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Business, Energy
& Industrial Strategy

BUSINESS REGULATION

Understanding business' perceptions and
behaviour

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Executive summary

Context

The Better Regulation Executive (BRE) leads the regulatory reform agenda across government. It works with government departments to monitor the measurement of regulatory burdens and coordinate their reduction, and to ensure that the regulation which remains is smarter, better targeted and less costly to business.

As a flagship policy of the Government, the Industrial Strategy sets out the long-term plan to boost the productivity and earning power of people throughout the UK. The strategy includes a government commitment to support businesses with regulation that stimulates and facilitates innovation; and to ensure that regulation is as simple as possible.

Method

The research for this study comprised 45-60 minute in depth semi-structured telephone interviews with 30 SME business decision-makers (owner-managers) in the manufacturing or retail sectors and five representatives of a range of intermediary organisations providing advice on different types of regulation, excluding tax. The fieldwork was undertaken in February and March 2019.

The resulting interview transcripts were coded and thematically analysed. The analysis was guided by a behavioural framework based on Michie, Atkins and West's COM-B model (2014)¹. In addition to reporting on the thematic findings regarding the study's main aims, the behavioural analysis is used to inform discussion on the implication for government communications regarding regulations. The summary findings below are collated under headings that express the study's aims.

Business' perceptions of whether and how regulation is burdensome

Business' understanding of "regulation" was tied up with *any* administrative activity that requires some external reporting or documentation. Owner-managers discussed a range of data used to prove adherence or compliance to external requirements in addition to statutory requirements such as compliance with standards, industrial sector bodies, etc. Few separated out their burdens relating to statutory regulations from other administrative activity for external actors. That business owner-managers consider non-government administrative activity in their responses is important because it affects their reaction and views towards the target regulations, and hence their behaviour. Reaction to statutory requirements is therefore usually part of a greater reaction to wider administration.

The interviews highlighted that regulatory compliance burdens are disproportionately felt by smaller businesses, especially where the time and resources required to administer regulations does not change in line with the size of the business. Likewise, it is the smallest businesses that are most adversely affected by changes in regulation. That said, when exploring how specific regulatory burdens impact business, most interviewees understood that regulations existed for a reason and they were necessary.

¹ Michie S, Atkins L, West R. (2014) *The Behaviour Change Wheel: A Guide to Designing Interventions*. London: Silverback

The administrative burden of regulation is important, especially where compliance is regarded as excessive or unnecessary rules (Bozeman, 1993)². The interview findings identify two physical constraints to regulatory compliance highlighted by most businesses: the time taken for administration and associated costs.

Time taken

The core issue is that time spent administering regulations could be spent doing other business activities, although the wider issues are more complex and cover: lifecycle – newer businesses can face a steep learning curve in identifying, understanding and administering regulations; growing business may take on new staff, create specialist roles and/or utilise intermediaries. Burden can lessen once administrative processes embed.

Regulatory process and data submissions were not always perceived as efficient. Owner-managers identified issues in providing repeat information (the same or very similar information at regular intervals) and submitting the same data for different regulators. Existing technological solutions used in some regulatory domains (pass-porting, once-only data submissions) were suggested as ways to address such burdens.

Changes in regulatory requirements also caused a short-term burden for some owner-managers as they adapted systems to maintain compliance. Typically, this burden reduced over time.

Costs associated with administration

Costs were considered in relation to the staff time needed for administration, or procuring external support to administer on the businesses behalf. Interviewees also made a few references to fixed costs for the infrastructure and equipment in which they invest to demonstrate compliance.

Analysis indicates that sector is a more significant indicator than business size as to whether a business will enlist external business support: fewer retail businesses used external support compared to manufacturing businesses. The associated regulatory environment is a likely factor in this difference. Retail businesses primarily provide a service (and hence adhere to customer-focused regulations) whereas manufacturing products can require a range of complex regulatory checks on production and products (safety, environmental, standards compliance).

However, intermediaries said smaller businesses were more likely to seek their help on how to administer regulations whereas medium-sized organisations were more interested in addressing specific knowledge gaps within their existing employees' regulatory expertise.

Why some businesses do not perceive burden

Four of the thirty owner-managers interviewed said that 'no regulations are a burden' to them during the screener exercise. They shared a view that regulations play an important role in encouraging businesses to behave consistently. They wished to ensure a 'level playing field' on which all organisations could operate.

² Bozeman B (1993) A theory of government "red tape", *Journal of Public Administration Research and Theory* 3(3): 273-303.

The two retailers in this small sub-sample were concerned with the competitive environment in providing services directly to customers. The two manufacturers were more concerned with the health and safety implications for their staff and the impact of manufacture on the environment.

The positive impacts of regulation on business activity

The rationales for, and consequences of, compliance reported by owner-managers are categorised based on how they relate to an OECD categorisation of regulations (OECD, 1997)³: **economic** regulations directly govern market decisions in some way; **social** regulations protect the public (and customer) interests; and **administrative** regulations collect data and information to monitor individual economic decisions.

Economic

Many owner-managers said proving compliance enabled them to maintain or enhance their reputation customers, whether members of the public and/or other businesses in their supply chain or clients. In some cases, proven adherence to regulations acted as a license to practice and some owner-managers associated regulatory compliance with winning business / supply chain contracts.

Complying with regulations is perceived by some businesses as an effective way to compete successfully in the international market place. One aspect of this, is the example of businesses being able to profit from what they consider to be the high esteem with which the UK's regulatory system is perceived internationally.

Social

The overwhelming majority of businesses and intermediaries interviewed recognised the importance regulations play in securing the health and safety of customers and/or their employees. These businesses accepted that regulatory constraints were necessary to reduce the risk of harm occurring for anyone.

Several business owner-managers valued environmental protection regulations. They felt it important that their businesses was conscious of the environmental impact of their services and products. Environmental regulations encourage businesses to reduce waste and ensure the safe disposal of waste products

Administrative

Many interviewees were motivated to comply to avoid sanctions for non-compliance which would have negative consequences on their business's profits and reputation. This incentive to comply with regulations was a strong motivator despite none of the interviewees recalling specific examples of peers who had been sanctioned as a result of non-compliance.

The regulatory constraints on business operations and growth

Several examples came to light where businesses viewed regulations as an obstacle to their business objectives.

³ OECD (1997). The OECD Report on Regulatory Reform: Synthesis. Organisation for Economic Co-operation and Development. Paris. <https://www.oecd.org/gov/regulatory-policy/2391768.pdf>

Some owner-managers of exporting manufacturing companies perceived regulations to have a negative impact on their competitiveness. These interviewees believed that less stringent regulatory regimes in competitor countries enabled their counterparts to sell the products they produce at a lower price as their regulatory requirements were lower.

A minority of owner-managers considered the burden of regulation to undermine the profitability of their companies (most of which appeared to be struggling financially). These businesses cited the impact of complying of employment law, such as minimum pay, holiday pay and sick pay, as well as pension regulation.

The findings show a difference between a small minority of businesses that question the overall purpose of regulations versus a larger group that were critical of particular elements of regulations. The former group felt government shifts responsibility for some policy areas (notably pension) onto businesses. The latter noted inconsistencies or illogical consequences relating to specific aspects of regulations (GDPR, fire safety, health and safety).

How government can communicate with businesses to influence these perceptions and behaviours

Behavioural considerations

The COM-B model describes a series of policy intervention methods ("functions") that can be used to categorise and describe behaviour. The interventions that may have a positive influence on businesses' regulatory behaviours suggested by the evidence are as follows. There are a number of existing examples in which communications regarding regulation adopt the following approaches. These suggestions are provided more as a potential checklist against which current communication methods can be assessed for fitness of purpose.

Education: Vary messaging to businesses and intermediaries based on the complexity of skills require to administer regulations. Signpost to intermediary services if past experience shows a business lacks the required skills to effectively administer.

