

Conference Name: Australian Centre for Entrepreneurship Research Exchange
Conference 2013

Conference Location: Queensland University of Technology, Gardens Point

Conference Date: 6 – 8 February, 2013

ISBN: 978-1-921897-55-9

Editor: Per Davidsson

Paper Title: Owner-managers' perception of business regulation – empirical study

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Owner-managers' perception of business regulation – empirical study

Abstract

This paper investigates the small business owner-managers' attitudes towards business regulation. The data was collected via mail survey in spring 2012. In this paper we examine differences in how owner-managers of small firms respond to the statutory business regulation. According to the results, there are significant differences between owner-managers' awareness and attitudes towards business regulation. These differences are identified with factor analyses method.

Keywords: regulation, small business, owner-manager

1 Introduction

There has been growing recognition amongst policy-maker of the importance of the competitiveness in small businesses. By improving and simplifying the business regulation governments try to boost business environments and the competitiveness of small firms. Prevailing legislation is a significant factor in the operating environment for the small firms (Harris 2002), but regulation is not a homogenous phenomenon and does not have a uniform effect on all small businesses. Some regulations are either targeted at particular types of businesses or can be expected to vary in their impact across businesses. (Small Business Research Centre of the Kingston University 2003). The complexity of legislation may cause that owner-manager awareness of specific regulations has found to be limited (Kitching 2006, Atkinson & Curtis 2004, Harris 2002).

As Edwards (2004) and Vickers et al. (2005) noted, many respondents reported negative effects of regulation, but they were not able to identify specific subjects of legislation that related to their business. The results of previous literature seem to indicate that there could be gap between presumed effect and the real effect of regulation among owner-managers. The real effect of regulation appears how owner-managers adapt their behaviour to the regulatory framework. Owner managers vary in their capacities to discover, interpret and adapt to regulation and pursue different strategic priorities. According to Small Business Research Centre of the Kingston University 2008 owner-managers who were conscious of regulations affecting their businesses tended to adapt more dynamically the best business practices. The level of regulation in the small firm context is visible and sometimes even conflicting because of employment law.

In our paper we will create a framework for understanding owner-manager attitudes and awareness towards business legislation which emphasises owner-managers varying characteristics and motivational bases. We are going to demonstrate that there are different typologies by which owner manager of small firms can be differentiated in terms of attitudes towards general business regulation and especially labour law.

2 Literature review

Because of the importance of the small business sector to the economy, in many countries the government has tried to facilitate its operational environment. Also researchers are increasingly attempting to model and measure how entrepreneurial activity is affected by different institutional factors (Stephen et al. 2005). A competitive business environment requires flexible corporate and business legislation, which should enhance the range of possibilities and therefore improve the business conditions for companies.

2.1 Business burden or boost

Owner-manager awareness of specific regulations has been found to be limited (Kitching 2006, Atkinson & Curtis 2004, Harris 2002). As Edwards (2004) and Vickers et al. (2005) noted, many respondents reported negative effects of regulation, but they were not able to identify specific subjects of legislation that related to their business. The results seem to indicate that there could be gap between presumed effect and the real effect of regulation among owner-managers. Small business owner-managers lack the internal recourses (time, money and specialist expertise) to cope with regulation. Owner-managers find it more costly and difficult to find out about regulations and how to apply or how to best to comply with regulations. (Small Business Research Centre of the Kingston University 2005).

Although, several studies argued that regulation is a key barrier to business success (Vickers 2006, Kitching 2006). Kitching (2006) noted that competition and the economy were sited more frequently as an obstacle to success. In the majority of cases the regulatory burden on entrepreneurial and small firms is relatively high and small firms bear a higher cost burden about regulation than larger businesses (Chittenden et al. 2003, Levie & Autio 2011). It is very important to find out why owner-managers are dissatisfied and report negative or positive opinions and which is most important; whether this cause owner-managers to adapt their behaviour in other ways. This may have consequences for business performance. When owner managers have positive opinion about regulation they are usually aware that regulation offers opportunities to develop more efficient ways of working (Small Business Research Centre of the Kingston University 2008).

Schön (2006) was concerned about the tendency in international research to ignore the legal perspective and replace it with a business-oriented approach. He presupposes that a purely business-oriented approach leans on the economic data of the company and is purely built on the management's business plans. That is dangerous because business plans ignore the existence and enforceability of the company's engagements. In his article, Schön also admits that a purely legal perspective does not ensure that the company can fund business operations in the future. Researches focusing on compliance costs and benefits should draw attention about the precise consequences in particular small business settings. It should also demonstrate the importance of regulation, relative to other factors, in generating particular levels of business performance (Small Business Research Centre of the Kingston University 2003).

