Employer Responses to Minimum Wage Adjustments

N Wearne, A Southwell & B Selwyn
TNS Social Research
June 2008

Report commissioned by the
Australian Fair Pay Commission, 2008
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Please note that the data contained in this report has been prepared for the specific purpose of addressing the items contained in the project contract between TNS Australia and the Australian Fair Pay Commission. It may not be suitable for other applications. The use of this data for any other purpose should be discussed with the lead author. TNS accepts no responsibility for unauthorized use of this data by a third party.
Executive summary

Research background and objectives

The Australian Fair Pay Commission is an independent body responsible for adjusting federal minimum and classification wages to promote the economic prosperity of the people of Australia. In setting and adjusting pay for around 1.3 million workers in Australia, the Commission plays a significant role in the management of the Australian economy.

The overall aim of the current research is to provide the Commission with some understanding of the impact of changes in the Federal Minimum Wage (FMW) and Australian Pay and Classification Scales on employers operating within industries with a high proportion of low-skilled workers, and in particular the adjustment variables used by these employers in response to changes in wage rates. The research provides information for use by the Commission for monitoring the impact of minimum wage decisions and to feed into the decision-making processes for future minimum wage reviews.

Research methodology

TNS Social Research (TNSSR) was commissioned to conduct a series of eight online discussion boards with employers around Australia. The focus of these discussion boards was on the impact of changes to the FMW and Pay Scales on small and medium businesses within the Retail; Health and community services (HaCS); and Accommodation, cafes and restaurants (ACR) industries. The research explored the strategies these businesses have considered or implemented in response to these changes. A total of n=92 participants took part in the discussion boards across the three industry groups.

Key findings

Business operating environment

Understanding the business operating environment is critical to understanding the context within which workplace relations and wage decisions are made. The recruitment environment experienced by employers, current industry and business performance, as well as employer approaches to business management, profitability and workforce structure provide the context within which employers operate and make decisions.

Some businesses reported minimal difficulties filling positions, while other businesses reported significant challenges filling both relatively high-paid positions and, in some cases, positions that are lower skilled. Factors such as skills shortages within particular industries, local labour market conditions, location, and industry-based factors influenced the experiences and behaviours of employers in relation to recruitment and retention of staff.

A diversity of opinion was reflected in relation to current industry performance. Some employers described benefiting from a buoyant local economy, while others described an industry under pressure due to increasing costs and declining profit margins. The size of the business, the industry type, the level of expertise of the business manager and the location of the business are just some of the factors that can affect perceptions of current industry and business performance. Overall, many employers commented that their industry is performing well. Some attributed this to local economic conditions, while others attributed it to factors related to demand for their specific offering.
Most participants were able to articulate their approach to workforce management and the form of targets they strive to meet within their business, both when recruiting new staff and managing staff rosters. The nature of these targets was seen to vary, with a combination of financially specific targets and broader workplace considerations evident. A primary vehicle for attaining financially based targets was through employment of casual staff. This was most frequently reported by participants in the ACR and Retail industries; however, some participants in the HaCS industry also reported using this method. Participants also looked at other requirements of their business, both in terms of the skill-set and qualifications which are required, and also in terms of the need for a homogenous team and a positive working environment.

The importance of labour costs, and specifically pay rates, to the successful operation of the business was linked to the proportion of total business costs allocated to labour. While the majority of businesses felt that labour costs are very important, employers for whom labour costs represent a comparatively larger proportion of total costs were more likely to feel labour costs are critical. Generally, participants operating in the HaCS industry reported significantly higher proportional labour costs than those operating in the ACR or Retail industries.

Employers described using a variety of strategies to manage business profitability and as part of their general approach to business operations and management. Generally participants were aware that dealing with increased costs meant that they needed to either increase business revenue or reduce other costs to the business.

**Workplace relations practices**

Similar to the business operating environment, the workplace relations environment and practices that characterise a particular business provide important context for understanding the impact of changes in wage rates. As individuals, business owners manage their business by drawing on their own attitudes, beliefs and skills. Previous research\(^1\) undertaken for the Commission with employers has highlighted the diversity of approaches used by individual business owners as they face business decisions including employment and wage-rate determination.

The research included a purposeful mix of employment arrangements. These ranged from informal type arrangements and common law contracts to formal registered agreements and arrangements where employees are paid according to awards or Pay Scales. Employment arrangements based on Pay Scales were most common among employers in the ACR industry. Within both the Retail and HaCS industries there was greater diversity in the approach adopted in setting pay rates.

Employer reliance on statutory minimum wages generally resulted from considerations such as costs/business viability, a sense of what is fair and correct, a desire for a ‘level playing field’ (where transparency and wage parity was highly valued for managing staff), or the use of legal obligations to guide their behaviour.

Despite the reliance on statutory minimum wages for many employers in this study, there was a low level of knowledge about the specifics of the wage-setting regime in Australia, similar to the findings of previous research conducted by TNSSR in relation to the Federal Minimum Wage\(^2\). The majority of employers felt that the Government is responsible for

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setting minimum wages, and only a few employers were aware of the Australian Fair Pay Commission. The discussion highlighted some understanding of Pay Scales and awards, although many participants confused the terms ‘award’ and ‘Pay Scale’, with their comments often indicating a belief that these terms are interchangeable.

Employers were also asked to describe the information sources they use to find out about changes to wage rates. The primary channels included employer associations, the media, business networks and relevant websites (both government and employer association websites). Employer and business associations, such as chambers of commerce and industry-specific bodies, were a common source of information and alerts, particularly for employers in the ACR industry.

Differing approaches to workplace relations were highlighted by the research in relation to employer reactions to changes in wages rates. A rudimentary dichotomy was identified, placing employers broadly into two categories: those who exhibit a more reactive approach (‘Responders’) and those with a more proactive approach to wage-rate management (‘Planners’). Many participants were Responders when it came to dealing with wage increases, and these participants reported that increases in wage rates were not budgeted for, but responded to as and when required. Compared to Responders, employers who were in the Planners category were more aware and more proactive with regard to wage-rate management. Employers who were Planners generally incorporated wage-rate rise considerations into their business planning or budgetary cycle.

Differences in approach were also observed based on the level of perceived control employers felt they had over wage rates. Participants reporting that they had a high level of control over wage rates tended to be paying above-award wages. In addition to this, they did not feel excessive outside pressure in relation to their wage levels. Participants felt these factors in combination gave them the freedom to pay on the basis of merit and performance. Participants paying exactly the Pay Scale rates, participants with formal agreements, and participants experiencing external wage pressures impacting on their business often saw themselves as having a lower level of control over wage rates. External pressures included operating in proximity to high-paying industries (such as mining or certain areas of the public sector) as well as operating in an industry experiencing a skills shortage.

The research highlights that the impact of minimum wage increases on business and employment decisions is ultimately influenced by the individual behaviours of business owners. Whether employers are Planners or Responders, and whether or not they feel in control of the wage rates paid in the business, impacts the way in which they are able to manage wage increases, and — in light of increased labour costs — adjust and grow their businesses. This provides relevant context for the analysis of the adjustment variables used by business, and associated business impacts, discussed in the following sections.

Links and flow-on effects

The familiarity of employers with the technicalities of wage determination in Australia is variable. Many employers are not fully across the links and flow-on effects between their own arrangements and changes to statutory minimum wages. While cognisant of the concepts of the FMW, and of minimum pay rates being set via awards and Pay Scales, employers do not fully appreciate or recognise that adjustments in minimum wages announced by the Commission may be behind changes in the rates that they pay their staff.
Further, the research has shown that depending on their approach to wage setting and their experience of internal or external pressures on wage rates, some employers feel in control of their own wage rates while others do not. The study also indicated that there is no single source of information on wage-rate adjustments for employers. This lack of clear understanding by some employers, coupled with a perceived lack of control, makes drawing conclusions with regard to Pay Scale reliance and links with adjustments to minimum wages somewhat difficult.

Links and flow-on effects were observed to differing degrees in the actions of individual employers. Those who paid the minimum rate only, and made reference to sources such as Wageline or were signed up to receive alerts from their chamber of commerce or industry body, were likely to hear of changes and adjust wages accordingly. Others were aware of the regularity of adjustments to award rates and Pay Scales, and the specific timing of annual wage changes. However, many participating employers were less aware of wage-rate determination mechanisms in general, and lacked a connection to a clear information source to notify them of changes. They did not all appear to be aware of the cyclical (annual) nature of minimum wage rate reviews.

A challenge to determining links and flow-on effects is references to specific dates of implementation (October 2007) and specific award and Pay Scale change announcements (mid-2007). These references are key indicators of FMW adjustments; however, they do not provide definitive evidence of the links and flow on effects from changes in federal minimum wages.

Links were less easily recognised where employers paid ‘above award’ wages. It appeared that for some employers, there could be an impact or flow-on effect, but they did not make the connection. While for others – where the increase in minimum wages was not passed on to employees – the difference in ‘above award’ would diminish over time, until the ‘above award’ rate was no longer competitive, or fell below the minimum, and had to be adjusted upwards.

While many employers relied on Pay Scales, at least as a guide for setting pay rates, the comments of participating employers highlight the strong impact of local economic conditions and the activities of competitors on the setting of pay rates.

Focus on competitors may result in indirect flow-on effects. This is evidenced in wage rises following minimum wage rate increases: as competitor wages go up following an increase in statutory minimum rates, so do the rates offered by other businesses, whether directly linked to statutory minimum wages or not. However, some employers highlighted that this focus on competitors demonstrates that changes in minimum wage rates are of little, if any, consequence to them given current labour market conditions.

Local economic conditions were also seen to play a key role in the determination of pay rates. For example, employers operating in ‘boom’ areas and tight labour markets described having to offer wages substantially above the Pay Scale rate to attract and retain staff. In these markets, the reality is that changes in statutory minimum wages are largely irrelevant as they remain below the ‘market’ rate.

**Adjustment variables**

Employers reported using a variety of strategies to help them deal with the impact of increased labour costs following an increase in wage rates (not limited to increases in statutory minimum wages). For many employers, the strategies used were similar to those
applied to manage business profitability and reflected their general approach to business operations and management. As a result, employers who generally displayed higher levels of business acumen, or more sophisticated strategies in relation to the management of business costs and profitability, also displayed a more considered approach to dealing with increases in wage rates.

Thus the variety of approaches used to deal with increases in wage costs is reflective of the diversity of businesses. At one end of the spectrum, some employers described either experiencing no impact from wage increases, or simply continuing to operate following increases in wage costs without making any adjustments to their business operations. At the other end of the spectrum, employer comments indicated cases where a comprehensive range of adjustment variables formed part of a proactive business strategy. These businesses displayed a strategic approach to business management, which often involved planning and budgeting for wage increases and using a combination of adjustment variables to deliver business growth and profitability.

Across all industries the most commonly considered strategy was increasing prices, although it was not the most commonly implemented strategy. For many employers increasing prices was a ‘top-of-mind’ consideration; however, the final decision is a complex one involving consideration of a range of factors. Personally working an increased number of hours was likely to have been implemented by around half of participants following the most recent increase in wage costs experienced by the business. Participants recognised that this could negatively impact their work/life balance and personal life; however, this strategy was viewed as a potentially unavoidable measure that was necessary to ensure the ongoing financial solvency of their business. Other commonly implemented strategies focussed on reducing staff costs through direct measures (such as reducing the number of staff overall or the number of staff per shift) and indirect measures (such as training existing staff to fill a vacancy or to deliver an increase in productivity).

Differences were observed between the ACR, HaCS and Retail industries in relation to the strategies implemented by participating employers in response to increases in wage rates. Generally, employers in the ACR industry tended to implement a greater number of strategies, often in combination, while employers in the Retail industry tended to implement a smaller range of strategies. Within the HaCS industry, legislative requirements in relation to care ratios and the nature of funding arrangements appear to restrict the types of strategies that are considered suitable.

Differences in the business strategies implemented in response to wage rises were also evident depending on the size of the business for which the participant was working. Participants from businesses of all sizes reported that they had considered a wide range of strategies; however, participants from medium-sized businesses were more likely to have implemented a wider range of adjustment variables. Small and micro businesses participating in the research were most likely to report having considered and implemented the strategies of personally working an increased number of hours and increasing prices as a response to increasing wage rates, while medium-sized businesses were most likely to train existing staff to increase productivity, or to increase prices.
1. Background and methodology

1.1 Australian Fair Pay Commission research environment

The Australian Fair Pay Commission is an independent body responsible for adjusting federal minimum and classification wages to promote the economic prosperity of the people of Australia. In setting and adjusting pay for around 1.3 million workers in Australia, the Commission plays a significant role in the management of the Australian economy. In a similar fashion to other key bodies such as the Reserve Bank of Australia, the Commission is established as independent from government and makes decisions of major social and economic importance, based on research, evidence, and consultation.

The Commission operates under a cycle of information gathering (submissions, consultation and research), decision-making, communication, and monitoring. In its commitment to maintaining an open, robust and transparent process the Commission consults widely to explore the impact of previous decisions and to inform future decisions.

The importance of research to the Commission cannot be underestimated. In order for the Commission to operate and make key decisions in an impartial and independent manner, research plays a vital role in informing and evidencing the current situation within the labour market. It enables and facilitates consideration of the views and opinions of the low paid, employers and other relevant stakeholders when decisions are made. By commissioning research projects the Commission is able to explore specific topics of interest or target their data collection towards certain groups.

1.2 Research objectives

The overall aim of the current research is to provide the Commission with some understanding of the impact of changes in the Federal Minimum Wage (FMW) and Pay Scales on employers operating within industries with a high proportion of low-skilled workers, and in particular the adjustment variables used by these employers in response to changes in wage rates.

The need for such research was highlighted in the Commission’s 2008 Economic and Social Indicators (ESI) – Monitoring Report. The ESI Monitoring Report noted:

> ‘Given the general trends in the labour market, it is difficult to determine whether changes in employment of low-skilled workers have been influenced by adjustments in the minimum wage and Pay Scales. Many factors determine employment for this group of workers, and the lack of detailed data at the workplace level precludes attempts to isolate the effects of minimum wages, for the time being.’

The research will provide information for use by the Commission during their tracking of the impact of previous minimum wage decisions and feed into the decision-making process for future minimum wage reviews. Specifically the research will capture the voice of employers operating in the Retail; Health and community services (HaCS); and Accommodation, cafes and restaurants (ACR) industries in relation to:

- the workplace-relations environment under which their business operates
- the linkages and flow-on effect of changes to the FMW and Pay Scales on their business

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• the impact of wage-rate changes on their business
• the use of a range of adjustment variables in response to wage rate changes.

1.3 Research methodology

TNSSR was commissioned to conduct a series of online discussion boards with employers around Australia. These discussion boards focused on the impact of changes to the FMW and Pay Scales on small and medium business within the Retail, HaCS and ACR industries and the strategies these businesses have considered or implemented in response to these changes.

A total of eight interactive online discussion forums were conducted over four or five days with an activity set specified for each day. The online medium allows for a variety of participants to share their views and engage in thoughtful exchanges benefiting from the freedom that anonymity creates and without the barrier of location. Participants were recruited for the online discussion boards using a traditional telephone recruitment methodology and received a thankyou payment for their participation.

1.4 Discussion board structure

The design for this research project was developed in conjunction with the AFPC Secretariat. The discussion boards were specifically structured to ensure certain characteristics or business traits were represented within the participant group. As a result of this, the sample is not nationally representative, with the proportions by industry, location and business size selected to ensure that the desired range of businesses were included within the research. The breakdown of each discussion board by location and industry is shown in Table 1 below.

Table 1: Discussion board structure – by location and industry

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Location</th>
<th>Location</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACR – East</td>
<td>Sydney</td>
<td>NSW other</td>
<td>Brisbane</td>
<td>QLD other</td>
</tr>
<tr>
<td></td>
<td>At least two participants in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACR – West</td>
<td>Perth</td>
<td>WA other</td>
<td>SA</td>
<td>NT</td>
</tr>
<tr>
<td></td>
<td>At least two participants in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACR – South</td>
<td>Melbourne</td>
<td>VIC other</td>
<td>ACT</td>
<td>TAS</td>
</tr>
<tr>
<td></td>
<td>At least two participants in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail – East</td>
<td>Sydney</td>
<td>NSW other</td>
<td>Brisbane</td>
<td>QLD other</td>
</tr>
<tr>
<td></td>
<td>At least two participants in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail – West</td>
<td>Perth</td>
<td>WA other</td>
<td>SA</td>
<td>NT</td>
</tr>
<tr>
<td></td>
<td>At least two participants in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail – South</td>
<td>Melbourne</td>
<td>VIC other</td>
<td>ACT</td>
<td>TAS</td>
</tr>
<tr>
<td></td>
<td>At least two participants in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HaCS – East</td>
<td>Sydney</td>
<td>Brisbane</td>
<td>ACT</td>
<td>NSW other</td>
</tr>
<tr>
<td></td>
<td>At least one participant in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HaCS – West</td>
<td>Melbourne</td>
<td>Perth</td>
<td>SA</td>
<td>VIC other</td>
</tr>
<tr>
<td></td>
<td>At least one participant in the discussion board from each location</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In addition to specifications by industry and location, a number of additional specifications were developed by the AFPC Secretariat and TNSSR. These ensured that discussion board participants had recent experiences in recruitment and had adequate knowledge of how pay rates were set within their business to fully comment on the discussion topics. The detailed discussion board specifications are set out below.