Persuasion: Actions taken to remove or streamline regulatory practice may not affect deep-rooted perceptions that are not necessarily based on identifiable experiences. Use examples of desirable behaviour where possible / practicable.

Reward / incentives: A clear, causal link with compliance to positive business impacts would create a positive communication message.

Coercion / cost: Use clear messaging and a rationale for the proportionality of sanction for non-compliance. Tailor messaging to be proportionate to the compliance breach.

Modelling: Use sector-specific case studies and examples in communications which express a clear link between positive business outcomes and regulatory compliance.

Potential avenues for communication based on behavioural principles

Suggestions of how to potentially adapt communications about business regulations in order to alleviate negative perceptions about burden are considered. As above, we present this outline as a checklist rather than a call-to-action.

Method	Ways in which method may influence business' perceptions of burden
<p>Clearly state the purpose of regulations, the anticipated audience, to whom the regulation is relevant and the implications for businesses to ensure compliance.</p> <p>Align communications to the sector, products and services.</p> <p>Use case studies / examples that demonstrate a link to compliance and positive business outcomes.</p>	Spend less time understanding a regulation, how it applies to them, and the action they need to take.
	Reduce or target investment in business.
	Understand the reasons for and/or anticipated benefits of the regulation which might align with their business strategy or personal values.
<p>Develop a checklist of all business regulations specifying the types of business to which they apply. Structure by industrial sector. Include remote, direct methods to acquire appropriate information, advice and guidance.</p>	Reduce the time businesses spend trying to identify regulations applicable to them.
	Ensure businesses have the opportunity to be fully informed about the range of regulations to which they should comply.
	Minimise the stress on business owner-managers by providing certainty about the regulations with which they should comply.
<p>Develop repositories of / further utilise existing core data for businesses e.g. contact details and firmographics for passporting / auto-completion. Learn from existing practice in this area.</p>	Reduces the time required to complete forms.
	Minimises the frustration caused by having to declare the same information on multiple occasions.

Introduction and methodological summary

The Department for Business, Energy & Industrial Strategy (BEIS) commissioned CFE Research to undertake a small-scale exploratory qualitative study to understand the underlying drivers behind business' views around regulatory burden. Herein, the attitudes and behaviour of businesses (or, more correctly, business decision-makers) in relation to regulatory administration and compliance is reported. Issues covering taxation were purposefully excluded from the research aims. The report also covers communication content and methods concerning regulation. In addition, the findings will help inform potential behavioural insight trials and guide BEIS towards the best potential methods of communicating about regulation to businesses and advisors. For that reason, a separate behavioural analysis chapter is also included.

Context

The Better Regulation Executive (BRE) leads the regulatory reform agenda across government. It works with government departments to monitor the measurement of regulatory burdens and coordinate their reduction, and to ensure that the regulation which remains is smarter, better targeted and less costly to business. The Government's Better Regulation Framework strives to promote good policy making with regulatory decisions based on robust, high quality evidence and insights (BEIS, 2018)⁴.

BRE has conducted a regular cross-sectional survey around business' perceptions of regulation (BPS) since 2007. During this time, the number of businesses that perceive the regulation to be burdensome has come down but this still remains relatively high. The BPS goes to 2,000 businesses across the UK and includes longitudinal questions on regulatory burdens. In the 2018 BPS, one in six businesses (17%) picked regulation as the greatest challenge among a variety of issues that could affect businesses. When asked directly, two in five businesses (40%) agreed that "complying with regulation in the UK is an obstacle to your business' success"⁵. However, views vary depending on size of business and sector.

As a flagship policy of the Government, the Industrial Strategy sets out the long-term plan to boost the productivity and earning power of people throughout the UK⁶. The strategy includes a government commitment to support businesses with regulation that stimulates and facilitates innovation; and to ensure that regulation is as simple as possible. The Industrial Strategy, in keeping with the BRE, is committed to ensuring regulation is proportionate and is only used where non-regulatory interventions could not achieve the intended outcomes. To be effective the Industrial Strategy needs to be embedded throughout the state, and this will constitute considerable regulatory power where effective.

⁴ BEIS (2018) Better Regulation Government's Annual Report, 2017-18, BEIS London

⁵ Question A7: I am going to read out six challenges which may affect your business, which ONE would you say presents the greatest challenge?; Question C2: To what extent do you agree or disagree that the overall level of regulation in the UK is an obstacle to your business' success?

From: OMB (2018) Business Perceptions Survey 2018. BEIS Research Paper 14. BEIS. London. Table 5, p.17. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720434/Business_Perception_Survey_2018.pdf

⁶ HM Government (2017) 'Industrial Strategy: Building a Britain fit for the future' BEIS. London

Aims and objectives

This study focuses on small and medium sized businesses in two sectors – manufacturing and retail. These sectors are relatively distinct from each other and have reported relatively high perception of regulatory burden in other BEIS-run surveys.⁷ They are also recognised as sectors that demonstrate lower levels of productivity (Green et al. 2016; Cox et al, 2016)⁸, and as such are of particular interest to BEIS.

The three main aims of the study are:

- To uncover the underlying issues that affect business' perceptions of whether and how regulation is burdensome, and why some businesses do not perceive burden;
- The effects and consequences to businesses resulting from their views of regulatory burden; and
- How government can communicate with businesses to influence these perceptions to alleviate any negative effects.

Any study of small and medium sized enterprises (SMEs) is by its nature problematic, as SMEs are highly heterogeneous by size, age and sector. Moreover, and as noted by Kitching et al. (2015)⁹, there are also the influences of environments internal and external to the firm. Consequently, for analyses of the effects of regulation to be meaningful they need to be firm level as opposed to assuming an aggregated reading across a range of firms.

The views of a small number of external advisors who provide support and advice on regulatory compliance to SMEs in the sectors of interest were also sought.

Methodology

The research for this study comprised 45-60 minute in depth semi-structured telephone interviews with 30 SME business decision-makers in the manufacturing or retail sectors and five representatives of a range of intermediary organisations providing advice on different types of regulation, excluding tax. The fieldwork was undertaken in February and March 2019.

The SME business decision-maker interviews were screened to ensure they reflected both sectors of interest relatively equally, both small and medium sized organisations,¹⁰ some businesses that export, some that trade online, self-reported views on whether the business is innovative and a range of views about the extent to which regulation is perceived to be a burden. The sampling frame also included business owner-managers interviewed from the devolved nations.

⁷ 50% of manufacturing businesses and 44% of retail businesses agreed to C2: To what extent do you agree or disagree that the overall level of regulation in the UK is an obstacle to your business success?

From: OMB (2018) Business Perceptions Survey 2018. BEIS Research Paper 14. BEIS. London. Table 5, p.17. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720434/Business_Perception_Survey_2018.pdf

⁸ Green et al (2016) The future of productivity in manufacturing: Strategic Labour Market Intelligence, IER, Warwick

⁹ Kitching J, Hart M and Wilson N (2015) Burden or benefit? Regulation as a dynamic influence on small business performance, International Small Business Journal 33(2): 130–147

¹⁰ Five of which are actually micro with 6-9 employees.

All interviews were transcribed and thematically coded for analysis. Further, a behavioural framework was developed that guided the design of the coding frame and applied to the raw data. Two project teams meetings were convened to direct the analysis and key findings.

A full explanation of the methodology and a breakdown of the interviewees by the screening criteria can be found in Annex A.

Report structure

The report is in three parts. Firstly, we outline what the evidence tells us about how knowledgeable businesses are regarding regulatory compliance and the regulatory activities they discussed in interviews. We also define concepts of burden and how perceptions of burden affect behaviours.

Secondly, the report discusses how regulatory compliance affects business operations. This covers views on the benefits that arise for businesses through compliance activity and the ways in which business processes, growth or activity is hindered.

Finally, we undertake a behavioural analysis of the findings based on Susan Michie's COM-B model (Michie, Atkins and West, 2014)¹¹. Here, we consider how the evidence can be used in communications design to influence the behaviour of businesses towards compliance. The report then considers this evidence in the light of current communication activity as reported by interviewees.