2.2 Business decision-making and competitiveness

Regulation might enable business owners to achieve their business aims but fact is that regulation has no effect at all unless owner-managers change their behaviour as a result of it. Usually owner-managers draw upon regulations to achieve their business objectives (Kitching 2006) and personal needs. According to the Finnish Limited Liability Companies Act, there are legal requirements and procedures that need to be followed when making corporate decisions, for

instance concerning the distribution of the assets of the company. These rules regulate how owner-managers can get money out of business and they should be aware of rules concerning their incomes. However, our previous research findings (Sjögrén et al. 2011, 2009) provided evidence that owner-managers are unaware of the peremptory provisions of the Companies Act. This could lead to a situation where the owner-manager takes more dividends than the Finnish corporation legislation allows. In any case, the importance of the rule relates to limitation on distribution of the assets can be questioned because of the entrepreneurs' ignorance. Also other researchers (Arrowsmith et al. 2003, Edwards et al. 2004, Gilman et al. 2002, Ram et al. 2001) have become to same conclusion; the regulations often exerts only a limited impact on owner-managers decision-making.

Regulation does not have uniform consequences for small business owner-managers: everything depends on how owner-managers adapt to regulatory change (Kitching 2006). Previous research (Small Business Research Centre of the Kingston University 2008) discovered that owner-managers with greater resources (finance, equipment, management capability, workforce knowledge and skills) have better basis for dealing positively with regulation. Besides these resources the owner-managers' attitudes towards regulation is in salient point when small firms adapt regulation (Vickers et al. 2005). And sometimes, if the regulatory change is minor, owner-managers might prefer to continue business as before because there are no intensives to reform owner-managers business practises (Arrowsmith et al. 2003).

Hence, although owner-managers would have complete knowledge about regulation they do not necessarily comply with the rules. Researchers have found different attitudes to compliance, e.g. Vickers et al. (2005) found four-fold typology by which businesses can be differentiated in terms of attitudes towards regulation; Avoiders/Outsiders; Reactors, including the sub-categories of Minimalists and Positive responders; and Proactive learners. Whereas Arrowsmith et al. (2003) demonstrated three distinctive sets of responses: "implement", "ignore" and "critical event". Petts et al. (1999) found "vulnerable compliance"; many owner-managers lack a proper understanding of some regulations, they do not know whether they are meeting their obligations or not. Anyhow, this does not mean that owner-managers break rules; for instance engagements to standards of professional practice and desire to accurate business can influence owner-managers to act in accordance with regulatory requirements without complete knowledge (Corneliussen 2005, Vickers et al 2005).

3 Empirical analyses

3.1 The sampling and data collection

The empirical data were drawn from a mail survey conducted in spring 2012 by means of a structured questionnaire. We selected the most essential areas of regulation (labour law, tax law, company law) which have an effect on small businesses in multiple industry settings. In the mail survey also owner-managers'/firms' characteristics (type of firm founder, number of owned firms, family firm / non-family firm etc.) were identified.

The initial population consisted of small firms in southern and eastern Finland with a sales turnover between 0.5 and 5 million Euros. A total of 14,549 firms were identified from the financial statement database Voitto+, and a systematic random sample of 1,024 firms was drawn. The pre-tested survey questionnaire and an introductory cover letter were mailed to the respondents, who were assured of confidentiality and promised a summary of the results. A reminder was sent to those who had not responded within two weeks. Final responses were

received from 151 companies, yielding a satisfactory effective response rate of 14.75% (151/1,024). The anonymity of respondents was ensured because the data were analysed and reported in a format preventing the identification of individual respondents or their businesses. Non-response bias was examined by comparing the early (first-round) responders with the late responders (second-round) on the assumption that there are no differences between early and late responders (Armstrong and Overton 1977, Covin and Slevin 1989). No significant differences were found between these groups in the distributions of the sum variables. Another test for the representativeness of our data was the comparison of responding and non-responding firms in terms of size. Using self-reported data from single informants may bear a risk of common method bias (Podsakoff et al. 2003). However, the owner-manager is considered to be the most knowledgeable person regarding the strategic vision and managerial practices, which would be very hard to measure without some degree of subjectivity. Furthermore, entrepreneurship researchers often use self-report and these have been shown to be reliable (Chaganti et al. 2002).