**Overall participant segmentation**

Specifications were set in relation to the following characteristics:

- **Business size** — each discussion board contained a mix of participants who work in micro or small businesses (2–19 employees), with at least two participants working in medium-sized businesses (20–199 employees).
- **Responsibility for recruitment and pay rates** — over 50 per cent of participants in each discussion board are responsible for both recruitment and pay rates within the business.
- **Employment arrangements** — employers with a mix of employment arrangements were recruited for each discussion board, including those who employ workers on award wages, and those who employ workers on ‘agreements’. Agreements include collective agreements, AWAs or common law contracts (all of which may reference the award).
- **Recent recruitment activity** — over 50 per cent of participants in each discussion board had conducted recruitment activity in the past six months, or are planning to recruit in the next six months.
- **Gender** — each discussion board had a mix of participants in terms of gender.
- **Business stage** — a mix of business stages were included in each discussion board, including business which had been in operation for: less than 12 months, one to five years, and more than five years,
- **Location** — refer to Table 1 for details of the composition of each discussion board in terms of participant location.

**Industry-specific participant segmentation**

- **Retail trade** — A maximum of two participants within each discussion board work for businesses selling the same type of product.
- **Accommodation, cafes and restaurants (ACR)** — At least two participants within each discussion board work in businesses operating in the following subdivisions of the industry:
  - Accommodation
  - On-site food business
  - Off-site food business
  - Pubs/clubs
- **Health and community services (HaCS)** — A maximum of three participants in each discussion board work for businesses operating within the same industry subdivision.
1.4.1 Overview of participants

A total of n=92 participants took part in the discussion boards across the three industry groups. As shown in Table 2 below, this included n=34 ACR participants (across three discussion boards), n=37 participants from the Retail industry (across three discussion boards) and n=21 HaCS participants (across two discussion boards).

Table 2: Discussion board participants – by industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Completed</th>
<th>Boards</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation, cafes and restaurants</td>
<td>34</td>
<td>3</td>
<td>11.33</td>
</tr>
<tr>
<td>Retail</td>
<td>37</td>
<td>3</td>
<td>12.33</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>21</td>
<td>2</td>
<td>10.5</td>
</tr>
<tr>
<td>Total</td>
<td>92</td>
<td>8</td>
<td>11.5</td>
</tr>
</tbody>
</table>

* A completion is defined as a participant who completed all activities or the majority of set activities.

Participants were located across all states and territories. Within each industry grouping, each location was represented by at least one participant. The full breakdown of participants by industry and location is shown in Table 3.

Table 3: Discussion board participants – by industry and location

<table>
<thead>
<tr>
<th>Location</th>
<th>Retail</th>
<th>ACR</th>
<th>HACS</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td>%</td>
<td>n</td>
<td>%</td>
</tr>
<tr>
<td>Tasmania</td>
<td>5</td>
<td>14.7</td>
<td>4</td>
<td>10.8</td>
</tr>
<tr>
<td>South Australia</td>
<td>5</td>
<td>14.7</td>
<td>6</td>
<td>16.2</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>3</td>
<td>8.8</td>
<td>4</td>
<td>10.8</td>
</tr>
<tr>
<td>Other Queensland</td>
<td>4</td>
<td>11.8</td>
<td>4</td>
<td>10.8</td>
</tr>
<tr>
<td>Other Victoria</td>
<td>4</td>
<td>11.8</td>
<td>2</td>
<td>5.4</td>
</tr>
<tr>
<td>Sydney</td>
<td>3</td>
<td>8.8</td>
<td>2</td>
<td>5.4</td>
</tr>
<tr>
<td>Other Western Australia</td>
<td>2</td>
<td>5.9</td>
<td>3</td>
<td>8.1</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>4</td>
<td>11.8</td>
<td>2</td>
<td>5.4</td>
</tr>
<tr>
<td>Perth</td>
<td>1</td>
<td>2.9</td>
<td>3</td>
<td>8.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>1</td>
<td>2.9</td>
<td>2</td>
<td>5.4</td>
</tr>
<tr>
<td>Other NSW</td>
<td>1</td>
<td>2.9</td>
<td>3</td>
<td>8.1</td>
</tr>
<tr>
<td>Melbourne</td>
<td>1</td>
<td>2.9</td>
<td>2</td>
<td>5.4</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100</td>
<td>37</td>
<td>100</td>
</tr>
</tbody>
</table>

The research was targeted towards micro, small and medium businesses. However, within the different industries, there was some variation in terms of the business-size make up. Participants in both the Retail and ACR industries were most likely to be small business, with participants from the Retail industry mainly micro and small business, and participants from the ACR industry mainly small and medium businesses. In contrast, the majority of participants from the HaCS industry were medium-size businesses.
Table 4: Participant profile – by business size

<table>
<thead>
<tr>
<th>Location</th>
<th>Industry</th>
<th>Retail</th>
<th>ACR</th>
<th>HaCS</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>n</td>
<td>%</td>
<td>n</td>
<td>%</td>
</tr>
<tr>
<td>Micro (fewer than 5 staff)</td>
<td></td>
<td>12</td>
<td>35.3</td>
<td>4</td>
<td>10.8</td>
</tr>
<tr>
<td>Small (5–19 staff)</td>
<td></td>
<td>18</td>
<td>52.9</td>
<td>19</td>
<td>51.4</td>
</tr>
<tr>
<td>Medium (20–199 staff)</td>
<td></td>
<td>4</td>
<td>11.8</td>
<td>14</td>
<td>37.8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>34</td>
<td>100</td>
<td>37</td>
<td>100</td>
</tr>
</tbody>
</table>

1.4.2 Discussion board question structure

The question structure used in the online discussion boards was designed to encourage 'story-telling' by participants. The discussion boards were undertaken in two waves and revisions were made to the question structure following the first wave. Following is an outline of the broad question structure:

DAY 1: Business profile and employment arrangements
- Understanding of workforce structure and recruitment experiences
- Understanding of IR arrangements, process used to determine pay and conditions
- Perceived control over pay rates

DAY 2: Business operations and labour costs
- Understanding of current industry and local economic challenges
- Importance of labour costs in the context of how they run their business
- Approach to/extent of consideration/trade offs in costs, prices and productivity – understand what kind of business owners/managers are taking part in the study

DAY 3: Changes in wages
- Understanding of the process of changes in wage rates – what happens
- Understanding the impact on business of changes in wage rates – perceived extent of impact, areas of impact and business response (general areas of adjustment)

DAY 4: Minimum wages and links with Pay Scales and awards
- Understanding of the concept of minimum wages
- Understanding of the relevance of minimum wages to their business and industry
- Understanding of workplace relations information sources used, and understanding of workplace relations concepts

DAY 5: Adjustment variables
- Understanding of consideration and implementation of a range of adjustment variables
- Exploration of perceived benefit to/impact on the business of implementing a range of adjustment variables

1.5 Report style and presentation

One of the primary functions of this study was to gather the opinions of employers affected by the Commission's wage-setting decisions. In terms of reporting, this means that the diversity of opinion is reported. Thus, while the report is highly structured, it presents a wide range of opinions, rather than focusing on just the main or repeated themes. Relative prevalence of opinions or ideas, however, is noted so as to highlight the more commonly held views.

Accordingly, a larger number of quotes than is typical for a qualitative research report are presented in the body of the text (clearly indicated in italics with the attribution in square brackets). In addition, where these quotes add particular meaning or context to the discussion, short profiles of actual participants are presented.

This report has been structured around comments from participants. It not only weaves themes from the different groups into a wider context, but attempts to show the 'human face' behind some of the different circumstances of participants. Consequently, it includes vignettes from particular participants to illustrate and expand on the themes. The names
have been changed, and any distinguishing details have been removed in order to preserve the identities of those who took part in the discussions.

1.5.1 How to use this report

The fundamental questions addressed within this report relate to the impact of changes in the FMW and Pay Scales on participating employers. The final two sections of this report (Sections 4 and 5) describe the nature of this impact through an exploration of the linkages and flow-on effects between participating employers’ arrangements and changes to statutory minimum wages, and the adjustment variables used by participating businesses. The previous sections (Sections 2 and 3) provide contextual information in terms of the business operating environment and the workplace relations environment in which participating business operate and make decisions.

Following is an overview of the four main sections of the report:

• **Section 2: Business operating environment.** This section contains discussion of the recruitment environment experienced by employers as well as discussion of current industry and business performance as reflected in online discussions. It also provides insight regarding employer approaches to business management, profitability and workforce structure. It highlights key experiences raised with regard to labour market conditions, location and industry-based factors that influence the experiences and behaviours of employers.

• **Section 3: Workplace relations practices.** This section contains a discussion of the various employment arrangements evidenced by employers in this study, together with analysis of employer approaches to managing changes in wage rates. It includes commentary on the familiarity of employers with wage-setting mechanisms, the FMW and Pay Scale wages, and the relationship between these and the wage rates paid in their workplace.

• **Section 4: Linkages and flow-on effects.** This section contains discussion of available evidence on the links and flow-on effects from Federal Minimum Wage decisions. This section illustrates the diversity of views presented by employers in this study. It also includes comment on the influence of competitor behaviours and market conditions on wage-rate decisions.

• **Section 5: Adjustment variables.** This section contains discussion of the strategies considered and implemented by employers in response to changes in wage rates. It also presents industry profiles which highlight differences and similarities in the responses of employers operating in different industries.

The general opinions expressed, the diversity of views, and any specific issues raised by particular industries are described and identified in these sections where relevant and appropriate.

1.5.2 A note on interpretation and use of the research findings

The research is qualitative in nature, providing understanding and insight regarding the impact of changes in the FMW and Pay Scales on participating employers. Qualitative research assists in exploring questions such as ‘how, what and why?’, however, it does not allow us to quantify the results by answering questions such as ‘how many?’.
The richness of the research comes from the stories and experiences of the 92 employer participants. The research was designed using a purposeful sample and this report presents their stories and experiences at that point in time.
2. **Business operating environment**

Understanding the business operating environment is critical to understanding the context within which workplace relations and wage decisions are made. The following section provides an overview of the environment within which participating employers are operating — both in terms of the recruitment environment, and current industry and business performance. This section also provides insight into participating employers’ approaches to business management, profitability and workforce structure.

2.1 **General operating environment**

2.1.1 Current recruitment environment

Employers taking part in the research reported a diverse range of experiences in relation to recruitment. Some businesses reported minimal difficulties filling positions, while other businesses reported significant challenges filling both relatively high-paid positions and, in some cases, positions that are lower skilled. The following comments illustrate this diversity:

‘Positions for lower skilled staff are easy to fill. One advertised position attracted around 70 resumes.’ [HaCS, Western Australia, small business]

‘Finding quality people to fill positions is hard due to the lack of people applying. I can only think that it is a very competitive job market at the moment, and good people have good jobs and are not looking.’ [ACR, South Australia, small business]

‘We have a glut of job vacancies for people of average skills in this town.’ [Retail, Northern Territory, small business]

‘I am usually lucky to have a steady supply of potential employees come in of their own accord and apply for a position, without the need for advertising or going through a recruitment agency.’ [ACR, Sydney, medium business]

‘All planning has had to go out the window. We now take what we can get.’ [Retail, Australian Capital Territory, small business]

The type of employee the business was seeking and the nature of skills and experience required to fill the position were identified as key factors impacting the recruitment experience.

Participants reported that job applicants frequently did not hold the **qualifications** necessary for the position for which they were applying. As a result, some participants viewed the recruitment of underqualified staff (who they could subsequently train) as a more cost-effective option than seeking staff who already hold relevant qualifications:

‘Putting the knowledge of several years of chefing and such basic skill together in one job has been difficult. Most chefs balk at the sandwich making aspect of the job and yet if you get a sandwich hand you’re under-skilled for the rest of the job … As a result, I am in the kitchen five days a week with a sandwich hand who interviewed really well, lots of enthusiasm and interest. I show her a new skill each day and then get her to act on it the following day. We go over and over things but finally she gets it. It seems that this may be my only solution.’ [ACR, Tasmania, medium business]
This was a more significant issue for businesses operating in industries in which it is mandated by legislation that a certain proportion of staff, or that staff performing certain duties, must hold specific qualifications. Particularly within the HaCS industry, recruiting and retaining suitably qualified staff was raised as a challenge, with some employers noting a skills shortage:

'It is quite difficult to recruit employees with child care qualifications as there are very few [who are] qualified out in the workforce.' [HaCS, Victoria, medium business]

'To be qualified, a staff member needs a Bachelor of Education in Early Years (a four year university course) or a Diploma of Childcare (a three or four year TAFE course). It is very difficult to find qualified employees in child care, as those qualified are usually directors already.' [HaCS, Tasmania, small business]

'In our industry licensing requires 50 per cent of our staff to have a specific qualification (diploma). Of our 18 staff, only one has this qualification…Over the past five months we have advertised for qualified staff eight times and only received one response that had the minimum qualification.' [HaCS, Northern Territory, small business]

'I have been looking for a qualified acupuncturist and a massage practitioner since the beginning of the year, and I’m still looking for an acupuncturist that has the right qualifications and registrations. It’s next to impossible.' [HaCS, Australian Capital Territory, small business]

Registered nurses are the most difficult for us to employ as there just are not enough around to replace the nurses leaving at retirement age etc.' [HaCS, Tasmania, medium business]

Participants in the Retail and ACR industries raised similar concerns to HaCS employers in relation to recruitment for some positions:

'Difficulty arises because persons in my industry (real estate) must hold a current certificate of attainment in Real Estate Practices to complete a number of daily tasks.' [ACR, New South Wales, small business]

'We have people looking for work all the time. Many of these have had bar experience before, but do not have the relevant certificates we are looking for (police clearance and responsible service of alcohol certificates).’ [ACR, Perth, medium business]

'Good chefs are hard to come by and are snapped up quickly. They are also difficult people to keep as they tend to move regularly.' [ACR, Adelaide, small business]

The local labour market was a key factor influencing employers’ experiences in relation to recruitment and staff retention. Employers operating in a tight labour market — or in an industry or location with high levels of labour market mobility— experienced greater difficulty attracting and retaining staff, as shown in the following comments:

'I believe that it probably has a lot to do with [low] unemployment rates but I have permanent listings with two agencies for bar staff and unskilled positions.' [ACR, Brisbane, medium business]

‘Chefs are hard to come by…I should qualify that, chefs with relevant experience who want to maintain a long-term position rather than constantly chase the next great career move.’ [ACR, Melbourne, medium business]
‘It is of my opinion that due to the current low levels of unemployment, people are not prepared to do any job.’ [ACR, Australian Capital Territory, medium business]

‘In higher qualified positions, we have found it difficult to keep staff. We assume that it is partly because of the low unemployment rate and the fact that most applicants can pick and choose positions.’ [ACR, Australian Capital Territory, small business]

The situation was further complicated for some research participants by the specific characteristics of their businesses location. In particular, businesses operating in locations that potential employees viewed as less attractive places to live and work found recruitment more difficult. Location also impacted significantly on the recruitment environment for businesses operating in proximity to high-paying industries such as mining, which offer lower skilled employees the potential to earn wages beyond what they could easily achieve through alternative employment. The key locational factors impacting the recruitment environment are outlined below.

• Proximity to areas experiencing a mining boom:

‘The area is experiencing a mining boom at present and it is impossible for us to attract and retain quality staff as we can not afford to match the wages and salary offered by the mines.’ [ACR, Queensland, medium business]

‘We operate in a traditionally blue-collar area and have recently seen a resurgence of mining in our location. The mines are paying significantly higher wages than most of the local businesses can afford to pay. As a consequence of their large pay offerings most business have lost valuable qualified staff to the mining industry. The disappointing thing about the roles which many of these people have taken…[is that they] are unskilled positions and it is sad to see that many tradespeople have exited their trades in the pursuit of money.’ [Retail, Tasmania, medium business]

‘I find it hard to recruit people because of our location, and when we do, they see what the mines are paying and we tend to lose them to the mining companies.’ [ACR, Northern Territory, small business]

• Locations with a large transient population:

‘Darwin is very seasonal with a transient population; there is an average stay of two years for Australians or three months for backpacker labour.’ [ACR, Northern Territory, medium business]

‘In the Northern Territory, I have found that people wanting to commit to this type of environment long term are limited in numbers as they are very transient.’ [Retail, Northern Territory, medium business]

• Locations with a large government sector:

‘In the ACT a small local outfit is up against local and federal government, who have a total disregard for the costs of ads, work conditions, time off work, workers comp, tax, super and now, it seems, maternity leave.’ [Retail, Australian Capital Territory, small business]

‘Canberra has an unemployment rate of three point eight per cent of which two per cent do not want to work. We compete with the Federal Government for employees. The government offer a Monday to Friday 37.5-hour working week, with flexible working hours...’
Employer Responses to Minimum Wage Adjustments

[and] 17 per cent super. We are in the hospitality industry offering shift and weekend work at a lower rate of pay.’ [ACR, Australian Capital Territory, medium business]

• Regional locations:

'Small country town — not a lot of appropriately skilled people living locally.’ [ACR, South Australia, small business]

'Being in a rural part of Australia places its own difficulties on recruitment for skilled positions. The expectations of high pay and added incentives for working in rural locations are often the first matters for discussion, before relevant experience or skills.’ [Retail, Western Australia, medium business]

'Most chefs find work easily in the city so we only have a small catchment area. We are quite isolated, which makes it difficult, as most people don't want to travel far to work.’ [ACR, Victoria, medium business]

Conversely, a number of employers described operating in a weak labour market in which they had found it relatively easy to recruit and retain staff, particularly comparatively lower skilled staff. The following comment illustrates this experience:

'We are in a small rural community with high unemployment, bar skills are easily learnt and our staff are grateful to have work at all.’ [ACR, Queensland, small business]

2.1.2 Current industry and business performance

A diversity of opinions was reflected in relation to current industry performance. Some employers described benefiting from a buoyant local economy, while others described an industry under pressure, due to increasing costs and declining profit margins.

