they can roster employees to be able to work the hours without having to compensate them for working after 7 o'clock at night or for working on a Saturday. The rate of pay is going to be higher across-the-board, but it gives them that much more flexibility.

**CHAIR**—But if they meet the no disadvantage test, at the end of the week the outcome cannot be any different. It cannot be less than what they would have had.

**Mr Carrad**—The no disadvantage test is not an issue for our industry. It is not about paying them less money. It is about ease of operation. They know what they are going to get; we know



what we are going to pay them. We have looked at the issue particularly in New South Wales. The point was made that, if you are paying everybody the same hourly rate right through the week, what is the incentive for people to come to work on a Saturday? You might lose that incentive. You might also lose them to the club industry that might not go that way and might pay higher rates. When we put that point back to our members in the industrial seminars that we run around the state, everybody stopped and thought for a while, and we have noticed a slight easing-off of pressure. Once again, that is just in this state and is not particularly representative of what is going on in other states where things are slightly different.

**CHAIR**—Why haven't you been able to do that? The major players in the industry have been able to do that. The Sheratons and Hiltons and so forth have struck deals with the union for flat pay rates across the industry and the abolition of penalty rates. Why haven't you been able to do it?

**Mr Carrad**—In New South Wales we had to take the union to the commission to get a pay rise last time. It took us some considerable time to do it because—

**CHAIR**—It is usually the other way around.

**Senator CONROY**—As a rule.

**Mr Carrad**—I know. I used to be a trustee for a trade union and I found it amazing that this particular union we deal with—

**Senator CONROY**—Does the chair want to comment on that particular union? What was the result of their ballot?

**CHAIR**—I will pass on the message.

**Mr Carrad**—I would also add that their only representative was their barrister, not one of the elected trade union officials. I found that particularly galling because it did not help the process to proceed. It was just annoying. We were not out there to try to win goals or anything. We wanted a solution to several of our problems, but that was not the way to get a solution quickly.

**Mr Hart**—I would like a shot at answering that question. The reason we have not been able to achieve what perhaps has been achieved in some of the other sectors of industry essentially comes down to the information we are able to get out to the small businesses that are our constituents. It is a lot more difficult for us to get information to small businesses on how they might proceed down an agreement making path; giving them the information to do that is pretty difficult. Whereas, with the large businesses like the Hiltons, Sheratons and so on that you cited, it is a lot easier because they have the infrastructure to do that. One of the points we make in our submission is that it needs to be easier for small business to come to grips with some of the issues in agreement making.

**CHAIR**—Thank you.

**Proceedings suspended from 12.41 p.m. to 1.42 p.m.**

**MOORE, Mr Stan, Policy Director, Australian Retailers Association**

**VAUGHAN, Ms Sonya, Policy Officer, Australian Retailers Association**

**CHAIR**—Welcome. The committee has before it submission No. 4. Are there any changes you wish to make to the submission?

**Mr Moore**—No, there are not, thank you, Senator.

**CHAIR**—The committee prefers all evidence to be given in public, although the committee will consider any request for all or part of evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. Do you wish to make a brief opening statement?

**Mr Moore**—Yes, if that is fine by you. In the submission that you received from the Australian Retailers Association we gave background to the association. We cover 12,000 members Australia-wide, and of our membership we consider around 90 per cent to be small businesses—that is, employing 20 or fewer persons in their retail business. Our original submission to the inquiry concentrated on one key area: the issue of shopping centre rents and what we see as the relatively high cost of rents in shopping centres compared to retail tenancies outside shopping centres. We also brought to your attention the impact that has on the ability of those retailers in the regional shopping centres to employ additional staff. When you look at the staff costing figures we provided to you there is clear evidence that the cost of rent in regional shopping centres is now outstripping the cost of staff and that the cost of paying rent for the retailer is at the expense of employing additional staff. I think that is probably where I would like to leave it. I think it is pretty well explained in our submission. If you have any questions in relation to our submission I would be happy to field them. I must also mention that I have just provided you with a short document on current credit card reforms and the EFTPOS review which we believe will also have some impact on costings for businesses, and particularly for small businesses, and therefore on their ability to employ staff. If you wish to handle questions on our submission first, I would be happy to field those. If you want to run questions on both documents together, I am in your hands.

**CHAIR**—Do you wish to table the document ‘Briefing paper on credit card reforms and EFTPOS review’?

**Mr Moore**—Yes, I wish to table that document.

**CHAIR**—It is so tabled. Thank you. Ms Vaughan, do you wish to add anything?

**Ms Vaughan**—No, I have nothing to add.

**Senator BARNETT**—Thank you for your submission. You talked about the anticompetitive and unfair trade practices by landlords in major shopping centres. That is obviously a major concern for you. Have you any specific recommendations on how we ought to amend the Trade Practices Act to fix that problem? You also recommended a federal and state governments

agreement on a nationally harmonised best practice retail tenancy legislation, including a compulsory disclosure on turnover.

**Mr Moore**—Yes.

**Senator BARNETT**—You also said that the ACCC needs to be more active in their investigations of unconscionable conduct by landlords. Can you flesh out for us how we fix those problems? Do you have any specific amendments to the Trade Practices Act? Have you put in a submission to the Dawson inquiry on the review of the Trade Practices Act, and is that consistent with what you are saying today?

