



**NEW ZEALAND INSTITUTE FOR THE STUDY  
OF COMPETITION AND REGULATION INC.**

# **THE BURDEN OF SMALL BUSINESS COMPLIANCE COSTS**

**PERCEPTION OR REALITY?**

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## **CORPORATE MEMBERS**

Contact Energy Ltd

Fonterra Co-operative  
Dairy Group Limited

Meridian Energy Ltd

New Zealand Post Ltd

NGC

Powerco

Telecom Corporation  
of New Zealand Ltd

Transpower New Zealand Ltd

Vector Ltd

Victoria University of Wellington

Westpac Institutional Bank

# MOTIVATION

- There is a perception (and some evidence) that compliance costs are high in New Zealand for small businesses
- Ministerial Panel (2001) + Government response
- Business New Zealand survey (KPMG 2003)
- Mean Annual Hours Spent on Compliance:
  - 0-5 employees = 271hrs per annum (313 mins per week)
  - 6-9 employees = 654 hrs per annum (755 mins per week)
  - 10-19 employees = 743 hrs per annum (856 mins per week)



# DEFINITION OF COMPLIANCE COSTS

- Compliance cost = time taken, or money spent, complying with government regulations
  - Time taken to pay GST, PAYE or income tax is a compliance cost
  - Money paid to an accountant to do tax returns is a compliance cost
  - The amount of the tax paid is not



# SURVEY DESIGN

- Random sample of 25 small businesses in Dunedin
- Five types of business
  - Cafes (5)
  - Motels (6)
  - Hair Dressers (5)
  - Garages (4)
  - Engineering Firms (5)
- Response rate = 36 percent
- Survey conducted in 2<sup>nd</sup> half of 2003



## Table 1: Summary Statistics For Firms In Sample

	No of Workers	EFT Workers	Annual Turnover
Average	6.36	4.84	400,869
Median	6	4	350,000
St Dev	4.02	3.55	323,533
Maximum	20	19	1,500,000
Minimum	1	1	50,000



# SURVEY DESIGN (Cont'd)

- Survey involved 3 stages
  - Structured preliminary interview (25 firms)
  - Diary of compliance costs, kept for 3 months (18 firms)
  - Follow up interview (13 firms)



# SURVEY RESULTS

## The Preliminary Interview

- “When you hear people talk about compliance costs, what do you understand them to mean?”
  - 16 firms had a good understanding
  - 9 had a vague understanding, or said they did not know.



# SURVEY RESULTS (Cont'd)

- “To what extent are compliance costs an issue for you and your business? (Major, Minor, Not an Issue)”
  - Major = 8 firms
  - Minor = 11 firms
  - No issue at all = 4 firms
  - Unsure = 2 firms





# SURVEY RESULTS (Cont'd)

- “Why is compliance a major issue?”
  - The time it takes (7 firms)
  - Inflexibility of government departments (2 firms)
  - Object to doing unpaid work for the government (1 firm)
  - Have to become familiar with health and safety policies of clients (1 firm)



# SURVEY RESULTS (Cont'd)

- “Which compliance costs have you been faced with in the previous 12 months (24 firms)?”
- Do these costs provide either “some benefit at reasonable cost”, “some benefit but at excessive cost”, “no benefit” or “don’t know”?
  - 40 compliance costs (from our list) affected at least one firm, plus 12 others listed under miscellaneous
  - 16 costs affected at least 10 firms
  - Most firms thought most costs conferred little or no benefit to the firm



# SURVEY RESULTS (Cont'd)

## Compliance Diary

- 18 firms kept records for 13 weeks:
  - 4 motels
  - 4 cafes
  - 3 hairdressers
  - 3 engineering firms
  - 4 garages



## Table 4: Time (Minutes) Spent on Compliance Per Week

Firm Type	Average	Maximum	Minimum
Motels	74.25	120	22
Cafes	56.75	110	6
Hair Dressers	86	159	46
Engineering	80	110	21
Garages	35	53	10
TOTAL	64.55	159	6



## Table 5: Time (Minutes) Spent Per Employee Per Week

Firm Type	Average	Maximum	Minimum
Motels	10.96	15	5.62
Cafes	6.79	15.71	0.75
Hair Dressers	16.89	17.67	15.33
Engineering	12.67	27.25	5.25
Garages	8.43	10.6	3.33
TOTAL	10.74	27.25	0.75



**Table 6: Time (Minutes) Spent Disaggregated by Major or Minor**

Major/Minor	Average	Maximum	Minimum
Major	93	120	44
Minor	39.2	110	6



# SURVEY RESULTS (Cont'd)

## Compliance Diary (Dollars Spent)

- Calculated using information from the diary
- PLUS information (from the follow up interview) on the amount paid to an accountant during 2003 (13 firms)
  - Assumed that all money paid to an accountant represents a compliance cost



## Table 7: \$ Amount Spent on Compliance Per Week

	Average	Maximum	Minimum
All costs	110.19	464.05	13.46
Excluding Accountant	47.26	215	0





# SURVEY RESULTS (Cont'd)

## Follow up Interview

- 13 firms took part in the follow up interview
  - 5 major
  - 7 minor
  - 1 no answer
- “Do you want to change your mind?”
  - 10 firms = no
  - 2 firms (originally minor) = more than minor



# SURVEY RESULTS (Cont'd)

- Why compliance costs are minor (2 firms, both motels)
  - Computers made compliance easier (1 firm)
  - Filling in forms fills in down time (1 firm)



# SURVEY RESULTS (Cont'd)

- Why compliance costs are major (5 firms)
  - Compliance is higher at certain times of the year (2 firms)
  - Spend several small periods of time a week on compliance (2 firms)
  - It is always in the back of your mind (1 firm)
  - Deliberately kept number of employees low to minimise compliance (1 firm)
  - Health and safety regulations make it unprofitable to work for some clients (1 firm)



# SURVEY RESULTS (Cont'd)

- “Do you deal with compliance in a solid block of time, or several smaller periods of time?”
  - 8 firms = several smaller periods
  - 3 firms = solid block
  - 1 firm = varies



# CONCLUSIONS

- Under    of the firms in the sample thought compliance was a major issue (but for those thinking it was major, this tended to be a strongly held view)
- BUT, no firm spent more than 2.5 hours a week on compliance
- AND, on average firms spend only 1/5 of the time on compliance as in the Business NZ survey
- HOWEVER, average total cost of compliance is > 1% of turnover (similar to Business NZ)



# CONCLUSIONS (Cont'd)

## Possible Explanations

- Sample bias and/or sample differences
- Different methodologies (recall v diary)
- Compliance is a nuisance and/or stressful, but does it take up a lot of time?
- Some firms have kept compliance low by not expanding



# POLICY IMPLICATIONS

- Many firms see compliance as a major problem
- BUT, results suggest compliance does not take a lot of time
- SO, policies designed to reduce the amount of time spent on compliance may not deal with the problem