Business size, business location, industry type, and the business manager’s level of expertise are just some of the factors that can affect perceptions of current industry and business performance. Overall, many employers commented that their industry is performing well. As illustrated in the following quotes, some attributed this to local economic conditions, while others attributed it to factors related to demand for their specific offering:

‘[We are] performing well due to increased interest from the various websites we advertise with. When things look quiet we drop our rates for that period and this seems to improve business.’ [ACR, Australian Capital Territory, small business]

‘Local tourism and events seem to be working well for our area. There seems to be a local event of some sort happening each month to attract out-of-staters. The industry that we are in is growing so rapidly sometimes I feel I am tripping over myself to keep up.’ [ACR, Adelaide, medium business]

‘The child care industry is growing at the moment due to high birth rates in recent years and greater incentives for families.’ [HaCS, Melbourne, medium business]

‘The industry at the moment is travelling quite well due to the mining boom and lack of accommodation in Perth.’ [ACR, Perth, small business]

‘[Name of business] is performing quite well because we are offering a “getting ready for school” program… Lots of people/families want to come because we have long day care
However, some participants were experiencing challenges in relation to profitability and felt their industry was being negatively impacted by broader economic conditions, such as rising interest rates and petrol prices, which have in turn impacted on levels of disposable income. These types of comments were more prevalent among employers operating in the Retail industry:

‘The sport retail industry is only just treading water. Interest rates, fuel prices, the drought and inflation are affecting the business negatively.’ [Retail, Victoria, small business]

‘Retail spending on luxury goods decreased by 25 per cent last month. If this trend continues this will have a large impact on our business.’ [Retail, Queensland, small business]

Other participants commented on the shortage of skilled staff, and the challenges this poses for their businesses:

‘The hospitality industry is in the middle of a huge staff shortage… A large amount of skilled and non-skilled workers are leaving their workplaces to do similar or even more subordinate roles for huge wages in the mining industry.’ [ACR, Perth, medium business]

‘The main issue we are facing is finding the right staff to fill in the roles available. Our main challenge is getting skilled staff and because we are fighting for a small number of qualified staff, we are also faced with having to pay them more… Of course this affects the bottom line very much.’ [HaCS, Australian Capital Territory, small business]

‘The NT economy is currently booming. Exceptional wages are being offered for unqualified workers in many industries. This makes recruiting quality staff difficult, and prices are already starting to rise as employers offer more to attract staff.’ [HaCS, Northern Territory, small business]

Employers in the Retail industry also commented on increased competition both locally and from overseas with the increasing prevalence of internet and online shopping:

‘Internet overseas shopping and imported goods are the major challenges.’ [Retail, Victoria, small business]

‘Retail customers frequently buy direct from backyard manufacturers as well as purchasing extensively on the internet.’ [Retail, Northern Territory, micro business]

2.1.3 Comparison by industry

Retail industry

Participants operating in the Retail industry frequently commented on the negative impact of external economic conditions such as the increased cost of living, increased competition and the strong Australian dollar on consumer expenditure and business costs:

‘Because of increasing interest rates, fuel prices, etc the clothing retail industry is not doing all that well at the moment. I have been talking to other retailers in my area and they all say the same thing: things are tough and people are not spending. My turnover is half what it was prior to Christmas.’ [Retail, Tasmania, small business]
Employer Responses to Minimum Wage Adjustments

‘There is a lot of competition for us, so it is very difficult to get any good margins. At the end of the day after taking out all the expenses, especially wages, and trying to pay for stock, there is nothing left.’ [Retail, Tasmania, small business]

‘We have noticed that since interest rates have tightened and [with the] change of the federal government in November/December business has dropped off.’ [Retail, Australian Capital Territory, small business]

‘The market is decreasing in Australia due to cheaper imports that are marketed as the same quality.’ [Retail, Northern Territory, micro business]

However, not all employers in the Retail industry described such challenges. Businesses located in booming local economies, particularly those located near mining areas, described high levels of growth:

‘In the current marketplace our industry is economically booming. The issues that we face currently are around the ability to sustain the volume of work.’ [Retail, Northern Territory, medium business]

‘The retail industry in our region is performing well. We have been insulated somewhat from rising interest rates and fuel process due to the boom we are experiencing in mining.’ [Retail, Queensland other, micro business]

ACR Industry

Employers in the ACR industry commonly cited the challenge of attracting and retaining suitable staff, with many feeling that hospitality is not considered an attractive industry. Additionally, employers located near mining areas commented that they are losing staff to higher paid roles within the mining industry:

‘The hospitality industry is in the middle of a huge staff shortage. Trying to find qualified staff who are willing and motivated to work in the roles that are required [is a challenge].... The mining boom is attracting low-skilled hospitality workers (like housekeepers, kitchen hands and bar staff) to change their lifestyle and work on [a] mining site or in mining towns, doing the same role for sometimes five times the pay that we could offer.’ [ACR, Perth, medium business, accommodation]

‘Occupancy is very high at the moment. The main challenge is finding personnel with the required attributes.’ [ACR, Brisbane, medium business]

‘I believe the hospitality industry is growing quicker than staff are being skilled. There is a large demand for qualified or experienced staff, especially over the summer period, and this demand is not currently met.’ [ACR, Victoria, medium business]

Some participants commented on the impact of general economic conditions on their industry, although these comments were comparatively less common than within the Retail industry. In many cases comments were linked closely to the characteristics of the local region, for example the strength of the local economy and tourism in the local area. A few specific issues were raised in relation to ‘red tape’ and legislation, such as increased tax rates on ‘ready-to-drink’ products, and changes in smoking legislation, as shown in the following comments:
Employer Responses to Minimum Wage Adjustments

The hospitality industry is facing challenges at the moment. The recent introduction of increased taxes on ready-to-drink products (e.g. rum and cola cans) has already caused anger among customers and a downturn in sales. [ACR Queensland, small business]

I think generally the hospitality industry is performing okay. With the recent changes to smoking legislation and the coverage of alcohol-related violence we have had to make a bigger effort to get people in through the door. [ACR, Sydney, medium business]

HaCS industry

A diversity of opinion about industry performance was apparent within the HaCS industry. Those who felt the industry was performing well tended to comment on the growing demand for services; comments that the industry is under pressure were often linked to concerns over funding and increasing costs of service provision, as illustrated in the following quotes:

I think our industry is struggling to keep above inflation and rising costs of services, products and wage increases. [HaCS, Brisbane, small business]

This industry is under immense pressure. We are constantly battling the balance between providing appropriate care and knowing there is a deficit budget. The Federal Government does not fund this industry enough for operating budgets. [HaCS, Tasmania, medium business]

Community care as an industry is in crisis at present. This is due to workforce and funding issues mainly. Government must review the areas of funding in community aged care. [HaCS, Perth, medium business]

Within the HaCS industry, the shortage of skilled staff was also seen to be a significant challenge that places increased pressure on the business:

…the main issue we are facing is finding the right staff to fill in the roles available. Our main challenge is getting skilled staff, Because we are all fighting for a small number of qualified staff, we also are faced with having to pay them more and offer them greater flexibility in order to keep them. Of course this affects the bottom line very much. [HaCS, Australian Capital Territory, medium business]

Some employers also noted concern over a perceived lowering of both training standards and mandated qualification levels in response to the skills shortage:

Our industry has experienced sustained rapid growth over the last 10 years. This has resulted in a chronic shortage of qualified staff nationally…There seems to have been a conscious decision to significantly lower the standards required to be qualified, in order to accelerate the training process. [HaCS, Northern Territory, small business]

2.2 Business management approach

2.2.1 Workforce profile

Most participants were able to articulate their approach to workforce management and the form of targets they strive to meet within their business, both when recruiting new staff and managing staff rosters. The nature of these targets was seen to vary, with a combination of financially specific targets and broader workplace considerations evident.
Financially specific targets

A primary vehicle for attaining financially based targets was through the use of casual staff. This was most frequently reported by participants working within the ACR and Retail industries (due to the greater opportunities for casual staff). However, some participants operating within the HaCS industry also reported using this method.

Participants from the ACR and Retail industries reported that they have the ability to alter the volume of hours that their casual staff work on a week-by-week basis; this flexibility allows these employers to attain their targets, whether these are based on a percentage of revenue, a total wages bill, or a number of budgeted hours:

‘We monitor our total wages bill closely. If we have a week when the wages bill was rather high, we sit down and see what jobs can be put off and don’t necessarily have to [be] done in the next week.’ [ACR, New South Wales, small business]

‘I use a mix of full-time and casual to achieve the total employee hours needed and total wage bill desired.’ [Retail, Victoria, small business]

‘We hire a lot of “casual” staff which, although expensive during peak season, give us the flexibility to cut right back on numbers during the low season.’ [ACR, Western Australia, medium business]

‘I need to keep a good mix of permanent, part-time and casual to manage a hospital schedule where the workload may fluctuate depending on medical leave.’ [HaCS, New South Wales, medium business]

Another financially focused method of controlling the total wages bill — described by participants across all industries — was the use of traineeships and apprenticeships, which benefit businesses through the provision of government wage subsidies or by reduced wage rates:

‘Encouraging staff who are already employed that have no formal qualifications to take on a traineeship so that the organisation can receive incentive payments. Also traineeships for new employees.’ [HaCS, Tasmania, medium business]

‘Junior staff are generally on a traineeship so [their] wage is predetermined.’ [Retail, Victoria, small business]

‘We try to hire an apprentice who is no older than 17. That way the cost to the business is lower while he learns the basic skills to be able to help pay his way.’ [Retail, Tasmania, small business]

‘We employ a large apprentice base in the kitchen to keep wages at an appropriate level and also to try to ensure skills coming through.’ [ACR, Queensland, medium business]

Broader workplace considerations

Participants also looked at other requirements of their business, both in terms of the skill set and qualifications required, and in terms of the need for a homogenous team and a positive working environment. While specific financial targets were a key component of workforce structure, broader workplace considerations were also discussed by a high proportion of participants.
• **Skills/qualifications** – Participants reported that their hiring decisions and the structure of their daily roster are planned to ensure that they have adequate numbers of staff with the requisite level of skill or qualifications available within the business at all times:

‘We also need to consider the type of qualifications/skills that our workforce have during the hours our business is open, including the shifts within the day.’ [HaCS, New South Wales, medium business]

‘The key things in our field of work are qualifications and preferably experience. Although just as important is attitude and loyalty.’ [HaCS, Australian Capital Territory, small business]

‘However, we as managers of the hotel see much more benefit in finding someone who is much more multi-skilled and can be utilised elsewhere other than the kitchen.’ [ACR, Queensland, small business]

Skills and qualifications were recognised as an important asset to the businesses. But participants’ views on this were flexible — potential ability is highly valued, and some businesses are willing to employ applicants with the ‘right attitude’ who they can then train to meet the requirements of the position:

‘We are increasingly happy to employ staff on potential rather than experience, offering them on- and off-the-job training to increase their expertise and confidence.’ [HaCS, Queensland, medium business]

‘…over recent times we have preferred to “employ attitude” and “teach skills”.’ [Retail, Victoria, small business]

‘I also need to train staff in different roles, so taking time to develop skill is a great asset to the business at a later date.’ [ACR, South Australia, small business]

• **Homogenous team and operating environment** – The ability of staff members to work as part of a team is another aspect considered when hiring or when structuring the existing workforce:

‘The most difficult position to fill was the chef/cook. Firstly, because we required skills and experience beyond schnitzels and chips, and also because we were seeking someone who would be willing to work as part of a team and not as a kitchen dictator.’ [ACR, South Australia, small business]

‘I like them to work together as a team, helping each other in a happy environment. I feel if your customers see that the staff are happy they will feel welcomed and keep coming back.’ [Retail, Queensland, micro business]

‘We aim to have what we consider a good mix of experienced and junior staff. Yes, the finance is something we must and do keep an eye on, but the correct people is the thing that counts.’ [Retail, Victoria, small business]

Interestingly, for a number of employers, enhancing teamwork has involved moving away from using primarily junior staff and shifting towards a more mature workforce:

‘We look into the mix of staff that we have currently and what will work within that mix. For example, we have several mature-age staff with qualifications, so we have had to [bring] new staff into the mix with a variety of ages: juniors (apprentices, of which we have two), staff...’
in their twenties and now some in [their] thirties. This has created a great balance.’ [HaCS, Tasmania, medium business]

‘The main area I now consider is age. In the past, we have employed a number of younger people and found it very difficult — it became more of a social scene. I look at around 45 years and above with one junior. It seems to have worked a lot better and they are a lot more reliable.’ [Retail, Tasmania, small business]

‘I need older women because my customer base tends to be older women. I have huge amounts of young girls applying but my customers do not relate well to that age group.’ [Retail, Northern Territory, small business]

2.2.2 Importance of labour costs

Not surprisingly, the importance of labour costs, and specifically pay rates, to the successful operation of the business was linked to the proportion of total business costs allocated to labour. While the majority of businesses felt that labour costs are very important, employers for whom labour costs represent a comparatively larger proportion of total costs were more likely to feel that labour costs are critical. Generally, participants operating in the HaCS industry reported significantly higher proportional labour costs than those operating in the ACR or Retail industries.

Across all industries, employers described striving for a balance between labour costs and quality of product or service. A number of employers commented on the importance of quality to business success, in terms of both positioning within the market place and customer loyalty:

‘Customer satisfaction and service level are more important for the success of the business. Without that there is no repeat business, no matter how low the wage bill is or other overheads.’ [Retail, South Australia, small business]

‘We are in the service industry, and can not really “cut corners” in some aspects of daily tasks, e.g. housekeeping — if a room is dirty, it must be cleaned the next day. We must try to control our costs, but are careful to never let it interfere with the high level of service or quality product that we are selling.’ [ACR, Perth, medium business]

‘The business can’t run successfully without trained/skilled staff and they must be paid accordingly.’ [Retail, Queensland, micro business]

‘Labour costs are the highest costs for our business, and therefore are very important. However, how we conduct our business and how we can provide the best service in our industry are very important to us.’ [HaCS, Melbourne, medium business]

For some businesses the nature of operations or other requirements dictate minimum staffing levels and thus labour costs:

‘There are times when our labour cost is higher than our takings, but we need to be properly staffed to operate the business to the standard expected by our customers.’ [ACR, South Australia, small business]

The tightness of the labour market was apparent in many employer comments regarding the link between pay rates and attracting and retaining quality staff. The value to the business of the right employee was also a consideration, with many believing that the
employee’s contribution to business success and productivity was more important than the rate of pay:

‘I believe the success of a business revolves around the quality of the employees. If they are good at their job and enjoy what they do, they can earn much more than their worth in salary. Finding quality employees and keeping employee satisfaction is closely linked to pay rates so it does not pay to sacrifice this area of a business.’ [Retail, Sydney, micro business]

‘Labour costs are important — but if you focus on that and your staff are not happy with their pay they will leave. So treat them well and you get a good response.’ [Retail, Perth, small business]

‘If we don’t pay enough we are not going to get the right candidate to fill our position, in terms of having the right qualification and/or experience within the industry.’ [HaCS, Sydney, medium business]

‘Our staff are our most important asset. By extension, it is important to meet/exceed the market to ensure that we have staff of the necessary calibre.’ [ACR, Brisbane, medium business]

For some, the importance of labour costs to business success is evidenced in their decision to personally work in the business, so as to reduce costs:

‘I have to be careful that I work as much as possible, in order to keep wages down, while not burning myself out.’ [HaCS, Tasmania, small business]

A number of employers, most notably those operating in the ACR industry, commented specifically on the impact of penalty rates on their business:

‘Customers expect to pay the same for their food no matter which day it is. However, as costs go, our menu should be 40 per cent more expensive on a Sunday or public holiday. Penalty rates will be a major factor in our industry, and if they continue to climb it will be critical for our industry. It is a snowball effect — wages increase therefore we have to put up prices to cover the cost. Minimum wages should be set irrelevant of time of day or which day of the week and the whole system of pay should be massively simplified.’ [ACR, Victoria, medium business]

‘One of the more stupid notions in the hospitality field is that of penalty time and pay rates. We are not dealing with a nine–to-five job, but rather a whole field of activity that operates in the evening and on weekends. None of my staff work in excess of 45 hours per week and yet if they are paid via award rates we are supposed to pay penalty rates for the majority of their working week. This is not sustainable, nor is it a fair circumstance for a struggling hospitality industry.’ [ACR, Melbourne, medium business]

‘Because we operate seven days, awards that are based around a person working full-time during weekdays, with penalties for all weekend work, are totally unrealistic for a workforce that works casually with flexible working hours. Penalty rates should be left behind in the bygone era of the last century.’ [ACR, Adelaide, small business]

‘Minimum wages (at current levels) are not the problem, rather it is the penalty rates, loadings and allowances that blow the affordability of staff out of the water.’ [ACR, Melbourne, medium business]
2.2.3 Overall approach to business management

Employers described using a variety of strategies to manage business profitability, and as part of their general approach to business operations and management. Generally, participants were aware that increased costs meant that they needed to either increase business revenue or reduce other costs to the business. The following discussion describes the business strategies employed by participants to manage business revenue and profitability.