**Mr Moore**—Yes, we have put in a submission to the Dawson inquiry on the review of the Trade Practices Act. It is very consistent with what I will be relaying to you here today in relation to this submission and our position on the required amendments to the Trade Practices Act. We are strong supporters of seeking amendments to unconscionable conduct provisions in the Trade Practices Act. They have only been in operation for some two years now. Our view is that those types of provisions will address the unfair, harsh and unconscionable behaviour of landlords. In fact, it did take us some time to draw those unconscionable conduct provisions from the Trade Practices Act into the retail tenancy legislation of various states. That has occurred in most jurisdictions, and we believe that is the best way to address a specific issue. As for amendments to deal with the nature of that behaviour, I believe they are in the act now. Our view is that, to some extent, it up to the ACCC to concentrate on and pursue identified cases in order to get some case law around the issue of unconscionable conduct. We raised that in our submission as well to the Dawson committee.

In relation to harmonised retail tenancy legislation, the association has worked with various state jurisdictions on this issue, and we are progressing that. There is general acceptance, even from the shopping centre industry, to pursue a level of harmonised retail tenancy legislation throughout Australia. The main issue here, however, is do we go for the best practice model or do we go for the lowest common denominator. Latest negotiations with the shopping centre industry and with government have indicated that we are getting very close to a best practice model. We have not made a lot of ground perhaps in the area of disclosure. However, we are soon to progress with a code of practice to deal with outgoings, as that seems to have been another area in recent times, whilst rents may be pegged, where additional dollars have been extracted from retailers. We have been progressing a code of practice dealing with shopping centre managers in the area of outgoings. As far as those issues around the behaviour of parties are concerned, we believe that largely the mechanisms are there or are in train to be put in place there.

**Senator BARNETT**—Consistent with your views urging the ACCC to take more action and be more active in unconscionable conduct by the shopping centre owners, do you also support them being more active generally in unconscionable conduct by other businesses in the community?

**Mr Moore**—One would have to generally say yes. However, in the retail industry we have identified a particular problem, one where there is a particular mechanism open to retailers to address that problem in their industry. The state legislatures deal with retail tenancy. That is the area where our members are saying they have significant concerns in their dealings with other

businesses. The retail tenancies legislation in most states seeks to address that. We believe that allowing the draw-down of the unconscionable conduct provisions from the Trade Practices Act into state legislation is going a long way towards addressing that.

**Senator BARNETT**—Some small businesses say that the ACCC should be taking more action in terms of unconscionable conduct regarding major retail chains. Is that something that has been raised in the ARA?

**Mr Moore**—That has not been raised in any of our forums. Competition by its very nature is a brutal area for business, but in conducting that competition the practices must be fair and reasonable, and we would not endorse anything other than that.

**Senator BARNETT**—What is the status of the membership of the ARA at the moment? Do you still have the major chains such as Coles and Woolworths as members?

**Mr Moore**—The status of the ARA's membership is that we have around 250 of the major retailers in Australia including Coles Myer, Woolworths, David Jones, McDonalds and the Tricontinental group, which is KFC and Pizza Hut. We have those sorts of members. We have chain retailers involved across more than two states, particularly in the apparel area. But when you have a look at the make-up of the Australian Retailers Association our membership largely reflects what is out there in the marketplace. There is a slight skewing towards the big end of course; we have just about all the majors as members. But, as I said earlier, 90 per cent of our membership still constitutes small members employing 20 people or less. Doing the numbers, a bit over 10,000 of our members are those small business members.

**Senator BARNETT**—Do you have a problem in representing the interests of small business when you have such large businesses as well being members of the ARA?

**Mr Moore**—Based on our democratic process and the processes that we have in place in our councils, we have not found that a problem.

**Senator BARNETT**—What is your response to the industrial relations issues? Quite a few small businesses have said to this committee, for example, that unfair dismissal laws are an impediment to small business growth. Some say they have that fear; some say it is a reality. Does the ARA have a position on that?

**Mr Moore**—The ARA's stated position on unfair dismissal is that we are seeking a small business exemption because we believe, whether it is real or perceived, that the issue around unfair dismissals inhibits employment in our sector. However, the main fear seems to be about either the bringing of the claims or the process that a business needs to go through. There is a deal of fear and loathing about the whole process. Perhaps, if that could be simplified, some of the mystique or the perceptions out there in the marketplace could be addressed.

**Senator BARNETT**—What is the ARA's position on competition and the purpose and effect test?

**Mr Moore**—Clearly you have to look at the issue of an effects test in terms of what competition is. Competition by its very nature means that there are going to be adverse impacts on some

other businesses. I think the issue should be whether there was purpose, not whether there is an effect. The day to day operation of marketplaces will cause an effect. In fact, if you look at section 46, in a regional market where there may be two relatively small businesses operating it is quite feasible for one business to bring an action against the other business based on the effect of it competing much more effectively in that particular marketplace. So I think that bringing in an effects test will bring a lot of uncertainty and it may perhaps even restrict competition.