3.2 Measures and results

The applied measures for general owner-managers' orientations towards business and employment regulation are multi-item measures, mainly developed for this study. Factor analyses were applied to ensure the dimensionality of the measures and the reliabilities were checked with Cronbach's alpha coefficient of internal consistency.

The first factor solution consists of the general statements concerning entrepreneurship and business regulation. The principal component analysis with Varimax rotation resulted in two factors explaining together 65, 9% of the total variance, see Table 1. The first factor relates to the owner-managers opinion that regulation provides some benefits for their business, whereas the second factor describes owner-managers feels that regulation is a burden for their business.

The 8 general attitude items towards business regulation are based on Kitching's (2006) study. Those measures can be said to be considered exploratory and in our study statements are slightly adapted for the Finnish context. After rotation, the factor analysis suggested the existence of two factors with eigenvalues greater than one. The rotated factor solution is shown in Table 1. Significant loadings are those of .70 or higher (Hair et al. 1998), but loadings higher than .50 are satisfactory. Factor 1 (explaining 50.78 % of variance) consists of six items all clearly linked to owner-managers' positive attitudes toward business regulation. This factor was named as *positive orientation towards business regulation*. Factor 2 explains 15.14 % of variance. It is called *negative orientation towards business regulation*. This factor encompassed two items related to attitude that business regulation has mainly burdened owner-managers' businesses. The communalities of this factor solution varied from 0.41 to 0.84.

Table 1. Factor analysis results for the owner-managers' general attitudes towards regulation

Variable In general, would you say that regulations in Finland have...	<i>Factor 1</i> positive orientation towards business regulation	<i>Factor 2</i> negative orientation towards business regulation
...been beneficial for your business	.800	
...constrained your business activities	-.543	.596
...or been both beneficial and constrained		.899
...supportive for your business	.824	
...been clear for your business	.827	
... been fair for your business	.856	
...all firms have an equal position	.761	
... all company forms have an equal position	.637	
Eigenvalue	4.062	1.211
% of variance	50.78	15.14
cumulative % variance	50.58	65.92
KMO .997		

The second factor solution consists of the statements which try to measure do owner-managers see business regulation as an opportunity for their businesses. The principal component analysis with Varimax rotation resulted in three factors explaining together 67.8% of the total variance, see Table 2. The first factor relates to the owner-managers opinion that regulation secures their position at existing markets and provides some cost benefits. The statements of the second factor implicates that some owner-managers even see that business regulation can provide them some competition advantages and new business opportunities. The third factor implicates that some owner-managers take business regulation as given and are not willing to take any cost or completion advantages from changing regulation.

The 11 attitude items towards business regulation as an opportunity are slightly based on Kitching's (2006) study. In our study statements are slightly adapted (some also added) for the Finnish context. After rotation, the factor analysis suggested the existence of three factors with eigenvalues greater than one. Factor 1 (explaining 44.00 % of variance) consists of five items all clearly linked to owner-managers' positive attitudes toward business regulation and they see that business regulation provides security and continuity for their businesses. This factor was named as *trustful orientation towards regulation*. Factor 2 explains 13.03 % of variance. It is called *competition advantage seeking orientation towards regulation*. This factor encompassed four items related to attitude that business regulation also provides some cost and completion advantages to some owner-managers' businesses. Factor 3 consists of two items explaining 10.75 % of variance. This factor was named as *minimal compliant orientation towards regulation*. The communalities of this factor solution varied from 0.53 to 0.79.

Table 2. Factor analysis results for owner-managers' attitudes towards business regulation as a business opportunity

Variables	<i>Factor 1</i> trustful orientation towards regulation	<i>Factor 2</i> competition advantage seeking orientation towards regulation	<i>Factor 3</i> minimal compliant orientation towards regulation
In our business we can adapt more quickly new regulation than our competitors		.811	
Regulations provide us with an opportunity to gain a competitive advantage over other firms		.857	
Regulations have resulted in our business being run more efficiently	.462	.700	
The introduction of new regulations is easy to adapt in our business	.554		
The introduction of new regulations has encouraged us to take action to ensure your business remains competitive	.555	.624	
Having to meet the minimum legal requirements is the only impact of regulations on our business			.773
There are costs to our business of meeting the minimum regulation requirements			.808
Regulations have increased the level of employee productivity in our business	.729		
Regulations provide new market opportunities for our business	.782		
Regulation increases the level of customer confidence in our business and its products and services	.830		
Regulations encourage businesses to enter the markets we operate in	.635		
Eigenvalue	4.840	1.433	1.182
% of variance	44.00	13.03	10.75
Cumulative % variance	44.00	57.03	67.78
KMO .624			