Strategies to increase business revenue

Strategies to increase the overall revenue of the business — without raising prices — varied depending on the industry and business type, with a range of options being listed by participants in their responses.

• **Increasing capacity** — By increasing the infrastructure available to the business, participants sought to take advantage of the ability of their existing staff to service a larger volume of customers:

  'We have invested significantly (in our eyes anyway) on additional accommodation options, i.e. vans, and have bolstered our weekly income by a lot.' [ACR, Tasmania, small business]

• **Increasing the service offering** — Participants reported offering new services or specials to entice new customers and to provide a point of difference from similar establishments:

  'Offer personalised service, free delivery in the local area. Special catalogues promoting sale items on a regular basis.' [Retail, South Australia, small business]

  'We are also designing lower cost products for yearly events that consumers are always looking to purchase — Christmas etc.' [Retail, South Australia, small business]

• **Seek alternate funding sources** — Participants operating businesses within the HaCS industry reported using alternative funding sources to widen their income base. This could either be through seeking additional government funding, or in the case of primarily government-funded services, by adding private industry services to their offering:

  'Maintaining and increasing the organisation’s market share through review of government funding strategies.' [HaCS, Perth, medium business]

  'Our income is regulated by the Medicare system. We are able to offer medical services to the private industry which helps increase profitability.' [HaCS, Perth, medium business]

• **Marketing** — While some participants viewed this as a necessary ongoing expense, others perceived it as an option that could be used for the promotion of a specific sale or product:

  'Marketing is very important as we are such a niche business. Although we would love to save marketing money, every time we pull back on spending store traffic reduces. As it is easy to overspend on marketing we must ensure we have a minimum presence and get a great return.' [Retail, South Australia, small business]
Employer Responses to Minimum Wage Adjustments

‘To try and make our business more productive we do a lot of radio advertising and other sorts of advertising too.’ [ACR, Queensland, small business]

‘We do consider using local advertising, radio and local press, to promote the store and any in-store specials.’ [Retail, South Australia, small business]

• Differentiation — Those businesses which had a clear point of difference, or which were the sole regional provider of a particular product or service, reported using similar business management strategies. They were not, however, restricted to matching competitors’ prices, meaning that they could identify themselves as a premium brand and charge customers accordingly:

‘We basically price our outputs to the maximum we think the consumers can withstand; my philosophy is there is no money in being the cheapest in town.’ [ACR, Tasmania, small business]

‘We price ourselves at the upper end of market rates, and as such we have to provide an outstanding experience and level of service to our customers.’ [Retail, Sydney, small business]

‘As a lot of the competition do not have local support, it is an area we have an edge and we do everything in our power to ensure this level does not suffer in any way.’ [Retail, Queensland, small business]

‘The skate/surf industry is very competitive so we always have to keep a point of difference. Stocking products that we can keep exclusive to our store in the general area is important.’ [Retail, South Australia, small business]

Strategies to reduce costs

Strategies to reduce business costs were common across all industries, with a desire to source cheaper supplies frequently expressed by participants.

• Cheaper supplies — The most common strategy for reducing business costs was sourcing cheaper supplies, either by identifying new suppliers (overseas or Australian-based) or by negotiating an improved deal with an existing supplier:

‘Have mainly sourced a much cheaper range of product and this seems to be working.’ [Retail, Brisbane, small business]

‘We have the opportunity to buy product direct from China and this will half our input costs.’ [Retail, Perth, small business]

‘We are shopping for a better price from our suppliers and their competitors.’ [HaCS, Melbourne, medium business]

‘The major things I do to try and make my business profitable and viable are: I have recently joined a buying group, the benefits have been great, because as an independent you don’t tend to have too much of a say with suppliers. This has given me a better buying price and in some cases free delivery.’ [Retail, Queensland, small business]
• **Improved tracking of stock requirements** — The installation of point-of-sale software, which allows for more accurate tracking of incoming and outgoing stock, has enabled business owners and managers to evaluate their ongoing product requirements more strategically:

> ‘We keep a close eye on our running costs and frequently review expenses which is easy to do when point-of-sale and accounting are all computerised. The investment in a computerised point-of-sale system is worth its weight in gold and should be promoted to all retailers!’  [Retail, Northern Territory, small business]

> ‘Installing computers: putting in a point-of-sale program in place and getting the barcodes up to date has taken a lot of work, but we are now able to see accurately what is selling. Now we are able to carry the right levels of stock from the sale reports and reduce what does not sell.’  [Retail, Western Australia, small business]

• **Changed/reduced offering** — Some reported having reduced the service offering of their business, both to better fit the requirements of their customer group and to reduce overall costs:

> ‘We have found it necessary to “dumb down” our food offering. The high-end market is all but dead, and Joe Public seems to want comfort food, casual dining and spontaneous service.’  [ACR, Melbourne, medium business]

• **Overall efficiency** — Another common source of cost savings was decreased utility costs:

> ‘We try to be economical with corridor lights and making sure lights, aircon, and so on are turned off after staff have serviced rooms. We are mindful of stock control and over-usage or waste.’  [ACR, Australian Capital Territory, small business]

> ‘The cost of phone and post are also carefully monitored and where possible email is used as the communication mode. Financial service costs can be extravagant so once again we go for the cheapest options, which are often the newest, such as third-party-direct entry for supplier payments.’  [Retail, Northern Territory, small business]
3. Workplace relations practices

3.1 Type of employment arrangements

The research included a variety of businesses across the three industries of interest. It included a purposeful mix of employment arrangements: from informal arrangements and common law contracts to formal registered agreements and focused in particular on those paying employees according to awards or Pay Scales. Employment arrangements based on Pay Scales were most common amongst employers in the ACR industry. Within both the Retail and HaCS industries there was greater diversity in the approach adopted in setting pay rates.

Table 5 (overleaf) provides a summary of the variety of arrangements evidenced by employers in this study, illustrated by quotations.
## Table 5: Summary of employment arrangements

<table>
<thead>
<tr>
<th>Types</th>
<th>Illustration / Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award or Pay Scale only / pay the minimum</td>
<td>&quot;We don't set pay rates. We use the state award system and pay most of our employees the minimum wage.&quot; [ACR, Sydney, medium business]</td>
</tr>
<tr>
<td>Award or Pay Scale + bonus</td>
<td>&quot;We have formal employment arrangements in place that are governed by award rates in each state. For the majority of retail staff bonus structures are in place where they can earn more than award should they meet certain targets.&quot; [Retail, Queensland, small business]</td>
</tr>
<tr>
<td>Award or Pay Scale + above award wages (often for staff retention)</td>
<td>&quot;Pay rates are set via numbers of years working in the field and experience. All wages are based on the award structure and we pay above award rates to keep experienced staff.&quot; [HaCS, Perth, medium business]</td>
</tr>
<tr>
<td>Registered agreements (some using awards as guide)</td>
<td>&quot;While we use the state award rate for our industry as a guide for new employees, it is common practice to build on this award rate and register a negotiated package (higher than the award) for those individual employees who offer extra skills.&quot; [ACR, New South Wales, small business]</td>
</tr>
<tr>
<td>Mixed arrangements (formal and informal)</td>
<td>&quot;Primarily the committee looks at the university as a whole and sets the pay rates using a structured progressive pay schedule, similar to the public service. Our unit is the only hospitality unit on campus and a varied rate schedule was implemented in the late '90s. This is part of the enterprise agreement; the pay rates are slightly lower than the rest of the university but higher than the Hospitality Industry Award, which applies in the commercial world.&quot; [ACR, Australian Capital Territory, medium business]</td>
</tr>
<tr>
<td>Informal with award as base / reference</td>
<td>&quot;Our pay rates scales are determined under a registered agreement, negotiated every three years. These pay rates are broken into four graded scales oriented around tasks, and are then further broken into multiple steps which are based around performance. As an employee progresses through our business, they are eligible for pay increases in line with their performance.&quot; [Retail, Northern Territory, medium business]</td>
</tr>
<tr>
<td>Informal</td>
<td>&quot;Each professional employee is paid according to ability, experience and what they can bring to the business. The other roles, i.e. administration or retail roles are based on award rates or agreement packages.&quot; [HaCS, Brisbane, small business]</td>
</tr>
<tr>
<td>Informal</td>
<td>&quot;Most senior staff [the arrangement] is an individual offer or negotiation, while for junior staff [the arrangement] is formal.&quot; [Retail, Victoria, small business]</td>
</tr>
<tr>
<td>Informal</td>
<td>&quot;Pay conditions are set using the formal arrangements as a guide, i.e. the relative award is used as a base. Added to this are the years of experience or the quality of the work being performed, with incentives following reviews and years of service.&quot; [HaCS, South Australia, small business]</td>
</tr>
<tr>
<td>Informal</td>
<td>&quot;We have common-law contracts based around awards.&quot; [HaCS, Brisbane, small business]</td>
</tr>
<tr>
<td>Informal</td>
<td>&quot;Pay rates are set with consideration given to qualifications, experience and the work to be undertaken. Employment arrangements are informal and are set within the organisation.&quot; [HaCS, Western Australia, medium business]</td>
</tr>
<tr>
<td>Informal</td>
<td>&quot;Due to the fact that my ladies are seldom the breadwinners of the family and are nearing the end of their working lives they are happy with an “under the counter” arrangement. I pay them a set rate, no tax involved. I have one full-time manager who gets a package deal and pays tax, super etc.&quot; [Retail, Northern Territory, small business]</td>
</tr>
</tbody>
</table>

Several participants provided some rationale as to their approach to workplace relations and in particular why they used awards or Pay Scales for wage setting in their business. For workplaces in this study, use of awards or Pay Scales, and for some, Pay Scale reliance, resulted from considerations such as:
Employer Responses to Minimum Wage Adjustments

- **Costs / business viability:**

  ‘We set about 95 per cent of our pay rates through a Pay Scale. Also known as award-based rates. The business can’t afford to pay higher than award-based rates — it needs to remain viable and to do so can only pay the set award rates.’ [HaCS, Sydney, medium business]

- A sense of what is **fair and correct** or a **belief in/reliance on legal obligations** to guide their behaviour:

  ‘I pay my staff the state award for retail sales depending on their grade (responsibility in the store). I have never considered an alternative. I feel this is the correct pay rate and the right thing to do by your staff.’ [Retail, Tasmania, micro business]

  ‘In our businesses pay rates and conditions are set by award rates from Safework SA using the Delicatessens, Canteens, Unlicensed Cafes And Restaurants Etc. Award rates for South Australia. All staff come under this award as we believe that is our legal obligation. I know corporations are able to negotiate their own pay rates and conditions.’ [Retail, South Australia, micro business]

  ‘I use the Pay Scale because I have to. That is what he or she is entitled to depending on age and when they work.’ [ACR, South Australia, micro business]

- **Parity and transparency** — for some, the existence of Pay Scales is seen to create a ‘level playing field’, with transparency and wage parity being highly valued for managing staff:

  ‘The award rates keep everyone on track with what should be provided. The employee receives what they are entitled to under state requirements. It also allows organisations to project their budgets if they use these scales.’ [HaCS, Tasmania, medium business]

  ‘Nurses are particularly marketable at the moment and they are aware of this. They can and will ask for exactly what will suit their lifestyle. It would be impossible to recruit staff if there was not wages parity.’ [HaCS, New South Wales, medium business]

  ‘All our staff are on the appropriate rates for pay. No-one has any extra favours as it could create problems within staff.’ [ACR, Western Australia, small business]

It was clear that some employers found it **simpler** to stick with what was specified by award rates/Pay Scales:

‘The more formal and according to the law the process is, the easier it is. There can’t be any debate, because the state awards determine the hourly rate, and we are happy to pay it. Negotiating can’t arise.’ [ACR, New South Wales, small business]

One employer reflected that using awards or Pay Scales to set pay rates was all they knew, and that a **lack of confidence, familiarity or skills** to deal with the alternative modes of wage setting was holding them back from change:

‘The pay rates I use are the Queensland award wages for retail sales assistants, casual and juniors. I started this way when we first opened; now I don’t know how to do anything else and I don’t want the staff to feel they are getting ripped off. I have thought of offering incentive bonuses but am unsure of how to put this into place. Also, when I open a second store I want the staff to work as a team not one being the boss. I want them to answer to
me but to work together. Do I offer a higher pay rate or still stick to the award?" [Retail, Queensland, micro business]

A few participants found simplification in formalising their own tailored agreements, and felt that AWAs or registered agreements can provide surety and clarity for employees:

'We get all our employees to sign an AWA before they can start so that we are all on the same page.' [ACR, Northern Territory, small business]

'Our organisation determines pay and conditions through a formal setting, so that all staff within that classification and level know that they are being treated equally and not discriminated against.' [HaCS, Sydney, medium business]

This seemed particularly useful when businesses were operating with reference to multiple awards or Pay Scales, which were causing confusion about who would be paid which rate:

'We started the business 12 months ago and developed a [name of business] AWA at the outset as we crossed three awards with our various positions. We could have staff under cafes and restaurants or retail or hotel. So rather than go mad trying to look up a huge variation of Pay Scales we simplified it...Complex award Pay Scales are too difficult to handle and too easy to make mistakes with. Small businesses like mine do not have the resources to employ accounting staff to handle complex employee pay issues, so a more universal, day-to-day, hour-to-hour, flexible pay system is needed. Because we operate seven days, awards that are based around a person working full-time during weekdays only, with penalties for all weekend work, are totally unrealistic for a workforce that works casually with flexible working hours.' [ACR, Adelaide, small business]

One employer outlined how moving to a workplace agreement provided better outcomes for retaining staff; the employer was able to pay more than the previous award classification and deploy staff where they were best utilised within the business (and not be limited by set pay rates associated with that classification):

'Until recently all casual employees were paid according the Australian Liquor and Hospitality Award; however, they have recently voted to change to a workplace agreement. We gave them this new option as we think it is a fairer grade of the employee's skills and experience, e.g. previously an employee was classified and paid by the job they performed (e.g. bar useful, bar attendant, pokie attendant), and not by their experience or skill in that role. This way an excellent bar useful can be put on a higher grade and paid more, and I can keep that employee on the floor where I think they are more useful to us, rather than push them onto the bar.' [ACR, Sydney, medium business]

3.2 Familiarity with Pay Scales, awards and the FMW

3.2.1 Familiarity with the minimum wage

As illustrated in the previous section, approaches to wage-setting arrangements varied. However, some business owners chose to use awards or Pay Scales, because they felt these provided a transparent system, or a system which gave them certainty that they were paying the correct amounts. Despite the reliance on statutory minima for many employers in this study, there was a generally low level of knowledge about the specifics of the wage-setting regime in Australia – similar to the findings of public consultation research conducted by TNS Social Research for the Commission’s 2007 and 2008 wage reviews.4

The majority of employers felt that the government is responsible for setting minimum wages, and only a few employers were aware of the Australian Fair Pay Commission.

