

26 March 2024

## Annual Wage Review 2023–24 Submission to the Fair Work Commission

As the only independent organisation advocating for entrepreneurial and small business women across Australia, Entrepreneurial & Small Business Women Australia (ESBWA) welcomes the opportunity to make a submission to the submission to the Fair Work Commission's 2023-24 Annual Wage Review.

### Introduction

Entrepreneurial & Small Business Women Australia is an advocacy and education platform for women-led small and micro businesses, entrepreneurs and founders in Australia. With a membership base of over 13,000 female business owners in Australia, ESBWA is the primary advocate for Australia's female business community.

Small businesses are a vital component of the Australian economy, responsible for hiring five million people or over 42 per cent of the private sector workforce. As such, existing pressures, as well as the economic health of small businesses need to be considered when reviewing changes to wages.

### Issues

#### Small businesses already face increased economic pressure

Small businesses find themselves increasingly squeezed by the pressures of inflation and rising operating costs, which are eroding already slim profit margins and pushing many to the brink of closure. ABS data from the December quarter of 2023, showed a 6,324 decrease in the number of businesses with an entry rate of 131,616 businesses or 5% and an exit rate of 137,940 exits or 5.3%.<sup>1</sup> These figures highlight the challenges facing small businesses, with closures outpacing new entrants.

Indicating that small businesses are struggling to stay afloat, in ASIC's December 2023 report on corporate insolvency, small businesses dominated reports, with 82% having fewer than 20 employees. The most commonly reported cause was inadequate cash flow or high cash use at

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<sup>1</sup> Australian Bureau of Statistics, [Business Indicators, Australia](#), December 2023, 2024

52%.<sup>2</sup> Further indicating that small businesses are struggling in the current economy, data from the Australian Small Business Ombudsman shows that 43 per cent of small businesses are making zero profit.<sup>3</sup>

Looking ahead, the outlook for small businesses remains bleak, with a report from the NSW Small Business Commissioner indicating that small business confidence in January and February 2024 remains low at 31 percent.<sup>4</sup> Concerns such as input costs, staff shortages, higher interest rates, compliance burdens and weaker customer demand continue to weigh heavily on small business owners.

With small businesses already facing extreme financial pressure, increases to wages will cause further destruction to the small business community. Feedback from ESBWA members indicates that even before any impending increases, small business owners are already struggling with the cost of wages. Such increases would not only eat into already fragile profit margins but also force businesses to resort to measures like staff reductions and price increases, exacerbating economic challenges and placing additional strain on the livelihoods of employees.

### Small businesses are at risk of losing out to large companies

Raising wages presents a significant challenge for small businesses, especially those operating in sectors like retail and hospitality, where profit margins are already thin. Unlike their larger counterparts, small businesses often lack the resources to absorb increased labour costs through alternative means. This puts them at a distinct disadvantage in maintaining competitiveness.

The closure of small businesses due to escalating wage pressures creates a concerning trend toward market consolidation, favouring larger corporations with greater financial resilience. This monopolisation diminishes market diversity, potentially limiting consumer choice and innovation.

Adopting a uniform approach to wage increases exacerbates the divide between small and large businesses, failing to acknowledge the impacts on businesses of different scales and impeding the ability of smaller businesses to thrive in the marketplace. A more nuanced approach is essential to ensure that wage raises promote fairness without disproportionately burdening smaller businesses.

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<sup>2</sup> ASIC, [ASIC's Annual Corporate Insolvency Statistics Shows COVID-19 Impact on Small Business](#), 2023

<sup>3</sup> Australian Small Business and Family Enterprise Ombudsman, [Small Business Matters](#), 2023

<sup>4</sup> NSW Small Business Commissioner, [Small Business Momentum Survey February 2024](#), 2024

## Small business closure will increase unemployment

In the face of economic challenges, small businesses will be forced to reduce their workforce to stay afloat. ABS data shows that in the December quarter of 2023 there was a 0.8% or 12,837 increase in non-employing businesses and 1.9% (19,161) decrease in total employing businesses, suggesting that businesses are downsizing and struggling to maintain employment levels.

The ramifications of such shifts are particularly concerning for women. Over the years, the landscape of small business ownership has seen an encouraging rise in female participation, with women now comprising 35% of small business owners, a substantial leap from 19% in 1966<sup>5</sup>. Moreover, female engagement in the workforce has reached unprecedented levels, with 60% actively contributing.<sup>6</sup> However, these gains are precarious, as the closure of small businesses threatens to erode the progress made.

Current government narrative around businesses pit employers and employees against each other, without acknowledging the pressures the current cost of living crisis places on both. Instead, the cost-of-living crisis needs to be addressed through measures that are fair for both small businesses and their employees, instead of implementing measures that make employment more cost-prohibitive for small businesses.

## Prohibitive costs of hiring employees will compel businesses to outsource work overseas

In response to escalating pressures, businesses may have to opt for outsourcing overseas and automation over local employment, reducing the availability of jobs for local workers. In a survey of ESBWA members, some business owners reported that they were considering outsourcing overseas due to the high cost of local employment and associated payroll taxes.

9.3% of the Australian Workforce are in Professional, Scientific and Technical Services,<sup>7</sup> an industry at risk of being outsourced or replaced by automation. With 13% of small businesses operating in Professional, Scientific and Technical Services,<sup>8</sup> there stands to be a large number of jobs lost for Australian workers if the cost of employment continues to increase at an unsustainable rate.

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<sup>5</sup> Australian Small Business and Family Enterprise Ombudsman, [Small Business Matters](#), 2023

<sup>6</sup> Australian Bureau of Statistics (current), [Gender indicators](#)

<sup>7</sup> Jobs and Skills Australia, [Professional, Scientific and Technical Services](#)

<sup>8</sup> Australian Small Business and Family Enterprise Ombudsman, [Small Business Matters](#), 2023

Small businesses continue to face increasing barriers to employing staff in Australia. For example, recent Industrial Relations law amendments increased the amount of red tape small businesses encounter when setting working conditions and employing staff, with concerns over workplace flexibility, the right to disconnect and leave entitlements creating barriers for small businesses with limited resources.

A respondent to a survey by ESBWA stated that, for their small business of less than 20 employees, they had no option but to hire a HR Manager after increasing legislative requirements made it impossible for them to ensure they were compliant. Instead of the government supporting small businesses to facilitate employment opportunities, issues such as increasing legislation, entitlements and lack of support is creating more of an incentive for small businesses to outsource roles overseas.

## Recommendations

Instead of increasing pressures on small businesses, ESBWA makes the following recommendations:

- Support small businesses through tax cuts and reducing economic pressure, including a reduction in the cost of utilities.
- Find alternative ways to support low-income earners by reducing costs of living pressures.
- Consult with small business owners extensively before introducing policies and legislation that will directly impact their viability.

## Conclusion

As the largest employer in Australia responsible for employing over 5 million people or 42% of the private workforce, the potential small business to be disproportionately affected by wage increases should be considered. Small businesses are already facing increased economic pressure and risk losing out to large companies who have greater capacity to absorb increased costs.

ESBWA acknowledges that cost-of-living pressures affect low-income earners and we call on the government to increase support through measures that don't impact the viability of small businesses. Additionally, we call on the government to support small businesses to facilitate employment of Australian workers by reviewing relevant taxes and minimising disruptive legislation changes that make it prohibitive for small businesses to employ more Australians.

Lastly, we ask that greater effort is made to consult with small business owners extensively before introducing policies and legislation that will directly impact their viability. Despite making up 98% of

Australia's businesses, the voices of small businesses are often unheard when it comes to employment legislation changes.

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