

# Reducing Barriers to Business Dynamism in Australia

## *Psychosocial Regulation as a Structural Barrier to SME Growth*

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### Executive Summary

This submission is made by Roland Illyes, founder of GraceX, a psychosocial risk management platform built natively on Microsoft 365 and serving Australian small and medium businesses. It draws on 18 months of discovery conversations with Australian SME leaders and on published data from Safe Work Australia, icare, and the Australian Bureau of Statistics.

The submission addresses Priority Area 1 of the inquiry: administrative and regulatory costs of starting and growing a business. It argues that the current regulatory architecture for psychosocial risk management in Australian workplaces imposes compliance costs on SMEs that are disproportionate to their internal capability, suppress the hiring and growth decisions of duty holders who do not understand the obligation, and create a liability environment that penalises expansion rather than enabling it.

The submission makes one recommendation: that the Productivity Commission include in its final report a finding that the psychosocial risk regulatory framework, as currently implemented, constitutes a structural barrier to SME entry and expansion, and that Safe Work Australia be directed to produce a non-specialist compliance pathway as a condition of continued enforcement escalation.

## Part A: The Regulatory Barrier

### 1. The obligation and who carries it

The 2023 amendments to the Work Health and Safety Regulation require every Person Conducting a Business or Undertaking (PCBU) to identify psychosocial hazards before harm occurs, consult with workers at every stage of the risk management process, implement controls drawn from the WHS hierarchy, and document decisions and reviews. The obligation applies regardless of headcount. A 25-person professional services business in Parramatta carries the same psychosocial risk duty as a 2,000-person bank.

In practice, the duty holder in an SME is the CEO or Managing Director. They carry personal liability under the officer duty provisions of the WHS Act. They are not WHS specialists. In most businesses in the 20 to 200 staff band, there is no internal organisational psychology resource and no full-time WHS specialist. The CEO is the compliance system.

### 2. The compliance cost the obligation produces

The starting question for any SME CEO who becomes aware of the psychosocial risk obligation is the same: where do I start?

The current answer is unworkable. An Australian SME's CEO who decides to act in good faith faces a regulatory landscape that includes, at minimum:

- The Work Health and Safety Act 2011 (NSW) and the NSW Work Health and Safety Regulation, overhauled in August 2025
- The NSW Code of Practice: Managing Psychosocial Hazards at Work
- Safe Work Australia model regulations and model Code of Practice
- ISO 45003:2021 (international standard for psychological health and safety)
- Workers compensation requirements from icare
- 13-15 (depends on the states) named psychosocial hazard categories with overlapping definitions
- Industry-specific guidance from SafeWork NSW, WorkSafe VIC, WorkSafe Queensland, SafeWork SA, WorkSafe WA, WorkSafe ACT, NT WorkSafe, WorkSafe Tasmania or Comcare for Commonwealth cases
- Multiple law firm interpretations of what constitutes 'reasonably practicable'

There is no single document called "What to do, in order, for a 70-staff business." The regulatory architecture was designed for risk specialists working in large organisations with internal capability. SME CEOs are inheriting that architecture without the specialist support it assumes.

A CEO who engages professional support to navigate this landscape faces published year-one costs of \$15,000 to \$80,000 depending on engagement model, drawing on published rates from Australian safety consulting firms of \$120 to \$350 per hour and project costs for psychosocial risk assessments of \$2,000 to \$5,000 and WHS management system development of \$5,000 to \$12,000 (Hendricks Australia, 2025; Safetysure, 2025). For a

business with 50 employees, this represents a compliance overhead of \$300 to \$1,600 per head before any operational activity begins.

The typical output of a professional engagement is a document. It goes on a shelf. It does not produce the ongoing decision trail the legislation requires, and it does not change the behaviour of the organisation in the months between the consultant's visit and the next inspection.

### 3. How the cost suppresses hiring and growth

The connection between this compliance burden and business dynamism operates through three mechanisms.

**First, the cost of getting it wrong deters hiring decisions.** A single psychological injury claim in a 70-employee business produces total uninsured exposure of approximately \$216,000, comprising replacement cost (\$76,100 based on median 35.7 weeks off work for psychological injury claims, against a \$110,000 salary), management time (\$4,800), productivity drag on remaining staff (\$11,000), and a three-year workers compensation premium increase of approximately \$124,000 at the regulated 30 percent annual cap (Safe Work Australia, Key Work Health and Safety Statistics Australia 2025; icare NSW, 2025). This figure does not include legal costs or the cost of replacing an employee who does not return. A CEO who cannot demonstrate a documented risk management process carries this exposure personally under the officer duty. For businesses in the 40 to 80 staff band, where each hire meaningfully changes the risk profile, this liability environment changes the calculation on growth.

**Second, regulatory complexity produces paralysis, not compliance.** The most common state for SMEs in the 20 to 200 staff band is not non-compliance driven by indifference. It is non-compliance driven by not knowing where to start. Discovery conversations with Australian SME leaders over twelve months produced five consistent patterns: reliance on EAP (a post-harm response, not a hazard control), reliance on annual engagement surveys (a snapshot that does not satisfy the ongoing consultation requirement), the assumption that size provides exemption, delegation to HR generalists who lack the specialist qualification the obligation assumes, and post-incident discovery that the information infrastructure was not in place. In every case, the CEO was acting in good faith. In no case could they answer the three questions a SafeWork inspector applies: what information did the organisation have access to, what decisions did that information trigger, and can those decisions be demonstrated?