**Senator BARNETT**—This inquiry is about small business employment. COSBOA, the small business association, did some research which showed that in the retail grocery sector every time one new employee is put on by a major chain 1.7 employees are lost in the independent or small business sector. So it has a direct impact on our inquiry. Using your argument against the effects test and your lack of support for it, the creeping acquisition approach where a major chain is acquiring independents one by one and picking them off—particularly the successful ones—has a direct impact on employment. What is your response to that?

**Mr Moore**—I would really like to be able to provide you with some statistics in this area but, based on the analysis work that we have done, the small grocery sector is in a process of change. I cannot verify whether the COSBOA figures are correct, but—

**CHAIR**—Senator Barnett, can you identify the study that was done by COSBOA?

**Senator BARNETT**—Yes.

**Mr Moore**—I am aware of the study.

**Senator BARNETT**—For the chair's information, it has been publicly produced. COSBOA is the Council of Small Business Organisations of Australia. We could perhaps ask the secretary to obtain a copy of that study from COSBOA so that we can table that before the committee if that would be helpful.

**Mr Moore**—I would suggest that a further analysis of the Australian Bureau of Statistics figures is required to see where these changes that are going on in a particular sector of the retail industry—that is, the food and grocery area—should be looked at a little more closely. I cannot vouch for the figures in the COSBOA report, but our analysis would show that, whilst there has been a general shrinking in employment in the grocery sector, there has been an increase in other service areas such as in takeaway food, restaurants and general retailing. But the two key areas that we believe would balance any decline in employment in what you would call the grocery sector would be the takeaway fast food area and the restaurant area.

**Senator BARNETT**—The point I was making was that, as the market share for the retail grocery chain has increased, there has been a net decrease in employment across the board, because there are more jobs in the small and independent retail grocers. A lot of them are in the rural and regional areas and, of course, they are employing people there. As the major chains gain their market share, that turnover is sucked into their market. Across the board, and in the regional areas in particular, that is where the employment gets lost.

**CHAIR**—I understood Mr Moore to be saying that across the board that is not the case.

**Senator BARNETT**—I was talking about in the retail grocery market.

**Mr Moore**—On my understanding, the COSBOA survey was in the retail grocery market. The retail industry is broader than the retail grocery market. That is where I am coming from. If you have a look at other sectors of the retail industry, there are areas of growth. As a sector we have continued to display employment growth. We are one of the largest employing sectors of industry in Australia overall.

**Senator BARNETT**—Let us look at bank fees and merchant fees, which you referred to in your submission, and address the cost differential between a small business and a large business. Let us take the retail grocers as an example. Research done by an academic from the University of New South Wales estimates that small business pay almost four times the merchant fees of a larger business. Do you have a response to that analysis?

**Mr Moore**—Yes, and thank you for the opportunity to talk to that. In the first instance, we need to differentiate in the payments or tender type area the difference between credit cards and EFTPOS or debit cards. If I could, we might firstly have a look at credit cards. When the Australian Retailers Association conducted a survey almost two years ago of our members on the costs to retailers in the area of credit cards, on the whole there was a tendency for larger retailers to receive a finer or lesser rate in relation to the merchant service fee rate charged to them. Typically it would be around one per cent to 1.2 per cent for large retailers. For smaller retailers, typically it would be somewhere between 3½ per cent and four per cent. The University of New South Wales figures are comparable to ours.

**Senator BARNETT**—Is this for EFTPOS?

**Mr Moore**—No, this is for credit card. Credit card is a percentage at the lower end fee basis. Our research also pointed out that, among some small business operators, one in particular had recently entered into a new agreement with one of the major banks and had a merchant service fee on credit cards of seven per cent of turnover.

**Senator CONROY**—The Treasurer just tells everyone to shop around.

**Mr Moore**—There are a number of issues here as to the wherewithal from a business sense of some of our small business operators. I think in this particular case the proprietor went to their bank—the bank they do their everyday banking with—and believed that this bank would provide them with a fair deal in relation to this.

**Senator CONROY**—An existing customer relationship might get them a fair deal.

**Mr Moore**—That is right. When we were talking to this retailer they indicated what they were on and they also showed us a whole lot of other fees and things that were attached to it. This was a very recent agreement.

**Senator CONROY**—Without revealing the bank or the institution, is it possible to get those details? I suspect that these sorts of issues are likely to come along over the next couple of weeks.

**Mr Moore**—We mentioned that issue in our submission to the Reserve Bank. However, for confidentiality reasons, we are loath to point to the retailer. But it has been addressed and it has been raised in our submission to the Reserve Bank. Coming back to the point, generally—and I must say it is a generalisation—the larger you are the better your negotiating power and, therefore, the finer the rate you get on credit card fees, although I am aware from our survey of small retailers getting rates on credit cards as fine as 1.2 per cent. I am also aware of retailers with turnover in excess of \$50 million—in fact, one up to \$100 million—paying a merchant service fee of just over three per cent. So the marketplace is a little all over the place. I think that reflects the lack of transparency in the marketplace and, therefore, one would have to ask: how is a small business proprietor able to gain the information of what is a fair deal? When you relate it back to the one retailer who signed on at seven per cent, if they had known what the market really was, they would not have signed up to seven per cent.

