View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Kingston University Research Repository

The ubiquitous influence of regulation on entrepreneurial action: how relations with accountants mediate small company adaptation to financial reporting legislation.

John Kitching

Abstract

Purpose – The purpose is to theorise, and demonstrate empirically, how regulation generates *indirect* impacts on small companies that arise through the medium of relationships with stakeholders whose actions affect them. Specifically, the article explores how relations with stakeholders shape the *process* of small company adaptation to statutory financial reporting obligations.

Design/methodology/approach – The analysis draws principally on qualitative interview data from small company preparers of abbreviated accounts and their accountants, but also uses survey data to demonstrate the prevalence of the account filing and advisory practices reported in interview.

Findings – Small companies' relations with accountants mediate the influence of financial reporting regulation by shaping how firms discover, interpret and adapt to their statutory obligations. Where accountants inform small companies of the option to file abbreviated accounts, or advise them to file such accounts, and clients act on that advice, then relations with accountants mediate the impact of regulation on that business. Accountants typically advise small company clients to file abbreviated accounts as the 'default position', one departed from only in very specific circumstances. Accountants are complicit, therefore, inadvertently or otherwise, in the production of the effects of clients' filing decisions.

Originality/value – The study expands our conception of how regulation contributes to entrepreneurial action by focusing on the *indirect* effects arising for small firms via their relations with the stakeholders with whom they interact. Regulatory regimes are a condition of all forms of entrepreneurial action and the ensuing performance outcomes. Regulation therefore exerts a ubiquitous influence on entrepreneurial action that is substantial, pervasive and enduring. Without reference to the necessary enabling functions of regulation, explanations of entrepreneurial processes remain incomplete.

Keywords: small companies, regulation, compliance, financial reporting, mandatory disclosure, accountants

Paper type: Research paper

Introduction

Businesses are immersed in a sea of law (Edelman and Suchman 1997). This article extends earlier work on the impact of regulation on small businesses (Kitching 2006, 2007; Kitching et al. 2015a) by exploring in detail the *indirect* effects of a specific piece of legislation permitting eligible companies to file abbreviated accounts at Companies House, the UK public register. Until recently, there has been little discussion of financial reporting legislation in academic and policy debates surrounding the impact of regulation on small businesses, perhaps because the potential benefits of corporate financial disclosure – and, by extension, of regulation mandating disclosure - in reducing the cost of capital are well-known (Healy and Palepu 2001; Beyer et al. 2010). Such arguments are at odds with the dominant contemporary narrative of regulation as a public 'bad' (e.g. Vukovic 2012; HM Treasury 2015).

Most prior research focuses on how regulation impacts firms directly by imposing obligations upon them with which they must comply or expose themselves to legal sanctions for non-compliance. Few have sought to theorise how regulation might generate wider effects on individual firms, indirectly, by affecting the activities of stakeholders with whom firms interact. Specifically, the study addresses the following questions:

- How does regulation influence small businesses indirectly?
- How causally significant are such indirect regulatory influences?
- What are the implications of the existence of indirect regulatory influences for our understanding of the overall impact of regulation on business activity and performance, and for explaining entrepreneurial action in its manifold forms?

Answering these questions requires clear conceptualisation of indirect regulatory influences and elaboration of different types of indirect effect. The paper seeks to show how the law influences small firms, indirectly, through multiple channels, permeating all market relationships. I conclude that the indirect influence of regulation on entrepreneurial action is ubiquitous, generating effects on businesses that are substantial, pervasive and enduring - whether or not business owners are aware of this.

Examining the impact of regulation on business activity and performance is not therefore some esoteric pursuit, of interest only to a narrow group of legal specialists, but rather one

with much wider implications for explaining entrepreneurial action in all of its forms. Surprisingly, this point is often recognised better in large, cross-national surveys that examine regulatory quality as a possible influence on macro-level outcomes such as start-up rates (van Stel et al. 2007) or economic growth (Jalilian et al. 2007), than it is in small-scale, qualitative studies which might be thought better equipped to explain contextual influences on entrepreneurial processes, although a number of well-crafted qualitative studies do exist (e.g. Edwards et al. 2003, 2004; Vickers et al. 2005).

Empirically, the study focuses on how small company relationships with one important group of stakeholders - accountants - shape the process of adaptation to the statutory requirement to file annual accounts (Kitching et al. 2011). Small company directors often possess limited financial literacy (Brown et al. 2006; Sian and Roberts 2009) and they are less likely than their counterparts in large companies to be aware of filing alternatives (SERTeam/POBA 2005; Collis 2008). Consequently, business owners often rely on external accountants' advice and support to meet regulatory requirements (e.g. Blackburn et al. 2006; Marriott et al. 2006; Sian and Roberts 2009; Sarens et al. 2015).

The data presented derive from a single UK study investigating one particular regulation but the theoretical arguments are intended to be relevant to businesses beyond this specific geographical and regulatory setting. The legal landscape does not simply provide an inert milieu within which market activities happen to take place. Rather, regulatory regimes are active institutional forces shaping the activities of small firms and their various stakeholders. Firms' resource acquisition and mobilisation activities, and the performance consequences that flow from them, are made possible – as well as constrained – by the law.

The following three sections review prior research on the impact of regulation on small business activity and performance, set out an analytical framework elaborating the various routes through which regulation impacts small companies indirectly and present the methodological approach. The remaining sections detail the UK regulatory framework for small company financial reporting and present the empirical data before concluding.

Prior Research on the Influence of Regulation on Small Firms

Studies typically focus on the purported *direct* effects of statutory regulation: those attributable to business owners taking action to discover, interpret and comply with the legal obligations placed upon them (Kitching 2006). Hence much research focuses on the

reported burdens imposed by, and the costs of, compliance. Surveys often focus on business owners' perceptions of regulatory burdens (Carter et al. 2009; Jigsaw Research 2014) or on obstacles to business success, including regulation and 'red tape' (BIS 2015a, b). These studies do not always define regulation or 'red tape'. It is therefore not entirely clear what meaning is intended although the context usually implies that regulation constitutes solely a burden, cost or constraint on action.[1]

More sophisticated approaches seek to quantify the costs to businesses of compliance (Chittenden et al. 2002; Crain and Crain 2010; Schoonjans et al. 2011). These studies usually involve estimating the money and time resources consumed in complying with a particular regulation or set of regulations. Compliance costs are usually found to be regressive with small firms suffering disproportionately relative to larger enterprises; for a qualified exception see Lewis et al. (2014). Such estimates are treated as the opportunity costs of regulation: as the resources firms would have had available to devote to their productive, profit-generating activities. Again, the assumption underpinning compliance cost studies is that regulation necessarily impedes, rather than facilitates, business activity and performance.