¹¹ Michie S, Atkins L, West R. (2014) *The Behaviour Change Wheel: A Guide to Designing Interventions*. London: Silverback

Business' understanding and perceptions of regulations

This chapter focuses on understanding business' understanding of regulations, their interpretation of the burden of regulations and the influences on their perception of burden. It then considers business' views on the effectiveness of government communication about regulations and ways in which government can communicate to alleviate negative perceptions about burden.

Perceptions are important because they may reveal underlying views and motivations of business representatives that influence behaviour. The analysis mostly assumes that participants truly express their opinion unless other evidence contradicts or disproves a statement, or if statements made are factually incorrect. Such circumstances are identified where present.

Understanding of business regulations

Existing research highlights significant variation in the responses of small and micro enterprises to regulation and their implications for regulatory policy (Vickers et al, 2005)¹². Many firms, and particularly small and micro businesses, are regarded to reactive in their approach and response towards regulation. While the role of regulation from a policy perspective is to shaping the performance and development of enterprises by impacting their behaviours and practices. Capelleras et al (2008) distinguishes between two contrasting perspectives on regulation, that:

- i) is as a burden on business and businesses growth; and
- ii) as defining the rules and routines that businesses and business growth.

This section of the chapter explores what businesses consider to be the purpose of regulations and the activities their organisations undertake in order to comply with government regulations. This is important as such insights can help understand why and how regulatory measures may underperform. Mallett et al (2018)¹³ find regulation is reported as a barrier to firm-level growth, although the findings shows that many businesses conflate "regulations" with a variety of other administrative processes and rules such as standards, ratings, licences and accreditation. For example:

"We have to do something called BRC which is British Retail Accreditation... which is very arduous because food is a big hot topic and people have to comply with all the regulations." (Medium-sized manufacturer)

Business' understanding of "regulation" was therefore tied up with *any* administrative activity that requires some external reporting or documentation. During interviews, participants

¹² Vickers, I., James, P., Smallbone, D & Baldock, R. (2005) Understanding small firm responses to regulation, *Policy Studies*, 26:2, 149-169

¹³ Mallett, O., Wapshott, R. and Vorley, T. (2019), How Do Regulations Affect SMEs? A Review of the Qualitative Evidence and a Research Agenda. *International Journal of Management Reviews*. doi:10.1111/ijmr.12191

discussed a range of data to prove adherence or compliance to external requirements in addition to statutory requirements such as compliance with standards, industrial sector bodies, etc. Few business representatives separated out their response on the question of burden between statutory regulations and other administrative activity that demonstrated adherence to external requirement. That business owner-managers consider non-government administrative activity in their responses is important because it affects their reaction and views, and hence their behaviour. Reaction to statutory requirements is therefore usually part of a greater reaction to wider administration.

The businesses interviewed for this study identified a range of purposes for business regulations including:

- Ensuring the safety of consumers/buyers e.g. food and hygiene, product safety, health and safety;
- Ensuring the safety of employees e.g. health and safety;
- Protecting the rights of employees e.g. pensions, employment law;
- Protecting the environment e.g. environmental standards, waste reduction/management;
- General compliance with legal regulations governing business practice e.g. General Data Protection Regulations (GDPR), regulation covering the export of goods and services.

Regulated Activities

As noted above the business owner-managers interviewed referred to a wide range of activities they deemed to constitute regulated activities. The empirical findings seek to go beyond simply talking about regulation in generic terms that characterises much of the literature (Mallett, 2018)¹⁴, as the interviewees identified various areas and ways in which regulation was impacting their businesses. In reviewing these activities, those activities which were subject to regulation were grouped as summarised in Table 1. Column 1 outlines the example given with a self-explanatory descriptive category in column 2. Column 3 applies the OECD category-type (OECD, 1997)¹⁵. The three OECD categories cover: **economic** regulations, which directly govern market decisions in some way; **social** regulations that protect the public (and customer) interests and **administrative** regulations collect data and information to monitor individual economic decisions. Table 1 shows that most of the spontaneous examples cited during interviews were social i.e. that those that protect the interests of customers of staff. These were particularly prevalent for the café and restaurant owners interviewed and underlined the importance of customer safety on the viability of businesses selling food and drink. Excepting the exporting example, the other administrative and economic practices described are generalizable across industrial sectors.

¹⁴ Mallet et al (2018) Understanding the firm-level effects of regulation on the growth of small and medium-sized enterprises: BEIS Research Paper Number 10, BEIS, London

¹⁵ OECD (1997). The OECD Report on Regulatory Reform: Synthesis. Organisation for Economic Co-operation and Development. Paris. <https://www.oecd.org/gov/regulatory-policy/2391768.pdf>

Table 1: Activities undertaken by businesses to comply with regulations

Activity	Regulations for which applicable	OECD category
Record keeping and form filling to demonstrate compliance		
Exporting businesses completing conformance forms sending goods to their customers.	Environmental	Economic
Cafés/restaurants keeping diaries of daily checks to ensure food is stored safely e.g. fridge temperatures.	Food and hygiene	Social
Cafés/restaurants designing checklists for employees to follow and complete to indicate food and hygiene practices are completed.	Food and hygiene	Social
Manufacturing companies designing their own internal spreadsheets to record regulatory information e.g. the regulations applicable to their company and the compliance actions required (also used as the basis for internal updates to employees). Training records also mentioned so they knew which employees required trained when to comply with the necessary regulations.	Various	Various
Shops and cafés/restaurants applying for licences e.g. PRS for Music to play music on their public premises for employees and/or customers.	Music licence	Administrative
Cafés/restaurants preparing for inspections from local food safety officers.	Food and hygiene	Social
Introduction of new processes to business practices		
Range of businesses holding customer data developing privacy notices regarding the handling of personal data and contacting customers to ensure they are willing for their data to continue to be held.	GDPR	Administrative
Range of businesses setting up auto-enrolment pension system for their employees.	Pensions	Economic
Provision of equipment to ensure employee/customer safety		
Manufacturers purchasing face masks, gloves and footwear so employees can work with toxic products.	Health and safety	Social
Cafés/restaurants installing two sinks, one for food preparation and one for washing up.	Food and hygiene	Social
Range of businesses investing in fire extinguishers, smoke alarms and regular fire safety checks.	Fire safety	Social
Training of employees		
Cafés/restaurants workers trained in food and hygiene standards.	Food and hygiene	Social
Factory workers trained in the handling of equipment and the disposal of waste products.	Health and safety; Environmental standards	Social
Shop floor employees trained in how to safely bend when picking up objects and stacking products.	Health and safety	Social
Factory workers trained reporting fire risks.	Fire safety	Social
Office workers trained to ensure computers logged off when away from their workstations to ensure any personal data on customers not accessible to others.	GDPR	Administrative

A minority of the businesses interviewed took a more reactive approach to regulatory compliance, undertaking activities only when prompted through, for example, formal notification. The reason given for this approach is typically the time required to comply with business administration (of which government regulation is a part). In one example, a food manufacturing interviewee described how they are only motivated to complete the relevant paperwork to comply with the climate change levy when they receive the annual email reminder.

“It’s more firefighting to be honest...we don’t have any official procedures really other than responding to requests.” (Medium-sized manufacturer)

Defining the burden of regulation

Extant research highlights the default view of business to be that regulation is a burden. However, it is also known that owner-manager perceptions of regulation do not necessarily reflect the actual regulatory landscape and the burdens this creates. Instead, what is often represented, or perpetuated, is the view that regulation is bad. The effects of regulation are varied and complex, and as Mallett et al (2018)¹⁶ suggest therefore needs to be considered at the firm level. To this end they propose a framework to consider the effects of regulation as shown in Table 2.