The third factor solution consists of the statements which try to measure owner-managers' opinions how employment regulation affects businesses in SMEs. The principal component analysis with Varimax rotation resulted in four factors explaining together 65.1 % of the total variance, see Table 3. The first factor relates to the owner-managers opinion that they are well aware of current regulation and they are very compliant. The statements of the second factor implicates that some owner-managers see that employment regulation burdens their businesses and even limits opportunities to expand their companies. The third factor implicates that some owner-managers feel that employment regulation may cause conflicts between employees and employers. The fourth factor consists of statement which implicates that employment regulation is not so relevant in day to day business and most of the possible problems can be solved locally inside in the companies.

The 16 attitude items towards employment regulation were mainly developed for this study. The variables can be said to be considerable exploratory. After rotation, the factor analysis suggested the existence of four factors with eigenvalues greater than one. Factor 1 (explaining 26.57 % of variance) consists of five items all clearly linked to owner-managers' awareness of employment regulation. This factor was named as *awareness orientation towards employment regulation*. Factor 2 explains 14.71 % of variance. It is called *business burden orientation towards employment regulation*. This factor encompassed five items related to attitude that employment regulation burdens SMEs' businesses. Factor 3 consists of three items explaining 14.46 % of variance. This factor was named as *conflict orientation towards employment regulation*. The last factor consist of four items which are all related to owner-managers' opinions that most of the possible problems can be solved locally. This factor was named as *independent orientation towards employment regulation*. The communalities of this factor solution varied from 0.42 to 0.85.

Table 3. Factor analysis results for owner-managers' attitudes towards employment regulation

Variables	<i>Factor 1 awareness orientation towards employment regulation</i>	<i>Factor 2 business burden orientation towards employment regulation</i>	<i>Factor 3 conflict orientation towards employment regulation</i>	<i>Factor 4 independent orientation towards employment regulation</i>
Employment regulation promote to take new employees		-.702		
Employment regulation allows flexibility to change the number of our employees		-.657		
The age structure of our employees is suitable for our business				.743
Our employees are well aware of their rights and duties				.577
We decided about the pay rate of our employees locally in our company				.536
Employment regulation should reform that we could increase the number of our employees		.671		
We are well aware of employment regulation in our company (labour law)	.903			
We are well aware of employment regulation in our company (working hours)	.895			
We are well aware of employment regulation in our company (annual leave with pay)	.879			
We are well aware of employment regulation in our company (collective agreement on terms of employment)	.766			
In our company conflicts concerning employment regulation are due to unawareness of labour law			.853	
Conflicts concerning employment regulation are due to the lack of external			.908	

advisor services				
Conflicts concerning employment regulation are due to the quality of external advisor services			.891	
Employment regulation decrease our willingness to increase the number of our employees		.788		
Employment regulation decrease our willingness to use rental employees		.320		.554
Employment regulation increase our willingness to use subcontractors		.745		
Eigenvalue	4.251	2.353	2.314	1.494
% of variance	26.57	14.71	14.46	9.37
Cumulative % variance	26.57	41.28	55.74	65.07
KMO 0.92				

4 Results and implications

The results of our study contribute previous literature several ways and have also some implications for practioners. The governments' targets are to improve and simplify the business regulation and they try to boost business environments, the competitiveness of small firms and entrepreneurship. So it is very important for policy makers to understand that entrepreneurs are not a homogenous group with their attitudes towards business and employment legislation.

The paper has illustrated that small firms do not necessarily have a limited knowledge and comprehension of the labour law. This finding is slightly contrary to previous studies (e.g. Kitching 2006, Atkinson & Curtis 2004, Harris 2002). The reason for this could be different legal heritage of countries. Finland belongs to the Nordic legal family that is positioned somewhere in between the Continental and Anglo-American legal families, with features typical to both civil law and common law (Mähönen 2011).

Our study is ongoing process. Now we have identified different owner-managers' orientations towards business regulation. After the preliminary factor analyses we will investigate how these attitudes towards business regulation are related to for example firms' performance and/or owner-managers' entrepreneurial orientations.

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