



SMEs, regulation and the role of the accountant

RESEARCH REPORT NO. 96

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by

Robert Blackburn

William Eadson

Rock Lefebvre

and

Philip Gans

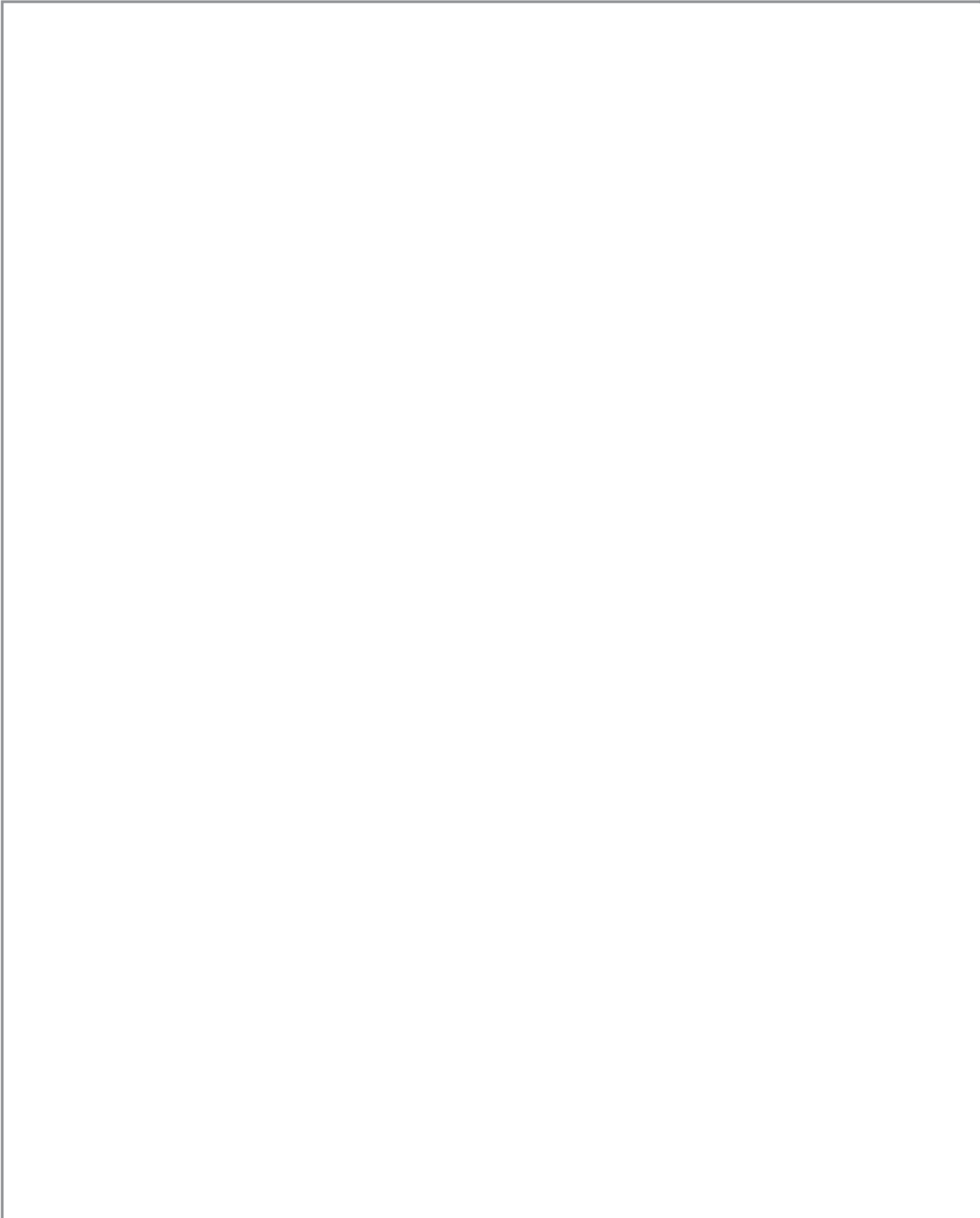
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Executive summary

SMALL BUSINESS, REGULATION AND ACCA

The observance of regulation has become a fundamental part of life for the conduct of business in the UK, Canada and the rest of the world. Governments and their duly appointed designates, acting in the interest of the collective public, have relied on regulation to moderate economic and social behaviour through the imposition and enforcement of rules. Although it can be commonly accepted that such a prescriptive framework may be necessary for the achievement of desired economic and social outcomes, regulation does impose costs on society and on individual firms. These costs, which can include the cost of governments to administer, the cost of firms to comply, and the multitude of indirect costs such as lost innovation and productivity or their interrelated opportunity costs, have received amplified attention.

Accountants are key advisers on regulation to all businesses, and independent research consistently demonstrates that accountants are first-choice advisers to small and medium-sized enterprises (SMEs) (Bennett and Robson 1999; Gooderham et al. 2004).

Through its UK Small Business Committee, ACCA has consistently argued for a balanced view to be taken on regulation, recognising that certain regulations are necessary for the development of business and for employees' rights. Yet evidence suggests that SMEs are disproportionately burdened by regulatory requirements (eg Hampton 2005; NatWest/SERTeam 2005; SBS 2005) and, as a consequence, ACCA is an active campaigner for fairness in regulation, recognising the issue as a significant factor in the success, productivity and growth of small businesses.

This study is intended to be the first stage by ACCA in an attempt to provide a more international picture of the effects of regulation on advice seeking by SMEs and how accountants can help SMEs to meet their regulatory obligations.

Research to date has tended to show that one of the main effects of regulation on SMEs has been to increase their use of external advisers. This research extends our knowledge by examining the advice-seeking activities of SMEs, with a special focus on the use of accountants in the UK and Canada. The research involved surveys of SMEs and accountants in the UK and Canada.

SURVEY OF UK SMEs

- The majority of respondents agreed that the regulatory requirements of their business are reasonable.
- Employment regulatory requirements were less likely to be viewed by respondents as 'reasonable' than those relating to health and safety, tax filing, payroll and environment.
- Over three-quarters (78.6%) of businesses surveyed said they were concerned about the quantity of regulations, with almost half (46.4%) being 'very concerned'.
- The majority of respondents (75%, 72.4% and 71.8% respectively) expressed concern over change (ie staying up to date with new or changing requirements), complexity (ie the ease of understanding regulations) and inequity (ie the cost of the regulations in proportion to the size of their business).
- The aspect of regulation of least concern to respondents was timing, with just 19% being 'very concerned'. Conversely, just 10.1% claimed to be 'not at all concerned' about timing.

- Three-quarters (75.1%) of respondents had received advice on regulations from an accountant external to their business or from an accounting firm in the previous 12 months. The majority (88.6%) expressed satisfaction with the advice received; almost half (46.8%) were 'very satisfied' with the advice received.
- The service provided by external accountants was rated as 'excellent' or 'good' by a large majority (79.1%) of respondents who had used external accountants in the previous 12 months, with only 3.7% rating them as 'below average' or 'poor'.
- Of respondents who had used an external accountant in the previous 12 months, over 80% viewed the potential for a long-term relationship with that accountant as 'excellent' or 'good'. Despite this, however, only 58.6% believed that the service those accountants provided had represented 'good' or 'excellent' value, considering the fees charged.
- Fewer than a third of respondents (29.7%) had received advice on regulations from Business Link, the UK government's service that provides advice and information for new and small businesses. Publicly owned bodies fared the worst in terms of satisfaction with advice received on regulations, with respondents indicating lowest levels of satisfaction with government agencies and Business Link when 'somewhat' and 'very' satisfied responses are combined.

SURVEY OF ACCA MEMBERS IN PRACTICE IN THE UK

- The majority of respondents had experienced an increase in requests for taxation (77%) and payroll (75%) advice from SME clients in the preceding two years.
- Approximately half (49.4%) of those giving advice to SMEs on employment matters had experienced an increase in requests for advice.
- The majority of respondents (62%) expressed the view that their SME clients seek advice from them regarding the complexity of regulations.
- The majority (76.9%) of fee income for the responding accountants was derived from clients with fewer than ten employees.

Table ES1: Empirical evidence – UK

Telephone survey among UK SMEs			
515 SMEs interviewed			
Industry/employees	1–49	50–249	Total
Construction	55	50	105
Manufacturing	50	51	101
Hotels and catering	54	51	105
Retail and wholesale	53	50	103
Haulage	51	50	101
Total	263	252	515
Online survey among ACCA members in practice			
318 responses; 9% response rate			
Note: research conducted autumn/winter 2005			

SURVEY OF CANADIAN PUBLICLY QUOTED SMEs

In Canada, regulations were generally considered fair and reasonable by the SMEs surveyed, with the exception of those in relation to securities.

Table ES2: Empirical evidence – Canada

Telephone survey among Canadian SMEs			
250 SMEs interviewed			
Industry/employees	1–49	50–249	Total
Mining	90	8	98
Oil and gas	30	11	41
Technology	20	12	32
Financial and business services	15	9	24
Manufacturing	15	6	21
Retail, food and beverage	4	3	7
Medical and health care	2	2	4
Pharmaceutical	2	2	4
Biotechnology	1	2	3
Real estate	1	2	3
Media	2	–	2
Utilities	2	–	2
Other	1	2	3
Unclassified	6	–	6
Total	191	59	250
Telephone survey among CGA-Canada members in practice			
350 responses			
Position	Total		
Sole owner	267		
Partner	63		
Manager	12		
Other	8		
Total	350		
Note: Research conducted autumn 2005			

Securities regulations were the most important category of regulation to SME respondents, while human resource/payroll requirements were considered the least important (96.8% and 60.4% respectively).

Respondents were concerned about a variety of aspects of regulation, including inequity (88.3% 'very concerned' or 'somewhat concerned'), quantity (86.8%), change (88.0%) and complexity (88.0%).

A significant majority of the SMEs surveyed in Canada indicated a requirement for assistance from an external accountant to help with their firm's securities (72.8%) and taxation (85.6%) filing requirements.

Over half (53.1%) of the publicly traded SMEs surveyed in Canada delegate the primary responsibility for satisfying their firm's taxation filing requirements to an external accountant.

SME respondents rated their external accountants highly in all service areas. 'Technical understanding' was rated highest (82.3% 'excellent' or 'good'); 'value of service' the lowest (59.7% 'excellent' or 'good').

SURVEY OF CGA MEMBERS IN PRACTICE IN CANADA

The majority of CGA members surveyed viewed the regulatory requirements of SMEs as fair: over two-thirds of respondents found each category either 'fair' or 'somewhat fair'. Nonetheless, almost a third (33%) regarded the taxation requirements of SMEs as 'unfair' or 'somewhat unfair'.

CGA member respondents expressed high levels of concern regarding the effects of regulation on SMEs. The 'complexity' and 'quantity of regulation' questions produced the highest levels of concern (88.9% and 88.5% being 'very concerned' or 'somewhat concerned' respectively), followed closely by 'inequity' (88.4%) and 'Changes' (83%). On the other hand, 'timing

of regulatory compliance' is considered less of an issue (76.1% being 'very concerned' or 'somewhat concerned').

CONCLUSIONS AND IMPLICATIONS

Despite the differences in the sampling bases between the UK and Canada, the results show that owners and managers in SMEs use accountants more than any other single source as the main provider of advice on dealing with their regulatory obligations.

SMEs rate very highly the technical competence of accountants in relation to regulation matters. This finding seems to be the case even for publicly traded SMEs (as in Canada) or private businesses (as in the UK), where the demands for advice may vary. This is also the case even where there are variations in the prominence of different types of regulation: in the UK employment regulations appear to be of most concern to employers while in Canada securities markets regulations are the prime concern.

Although the quality of advice from accountants is highly rated, in both the UK and Canada it is considered too expensive.

From this initial study of two regions, it emerges that accountants are central to helping SMEs manage their regulatory obligations. It is, therefore, important that the experiences and views of accountants are consulted as the regulatory frameworks of economies are changed and new regulations are introduced, or established regulations are scrapped. Accountants also need to examine the pricing of their services for SMEs.

1. The context

Regulation is linked to the emotive phrase ‘red tape’, which alludes to the 17th- and 18th-century English practice of binding legal documents and official papers with red tape. An official would have to cut through red tape in order to get to the papers – long and complex legislation would require more red tape. The use of this phrase as a description for official, routine procedures that are excessive in their complexity was popularised in the writings of Thomas Carlyle, protesting against official inertia. Later, in *David Copperfield*, Charles Dickens famously alludes to Britannia being ‘skewered through and through with office-pens, and bound hand and foot with red tape’. Since then the term has become a ubiquitous catch-all for any delay or inaction caused by paperwork, primarily emanating from the public sector.

WHAT IS REGULATION / RED TAPE?

When looking at red tape and regulation, costs are often described as either policy costs or administrative costs. Policy costs are the direct cost of carrying out a specific policy. As a simple example, the policy cost of the introduction of the minimum wage would be the cost of up-rating employees’ wages to the minimum wage. Administrative costs are incurred through record-keeping requirements and/or through the time used in discovering and understanding the regulations. In our previous example, the administrative cost of the minimum wage would be the cost in time and money spent finding out the minimum wage rate as well as keeping records in order to demonstrate compliance with this rate.

Other arguments about additional costs that red tape and regulation can impose include the opportunity cost arising from the act of diverting resources away from profitable activities in order to comply with regulations. In our example, the time spent finding out the various minimum wage rates and associated record keeping could be spent on core business activity and it is not. Unintended costs can also arise. For instance, it is

argued (Mason et al. 2006) that the introduction of the minimum wage in the UK led to a reduction of investment in skills training and capital equipment; this could be detrimental to future earnings for the individual firm and the country as a whole.

For this report we have taken ‘red tape’ and ‘regulation’ in their broadest sense – in other words, to mean a combination of all the related issues mentioned here. Our study explores business owners’ and accountants’ perceptions of red tape and regulation, which inevitably cover all the policy costs, administrative costs and any other costs that each regulation may impose.

SMEs AND REGULATION / RED TAPE

For the UK study, the EU definition of an SME has been used, which is shown in Table 1.1 below, together with the other EU firm-size classifications.

Table 1.1: EU definitions of an SME

Size	Employees	Turnover
Micro	0–9	≤ €2 Million
Small	10–49	≤ €10 Million
Medium	50–249	≤ €50 Million
SME	0–249	≤ €50 Million
Large	250 +	> €50 Million

Source: European Commission, 2003.

Table 1.2: Enterprises, employment and turnover by enterprise size, UK start 2005 (Private sector – including public corporations and nationalised bodies)

Size band (no. of employees)	Enterprises (%)	Employment (%)	Turnover (%)
With no employees	72.8	15.7	7.9
Micro (1–9)	22.7	16.7	14.4
Small (10–49)	3.7	14.4	14.2
Medium (50–249)	0.6	11.9	14.5
SME (0–249)	99.8	58.7	51.0
Large (250 +)	0.2	41.3	49.0

Source: Department of Trade and Industry, 2006.

Table 1.3: Employer businesses by firm size (number of employees) in Canada, June 2005

(Total number = 1,048,286)

1–4	5–9	10–19	20–49	50–99	<100	100–199	200–499	100–499	500+
56.5%	17.1%	12.1%	8.8%	3.1%	97.6%	1.4%	0.7%	2.2%	0.3%

Source: Statistics Canada, *Business Register*, June 2005.

Table 1.4: Canadian definitions of an SME

SME type	Number of employees	Annual review	Assets
Micro	<10	<\$3m	< \$3m
Small	10–50	\$3m–\$15m	\$3m–\$15m
Medium	51–250	\$15m –\$75m	\$15m –\$65m

The SME sector contributes a huge amount to the UK economy. Table 1.2 shows the size of this area of the economy in 2005, and its importance to turnover (51%), to employment (58.7%) and to the number of enterprises (99.8%).

The distribution of businesses by size in Canada is shown in Table 1.3. What is important is that the data show little difference in the distribution of firms by size of enterprise when compared with the UK. Because of variations in the size band categories with the UK, however, precise comparisons are difficult to make.

For the Canadian study, the criteria set out in Table 1.4 were applied to define SMEs.

The Certified General Accountants Association of Canada (CGA-Canada) conducted a survey of publicly listed SMEs in Canada. The Association's decision to survey publicly listed companies, rather than private companies, was based on a number of considerations. First, publicly traded entities are more widely held than private companies and, as a result, their views were considered by CGA-Canada to be likely to be more representative and of greater interest to the general public. Secondly, unlike private businesses, these publicly traded entities are subject to the regulations of securities administrators. It was viewed as both timely and useful to obtain understanding of the views of SMEs on the impact of requirements recently introduced by securities administrators to improve corporate governance and enhance investor confidence. Finally, the issues and concerns of privately held SMEs in Canada have been the primary focus of a number of documented studies. By concentrating their efforts on the publicly accountable SMEs, CGA-Canada believe that the results of this study can serve to enhance and broaden the current understanding of the regulatory burdens experienced by the greater SME sector in Canada.

Given SMEs' important economic contribution, it is imperative that they are not unduly hindered by red tape and regulation. Yet, for small businesses in the UK, regulation and red tape have frequently been cited as among the largest burdens placed on their business.¹ It is argued that regulation stifles growth, prevents owners from spending time on core business activity and raises costs to consumers. This has led small business membership organisations to rail against regulations, citing evidence from membership surveys (British Chambers of Commerce 2006; Federation of Small Businesses 2006; Institute of Directors 2006). These studies are not confined to the UK. In Canada, the Canadian Federation of Independent Businesses' report (2005) shows that 65% of its surveyed members identify government regulation and paperwork burden as of great overall concern, second only to the overall tax burden.

Further evidence to back this assertion is contained in OECD (2001), a study of 11 countries, which shows that businesses employing 1–19 people incurred costs administering their payroll and tax regulations of five times more per employee than firms of 50–500 employees. A study looking at manual handling regulations in the UK shows that in 2001 small firms (up to 50 employees) had an annual cost per employee of £341 (Lancaster et al. 2001). Contrastingly, large firms had a cost of only £37 per employee – less than one-ninth as much.

These results arise principally because an element of all administrative costs is fixed. Owners and managers in SMEs lack the time and internal resources as well as expertise to handle red tape. They are also unable to spread the cost of compliance across large-scale operations.

¹ NatWest/SERTeam (2005) found that regulations were the second most frequently cited burden to SMEs; see Gray, C. and Bannock, G. (eds.) (2005) for a wider discussion on the impact of regulation on SMEs.

This empirical evidence, combined with the perceptions of the SME community, have led campaign organisations and others to use evocative axioms such as ‘SMEs are drowning in a sea of red tape’. This has become almost a received wisdom and successive UK governments have subsequently promised ‘bonfires of red tape.’² What is the truth of the matter?

This research report presents the facts: how small and medium-sized businesses view regulatory requirements, including what they find to be the most vexing aspects of regulation and, more importantly, how owners and managers seek to manage the regulations that apply to their businesses through seeking external advice.

ABOUT THIS PROJECT

This is a joint project between the accountancy organisations ACCA (in the UK) and CGA-Canada (in Canada), commissioned to explore the ways in which SMEs manage regulation and the role of the accountant in this process. This report analyses data gathered from small businesses and accountants in the UK and Canada.