**Senator BARNETT**—So how do they know?

**Mr Moore**—Part of the issue is based on the reform proposals being put forward by the Reserve Bank which we are expecting to hear of in the next three to four weeks. There are a number of issues that we believe will assist. One issue is the ability for a retailer to display or charge additional charges for the cost of using a credit card—that is, surcharging. In most merchant agreements at the moment there is a no-surcharge rule which prohibits a retailer from adding to their cash price an additional fee if a credit card is used.

Based on the UK experience and feedback we have had from our members, we do not believe that the majority of retailers will actually surcharge, but in the marketplace it is important to have the ability to do that if you need to expose the rate that you are being charged. If you have a look at the graph on the front page of the *Briefing paper on credit card reforms and EFTPOS review*, based on the average transaction the current cost of a credit card is \$1.04 on an average retailer's transaction. The closest similar type of transaction is that on debit card, and it is down at some 17c. One has to question whether a similar type of process, and in fact there is a slightly higher staff cost in relation to credit cards—

**Senator BARNETT**—That is factored in there, is it?

**Mr Moore**—That is factored in. One would think that if the rate was back to a more reasonable rate the issue of surcharge goes away—it becomes a non-issue.

**Senator CONROY**—As you have described, they are charging a percentage. Can you see any justification for a percentage figure when you have been able to calculate an actual dollar amount?

**Mr Moore**—No. In fact, there is no justification in ad valorem or a percentage base.

**Senator CONROY**—When you are on that machine, you run the card through the machine—

**Mr Moore**—It does not matter whether it is \$10 or \$1,000, it is roughly the same staff time, it is the same processing, and our view is that the retailer cost is closer to 10c for the retailer themselves in staff time and resources and all that sort of thing. That is why we have been very

keen to pursue credit cards. It was clearly identified by the Reserve Bank and also the ACCC that this was one area that required a closer look. We are generally supportive of the Reserve Bank's reform proposals. We would have liked them to go a little further on interchange. In fact, on the credit card market we cannot see why there is any need in the current marketplace for interchange, and particularly the way it flows—that is, to the card issuer—at the moment.

**Senator CONROY**—In Europe they have reached a settlement of 0.7 or something. Do you think it will be less here?

**Mr Moore**—As far as I am concerned, 0.7 is a Clayton's change. If you have a look at the average interchange fee at the moment, it is around 0.95. All reports from the Reserve Bank indicate that it should be a significant reduction. The Reserve Bank is currently doing its costings. Based on our own internal costings, per transaction cost, it should be closer to 20c or probably a little under 20c.

**Senator CONROY**—Do you think the Reserve Bank will move to a dollar figure or will they continue to allow them a percentage?

**Mr Moore**—Our view was that they should have scrapped ad valorem, but I think the Reserve Bank will retain ad valorem rates.

**Senator CONROY**—They would want to go very low then, wouldn't they?

**Mr Moore**—I do not think the Reserve Bank have issued any number, but the general view is that it is more likely to be around 0.3 of one per cent. That will bring the cost of the wholesale rate down. But the other area—and I think this is a big area that is of potential cost-saving benefit to small business operators—is opening that market up to competition and for others to be able to issue credit cards. The analogy is in the home mortgage market. Let us get some more players in there and bring some competition in, let us remove the shroud of secrecy and get some transparency into these things, and then the smaller operator can go out there and get a fair market deal—pay for a service that they are getting, not pay over the odds.

**Senator BARNETT**—Can I just focus in on your paper here: is the \$1.04 for a credit card the average?

**Mr Moore**—That is the average rate for an average sized retail transaction.

**Senator BARNETT**—That is what I am trying to work through, because the differential is so large. For a large business you say it is about one to two per cent; for a small business it is about three to four per cent. We are dealing with microbusiness. Can you work out what the average would be for a microbusiness per credit card transaction and compare that to the average for a major retailer, for example, Coles or Woolworths?

**Mr Moore**—It would be difficult unless I went back to the figures. Because it is an average of averages, if you were to lie, say, a 1.2 per cent average rate across there for a large retailer and a near four per cent average rate for a larger retailer, I think you could probably extrapolate that and you would see an even greater difference.



**Senator BARNETT**—Wouldn't that be a pretty big difference?

**Mr Moore**—Potentially, yes, based on an ad valorem rate. Absolutely.

**Senator BARNETT**—What figure would you put it at for a major retailer compared to a microbusiness?

**Mr Moore**—You would probably have to reduce the \$4 by a factor of perhaps nearly half. If you have a look at the current rates of one to four, you would have to say that the average rate is based somewhere in the middle twos. You would have to discount the majors, which would bring their actual cost for an average transaction down.

**Senator BARNETT**—So you think it could be under 50c?

**Mr Moore**—No, I do not think it would be under 50c. Cheques are by far the most expensive way to pay accounts. I think that to say that would not be correct.

**Senator BARNETT**—Could it be 50c to 60c?

**Mr Moore**—It could be in that area.

**Senator BARNETT**—For a microbusiness, what would that be up to?

**Mr Moore**—For a microbusiness, you could be looking at \$2.

**Senator BARNETT**—That is where I am coming from. The differential is extreme.

**Mr Moore**—Absolutely. To take that to the next logical step, by bringing some competition into the provision of those services through the various mechanisms proposed by the Reserve Bank, whether it be via rate or additional competition or whatever, the small business sector has perhaps the most proportionally to benefit from those reforms.