As found in the public consultation research for the Commission's 2007 and 2008 wage reviews, support for the concept of minimum wages was evident, with several employers expressing endorsement of the minimum as a safety net or protection for employees:

‘I feel this is an industry which as a whole would use the minimum pay rate as there is a reasonably low level of skill needed to be capable of doing the job. I believe if we did not have this process in place, there would be a lot of workers taken advantage of. [For] example, someone who really needs a job may work for less [than] the minimum wage because they may believe they have no other options.’ [ACR, South Australia, micro business]

‘[Without the minimum wage] those persons who are marginalised by their degree of disability or capacity to work because of other (family mostly) commitments would find themselves at the mercy of ruthless employers.’ [HaCS, Brisbane, small business]

‘I think that it is a safeguard especially for unskilled workers. If there was no minimum wage I believe that wages would decrease, as there would be no standard to measure against.’ [ACR, South Australia, small business]

Several put forward the view that minimum wages need to increase over time; one employer stated the importance of increasing minimum wages in attracting workers to his business:

‘If rates were too low, [I] probably wouldn’t find anyone interested [in] working as a deli assistant!’ [ACR, South Australia, small business]

Others, however, also saw minimum wages as playing a role in controlling the wages bill and restraining wages growth:

‘Minimum wage scale gives us a base mark for employees to start with, before they prove their value to the company and prove their capability to perform more tasks. Being able to scale the wages by age also helps to keep the overall wage costs lower (by employing junior staff). I think if there wasn’t a base mark set regarding minimum wages, the workforce would all become too greedy and demand extreme hourly rates, thus causing more of our production to be sent offshore, where the labour costs are so much lower, to keep costs down.’ [HaCS, Brisbane, small business]

‘…our employees are on the minimum award, and we have no problems with this rate of pay. Without having a minimum wage award in place, I would find it very hard to control the budget I have in place for wages. Minimum wages work for us, and makes it easy to manage.’ [ACR, Perth, medium business]

Several employers recognised that local business conditions and the labour market are considerations when discussing the importance of minimum wage rates:

‘I don’t think in these times, where unemployment is at an all-time low, that you can afford to be paying people low wages, but I do think that at times when unemployment was high some businesses did exploit workers, so I think it is necessary to have industry minimums. I think we all need to be fair about wages, employers as well as employees.’ [ACR, Northern Territory, small business]
'In times of low unemployment [minimum wages have] little effect, in times of high unemployment wages could be pressured downwards’ [Retail, Victoria, micro business]

3.2.2 Familiarity with Pay Scales and awards

The discussion highlighted some understanding of Pay Scales and awards although many participants confused the terms 'award' and 'Pay Scale'; their comments often indicated a belief that these terms are interchangeable:

'I have no idea of the meaning of the term Pay Scales. However, after a quick Google, I gather that they are a summary of the award pay rates.’ [ACR, Brisbane, medium business]

'Unsure, as we pay to the award. Not sure what Pay Scale is.’ [HaCS, Tasmania, medium business]

'Not certain what the difference is with Pay Scales/award.’ [Retail, Melbourne, small business]

'Not sure how this [Pay Scales and the minimum wage] affects our award.’ [Retail, South Australia, micro business]

Familiarity with awards and Pay Scales varied across all industries. As shown in the following comments, some employers were not confident in their understanding, while others felt that awards and Pay Scales did not impact their business as they pay above the ‘award’ due to labour market conditions:

'I know very little. I believe our employees come under the retail award; however, what that award entails I am not sure.’ [Retail, Sydney, small business]

'Not confident at all. However, information is available via internet if needed.’ [Retail, Queensland, small business]

'I think our industry is too competitive (with a shortage of skilled labour) for [Pay Scales] to have too much effect.’ [ACR, Northern Territory, medium business]

'Industry norms have a bigger effect on pay rates at the moment.’ [HaCS, Brisbane, small business]

Despite a lack of clarity regarding the vernacular and the mechanics of the wage-setting regime in Australia, some employers were familiar with Pay Scales and reflected on a number of issues or features as part of their discussions, namely:

• Pay Scales are related to an employee’s level of skill and experience:

‘Pay Scales are a guide to the minimum amount to be paid for a particular type of job based on experience.’ [ACR, New South Wales, small business]

‘Pay Scales are different rates of pay depending on job requirements, education, responsibilities qualifications and so on.’ [ACR, Sydney, medium business]

‘We have Pay Scales in our award, based on years of experience and qualification achieved. It depends how long an employee has worked at a particular level.’ [HaCS, Tasmania, small business]
Employer Responses to Minimum Wage Adjustments

- Pay Scales are seen to provide incentive for employees to undertake training or take on higher levels of responsibility:

  ‘Without them [Pay Scales] there would be no incentive for people to improve and grow with their jobs.’ [Retail, Tasmania, small business]

  ‘Pay Scales are an important tool for encouraging employees to improve their skills and abilities. Obviously, an unskilled employee starts at a low pay rate. As they improve their skills, they are able to progress to a higher Pay Scale.’ [ACR, Queensland, small business]

- For a small number of employers, Pay Scales are viewed as a minimum rate of pay:

  ‘Pay Scales give you the basic minimum standard…to pay employees.’ [HaCS, Sydney, medium business]

  ‘Pay Scales are the minimum rates to be paid in each industry. They put a floor in the wage market.’ [Retail, Victoria, micro business]

  ‘I am fully aware that all wage rates are underpinned by the Federal Minimum Wage and Pay Scales and must be used as the benchmark from which negotiations commence.’ [HaCS, Perth, medium business]

However, it is important to note that the majority of employers did not display this level of understanding of the operation of minimum wages within Pay Scales. For many, understanding of the minimum wage was limited to the belief that there is a single minimum wage rate, rather than a graded series of minimum wages:

  ‘I have limited understanding, but would speculate that our rates take into account the minimum wage level, and therefore become a base to increase from.’ [Retail, Northern Territory, medium business]

  ‘As a territory employer we have always been on the federal system. As far as I’m aware our retail award has always exceeded the minimum wage. If there is more to it than that then I am blissfully unaware.’ [Retail, Northern Territory, micro business]

  ‘I don’t think that it really applies to my business. I pay above the minimum. An adult employee has a rate of $18.95 as a base rate.’ [ACR, South Australia, small business]

Employers were also asked to describe how they found out about changes to wage rates. The primary channels included employer associations, the media, business networks and relevant websites (both government and employer association websites). Employer and business associations, such as chambers of commerce and industry-specific bodies, were a common source of information and alerts, particularly for employers in the ACR industry:

  ‘We are advised each year by our employer organisation (Restaurant and Caterers Association Victoria) of the changes to our award. I contact RCAV any time I have any query about entitlements and pay rates and changes.’ [ACR, Melbourne, small business]

  ‘We are a member of VECCI [Victorian Employers’ Chamber of Commerce and Industry] which alerts me of pay rates.’ [ACR, Victoria, small business]

  ‘The chamber of commerce provide updates and explanations of any changes and have experts available to answer any questions.’ [HaCS, Northern Territory, small business]
'I am a member of Business SA who provide newsletters and workshops on all business matters and especially IR matters. I rely exclusively on the information they supply.' [ACR, Adelaide, small business]

A number of employers indicated that they became aware of changes to wage rates through the media and subsequently sought further information to understand the impact of changes on their business:

‘Generally hear through the media first then check out the relevant web sites.’ [Retail, Northern Territory, small business]

‘Generally I hear about it on the news broadcasts. Further information is accessed from industry bodies like VECCI or hospitality associations. I usually phone our employer association to clarify the matters concerned.’ [ACR, Melbourne, medium business]

‘I usually see first wind of it on the news (tv) and then I go onto the internet to check updated pay rates on Wageline.’ [Retail, Queensland, small business]

Other information sources included colleagues and networks, as illustrated in the following comments:

‘I am part of a group that meets each month and quite often I will pick up information from them.’ [ACR, Adelaide, medium business]

‘I have a network of colleagues that keep me up to date with changes and they generally let me know how the changes affect them.’ [ACR, Victoria, medium business]

‘I get my information from my payroll provider. They inform me of any changes to the award.’ [Retail, South Australia, small business]

### 3.3 Nature of response to changes in wage rates

As individuals, business owners manage their business through drawing on their own attitudes, beliefs and skills. Previous research with employers undertaken for the Commission has highlighted the diversity of approaches used, as each individual business owner faces business decisions, including employment and wage-rate determination. The way in which they manage wage-rate changes is also largely an extension of the way in which they approach the overall management of their business.

This study confirms previous research evidencing a wide variety of attitudes and approaches to business management, including those already outlined in Section 2. An extension of this discussion focuses more specifically on workplace relations practices and wage decisions in the context of broader labour-market and local economic conditions (see Section 3.1 and 3.2) where employers report varying levels of familiarity with the Pay Scales and the FMW.

#### 3.3.1 Reaction to changes in wage rate

Specific discussion of wage rate reactions reveals a rudimentary dichotomy placing employers broadly into two categories: those who exhibit a more reactive or a more proactive approach to wage-rate management. The two resulting categories, ‘Responders’ and ‘Planners’, are outlined as follows:

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Employer Responses to Minimum Wage Adjustments

'Responders'

Many participants were reactionary when it came to dealing with wage increases. These participants reported that increases in wage rates were not budgeted for, but responded to when required. This was commonly reported across all industry groups and many locations:

'We respond when they occur.' [ACR, Sydney, medium business, pubs/clubs]

'Probably respond to rate changes when they occur.' [HaCS, Brisbane, small business]

'I don’t think about wage increases until they happen. Then I sulk.' [Retail, Tasmania, small business]

Several participants noted that they didn’t budget for minimum wage increases (although they were impacted by the change) as the increases were small, especially if the business only has a few employees. This is contrary to previous research conducted with employees which highlighted that employees believe smaller business are less able to cope with minimum wage increases than larger business:

'I respond as they occur, probably not big enough to budget for that.' [Retail, Tasmania, small business]

'I only respond as required as increases are for me small.' [Retail, Victoria, micro business]

'We just respond to them when they occur. I am saying that from a very small business perspective though. We have recently doubled our staff and we are going to be putting a budget together now, as I believe the bigger the business grows the easier it is to lose control over it financially.' [HaCS, Australian Capital Territory, small business]

'Planners'

Compared to Responders, employers in the Planners category were more aware and more proactive with regard to wage-rate management. Employers who were Planners generally incorporated wage-rate rise considerations into a business planning or budgetary cycle:

'We budget for a five per cent increase in wages each year on prior year actual wages.' [Retail, Tasmania, medium business]

'When increases in wage rates are staged such as a percentage over four years, I include them in the wages budget. We usually know they are going to happen through our professional information services.' [HaCS, Tasmania, medium business]

'We budget for increases in wage rates. However, there are also times when we have to respond to various factors by increasing remuneration in some way, e.g. if there are prolonged and significant increases in petrol prices.' [HaCS, Queensland, medium business]

'I do budget for increases to wage rates. I normally assume that they increase by around the CPI rate. I also respond to market forces and review staff rates when necessary.' [ACR, Brisbane, medium business]

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‘The annual budget is assessed at end of each financial year and we factor in any increase we believe may be necessary. Wages always receive special attention.’ [ACR, New South Wales, small business]

‘We have allowed for incremental wage rates over the next four years. These will happen automatically. These have been prepared for in the original negotiations.’ [ACR, South Australia, small business]

Employers with stronger links to Pay Scales (those paying exactly the relevant minimum rate), and greater awareness of when changes occur (for example, through scheduled CPI increases/enterprise agreement scheduled increments) fell into the Planner category. Some employers using Pay Scales and/or formal agreements for setting pay rates in their workplace knew exactly when increases to award rates and/or Pay Scales would be announced. These employers could plan and budget for the wage increases:

‘Traditionally the award was amended June each year. Two years ago the award was reviewed to give an 18 per cent increase over 18 months in three stages. Since Work Choices the award system has been uncertain. In the past our fees were reviewed in May, when the award amendments were known, and our fees were adjusted in July. Wages are our main expense equating to 70 per cent of our total turnover. We now make allowance for anticipated wage rises in our July fee review.’ [HaCS, Northern Territory, small business]

‘The enterprise agreement is normally set for the next three years. Each year has the yearly increases clearly indicated and included. The yearly increment steps continue to apply regardless of the CPI yearly increase.’ [ACR, Australian Capital Territory, medium business]

3.3.2 Perceived control over wage rates

To further explore the workplace relations practices of businesses operating in the ACR, Retail and HaCS industries, employers were asked to comment on the level of control they have over pay rates within their business. While there were some variations between groups when compared on the basis of industry, business size or location, these variations were limited.

However, participants can be placed into one of three categories based on their perceptions of the level of control they hold over the pay rates received by their staff, as presented in Figure 1. Initially, participants can be categorised as perceiving themselves to have either a high or low level of control over pay rates. Participants experiencing low levels of perceived control can then be further defined, based on the reason for this low level of perceived control.
Figure 1: Perceived control over pay rates

1 High Control

High level of perceived control, paying above award wages
No excessive outside pressure on wage levels
Freedom to pay on merit and performance

2 Low Control

Governed

Low level of perceived control, dictated by Pay Scales or formal agreements

3 Low Control

Outside pressure

Low level of perceived control, dictated by external pressures such as proximity to high paying industries, skills shortages etc.

Mindset typically restricted in perceived level of freedom to influence wage rates

• High control — Participants reporting that they had a high level of control over wage rates tended to be paying above award wages. In addition to this, they did not feel excessive outside pressure in relation to their wage levels. Participants felt these factors in combination gave them the freedom to pay on the basis of merit and performance:

‘Full control; everybody is paid above the award.’ [Retail, Victoria, small business]

‘Using an award-based system I feel I have little control over the base wage. I am happy to have the ability to give above award payments to those that perform additional duties. We also offer bonuses and various value-added gifts and payments throughout the year.’ [HaCS, New South Wales, medium business]

• Low control (governed by a formal arrangement) — Those participants paying wages under a Pay Scale or formal agreement often saw themselves as having a lower level of control over wage rates:

‘Because we stick to the award rates, we don’t have much control at all. The only control we have is what level or grade of the award we put new staff members on. We can also raise or drop their levels. That is some sort of control, I guess. In regards to the rates themselves, we have no control whatsoever.’ [ACR, New South Wales, small business]

‘Not much control really. Only through voicing opinions through the union.’ [HaCS, New South Wales, small business]

• Low control (outside pressures) — The other main factors impacting participants’ perceived level of control over wage rates were external wage pressures impacting on their business. This included operating in proximity to high-paying industries such as mining, or certain areas of the public sector, as well as operating in an industry experiencing a skills shortage:

‘Whereas we like to think that we set our pay rates, there are many external factors that we consider [such as] awards, competitors’ pay rates and the pay rates of other industries in the local area.’ [ACR, Queensland, medium business]
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‘I don’t believe you have a lot of control over pay rates because of the mines. Most people come here and see what they are paying at the mines and that’s where they end up. If you don’t pay better than the bloke down the road, that’s where they go also. It’s not easy getting people and holding people, so you can’t haggle with pay rates here.’ [ACR, Northern Territory, small business]

‘Due to chronic staff and skills shortages in the Territory we must pay the award or above. With experienced salaried staff, we pay what we have to to keep them.’ [ACR, Northern Territory, medium business]

‘I believe that currently the pathology pay in New South Wales is driven by the public sector which pays 30–40 per cent more than private industry (including salary sacrifice and so on). I have no control over state or federal spending on wages.’ [HaCS, Sydney, medium business]

The impact of wage increases on business and employment decisions is ultimately influenced by the individual behaviours of business owners. Whether they are Planners or Responders, and whether they feel in control of their own wage rates or not, impacts the way in which they are able to manage wage increases and (in light of increased labour costs), adjust and grow their businesses. This provides relevant context for the analysis of the adjustment variables used by business and associated business impacts discussed in Section 5.

The industries of interest in this study have many pay-scale-reliant employees and a high emphasis on the wages bill, and may also have limited capacity to pass on wage increases through prices or changes to services (particularly in the case of HaCS employers). For employers in these industries, the impact of even small rises in wages can be significant if not factored into a business cycle or management process.

The research found a relationship between the feeling of lack of control over wage rates (due to external drivers of wage rates), and the tendency to be a Responder. While some employers clearly see and plan for increases in statutory minimum wages (see Section 4 for further illustration), there was a significant group of employers in this study who felt they did not have control over wage rates. These employers tended to respond as required. The end impact on the business of this perceived lack of control varies. Some smaller businesses with few employees could cope more readily with small rises; however, other businesses owners felt strongly that all increases, however small, adversely affected their business viability. This is discussed further in Sections 4 and 5.
4. Links and flow-on effects

4.1 Identifying links and flow-on effects

As outlined in the previous section, the familiarity of employers with the technicalities of wage determination in Australia is variable, and many employers are not fully aware of the links and flow-on effects between their own arrangements and changes to statutory minimum wages. While cognisant of the concept of the Federal Minimum Wage, and that minimum pay rates are set via awards and Pay Scales, employers do not fully appreciate or recognise that adjustments in minimum wages announced by the Commission may be behind changes in the rates that they pay their staff.

‘We don’t employ anyone on the minimum wage. We just adjust wages annually as per the award.’ [ACR, Northern Territory]

Further, the research has shown that some employers feel in control of their own wage rates while others do not, depending on their approach to wage setting and their experience of internal or external pressures on wage rates. The study also indicated that there is no single source of information on wage-rate adjustments for employers. This lack of clear understanding by some employers, coupled with a perceived lack of control, makes drawing conclusions with regard to Pay Scale reliance and links with adjustments to minimum wages somewhat difficult. Employers in the study did not often clearly articulate such links, and in several cases links and flow-on effects can only be surmised.

This section, therefore, provides illustration of employers’ approaches to changes in wage rates generally, and illustration of employers’ perceptions of links between pay rates set within their business and adjustments in the statutory minimum wages, based on their actual experience. Key indicators, such as references to specific dates of implementation related to the Federal Minimum Wage adjustment (October 2007) and references to specific award and Pay Scale change notifications (mid-2007) are useful, but are not definitive, evidence of links and flow-on effects from changes to statutory minimum wages.

Nonetheless, the research findings provide a realistic picture of the business owners’ experience as they face wage-rate changes and related decisions, whether or not they are fully aware that the changes are linked to statutory minimum wage rate changes. This section details what evidence is available about such links. Detailed findings with regard to adjustment variables are then explored in Section 5.