CGA-Canada and the Association of Chartered Certified Accountants (ACCA) collaborated on questionnaire design and administration, information sharing, and project execution. The projects in the respective jurisdictions of Canada and the UK were conducted using the same broad methodologies. This was achieved by obtaining data using the same methods

² The president of the Board of Trade (and later Prime Minister) Harold Wilson announced a ‘further bonfire of controls’ as long ago as 29 October 1947 and similar phrases have been used by many more politicians, including Michael Heseltine, who promised a ‘bonfire of red tape’ while he was Wilson’s successor at the Board of Trade in the 1990s.

and covering the same core issues in questionnaires designed to identify potential similarities and differences. In turn, this approach seeks to promote transatlantic learning, and to explore and exchange potential strategies of mutual interest. In effect, we have been able to broaden our respective experiences and expand the knowledge base for internationally oriented solutions.

Of course, cross-border research involves some compromises to meet national agendas as well as those for international comparisons. In Canada, a more recent issue has been the introduction of securities regulations for quoted businesses and this was of key interest for the Canadian survey. The main difference in the methodologies is the sampling frame from which the SMEs are drawn. In the UK, these included any business employing fewer than 250 people drawn from a Dun and Bradstreet database, while in Canada the sampling frame comprised the 3,700 businesses trading on the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V). Interestingly, the results show that a great number of similarities exist, although there are some differences relating to specific regulation environments. The behaviours of owner-managers in respect of the phenomenon of regulation in these two developed economies do not, however, appear to be particularly divergent.

STRUCTURE OF THE REPORT

Following a discussion of the context of the research and some definitional ground clearing, the report is structured as follows.

First, it analyses small-business respondents’ experiences and views in relation to regulation and their use of accountants. This includes an examination of how ‘reasonable’ or otherwise they perceive various types of regulation to be for their enterprise. The research covers those general areas of regulation that are considered to exist across different economies. In

other words, the study includes the general areas of regulation in relation to taxation, payroll, employment, environment, and health and safety. Levels of concern about various aspects of legislation are then investigated, such as the complexity and rate of change of regulations. Evidence of sources where small businesses seek advice, and their views on the quality of advice obtained, is reported. Business respondents were asked to rate the quality of the service provided by their external accountants on various measures.

Second, the report also provides evidence from the perspectives of accountants. Here accountants give their views of the SME market, and their perceptions of the level of concern among the SMEs about various aspects of regulation. Surveys often show that accountants are the most popular source of external advice and this report seeks to explain why this is so in relation to regulation.

Third, the report draws on evidence from both the UK and Canada. A UK–Canada comparison will help us to build a more general picture of how SMEs in developed economies manage the regulations that apply to them and the involvement of accountants in doing so. The discussion in the report provides details from these

two economies, explores some of the reasons for the findings and outlines the differences between the UK and Canada. The final section of the report puts these findings into the broader context of the advice-seeking behaviour of SMEs.

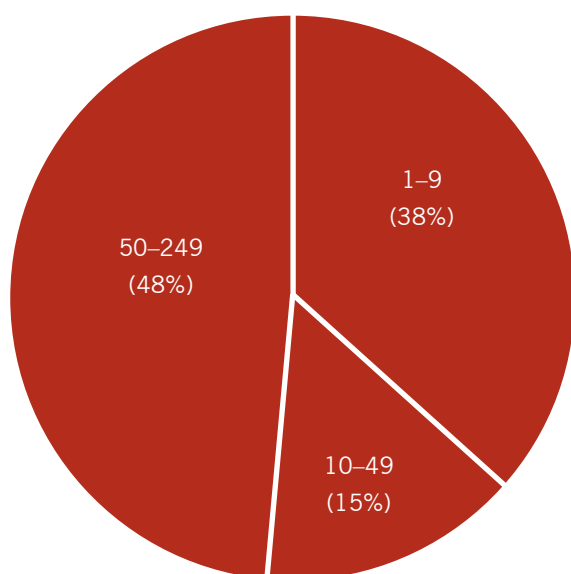
So far, the bulk of research on the relations between SMEs and their accountants has tended to focus on the management of accounts and changes in this relationship in a context of changing statutory requirements and new technologies. This report is significant in that it extends the research base to focus on the relationship when set against the context of managing, or coping with, regulations over and above accounting requirements. The report makes explicit connections between regulation and advice-seeking from accountants. So far, the bulk of research on SMEs and regulation has sought to measure the effects of regulation on business activities. Hence, the research contributes to the understanding of owner-managers' external advice-seeking patterns, the role of accountants in this, and views on the relative quality of advice providers. Finally, the results of the study are important because they also provide evidence on the experience and views of accountants on the SME market in relation to regulation.



2. UK results: survey of SMEs

All sizes of SME were covered in the survey, although there was a bias towards those businesses with 50–249 employees compared with the SME business population as a whole (see Fig. 2.1).³ The benefit of this bias towards medium-sized firms is that it includes firms which are more likely to face a greater array of regulatory requirements than enterprises with no employees or the self-employed. Researchers have also shown that medium-sized enterprises and small firms that are growing, in particular, tend to have to face the realities of regulations.⁴

Figure 2.1: Number of employees, including owner-managers or partners (n=515).



³ See SBS (2006) for statistics on the distribution and contribution of enterprises by size: www.sb.gov.uk

Overall, the majority of respondents agreed that the regulatory requirements for their business are 'reasonable' (see Fig. 2.2 on page 14). In the cases of tax filing, health and safety, payroll and environmental regulation over two-thirds of respondents agreed that the requirements are reasonable.

Nonetheless, this picture of regulations as 'reasonable' is not all-encompassing. Only 55.5% of respondents thought that employment regulations are reasonable, with 40% disagreeing with the statement. The reasons for this difference may be linked to research elsewhere that has shown that a growth in the amount of employment rights in the past decade or so has occurred and that this has particularly affected medium-sized businesses (Blackburn and Hart 2002). This shift has led to a rise in the amount of external advice seeking (Harris 2002).

These top-line results should not, however, lead to complacency regarding the effects of regulation. A disaggregation of the results suggests that, while the majority of respondents are broadly in agreement that regulatory requirements are reasonable, in some cases disagreement was significantly high.

⁴ For example, in relation to employment rights, medium-sized firms are much more likely to have to meet statutory requirements, as their labour forces are larger and tend to be more diverse. See Blackburn and Hart (2002).

Figure 2.2: Owner-managers' perceived reasonableness of regulatory requirements (n=515).

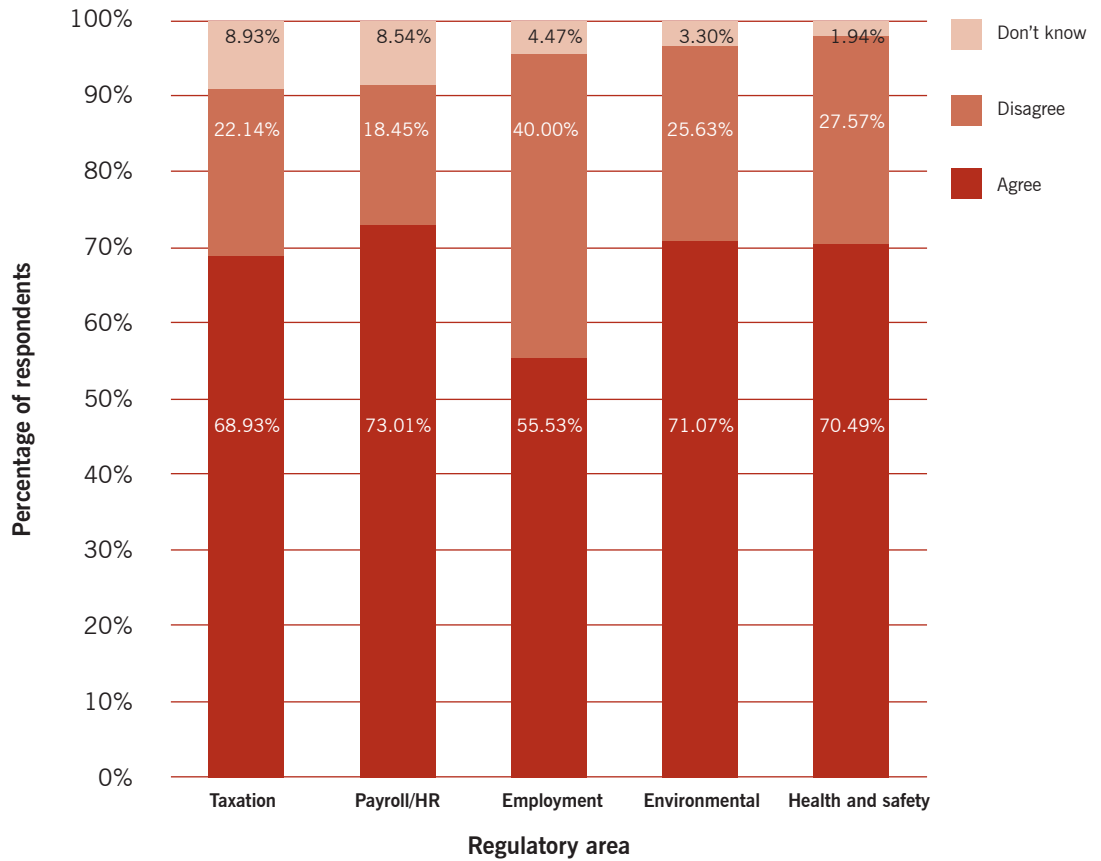
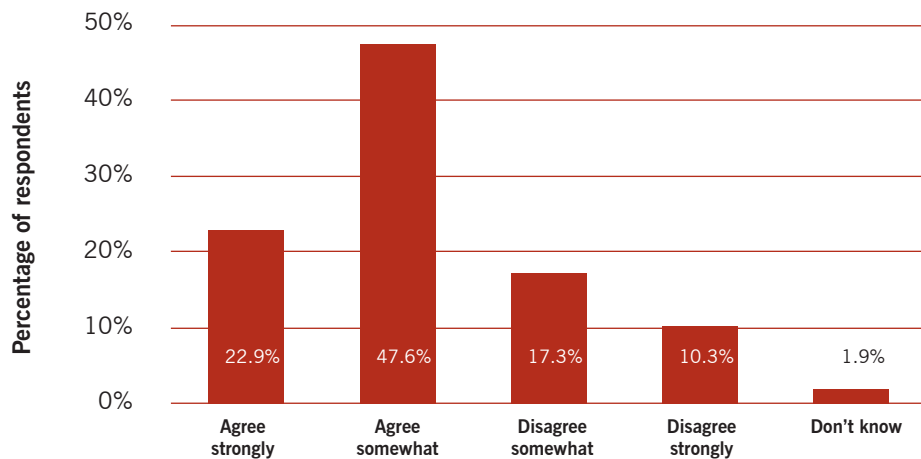


Figure 2.3: Owner-managers' perceived reasonableness of health and safety regulations (n=515).



Health and safety regulations (Fig. 2.3) attracted the highest level of strong agreement (22.9%), with employment regulations (Fig. 2.4) attracting the lowest (13.0%).

Employment regulations attracted the highest levels of strong disagreement (18.4%) and of those who disagreed 'somewhat' (21.6%). This reinforces

the earlier picture but also shows that opinions were particularly strong in more than one in five respondents.

Tax filing and payroll requirements were seemingly the least contentious issues, with fewer disagreeing that these regulatory requirements are reasonable (see Figs 2.5 and 2.6).

Figure 2.4: Owner-managers' perceived reasonableness of employment regulations (n=515)

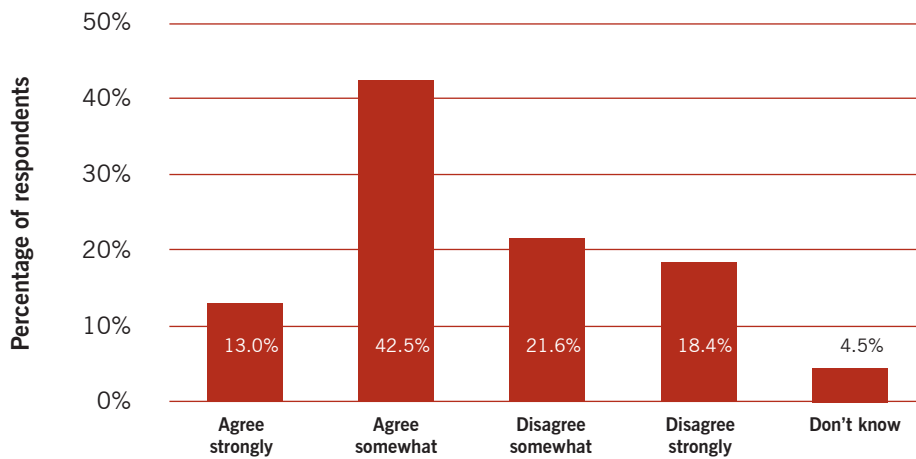


Figure 2.5: Owner-managers' perceived reasonableness of tax filing requirements (n=515)

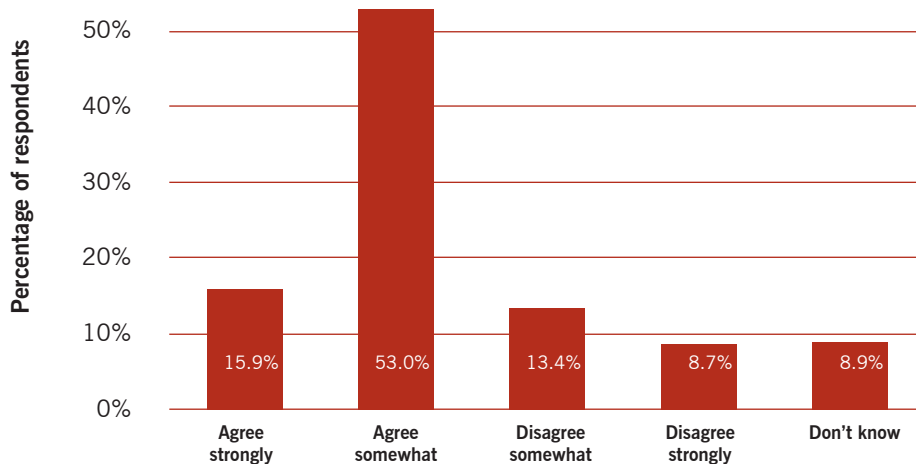
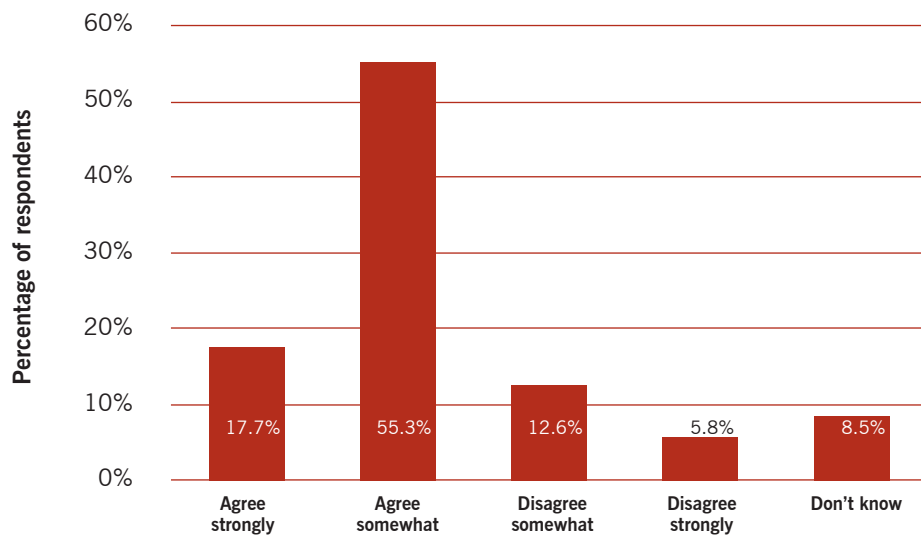


Figure 2.6: Owner-managers' perceived reasonableness of payroll requirements (n=515).



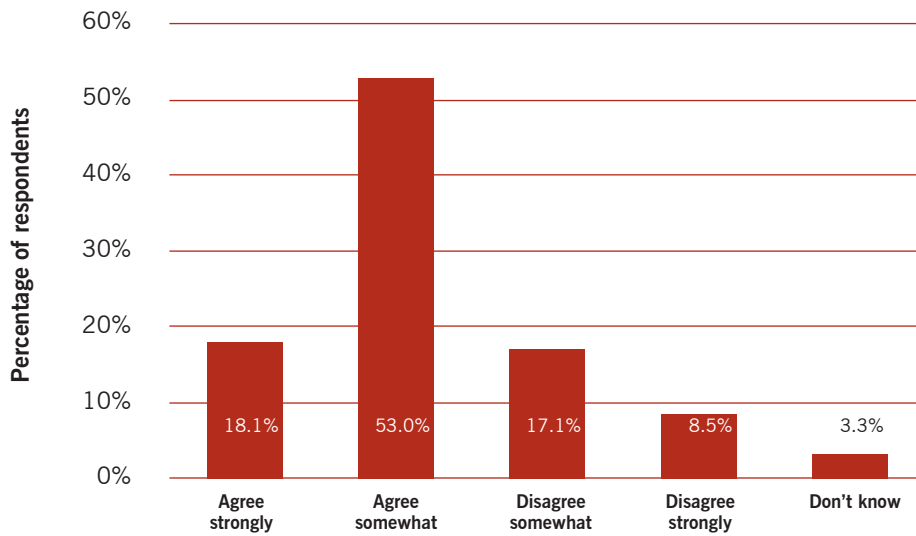
Finally, the majority of respondents agreed that environmental regulations were reasonable (53%) and 18.1% agreed strongly with the statement (see Fig. 2.7).

Although a survey of this type cannot explain the reasons for the differences between types of regulations, the results are not surprising. On the one hand, they may reflect the ability of small firms to cope with regulations. On the other, they may be a reflection of the areas in which regulation is more prevalent and may change with time. 'Reasonableness' may also be a reflection of the values of respondents.

For example, while they may view high levels of health and safety requirements as reasonable because they believe in the provision of safe and healthy working environments, they may be less accepting of extensive welfare provision for employees. What the results show, however, is that generalities in relation to the effects of regulations must be treated with caution.