Table 2: Typology of regulation effects

Primary Effect	Definition	Sub Effect	Definition
Relevance effects	These effects are where the firm’s existing practices or procedures do not filter the effects, the type of effect can be determined by the relevance of the regulation	Direct effect	Regulatory requirements are implemented by the firm.
		Indirect effects	Regulation requires some action to be taken but this is not mandated.
		Affinity effects	Regulation is followed even though no action is legally required.
Filtered effects	The effects of regulation are filtered by existing practices and procedures that are themselves influenced by a range of other factors		
Knock-on effects	The initial action taken to ensure compliance with regulation has a secondary effects.		

¹⁶ Mallett et al (2018) Understanding the firm-level effects of regulation on the growth of small and medium-sized enterprises: BEIS Research Paper Number 10, BEIS, London

Context effects	These effects may impact owner-manager behaviours and intent, rather than affecting their business.	Environmental effects	Regulation shapes the operating environment, for example, allowing businesses to trade (rule of law, limiting corruption) but also in the creation and enforcement of property rights
		Competition effects	Regulation impacts other, rival businesses which, in turn, impedes SME growth.
		Discourse effects	Regulation or red tape is talked about and perceived, where this may bear little or no relationship to the actual regulations.

The typology does not seek to classify the effects of regulation, but rather the framework provides a tool for considering the potential complexity involved in the firm-level effects of regulation on SME growth in particular.

The interviews highlighted the issue that the burden of regulatory compliance burdens, are disproportionately felt by smaller businesses, especially where the burden does not change as the business grows. Likewise, it is the smallest businesses that are most adversely affected by changes in regulation. That said, when exploring how specific regulatory burdens impact business, most interviewees understood that regulations existed for a reason and they were necessary.

“...regulations are there for a reason...to protect people. So, it can be tiresome, it can be boring sometimes because it’s quite repeatable, but I think it is there, for a reason...although employers moan about it...it’s there for their own good as well.”
(Micro-sized manufacturer)

The administrative burden of regulation is an important, especially where compliance is regarded as excessive or unnecessary rules (Bozeman, 1993)¹⁷. The interview findings indicate that there are two physical constraints to regulatory compliance that were highlighted by most businesses: the time and associated costs. In addition, there were a number of factors, either linked to the characteristics of the business, type of regulatory activity being undertaken and/or related to the timing of regulations which can influence the extent to which these constraints are burdensome.

A note on "innovative" businesses

Nearly three quarters of the interviewees self-identified as "innovative" based on the interview screener, specifically that they had introduced a new service or product in the last two years. In

¹⁷ Bozeman B (1993) A theory of government "red tape", Journal of Public Administration Research and Theory 3(3): 273-303.

relation to the aims of this research, there is no evidence that sets these businesses apart as from those that have not introduced new services in the past two years.

A single example of using regulation to directly innovate was identified in the interviews. A manufacturing owner-manager described how they worked with component suppliers to redesign packaging to make it reusable. Rather than throw packaging away, then re-package finished goods, the manufacturer shipped back their products in the same packaging in which components arrived. This both saved costs and reduced waste, helping them comply with environmental regulation. The interviewee said that they arrived at this solution in part by considering how regulatory controls could be viewed as a positive lever for their business.

“...all of a sudden, our profitability has gone up, our waste has gone down, and it's been driven from regulation... our biggest single customer, which is in Germany, couldn't believe what we've done, and they now are trying to implement it for themselves. So, yes, took a year to do it, but [it's] an example where if you take the regulation and try and understand it, it can have a very positive effect on reducing waste.” (Medium-sized manufacturer)

Time spent on administration

The principal burden identified by interviewees was the amount of time spent on administering regulations. In summary, time could be spent doing other activity although the wider issues are more complex.

“A lot of it is pretty time-consuming. You're trying to run a business, a growing business and concentrate on commercial aspects of the business and you have to deal with a lot of government regulation...” (Medium-sized manufacturer)

The amount of time spent on administering "regulations" (noting the issue of conflation) varied ranging from one day per month to one day per week for individual business owner-managers' own time; and to a third of all staff time. A business' position in its lifecycle and firmographic characteristics (size, sector) affect views on the level of burden.

These findings resonate with the research of Schmidt et al (2007)¹⁸, with a number of businesses referring to the compliance costs, implications for individual workloads (and some cases creating jobs), as well as the ongoing difficulties of staying up-to-date with legislation.

Business lifecycle

A business' position in its lifecycle affected the time spent administering regulations and hence perception of burden. For example interviewees in **new businesses** can face a steep learning curve in identifying, understanding and administering regulations. A few participants also said the time administering regulations increased as they took on more staff. A number of interviewees noted the time required to administer regulations decreased over time as the associated relevant administration experience increased.

Familiarity with regulation can see the time spent associated with compliance reduced as a business is more established. Some businesses were more likely to either employ specialist staff for some regulatory administration or devolve some clerical responsibilities associated

¹⁸ Schmidt R A, Bennison D, Bainbridge S and Hallsworth A (2007) Legislation and SME retailers — compliance costs and consequences, *International Journal of Retail & Distribution Management* 35(4): 256-270.*

with compliance to other staff. Such businesses were typically larger and/or those in more highly regulated sectors, where compliance is a substantial operational issue.

Examples of specialist regulatory function include:

- Individuals whose skills, experience or interest in a particular area means it becomes part of their job role. This is especially the case in technical, professional or legal areas such as pensions or GDPR; and/or
- Specific teams which have responsibility to lead on types of regulation such as employment law or health and safety.

While the majority of firms tended to address issues of regulatory compliance as an in-house issue, in a small number of cases firms made use of external business support or outsourced responsibility for compliance. This was particularly the case in relation to the requirements around workplace pensions. The use and value of external forms of support to aid compliance are examined in more detail under the heading "The impact of regulatory change", p.23.

Exporting

Exporting businesses typically encountered higher levels bureaucracy, predominantly requiring more time to complete paperwork to ensure compliance. For example, a firm manufacturing mining and extraction machinery completed a full environmental conformance form each time a product was shipped to a client, regardless of whether that product had been supplied to the same clients previously. Generally, the most burdensome activities for exporting businesses were identifying the relevant regulations to which their organisation should comply and form-filling.

Several interviewees referred to limited information about the exporting to foreign markets, as well as incurring costs associated with standards and certification procedures. Given that exporting businesses tend to be both higher growth and more productive, the implications of burdensome customs and bureaucratic procedures were regarded as to add to the costs of goods and services. Again, our findings echo earlier research by the OECD (2006)¹⁹ on the nature of tariff and non-tariff barriers are more likely to affect SMEs than large enterprises.

Identifying and understanding the relevant regulations

As alluded to above, the time spent finding and understanding information about regulations, the applicability to their business, and determining the actions required in order to be compliant is a frequently cited challenge for businesses. Many interviewees referenced the amount of time they or their employees do, or feel they should, spend searching for regulatory information.

"...that's why I'm always asking, 'Are we compliant?...where do I turn to? It's always difficult. Do I scour the Internet? I spend so much time doing that on the Internet.'" (Small-sized manufacturer)

Interviewees used a number of methods to identify the information, including visiting the 'gov.uk' website, seeking information from the websites of business groups and trade associations, approaching informal networks of peers, friends and family, and paying to access professional advice. The onus on businesses to source this information themselves rather than

¹⁹ OECD (2006) "The Role of Trade Barriers in SME Internationalisation" OECD Trade Policy Papers, No. 45, OECD Publishing, Paris. <http://dx.doi.org/10.1787/246707602042>

receive direct communication from government was considered by several of the interviewees to be an additional burden in terms of the time. This also placed a mental pressure on some business owner-managers.

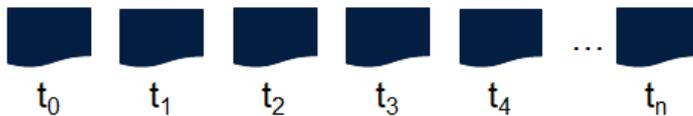
"I'm sure [gov.uk is] a really good resource and if I had the time and inclination I'd probably sit down and go through it, but not having that push or time or drive kind-of impacts on what I'm thinking of doing." (Micro-sized retailer).