**Third, enforcement escalation is outpacing capability investment.** SafeWork NSW announced an expanded Mental Health and Safety Inspectors team in March 2026. The published focus list for the expanded inspectorate leads with issuing on-the-spot fines and improving compliance and enforcement. The investment in capability-building for the SME band is listed last. The behavioural response to an enforcement-first posture in a population that does not know where to start is documented: it produces spend on professional services that generates binders rather than behaviour change, adoption of wellbeing platforms that do not address the regulatory duty, or avoidance. None of these responses reduces psychosocial harm in workplaces.

## Part B: Evidence That a Low-Cost Pathway Exists

The submission is made not only by a concerned operator but by a solution provider. GraceX was built on the observation that the Before-phase obligation, which is what the 2023 regulatory changes specifically require, can be satisfied using infrastructure most Australian SMEs already have: Microsoft 365.

GraceX delivers fortnightly anonymous psychosocial hazard surveys through Microsoft Forms, posts weekly wellbeing content to existing Teams channels, and produces Power BI dashboards that give leaders a documented, audit-defensible view of the data they reviewed and the decisions they made. Survey results are reviewed by a qualified organisational psychologist who provides a written report through Outlook. No external application is required. No algorithm interprets the data. The professional judgement sits with a human practitioner.

The operational cost of this model is materially lower than the \$15,000 to \$80,000 year-one engagement cost of a traditional WHS consulting model. It runs on tools the SME has already paid for. It produces the evidence trail the SafeWork inspector's three questions require.

GraceX is relevant to this inquiry not as a product advertisement but as proof of a policy claim: the gap between the regulatory obligation and the SME capability to satisfy it is not a gap that requires new obligation or new legislation. It is a gap that requires the regulatory authority to specify a non-specialist-accessible pathway. Where no such pathway is specified, the market produces expensive specialist solutions that are unaffordable for most of the target population, or it produces nothing. GraceX is one example of what is buildable. The regulatory system should not depend on a single vendor to fill this gap. It should specify the pathway and let the market satisfy it at scale.

## Part C: Recommendation

The Productivity Commission's final report should include a finding that the psychosocial risk regulatory framework, as currently implemented, constitutes a structural barrier to SME entry and expansion under the terms of reference of this inquiry.

The finding should establish three things:

- The obligation is correct. Psychosocial risk is real, the harm is documented, and the regulatory duty to manage it is appropriate.
- The implementation pathway is not appropriate for the SME band. A regulatory architecture designed for large organisations with internal capability, implemented without a non-specialist compliance pathway, imposes disproportionate costs on businesses in the 20 to 200 staff band and suppresses growth decisions.
- The enforcement posture is misaligned with the capability gap. Escalating enforcement before a non-specialist pathway exists widens the compliance gap rather than closing it.

The finding should be accompanied by a recommendation that Safe Work Australia, in coordination with state and territory work health and safety regulators, publish a non-specialist psychosocial risk management compliance pathway within twelve months of the final report. The pathway should:

- Be written for the non-specialist reader, not for the WHS or HR professional
- Specify the activities, cadence, and documentation required to satisfy the Before-phase obligation across the first twelve months from a standing start
- Identify how existing tools that most SMEs already use, including Microsoft 365 and Google Workspace, can produce the required evidence trail
- Be reviewed annually against changes to the regulations and the Code of Practice
- Be freely available and published in a single, navigable location

This recommendation does not expand the obligation. It does not require new legislation. It does not create a new regulatory body. It requires the existing regulatory system to specify the pathway it is already implicitly assuming SMEs can find. The investment is low. The return is the inclusion of the SME band in the compliance system the regulations already require them to operate within.

Until that pathway exists, continued enforcement escalation is penalising a knowledge gap, not a willingness gap. That distinction matters for a productivity inquiry. The knowledge gap is a regulatory design problem, not a market failure by SME operators.

## Supporting Data

Table 1: Cost components of a single psychological injury claim in a 70-employee business

Cost component	Calculation basis	Estimated cost
Replacement cost	Median 35.7 weeks off work (SWA 2025) at \$110,000 salary	\$76,100
Management time	60-80 hrs at \$69.20/hr (ABS 2025 median manager rate)	\$4,800
Team productivity drag	10% of absent employee annual salary	\$11,000
Subtotal (uninsured, pre-claim resolution)		\$92,000
Premium increase (3-year window)	30% annual cap on \$138,000 base premium x 3 years	\$124,000
Total exposure	Before legal costs and replacement of non-returning employee	\$216,000

Table 2: Where SMEs sit in the Before/During/After compliance model

Phase	What the obligation requires	Where most SMEs sit
<b>Before</b>	Risk identification, ongoing consultation, documented controls	Almost no one in the SME band
<b>During</b>	Crisis support, intervention, counselling	EAP contracts
<b>After</b>	Claim management, return to work, rehabilitation	Workers compensation insurer

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## About the Contributor

Roland Illyes is the founder of GraceX, an Australian psychosocial risk management platform built natively on Microsoft 365 and serving small and medium businesses. GraceX delivers fortnightly anonymous psychosocial hazard surveys reviewed by qualified organisational psychologists, weekly wellbeing content posted to existing Microsoft Teams channels, and Power BI dashboards that produce a documented, audit-defensible decision trail aligned with the requirements of the NSW Code of Practice on Managing Psychosocial Hazards at Work.

Roland holds a LLB, a Master of Computer Science, and a Master of Business Administration. GraceX is a member of Social Enterprise Australia. The submission draws on 18 months of discovery conversations with Australian SME leaders in the 20 to 200 staff band, supplemented by primary regulatory and economic data published by Safe Work Australia, icare, the Australian Bureau of Statistics, and SafeWork NSW.

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