Research has shown that one of the main effects of regulation on SMEs is that it generates anxiety and concerns among owner-managers (eg Blackburn and Hart 2002; Gray and Bannock 2005). The ACCA

Figure 2.7: Owner-managers' perceived reasonableness of environmental regulations (n=515)

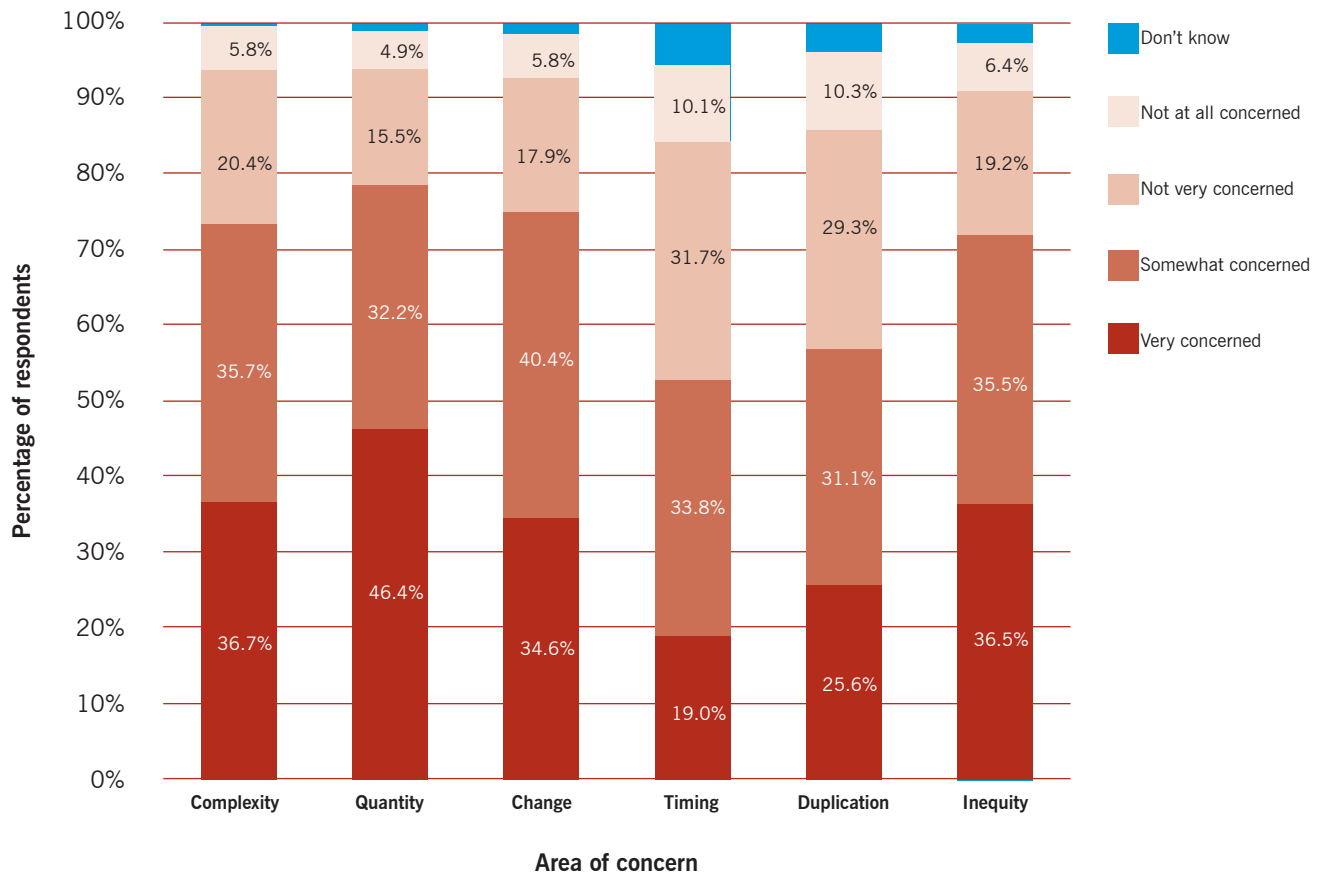


survey explored a variety of dimensions of regulation to help develop an understanding of what is causing concern. These dimensions covered 'complexity' through to beliefs about 'inequity' (see Fig. 2.8 on page 20). The results show that in all instances the majority of respondents stated they were either 'somewhat' or 'very' concerned about the various aspects of regulations.

Most notably, 78.6% of business owners surveyed said they were concerned about the quantity of regulations, with 46.4% being 'very concerned'. The least worrying

aspect of regulation was timing, with just 19% being 'very concerned'. Nonetheless, only 10.1% claimed to be not at all concerned about timing. This was replicated across respondents generally. An average of just 6.2% were 'not at all concerned' about regulation. The findings confirm earlier studies that emphasise the cumulative effects of regulation on SMEs rather than any specific requirement (for example, Chittenden et al. 2002).

Figure 2.8: Owner-managers' levels of concern about the regulations affecting their business (n=515).

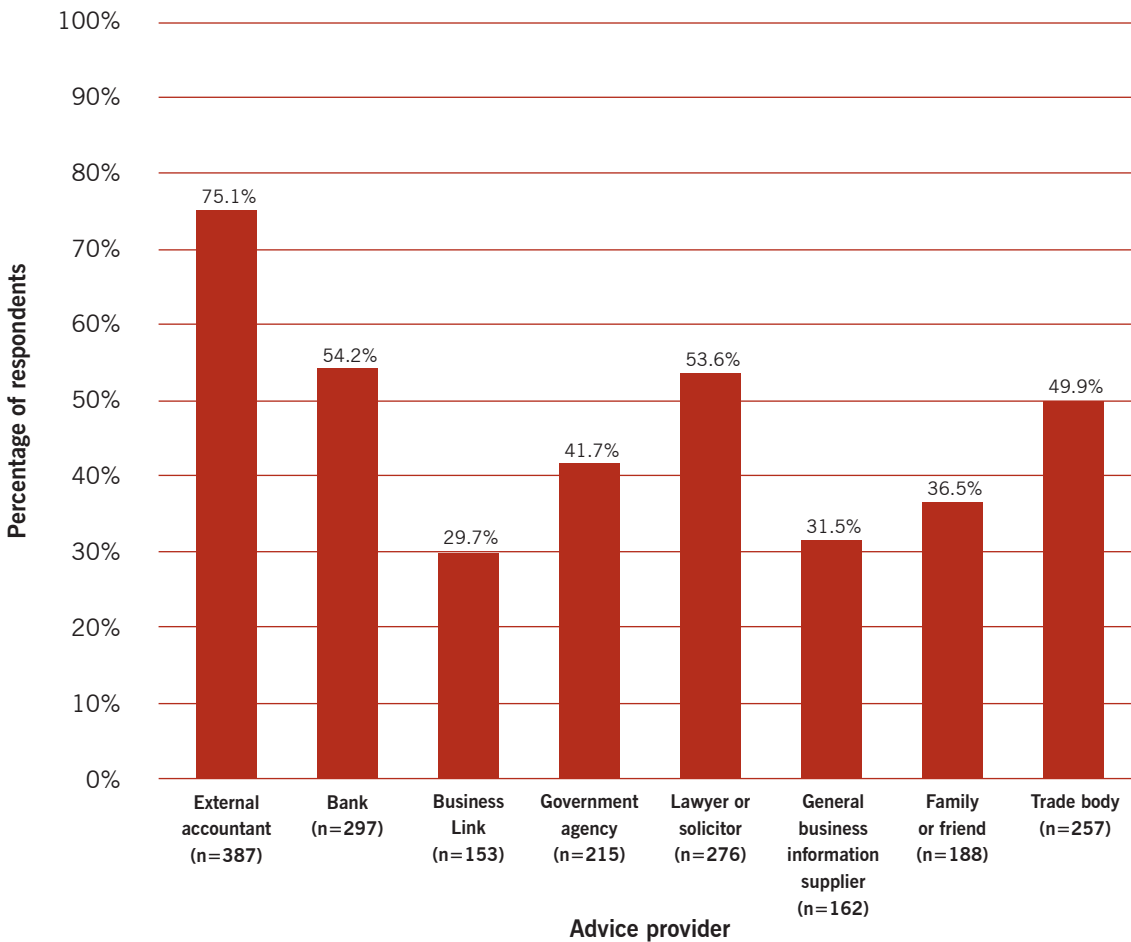


If these differences in views on which regulations are causing concern or otherwise are translated into advice-seeking action by SMEs, then the market for external support will be more active in some areas than in others.

The market for advice for SMEs is said to be extensive and includes both the private and public sector. Over

three-quarters of respondents had used external advice bodies in the past 12 months and clearly multiple sources had been used. This survey investigated where SMEs sought advice in relation to dealing with regulations over the previous 12 months (see Fig. 2.9). The results show that three-quarters of respondents used accountants for regulatory advice; a third more than for any other source of advice. Banks (54.2%),

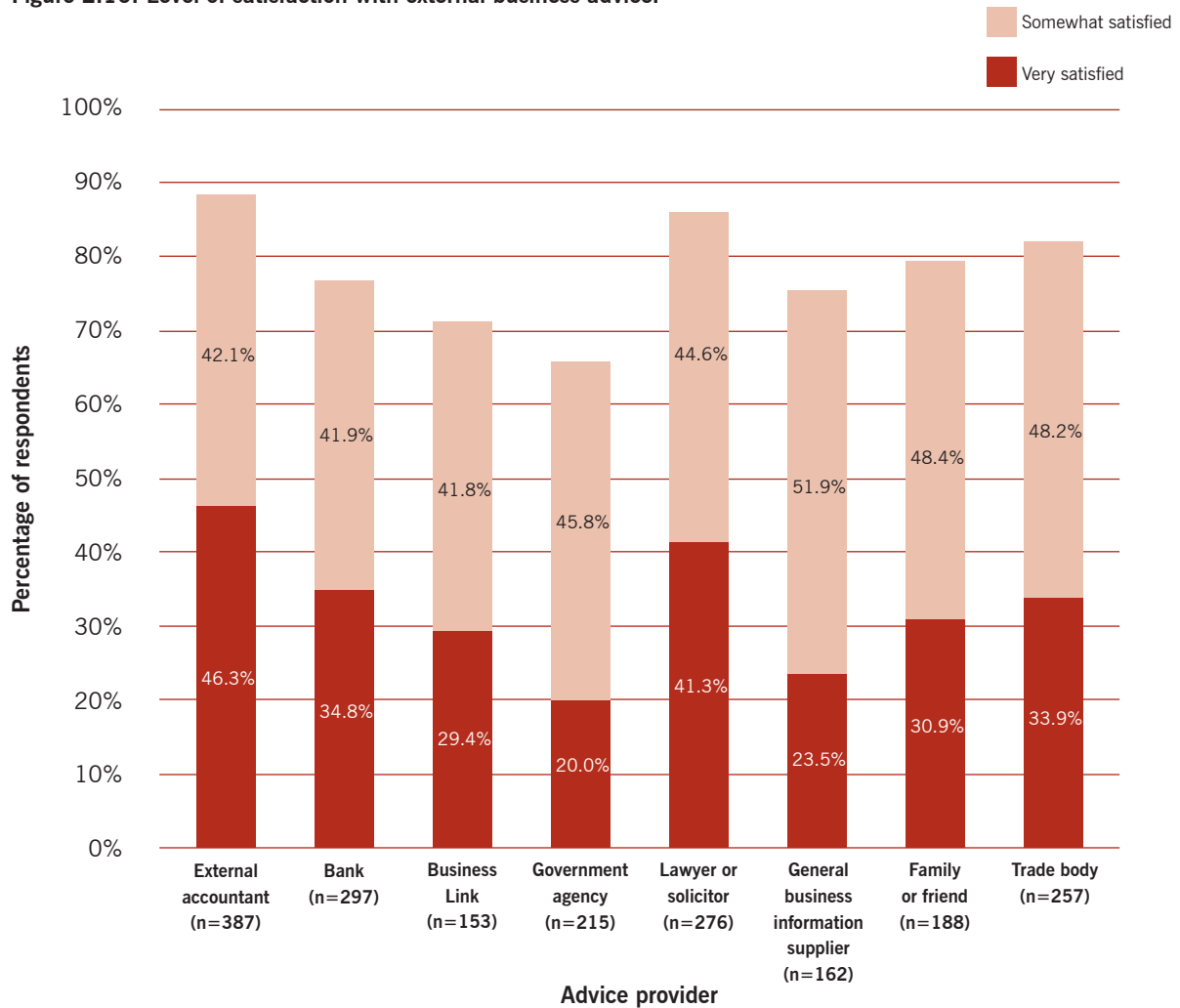
Figure 2.9: Sources of external business advice.



lawyers (53.6%) and trade bodies (49.9%) were all used by around half of SMEs. Under a third of respondents used Business Link (29.7%) as a source of regulatory advice, although (41.7%) did use another form of government agency. These variations in the use of external advice sources tend to mirror those of other studies, which also show the relatively low take-up of government sources (see Bennett 2006; MacMillan et al. 1989).

The reasons for these patterns in use are complex. Use of external advice is a result of owner-managers' awareness of advice availability, their need for advice and their willingness to obtain it. Perceptions of the relevance and quality of advice from specific sources are also influential in owner-managers' choices. What these top-line results show is that accountants are relatively popular. This high level of use is also probably underpinned by having an existing relationship with advice providers. Research elsewhere has shown that the development of trust between SMEs and external

Figure 2.10: Level of satisfaction with external business advice.



agencies takes time, but once developed this trust influences subsequent relations (Bennett and Smith 2004). Most SMEs already have a relationship with an accountant for audit services (Marriott and Marriott 2000).⁵ These results confirm that such relationships, based on a need for traditional accountancy services,

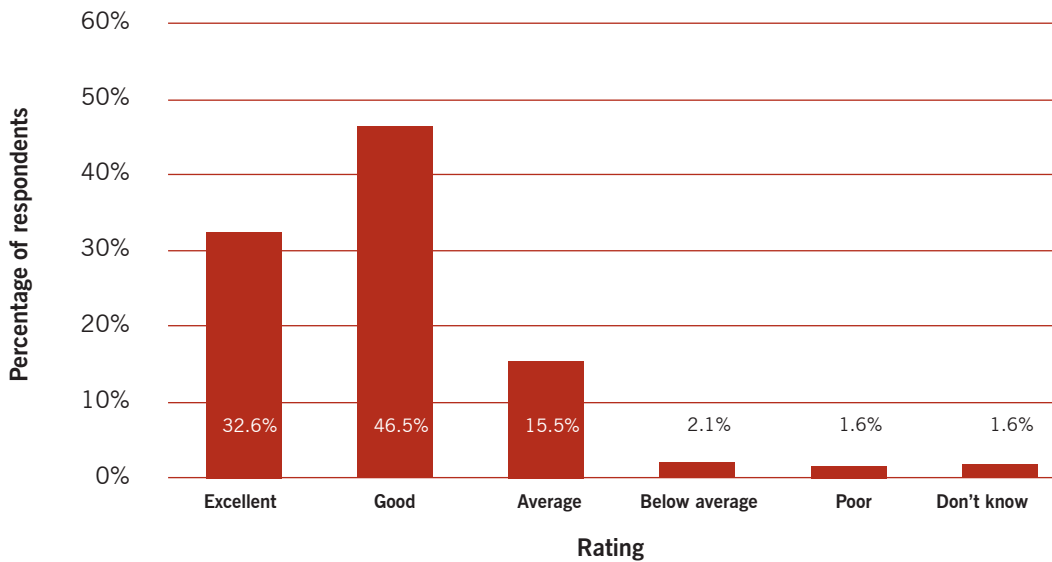
may place accountants at an advantage for the provision of other services.⁶

Given the patterns in the use of external support advisers, what were the relative perceptions of the quality of the advice provided? For example, although

⁵ For example, Marriott and Marriott (2000: 482) report that the small firms in their case studies had relationships with the same accountants lasting from a few months to 28 years.

⁶ The market for conventional audit services has, however, undergone changes in the UK because of the changes in the statutory audit requirements. See, for example, Professional Oversight Board for Accountancy (2006).

Figure 2.11: Rating of the services provided by the external accountant (n=387).



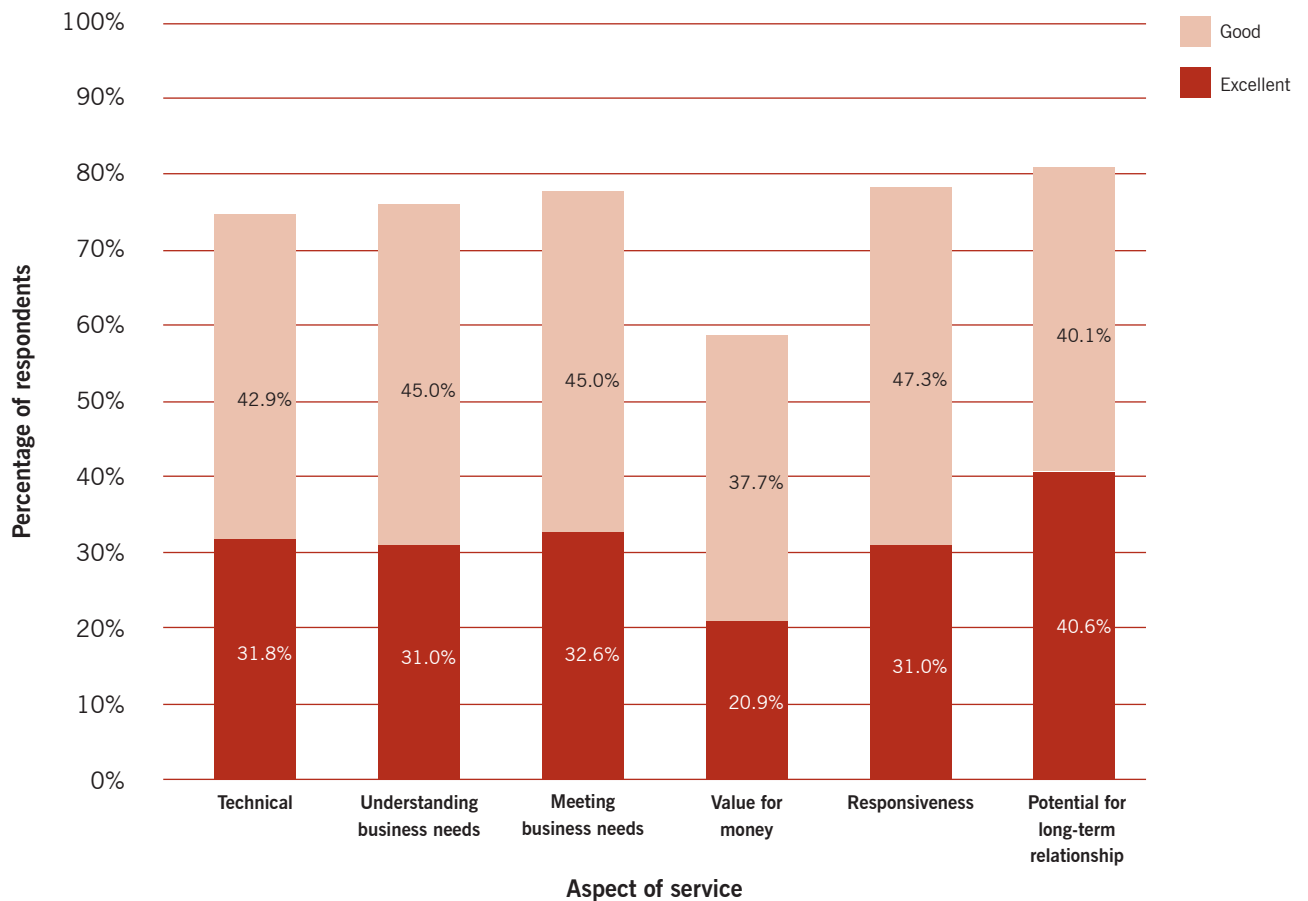
SMEs used accountants more extensively than other sources for advice on regulation, what were their views on this advice? In all cases at least two-thirds of respondents registered some degree of satisfaction with the regulatory advice they received (see Fig. 2.10). Advice from external accountants was the most satisfactory, with almost half (46.3%) of respondents being 'very satisfied' and 42.1% 'somewhat satisfied'.

Publicly owned bodies fared the worst, with government agencies and Business Link giving the

lowest levels of satisfaction when 'somewhat' and 'very' satisfied were combined.

If we further analyse SMEs' responses about the use of accountants, views of the service levels appear very favourable. On the whole, respondents found the services of external accountants to be excellent or good, with fewer than one in five rating them as average, below average or poor (see Fig. 2.11).

Figure 2.12: Owner-managers' ratings of aspects of the service provided by the external accountant (n=387).



A further disaggregation of the results for those SMEs using accountants shows that business owners rate external accountants to be good or excellent in most aspects of their services (see Fig. 2.12). In five of the six aspects measured, over three-quarters of respondents rated them as good or excellent.

The results also show that owner-managers in SMEs (80.7%) view the relationship as having a long-term potential. This is significant in that it reinforces the picture that has emerged of long-term, trust-based relationships between SMEs and their accountants.