Qualitative studies centre on how business owners adapt their practices in order to comply with particular legal obligations placed directly upon them, for instance, minimum wage standards or other employment rights (e.g. Arrowsmith et al. 2003; Edwards et al. 2003, 2004). These studies are better at capturing the specificity of particular regulations and the particular prohibitions and mandates they place on firms, and at identifying the diverse tendencies regulations impart - enabling and motivating, as well as constraining, particular activities. But, such studies typically focus on explaining the direct influence of regulation, as conceptualised here, downplaying any wider effects the law might generate.

Regulation also impacts firms *indirectly*, however, by influencing the actions of the diverse range of stakeholders with whom they interact – suppliers, customers, competitors, infrastructure providers and regulatory bodies, for example (Kitching 2006). Where regulation influences stakeholder behaviour and this behaviour motivates a small business to act in particular ways then such influence might be conceptualised as indirect. Such effects may be difficult to detect but are nonetheless very real. Cross-national surveys are perhaps more likely to capture the aggregate impact of these indirect effects of regulation,

albeit at the macro-level above that of the individual firm (e.g. Blind 2012; Duvanova 2012; de Jong and Kloeze 2013; Poel et al. 2014; Torriti and Ikpe 2015).

The next section proposes an analytical framework to explain how regulation affects small companies indirectly, via relationships with important stakeholders, including accountants.

Conceptualising the Indirect Effects of Regulation

Regulatory regimes are a necessary institutional foundation supporting the development of mature market economies (Polanyi 1957; Hodgson 2015). The law plays a crucial *constitutive* role in enabling market economies to work, through creating property rights, the institution of money, and in defining specific types of market agent (for example, limited liability companies), possessing particular legal rights and obligations (Hodgson 2015). Clear property rights, for instance, encourage investors/creditors to provide finance (Johnson et al. 2002; Djankov et al. 2007; World Bank 2015). Black (2001), Pistor (2013) and Fleetwood (2011) have demonstrated the constitutive role of the law in relation to capital and labour markets.

Regulation does not distort pre-existing market signals; there is no properly functioning market prior to the legal framework (Carpenter 2009). Without a comprehensive framework of law, mandating, prohibiting - and thereby also enabling - a wide range of market agents' behaviours, developed economies of the scale and complexity evident today simply could not function. Policy-makers reform regulatory frameworks in order to address market failures and information asymmetries, to facilitate the provision of public goods and the pursuit of distributive goals, and to constrain market irrationality, all of which impact market functioning (Stiglitz 2009). There is no guarantee regulatory regimes will succeed in attaining policy-makers' goals or any presumption that reform is undesirable – I only argue that developed market economies cannot exist without a comprehensive legal framework.

Regulation structures relations between small firms and their stakeholders by endowing the parties with particular powers (rights) and liabilities (obligations) that render particular actions possible or impossible, costly or cheap, risky or safe. Regulation enables, motivates and constrains the activities of small company agents (owners, directors, managers and employees) *and* the various stakeholders with whom they interact (Kitching 2006; Kitching et al. 2015a). Financial reporting regulations mandate corporate disclosure with the aim of

reducing information asymmetries in order to improve market functioning (Stiglitz 2009). Information asymmetries between small company preparers of accounts and the stakeholders who use those accounts can give rise to the 'lemons problem' (Akerlof 1970) where because accounts users lack information, they might be unwilling to enter or continue relations with that small company as supplier, customer, creditor or provider of credit ratings, for example (Kitching et al. 2013, 2015b).

From the micro-level standpoint of a particular business, regulation generates effects directly and indirectly. This distinction between direct and indirect influence is intended to capture the different channels through which regulation affects small company activity and performance. The direct/indirect distinction is an analytical one. But because businesses are necessarily embedded in relations with a variety of stakeholders, the two always interact in practice. Direct effects of regulation have attracted most research attention.

Indirect effects refer to those arising from small company agents' interactions with stakeholders who adapt *their* behaviour as a consequence of regulation (Kitching et al. 2015a). Where small company agents respond to stakeholders' behavioural adaptations by modifying their own activities, then regulation affects that company indirectly. Such indirect impacts are just as real as the direct effects arising from small company adaptation to the laws imposing obligations upon them, though the chain of cause and effect may not be visible to the agents involved. Small company agents do not possess perfect information. The effects of small firms and stakeholders adapting to regulation are irreducible to business owners' perceptions of them. They may be unaware of the stakeholders whose actions affect them; causal connections may be long, complex and hidden from view.

Indirect regulatory influences are under-theorised in the research literature yet are fundamental to explaining how market economies function. Three types of indirect regulatory influence might be distinguished analytically although, in practice, the types intertwine. First, *processes* of small firm adaptation to their legal obligations are often shaped by stakeholder action; illustrating such processes is the primary purpose of this paper. Small firms are embedded in wider networks of relations with suppliers, customers and other stakeholders that shape their behaviour. For instance, business owners often discover, interpret and adapt to regulation under the influence of professional advisers rather than confronting the regulatory framework as isolated agents (Baldock et al. 2006; Blackburn et al. 2006; Kitching 2015). Where accountants inform small company clients of

the option to file abbreviated accounts or advise them to file such accounts, and clients act on that advice, then relations with accountants mediate the impact of regulation on that client.

A second type of indirect regulatory influence refers to *stakeholder responses* to small firm compliance with, and adaptation to, their legal obligations (Kitching et al. 2013, 2015b). Where investors/creditors, customers, credit reference agencies and trade credit insurers withhold finance, purchases, credit ratings and insurance cover to those trading with small companies because those companies choose to file abbreviated accounts, for example, this constitutes an indirect effect of regulation as conceptualised here. Stakeholders might act in such ways because they perceive the information disclosed in the public domain to be inadequate for their decision-making needs. Such stakeholder action impacts small companies in substantial or modest ways.

A third, and more fundamental, type of indirect regulatory influence derives from stakeholders being regulated entities too. Because all organisations and individuals are subject to the law, the impact of regulation permeates all market relationships. Suppliers, customers, competitors, infrastructure providers and regulatory authorities all have legal rights and obligations that enable, motivate and constrain *their* behaviour. How these stakeholders adapt to their legal obligations necessarily impacts relations with their own stakeholders, including small companies. Such obligations include state-authorised and state-endorsed codes governing entry to the professions and other licensed or registered occupational groups, accountants among them. Because businesses, consumers and other stakeholders have some degree of discretion whether, and how, to adapt their behaviour as a consequence of regulation, its effects at the micro-level of individual firms and at the macro-level of markets, industries and nations are difficult to predict.