The interview findings indicate that the time burden to identify and interpret business regulations is smaller for businesses which invest in professional support services to assist with their regulatory compliance. These businesses rely on the experts whose services they procure to inform them about how to comply with regulations and implications of any changes or updates. There is, however, a risk to the business as they defer their compliance responsibilities to third parties because the business is still responsible if that intermediary makes compliance errors.

"I expect [our external consultants] to be giving me the correct information, that's what we're paying them for, so they should be giving everything that is correct." (Medium-sized manufacturer)

Completion of regulatory forms and processes

Two aspects of regulatory processes and data completion influenced perceptions of burden: repetition of data submissions and processes; and multiple layers of regulation asking for similar if not the same data.



Repeat processes / data submissions

Several interviewees questioned the frequency and repetitiveness of some tasks associated with compliance, often involving completing the same forms with the same, or very similar, information was highlighted by several interviewees (Figure left). The

conformance process described earlier is one such example. Another cited example from the retail sector was a requirement to continually monitor and record refrigeration temperatures for food storage, while another made reference to the labelling requirements. Recognising businesses which had demonstrated a history of compliance by providing for a lighter touch regulatory regime could influence perceptions of burden in this case.

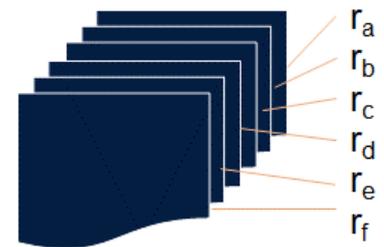
"We've got some environmental issues with some of the stuff that we ship in terms of the licensing laws and what you have to declare [which] feel a bit repetitive...if the business has done this and you can show that they've done it for, let's say, more than two years, I think there should be some kind of leeway, allowance." (Small-sized manufacturer)

The notion of regulation is often not sufficiently responsive and reflexive by its nature, and so while such a system might be desirable it is not simple to implement. Instead, new ways of governance, including regulatory strategies and self-regulatory schemes that meet or exceed minimum legal standards could be encouraged. However, striking the right balance remains

challenging. Research from environmental management uncovered major challenges for self-regulatory practice in the absence of government regulation (Uhlener, 2012)²⁰.

Time spent providing the same data in relation to one or more regulations on multiple occasions was also considered a burden by some interviewees. One of the key issues is inputting fixed data (contact details, firmographic data, financial identifiers, etc.) in each of the forms they are required to submit (Figure right).

A couple of intermediaries also said technology should be introduced to make it simpler for businesses to provide information once, rather than providing the same information on numerous occasions, which can then be shared across departments for the completion of multiple regulations.



Same data, multiple regulations

“The problem I’ve got with it is the amount of regulation, the amount of duplication of the same information, and the fact that there is, generally, not a common approach to regulation...you could have, for example, three different [government] departments regulating the same industry, giving the same rules and regs. You’re triplicating the work and it’s just a nonsense.” (Intermediary organisation)

There are major capability challenges in joining up government data to enable streamlining around compliance. As Bharosa (2013)²¹ assert, Business-to-Government (B2G) information exchange is an important instrument for governments and their agencies to monitor companies' compliance with the established laws and regulations. Arguably monitoring businesses compliance is a major tasks of all governments (Bonazzi et al., 2010)²². Given the mandatory nature of firm reporting relating to tax, statistics, industry regulation, safety, food regulation, environmental control, considering mechanisms to streamline reporting and compliance may be beneficial to UK businesses. Bharosa (2013) identifies higher compliance costs resulting from data provision when dealing with several government agencies separately, with more time and money spent on collecting, structuring and sharing business information compared to single submission systems.

A number of regulatory examples for once-only submissions exist (one example amongst several is the use of a unique identifier to demonstrate a business is compliant with Cybersecurity). Central repositories of business' contact details such as Companies House (including an associated unique reference number) are also potential data sources that could be further used to reduce burden / pre-fill forms.

The impact of the layering, that is to say multiple demands for the same data to demonstrate compliance across numerous regulations, on the time businesses spend administering regulations was also illustrated in the interview findings. Several interviewees flagged this

²⁰ Uhlener, L. M., Berent-Braun, M. M., Jeurissen, R. J., & de Wit, G. (2012). Beyond size: Predicting engagement in environmental management practices of Dutch SMEs. *Journal of Business Ethics*, 109(4), 411-429.

²¹ Bharosa, N., Janssen M., van Wijk, R., de Winne, N. van de Voort, H., Hulstijn, J. and Yao-Hua, T., (2013). Tapping into existing information flows: The transformation to compliance by design in business-to-government information exchange. *Government Information Quarterly*. 30. S9–S18. 10.1016/j.giq.2012.08.006

²² R. Bonazzi, L. Hussami, Y. Pigneur (2010) Compliance management is becoming a major issue in IS design in A. D'Atri, D. Saccà (Eds.), *Information systems: People, organizations, institutions, and technologies*, Springer, Berlin pp. 391-398

burden arises through the provision of the same information as part of submissions for multiple regulations.

*"I can't think that there is any one [regulation] that is excessive. It is the consolidation of each and every one of those things [which] plays a pretty big burden [particularly] where there are relatively few people in the company."
(Intermediary organisation)*

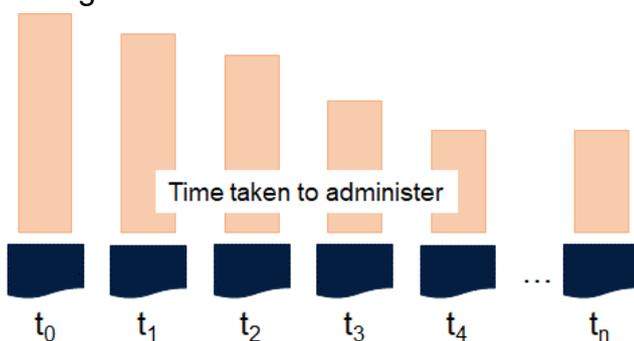
It is noteworthy that other time consuming business activities related to regulatory compliance, such as running through daily checklists to ensure food and hygiene standards are adhered, are viewed by many interviewees as part of the typical day job role rather than an additional burden. That is however, excluding the scenarios in which a significant amount of time is required to develop and implement these practices when businesses are starting up (as already reported) or in response to the introduction of new regulations, or when the business has no previous administrative experience of administering a specific regulation. Although the time required for administration reduces over time, the business reaches a point where time to administer reaches a constant point.

The level of detail required for Financial Conduct Authority (FCA) suitability reports was also deemed excessive by one intermediary. They noted the purpose of the regulation is to protect the rights of both the customer and the provider of financial products. However, the submission required is too long and high in detail which means both parties tend to avoid investing time in reading and understanding them which in turn undermines their purpose.

*"[With suitability letters] central government is trying to ensure that the client is protected to get the [financial] advice, the [financial] adviser is protected for giving the advice, but the bottom line is that nobody really understands or reads these documents because they're too complex."
(Intermediary organisation)*

The impact of regulatory change

Several interviewees highlighted how the burden of time, as well as cost, could be exacerbated by changes to existing regulations or the introduction of new ones. The impact the introduction of regulation has on businesses can be considered as a sudden jolt. Once the necessary



compliance processes were introduced to the company, many recognised that their ongoing burden on time and cost reduced (Figure left).

A few intermediaries described their advisory role in setting-up new processes and systems to manage changing or new regulations, or for new businesses. The cost of such services is typically focused on the setting up of a system to make a business compliant with a particular regulation, which is said to require the most time and effort.

However, once these processes and procedures are in place many businesses can maintain them themselves meaning that external support is no longer a requirement and cost to the business.