**Senator CONROY**—There has been a bit of a scare campaign run with some small business groups that they will not receive any benefits, that the big retailers will capture the market and screw them just as badly. Do you guys have any view on that? I am sure you have seen the COSBOA—

**Mr Moore**—I have seen some of those things. I cannot fathom the logic. The Australian Retailers Association has been involved in this issue for a bit over 2½ years and it does take some time to get our minds around this issue and understand how it works. Some newer players in the market may not yet be across the complexity of it.

**Senator CONROY**—I understand the credit card companies have been very generous in their support, with information.

**Mr Moore**—You might say that. I could not possibly comment. We do not have any financial allegiances or alliances with any of the major card companies.

**Senator BARNETT**—EFTPOS is a big issue for small businesses and microbusinesses. At the moment, my understanding is that the costs for them for EFTPOS can be substantial compared to the costs for a major retail chain. In some instances, I understand, a major retail chain can actually receive a credit rather than pay for the benefit of the EFTPOS service. Is that correct?

**Mr Moore**—Yes, you are correct. I will tease that out a little more. If you go back to the front page graph and have a look at our figures for debit card transactions, at 17c, that includes any rebates or flows back to retailers who have contracts in place with their suppliers that the interchange or the merchant fee or part of it flows back to them. That figure includes that. You are correct in that some of the large retailers have negotiated with their banks to be paid for conducting EFTPOS transactions. The reasons are twofold: firstly, those large retailers are providing their own infrastructure and therefore have capital invested in the provision of that infrastructure to handle the switching and other processes around EFTPOS. Secondly, the large retailers have recognised that they are providing a banking service. They are allowing an individual to access their bank account directly to get cash, either in the first instance—

**Senator CONROY**—I think the key word there is ‘service’.

**Mr Moore**—Yes.

**Senator CONROY**—You do not want to get the reputation of being a bank.

**Mr Moore**—No, but it is a banking service.

**Senator CONROY**—It is getting access to your own money.

**Mr Moore**—Yes.

**Senator CONROY**—That is the banks’ attitude: you can pay us to access your own money.

**Mr Moore**—There is a cost for doing it: they are providing a banking service on behalf of the banks. Somebody once said to me that consumers do not need banks; they need banking. I think some of the larger retailers, in the alliances and agreements they have in place, have recognised that there is clearly some correlation between the growth of EFTPOS and the decline in the number of bank branches. And you can see that in the graph over the page: there has been a growth in the use of EFTPOS as the number of bank branches has declined. The large retailers have recognised that they are providing a banking service and, therefore, have negotiated a fee with their bank to provide that service. Essentially, the bank’s customer is able to come in and use the retailer’s hardware to access the money in their account, either the amount that this pen costs or the amount that this pen costs plus a little more cash, so they are getting a cash-out facility as well.

**Senator CONROY**—The Reserve Bank and the ACCC find it hard to justify any interchange fee for the debit card.

**Mr Moore**—Based on the current review, we understand that is their case. It is based on the false premise that an interchange fee and the flow of interchange, as you currently see with

credit cards—that is, it goes back to the bank that issues the credit card—is the right way for the flow. It does not necessarily recognise where the actual costs are. With the EFTPOS and debit card systems, our view is that the flow of the funds back to the bank dealing with the merchant is where the costs are borne and that there is a benefit that is recognised, and therefore paid for—

**Senator CONROY**—Isn't good PR a benefit? Isn't goodwill a benefit?

**Mr Moore**—Clearly they are. There is a multitude of factors but, coming back to a small business point of view on this issue, small businesses—and retail is included in this—have undersold the service they are providing to their customers. Instead of being prepared to wear either nil or some cost in relation to the provision of EFTPOS services, our view would be that they should also talk to their bank about being paid for providing banking services.

**Senator BARNETT**—Mr Moore, I think that is an excellent point and I thank you for making it. A lot of consumers do not realise that their small business retailer, the microbusiness retailer, is actually paying for the privilege of providing the service. Consumers do not realise that it costs the small business retailer to provide that service. Is that your view?

**Mr Moore**—Absolutely.

**Senator CONROY**—That is what the banks say too.

**Mr Moore**—Yes. There is still an issue that I think is highlighted by a particular product in the marketplace which is similar to the Visa debit card—and I do not know whether the Reserve Bank reforms will address it but we hope it will be picked up in the EFTPOS review.

**Senator CONROY**—I think they are thinking about it.

**Mr Moore**—Basically it is a debit card but, when the cards are issued to their customers, the issuers suggest to the customer that they can save money by hitting the credit card button when they use the debit card. What then happens is that the merchant, the retailer, ends up paying the transaction costs on that card.

**Senator BARNETT**—Do you have a response to the ABA's code of practice that was released yesterday? Do you support it, or have you not had a chance to look at it?

**Mr Moore**—We have had only a cursory look at it, and we are largely supportive of it. I think it goes a little further than the last one. I must say that, over years that we have been working with that, it has been very difficult to get any real commitment behind such a code.

**Senator CONROY**—After 100 years, the introduction of a fairness test seems reasonable. We will treat our customers fairly after 100 years! Do you think your organisations could not treat their customers fairly after 100 years and still be in business?