On the other hand, SME respondents gave a lower rating to the value for money of the service provided. Only 58.6% believed that the service those accountants provided had represented 'good' or 'excellent' value, considering the fees charged. These results are important as regards the longevity of the relationship with accountants. Research elsewhere suggests that the quality of the service is more important than the duration of the relationship (Gooderham et al. 2004). From these results, the suggestion is that SMEs regard accountants as credible providers of advice in relation to addressing regulation although some question the value for money of the service provided.

3. UK results: survey of ACCA members in practice

This chapter reports the results from the survey of accountants in practice, drawn from ACCA members in the UK. It is important to glean the experiences, views and plans of accountants in relation to the experiences of SME owner-managers and changes in demand for services by SMEs. How has the demand for advice affected accountants' service provision? To what extent has the SME market for advice become a key part of the accountants' portfolio of service provision? Has there been a development of a referral network? What are accountants' plans, if any, for the development of the market provision?

Overall, the market for advice for SMEs has increased in the past two years, with only a minority of accountants experiencing a fall in the demand for advice in any of the areas covered (see Fig. 3.1). The majority experienced an increase in requests for taxation (77%) and payroll advice (75%). Almost half (42%) of those giving advice on employment matters experienced an increase in requests for advice.

In contrast, only a small proportion of accountants provided advice on matters concerning environmental or health and safety regulation issues. Among those

Figure 3.1: Changes in the type of advice given to SME clients in the last two years.

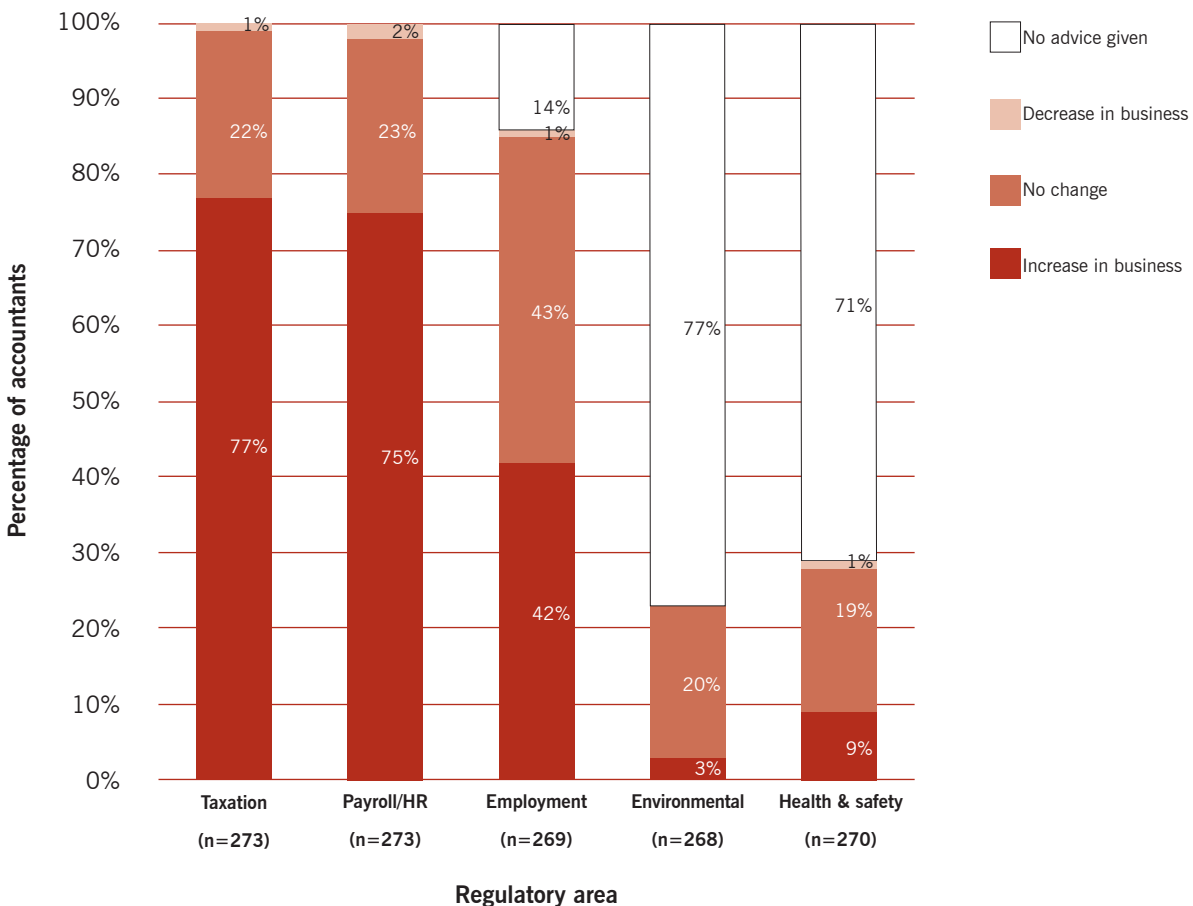
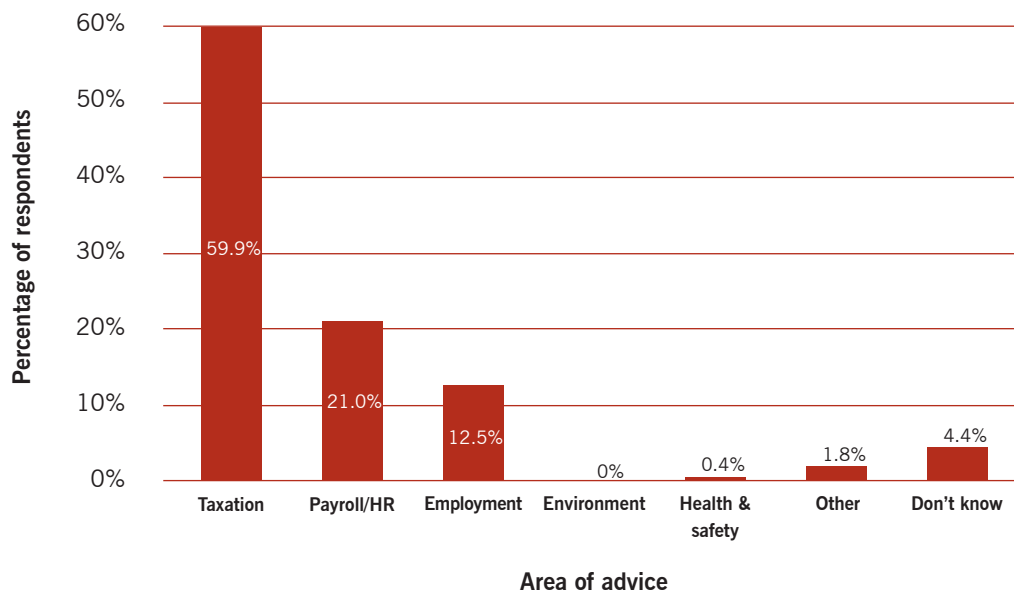


Figure 3.2: Areas where demand for advice by SMEs has increased most in the past two years (n=272).

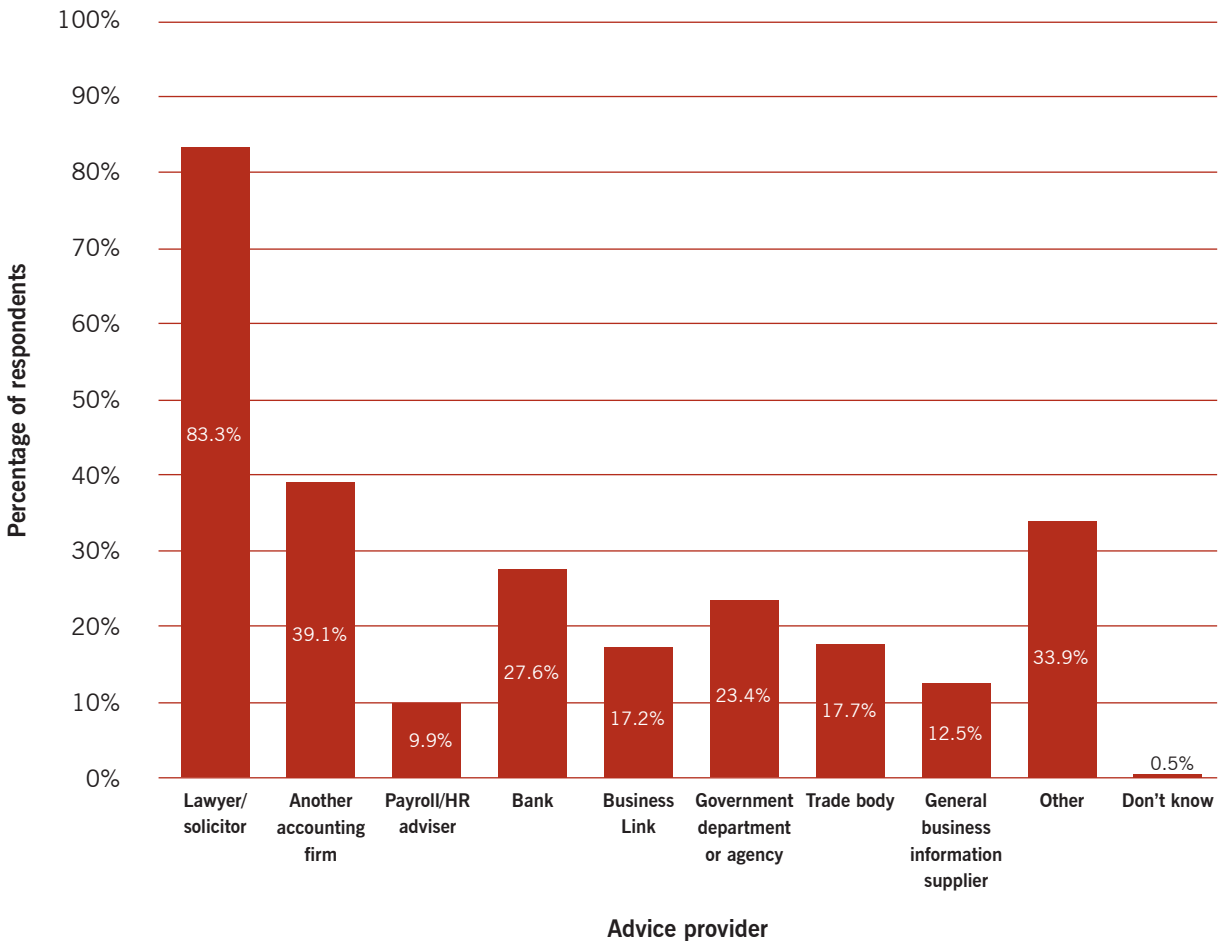


that did, only small increases (3% environment and 9% health and safety) in the amount of business advice provided were reported. The differences between these findings and those from SMEs are interesting. Accountants were experiencing higher levels of demand for conventional sources of advice, that is, in relation to taxation and payroll, than for advice on these newer areas. The results also show, however, that the demand for advice on the regulations for employment, health and safety and environment has increased. Over four out of 10 accountants stated that there had been an increase in demand for advice in relation to

employment regulations, echoing the findings from the SME respondents.

An examination of the area where demand has increased most in the past two years shows that taxation advice to SMEs is by far the biggest growth area, followed by Payroll/HR and then employment, with just over one in ten (12.5%) saying that employment advice had increased the most. Only 2.2% of respondents reported the biggest increase as being in health and safety or any other area of advice.

Figure 3.3: Accountants' referrals of SME clients to other, external advisers for advice on regulation-related issues (n=192)



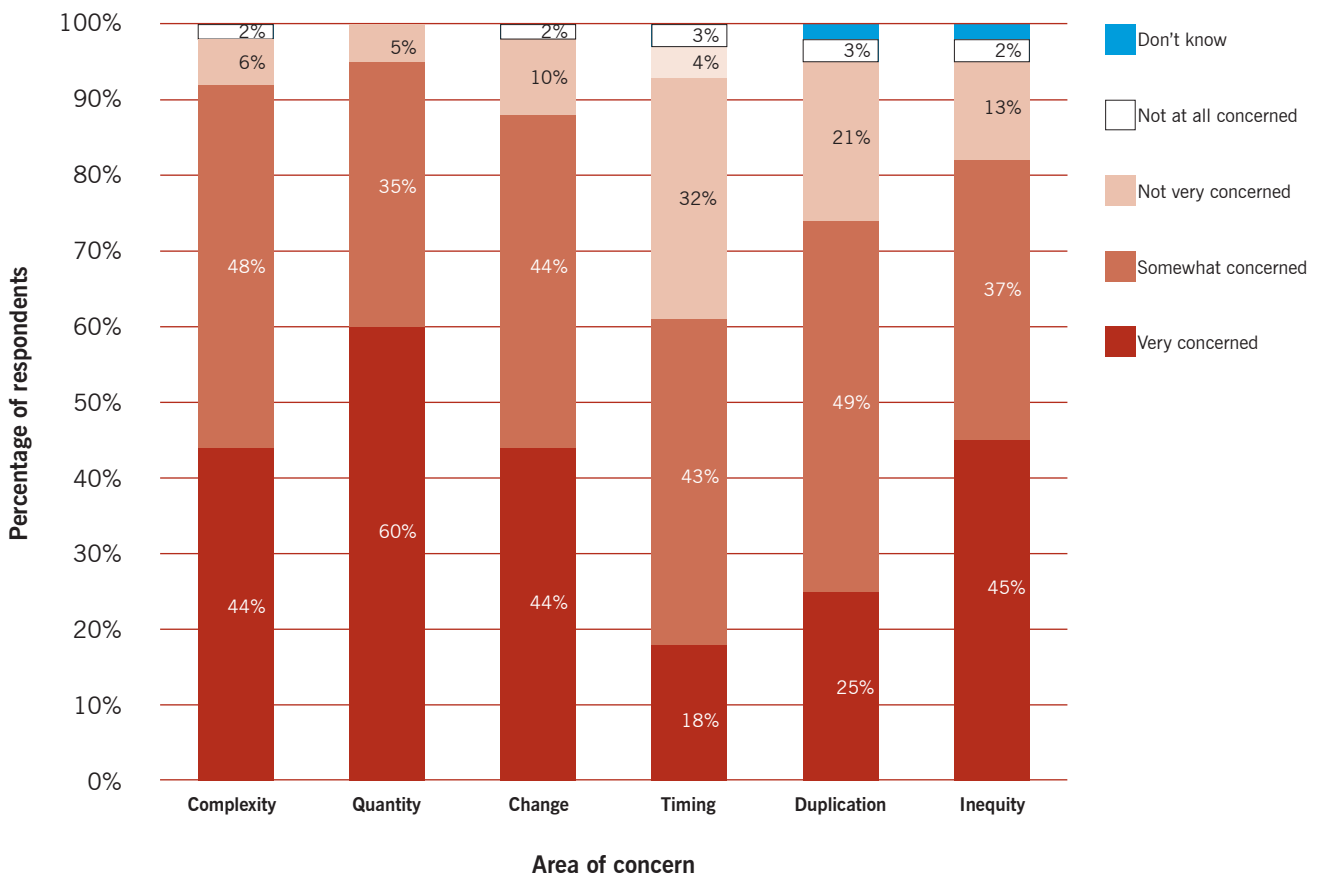
The advice industry for SMEs is complex and because of the specific focus of some providers, referrals take place between different advisers both within and between professions (Fig. 3.3). The survey sought to identify the sources to which accountants referred clients if needed. Around six out of ten accountants (192 of 318) in the survey refer clients to other providers in relation to regulation issues. Respondents were more than twice as likely to refer clients to a lawyer/solicitor as any other form of business adviser in the network. Over eight out of ten referred SME clients to lawyers/solicitors, compared with 39.1% to another

accounting firm. On the other hand, government-funded agencies were also important although less so than private agencies: 17.2% of accountants referred clients to Business Link and almost a quarter (23.4%) to other government departments/agencies. These results show that accountants are not only the single most popular source of advice covered in this survey, in relation to SMEs' management of regulations, but that they are also important hubs in a referral network of advisers. At the same time, the referrals by accountants to other providers may be indicative of a lack of expertise or capacity to satisfy the SME client.

On the whole, accountant respondents perceived that SMEs are, at least, 'somewhat concerned' about all the regulation issues listed (see Fig. 3.4). These results show somewhat higher levels of concern than for SMEs themselves (Fig. 2.8). The numbers are of course based on the accountants' *perceptions* of the concerns of SMEs and their experience of meeting SME clients. The difference between the results is probably explained on the grounds that accountants' perceptions are based on their experiences of meeting SMEs that are seeking advice to solve a problem, rather than the fuller population of all SMEs.

Accountants perceived that the quantity of regulations was the issue of most concern for SMEs, with 60% saying that their SME clients were 'very concerned' about this issue (see Fig. 3.4), followed by their complexity. Over 90% believed both quantity and complexity of regulations to be of at least some concern. On the other hand, respondents perceived the 'timing of requirements' to be of less concern for SMEs. The patterns resonate with the findings from SMEs and confirm the results of the literature. They also show that the timing of the introduction of regulations is generally of less concern. Accountants were much more

Figure 3.4: Accountants' perceptions of SMEs level of concern about aspects of regulatory requirements .



likely to single out 'inequity' as a concern, probably because they are in a position to compare SMEs with other clients of differing size, while SMEs themselves, and particularly smaller enterprises, were probably less likely to view the effects in this light.

Almost two-thirds of respondents (62%) believe that SME clients come to them more often for advice relating to the complexity of regulations than on any other issue (see Fig. 3.5). Changes to requirements (17.9%) and the quantity of requirements (12.5%) were the only other two issues of importance. This

pattern is understandable. Numerous studies have shown that small business owner-managers are reluctant to seek external advice, unless this is really necessary, in what has been termed their 'fortress enterprise mentality' (Curran and Blackburn 1994). These results show that SME owner-managers seek external advice from accountants, as with other bodies, when they are not able to deal with concerns within their own enterprise. Hence, in this survey it is the number and complexity of regulations that apparently trigger the need for external advice.

Figure 3.5: Advice most sought after by SME clients (n=263).