A frequently mention concern of interviewees was the perceived lack of direct communication from government alerting them to the regulatory updates or introductions and their specific implications for their business. Many interviewees referred to the time and cost implications of introducing GDPR. Businesses perceived they had a short amount of time to understand the

purpose of the regulation, its implications for their business, and implement the actions required to ensure they were compliant. Others, concerned they had insufficient time to prepare for the introduction themselves, paid for consultants to review their systems and provide reports demonstrating their compliance. The interviewees in these cases continue to hold negative perceptions of burden about the impact of new regulations.

“[GDPR] when it was being implemented, we had to bring in a consultant to help us at additional cost. We didn't feel confident enough to implement everything and understand everything [in the timeframe].” (Small-sized manufacturer)

The size of a potential advisory contract also dictated the level of service an intermediary could provide. A couple of intermediaries said they were more likely to offer personalised or bespoke advice to larger businesses in order to deliver specialised services to in-house regulatory teams, especially human resources.

“[For companies with fewer than 50 employees we offer] a retainer, limited [number of] phone calls to our team [and] perhaps advice on employment disputes and access to standard follow ups... Typically [such businesses] are looking for something that's a few £1,000 a year... There will be certain [bespoke] services excluded from that... which require huge amounts of input.” (Intermediary organisation)

The influence of cost on perceptions of burden

The burden of time to administer regulations is closely associated with the costs of ensuring regulatory compliance. Existing research has focused on the costs of compliance and consequences (e.g. Schmidt et al (2007)²³, although elsewhere De Jong and van Witteloostuijn (2014)²⁴) cite the costs involved in maintaining up-to-date knowledge and understanding regulation as a factor. Typically the burden of costs was considered in relation to the staff time needed for administration, or procuring external support to administer on the businesses behalf. Interviewees made a few references to fixed costs for the infrastructure and equipment in which they invest e.g. safety clothing or fire extinguishers or licences purchased e.g. to play music in public, to demonstrate compliance.

Decisions regarding external support

The size of business did not determine whether business regulations were administered internally or outsourced. The intermediary interviews refer to scenarios where both small and more medium sized businesses manage the majority of their business regulations internally:

- At the lower end of the small business size category where the owner-manager manages all but the business accounts themselves. In the view of one intermediary, this confidence was misplaced.

²³ Schmidt R A, Bennison D, Bainbridge S and Hallsworth A (2007) Legislation and SME retailers — compliance costs and consequences, *International Journal of Retail & Distribution Management* 35(4): 256-270.

²⁴ De Jong G, and Van Witteloostuijn A (2014) Regulatory red tape and private firm performance, *Public Administration* 93(1): 34-51

“...you do get an awful lot of owner-managers who will go and speak to their mate down the pub, who knows someone who does this type of [regulation] stuff and then...they'll try and cobble it together.” (Intermediary organisation)

- Medium-sized businesses with individuals within the company who have developed or been employed because they have the relevant skills and experience.

Similarly there were examples of both small and medium sized businesses outsourcing elements of regulatory compliance, in particular in relation to health and safety advice in the manufacturing sector.

“...health and safety, I have to employ a qualified health and safety professional to give us 24-hour advice and help me produce all the forms.” (Medium-sized manufacturer)

“...on the health and safety...we outsource that because it is just time-consuming or we don't have knowledge directly. We've got to concentrate on what we know we can do and that's raise money in the business...” (Micro-sized manufacturer)

Analysis of the interview findings however indicates that sector is a more significant indicator of the type of business using external business support – with fewer retail businesses used external support than manufacturing businesses. The associated regulatory environment is a likely factor in this difference. Retail businesses primarily provide a service (and hence adhere to customer-focused regulations whereas manufacturing products can require a range of complex regulatory checks on production and products (safety, environmental, standards compliance). Differences also exist in the working environments of employees which affects the application of health and safety law. Overall, the volume of administration facing manufacturing businesses (especially exporters) is greater than those in retail, although both sectors are undergoing major transformation.

However, the size of the business did also impact on the uptake of external support procured in several ways. Firstly, smaller businesses were likely to pay a retainer to access support from regulation-specific helplines for a limited number of calls for standardised advice. In comparison, medium-sized businesses tended to procure consultancy services to provide more tailored support specific to the challenges faced by that particular business.

Secondly, intermediaries said smaller businesses were more likely to seek direction on how to administer regulations from intermediary organisations whereas medium-sized organisations were more interested in addressing specific knowledge gaps within their existing employees' knowledge.

“The bigger clients tend to have a health and safety team, people who have got their certification or diplomas in health and safety, they have the awareness and they'll call us in to deliver the training that they have decided they require, whereas the smaller businesses that don't have the HR department and the health and safety department are lacking in knowledge and rely solely on the training provider to give them the correct advice on what's needed.” (Intermediary organisation)

Whatever the size of the business, the decision to employ external support was the result of assessing the cost-benefit of outsourcing. The principal benefits were saving time that could be better spent on achieving business ambitions coupled with the advantage of experience in

regulatory compliance based on expert input. The evidence suggested a key driver for using intermediaries was when new regulations, such as GDPR, are introduced.

“We didn't feel confident enough to implement everything and understand everything [about GDPR]. As a small company, it always comes down to time...The main thing for us is turnover ...That's where the main concentration is. So, [when] implementing huge legislation changes, it's just easier to bring in a consultant.” (Small-sized manufacturer)

In addition to the role of consultants and other services providing support to ensure compliance, a number of interviewees flagged the importance of their accountants as trusted advisors. This is a longstanding issue, as noted by Gooderham (2004)²⁵, with accountants providing a key source of business advice for small firms. The last dedicated national business support service was Business Link which closed in 2011. Thompson et al (2012)²⁶ note the subsequent fragmentation of business support and subsequent challenges for businesses wishing to navigate the business regulation landscape.

Intermediaries as educators

Intermediaries believed they play an important role in educating businesses about regulation. For example through their advice and/or training for businesses they help them to understand the purpose of regulations, the benefits of regulatory compliance, in particular to the business itself, and how to effectively implement processes and procedures in order to comply with them effectively and efficiently. Intermediaries said they can help the government to increase regulatory compliance among SMEs by communicating the aims of regulations and the perceived benefits of them as well as sharing practical advice and examples about what to do to be compliant, which organisations can provide advice and what technology can help support the implementation.

“Small [businesses] are lacking in the skills... rather than us advising them what they should do, we teach them and they'll know the acts, the laws, the regulations, [so they can] do it themselves.” (Intermediary organisation)

Businesses that do not perceive regulation as a burden

Four of the thirty owner-managers interviewed said that 'no regulations are a burden' to them during the screener exercise. All four were outside of England but in other respects were dissimilar in terms of size, sector and other self-defined characteristics.

These four businesses shared a similar view that regulations play an important role in encouraging businesses to behave consistently. These businesses placed emphasis on different regulations covering employment, customer safety and/or the environment. However, the running theme was ensuring a 'level playing field' on which all organisations could operate; such issues are covered in the next chapter under "The rationale of regulatory compliance", (p.28). The two retailers in this small sub-sample were concerned with the competitive environment in providing services directly to customers. The two manufacturers were more

²⁵ Gooderham, P. N., Tobiassen, A., Døving, E., & Nordhaug, O. (2004). Accountants as sources of business advice for small firms. *International small business journal*, 22(1), 5-22.

²⁶ Thompson, J., Scott, J.M. and Downing, R., (2012). Enterprise policy, delivery, practice and research: Largely rhetoric or under-valued achievement?. *International Journal of Public Sector Management*, 25(5), pp.332-345.

concerned with the health and safety implications for their staff and the impact of manufacture on the environment.

Two of the owner-managers also displayed a proactive approach towards applying and maintaining regulatory compliance within their businesses. They were therefore not reactive and sought ways to consider how they could leverage strong compliance with business sales and growth.