**Mr Moore**—I think one has to look at the competitive nature of the various industry sectors to get an answer to that one.

**CHAIR**—Thank you very much, Mr Moore.

**Mr Moore**—Thank you for your time.

[2.21 p.m.]

**HODGKINSON, Associate Professor Ann Thelma (Private capacity)**

**CHAIR**—Welcome. The committee has before it submission No. 7. Are there any changes to be made to that submission?

**Prof. Hodgkinson**—No.

**CHAIR**—The committee prefers all evidence to be given in public, although the committee would also consider any requests for all or part of your evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I invite you to make a brief opening statement.

**Prof. Hodgkinson**—Thank you. My main aim in putting a submission to the committee was basically to bring to your attention some of the recent research on New South Wales regional small business that we have been doing at the University of Wollongong, obviously with the intention of emphasising the regional dimension in these issues. I mentioned two reports in my submission. One report is the Illawarra Regional Workplace Industrial Relations Survey, which had a separate small business component to it and was a sample survey of businesses in the Illawarra region. I have brought copies of that report with me, if the committee should want them. The second report is a current survey which I am doing on rural and regional exporters—that is, those outside Sydney, Newcastle and Wollongong. The results from that survey, which I have also included in the submission, probably reflect those of what I would call the ‘elite’ of the regional small businesses as distinct from the more general run of small businesses.

About 50 per cent of the firms that we surveyed were what we call ‘small’ or firms with fewer than 20 employees, and 95 per cent or more firms were SMEs, which have fewer than 200 employees. The results from that survey are still preliminary and impressionistic because the reports will not be available until the end of the year, but I still thought they might be of interest. Basically, as I said, the relationship between export sales and employment growth is not straightforward. You can’t just say, ‘If we promote exports, we will promote jobs.’ To expand that a bit, you can view small regional businesses in three phases. The first phase, which is the start-up phase, tends to be a period of fairly rapid growth. We have found that most of the jobs that are being created by regional exporters are as a result of new firms being set up. Also, that start-up phase tends to be the focus of both state and federal government assistance to regional exporters at the moment. It seems that what they are doing there is generally appropriate, that the type of support is useful in getting new exporters set up. The only issue that does not seem to be covered by current support is the issue that a lot of firms mentioned—that is, they had cash flow problems in trying to finance exports in this small business phase when they did not have the reserves to cover the gap between when they sell the product and produce it, and when they get their money.

But then we see them attempting to move into a growth phase. That tends to occur when they get to around 13 to 20 employees. I have also found that the same issue comes about overseas. The job creation potential of firms when they try to move into this phase does not seem to be

coming through as well as we had hoped. Basically, there is a barrier that needs to be overcome. To move into this growth phase once they have established their basic product in the market, firms often need to invest in new premises, equipment et cetera—but they have uncertainty as to where they are going to get the future export sales to justify that new investment. That tends to be the barrier that prevents them from moving effectively.

Basically what it means is that they need more specialised marketing support than tends to be available in the regions. The general information is there for the new firm, but when they are looking at trying to expand a specific product into a specific overseas market they need much more specialised research support, product placement and that sort of thing. That tended to be the area where a lot of the criticisms are coming from about the current range of support that is available in the regions. It possibly indicates some disadvantage to regional firms compared with a comparable metropolitan one who has access to the more specialised consulting services in the cities.

Finally, they will move into a consolidation phase, where the medium to large firms reach their full market potential. Then basically we see slow sales growth. Employment will often be restructured at that phase and you might see a decline in employment as they figure out ways of getting the same output with fewer workers. I guess the one message I want to put across is that that growth phase, that second phase, is the important one in terms of getting employment potential from the work that is currently being done in terms of promoting regional exporters. It probably means trying to find new ways of assistance that will give them access to more specialised consultants and that sort of support.

**Senator CONROY**—Thank you for your submission. I was very interested in the preliminary findings of the work you are doing at the moment in terms of whether or not export growth leads to more employment, and that interrelationship—it was very interesting. I was particularly interested in your opening paragraph, which states:

Most of the employment growth associated with the growth of regional exports comes from the increasing number of new firms ... rather than growth within these firms.

That opens up a whole variety of questions on how to try and deal with this issue. I am not sure if you were here when Mr Brian Gibson was presenting.

**Prof. Hodgkinson**—No.

**Senator CONROY**—He talked about a cap effect where people just do not want to take the next step. They are quite happy to say it is a microbusiness. While you were suggesting that around 20 employees seemed to be the threshold, he felt the number was a bit lower.

**Prof. Hodgkinson**—Thirteen to 20.

**CHAIR**—He said about 95 per cent would fall into that capacity.

**Senator CONROY**—They were not interested in taking a step up. It is a fascinating situation when you actually look at hard evidence. There is the idea that if one more person could be

hired by every small business in the country then we would have another million or so people employed, but there is no great reason for most of them to want to, according to the research.

**Prof. Hodgkinson**—I guess it depends. I did not hear his evidence, so I do not know whether he was talking generally about small business or about manufacturer-exporter type business.

**CHAIR**—He was talking generally about small business.

**Prof. Hodgkinson**—Generally that would be the case. If you have a corner store, your market is fairly limited as to what you could do. That is why we focused on exporters.