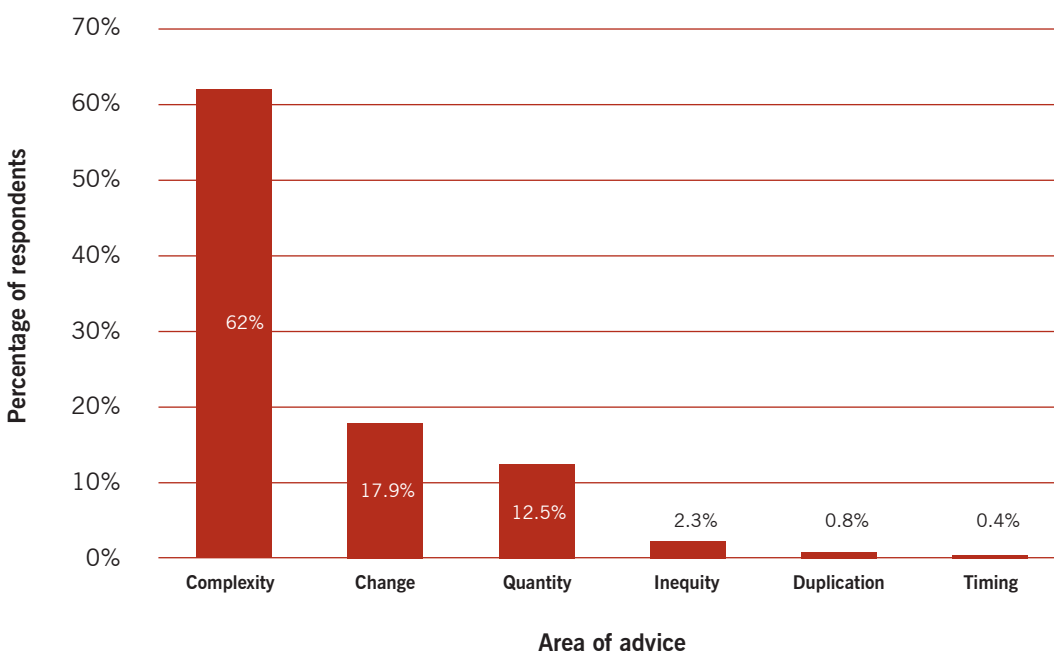
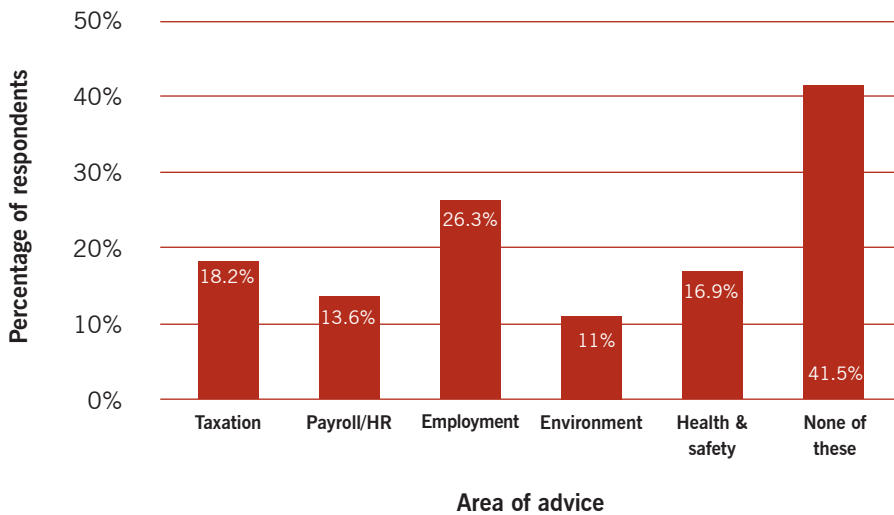


Figure 3.6: Areas in which accountants would like to provide advice about in the future (n=236).



Accountants were asked which of those areas of advice in which they do not currently specialise, would they like to provide in the future (see Fig. 3.6). Almost half (41.5%) of respondents said that they would *not* like to provide advice in future on any of the business functions listed. This may be because they have a perceived lack of expertise in the areas listed or that they do not see any advice opportunities for their practice in this market area. Alternatively, respondents may be happier specialising in one or two aspects of business regulation and referring clients to other specialists in other areas.

The comments give some indication, however, that accountants are interested in developing advice capacity in relation to less conventional areas,

including employment and health and safety, thus showing some sensitivity to the expansion in demand.

On average, over three-quarters (76.9%) of respondents' income derives from organisations with fewer than ten employees (see Fig. 3.7). In contrast, only 4.4% of fee income derives from customers that employ 50 people or more. This not only underlines the validity of the findings from the survey, in that it is of accountants who serve SMEs, but also that there is a well-developed and expanding market for advice for SMEs.

The survey shows that one in five accountancy firms has at least one specialist adviser who deals with regulation issues for SMEs (see Fig. 3.8).

Figure 3.7: Percentage of accountants' total fee income deriving from micro, small and medium-sized organisations (n=260)

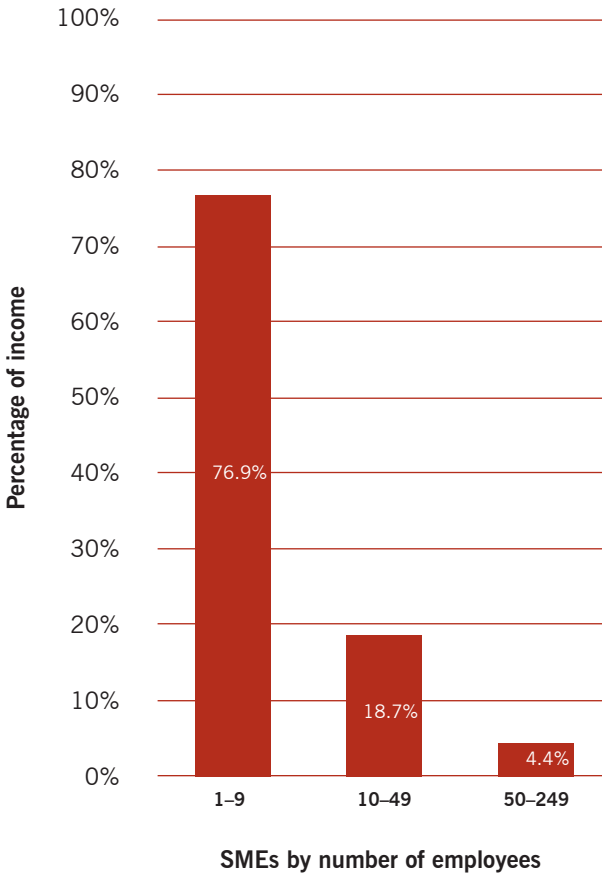
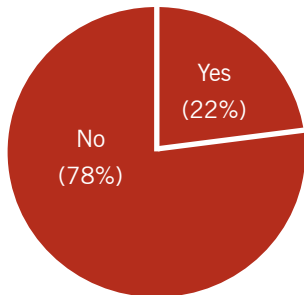


Figure 3.8: Percentage of firms employing specialist advisers to assist SMEs with regulation issues (n=274).





4. Canadian results: survey of SMEs

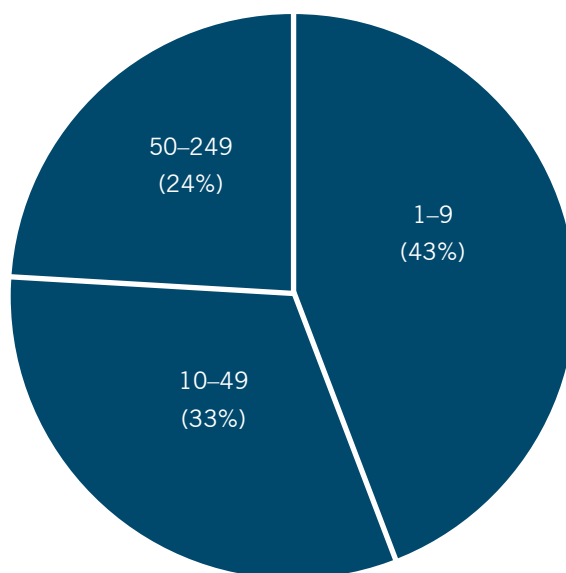
4.1 SURVEY OF SMES: CANADIAN RESULTS

The distribution of firms by size in the Canadian survey is shown in Fig. 4.1. The results show that the 1–9 size band has the largest proportion of firms and the 50–249 band has the smallest. This is different from the UK study, in which almost half the sample were from the larger size band.

SME respondents were asked how reasonable they believe the regulatory requirements to be that apply

to their firm, for each of the five areas considered. Fig. 4.2 on page 34 shows that all regulations are considered of importance to a majority of respondents. Securities regulations are considered the most important at 96.8% of all respondents, and HR/Payroll requirements lowest at 60.4% of all respondents. In terms of how reasonable the regulations are perceived to be, the results show that a greater percentage of SMEs believe that the requirements in each regulatory area (with the exception of securities) are reasonable than unreasonable.⁷

Figure 4.1: Number of employees, including owner-managers or partners (n=250)



⁷ It has been found that publicly traded SMEs in Canada are particularly concerned with the securities regulations applicable to their businesses. This was not covered in the UK survey and is reported in more detail in CGA-Canada (2006).

Figure 4.2: SME views on the reasonableness and importance of regulatory requirements (n=250).

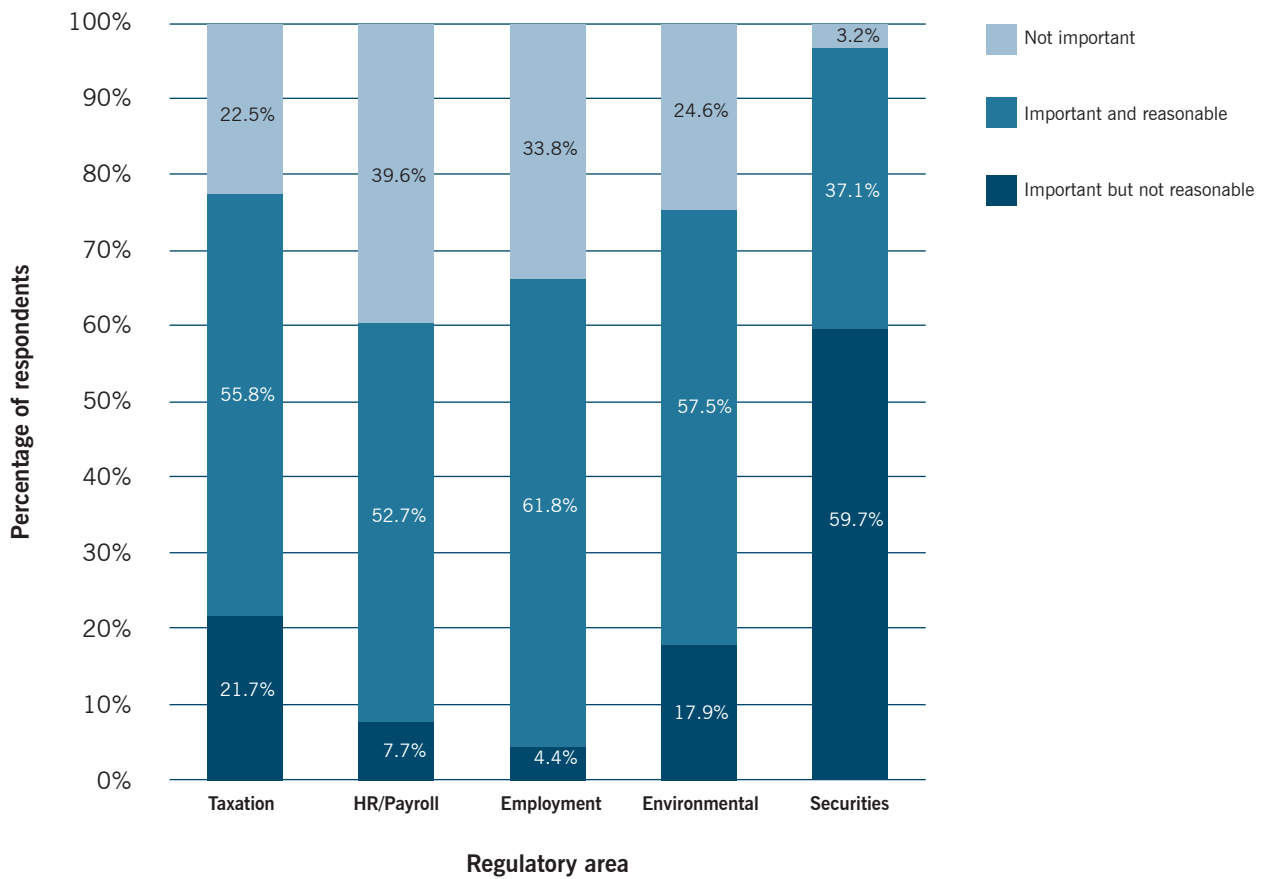


Figure 4.3: Percentage of SMEs that are concerned about the factors affecting compliance with regulations.

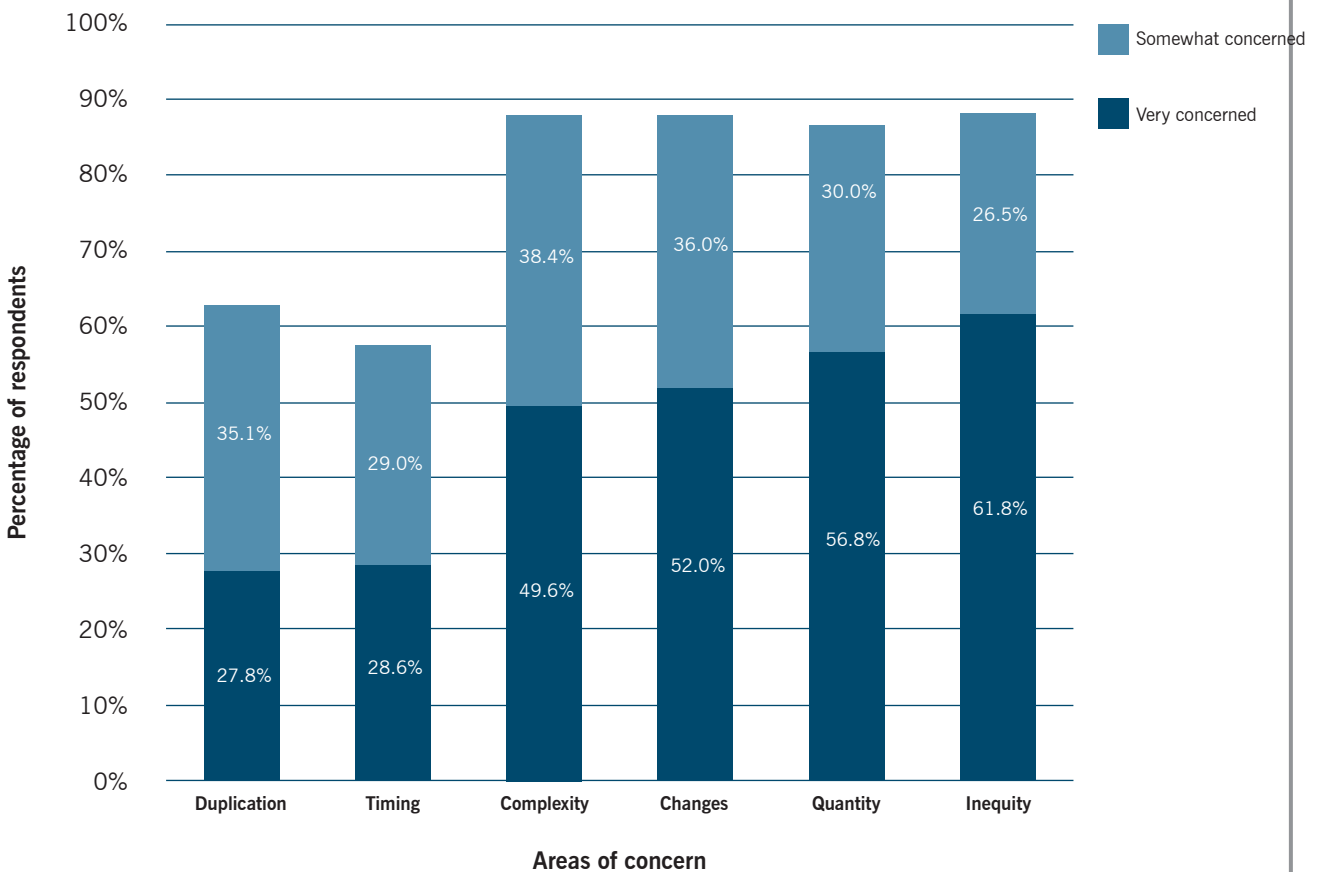
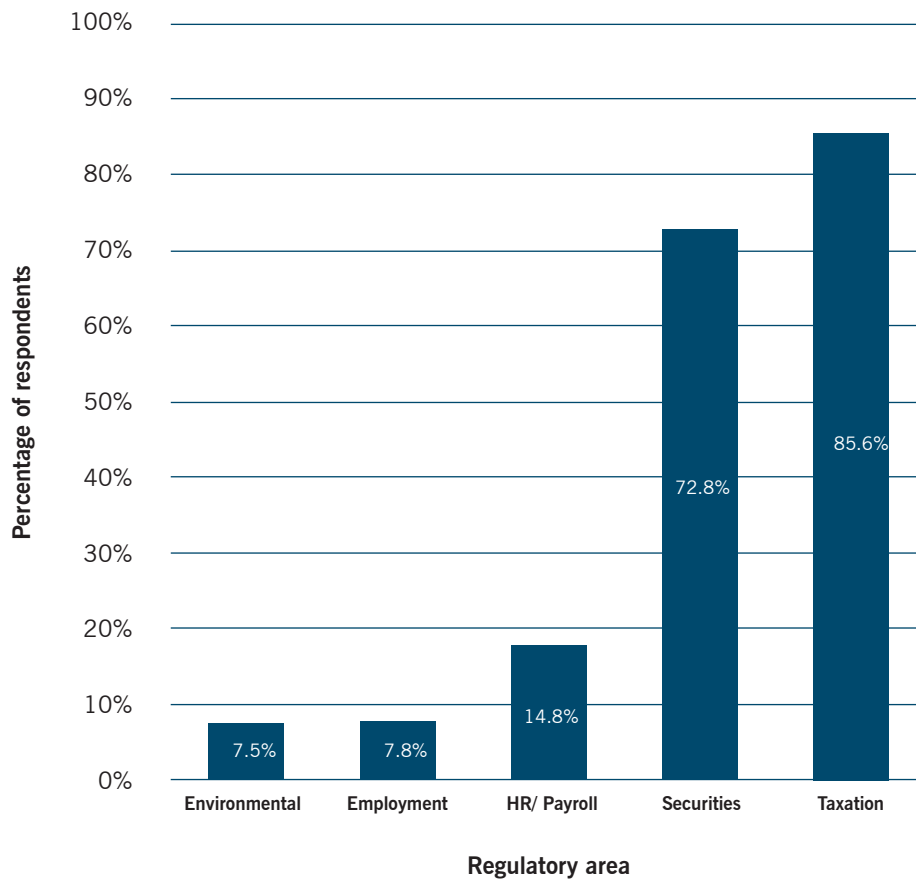


Fig. 4.3 shows how concerned SME owner-managers are in relation to the issues of duplication, timing, complexity, change, quantity and inequity of regulation.

The results in Fig. 4.3 reveal that a majority of SMEs are concerned with each of the issues surveyed. Respondents regard inequity, followed closely by quantity, change and complexity, as being of most concern. Duplication and timing, although still viewed

as concerns by a majority of respondents, are of relatively less importance for SMEs. These results tend to confirm those of other studies, which emphasise that the cumulative volume and complexity of different regulations creates additional work and concern for businesses (Gray and Bannock 2005). Nonetheless, concerns over the inequity of regulations are relatively high and may be linked to particular issues in Canada.

Figure 4.4: Percentage of SMEs that require assistance from an external accountant to comply with regulations (n=250).