4.2 Direct and indirect links with adjustments to federal minimum wages

Employers reported low to average levels of understanding of the impact on their business of changes to federal minimum wages. A number of participants openly stated that they did not fully understand the potential impact of changes in the federal minimum rates, and the relationship between their pay rates and changes in the federal minimum rates. As discussed earlier, the research revealed that some employers were less aware of wage-rate determination mechanisms in general, and that they lacked a connection to a clear information source to notify them of changes. They did not all appear to be aware of the cyclical (annual) nature of minimum wage rate reviews. For these employers the impact of minimum wage increases may be delayed:

‘To be honest I don’t know. I find it all quite confusing.’ [Retail, Sydney, micro business]
'After looking back at other people’s comments, I’m wondering if I’ve got the whole award thing right, since we are all in hospitality. I would have thought we would all be under the same award. Ours is Catering – Victoria – Award.’ [ACR, Melbourne, small business]

‘I don’t know wage rates are changing; usually I find out too late and have to back pay my staff.’ [Retail, Queensland, micro business]

‘All my staff are on the award. Any pay increase will always affect a small business. I budget for pay increases and other “curve balls” that can be thrown at you in small business. My staff don’t really know when the pay increases happen so I inform them after I receive the details from my payroll provider. I can’t remember [the amount of the last increase] exactly but I think it was around $0.50 per hour.’ [Retail, South Australia, small business]

Those who paid the minimum rate only and made reference to sources such as Wageline and/ or signed up to receive alerts from their chamber of commerce or industry body were likely to hear of changes and adjust wages accordingly:

‘Australian Fair [Pay] Commission pay rise in October 2007. We increased the two major employee’s wages by $0.60 hour to cover our flat pay rate. The junior was already getting way above award and therefore it was deemed unnecessary to increase their wage rate.’ [ACR, Tasmania, small business]

‘Obviously if there has been a gazetted minimum wage adjustment our business needs to pay our employees accordingly.’ [HaCS, Brisbane, small business]

‘We were notified in October 2007 of changes by the Workplace Authority…a two per cent increase which had minimal effect.’ [ACR, Northern Territory, medium business]

Others were aware of regular adjustments to award rates and Pay Scales and the specific timing of these which may indicate a potential link to increases in federal minimum wages:

‘October 2007 was the last change. This was for low-income workers and I am not sure of the percentage just off-hand. It meant an extra $12 000–$15 000 was spent on wages per year. We have to manually implement the changes on MYOB and the staff’s pay cards.’ [HaCS, Tasmania, medium business]

‘Wage rises affect our business because it is an added cost that is difficult to pass on to our customers. The last pay rise for workers occurred in October 2007 which is unusual as pay rates usually change on 23 July every year. The last rise came about from the government offering workers a pay increase across the board. I am not sure of the percentage of the rise; however, this rise came on top of the rise in July 2007.’ [Retail, South Australia, micro business]

‘The last wage rise was back in August 2007. It was a rise in the minimum wage, which results in a pay rise on all Pay Scales. The last rise was $22.70 a week for minimum adult. Because our office staff who looks after the pays was absent, we missed the pay rise for a month also. That became a real pain because of the paperwork involved. Every rise in our overheads we have to find a way of making more money to cover it.’ [Retail, Tasmania, small business]

Other references were less specific on dates but referred to a time late in the year and employers often attributed wage increases to their industry body. The direct link to adjustments in minimum wages is therefore less obvious or not as clearly articulated:
'The last time wages increased was late last year. I am notified of wage changes from my award by VECCI and they tell me when the pay increase starts and by how much. The award wage changed for all my employees. The increase was by around $0.30 an hour, I think.' [ACR, Victoria, small business]

'Australian Hotel Association announced an increase in Pay Scale wage rates last year. I can't remember exactly what the increase in wage was but it was around $0.40 per hour for the casual staff who are on award. No issues were faced when implementing this change — as a member of the Australian Hotel Association we are informed in advance of any changes and have time to prepare for any increases, e.g. updating payroll systems.' [Retail, Queensland, micro business]

'The last national pay rise. Unsure of the exact timing. There were no real issues in implementing the pay rise. A small amount of time for the new rates to be entered into the payroll system.' [ACR, Brisbane, medium business]

'I recall the hospitality industry award rates changed (increased) back in October 2007 as a result of the last safety net increase I think. The representative body (Queensland Hotels Association) sends through advice to all member hotels advising of the change and the effective date. The general increase was a little over two per cent, which for the introductory level staff is about $11.00 per week ($0.29 per hour). While the owner grumbled about the pay increase, he honours his commitment to pay award wages. Each (casual) employee's pay rate was increased (not salaried staff) to the appropriate level. No other issues.' [ACR, Queensland, small business]

Links were less easily recognised where employers paid 'above award' wages. It appeared that for some employers there could be an impact or flow-on effect, but they did not make the connection. While for others — where the increase in minimum wages was not passed on to employees — the difference in 'above award' would diminish over time until the 'above award' rate was no longer competitive, or fell below the minimum. For some employers, market rates meant Pay Scales were not really relevant (see section 4.3 on market rates and competitor behaviour):

'Because we pay above the award the changes do not dramatically affect us.' [Retail, Victoria, small business]

'I pay well above award rates; minimum wages and Pay Scales are not relevant.' [Retail, Northern Territory, small business]

'As we do not “only” pay minimum wage there would be no impact unless minimum wage suddenly rose above the hourly rate we pay.' [HaCS, Western Australia, small business]

For some employers with formal agreements, there was felt to be a link, either direct or indirect, when adjustments were made to Federal Minimum Wages. Some employers were fully aware of this link, while others made assumptions:

'Staff in our industry are certainly paid more than the minimum wage. Decisions made by the AFPC are passed on to staff covered by our AWA. Pay Scales in our industry are largely determined independently by individual service providers. That is certainly the case with our organisation. I feel our industry would collapse if we were to only offer staff the minimum wage.' [HaCS, Queensland, medium business]

'I am unsure how the Federal Minimum Wage would effect our industry as I believe it is a state award; however, the minimum wage for the federal award must have to be taken into
consideration when setting down the guidelines for a state award.’ [ACR, New South Wales, small business]

A few employers noted that changes in award rates and Pay Scales could indirectly impact the pay rates for all staff (even those not paid award or Pay Scale rates), whereas other employers noted different treatment of employees (i.e. no flow-on effect):

‘As my casual employees are paid in accordance with the HMAA award, the annual increases to the rates of pay of the various classifications flow through to these employees. My front office staff are reviewed separately. The Pay Scales do not directly impact on these pay rates; however, they could indirectly have an effect.’ [ACR, Brisbane, medium business]

‘I do use an award wage in my business, which few employers in my local area do, so my wage rates are generally not affected by other businesses. The last time I remember an increase in the award wage was around September 2007, due to the CPI. This increase applied only to those on the award wage and not to those already above the award. Wages changed by about $1.00 per hour.’ [Retail, Sydney, medium business]

Some employers have informal arrangements that do not reference award or Pay Scale rates. So while minimum wages were seen as the lowest rate an employer could legally pay their staff, in reality they negotiated wages for their employees in order to remain competitive in the market, making no reference to award or Pay Scale rates. These employers felt strongly that there was no direct link or flow-on from adjustments to minimum wages:

‘I would like to think employers are paying at least the minimum. I pay higher. Pay Scales would not apply to me as I negotiate with my staff as I hire them.’ [Retail, Northern Territory, small business]

4.3 Market rates and competitor behaviour

While many employers relied on Pay Scales, at least as a guide for setting wage rates, the comments of participating employers highlight the strong impact of local economic conditions and the activities of competitors on the setting of pay rates.

Focus on competitors may result in indirect flow-on effects evidenced in wage rises following minimum wage rate increases (i.e. as competitor wages go up due to increases in statutory minimum rates, so do the rates offered by other businesses, whether formally linked to statutory minimum wages or not). However, some employers used this circumstance as evidence that changes in minimum wage rates are of little, if any, consequence to them (given current labour market conditions).

4.3.1 Examples of competitor influences/market rates

Many employers closely monitor ‘market rates’ and the remuneration packages offered by competitors as part of their employee attraction and retention strategies:

‘The remuneration package we offer our staff has to be attractive and compare favourably to those of our competitors. We constantly monitor the remuneration we offer staff and respond proactively whenever we feel there is a need.’ [HaCS, Queensland, medium business]
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'We manage our pay rates by reacting to what the competition is offering. If we want to retain someone or hire a new person we must offer a rate commensurate with the best the industry is offering.' [ACR, Melbourne, medium business]

'What competitors offer is important, as if you don’t monitor it closely you may lose staff to them.' [ACR, Victoria, medium business]

'Key people are regularly poached by other businesses if they show promise, and one must keep an eye on [what] other businesses pay and conditions to keep good people.' [ACR, Adelaide, small business]

'Due to there being such a shortfall in qualified staff, we regularly have our staff advising us what the others are offering. Sometimes we have to increase what we are offering just to keep the staff; however, it is getting extremely difficult.' [Retail, Queensland, small business]

Particularly within the HaCS industry, employers described offering benefits to boost their employees’ income, or providing non-pay-related benefits:

'As every organisation in community care is experiencing a crisis situation in attracting and retaining staff, they are all very inventive in finding strategies. Not-for-profit organisations do have the advantage of tax reliefs that assist in packaging staff salaries, that the private industry is excluded from. . . It is imperative to keep abreast of what is happening in the industry in relation to pay rates and conditions for staff, and to act on that information to maintain competitive advantage.' [HaCS, Perth, medium business]

'Competitor activity is very important to us as it is all too easy to lose our good staff to them if we are not competitive in terms of pay. We offer in-house training for free and the ability to upgrade training certificates while on the job.' [HaCS, Victoria, medium business]

Some employers in the Retail industry described using strategies linked to customer service or product knowledge to differentiate their offering from competitors. For such businesses, maintaining the loyalty of high-quality staff is critical to their business strategy, and pay rates may be adjusted or set to reflect this:

'We place high importance on service, where the larger stores have poor service. Therefore the staff are very important.' [Retail, Tasmania, small business]

'We remain competitive with prices and have a reliable and good team of subcontractors who lay the carpet — there are a lot of companies in Canberra who have layers who do a shoddy job and word-of-mouth is as valuable as advertising. We also have a wonderful sales staff who are paid incentives and a car to remain loyal to this company.' [Retail, Australian Capital Territory, small business]

'Major department stores advertise music product at cost price (i.e. loss lead) and all their music departments are located at rear of stores, so you buy clothing or accessories at a profit margin of 70–120 per cent as you walk by them. This makes it very difficult to price match as they are selling at my cost price. . . I try and base myself on the importance of customer service and product knowledge. I have tried to be price competitive and this does not work, so I feel I can charge a little extra for the personal service and knowledge that is received.' [Retail, Tasmania, micro business]
4.3.2 Labour markets and local economies

Local economic conditions were also seen to play a key role in the determination of pay rates. For example, employers operating in ‘boom’ areas described having to offer substantially above the minimum rates to attract and retain staff. In these markets, due to booming market conditions, changes in statutory minimum wages are largely irrelevant:

‘Minimum wages do not apply in the industry at the moment due to the fact that there is more work than there are workers — they [Pay Scales and award wages] would only impact on my business if there was high unemployment.’ [Retail, Northern Territory, micro business]

‘As most of our jobs are qualified mechanics we negotiate with each employee as the need arises to obtain the new employee. Our biggest problem is we are in a regional area where the mining sector is booming. As most small-engine mechanics are young men, they are attracted to the mining money/life. Last month I offered a qualified mechanic 50 per cent above the award rate to take a position in my business and I was turned down as it was not enough money.’ [Retail, Queensland, small business]

Similarly, employers operating in tight labour markets described adjusting pay rates in order to attract and retain staff:

‘We review the rates of other hotels and compare them to our rates. Similarly, if demand for experienced staff exceeds supply, this has a tendency to increase staff pay rates.’ [ACR, Brisbane, medium business]

There was evidence from at least one employer that increases in statutory minimum rates can impact on the expectations of employees who are being paid above the minimum rate. While employers are not legally required to increase pay rates for these employees, when part of the workforce receives an increase, employers can feel pressure to increase wages across the board:

‘We pay well over award wages to try to retain staff. I do know that when the government put up the minimum wage, all staff believed they should be getting an increase as well, even though they are already being paid above award.’ [Retail, Queensland, small business]

4.4 Impacts and implementation

The impacts of changes in wage rates were most often described in terms of adjustments to employment and business strategies (Section 5 presents a detailed discussion of the adjustment variables used by participating employers). However, a number of employers also commented on the impacts of implementing changes in wage rates, such as required changes to the payroll system and in some cases back paying employees (as a result of not being aware of changes to wage rates). A couple of employers in the HaCS industry also commented on the impact of wage rate changes on their funding and reporting processes:

‘The only thing is that sometime rates go up and we don’t know, then we have to go back and pay back pay. That can be a pain.’ [Retail, Australian Capital Territory, small business]

‘I don’t know wage rates are changing; usually I find out too late and have to back pay my staff.’ [Retail, Queensland, micro business]
‘Only thing to mention would be the amount of time (although minimal) to change the pay rates on the payroll package we use.’ [ACR, Australian Capital Territory, small business]

‘After rate changes, the biggest impact is on our payroll administrator — changing the hourly rates of respective employees. The other impact for us was reflecting the change in rates to ensure that it reflects in our funding/reporting requirements, and that the change was accounted for and recorded for funding purposes.’ [HaCS, South Australia, medium business]
5. Adjustment variables and impact

Employers reported using a variety of strategies to help them deal with the impact of increased labour costs as a result of changes in wage rates (not limited to increases in statutory minimum wages). For many employers, the strategies used were similar to those applied to manage business profitability as part of their general approach to business operations and management. As a result, employers who generally displayed higher levels of business acumen, or more sophisticated strategies in relation to the management of business costs and profitability, also displayed a more considered approach to dealing with increases in wage rates.

Thus the variety of approaches used to deal with increases in wage costs is reflective of the diversity of businesses. At one end of the spectrum, some employers described either experiencing no impact from wage increases, or simply continuing to operate following increases in wage costs without making any adjustments to their business operations:

‘As the amount was not great, no changes were implemented.’ [Retail, Northern Territory, micro business]

‘Wage increases have not been so substantial as to make a singular large impact on my business that requires immediate reworking of any area.’ [ACR, Australian Capital Territory, small business]

‘Apart from my wages bill increasing, not much changed in the business. We couldn’t put our prices up.’ [ACR, Victoria, small business]

‘Wages increased last year. Because we pay above the award it made no impact on us at all.’ [Retail, Victoria, small business]

‘There is a slight increase in my wages percentage each year, but not big enough to impact the business in any way, except maybe a slight decrease in profitability.’ [ACR, South Australia, micro business]

At the other end of the spectrum, employer comments indicated cases where a comprehensive range of adjustment variables formed part of a proactive business strategy. These businesses displayed a strategic approach to business management, which often involved planning and budgeting for wage increases and using a combination of adjustment variables to deliver business growth and profitability:

‘The rates of pay obviously became higher; therefore, to compensate, our prices had to increase marginally… We have in the past adjusted shifts to seven and a half hours instead of eight hours to allow us to save on RDOs. We also now hire more casual and part-time staff to enable us to be more flexible with our rosters… In winter, when possible, we close an hour earlier.’ [ACR, Perth, small business]

‘Changes made: Letting go of one casual staff member who was hired under the banner of consultant. Work longer hours myself. Will be opening on Saturday mornings. We have put together a website to encourage more corporate catering. If I can, in the long term, pick up more catering, rather than just relying on day-to-day operations, then I will be able to put on an apprentice.’ [ACR, Tasmania, medium business]

A number of participants commented generally on how pressures to maintain their pricing structure, combined with increasing costs, have led to reduced levels of profitability:
‘The main issue at present for us is the constant rise in fuel costs. The more they go up, the more our staff have to pay out to work.’ [HaCS, Victoria, medium business]

‘Quite simple, I am selling my business. The market is too tough.’ [ACR, Australian Capital Territory, small business]

Although participants were asked about the changes they had made in response to increases in wage rates, frequently they were unable to distinguish these effects from the wider cost pressures affecting their business. As a result, it is difficult to isolate those changes which are specifically linked to increases in statutory minimum wages:

‘…in my view wages are just one area that is creating pressure. Therefore, it is not solely wage increases alone that would be the cause for us to review or consider these types of changes. It is also local issues: economy, increased taxes, interest rates, consumer confidence.’ [ACR, Queensland, small business]

The following section of the report presents an overview of the adjustment variables used by employers to cope with changes in wage rates, a detailed discussion of each individual adjustment variable, and finally a comparison of findings by industry and business size.

5.1 Overview of adjustment variables used by employers

As part of the research process, participants were presented with a comprehensive list of adjustment variables, and asked to indicate which strategies they would consider implementing to deal with increases to wages. They were then asked which strategies they had implemented in response to the most recent change in wage rates their business had experienced.

Across all industries the most commonly considered strategy was increasing prices. Participating employers in the ACR and HaCS industries were more likely to consider increasing prices than employers in the Retail industry. Employers in the ACR industry were twice as likely to consider increasing prices as any other strategy.

However, although increasing prices was a commonly considered strategy, it was not the most commonly implemented strategy. This finding is illustrated by participant comments which highlight that increasing prices was a ‘top-of-mind’ consideration for many employers. The final decision, however, is a complex one involving consideration of a range of factors such the activities of competitors, market positioning, and potential client/consumer reactions to any increase (refer to Section 5.2.1).

Personally working an increased number of hours was a commonly considered strategy. This strategy was likely to have been implemented by around half of participants following the most recent increase in wage costs experienced by the business. Participants recognised that this could negatively impact their work/life balance and personal life; however this strategy was viewed as a potentially unavoidable measure necessary to ensure the ongoing financial solvency of their business.

Other commonly implemented strategies focused on reducing staff costs through direct measures (such as reducing the number of staff overall, or the number of staff per shift) and indirect measures (such as training existing staff to fill a vacancy or to deliver an increase in productivity).
5.2 Adjustment variables used by employers

Participant comments indicate a clear understanding that increased labour costs will impact on the profitability of the business if there is not a corresponding increase in efficiency or business revenue, or reduction in other business costs. While not all businesses took action to address such a decline in profitability, the majority described implementing a range of strategies to address the impact of increased labour costs. The following discussion explores both the commonly used strategies and the less commonly used strategies.

The most commonly used strategies included:

- increased prices
- reduced staff costs through changes to staff strategy
  - business owner/manager personally working increased hours
  - reduced staff hours
  - reduced staff hours attracting overtime and penalty rates
- reduced staff costs through increased staff efficiency and productivity.