Investigating the impact of regulation requires that attention be paid to all three types of indirect influence on the small firms of interest. Small company directors are affected by regulation permitting them to file abbreviated accounts whether or not they attribute any particular effects to their filing decision, as long as at least one stakeholder adapts their behaviour as a consequence of the decision. Neither small company agents nor stakeholders possess perfect information concerning such effects. Business owners may misperceive and misreport the impact of regulation. Filing abbreviated accounts might generate adverse effects for small companies because stakeholders respond to these filing

decisions in particular ways, even where small company respondents report only benefits to researchers.

Research Methods and Data

To address the research objectives, a mixed-method research design was implemented. Investigating the indirect effects of financial reporting regulation requires data from small company preparers of abbreviated accounts and from accounts users and other stakeholders whose actions affect small companies (Table I). The analysis focuses principally on data from preparers and their accountants. Fieldwork took place during 2010, shortly after the long recession of 2008-9, a period during which UK GDP fell more than six percent. This time period is important as many accounts users, and secondary sources (CBI/ACCA 2010), reported that comprehensive and timely company and market information had become even more crucial for risk assessment and decision-making following the financial crisis.

- INSERT TABLE I

The *small company preparer* sample comprised 149 respondents to a postal survey and follow-up interviews with 12 of these companies. The sample was constructed from a sampling frame of 2,750 companies identified as filing small company abbreviated accounts randomly generated from the FAME database stratified by three broad regions - London, Scotland, and the rest of England and Wales (response rate five per cent). Both the survey and interview samples were skewed towards the smaller end of the business population: more than 80 percent of survey companies, and nine of the 12 interviewed, were micro companies employing fewer than 10 people. Interview respondents were asked questions about their rationales for their filing choices and their perceptions of accountants' influence on the filing decision.

The *accountants in practice* sample were identified through a professional accountancy body membership database. The survey produced 255 responses from accountants located in England, Scotland and Wales (response rate 27 percent) and follow-up interviews were conducted with ten of these accountants. Accountants varied in size from one-person practices to transnational operations, although most were micro (74 percent of the survey

sample) or small practices (18 percent), employing fewer than 10, and 10-49, employees respectively. Seven of the 10 accountants interviewed were micro practices. In interview, accountants were asked questions about their role in informing and advising clients regarding filing decisions, the factors encouraging and discouraging them to advise filing abbreviated accounts and the benefits and disadvantages to small company clients of filing choices.

Data were also obtained from two other groups – *accountants in private, public and voluntary sector organisations* and *other accounts users and stakeholders*. The former group consisted of accountants working in organisations acting as suppliers, customers, competitors and acquirers in relation to small company preparers. The second was a diverse group including banks, credit reference agencies, credit insurance companies, professional bodies, trade associations and a small business membership organisation. Both groups of respondents were asked questions regarding the value of abbreviated accounts, their influence on decision-making and activity, and the limitations of such accounts information. Data from these two groups is used, briefly, to illustrate the consequences of filing abbreviated accounts.

Data were collected using interview and survey methods. The primary focus is on the qualitative interview material collected to provide insights into agents' activities, motivations for acting and the perceived consequences of action. The survey material provides descriptive data on larger samples, providing corroboration of the extent of accountants' influence on small company filing decisions and demonstrating that interview responses were not confined to some peculiar subset of small company preparers or accountants.

In the next four sections, empirical data is presented to demonstrate how small companies' relations with accountants mediate the effects of financial reporting regulation on small company clients. First, survey data is presented to highlight the extent of accountants' influence on small company client filing decisions; second, qualitative interview material is drawn upon to explore accountants' 'default positions' with regard to advising on the filing decision; third, the limits of the default approach are discussed; and, fourth, interview data is presented to illustrate the responses of a wider group of stakeholders to the decision to file abbreviated accounts.

Regulation of UK Small Company Financial Reporting

As the price of limited liability, UK law requires registered companies to make financial statements and other information publicly accessible at Companies House (Hicks and Goo 2008). This approach contrasts with other jurisdictions such as the United States where there is no general statutory requirement to make financial statements publicly available. In the UK, companies of different sizes are permitted to file different types of accounts in order to reduce the administrative burden of financial reporting.

The Fourth Company Law Directive (78/660/EEC) requires limited liability entities to prepare and file audited annual financial statements.[2] The requirements of the Fourth Directive are incorporated (most recently) in the Companies Act 2006, which obliges limited liability entities to prepare accounts giving a true and fair view, distribute their annual report and accounts to members, and to file a copy at Companies House. Financial and other disclosures allow accounts users to assess companies' financial position, performance and prospects. Companies required to prepare full accounts must provide a profit and loss account (statement of comprehensive income) and a balance sheet (statement of financial position).

Since 1981, qualifying small companies have been permitted to register less detailed abbreviated accounts, comprising an abbreviated balance sheet and related notes, in place of the full statutory accounts; no profit and loss account is mandated. UK companies generally qualify as small if they do not exceed two of three size thresholds: annual turnover £6.5 million; balance sheet total £3.26 million; and average employment 50. Apart from newly incorporated entities, these conditions must have been satisfied in two of the last three years. At the time of fieldwork, micro and small companies had the same filing options – full or abbreviated accounts – although since December 2013, micro companies have had the option to file micro-entity accounts. To file full accounts is to exceed small companies' minimum statutory disclosure obligations.

Mediating the Process of Regulatory Adaptation

Small company owners face a choice whether to file full or abbreviated accounts. This choice poses a dilemma because *both* confidentiality *and* greater information disclosure potentially serve owners' interests, while also exposing them to specific risks arising from the actions, and inactions, of stakeholders pursuing their own goals (Kitching et al. 2015b).

Confidentiality protects small companies from the possible harms that competitors and others might inflict, while disclosure offers potential benefits in terms of access to resources, where suppliers offer trade credit, and to markets, where customers decide to purchase, for example.

Data from both small company preparers and accountants supports the proposition that relations between the two parties are a powerful mediating influence on the filing decision. Accountants play an important role in enabling small company clients to discover, interpret and adapt to regulatory obligations. Almost all of the small companies surveyed (92 percent) discovered the option to file abbreviated accounts from their accountant; many business owners were simply unaware of filing alternatives. Two thirds of small companies surveyed (65 percent) reported accountants' advice as the primary reason for filing abbreviated accounts (Table II). This finding is consistent with prior research (Collis and Jarvis 2000; POBA 2006) and suggests a high degree of small company dependency on, and trust in, accountants.

