

THE CONVERSATION

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Regulations can burden small businesses but our research shows they can also help them grow

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Small businesses can benefit from following rules. Dragana Gordic / Shutterstock

A couple of weeks before her short stint as prime minister ended, Liz Truss delivered on a pledge to tackle what some – including Truss – saw as red tape holding back “thousands of growing businesses” in the UK. The move focused on exempting small businesses from certain regulations to help stimulate growth. It involved expanding the government’s definition of “small business” to release “thousands of UK businesses” from reporting requirements and regulations.

Small businesses are an undoubtedly important part of the economy. The latest UK government figures (based on previous definitions) indicate that small and medium-sized enterprises (SMEs) account for 99.9% of businesses, contributing 61% of total employment in the private sector.

Many critics of regulation believe rules hold businesses back. Indeed, following Brexit, former government minister Jacob Rees-Mogg identified in excess of 2,400 EU laws for swift removal as part of a bid to stimulate UK economic growth. Our research reviewed a range of evidence on this issue. It confirms that regulations can be burdensome for small business, but the relationship is not that simple. In fact, some “red tape” can even be good for such firms.

Perception surveys often ask owner-managers about regulatory burdens. When asked whether regulations are hindering growth, a reasonable proportion of owner-managers will typically respond that they are, according to our research. The exact figures vary from survey to survey, and regulation is never reported as the most significant issue, but we find that it does regularly feature on the list of obstacles for such firms.

That complying with regulations can be a burden is not surprising. Proper regulatory compliance takes time and, potentially, other resources that can be in short supply in small businesses. However, this is no different from other managerial tasks that place demands on an owner-manager’s time.

And if we look more deeply into the evidence on regulations and business growth, we find a much more complicated picture. Regulations do not always hinder business growth. In fact, there are a variety of ways in which they support it.

Regulating for a reason

Rules help markets to operate effectively. They can safeguard property rights, protect legitimate traders from the rogues and make workplaces safer. Regulations also limit the negative impacts businesses can have on wider society. For example, by setting duties and responsibilities to avoid pollution.

Regulations provide the stability and investment that small businesses need to grow. Property rights and consumer protections, for example, support business activities. Owner-managers and entrepreneurs want protection for their property and innovations, and they want to be protected from unfair competitive practices.

There are also many products and services that are regulated for consumers’ peace of mind. Most people would prefer to be protected from poor quality or unsafe products, for example. You may take for granted the protections in place when buying online, such as the right to cancel purchases. These regulations are important to facilitate the successful conduct and popularity of internet businesses.

Health and safety and employment regulations also make businesses better, safer places to work and support healthy, productive employees. If small businesses were allowed to dispense with certain protections, the talented people that drive growth in these firms might then seek employment at larger companies with better overall conditions.

While some businesses report, for example, that health and safety rules are burdensome and of no value, a majority see them as sensible and say they create little additional work. Importantly, government regulations are reported as relatively less of a burden in comparison to the requirements of other external agencies such as insurers or supply chain partners.



Health and safety at work. FLUKY FLUKY / Shutterstock

Supporting business growth

Debates about how to support business growth and productivity often centre on the claim that small businesses lack sufficient management expertise. But the way in which management expertise develops in relation to regulatory compliance is too often ignored.

This includes learning to identify which outside influences are most likely to affect your business (for example, large business customers or others within a supply chain), negotiating with these entities and adapting business practices to meet their requirements. In this way, regulatory compliance is part of a more generalised set of management skills that is valuable for any business.

Formalising such practices can form part of the changes that many businesses implement as they grow. This can involve standardising how tasks are completed by establishing routines and rules. This also enables other parts of the business to rely on tasks being completed in particular ways and for those methods to be communicated to new employees and external stakeholders.

In the same way, regulations often require the formalisation of key business practices. For example, employment regulations have been found to trigger the formalisation of HR practices. This supports delegation of tasks and greater fairness and transparency in management practices.



Regulations can help a business to support teamwork by formalising procedures. Party people studio / Shutterstock

To improve management expertise and business growth, it has also been argued that small businesses can benefit from supportive external networks such as legal advisers, accountants or HR consultants. Significant government funds have been devoted to trying to encourage small businesses to engage more with such external services, for example through subsidised consultancy schemes.

What is often not acknowledged, however, are the ways in which regulations encourage or mandate engagement with these kinds of services. To ensure regulatory compliance, almost all businesses report engaging with at least one external source of advice and many with a range of external service providers. This has the potential to build trusted relationships and support networks that can help deliver the growth plans of a small business.

Complying with the regulations and requirements of powerful external stakeholders – suppliers, customers, the government – is central to managing a small business. These regulations can both enable and encourage small businesses to change and to grow.