5.2.1 Increased prices

Increased prices were often viewed as a long-term strategy. Many participants felt that although increased prices may have a negative impact on their sales figures in the short term, such action was necessary to ensure longer-term sustainability of the business. Still others commented that their capacity to increase prices was restricted by customer expectations and the activities of competitors. As the following quotes illustrate, for some it was difficult to gauge the impact of price increases on their business operations:

'We are still evaluating the impact of the price increase.' [ACR, Western Australia, small business]

'We have had to increase prices to cover our staff, food and overhead costs. Customers can see the increase and question why… The thinking behind this logic is to cut staff costs so the business can make a profit.' [ACR, Victoria, small business]

Some participants who reported that they would increase prices in response to an increase in wage rates viewed other potential strategies as not feasible. Specifically, they felt that reducing business costs by lowering staff hours or numbers, purchasing cheaper stock or using cheaper suppliers could potentially lead to decreased quality of service or output. This would detrimentally impact on the offering, and hence, the competitive advantage of their business:

'It seems to be a sign of the current times that increase in prices is the only way. Yes, you can make internal sacrifices, but if that has a negative effect on the service provided, then that would have a major impact.' [ACR, Australian Capital Territory, medium business]

'Our only options have been to reduce costs in other areas, which would result in lowering of the quality of the service provided, or increasing prices. Lowering the standards would remove the distinction between us and our competitors.' [HaCS, Northern Territory, small business]

Businesses operating in a highly competitive marketplace, and those operating as part of a franchise or larger organisation that imposed pricing structures, felt they had less opportunity to use price-setting as a tool to manage profitability:
‘Pricing has to be competitive and you must try to keep the products people want, especially in a country town.’ [Retail, Western Australia, medium business]

‘Being part of a national business reselling products from other suppliers we have no control over the retail price structure.’ [Retail, Queensland, small business]

‘I try to place a higher emphasis on customer service and finding ways in which to encourage customers to come to the store, which in turn helps reduce costs (more expected customers means more bulk buys), which increases productivity and manages prices.’ [Retail, Western Australia, small business]

‘In a small business, we cannot increase our prices if we wish to remain competitive. If the larger opposition increased their prices, we could follow suit. If they do not (which is normally the case) we cannot justify doing the same and maintaining turnover.’ [Retail, Queensland, small business]

A number of participants commented on how this pressure to maintain a set pricing structure, combined with the increasing costs currently being experienced to lead to reduced levels of profitability within their businesses:

‘For us, being in the food industry, I do struggle every day with the cost of food going up and feel I cannot keep up with the increases. The cost of petrol is a huge impact on us.’ [ACR, Adelaide, medium business]

‘Our biggest cost is wages and we have no alternative to increase our charges accordingly.’ [HaCS, Victoria, medium business]

However, some participants described being able to directly manage increased costs through changes to their pricing structure. Participants operating in the Retail industry appeared more likely than those from other industries to implement an increase in prices as their initial response to increased costs:

‘Pricing is set according to cost plus 110 per cent, except on items that the competition keeps putting down to 50 per cent which we match.’ [Retail, Western Australia, small business]

‘Our prices are set on a percentage mark-up on the cost of goods. So if the inbound goods cost goes up, so does our prices.’ [ACR, South Australia, small business]
Lorraine* — ACR industry

Lorraine manages a catering company and employs only casual staff. Lorraine’s business has always “paid under the federal award and have never used AWAs or any other contracts”. Wages are set based on level of experience and age.

Lorraine is informed of the yearly pay rate rises through her industry association. She is aware that the award increases each year and she responds to that change for all staff, except the bookkeeper, who negotiates her salary separately. Lorraine closely monitors direct costs including salaries and has only “recently been able to bring staffing costs down from a (horrible) amount of 50 per cent to a more acceptable amount of 35 per cent”.

The main strategy Lorraine uses to cope with increases in wages is to increase costs:

‘We budget every year for an increase, and increase prices where we can to compensate.’

However, as a result of the most recent increase to Pay Scales, a more drastic change in costs was implemented:

‘Normally I increase only some of the prices, but this year I increased everything by five per cent.’

*name changed

Other participants, while still increasing prices in response to changes in wage rates, implemented this change in combination with other strategies. The following vignette (opposite) illustrates this type of response.
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### Jason* — HaCS industry

Jason manages a community care business that is largely reliant on government contracts. He believes that the industry is growing and that the market is "increasingly competitive, with more large organisations entering the scene". The biggest challenge for Jason is to attract and retain good staff and, as a result, he "offers flexible and responsive work options and training packages".

Salaries represent 80 per cent of his business costs, and consequently he ensures that the business "has a clear understanding of how much pay rates may increase from year to year".

Jason's business has experienced increased wages as a result of an "annual increase in wage[s] as detailed by the AWA". The main strategies Jason introduced to cope with the salary increase were to increase prices, minimise overtime and increase the amount of training provided to staff:

'We increase prices each year as a matter of course. The increase basically offsets the annual increase in wages that is required under our AWA. We also try to minimise overtime and we are now more vigilant about the amount of work we offer staff on public holidays. Similarly we try wherever possible to minimise weekend work. However, this is quite difficult as most of our clients require assistance on weekends. It is important to minimise penalty payments as our government subsidies do not adequately fund services provided that attract penalty payments to staff. Increasing/prioritising training of existing staff not only has the potential to increase morale and job satisfaction for those staff, but it is also less expensive than hiring new staff who require additional training and are less productive initially.'

*name changed

### 5.2.2 Reduced staff costs through changes to staffing strategy

A number of participants described making changes to their staffing strategy following wage rate increases, in an attempt to reduce or maintain their overall wages bill and thereby increase the overall profitability of business operations. The most commonly described approaches are presented below.

- **Personally worked an increased number of hours** — For many participants, working an increased number of hours themselves was a key response. The following comments illustrate the actions of employers who have chosen to increase the number of hours they personally work within the business to avoid an increase in costs:

  'I think the most important thing that my husband and I have implemented in our business is working a lot of hours within the business ourselves. The impact that this has on [the] business is that we don’t need to pay wages for qualified staff, making the business a lot more profitable especially when we go to sell the business.' [ACR, Victoria, small business]

  'The most important thing that has also had the biggest impact is increasing my own work load.' [Retail, South Australia, small business]

  'Our only option will be for the owners to pick up the slack and work longer hours (a little hard as I currently work 14-hour days, six days a week).’ [Retail, Queensland, small business]
As a result of personally working increased hours, some participants felt that their business had benefited by more than a simple reduction in wage costs:

‘Take more control myself and be in touch with the complete running of the business, rather than relying on employees to give more than they’re prepared to do for an employer.’ [HaCS, Brisbane, small business]

‘My wife and I working more hours has had the biggest impact. Customers have commented that the more we are on the floor, the better things run from their perspective. Unfortunately, this is not sustainable in the long term.’ [HaCS, Northern Territory, small business]

While other employers acknowledged the personal cost of working increased hours:

‘I was working too much in the business myself, to save on the wage bill. I ended up very tired and stressed. I wasn’t getting the best out of the employees and didn’t feel I knew how to turn it around.’ [ACR, Adelaide, medium business]

• Reduced staff hours — Some participants responded to an increase in wage costs by reducing the number of hours they offered their staff, either on a shift basis or in terms of the overall number of hours available:

‘Rostering has become more important and staff have less hours now and cover more than one area.’ [ACR, Victoria, medium business]

‘Cutting hours and staff numbers.’ [ACR, Melbourne, medium business]

‘We have reduced staff numbers naturally. By this I mean that when a staff member resigned, we just did not replace them if we could help it.’ [Retail, Queensland, small business]

The following vignette further illustrates this approach:

Sarah* — ACR industry, Perth, small business

The biggest challenge Sarah’s business faces is “a lack of experienced or interested staff” and she finds “it is extremely difficult to obtain experienced staff in the present climate, due to the variety of jobs that have been available” (in mining). Sarah’s staff are generally paid the award rate, although some key staff have been offered higher rates (approximately 20 per cent higher than the award) to retain them:

‘Usually a staff member is started on the award and if they prove to be valuable then their pay rate will be reviewed.’

In response to recent wage rises, Sarah’s business has adopted a number of strategies, namely a marginal increase in costs to clients, and adjustments in staff hours:

‘Reduction in staff hours, one hour less in winter months, and a change from eight hour shifts with a day in lieu to seven and a half hour shifts with no day in lieu. Reduction of overtime which is picked up by time off in lieu or worked by the manager. All of these strategies have cut wage costs marginally.’

*name changed
A number of participants noted that reducing staff hours to assist in managing wage costs would not be popular with their staff body, and therefore tried to involve staff in the process and ensure that staff understood the reasons behind such a change:

'We have cut some hour[s] down but the staff understand, and as long as it’s a fair and even process which we discuss openly, it seems to go well.' [ACR, Adelaide, medium business]

'We recently cut our staff hours in the kitchen by one hour per person, per day.' [ACR, Melbourne, medium business]

Despite attempts to ensure that staff understood the process and were not overly disadvantaged by the changes, participants recognised that in some cases, the reduced hours were no longer sufficient for staff to cover their living costs:

'The one thing that has had the most impact is cutting our staff’s hours, which has resulted in multiple consequences. Our managers have to work a lot more hours, and in some cases the admin/paper work is not getting done, as often as it should be. It has also resulted in a couple of staff resigning and finding other work because they can’t live on the small amount of hours they are getting each week.' [ACR, Queensland, small business]

- **Reduced staff hours attracting overtime and penalty rates** — Some participants reported reorganising their roster and shift allocations to reduce the proportion of staff hours when they would be liable for overtime rates or other penalty rates:

  'I try not to allow overtime, penalties…[I] just…cover myself.' [ACR, Victoria, small business]

  'Only using overtime in an emergency to control costs; balancing service levels and labour costs.' [ACR, Australian Capital Territory, medium business]

5.2.3 Reduced staff costs through increased staff efficiency and productivity

Strategies designed to increase staff efficiency and productivity were also commonly described by participants. A diverse range of approaches were used by participants, including:

- **Multi-skilling staff:**

  'We conduct in-house training promoting multi-skilling. Staff welcome the opportunity to learn another aspect of the business thus enriching their knowledge and at the same time the business can shift staff around to areas when and where required.' [ACR, Australian Capital Territory, medium business]

- **Process improvement:**

  'Improve systems — both manual and computerised — to streamline business more and increase efficiency.' [Retail, Northern Territory, small business]

  'We have also streamlined the flow of the kitchen to improve efficiency.' [ACR, Melbourne, small business]

- **Staff empowerment:**

  'Working with the staff and guiding them always. Let them take initiative so they feel they are contributing on another level. Discuss their ideas and sometimes implement where there
is merit. Staff that way feel important and give that extra per cent in their work. Therefore retaining staff means they are with you longer, dedicated, less time looking and training new staff and increased productivity.’ [ACR, Australian Capital Territory, medium business]

**Staff reward and recognition:**

‘If we do well, the two full-time staff members are encouraged by way of a cash bonus or some similar extension, like us paying a parking fine for them, or giving them a bottle of the fabulous vinegar or oil that I use in my cooking.’ [ACR, Tasmania, medium business]

‘I also try as often as possible to encourage — with staff “bonding” outings, allowing them to order products they like through the business at wholesale rates, always passing on to them positive feedback from clients about the service they have offered, or the food they have produced.’ [ACR, Australian Capital Territory, medium business]

‘I am also looking at an employee incentive strategy which is not necessarily money based but maybe a trip or holiday for the winner.’ [ACR, Adelaide, small business, on-site food]

**Training existing staff to increase productivity/promotion from within:**

‘Certainly training of existing staff to multi-skill would reduce costs of hiring new staff and the time involved in recruitment. Making each role more diverse puts responsibility on each individual, who in turn gains a wider range of skills thus becoming more productive and profitable for the business.’ [HaCS, Brisbane, small business]

‘Retraining staff has also been a huge help.’ [Retail, Northern Territory, small business]

‘Multi-skillling of staff proves to be beneficial as we shift staff around, always taking into consideration the time worked so that we very seldom go into overtime.’ [ACR, Australian Capital Territory, medium business]

‘We have tried to utilise the staff we have and promote from within where possible.’ [ACR, Australian Capital Territory, small business]

### 5.2.4 Less commonly used adjustment variables

**Changed operating hours** — Beyond the strategies most commonly implemented by participants, some participants described responding to an increase in wage rates by changing the operating hours of the business.

In some cases this involved increasing business operating hours:

‘Increase opening hours — the income would outweigh the staff expense by far and we would have no problem achieving this income.’ [HaCS, Western Australia, small business]

‘Opening longer hours during the busier months has helped increase sales; having different people who wouldn’t usually come in due to work hours etc.’ [Retail, Tasmania, small business]

While in other cases participants reduced the business operating hours during quiet periods:

‘Increase the overall profit margin, by working more myself, and reducing opening hours (especially in winter in Tassie).’ [Retail, Tasmania, small business]
• **Recruited more junior staff** — A small number of participants described increasing the number of junior staff employed in order to benefit from comparatively lower wage rates:

‘Reduced staff costs by doing the same work with less people. Wage rates remain the same but we use more juniors.’ [ACR, Adelaide, small business]

• **Adjustments to the product/service offering** — Some participants adjusted their offering to increase profitability and offset increased wage rates:

‘Replace or remove low-performing product lines and try to find the right product mix. Anything to increase turnover and margin.’ [ACR, Adelaide, small business]

‘We have found it necessary to “dumb down” our food offering. The high-end market is all but dead, and Joe Public seems to want comfort food, casual dining and spontaneous service.’ [ACR, Melbourne, medium business]

‘Canvassed for and accepted respite shifts for staff, which resulted in extending the number of hours spent with a client, thereby reducing travel time between numbers of clients, and also the cost of travel from client to client.’ [HaCS, Perth, medium business]

• **Specialisation:**

**George** — Retail industry, Queensland, small business

George owns three small family businesses in a regional area, and predominantly employs qualified mechanics to work full time. George offers above the award wage and ensures that staff are paid competitive market rates. He feels the industry is highly competitive and that he needs to exercise caution when increasing fees to clients:

‘We have put up our chargeable labour rate to cover some of this; however, it is a fine line between recovering costs and driving customers away due to being too expensive.’

George has implemented a number of changes in response to increases in wage rates; however, he believes the most successful strategy has been deciding to specialise in the repair of products that the business sells, rather than providing a maintenance service for all brands:

‘We now only work on those products we wish to…predominantly that which we sell…we were afraid it would decrease turnover. However, it has freed up a lot of the time-consuming jobs and given the workshop more time to do the jobs we know best…This saves us the hassle of trying to get parts from the opposition, and it removes those jobs the staff are not fully confident with from entering the workshop and slowing down productivity.’

*name changed
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• **Cheaper components, ingredients or other inputs:**

  ‘We have gone for a hearty winter menu with cheaper ingredients to keep the cost of food down. This is not to keep wages down but because of the massive increases we have had from our food suppliers — probably due to their staff and transport costs rising.’ [ACR, Victoria, medium business]

• **Substitutions between types of employees and/or machinery/automation:**

  ‘Junior staff to cover overtime and weekend hours instead of senior staff.’ [Retail, South Australia, small business]

  ‘About three years ago, we invested in an automatic meat slicer, to try to reduce our cost of labour. And we installed a secondhand dishwasher.’ [ACR, Melbourne, small business]

• **Hired new staff at lower pay rates:**

  ‘Within the last two to five years the staff issue has been continuously on the agenda… having to replace valuable qualified staff with lesser experienced.’ [Retail, Western Australia, small business]

  ‘I wouldn’t get rid of the staff I have now just to hire younger staff for a lesser wage.” [ACR, Queensland, small business]

• **Hiring freeze:**

  ‘Putting off employing new staff… Employing a new staff member is a large expense, so to save a whole salary has a big impact.’ [Retail, Sydney, small business]

  ‘When budgets are tight we would put off employing anyone new until a busier time of year. If we can spread the work around existing staff we do not have to employ anyone new and we avoid that expenditure.’ [Retail, Sydney, small business]

  ‘It is not the best way to operate, as we will be short-staffed if anyone goes on holiday or is sick. But as long as we do it during the quiet time of year, we reduce our store’s expenditure.’ [Retail, Sydney, small business]

5.3 **Comparison by industry**

Differences were observed between the ACR, HaCS and Retail industries in relation to the strategies implemented by participating employers in response to increases in wage rates. Generally, employers in the ACR industry tended to implement a greater number of strategies, often in combination, while employers in the Retail industry tended to implement a smaller range of strategies. Within the HaCS industry, legislative requirements in relation to care ratios and the nature of funding arrangements appear to restrict the types of strategies that are considered suitable. Following is a detailed discussion of the differences observed by industry.