"[Some businesses] don't address [environmental regulation] in a positive way...some of our customers complain that they have to pay to get rid of waste...However, the way I would see it is if you try to turn it into a positive for the business, if you can reduce your waste, then you don't have to pay to get rid of it, and if you can reduce it markedly, it might actually reduce your operating costs, because you're not creating the waste and you're not paying for it in the first place." (Medium-sized manufacturer)

How regulations affect business activities

Whether regulations were perceived to benefit a business and/or society had an impact on perceptions of burden. This chapter first considers the perceived benefits of compliance to businesses to comply and how they managed regulations. Secondly, the perspectives of businesses which are more likely to associate regulations as a burden are examined.

The rationale of regulatory compliance

The perception of burden were lower when interviewees could relate regulations with their business ambitions and/or personal values. A few businesses identified many rationales for regulations and did not recognise regulations as a burden. The perceived business and social rationales, and the associated activities they undertake to achieve these (as per Table 1) are outlined in the following section of the chapter. The rationales for compliance are categorised based on how they relate to OECD groupings identified in Table 1 i.e. Economic, Social and Administrative rationales.

Economic rationales – those affecting market decisions

Enhancing business reputation

Many interviewees indicated how proving compliance enabled them to maintain or enhance their reputation customers, whether members of the public and/or other businesses in their supply chain or clients. In some cases, proven adherence to regulations acted as a license to practice. Several interviewees also discussed British or international standards. Although standards are not regulations as defined by this study, there were tangential benefits described by business regarding other regulatory areas. For example, documenting adherence to electrical ISO standards for electrical products meant the business collected data that was useful to apply to other regulatory areas such as the environmental impact resulting from the manufacture of their products.

Food retail establishments reported how demonstrating compliance with food and hygiene regulations in order to attain high food hygiene ratings was an important factor in competing with other businesses for customers. This is because they believe customers take note of Food Standard Agency's food hygiene rating stickers displayed in windows (Figure right).



“...it will have the reputation impact, because we’ve just been given a five-star rating from the inspectors which is quite difficult to achieve...good for the customers to see and boosts the overall custom.” (Micro-sized retailer)

Other businesses reported a positive relationship between regulatory compliance and winning business / supply chain contracts. For example one medium-sized manufacturer of greeting cards noted how they were required to demonstrate compliance with environmental standards

such as the use of forestry-managed paper in order to be able to supply a large high street department store.

“...if you use recycled material you're then environmentally friendly, and then actually that can help, because customers like that you've taken time to look after your products...some customers will not deal with you unless you comply to certain regulations [e.g.] forestry managed paper [where there is a replacement] tree that's going to be replanted.” (Medium-sized manufacturer)

While another small-sized manufacturer noted how compliance with regulations was a prerequisite for being considered as a potential supplier to deliverers of public services.

An additional way in which some businesses believe regulations help to improve their reputation is with potential employees. One business owner felt that emphasising how they met employment and pension regulations they were able to attract a higher quality and more loyal employees which would benefit their business. (Medium-sized retailer)

Gaining an advantage on competitors

Complying with regulations is perceived by some businesses as an effective way to compete successfully in the international market place. One aspect of this, is the example of businesses being able to profit from what they consider to be the high esteem with which the UK's regulatory system is perceived internationally. Some businesses feel that by proving their compliance with these regulations they are able to improve how well their business is viewed in the global market.

“...[we] have customers and clients who are confident in the products we produce because they are adhering to [UK] regulation, and that brings trust across global markets...” (Medium-sized manufacturer)

For other businesses, investing in meeting new regulations ahead of their peers provides them with a competitive edge. One medium-sized manufacturer of electrical motor parts noted how they were able to attract interest and secure contracts from businesses in Germany ahead of their competitors because of the high standards they were able to evidence in terms of environmental regulations. The same business also reported how they are focusing on finding innovative ways not only to meet the requirements for regulatory compliance but also to reduce any associated costs.

Intermediaries also noted the importance of regulation in ensuring fair competition between businesses and to protect against distortion of the market arising from monopolies.

Social rationales – protecting the public and customers

Ensuring the health and safety of customers and staff

The overwhelming majority of businesses and intermediaries interviewed recognised the importance regulations play in securing the health and safety of customers and/or their employees. These businesses accepted that regulatory constraints were necessary to reduce the risk of harm occurring for anyone. As referenced in Table 1, health and safety activities include:

- Health and safety to help ensure employees are safe in their working environment;
- Food and hygiene to safeguard the health of customers in food establishments; and

- Fire safety to reduce the risk of fire to employees and/or customers.

Again there are well rehearsed stereotypes such as the often mooted view of 'health and safety gone mad', but this was not supported by the evidence from interviewees. Safety was paramount and ensuring a safe working and service environment had a number of business benefits (covered under *strengthening business performance* below).

Protecting the environment

Several business owner-managers valued environmental protection regulations. They felt it important that their businesses were conscious of the environmental impact of their services and products. Environmental regulations encourage businesses to consider the environmental impact of their processes and invest in ways to minimise it.

"...We have new regulation coming into force...It means in air conditioning businesses, the coolant that's used in air conditioning systems needs to be environmentally friendly...If it wasn't for the government doing it, I could not see business doing it...What we want to do is remain legal...that regulation gives us a direction of where the government wants to go..." (Medium-sized manufacturer)

Administrative rationales – collecting data for monitoring

Providing a framework which supports effective business operations

Several businesses noted how compliance provided operational benefits to the business. For instance:

- One café owner identified regulatory compliance as a motivator for his business to ensure they met a minimum set of standards;
- Another micro-sized glass manufacturing business welcomed regulations as they considered them to restrict unfair competition between companies and minimises the ability for competitors to undercut each other when tendering for business opportunities; and
- Two medium-sized businesses from different sectors recognised the positive role regulations play in encouraging employees to follow processes the owner-managers believed were integral to their business' success e.g. clean and safe environment for the preparation and consumption of food.
- One intermediary noted the importance of the regulatory framework ensuring that employees have legitimate rights to work in the UK.

Avoiding the sanctions and consequences of non-compliance

Many interviewees were motivated to comply to avoid sanctions for non-compliance which would have negative consequences on their business's profits and reputation. Actions taken included insuring health and safety lawsuits and employment tribunals to protect a manufacturing business to cafés and shops purchasing PRS licences to play music in public places.

"You have to protect yourself on insurance on virtually everything you do, you can't put one step wrong otherwise someone will sue you..." (Medium-sized manufacturer)

This incentive to comply with regulations was a strong motivator despite none of the interviewees recalling specific examples of peers who had been sanctioned as a result of non-compliance. Aside from the experience reported of food-related businesses which appear to receive fairly regular visits from food and safety officers, other businesses noted the reduction in frequency of visits from compliance officers for other regulations including fire safety or health and safety checks.

A few intermediaries indicated that some businesses were reticent to proactively engage with some regulations as those businesses did not see any evidence of inspections or businesses penalised for non-compliance. In addition to examples from owner-managers of non-compliance with building regulations, intermediaries also mention perceived inaction taken on GDPR.

“...what [owner-managers] say is, ‘We’ve spent all this money getting compliant [with GDPR] and I don’t see where I’ve been checked,’...they find it harder to see the benefit of being compliant...People say to me, ‘What’s happening? We’re nine months on from that deadline. I’ve never heard of the regulatory incident and why did we bother with all of this stuff?’ (Intermediary organisation)

Regulations as a constraint on business operations and growth

The interview findings highlight several examples where the purpose of regulations are perceived by some interviewees to undermine their business activities or question their purpose. In these cases businesses considered regulations to be a greater burden because they struggled to identify any benefits.

“No one speaks to you about the benefits...in all the years I've been doing this, I still don't know what would happen if we weren't compliant. It's just a matter of, you're told to do it, you do it...Explain to me what am I getting by doing this? I've had to pay to bring someone in to come and administer this, what was the benefit?” (Small-sized retailer and manufacturer)

Undermining business strategy

Several examples came to light where businesses viewed regulations as an obstacle to their business objectives. These included, weakening their competitiveness in the global market, hindering their plans for growth and reducing the profitability of their business. Allinson et al (2013)²⁷ note that owner-managers were unsure about what regulations applied to them and their circumstances, or how to implement specific regulations, and this impacted the business and business growth. There is a potential danger there that regulation may undermine the business strategy as a result of the perceptions of owner-managers as opposed to regulation undermining the strategies of businesses per se.