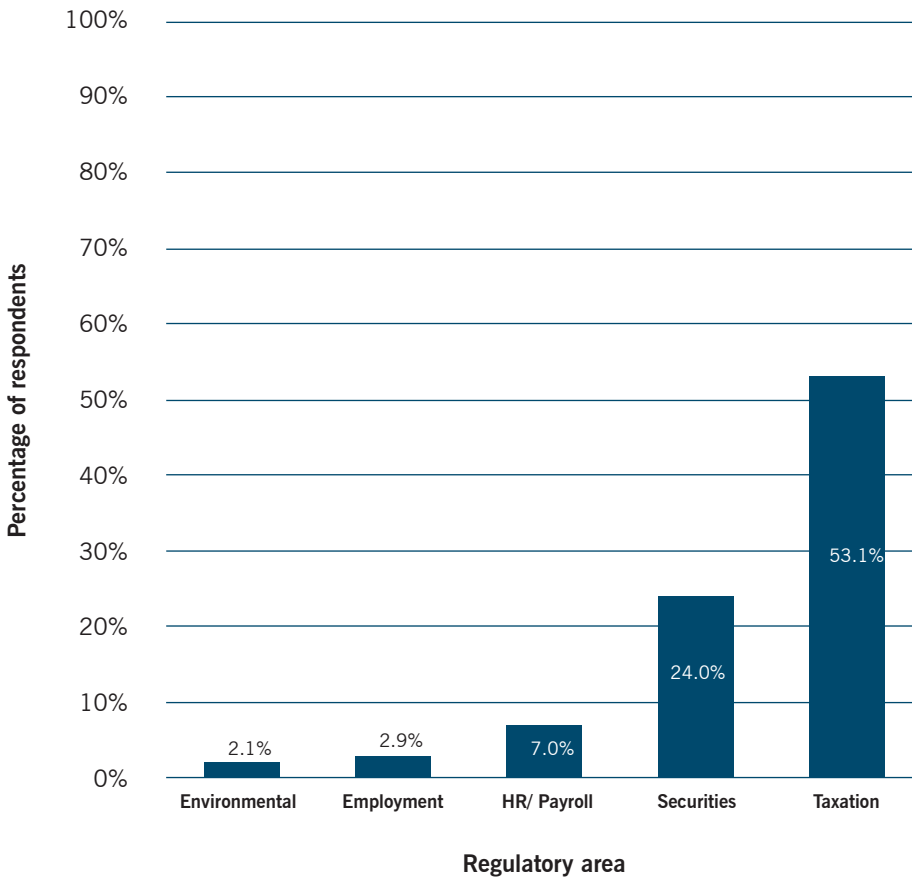
The varying degree to which SMEs rely on the assistance of an external accountant to help meet their regulatory obligations is presented: Fig. 4.4 shows the percentage using an accountant by regulatory area and Fig. 4.5 shows where an accountant is the prime source of advice.

Fig. 4.4 shows that a substantial majority of the publicly traded SMEs in Canada rely on an external accountant to assist with their taxation filing requirements (85.6% of all respondents) and securities obligations (72.8%).

The results also show that external accountants have primary responsibility for advising over tax filing in over half the firms (53.1%) and in around a quarter (24%) for complying with applicable securities requirements (see Fig. 4.5). Levels of advice from accountants in relation to HR/payroll, employment and environment are, however, much lower.

In comparing the values for each regulatory area, we can see that the ratio of SMEs that assign *primary* responsibility (see Fig. 4.5) to those that assign *some* responsibility (see Fig. 4.4) is highest for taxation filing

Figure 4.5: Percentage of SMEs where an external accountant has primary responsibility for compliance with regulations (n=250).



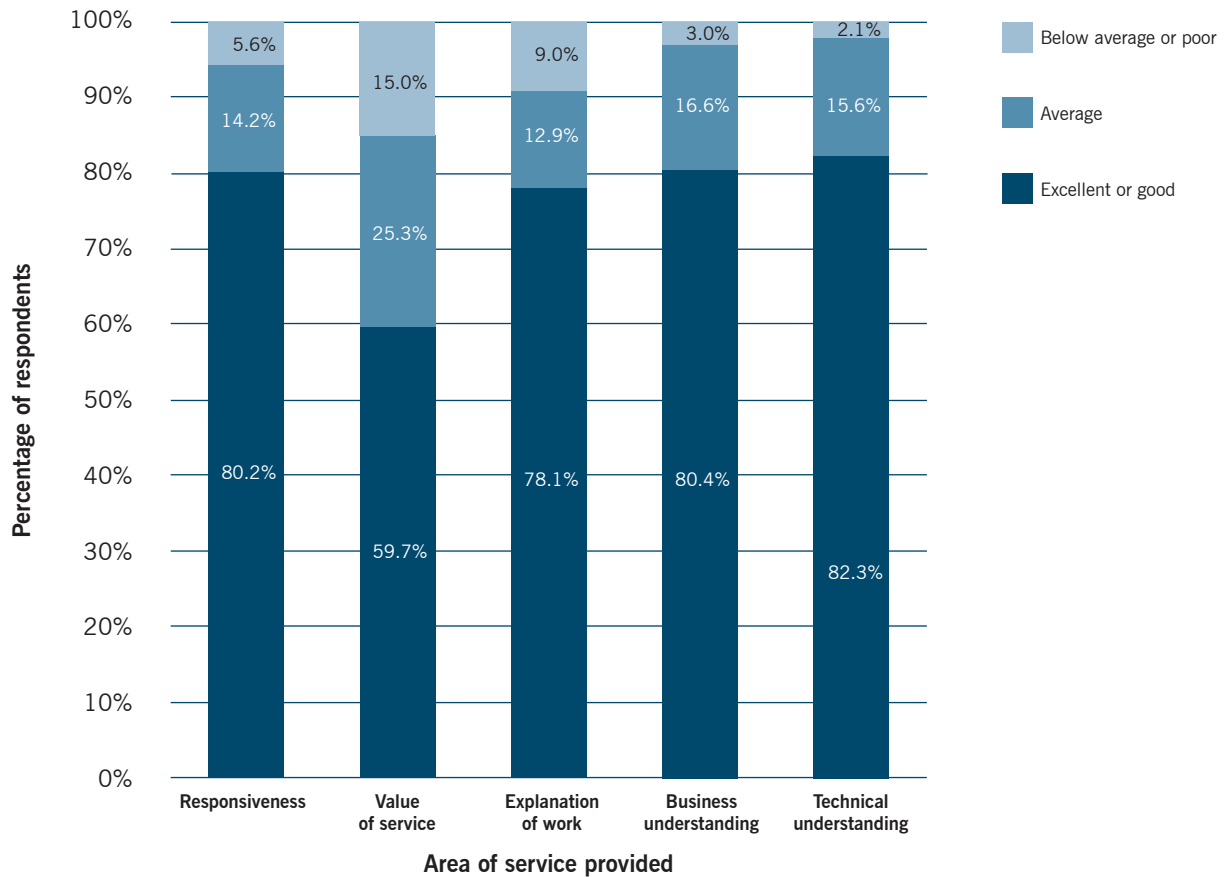
requirements. This finding suggests that accountants are considered strongest in this area and are more likely to be relied upon by SMEs to assume most of the responsibility here.⁸ It is also interesting to note that, the next most common area for which accountants are called upon for assistance is in relation to applicable

employment standards, ie 15% of SMEs take advice and almost half of these (7%) assign primary responsibility.

Given the importance of accountants as advisers in relation to these activities, what is the perceived quality level of the service received by SMEs?

⁸ Although not shown here, the greater reliance on external accountants for assistance with taxation issues is consistent with the response given by CGA practitioners, where 92.9% of these practitioners consider themselves most qualified to assist SMEs with their taxation filing requirements.

Figure 4.6 : SMEs' rating of the assistance provided by their external accountant (n=250).



In general, SMEs are satisfied with the service provided by their external accountants, since the majority of SMEs surveyed consider the assistance provided by an external accountant or accounting firm to be either *excellent* or *good* (see Fig. 4.6).

The highest ratings by SMEs were given for 'technical understanding', with 82.3% rating their external accountant as *excellent* or *good* in this area. On the other hand, it appears that 'value of service provided' has the most room for improvement: almost a quarter rated this as *average* and 15% as either *below average* or *poor*.

5. Canadian results: survey of CGA members in practice

This chapter reports the results from the survey of accountants in practice drawn from the CGA membership in Canada. As a starting point, accountants were asked their views on the fairness or otherwise of the regulatory requirements of SMEs (see Fig. 5.1).

The majority of accountants viewed the regulatory requirements of SMEs as fair. With the exception of taxation, for all the areas rated, fewer than a quarter rated the requirements of SMEs as 'unfair' or 'somewhat unfair' (Fig. 5.1).

Figure 5.1: Percentage of accountants that consider the regulations to be unfair to SMEs (n=350).

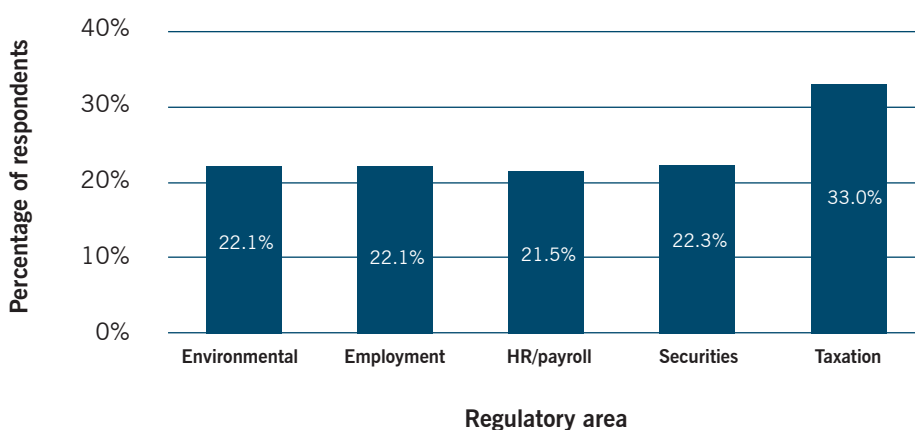
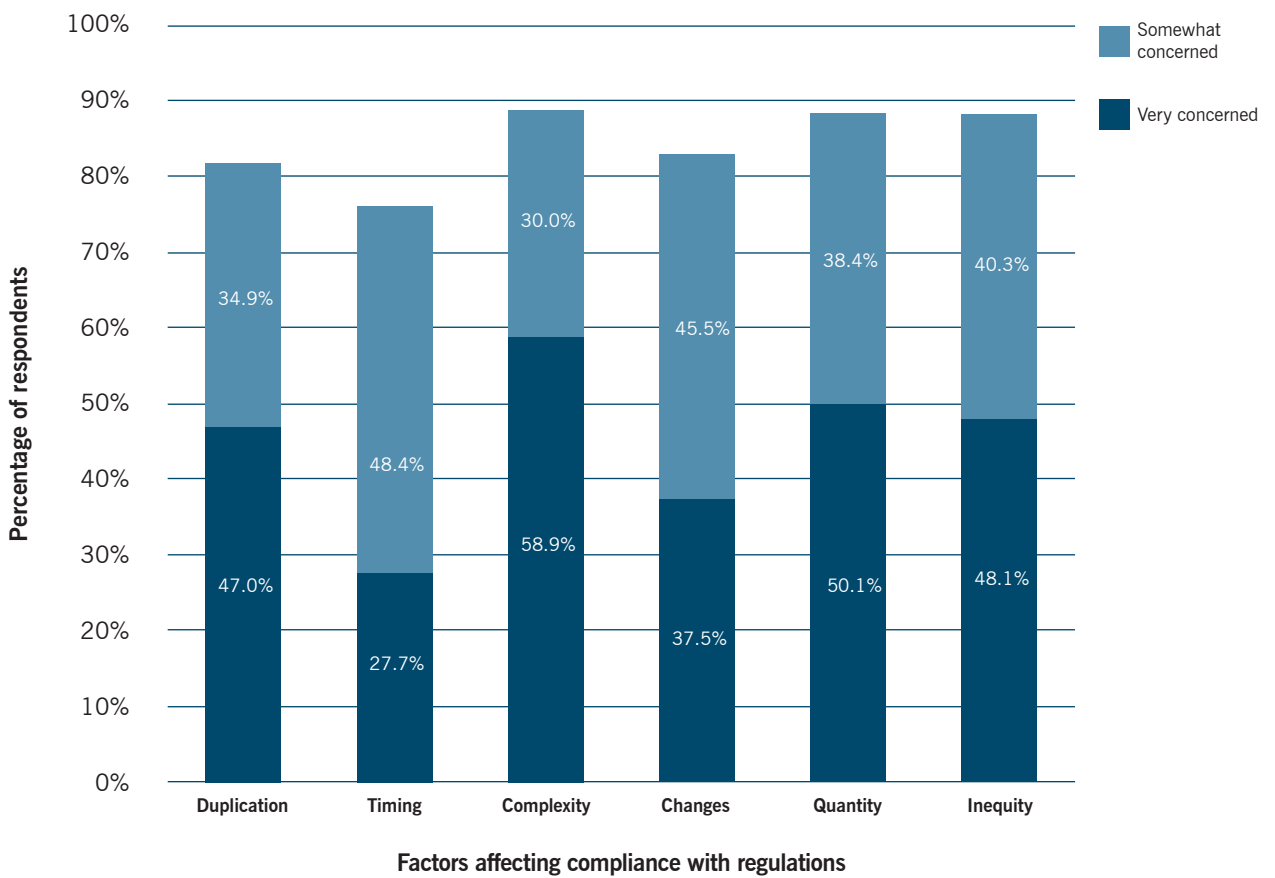


Fig. 5.2 shows the levels of concern that accountants have for SMEs in relation to various dimensions of regulation. Quite clearly, levels of concern are generally high but there are also significant variations between different dimensions. The complexity and quantity of regulations produce the highest levels of concern, followed closely by inequity, changes and duplication. On the other hand, timing of regulatory compliance is considered less of an issue.

The Canadian research also included a forum of experts' views as well as differences between the regions. Participants identified the Sarbanes–Oxley Act of 2002 (SOX) and its impact on securities requirements in Canada as a significant contributor to the concerns of publicly traded SMEs (See CGA-Canada 2006).

Figure 5.2: Percentage of accountants are concerned about factors affecting compliance with regulations (n=350).



6. UK and Canada: comparison and discussion of results

As developed economies become more regulated, there is a need for appropriate advice bodies to enable SMEs to understand and adjust to the regulatory requirements. Accountants have been shown to have strong ties with SMEs already, in relation to the management of accounts and their audit requirements. The results in these surveys show that this relationship has been built upon, and SMEs are engaging with accountants in dealing with other regulatory requirements. This chapter provides a comparison of the results from the UK and Canada. Care has to be taken when comparing these results, however, because of the differences in the structural base of the surveys. The most important difference between the two samples of SMEs is the publicly traded criterion for the Canadian sample.

In both Canada and the UK, the majority of SME respondents viewed the regulatory requirements of their business as 'reasonable' (see Fig. 6.1 on page 42). There were some differences between different regulation areas and these appear to relate to the national context of SMEs. Generally, respondents in the UK were less likely to view the regulatory requirements as reasonable. This difference was accentuated in relation to employment regulations: four out of ten SMEs in the UK disagreed that these were reasonable compared with under 5% in Canada.

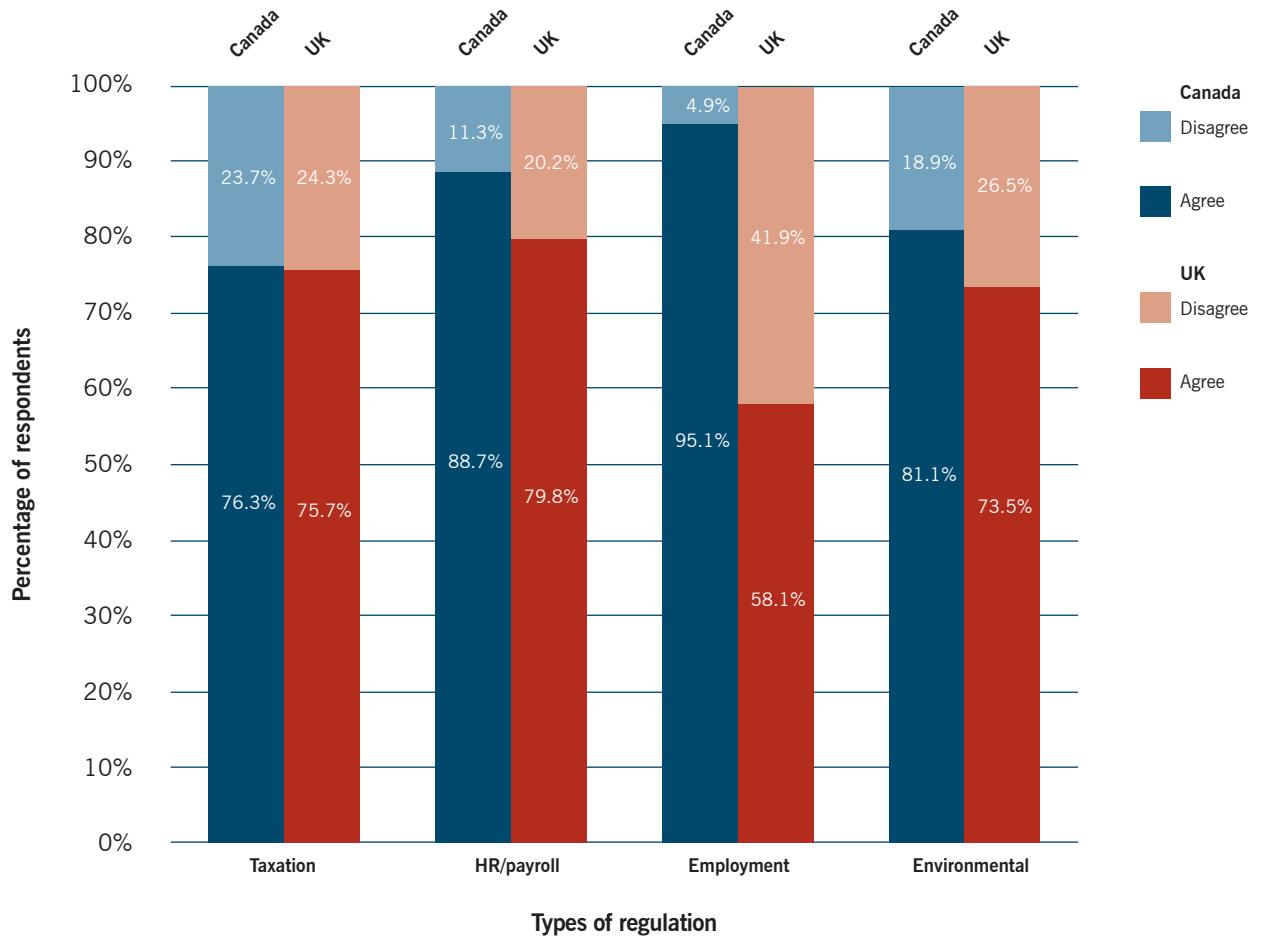
Although regulations were generally considered reasonable in both countries (see Fig 6.2 on page 43), 'quantity', 'inequity', 'change' and 'complexity' were all considered of highest concern in both countries, while timing was of least concern. Generally, levels of concern tended to be higher in Canada than in the UK. 'Inequity' is of relatively greater concern in Canada, and 'quantity' is of relatively greater concern in the UK.

In both countries, the majority of SMEs rated their accountants as 'excellent' or 'good' in the four areas covered (see Fig. 6.3 on page 44). In both countries, value of service was rated lowest, although even here six out of ten still rated it as good or excellent.

The above analysis provides a picture of similarities and differences in Canada and the UK. The reasons for these are complex and include socio-legal-economic factors as well as the particular regulatory regimes in which the SMEs operate. For example, the World Bank report (2006) rates Canada fourth in the world for 'ease' of doing business compared with ninth for the UK. There are also factors that relate to the particular differences between the samples. For example, in Canada there is well-developed regulatory framework for publicly traded businesses in relation to securities (see Chapter 4) and this has also undergone development recently. In the UK, the area of employment regulation is well established and has undergone expansion in the past decade (Blackburn and Hart 2002). These different general and specific contexts provide some explanation for the differences found in this research.