- INSERT TABLE II

Accountants themselves confirmed the important role they played in small company filing decisions (Table III). Most accountants reported active involvement in client decisions to file abbreviated accounts: 64 per cent of those surveyed suggested the idea to small company clients where they considered it appropriate. A further 26 percent of accountants supplied information to clients to enable them to make their own decision. Together, these data from small company preparers and accountants demonstrate the latter's influence on filing decisions to be widespread.

- INSERT TABLE III

There is a strong association between accountants' reported role in filing decisions and the proportion of small company clients filing abbreviated accounts (as reported by accountants). Accountants suggesting the idea of filing abbreviated accounts to clients were significantly more likely than others to report *all* small company clients filed

abbreviated accounts (80 percent, compared to 59 percent) (chi-square, p=0.001). This suggests that accountants' advice regarding filing options is largely trusted, and followed, by small company clients. Accountants often claimed clients trust them to act in their best interests.

> "… A lot of my clients don't understand, anyway. I'm not belittling them, but at the end of the day, they *solely* rely on us to do whatever needs to be done ... I've got so many clients who just want to know when they've got to pay their tax and the rest is left to us. There is an automatic built in trust which we're always conscious of and we always look after that trust..." (Accountant 2a: 60 employees, italics denote respondent emphasis)

Small companies' relations with accountants play a major role in mediating the impact of regulation on filing decisions. Accountants influence small company clients' filing choices in the vast majority of cases. This is confirmed by both small company preparers and by accountants themselves. The next section explores the content of accountants' advice and the wider circumstances encouraging accountants to advise small company clients to file abbreviated accounts.

Exploring Accountants' 'Default Position' on Advising Small Company Clients

Because small companies potentially gain from both confidentiality and greater disclosure, differences in accountants' advice regarding filing behaviour might be expected as perceptions of the relative benefits and costs of filing choices vary for different clients. The survey data suggest, however, that most accountants have a 'default position' with regard to filing advice (Table III) and that most small company clients share their accountant's assessment: 71 percent of accountants surveyed reported that *all* small company clients had filed abbreviated accounts in the past year, a position particularly pronounced in relation to micro company clients (Table IV). Data from the accountants interviewed confirmed this interpretation, suggesting a high degree of uniformity in approaches to advising small companies. The quotation below typifies sample accountants' responses to client requests to file accounts on their behalf.

- INSERT TABLE IV

> "We file abbreviated accounts automatically, without thinking about it … Minimum disclosure as far as I'm concerned." (Accountant 2b: 60 employees)[3].

Accountants reported advising small company clients to file abbreviated accounts in order to respond to their declared preferences or, more commonly, to act in clients' presumed best interests where no preference was expressed explicitly. Many small company clients, as Table II shows, rely heavily on accountants' advice to make the filing decision. Accountants reported that small company clients perceived few benefits of filing full accounts.

> "They just want to do the minimum to comply with the regulations really. They don't see any benefit from filing the accounts. It's just something they have to do. It's a regulation sort of thing ... They don't want to disclose too much information, basically, so there isn't really any advantage to them of putting full accounts in." (Accountant 1: 5 employees)

Accountants believed that small company clients sought to control access to their financial information. Of those accountants surveyed and providing a response to the question why small company clients filed abbreviated accounts, 81 percent reported that the main reason was to reduce public disclosure of financial information. In interview, accountants reported that clients disclose detailed financial data to only two stakeholder groups: those with a statutory entitlement, such as the UK tax authority, Her Majesty's Revenue and Customs, where non-disclosure might lead to legal sanctions; and important stakeholders such as banks and large suppliers and customers, where non-disclosure might limit access to credit or prevent the company winning new business.

> "For most clients … they would rather have control over who sees the detail of their accounts. By filing abbreviated accounts, they feel that they have that control. If the bank wants the full accounts, they can see the full accounts. If they're in discussion about something and they want to show the full accounts,

they have control. They like filing small abbreviated accounts so that the whole world doesn't have access to more information … Even when people are doing incredibly well, clients like control. I think that overrides everything." (Accountant 5: 14 employees)

Accountants cited several small company owner motivations underpinning the commitment to control access to their financial information, each one encouraging or reinforcing accountants' advice to file abbreviated accounts in specific cases. First, small company clients expressed a general desire for privacy in relation to both business and personal finances. In very small companies, employing only one or two people, there is little difference between the two. Second, clients often sought to suppress poor performance. Filing abbreviated accounts to hide liquidity or solvency problems was reported by a number of accountants. One might, of course, question whether public policy should encourage concealment of poor corporate performance, rather than encourage dissemination of valuable market information that stakeholders might use to assess risk better and thereby enhance market confidence and functioning.[4]

> "Last year I did file two sets of abbreviated accounts and the year before that, one. The year before one was because my client had a negative balance sheet. Technically, he was insolvent because he had bought this business and hadn't made sufficient profits to cover the losses. He said: 'I don't want the world to see that my company is technically insolvent' ... And the next year it was positive and he said: 'OK, I will file full accounts.' And *he* wanted that because he was aware that people *do* do extensive credit checks in the print business. He knew because people were coming to him." (Accountant 2a: 60 employees, italics denote respondent emphasis)

A third small company motivation for filing abbreviated accounts cited by accountants concerned concealment of company size in order to win new business. Accountants reported that clients often sought to disguise their size in order to avoid deterring prospective clients who might prefer to work with larger suppliers. Whether such practices

do, in fact, achieve their aims is an important but separate question. What is important here is that small company directors, or their accountants, believe they do.

> "These companies are small fish in a big pond usually, and typically their marketing/PR is trying to give the image that they're bigger than they actually are. So we try and avoid disclosing turnover; we try and avoid disclosing profitability. Because the minute we do that, then we might look small compared to some of our competitors. So, it's actually to our advantage to file abbreviated accounts for that reason … If we'd had to file full accounts up to now, then, we might not have won some of the business that we have won because we'd be seen to be the true size we are. So, I think it would work against us from a PR perspective." (Accountant 10: 1 employee)

Further empirical support for the default position comes from accountants' replies to a survey question asking them to identify the disadvantages of filing abbreviated accounts: 39 percent of accountants reported there were none. Micro accountants were more likely than larger practices to report no disadvantages (43 percent, compared with 28 percent), possibly because micro practices more commonly reported working for micro company clients than for larger ones, and therefore had them in mind when answering this question. Micro firms are less likely to use external finance than larger small firms (BDRC International 2015), for example, and might therefore have less incentive to file full accounts to improve their credit score/rating. Accountants might or might not be correct in their beliefs regarding the supposed disadvantages of filing abbreviated accounts in relation to particular clients.