Figure 2 (opposite) summarises the most commonly considered and implemented adjustment variables by industry.
**Figure 2: Top five strategies that participants would consider implementing and have implemented when wage rates increase – by industry**

<table>
<thead>
<tr>
<th>ACR – would consider implementing</th>
<th>ACR – have implemented</th>
</tr>
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<tbody>
<tr>
<td>1 Increase prices</td>
<td>1 Personally work increased hours</td>
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<tr>
<td>2 Personally work increased hours</td>
<td>2 Reduce number of staff per shift</td>
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<tr>
<td>3 Reduce number of staff per shift</td>
<td>3 Increase prices</td>
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<td>4 Reduce staff hours</td>
<td>4 Reduce staff hours</td>
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<tr>
<td>5 Reduce overall staff numbers</td>
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<th>HaCS – would consider implementing</th>
<th>HaCS – have implemented</th>
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<tr>
<td>1 Increase prices</td>
<td>1 Training to increase productivity</td>
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<tr>
<td>2 Training to increase productivity</td>
<td>2 Personally work increased hours</td>
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<tr>
<td>3 Personally work increased hours</td>
<td>3 Increase prices</td>
</tr>
<tr>
<td>4 Train existing staff to fill vacancy</td>
<td>4 Train existing staff to fill vacancy</td>
</tr>
<tr>
<td>5 Hire more experienced workers</td>
<td>5 Reduce staff hours</td>
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</tbody>
</table>
5.3.1 ACR industry

Participants operating in the ACR industry tended to describe implementing a greater range and number of strategies in response to increases in wage costs when compared with participants in the Retail and HaCS industries. Often the approach of employers within this industry involved a number of interrelated strategies designed to deliver holistic improvements in business profitability.

The following vignette (opposite) illustrates the comprehensive range of strategies used by a participant operating in the ACR industry in response to an increase in wage rates.
John — ACR industry, Australian Capital Territory, medium business

John manages a university campus hotel. Most staff are employed on either a permanent part-time or casual basis. Although generally the business is operating at a high profit and there is a “constant flow of business”, John experiences difficulty attracting and retaining good quality staff:

‘The biggest challenge that the hotel/hospitality industry is facing at the moment is finding the qualified staff that wish to work and that have the passion to work.’

Pay rates are set by the university committee:

‘Pay rates [are set] using a structured progressive pay schedule similar to the public service. Additional to this, CPI increases are added every year…there is not much we can do in regards to the Pay Scales…we must follow as introduced by the university through the enterprise agreement.’

In response to the most recent increase in pay rates at the university, John made a number of changes:

‘clever rostering and staffing… ensuring that only required staff are rostered on, less overtime situations, proper costing, less wastage and [recruitment of] staff who are conscientious and focused on their duties.’

‘We conduct in-house training promoting multi-skilling. Staff welcome the opportunity to learn another aspect of the business thus enriching their knowledge and at the same time the business can shift staff around to areas when and where required.’

In addition to these strategies, costs were increased:

‘Seeing that we have little control in what increases will take place, we increased our accommodation rates by around five per cent and added the CPI factor to that.’

*name changed

It is hypothesised that the comparative sophistication of the ACR industry may be related to the low margins under which much of the industry operates, which necessitates ongoing review of business inputs and costs to run a successful business. The following comments illustrate the the tight margins experienced in the ACR industry, as well as the strategic approach to business management exhibited by some ACR participants:

‘Fixed overheads are very difficult to reduce and therefore we just try to make sure we don’t exceed our normal expenditure too much. I keep track of our expenditure using Quicken software and [we] are constantly comparing quarter to quarter, and also to corresponding periods in previous years, and if we can, [we] try and trim a little. My major overhead is labour and therefore [I] adhere to a strict roster…We review our prices annually but may need to do this every six months. I compare our total wages bill to percentage of turnover and refer to current industry standards to see how we are doing.’ [ACR, Tasmania, small business]

‘Labour costs are critical when you run a business that is labour-intensive, like hospitality. We have a very low revenue per person compared to many other industries.’ [ACR, Victoria, medium business]
‘Our business has grown in turnover by 32 per cent this year; however, ever-increasing food prices and wage costs are making profits difficult. Our wage percentage can be as high as 50 per cent some weeks, as trade is difficult to predict.’ [ACR, Victoria, medium business]

‘From the cost of a coffee ($3.00) about $1.30 goes to wages and add-on staff costs like WorkCover, 9 per cent goes on superannuation and training; $0.27 in GST; and the cost of milk and coffee is about $0.80. The remaining $0.63 has to cover our rent, cleaning, utilities, all other costs and the meagre bit left over is profit. If the bill is paid via a credit card we then lose a further 3 per cent in merchant fees. Now obviously volume is the secret here, to increase our profitability and gain economies of scale.’ [ACR, Melbourne, medium business]

The strategy of increasing prices was more commonly considered than it was implemented by participants in the ACR industry, a trend also observed across the Retail and HaCS industries. However, a number of participants described reviewing prices on a six- to twelve-month basis, in some cases balancing increased business costs against ongoing competitiveness:

‘Restaurants and cafes work from printed menus and can’t adjust prices on a regular basis as costs go up. We have to wear additional costs in a competitive environment.’ [ACR, Melbourne, medium business]

‘I increase my prices each year but, depending on the cost of goods and the wage increase, I don’t always lift all my prices. For example, this year I increased my prices by five per cent across the board, due to the wage increases and the high increase in food costs. Last year, only the items that involve labour were increased.’ [ACR, Melbourne, small business]

‘We increase prices each year as a matter of course. The increase basically offsets the annual increase in wages that is required under our AWA.’ [HaCS, Queensland, medium business]

The top five approaches considered and implemented by participants operating in the ACR industry, beyond increasing the price of their products/service, involved reducing staff costs through strategies such as: working an increased number of hours themselves, reducing staff hours, reducing overall staff numbers, and reducing the number of staff per shift. While these were the most commonly mentioned strategies, frequently participants described implementing a range of diverse measures in response to increasing wage costs.

5.3.2 HaCS industry

The legislative and funding environment within which many businesses in the HaCS industry operate results in particular challenges for this industry, and in a different compliment of commonly observed adjustment variables.

For example, comments made by participants providing child care services suggest that — due to operating and/or legislative requirements relating to care ratios, staff qualifications and staff experience — many of the adjustment variables considered by employers in other industries are not suitable:

‘Our industry requires a certain number of staff and qualified staff in ratio with the number of children in each room. Therefore, we cannot reduce staff but our only alternative is to increase the fees and to decrease our expenses — things such as getting a better deal on the food delivered from our suppliers, but not compromising the quality of the products.’ [HaCS, Melbourne, medium business]
‘Our options are limited because of the highly regulated nature of our industry.’ [HaCS, Northern Territory, small business]

**Simon** — HaCS industry, Northern Territory, small business

Simon manages a child care business with his wife in a rural area of the Northern Territory and has experienced great difficulty recruiting qualified staff:

‘Our industry has experienced sustained rapid growth over the last 10 years. This has resulted in a chronic shortage of qualified staff nationally. This shortage will be the biggest issue facing the industry for some years to come.’

Wages account for two-thirds of total expenses, and as a result, Simon ensures that he is up to date on Pay Scales through membership of the chamber of commerce:

‘Our employees’ wages are as per the award with qualified staff paid up to 10 per cent over award, depending on capability. There are five different levels of positions, each with multiple tiers, linking pay rates to qualifications and levels of responsibility.’

The recent change in the award rate (18 per cent increase over 18 months) proved to be a significant challenge for Simon’s business, in particular due to the coincidence with Northern Territory Government changes:

‘At the same time the Northern Territory Government introduced changes which detrimentally affected turnover. Profit for the year was seriously affected as a result of these two factors.’

In response to these changes, Simon looked at a range of strategies to decrease costs; however, he felt that many options were not available to him due to mandated care ratios:

‘Because our industry is highly regulated, and the numbers and qualifications of staff are mandated, many of these options are not available to us. Our only options have been to reduce costs in other areas, which would result in lowering of the quality of the service provided, or increasing prices. Lowering the standards would remove the distinction between us and our competitors, who already charge the same or more than we do.’

*name changed

The funding environment, particularly for participants operating in the public sector or under government contracts, also influences approaches to workforce planning and responses to changes in wage rates. Some participants described the challenge of attaining the funding necessary to pay staff adequately:

‘[We] continually lobby government to fund programs of care at realistic cost for service.’ [HaCS, Perth, medium business]

‘Government has continually refused to acknowledge the true cost of service in community care. Until staff are reimbursed appropriately for delivery of care, and for the time and cost spent on travelling in the course of their duties, organisations will not be able to deliver services to an already compromised section of our society, the elderly.’ [HaCS, Perth, medium business]
While other employers described balancing staff levels based primarily on funding levels:

‘Being a not-for-profit organisation which operates primarily with funded contracts, employment of staff is relevant to the specific contract and the funding level; therefore, the value of the salary is calculated according to that funding and the amount of hours that contract can afford.’ [HaCS, Western Australia, medium business]

As a result of this operating environment, strategies related to reducing business costs through reduced staff numbers (which were commonly used in both the Retail and ACR industries) were often considered unsuitable for the HaCS industry. Among the most commonly implemented strategies in the HaCS industry were training existing staff to increase productivity, or fill a vacancy; increasing prices; and increasing the employer’s working hours.

5.3.3 Retail industry

Within the Retail industry, the most commonly implemented strategy involved the employer working an increased number of hours personally. Often this strategy was implemented in conjunction with other cost-reducing strategies, such as reducing staff hours generally and reducing staff hours that attract overtime or penalty rates in particular:

‘Personally worked more hours, especially in areas where there would be any overtime or penalty rates to help reduce the cost of wages.’ [Retail, Tasmania, small business]

‘Reduced hours for staff during the week [and] partners working to cover these hours. Junior staff [used] to cover overtime and weekend hours instead of senior staff.’ [Retail, South Australia, micro business]

‘The only staff who can work harder/longer at no additional cost are the owners (us). I would rather forgo an hour of my personal time per day than continuously ask staff for this, as well as have to pay them overtime.’ [Retail, Northern Territory, micro business]

‘Personally had to increase own hours to make sure all the daily work was done, without any increase to the wage bill.’ [Retail, South Australia, small business]

Participants in the Retail industry also frequently indicated increasing prices in response to increases in wage rates. However, as the following quote illustrates, this strategy was often not described in any level of detail:

‘I would increase my mark-up by three per cent based on average turnover to cover any rise in pay rates. I don’t anticipate the change would have any effect on turnover.’ [Retail, Queensland, micro business]

Instead participants tended to focus on business strategies related to improving efficiency, such as up-skilling and multi-skilling staff, improved work practices, improved stock management and specialisation:

‘The most important thing we have done is to train staff to occupy themselves with some duty at all times, particularly register staff who may not be doing anything while waiting for customers.’ [Retail, Sydney, medium business]
‘Increase sales through better training techniques… We focused on varied selling skills and product knowledge training to drive higher sales. We drove out redundant processes by seeking information from our employees in how to make their jobs easier.’ [Retail, Northern Territory, medium business]

‘Reviewing stock levels, and focusing on not letting a customer leave the shop due to us not having stock.’ [Retail, Perth, small business]

‘If customers come into us with [an] opposition product and want us to work on it, we send them to where they bought it from. This saves us the hassle of trying to get parts from the opposition and it removes those jobs the staff are not fully confident with from entering the workshop and slowing down productivity.’ [Retail, Queensland, small business]

5.4 Comparison by business size

In addition to differences being observed between the different industries explored within the research, differences in the strategies implemented in response to wage rises were evident between different-size businesses. However, when interpreting these differences, it is important to note the relationship between business size and industry evident within the research. For example, participating businesses in the HaCS industry were more likely to be medium businesses (refer to section 1.4.1 for further detail).

Participants from businesses of all sizes reported that they had considered a wide range of strategies. However, participants from medium-sized businesses were more likely to have implemented a wider range of adjustment variables. This is potentially due to the higher level of resources held by their organisations that were used to assist in this process. Figure 3 summarises the most commonly considered and implemented adjustment variables.

**Figure 3: Top five strategies that participants would consider implementing and have implemented when wage rates increase – by business size**
5.4.1 Micro business

Participants from micro businesses discussed a wide range of strategies that they had considered in response to increases in wage costs. Despite this range of strategies (which participants were aware of and viewed as potentially beneficial) the most commonly implemented strategies were employers working an increased number of hours themselves, and increasing the price of their products:
‘The only staff who can work harder/longer at no additional cost are the owners (us).’ [Retail, Northern Territory, micro business]

‘For a period of time I personally did work increased hours — especially with training of new staff. Now my hours are still above what they used to be but limited to the busy days when needed.’ [HaCS, Western Australia, micro business]

‘Starting work an hour earlier ourselves when it is busy; before the shop is open to the public and before employees arrive.’ [Retail, Northern Territory, micro business]

An adjustment variable which was considered but not often implemented by participants from micro businesses was increased efficiency through staff training and up-skilling. Participants reported that they had considered implementing staff training and education, recognising that this could lead to benefits for their business:

‘However, I prefer to improve the efficiency of processes. This is already in the pipeline to cope with expected increase of business volume.’ [Retail, Northern Territory, micro business]

‘Employing a trainee then allowing them to move into graduate employment ensures you of quality staff being trained and moulded to your business giving them a sense of ownership of the business.’ [Retail, Sydney, micro business]

‘Making sure we stay very competitive in the market with the introduction of new designs, employee training and business development.’ [Retail, South Australia, micro business]

Beyond personally working an increased number of hours and increasing prices, the top approaches considered and implemented by participants working within micro businesses involved changing operating hours, reducing staff hours, and reducing those staff hours which attract overtime and penalty rates. As discussed previously, while these were the most commonly cited by participants, a diverse range of strategies were considered and implemented.

5.4.2 Small business

Participating small business employers were most likely to report having considered and implemented personally working an increased number of hours, and increasing prices, as a response to increasing wage rates:

‘Personally had to increase own hours to make sure all the daily work was done, without any increase in the wage bill.’ [Retail, South Australia, small business]

‘Increasing the charge (our rate for labour) may be a requirement to help allay some of the wage increments, and although [we] need to bear in mind other industry rates, this is an important area to maintain profitability.’ [Retail, Western Australia, small business]

‘None of the changes would benefit the business at all. I would need to work more hours as a business owner to make the business work!’ [ACR, South Australia, small business]

‘As we have already implemented many of the changes listed, we would only increase prices and personally work longer hours.’ [ACR, Perth, small business]
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Compared to micro-business participants, those from small businesses were more likely to report that they had implemented strategies relating to increasing the efficiency of their staff and the overall productivity of their operations:

‘Make sure we get an efficient mix of staff to increase productivity. We could hire an additional trainee at lower rates.’ [Retail, Victoria, small business]

‘It basically comes down to increased business for the service offered — more efficient staff — cost saving on reduced hours and these savings transfer to the bottom line.’ [Retail, Victoria, small business]

Specifically, small business participants discussed the training offered to staff to increase their productivity and thereby their value to the business:

‘Certainly training of existing staff to multi-skill would reduce costs of hiring new staff and the time involved in recruitment.’ [Retail, South Australia, small business]

‘I think staff training is always beneficial for both the staff and the employer.’ [HaCS, Australian Capital Territory, small business]

‘I am currently training one of my staff to do the marketing. I previously had a marketing person come in one morning a week to do this, but besides helping me with my enquiries, he didn’t achieve much last year. So I’m training a staff person who knows the business well and is eager for more responsibility and hours to do this part of our duties.’ [ACR, Melbourne, small business]

As discussed, the most commonly cited strategies were personally working an increased number of hours, and increasing prices. Looking beyond these options, the most commonly implemented adjustment variables by participants working within small businesses involved increasing or prioritising the training of existing staff to increase productivity, reducing overall staff numbers, and changing operating hours.

5.4.3 Medium business

Unlike micro- and small-business participants, participants from medium-sized businesses reported that their businesses had implemented a wide range of strategies. Personally working increased hours was again in the top strategies considered and implemented; however, this was the fourth most commonly implemented strategy (in contrast to micro and small businesses, for which it was the most commonly implemented strategy). The strategy most commonly mentioned by medium-sized business participants was training existing staff to increase productivity:

‘Multi-skilling of staff proves to be beneficial as we shift staff around, always taking into consideration the time worked, so that we very seldom go into overtime.’ [ACR, Australian Capital Territory, medium business]

Medium-sized business respondents differed from the other groups in that they reported having clearly defined strategies to maintain employee satisfaction. A common theme within their comments was recognition that having satisfied employees who feel that they are integral to the ongoing operations leads to improved levels of performance:
'Working with the staff and guiding them always. Let them take initiative so they feel they are contributing on another level. Discuss their ideas and sometimes implement [them] where there is merit. Staff feel important and give that extra per cent in their work.' [Retail, South Australia, medium business]

'Encouraging staff to up-sell and be interested in our daily take has meant that the staff buy into the success of the business. It gives a sense of “we’re all in this together”, not just an employer–employee thing… the more I can get the staff to smile, be happy and satisfied with their working conditions, the better it reflects on the public.' [ACR, Tasmania, medium business]

'We have cut some hours down but the staff understand and as long as it's a fair and even process which we have discussed openly, it seems to go well.' [ACR, Adelaide, medium business]

Overall, participants from medium-sized businesses displayed a level of awareness of the wider business environment. They were likely to report proactive business plans and interweaving strategies to maintain and further grow their businesses:

'Recruitment and employee strategies are primarily aimed at lowering business costs, increasing profit or increasing the customer satisfaction levels and longevity of the business.' [Retail, Tasmania, medium business]

'It is our aim to recruit and retain a hard-working, committed workforce. By introducing policy that will benefit the needs of the business and those of our staff, we hope to achieve our goals of having a profitable business and employing well-paid, reliable employees.' [ACR, Queensland, medium business]

'We continue to review our business practices and seek feedback from our customers to implement better business basics to achieve increases in sales or decrease costs in other areas.' [Retail, Northern Territory, medium business]

In addition to increasing or prioritising the training of existing staff to increase productivity, the strategies most commonly implemented by medium-sized businesses included increasing prices, personally working an increased number of hours, reducing staff hours and reducing overtime with penalties.
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