**Senator CONROY**—You describe it as elite.

**Prof. Hodgkinson**—Yes. In effect, they do not face a market constraint because if the local market is saturated they have the opportunity to move overseas. If they are going to get into exporting, they are pretty dynamic in the sense that they are ambitious. There is always a lifestyle element in small business, which is one of the barriers that they face in the sense they do not want to lose control of it. They do not want to bring in experts who might want to run the business in a different way to them or criticise what they are doing, take over or whatever. That is probably less of a problem for exporters. A number of small businesses have taken on equity partners, and things like that, to give their business a boost. I think what he would have said would be correct, certainly across the board, but not necessarily so for exporters. Generally, if they are going to get into exporting they are thinking of growth. But they do have that barrier that comes up at that stage of whether the risk of undertaking the new investment is going to be justified with uncertain sales, which tends to hold them back. Given that they often did criticise and say they were not getting specific marketing advice, presumably that was aimed at trying to put some more certainty into what their future sales would be, which would then justify the expansion.

**Senator CONROY**—You were fairly frank in your assessment in the section called ‘Managerial Capacity’. Have you appeared before any small business groups and been tarred and feathered yet?

**Prof. Hodgkinson**—No, not yet. We are doing this with the Department of State and Regional Development.

**Senator CONROY**—You put it more succinctly than a lot of our other witnesses in terms of the skills base. I know Senator George Campbell has recently been reported in newspapers as saying how surprised we were when going around the country to find people willing to stand up and say, ‘It is not as though we are a great plumber or a great IT producer on a web site, but managing five people is an entirely different skills set.’ So we were really surprised to find that coming through as strongly. You put it very succinctly.

**Prof. Hodgkinson**—It is a common theme in academic literature on small business as well, but it certainly comes through. I certainly say for the exporters that they are interested in training. They do attend seminars that are run and things like that. As long as they think it will be of genuine value and worth their time in attending, they will go to those sorts of things,

whereas a lot of other small business people are just so flat out trying to run a business that they do not see the advantages of that sort of skills training.

**Senator CONROY**—One of the things we talked about is, when people are going to register as a small business, what can we do to try and make them take the next step. Senator Campbell talked about people getting their \$200,000 to \$300,000 payout and then opening a restaurant. My experience from my previous employment was people got their redundancy packages and they would go and buy a Hiace van and go into the courier industry, because it looked like it was lucrative. They usually lasted less than 12 months and had wasted their entire redundancy payout because the courier industry is about as cutthroat an industry as you get.

**Prof. Hodgkinson**—I have a friend who did that as well. In fact, one of the people we interviewed in the last group in the Hunter Valley was quite active in different organisations. She was a female small business owner and she went as far as to say they had to get a licence. They had to pass a test before they were allowed to set up a business because people were just losing their money.

**Senator CONROY**—It is almost a waste of their money. And others have said to us, ‘We have advised people.’ Usually the first phone call a small business organisation gets is the one to let them know that they are in trouble. There is not much they can do to help them, because they have already made the bad decisions.

**Prof. Hodgkinson**—That is right.

**Senator CONROY**—But even when they have got to them first, they have said, ‘It is a bit tougher than you think. Is that the best way to do it?’ And they dismiss it and go and do it anyway. There is a real dilemma there. Without wanting to turn it into the proverbial nanny state, how do you try and imbue the skills that are needed to survive running a small business?

**Prof. Hodgkinson**—One issue that did come up, certainly in some regions more than in others—in fact, it probably came up in the Illawarra more than anywhere else—was that of being required to do a business plan before being given a grant, for example. That was quite a thorn for a lot of people. It was not just in the Illawarra; it was in a number of the other regions as well. There were a lot of issues about that. It came through to me that people did not see the value in doing a business plan as a set of targets or goals for their business; it was just something they had to do in order to get the grant. So they would employ a consultant to come in and do it for them and they would not have any active involvement in working it through and understanding it.

**Senator CONROY**—So the problem starts right at the beginning: I don’t need a business plan to run a business.

**Prof. Hodgkinson**—They really did not see the value in that. Yet a business plan that you have worked through yourself, maybe with a consultant, where you have done the thinking and the market analysis, will often answer a lot of those questions as to whether there really is a market or not, how fast you can expect to grow and what you will need to do at different stages in order to achieve that growth. But even when there is a requirement to do it to get finance, they will do it—



**Senator CONROY**—Begrudgingly.

**Prof. Hodgkinson**—and it will just sit on the shelf. I do not know the answer to that question.

**CHAIR**—You can demonstrate the cost to the community of businesses that fail. One of the issues raised in this inquiry so far is the cost to the economy of the equity lost in a lot of small businesses. They may not necessarily fail but they may finish up investing over \$200,000 or \$300,000 in a business, find that they are going out backwards and sell the business for \$60,000, \$50,000 or \$10,000. There is no way of measuring the loss of that \$150,000 or \$200,000 in the process. I do not know how you would conduct a survey that would give you that data but talking to the small business community, as we have been over the past couple of months, you get the feeling that it would be a very substantial amount of money. In many respects when we have raised the issue of licensing, it has been not so much about putting an impediment in people's way—although, presumably, that is the way it would be seen—but about looking at how we put in place a protective mechanism to at least make people stop and think before they invest whether they actually have the skills to run a successful business. They may have the skill to make the widgets; they are very good at what they do in that sense.