The Limits to the Default Position: Advising Small Company Clients to File Full Accounts

Although advising clients to file abbreviated accounts was the default position for most accountants, for certain clients in certain circumstances they instead advised filing full accounts. The interview data provide insights into the circumstances encouraging accountants to advise filing full accounts. Propitious settings include those where small companies seek higher credit ratings. Poor credit scores are the major reason why UK banks do not lend to small and medium-sized enterprises (SMEs) requesting less than £25,000

(Banking Taskforce Appeals Process Independent External Reviewer 2015), yet only two percent of micro companies and four percent of small companies file full accounts at Companies House in order to improve their credit scores (BMG Research 2013). Credit reference agencies typically lack the resources to obtain detailed financial data directly from the millions of individual firms for whom they provide ratings and are therefore dependent largely on public data sources to construct credit risk models and to generate ratings for individual firms. Where small company clients sought higher credit ratings, accountants advised filing full accounts.

> "My view is that if your relationship with the credit reference agency is not important to you, and privacy is, then you want to file abbreviated ... If it is important to you that ... you need and require a decent credit reference agency report, then you're better off filing full accounts." (Accountant 6: 5 employees)

Accountants also advised filing full accounts where clients consider themselves successful and have 'nothing to hide'; where investors require investee companies to present a continuous record of full accounts in order to facilitate a future trade sale or Initial Public Offering on a stock exchange; and, for larger small companies, where they believe stakeholders expect companies to file full accounts.

> "The people we're acting for are above the smallest of small companies … and could be getting up to the 5-6 million turnover level where it all ceases to apply … So, anyone who's into the millions of turnover, I think, would be better off making a disclosure. If it was the corner shop or the one-man band, probably the small company accounts is fine…" (Accountant 7: 55 employees)

While accountants considered abbreviated accounts appropriate for small company clients as *preparers*, they adopted quite a different view when commenting on their value from a *user* standpoint. Accountants were acutely aware of the limitations of abbreviated accounts when acting on behalf of clients as accounts users. They frequently reported the inadequacy of abbreviated accounts to support risk assessment and decision-making, requiring supplementation by other, more detailed financial data from other sources. More

comprehensive accounts data supports supplier decisions to offer credit to small companies, customer decisions to trade with such companies, credit reference agency decisions to award particular risk ratings and credit insurance company decisions to provide cover for those trading with small companies.

> "We would always insist on having full accounts because we can't give advice, make a judgment, on abbreviated accounts because they have no value whatsoever. We would go back and say 'speak to your accountant and get us a full set of accounts'. We'd also insist on a detailed P&L account as well. It depends what you're doing. If you're looking at a potential acquisition for a client then you'd have the detailed P&L account as well..." (Accountant 2a: 60 employees)

Summarising, small company preparers' relationships with accountants mediate the effects of financial reporting regulation in variable ways. While trade-offs between the relative benefits and risks of confidentiality and disclosure cannot be avoided, the evidence suggests that accountants typically resolve this trade-off in a particular way for small company clients, by advising minimum public disclosure – in full awareness of the limited value of abbreviated accounts for users. Accountants would appear to depart from this default position only under very specific circumstances.

Stakeholder Responses to Small Company Filing Decisions

Whatever consequences follow from small companies taking accountants' advice to file abbreviated accounts, they are largely an indirect effect of regulation. Rather than repeat previous detailed analyses of the impacts of filing abbreviated accounts for stakeholders and, indirectly, for small company preparers (Kitching et al. 2013, 2015b), this section illustrates them, briefly, in order to link the process of adapting to regulation allowing companies to file abbreviated accounts to the consequences of such decisions. How stakeholders respond to small company filing decisions necessarily influences access to resources and markets, with implications for that company's performance.

Stakeholders use statutory accounts information, alongside other public and private data sources, to assess the financial position, performance and prospects of existing and

potential small company customers, suppliers, creditors, competitors, and acquisition targets. Accounts users emphasised the limited content of abbreviated accounts; relying on such accounts increases the risk of poor business decisions. The absence of turnover and profit data, in particular, prohibits detailed financial analysis. Similar criticisms to the one presented below could be multiplied many times over from accounts user interviews.

> "When you have the full information, you know what the company's turnover is. You know what the company's profitability is. You have some degree of breakdown of the items on the balance sheet. When you have the abbreviated accounts, it's still far better than not having the abbreviated information, obviously, but it's much more about having to make assumptions and make the best use of the available data." (Credit reference agency)

Regulation permitting small companies to file abbreviated accounts might generate unintended, unwanted and unperceived/unattributed consequences – fewer consumer purchases, lower credit ratings, limited trade credit, and insufficient insurance cover for small companies' trade creditors - *as well as* confidentiality benefits. The profile of benefits and unwanted consequences is likely to vary between companies and, for the same company, over time. By advising small company clients to file abbreviated accounts, accountants might contribute, unintentionally, to stakeholders acting in ways that restrict the client's access to vital resources, such as trade credit, and to markets. Prospective customers may simply purchase goods and services elsewhere and suppliers may be reluctant to offer credit if adequate financial information is not readily available from Companies House.

Where stakeholders are heavily dependent on public data sources such as statutory accounts because they find it difficult or prohibitively costly to obtain financial information from individual companies privately, the consequences may be serious for preparers of abbreviated accounts. Small suppliers, in particular, might be less willing to give credit to small company customers if public information is limited.

> "We charged [a new customer][5] 50 percent up front because of their abbreviated accounts … We'd already decided we liked them. We'd already

decided we could do a good job for them and could save them money. But, unfortunately, their accounts didn't stack up ... We just went back to them and said 'hey guys, we'll take 50 percent up front'. They said 'oh we get credit elsewhere'. I guess they don't get credit elsewhere because they came back and said 'ok, here's a cheque'." (Small company: mail service, 5 employees)

Small companies may be affected by regulation permitting them to file abbreviated accounts *whether or not* respondents attribute any particular effects to their filing decision. Such impacts are very difficult for researchers to identify and measure but very real in their consequences for small companies. Although none of the small company preparers interviewed reported problems arising from filing abbreviated accounts, they might simply be unaware of the effects of their filing decisions on stakeholders, particularly those unknown to them. As the small company sample mostly included survivors of the financial crisis, they might simply be superior performers compared to the population in existence at the outset of the crisis, many of whom have not survived (Insolvency Service 2014).

Two findings warrant emphasis. First, financial reporting regulation generates effects beyond the administrative costs of compliance and disclosure risks reported by small company respondents. These impacts are irreducible to business owners' perceptions of them. Stakeholder sources suggest that limited public financial disclosure contributed to small company trading and financing difficulties during and immediately after the recession. Second, the indirect effects of filing abbreviated accounts are likely to impact small companies unevenly. Almost two thirds of UK SMEs do not use external finance (BDRC Continental 2015) and might not suffer credit constraints related to filing decisions - although they may experience demand shocks because prospective customers reduce purchasing from companies filing abbreviated accounts because of limited information. Complex and often contradictory social processes need not be distilled into a single small business effect.