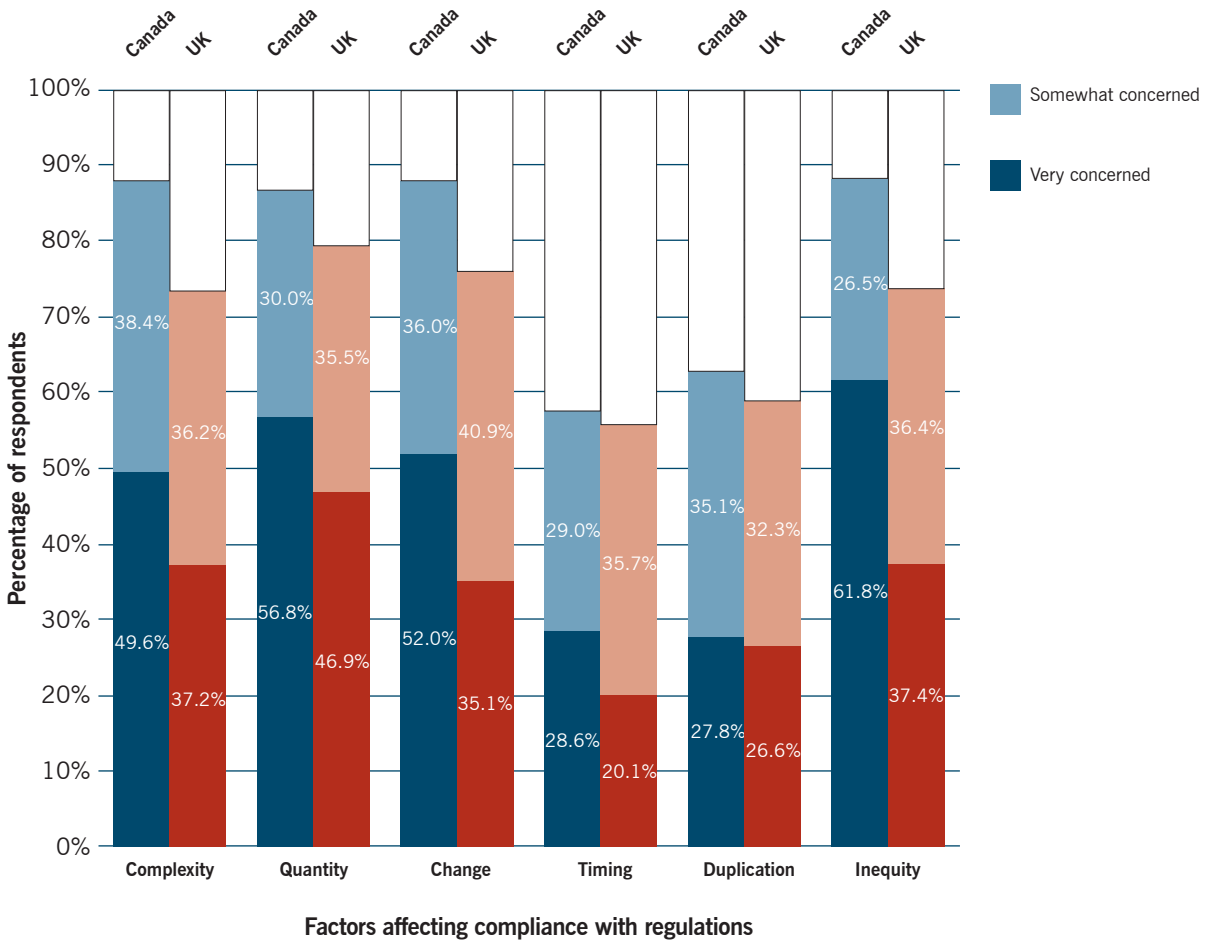
Surveys elsewhere have shown that the growth of regulations has stimulated a search for external advice among SMEs. Hence the results presented here show that, in these two developed economies, the market for business advice in relation to regulation is vigorous. In both economies studied, accountants are regarded as key sources of advice in helping SMEs and the implication of these findings is that the market will continue to expand.

Figure 6.1: Levels of agreement that regulations are reasonable in Canada and the UK.



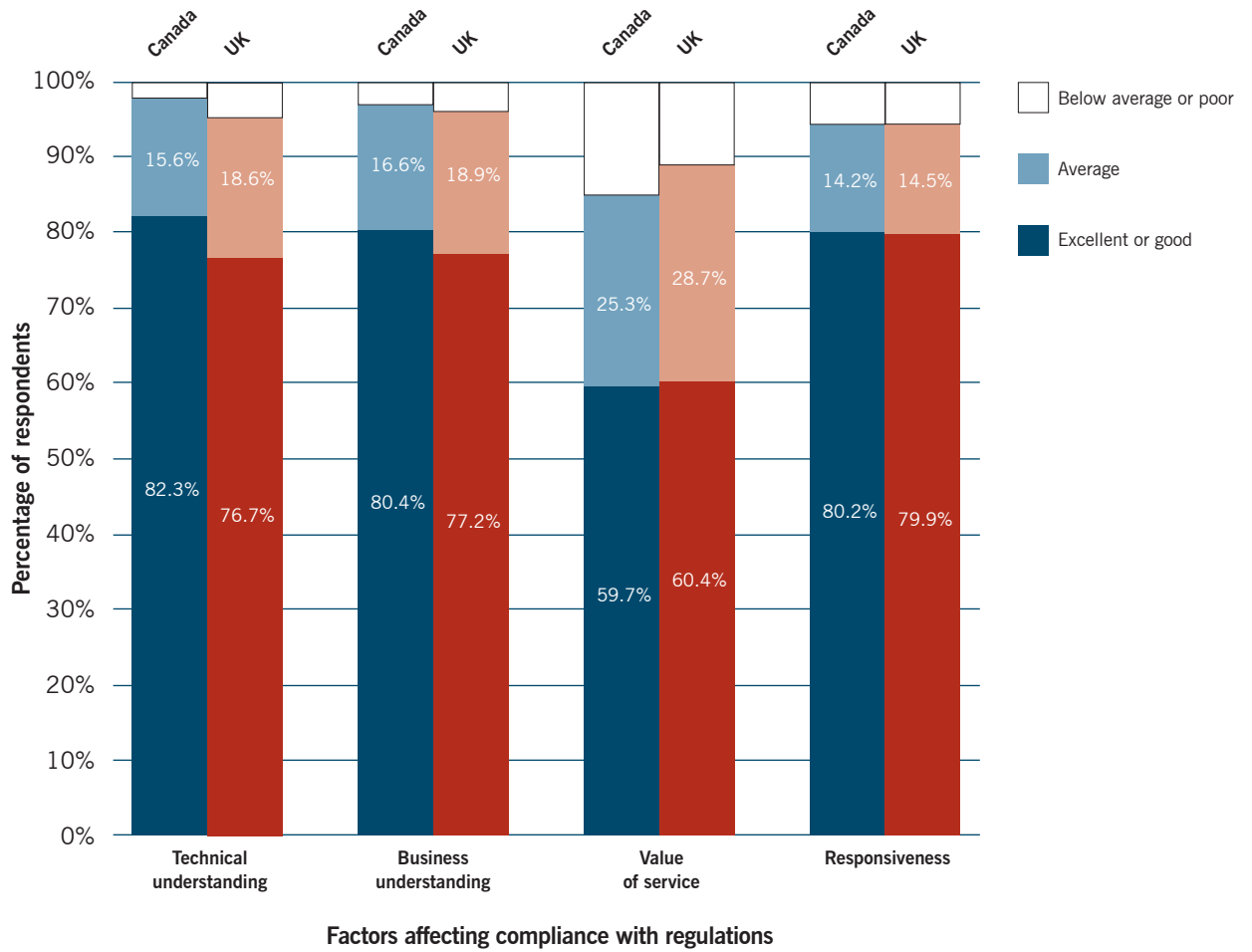
Note: Figures exclude 'no responses' or 'don't know' responses.

Figure 6.2: Levels of concern about regulation in Canada and the UK.



Note: Figures exclude 'no responses' or 'don't know' responses.

Figure 6.3: Rating of accounting advice in Canada and the UK.



Note: Figures exclude 'no responses' or 'don't know' responses.

7. Conclusions

Research to date has tended to show that one of the main effects of regulation on SMEs has been to increase their use of external advisers. This report presents results on the advice-seeking activities of SMEs with a special focus on the use of accountants in the UK and Canada. The report also presents results from surveys of accountants in the UK and Canada focusing on their experiences and views of the SME market and their perception of the effects of regulation on SMEs.

Despite the differences in the sampling bases between the UK and Canada, the surveys reveal some similarities as well as differences. Overall, the results show that SMEs use accountants more than any other single source, as their main provider of advice in relation to dealing with their regulatory obligations. Undoubtedly, SMEs are using tried and tested sources of advice but they also rated highly the technical competence of accountants in relation to regulation matters. This finding seems to be the case even for publicly traded SMEs (as in Canada) or private businesses (as in the UK). Second, the quality of advice from accountants is highly rated. However, in both the UK and Canada advice from accountants was considered to be relatively expensive by a significant minority of SMEs.

There also appears to be a relationship between the recent changes in the regulatory environment and the views of SME respondents. In Canada, securities regulation was considered least reasonable while in

the UK this applied to employment regulation. These findings seem to be related to a strengthening of regulation in these areas. In both Canada and the UK, however, it appeared to be the volume, or cumulative burden of regulation that was the most cause for concern. The views and experiences of accountants echoed many of the responses of the SMEs.

This report is intended to be the first stage in an attempt to provide a more global picture of the effects of regulation on advice-seeking by SMEs and how accountants can help SMEs meet their regulatory obligations. Quite clearly, from this initial study of two geographical areas, accountants are central to the SME advisory process.

A number of implications and areas for further research can be drawn from the study. First, it is important that the experiences and views of accountants are consulted by regulatory agencies and government as the regulatory frameworks of economies are changed and new regulations are introduced, or established regulations are scrapped. Second, accountants need to consider the views of some clients that their services are expensive. This may require them to review their pricing for SME services, as well as to provide clients with clear explanations for the fees charged. Finally, SMEs themselves need to be able to review the services they receive from accountants, particularly if they consider them expensive, and discuss with accountants the portfolio of services they receive and the pricing structure for advice about regulation.



Appendix 1: ACCA UK regulation survey of SMEs

May I please speak with [*name from listing*]?

If not available, schedule call-back.

If available, continue.

Good morning/afternoon, my name is [*interviewer name*] and I am calling today on behalf of ACCA, the Association of Chartered Certified Accountants. ACCA, together with CGA-Canada, a leading body of Canadian accountants, is conducting research to assess various aspects of the regulatory environment of small and medium-sized businesses.

Your views are very important to this research. The results of this survey will be used by ACCA and CGA-Canada to strengthen further their understanding of regulations and small firms and to help improve the service offered by accountants to their clients.

We are calling today to see whether you would be willing to participate in a short, five-minute survey on this issue. Your responses will remain anonymous and confidential to the survey.

Would you be interested in participating?

If no, thank and terminate.

If yes, ask: Do you have time right now or can I arrange another time?

If respondent asks to verify the survey: You can verify the validity of this survey by calling Caroline Oades at ACCA on 020 7059 5740.

To begin, how many people work in your organisation, including owner-managers or partners? (n=515)

<u>Sole trader</u>	<u>7.4%</u>
<u>2 to 9</u>	<u>28.9%</u>
<u>10 to 49</u>	<u>14.8%</u>
<u>50 to 249</u>	<u>48.9%</u>

A. REGULATORY QUESTIONS

A1. I am going to read out a statement about each of the areas of regulation that are relevant to your business. Please tell me whether you agree or disagree with each statement (n=515).

Randomise topics

STATEMENT	Median	Agree strongly (1)	Agree somewhat (2)	Disagree somewhat (3)	Disagree strongly (4)	Don't Know
The tax filing requirements of my business are reasonable	2	15.9%	53.0%	13.4%	8.7%	8.9%
The payroll regulations of my business are reasonable	2	17.7%	55.3%	12.6%	5.8%	8.5%
The employment regulations that relate to my business are reasonable	2	13.0%	42.5%	21.6%	18.4%	4.5%
The environmental regulations that relate to my business are reasonable	2	18.1%	53.0%	17.1%	8.5%	3.3%
The health and safety regulations that relate to my business are reasonable	2	22.9%	47.6%	17.3%	10.3%	1.9%

A2. Please tell me whether you are very concerned, somewhat concerned, not very concerned or not at all concerned about each of the following as they apply to the regulations affecting your business.

Read list. Randomise.

Complexity – ie the ease of understanding regulations (n=515)

Very concerned	36.7%
Somewhat concerned	35.7%
Not very concerned	20.4%
Not at all concerned	5.8%
Don't know	1.4%

Quantity – ie the number of regulations (n=515)

Very concerned	46.4%
Somewhat concerned	32.2%
Not very concerned	15.5%
Not at all concerned	4.9%
Don't know	1.0%

Change – ie staying up to date with new or changing requirements (n=515)

Very concerned	34.6%
Somewhat concerned	40.4%
Not very concerned	17.9%
Not at all concerned	5.8%
Don't know	1.4%

Timing – ie the timing of requirements is in harmony with your business cycle (n=515)

Very concerned	19.0%
Somewhat concerned	33.8%
Not very concerned	31.7%
Not at all concerned	10.1%
Don't know	5.4%

Duplication – ie the same information being required by more than one government department (n=515)

Very concerned	25.6%
Somewhat concerned	31.1%
Not very concerned	29.3%
Not at all concerned	10.3%
Don't know	3.5%

Inequity – ie the cost of the regulations in proportion to the size of your business (n=515)

Very concerned	36.3%
Somewhat concerned	35.5%
Not very concerned	19.2%
Not at all concerned	6.4%
Don't know	2.5%

B. PRACTITIONER QUESTIONS

I now have some questions about the assistance your business draws on to help satisfy its regulatory obligations.

B1. I am going to read out a list of external sources of advice for businesses. As I read each one out, would you tell me whether – in the last 12 months – your business has been provided with advice on the regulations that apply to your business from that external source?

Randomise; code all that apply

Have you received advice about regulations in the past 12 months from: (n=515)

Accountant/accounting firm	75.1%
Bank	54.2%
Business Link	29.7%
Government agency	41.7%
Lawyer/solicitor	53.6%
General business information supplier	31.5%
Family member/friend/colleague outside your business	36.5%
Trade body	49.9%
Federation of Small Businesses	7.8%
Other	7.6%
None	3.7%

If Yes, ask B2 for each question in sequence.

B2. How satisfied are you with the advice provided to you about the regulation issues that apply to your business by...

Randomise: ask for each indicated in Q B1

External source	Very satisfied	Somewhat satisfied	Neither satisfied nor dissatisfied	Somewhat dissatisfied	Dissatisfied	Don't Know
Accountant/accounting firm (n=387)	46.3%	42.1%	7.8%	1.8%	1.8%	0.3%
Bank (n=279)	34.8%	41.9%	11.1%	6.1%	5.0%	1.1%
Business Link (n=153)	29.4%	41.8%	17.6%	4.6%	3.3%	3.3%
Government agency (n=215)	20.0%	45.8%	17.7%	10.2%	5.6%	0.9%
Lawyer/solicitor (n=276)	41.3%	44.6%	8.3%	2.5%	1.8%	1.4%
General business information supplier (n=162)	23.5%	51.9%	18.5%	3.1%	0.6%	2.5%
Family member/friend/ colleague outside your business (n=188)	30.9%	48.4%	14.9%	2.7%	1.6%	1.6%
Trade body (n=257)	33.9%	48.2%	16.0%	1.2%	0%	0.8%
FSB (n=40)	30.0%	50.0%	10.0%	5.0%	2.5%	2.5%
Other 1 (n=33)	42.4%	42.4%	9.1%	0%	0%	6.1%
Other 2 (n=4)	50.0%	25.0%	25.0%	0%	0%	0%
Other 3 (n=2)						100%

If an organisation has not used an external accountant or accounting firm for any of the regulatory areas (QB1A to E all equal no (codes 3 or 4) then go to section C).

B3. Thinking of those regulatory areas for which you have used an external accountant or accounting firm within the last 12 months, how would you rate the service provided overall? Was their overall performance excellent, good, average, below average or poor? (n=382)

Excellent	32.6%
Good	46.5%
Average	15.5%
Below average	2.1%
Poor	1.6%
Don't Know	1.6%

B4. And using the same scale of excellent, good, average, below average or poor, how would you rate the service provided by the external accountant or accounting firm in each of the following areas?

	Excellent	Good	Average	Below average	Poor	Don't Know
Technical understanding of the regulatory requirements that apply to your organisation (n=387)	31.8%	42.9%	18.1%	3.6%	1.0%	2.6%
Understanding of your business and its operations	31.0%	45.0%	18.6%	2.6%	1.3%	1.6%
Ability to meet your business needs	32.6%	45.0%	17.6%	1.8%	1.8%	1.3%
Value of service provided considering fees charged	20.9%	37.7%	27.9%	7.0%	3.6%	2.8%
Responsiveness of service	31.0%	47.3%	14.2%	2.8%	2.6%	2.1%
Potential for long-term relationship with your business	40.6%	40.1%	10.3%	3.1%	3.4%	2.6%

C. RESPONDENT PROFILE

C1. What is your annual turnover (most recent year or estimated current year)? (n=515)

Under £50k	9.5%
£50k to £99K	5.4%
£100K to £149K	4.3%
£150K to £499K	8.7%
£500K to £999K	7.2%
£1m to £5m	20.8%
Over £5m	24.5%
Refused	19.6%

C2. What is your position or title? (n=515)

Owner/manager	37.1%
Partner	9.1%
Company Secretary	3.7%
MD/Managing Director	18.8%
CEO/Chief Executive	0.2%
Finance director	11.8%
Other (specify)	19.2%

C3. Would you like to be provided with a copy of the results of this survey?

If 'yes' ask for respondent's email address

1. Yes (*record email address*)
2. No

(C4 – C8 will be populated automatically from the database)

C4. Company name

C5. Company location (province)

C6. Respondent's name

C7. Respondent's phone number

C8. Industry

C9. The results of this survey will be released and presented in 2006. At that time, ACCA and CGA-Canada aim to bring together public-policy makers, MPs, accounting practitioners, and SMEs such as yourself, to discuss regulations and their impact on small and medium-sized organisations. Would you like to know more about this presentation when more detail becomes available?

1. Yes (*Record name & email if not provided above*)
2. No, not interested

C10. That completes our questions – is there anything you would like to add? (Record comments)

Thank you for your responses today. They are very important to ACCA and CGA-Canada.

SUMMARY OF UK SURVEY

Telephone survey among SMEs in the UK.

Industry sector	No of employees		Total number of businesses surveyed
	1-49	50-249	
Construction	55	50	105
Manufacturing	50	51	101
Hotels and catering	54	51	105
Retail and wholesale	53	50	103
Haulage	51	50	101
Total number of businesses surveyed	263	252	515

Notes:

Response rate: 9%

Research conducted November/December 2005.



Appendix 2: CGA-Canada regulation survey

ACCA/CGA-CANADA REGULATION SURVEY: PRACTITIONER VERSION 1.3

Much is written about the impact of regulation on small and medium-sized businesses (SMEs) – those employing fewer than 250 employees. Accountants are known to be an important source of advice to small and medium-sized businesses and ACCA would like to know more about the role that these professionals play in helping SMEs* with regulation-related issues.

ACCA is conducting research to assess the effect of the changing regulatory environment of small and medium-sized businesses on their relationships with accountants. The results of this survey will be used to strengthen further our understanding of the regulatory environment for SMEs and enable us to develop and improve guidance to members, and to lobby policy makers on their behalf.

As the fastest-growing international accounting body, we are keen to understand this issue on an international basis. Therefore, we have teamed up with CGA-Canada, a leading professional body of Canadian accountants, who are conducting this survey in their country as well.