**Prof. Hodgkinson**—That certainly comes through all the time: the technical side is not the problem, because the products are often very good. It is the market analysis that they do not see the need to do, until it is often too late. I get the impression that small business people like a bit of assistance when they need it but that they do not tend to be all that keen on intervention in their activities.

**CHAIR**—That is understandable.

**Prof. Hodgkinson**—Yes. If they are not getting government support they are not going to see that the government should be telling them that they should do a small business course, but I suspect that that is basically what they need to do.

**CHAIR**—Turning to the export company situation for a moment, to what extent are they aware of Austrade and the types of services that they provide? Is your research showing that what Austrade is providing is not adequate to meet the needs of the small business community in the marketing area?

**Prof. Hodgkinson**—I have not fully analysed it yet, but we did ask them where they got their support from for the export process and market analysis and things like that. Certainly, Austrade is their major source of support all the way through. In New South Wales, as I am sure you know, Austrade and DSRD intermingle, so they often have trouble identifying whether it is Austrade, the state government or somebody else they are getting their support from, because it is all channelled through the same person. Certainly they are well aware of the federal government programs.

**CHAIR**—Do they have any views about whether those programs are good, bad or indifferent?

**Prof. Hodgkinson**—Yes, they have lots of views.

**CHAIR**—I think we have Austrade coming tomorrow so, if there are issues that people want put on the table, now is the time to do it.

**Prof. Hodgkinson**—They have lots of views. A very small proportion take the no government support line. The vast majority do want some form of support. In rough figures, I would say that around 50 to 60 per cent are very supportive of the current Austrade services, but they would tend to be the new start-up firms. I think the type of support that is available for those types of firms is quite good and they seem very keen on that. It is a more generic type of support. The things you have to go through in terms of setting up a small business, regardless of what your product line is, are pretty much common. Things like what you have to do to work out your export market potential and what channels you are going to use—whether you are going to use agents, partners or direct exporting—are more generic and that seems to be done quite well. People were generally very supportive of that.

The problem tends to come in the next phase, when firms are already established in their market and they are looking to expand—they need much more specific and specialised advice. Austrade and DSRD are generally less able to provide that specialised advice. That is where the criticism starts coming in. People are saying, ‘We need more specialised help than they can give us—they don’t understand the exact nature of our problems.’ For the overseas markets it varies—sometimes they will say that they got brilliant support from Austrade in terms of information about entering a certain market and others will say they were absolutely useless. So it is obviously variable.

One of the issues that came up was the resentment about being required to pay for Austrade. It is not so much about being required to pay as such—it is that they were being asked to pay for something before they knew whether it was going to be valuable for them or not. If it turned out that that was one of the duds and the information they got back was not useful then they got quite annoyed.

**CHAIR**—So they had to pay for the input rather than the outcome?

**Prof. Hodgkinson**—Yes, as I was saying, we have to pay up-front before we know whether we are going to get anything useful out of it or not. Of course, once you get the information back then you do not need to pay for it, because you have already got it and you can evaluate it. So it is a hard problem, but there certainly was some resentment about the charges, which were considered to be high.

**CHAIR**—I do not know what we can do about the value of the dollar. That is to do with the foreign exchange rate and the mechanisms there.

**Prof. Hodgkinson**—I think the issue is mainly that they know how to manage it. At the moment, with the dollar down, it is great for them.

**CHAIR**—So they do not know about hedging and things like that?

**Prof. Hodgkinson**—When their dollar starts to rise, as it has started to, potentially that could be a problem if they do not know how to anticipate it and build it into their pricing and things like that. So there are issues about how to manage it.

**CHAIR**—Again, this really comes back to managerial capacity and skills. I notice that you mentioned the issue of mentors. We are having a roundtable after this to talk to some people who have been business mentors. We will be able to take some of these issues up, because I think it is one of the ways of addressing this deficiency in skills.

**Prof. Hodgkinson**—Also, those who are looking to move into new markets often mention that it would be good to have a mentor in their area who had done it before and who they could talk to about how to do it—what is the best way, what to avoid and how to approach people in different cultures and things like that.

**CHAIR**—You said you brought along this workplace relations survey.

**Prof. Hodgkinson**—Yes.

**CHAIR**—Could we have a copy, please? Perhaps we could table it.

**Prof. Hodgkinson**—Yes, sure.

**CHAIR**—It would be very useful because it provides an image of industrial relations in the small business community which is a bit different from what the general perception is. I think it relates more to reality in the small business area from my own practical experience in another life. It tends to suggest that relations are very good and things are done in a very informal way, including paying the bonuses in a pub on a Friday night. It would be very useful, I think, to have that report tabled.

**Prof. Hodgkinson**—I have the summary here and I have the full report in my briefcase. I can give you that.

**CHAIR**—Does that deal with issues such as termination, unfair dismissals and other things?

**Prof. Hodgkinson**—It does. The full report I have covers both large and small businesses, but there is one specific chapter just on small business.

**CHAIR**—That report would be very useful. It is agreed that that report will be tabled. That is all we have, Professor Hodgkinson.

**Committee adjourned at 2.47 p.m.**