Conclusions and Implications

This article has sought to demonstrate the ubiquitous influence of regulation on small business activity and performance. Specifically, the paper has explored the indirect effects of regulation, drawing on a study of preparers and users of small company abbreviated

accounts. The study builds on previously published work by focusing principally on the *process* through which small companies adapt to their legal obligations. Small companies' relations with accountants mediate the influence of legislation by shaping how companies discover, interpret and adapt to their statutory obligations to file annual accounts. Many small company respondents discover the abbreviated accounts option via their accountant and choose to file such accounts primarily because of the accountant's advice. Accountants typically perform their advisory role in a particular way; counselling clients to file abbreviated accounts is the 'default position', one departed from only in specific circumstances. Whatever consequences follow from taking such advice, small companies' relations with accountants mediate the impact of regulation. Accountants are complicit, inadvertently or otherwise, in the production of such effects.

The findings suggest two important implications for theory and research. First, future empirical work investigating the impact of regulation on small firms should explore the indirect influences theorised in this article and not rest content with respondents' perceptions, or attributions, of the effects of regulation, as these are likely to centre on their experience of the legal mandates and prohibitions placed directly upon them. The effects of regulation are irreducible to business owners' fallible experiences of them. Regulation generates diverse effects on small companies, largely through the medium of their relationships with a wide range of stakeholders. Explanations of regulatory effects must encompass the indirect impacts arising via relations with close and distant stakeholders, whether or not small company respondents attribute these to legal obligations.

A second, and more significant, implication relates to explanations of entrepreneurial processes and outcomes. The ubiquitous influence of regulation means that it constitutes a condition of *all* forms of entrepreneurial action – resource acquisition, combination, transformation and mobilisation - and the ensuing business performance outcomes. Regulatory regimes are not simply inert settings within which entrepreneurial action happens to take place. Studies often take the regulatory regime for granted, ignoring the role the legal framework plays in constituting and enabling market activities, and failing to recognise how regulation distributes capacities between businesses and their stakeholders (including other firms acting as suppliers, customers and competitors to the focal small firm) to access resources and to exploit markets, while simultaneously increasing or decreasing

small companies' exposure to particular kinds of risk. Whatever the focus of particular studies, researchers should incorporate reference to the regulatory framework, and how it enables, motivates and constrains activities that, in turn, contribute to particular levels of small firm performance. Without reference to the necessary enabling functions of regulation, explanations of entrepreneurial action and its outcomes remain incomplete.

Notes

1. The most recent editions of the BIS small business survey distinguish regulation and red tape as separate obstacles to business success (BIS 2015a, b). This distinction is not explained. Given that policy-makers frequently treat these two terms as interchangeable for rhetorical reasons (e.g. HM Treasury 2015), the distinction is baffling.
2. EU Directive 2013/34/EU has repealed, and incorporated the provisions of, Directive 78/660/EEC (and others) (European Commission 2013). This new Directive also increases the size thresholds of small companies and of micro-entities (first introduced in Directive 2012/6/EU) eligible for specific regulatory concessions and further reduces micro and small company reporting obligations. The UK government has yet to implement Directive 2013/34/EU but has indicated an intention to do so, raising the thresholds to the maximum permitted, enabling an estimated 11,000 medium-sized companies to access the small companies regime (BIS 2015c).
3. Accountants 2a and 2b, junior and senior partners in the same practice, were interviewed jointly but reported contrary views on the value of abbreviated accounts, distinguishing preparer and user judgements. Accountant 2a's critical views of abbreviated accounts are presented later.
4. Facilitating concealment is contrary to the UK government's declared objectives in the Small Business, Enterprise and Employment Act 2015, intended to widen access to business and credit information, enhance business transparency and trust, and enable small firm access to finance.
5. Text inserted to retain the sense of verbatim quotations.

Acknowledgements

This study was supported by the Scottish Accountancy Trust for Education and Research and by the Institute of Chartered Accountants of Scotland. I am grateful to three anonymous referees for their supportive comments.

References

Akerlof, G. (1970), "The market for 'lemons': quality uncertainty and the market mechanism", *Quarterly Journal of Economics*, Vol. 84 No. 3, 488–500.

Arrowsmith, J., Gilman, M., Edwards, P. and Ram, M. (2003), "The impact of the national minimum wage in small firms", *British Journal of Industrial Relations*, Vol. 41 No. 3, 435-456.

Baldock, R., James, P., Smallbone, D. and Vickers, I. (2006), "Influences on small-firm compliance-related behaviour: the case of workplace health and safety", *Environment and Planning C: Government and Policy*, Vol. 24 No. 6, 827-846.

Banking Taskforce Appeals Process Independent External Reviewer (2015), *Annual Report 2014/2015*, available at http://betterbusinessfinance.co.uk/images/pdfs/Annual_Report_2015_(Year_4)_FINAL.pdf (accessed 1 December 2015)

BDRC Continental (2015), *SME Finance Monitor: Q2 2015*, available at: http://bdrc-continental.com/wp-content/uploads/2015/09/BDRCContinental_SME_FM_Q2_2015-FINAL.pdf (accessed 1 December 2015)

Beyer, A., Cohen, D., Lys, T. and Walther, B. (2010), "The financial reporting environment: review of the recent literature", *Journal of Accounting and Economics*, Vol. 50 No. 2-3, 266-343.

Black, B. (2001), "The legal and institutional preconditions for strong securities markets", *UCLA Law Review,* Vol. 48 No. 4, 881-855.

Blackburn, R., Eadson, W., Lefebvre, R. and Gans, P. (2006), *SMEs, Regulation and the Role of the Accountant*, available at: http://eprints.kingston.ac.uk/2276/1/rr96_01.pdf (accessed 1 December 2015)

Blind, K. (2012), "The influence of regulations on innovation: a quantitative assessment for OECD countries", *Research Policy*, Vol. 41 No. 2, 391-400.

BMG Research (2013), *Small and Medium-sized Enterprise (SME) Journey Towards Raising External Finance*, available at: http://british-business-bank.co.uk/wp-content/uploads/2013/10/SME-Journey-Towards-Raising-Finance.pdf (accessed 1 December 2015)

Brown, R., Saunders, M. and Beresford, R. (2006), "You owe it to yourselves: the financially literate manager", *Accounting Forum*, Vol. 30 No. 2, 179-191.