If your firm provides advice to SME clients on regulation, your views and perceptions are very important to this research. ACCA and CGA-Canada would be very grateful if you would share these views with us by completing this survey. **The survey has around ten questions only and is likely to take less than five minutes to complete.** Please be assured that all responses will remain anonymous and confidential to the research.

The results of the research will be announced at an event early next year. If you and/or your colleague(s) would like to be invited to join us at the event, please indicate your interest in the space provided at the end of this questionnaire.

Thank you for your time.

***NOTE:**

For the purpose of this research, an SME client is one that:

- employs fewer than 250 people
and
- has an annual turnover of equal to or less than €50 million (£34m GBP/\$69.5m CAD).

1. Does your firm provide advice to SMEs on issues relating to regulation – that is, in relation to complying with regulations related to tax, HR/payroll, employment, environment, and health and safety? (n=319)

Yes	96.9%
No	3.1%

2. We are interested to learn how regulation issues have affected your relationship with your SME clients. The table below shows various different areas of regulation. For each one, please would you indicate your perception of whether the amount of business your firm has conducted with SME clients has increased or decreased in the past two years?

Please tick all that apply.

	<u>Increase in business from SME clients in past 24 months</u>	<u>No change in the amount of business from SME clients in past 24 months</u>	<u>Decrease in business from SME clients in past 24 months</u>	<u>No advice given to SME clients on this area of regulation in past 24 months</u>	<u>Don't Know</u>
Taxation (n=273)	77%	22%	1%	0%	0%
HR/Payroll (n=273)	75%	23%	1%	2%	0%
Employment eg minimum wage (n=269)	42%	43%	1%	12%	3%
Environmental, eg emissions; climate change levy (n=268)	3%	20%	0%	75%	2%
Health and safety, eg fire assessments; COSHH (n=270)	9%	19%	1%	70%	2%

3. In which ONE area of regulation do you think your firm has seen the biggest growth in business from SMEs in the past two years (ie in terms of advising SME clients)? (n=272)

Area of regulation	Biggest increase in advice to SME clients in past 24 months
Taxation	59.9%
HR/Payroll	21%
Employment	12.5%
Environment	0%
Health and safety	0.4%
Other	1.8%
Don't know	4.4%

4. Does your firm employ one or more specialist advisers who assist SME clients with regulation issues? (n=274)

Yes	21.9%
No	77.7%
Don't know	0.4%

5. Do you/your colleagues refer SME clients to other, external advisers for further advice on regulation-related issues? (n=274)

Yes	70.1%
No	28.1%
Don't know	0.4%

6. To which of the following external advisers does your firm refer SME clients for further advice on regulation-related issues? (n=192)

Please tick all that apply.

Adviser	SME clients referred to on regulation-related issues
Lawyer/solicitor	83.3%
Another accounting firm	39.1%
Payroll adviser	9.9%
Bank	27.6%
Business Link	17.2%
Government department/agency (but NOT Business Link)	23.4%
Trade body	17.7%
General business information supplier, eg Croners	12.5%
Other	33.9%
Don't know	0.5%

7. Based on your experience, how concerned do you think your SME clients are about each of the following when dealing with their respective regulatory requirements?

	Very concerned	Somewhat concerned	Not very concerned	Not at all concerned	Don't know
Complexity: understanding regulations (n=264)	44%	48%	6%	2%	0%
Quantity: dealing with the number of regulations (n=263)	60%	35%	5%	1%	0%
Changes: staying up to date with new or changing requirements (n=263)	44%	44%	10%	2%	0%
Timing: timing of requirements is not in harmony with business cycle or other requirements (n=263)	18%	43%	32%	4%	4%
Duplication: same information often required by different government departments (n=263)	25%	49%	21%	3%	2%
Inequity: regulations create a competitive disadvantage for SMEs (n=262)	45%	37%	13%	2%	2%

8. And in your view, of these concerns, about which ONE of these do your SME clients come to you for advice MOST? (n=263)

Please tick one only.

Complexity: understanding regulations	62%
Quantity: dealing with the number of regulations	12.5%
Changes: staying up-to-date with new or changing requirements	17.9%
Timing: timing of requirements is not in harmony with business cycle or other requirements	0.4%
Duplication: same information often required by different government departments	0.8%
Inequity: regulations create a competitive disadvantage for SMEs	2.3%
None of these	3%
Don't know	1.1%

9. In those instances where your firm does not provide advice to SME clients, about which of the following areas would your firm like to provide advice in the future? (n=236)

Please tick all that apply.

Area of regulation	Would like firm to provide advice on related issues in future
Taxation	18.2%
HR/payroll	13.6%
Employment	26.3%
Environment	11%
Health and safety	16.9%
None of these	41.5%

10. Thinking of your SME client base only, what percentage of your firm's total fee income derives from...? (n=236)
(% must add to 100)

Organisations with fewer than 10 employees	76.9%
Organisations with 10–49 employees	18.7%
Organisations with 50–249 employees	4.4%

11. That completes our questions in this survey – is there anything you would like to add in relation to your experiences of advising SMEs in relation to regulation?

Thank you.

CGA-CANADA SME SURVEY

1. How many employees (ie full-time equivalents) does your organisation employ?

<10	50.4%
10 to 50	32.0%
50 to 250	17.6%

2. What are your annual gross revenues (most recent year or estimated current year)?

Less than \$3m	63.5%
\$3m to just less than \$15m	17.2%
\$15m to just less than \$75m	17.6%
\$75m or more	1.6%

3. What is the value of your total balance sheet assets (ie from most recent balance sheet)?

Less than \$3m	34.4%
\$3m to just less than \$15m	34.8%
\$15m to just less than \$65m	23.0%
\$65m or more	7.8%

If respondent is an SME (ie answers a, b or c for Question 1 AND a, b or c for Question2 OR Question3), go to question 4, otherwise end interview.

4. For each of the following statements, please tell me whether you agree or disagree and whether the issue or statement is important or not important.

Topic	Statement	Agree or disagree?	Important or not important?
TAXATION ie corporate tax, GST/PST	i. The tax filing requirements of your organisation are reasonable	Agree: 76.3% Disagree: 23.8%	Important: 77.9% Not important: 22.1%
HR/PAYROLL ie ROE, Payroll remittances (tax, CPP, EI), Annual RPP and Remuneration summaries	ii. The human resource and payroll filing requirements of your organisation are reasonable	Agree: 88.7% Disagree: 11.3%	Important: 58.6% Not important: 41.4%
SECURITIES REGULATIONS ie financial statements, MD&A, AIF, Information Circulars, Audit, CEO/CFO certification	iii. The securities regulatory requirements of your organisation are reasonable	Agree: 38.3% Disagree: 61.7%	Important: 96.0% Not important: 4.0%
EMPLOYMENT STANDARDS ie vacation, overtime, statutory holidays, notice requirements	iv. The employment standards that relate to your organisation are reasonable	Agree: 95.1% Disagree: 4.9%	Important: 62.9% Not important: 37.1%
ENVIRONMENTAL ie waste disposal, care/use chemicals, recycling, transportation of harmful materials, water/sewage treatment, air quality, packaging requirements, wildlife/habitat protection	v. The environmental regulations that relate to your organisation are reasonable	Agree: 81.1% Disagree: 18.9%	Important: 71.4% Not important: 28.6%

5. Are you very concerned, somewhat concerned, not very concerned or not at all concerned about each of the following as they apply to the regulations that pertain to your organization.

Category	Complexity	Quantity	Changes	Timing	Duplication	Inequity
Very concerned	49.6%	56.8%	52.0%	28.6%	27.8%	61.8%
Somewhat concerned	38.4%	30.0%	36.0%	29.0%	35.1%	26.5%
Not very concerned	10.0%	10.4%	7.6%	32.0%	28.6%	8.0%
Not at all concerned	2.0%	2.8%	4.4%	10.4%	8.5%	3.6%

6. Within the last year, for which of the following regulatory areas, if any, did you require the assistance of an external accountant or accounting firm? Did the external accountant or accounting firm have the primary role in ensuring compliance with the applicable regulation, or a secondary role?

Regulatory area	Primary role	Secondary role	Assistance (Yes)	Assistance (No)
Taxation	53.1%	32.5%	85.6%	14.4%
HR/payroll	7.0%	7.8%	14.8%	85.2%
Securities	24.0%	48.8%	72.8%	27.2%
Employment standards	2.9%	4.9%	7.8%	92.2%
Environmental	2.1%	5.4%	7.5%	92.6%

If required assistance in Q6, go to Q7, otherwise go to Q8.

7. Using a scale of excellent, good, average, below average or poor, how would you rate the service provided by the external accountant or accounting firm you used in the past year in each of the following areas?

Regulatory area	Technical understanding	Business understanding	Explanation of work performed	Value of service performed	Responsiveness of service
Excellent	38.1%	34.2%	30.0%	15.0%	35.6%
Good	44.2%	46.2%	48.1%	44.7%	44.6%
Average	15.6%	16.6%	12.9%	25.3%	14.2%
Below Average	1.3%	2.1%	3.0%	5.6%	3.0%
Poor	0.9%	0.9%	6.0%	9.4%	2.6%

8. Do you agree or disagree with the following statements relating to recently introduced securities regulations? Are these issues important or not important?

a. New continuous disclosure obligations (ie *National instrument* 51–102), which include new deadlines and disclosure requirements for the filing of financial statements and the MD&A.

	Agree or disagree	Important or not important
i. This regulation has improved the quality of your organisation's financial reporting	Agree: 33.9% Disagree: 66.1%	Important: 80.5% Not Important: 19.5%
ii. The additional costs required to comply with this regulation are justified given the need to enhance investor confidence in the integrity of Canada's capital markets	Agree: 33.6% Disagree: 66.4%	Important 85.1% Not Important 14.9%

b. New certification requirements over annual and interim filings (ie *Multilateral instrument 52–109*), which requires CEO and CFO certification of annual and interim financial statements and the MD&A, as well as the Annual Information Form.

	Agree or disagree	Important or not important
i. This regulation has improved the quality of your organisation's financial reporting	Agree: 25.3% Disagree: 74.7%	Important: 70.5% Not important: 29.5%
ii. The additional costs required to comply with this regulation are justified given the need to enhance investor confidence in the integrity of Canada's capital markets	Agree: 36.3% Disagree: 63.7%	Important: 79.1% Not important: 20.9%

c. Proposed securities regulations relating to the reporting on internal control over financial reporting (ie proposed *Multilateral instrument 52–111*), which proposes CEO and CFO certification of a company's internal controls similar to that currently required in the US.

	Agree or disagree	Important or not important
i. This regulation is necessary to improve the quality of financial reporting in Canada	Agree: 25.8% Disagree: 74.2%	Important: 72.9% Not important: 27.1%
ii. In developing this regulation, securities regulators have appropriately dealt with the concerns of smaller entities	Agree: 15.1% Disagree: 84.9%	Important: 85.8% Not important: 14.2%

9. What suggestions, if any, do you have to improve any of the regulations mentioned in this survey so that they better address the concerns of smaller entities?

10. Would you like to be provided with a copy of the results of this survey?

Thank you for responses today. They will be of great assistance to CGA-Canada.

CGA-CANADA PRACTITIONER SURVEY

1. Based on your understanding of all existing regulatory requirements applicable to businesses in Canada, what best describes your general view of these regulations as they apply to small or medium-sized entities?

Fair	32.5%
Somewhat fair	36.0%
Somewhat unfair	22.2%
Unfair	9.4%

2. Using the same scale of fair, somewhat fair, somewhat unfair or unfair, how would you rate the requirements of small or medium-sized entities for each of the following regulations?

Regulatory area	Taxation	HR/Payroll	Securities	Employment standards	Environmental
Fair	37.2%	53.6%	50.0%	50.9%	49.5%
Somewhat fair	29.8%	24.1%	28.5%	27.0%	28.4%
Somewhat unfair	19.0%	15.1%	13.1%	13.1%	13.7%
Unfair	14.0%	7.2%	8.4%	9.0%	8.4%

3. Based on your experience, do you think small and medium-sized entities are very concerned, somewhat concerned, not very concerned or not at all concerned about each of the following when dealing with their respective regulatory requirements.

Category	Complexity	Quantity	Change	Timing	Duplication	Inequity
Very concerned	58.9%	50.1%	37.5%	27.7%	47.0%	48.1%
Somewhat concerned	30.0%	38.4%	45.5%	48.4%	34.9%	40.3%
Not very concerned	9.4%	9.2%	15.3%	18.7%	14.4%	9.3%
Not at all concerned	1.7%	2.3%	1.7%	5.2%	3.7%	2.3%

4. For which of the following regulatory requirements have you provided advice or assistance to a small or medium-sized client in the last year?

Regulatory area	Yes	No
Taxation	98.2%	1.8%
HR/Payroll	91.5%	8.5%
Securities	12.4%	87.6%
Employment standards	84.4%	15.6%
Environmental	11.8%	88.2%

5. In which area would you say you are the most qualified to provide advice or assistance to a small or medium-sized entity? And in which area would you say you are the least qualified to provide advice or assistance to a small or medium-sized entity?

Regulatory area	Most qualified	Least qualified
Taxation	92.9%	1.2%
HR/Payroll	5.0%	0.3%
Securities	0.3%	25.0%
Employment standards	1.5%	0.6%
Environmental	0.3%	72.9%

6. Do you agree or disagree with the following statements relating to recently introduced securities regulations? Are these issues important or not important?

a. New continuous disclosure obligations (ie *National instrument* 51–102) include new deadlines and disclosure requirements for the filing of financial statements and the MD&A.

	Agree or disagree	Important or not important
i. This regulation has improved the quality of financial reporting in Canada	Agree: 69.4% Disagree: 30.6%	Important: 87.5% Not important: 12.5%
ii. This regulation has sufficiently addressed the concerns of small and medium-sized entities	Agree: 50.5% Disagree: 49.5%	Important: 81.6% Not important: 18.4%

b. New certification requirements over annual and interim filings (ie *Multilateral instrument 52–109*), which requires CEO and CFO certification of annual and interim financial statements and the MD&A, as well as the Annual Information Form.

	Agree or disagree	Important or Not important
i. This regulation has improved the quality of financial reporting in Canada	Agree: 75.3% Disagree: 24.7%	Important: 90.5% Not important: 9.5%
ii. This regulation has sufficiently addressed the concerns of small and medium-sized entities	Agree: 56.6% Disagree: 43.4%	Important: 81.1% Not important: 18.9%

c. Proposed securities regulations related to the reporting on internal control over financial reporting (ie proposed *Multilateral instrument 52–111*), which proposes CEO and CFO certification of a company's internal controls similar to that currently required in the US.

	Agree or disagree	Important or Not important
i. This regulation is necessary to improve the quality of financial reporting in Canada	Agree: 82.5% Disagree: 17.5%	Important: 88.4% Not important: 11.6%
ii. In developing this regulation, securities regulators have appropriately dealt with the concerns of smaller entities	Agree: 55.4% Disagree: 44.6%	Important: 85.4% Not important: 14.6%

7. What suggestions, if any, do you have to improve any of the regulations mentioned in this survey so that they better address the concerns of smaller entities?

8. What is your current position?

Sole owner	76.3%
Partner	18.0%
Manager	3.4%
Other	2.0%
Unknown	0.3%

9. How many designated accountants are employed at your firm?

One	71.7%
Two	14.9%
Three	7.1%
Four or more	6.3%

10. What is your organisation's primary source of revenue?

Audit	2.9%
Other assurance	11.4%
Taxation	35.7%
Bookkeeping/FS preparation	42.3%
Business consulting	4.0%
Other	2.9%
Unknown	0.9%

11. Which of the following are represented in your client base (choose all that apply)?

< 10 employees	80.9%
11 to 50 employees	51.4%
50 to 250 employees	15.1%
250+ employees / Publicly-traded	1.4%

12. Would you like to be provided with a copy of the results of this survey?

Thank you for responses today. They will be of great assistance to CGA-Canada.



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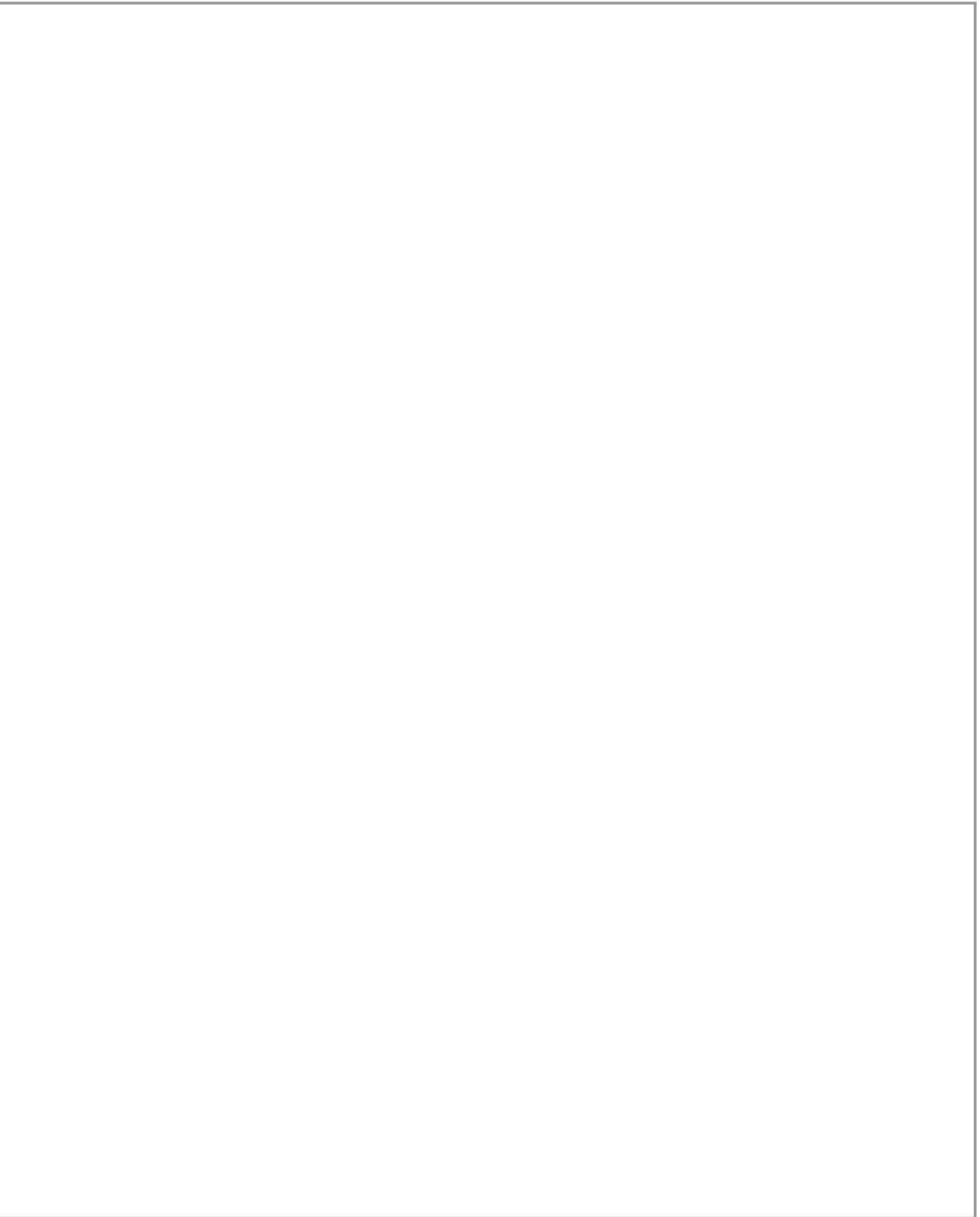
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