Carpenter, D. (2009), "Confidence games: how does regulation constitute markets?", in Balleisen, E. and Moss, D. (Eds) *Government and Markets: Toward a New Theory of Regulation*, Cambridge University Press, Cambridge, pp.164-190.

Carter, S., Mason, C. and Tagg, S. (2009), "Perceptions and experience of employment regulation in UK small firms", *Environment and Planning C: Government and Policy*, Vol. 27 No. 2, 263-278.

CBI/ACCA (2010), *Small Business Finance and the Recovery: Results of the 2010 SME Credit and Finance Surveys*, available at:

http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/pol-af-sbf.pdf (accessed 1 December 2015)

Chittenden, F., Kauser, S. and Poutziouris, P. (2002), *Regulatory Burdens of Small Business: A Literature Review*, Small Business Service, available at: http://webarchive.nationalarchives.gov.uk/20090609003228/http://www.berr.gov.uk/files/file38324.pdf (accessed 1 December 2015)

Collis, J. (2008), *Directors' Views on Accounting and Auditing Requirements for SMEs*, available at: http://webarchive.nationalarchives.gov.uk/20121212135622/http://www.bis.gov.uk/files/file50491.pdf (accessed 1 December 2015)

Collis, J., and Jarvis, R. (2000), *How Owner-Managers Use Accounts*, ICAEW Research Report, London: The Centre for Business Performance Research.

Crain, N., and Crain, M. (2010), *The Impact of Regulatory Costs on Small Firms*, available at: https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20%28Full%29_0.pdf (accessed 1 December 2015)

De Jong, G. and Kloeze, R. (2013), "Institutions and the regulation of business – an international firm-level study of regulatory compliance costs", *American Journal of Industrial and Business Management*, Vol. 3 No. 6A, 1-11.

Department for Business, Innovation and Skills (BIS) (2015a), *Small Business Survey 2014: SME employers*, BIS Research Paper Number 214, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414963/bis-15-151-small-business-survey-2014-sme-employers_v1.pdf (accessed 1 December 2015)

Department for Business, Innovation and Skills (BIS) (2015b), *Small Business Survey 2014: Businesses with no employees*, BIS Research Paper Number 214, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/424201/bis-15-215-small-business-survey-2014-businesses-with-no-employees.pdf (accessed 1 December 2015)

Department for Business, Innovation and Skills (BIS) (2015c), *UK Implementation of Chapters 1-9 of the EU Accounting Directive: Government response to the consultation*, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398885/bis-15-36-uk-implementation-of-chapters-1-9-of-the-eu-accounting-directive-government-response-to-the-consultation2-final.pdf (accessed 1 December 2015)

Djankov, S., McLiesh, C. and Schleifer, A. (2007), "Private credit in 129 countries", *Journal of Financial Economics*, Vol. 84 No. 2, 299-329.

Duvanova, D. (2012), "Bureaucratic discretion and the regulatory burden: business environments under alternative regulatory regimes", *British Journal of Political Science*, Vol. 42 No. 3, pp. 573-596.

Edelman, L., and Suchman, M. (1997), "The legal environments of organizations", *Annual Review of Sociology*, Vol. 23 No. 1, 479-515.

Edwards, P., Ram, M. and Black, J. (2003), *The Impact of Employment Legislation on Small Firms: A Case Study Analysis*, DTI Employment Relations Research Series No. 20, London. Available at: http://webarchive.nationalarchives.gov.uk/20121212135622/http://www.bis.gov.uk/files/file11518.pdf (accessed 1 December 2012)

Edwards, P., Ram, M. and Black, J. (2004), "Why does employment legislation not damage small firms?", *Journal of Law and Society*, Vol. 31 No. 2, 245-265.

European Commission (2013), *Directive 2013/34/EU of the European Parliament and of the Council of 26 JUNE 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC*, available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN (accessed 1 December 2015)

Fleetwood, S. (2011), "Sketching a socio-economic model of labour markets", *Cambridge Journal of Economics*, Vol. 35 No. 1, 15-38.

Healy, P. and Palepu, K. (2001), "Information asymmetry, corporate disclosure, and the capital markets: a review of the empirical disclosure literature", *Journal of Accounting and Economics*, Vol. 31 No. 1-3, 405-440.

Hicks, A. and Goo, S. (2008), *Cases and Materials on Company Law (6th ed)*, Oxford University Press, Oxford.

HM Treasury (2015), *Fixing the Foundations: Creating a More Prosperous Nation*, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443897/Productivity_Plan_print.pdf (accessed 1 December 2015)

Hodgson, G. (2015), *Conceptualizing Capitalism: Institutions, Evolution, Future*, University of Chicago Press, Chicago.

Insolvency Service (2014), *Insolvencies in the Second Quarter 2014*, statistics release, 29 July. Available at: https://www.gov.uk/government/statistics/insolvency-statistics-april-to-june-2014 (accessed 1 December 2015)

Jalilian, H., Kirkpatrick, C., and Parker, D. (2007), "The impact of regulation on economic growth in developing countries: a cross-country analysis", *World Development*, Vol. 35 No. 1, 87-103.

Jigsaw Research (2014), *Business Perceptions Survey 2014*, National Audit Office/Department for Business, Innovation and Skills, available at: https://www.nao.org.uk/wp-content/uploads/2014/05/Business-perceptions-survey-2014.pdf (accessed 1 December 2015)

Johnson, S., McMillan, J. and Woodruff, C. (2002), "Property rights and finance", *American Economic Review*, Vol. 92 No. 5, 1335-1356.

Kitching, J. (2006), "A burden on business? Reviewing the evidence base on regulation and small business performance", *Environment and Planning C: Government and Policy*, Vol. 24 No. 6, 799-814.

Kitching, J. (2007), "Is less more? Better regulation and the small enterprise", in Weatherill S. (Ed) *Better Regulation*, Hart, Oxford, pp155-173.

Kitching, J. (2015), "Between vulnerable compliance and confident ignorance: small employers, regulatory discovery practices and external support networks", *International Small Business Journal*, published online, February 13, DOI:10.1177/0266242615569325

Kitching, J., Kašperová, E., Blackburn, R. and Collis, J. (2011), *Small Company Abbreviated Accounts: A regulatory burden or a vital disclosure?*, Institute of Chartered Accountants of Scotland, available at: https://www.icas.com/technical-resources/publication-small-company-abbreviated-accounts (accessed 1 December 2015)

Kitching, J., Kašperová, E. and Collis, J. (2013), "The bearable lightness of the administrative burden - UK financial reporting regulation and small company performance", in Welter, F., Blackburn, R., Ljunggren, E. and Åmo, B. (Eds) *Entrepreneurial Business and Society*, Edward Elgar, Cheltenham, pp.58-78.

Kitching, J., Hart, M. and Wilson, N. (2015a), "Burden or benefit? Regulation as a dynamic influence on small business performance", *International Small Business Journal*, Vol. 33 No. 2, 130-147.

Kitching, J., Kašperová, E. and Collis, J. (2015b), "The contradictory consequences of regulation: the influence of filing abbreviated accounts on UK small company performance", *International Small Business Journal*, Vol. 33 No. 7, 671-688.

Lewis, P., Richardson, A. and Corliss, M. (2014), "Compliance costs of regulation for small business", *Journal of Business Systems, Governance and Ethics*, Vol. 9 No. 2, 2-24.

Marriott, N., Collis, J. and Marriott, P. (2006), *Qualitative Review of the Accounting and Auditing Needs of Small and Medium-Sized Companies and Their Stakeholders*, Professional Oversight Board for Accountancy, available at: https://frc.org.uk/FRC-Documents/POB/Qualitative-review-of-the-accounting-and-auditing.aspx (accessed 1 December 2015)

Pistor, K. (2013), “A legal theory of finance”, *Journal of Comparative Economics*, Vol. 41 No. 2, 315–330.

Poel, K., Marneffe, W., Bielen, S., van Aarle, B. and Vereeck, L. (2014), “Administrative simplification and economic growth: a cross country empirical study”, *Journal of Business Administration Research*, Vol. 3 No. 1, 45-58.

Polanyi, K. (1957), *The Great Transformation*. Boston, Beacon Press.

Professional Oversight Board for Accountancy (2006), *Review of How Accountants Support the Needs of Small and Medium-sized Companies and Their Stakeholders*, available at: https://www.frc.org.uk/getattachment/ade68ea3-085b-45ad-9ecd-bbc8a3187cc6/Review-of-How-Accountants-Support-the-needs-of-Small-and-Medium-Sized-Companies-and-their-Stakeholders.aspx (accessed 1 December 2015)

Sarens, G., Everaert, P., Verplancke, F. and De Beelde, I. (2015), “Diversification of external accountants serving small and medium-sized enterprises: evidence from Belgium”, *Australian Accounting Review*, Vol. 25 No. 2, 155-174.

Schoonjans, B., Van Cauwenberge, P., Reekmans, C. and Simoens, G. (2011), “A survey of tax compliance costs of Flemish SMEs: magnitude and determinants”, *Environment and Planning C: Government and Policy*, Vol. 29 No. 4, 605-621.

SERTeam/Professional Oversight Board for Accountancy (POBA) (2005), *Accountancy and Auditing for Small and Medium Companies*, available at: http://www.open.ac.uk/business-school/sites/www.open.ac.uk.business-school/files/file/publications/download/Accountancy%20and%20Auditing%20for%20SME's.pdf (accessed 1 December 2015)

Sian, S. and Roberts, C. (2009), “UK small owner-managed businesses: accounting and financial reporting needs”, *Journal of Small Business and Enterprise Development*, Vol. 16 No. 2, 289-305.

Stiglitz, J. (2009), “Government failure vs. market failure: principles of regulation”, in Balleisen, E. and Moss, D. (Eds) *Government and Markets: Toward a New Theory of Regulation*, Cambridge University Press, Cambridge, pp.13-51.

Torriti, J. and Ikpe, E. (2015), “Administrative costs of regulation and foreign direct investment: the Standard Cost Model in non-OECD countries”, *Review of World Economy*, Vol. 151 No. 1, 127-144.

van Stel, A., Storey, D. and Thurik, R. (2007), “The effect of business regulations on nascent and young business entrepreneurship”, *Small Business Economics*, Vol. 28 No. 2-3, 171-186.

Vickers, I., James, P., Smallbone, D. and Baldock, R. (2005), “Understanding small firm responses to regulation: the case of workplace health and safety”, *Policy Studies*, Vol. 26 No. 2, 149-169.

Vukovic, V. (2012), *Unburdening Enterprise: Reducing regulation for small & medium businesses*, Adam Smith Institute briefing paper, online at: http://www.adamsmith.org/sites/default/files/research/files/UnburdeningEnterpriseASI.pdf (accessed 1 December 2015)

World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, available at: http://www.doingbusiness.org/reports/global-reports/doing-business-2016 (accessed 1 December 2015)

Table I

Respondent Sample Groups

	Survey sample	*Interview sample*
Small company preparers of abbreviated accounts	149	12
Accountants in practice	255	10
Accountants in private, public and voluntary sector organisations	159	10
Other accounts users and stakeholders	n/a	18

Notes: online survey data was collected from both groups of accountants; postal survey data from small company preparers. Interview data from all groups collected face-to-face and by telephone.

Table II

Small Company Primary Reasons For Filing Abbreviated Accounts

	Micro companies (%)	*Small companies (%)*	*ALL (%)*
Following accountants' advice	66.1	60.0	65.1
To reduce public disclosure	24.8	28.0	25.5
Lower costs	6.6	4.0	6.0
Ease, simplicity, save time	2.5	0	2.0
Other reasons	3.3	0	2.7
ALL	100.0	100.0	100.0
N	**121**	**25**	**149**

Base: all small company respondents
Notes: Micro-companies are defined as those with fewer than 10 employees; small companies, 10-49 employees. ALL column includes three cases with missing size data.
Source: small company preparers, postal survey

Table III

Role of Accountants in Small Company Filing Decisions

	%
Usually, I suggest the idea of filing abbreviated accounts to qualifying small company clients if I consider it appropriate	64.2
Usually, I inform qualifying small company clients of the potential advantages and disadvantages of filing abbreviated accounts and let them decide	26.3
Usually, I play no role in the filing choice of small company clients	3.8
No data	5.8
ALL	100.0
N	**240**

Base: accountants reporting filing abbreviated accounts on behalf of small company clients
Note: percentages do not sum to 100 due to rounding
Source: accountants in practice, online survey

Table IV

Accountants with Small Company Clients Filing Abbreviated Accounts

What proportion of your small company clients file abbreviated accounts?	*Accountants with micro company clients (1-9 employees) (%)*	*Accountants with small company clients (10-49 employees) (%)*	*ALL (%)*
All clients	77.0	64.9	71.4
More than half	12.6	15.2	14.9
About half	3.6	3.7	3.7
Less than half	5.4	8.4	8.3
None	1.4	7.9	1.7
ALL	100.0	100.0	100.0
N	**222**	**191**	**244**

Base: accountants with small company clients
Notes: ALL column includes accountants with both micro and small company clients. Column percentages exclude cases with missing data and do not sum to 100 due to rounding.
Source: accountants in practice, online survey