Weakens international competitiveness

A few businesses offered a counter-view to those that feel UK's regulatory framework provides credibility to businesses operating internationally. Some owner-managers of exporting manufacturing companies perceived regulations to have a negative impact on their competitiveness. These interviewees believed that less stringent regulatory regimes in competitor countries enabled their counterparts to sell the products they produce at a lower price as their regulatory requirements were lower. The countries referred to in these examples were China, Australia, South Africa and India.

“[Compliance with environmental regulations] added cost to what we're doing. We're already on tight margins, we're in a very competitive market. We are dealing against competitors in other countries [Australia, South Africa and India], who don't have to go through this...So, their prices always look more attractive...” (Small-sized manufacturer)

Hinders expansion

One interviewee identified regulations as an obstacle to the company's expansion. This medium-sized manufacturer based in Wales had previously purchased land to develop business premises which they anticipated had the potential to create 300 jobs. To date however the business has incurred a number of fixed costs relating to regulatory compliance which could jeopardise the expansion plans. For instance, planning applications had reportedly cost the business nearly £500,000 so far, and the company invested in the building of two ponds and creating a nature reserve to offset the impact of moving a pond containing protected species to satisfy environmental regulations. This interviewee perceived such regulations to be

²⁷ Allinson G, Braidford P, Houston M and Stone I (2013) Obstacles facing micro business growth. Report for Department for Business, Innovation & Skills (BIS Research Paper No, 114)

a burden and a deterrent to entrepreneurial activity. In addition, this interviewee noted that he believed regulations relating to environmental protection were stricter in Wales, with ecology being of higher priority. It is worth noting here that this is the only specific example identified in the findings of an interviewee perceiving there to be differences in the extent of burden between the devolved nations.

Reduces profitability

A minority of business interviewees considered the burden of regulation to undermine the profitability of their companies. These businesses cited the impact of complying of employment law, such as minimum pay, holiday pay and sick pay, as well as pension regulation. A semiotic analysis of the vocabulary of interviewees who hold these views suggests a tendency for their businesses to be less financially secure. The interviewees used phrases such as 'squeezed', 'tight margins', and 'skint' at interview.

"I have to pay every one of my staff twenty days a year minimum for doing absolutely nothing, in America they pay about three or four days a year, no wonder they're rich and we're skint." (Small-sized manufacturer and retailer)

Questioning the purpose of regulations

The findings suggest a difference between a small minority of businesses that question the overall purpose of regulations versus a larger group that were critical of particular elements of regulations. The former hold stronger, generalised negative perceptions of regulation and hence burden; the latter sometimes cited several minor issues that collectively influenced perceptions.

Burden of responsibility should sit with government

Some interviewees with stronger negative views of regulatory burden said responsibility for some regulations should not fall on businesses. The introduction of auto-enrolment pensions is a case in point. A few businesses signalled that they believe the government is unfairly shifting the responsibility for providing for people in retirement to business.

"I have to administer [employees' pensions], and I have to use accountants and pay them to carry that process out on a monthly basis for auto-enrolment. That's another cost to the company, which I think a lot of these things should be something that the government pays for but they don't." (Small-sized manufacturer and retailer)

Time and money could be better spent elsewhere

Perceptions of burden were negatively influenced when business owner-managers felt the time and/or money invested in regulatory administration could be better spent elsewhere (as per Bozeman (1993)²⁸ and Schmidt et al (2007)²⁹). The activities such interviewees would like to focus on would, in their view, strengthen their business and included: increasing productivity; diversifying products or services; expansion; or engaging with customers. Others said they would be personally affected if they spent less time administering regulations by, for example,

²⁸ Bozeman B (1993) A theory of government "red tape", *Journal of Public Administration Research and Theory* 3(3): 273-303.

²⁹ Schmidt R A, Bennison D, Bainbridge S and Hallsworth A (2007) Legislation and SME retailers — compliance costs and consequences, *International Journal of Retail & Distribution Management* 35(4): 256-270.*

spending time with their families. Such views have implications for the inclination of businesses to administer regulations.

"...It's time, that's the only thing. It's not financial [costs...] It's just a slight scratch in the bank account per year, but it's time, and that's time I'd rather be spending either on site, or with customers, or following up a million emails...Or, spending time with the family, my kids." (Small-sized retailer)

Aspects of regulations perceived to be illogical

Perceptions of burden were negatively affected when interviewees struggled to appreciate the purpose of specific aspects, where they ran counter to what they perceived as "common-sense" or if they could disrupt business operations. Such instances risk undermining business' faith in the wider regulations. For example:

- In relation to GDPR, one intermediary organisation valued the intention to protect people's personal data but was frustrated to have to move data between two Microsoft cloud sharing systems in order to comply. Even though they are part of the same brand, servers for one system were located in Europe rather than in the USA; the American server did not comply with GDPR.
- One business interviewee highlighted a weekly alarm test was required under health and safety legislation to practice for the event where a piece of machinery breaks down. However in his experience the frequency of the test, which requires machinery to be switched off and disrupting output far exceeds the regularity with which machinery would be likely to malfunction.

"...they're things where whoever's made up the rules hasn't really fully understood the technical equipment and that it doesn't fail every week, you don't need to test these things on a weekly basis. But once it's law, it's law, and you have to do it."(Medium-sized manufacturer)

- A small-sized printing manufacturer perceived an illogical situation where to comply with health and safety regulations staff in their factory were required to wear high visibility vests at all times. This included situations where wearing highly flammable material from which the vests are made is a health and safety risk in itself.

Behavioural analysis

The qualitative evidence is used to better understand the range of behaviours associated with organisations' responses to regulation and perceived burden. This analysis uses the COM-B model as an analytical framework. The potential implications of behaviour on approaches to communication with businesses is then discussed.

The main purpose of the behavioural analysis is to inform approaches towards communication with businesses. Table 3 below is taken from the original proposal and maps the COM-B "intervention functions" to behaviours and the wider research objectives of this study. An intervention function describes the context in which behaviour manifests and represents a target aim that any behavioural change activity should address. This framework was informed the design of the research methodology and primary fieldwork questions.

Table 3: Mapping communication conclusions to the behavioural framework

Intervention functions	Source of behaviour	Main conclusions
"Education": Increasing knowledge or understanding of regulation.	Psychological capability: Knowledge and experience of regulations.	Vary messaging to businesses and intermediaries based on the complexity of skills require to administer regulations.
	Reflective motivation: How regulations have been administered in the past by the individual / the business.	Signpost to intermediary services if past experience shows a business lacks the required skills to effectively administer.
"Persuasion": Inducing feelings to stimulate preventative action.	Automatic motivation: What are the underlying, sub-conscious drivers of behaviour towards regulation?	Actions taken to remove or streamline regulatory practice may not affect deep-rooted perceptions that are not necessarily based on identifiable experiences.
	Reflective motivation: Examples of past personal or business experiences that have changed views regarding regulation.	No examples were found to demonstrate how a past positive experience of regulation
"Incentivisation": Rewarding positive behaviour regarding regulation.	Automatic motivation: Which regulatory practices result in positive outcomes for the business?	A clear, causal link with compliance to positive business impacts would create a positive communication message.
	Reflective motivation: Examples of planned action regarding regulation and compliance which led to a desired goal.	
"Coercion": Creating an (expectation) of	Automatic motivation: Which regulatory practices are managed effectively and correctly despite negative perception of their value?	Clear messaging and a rationale for the proportionality of sanction for non-compliance.

Intervention functions	Source of behaviour	Main conclusions
cost for non-compliance.	Reflective motivation: Past examples of breaching regulations and how those failings were subsequently addressed.	Tailor messaging to be proportionate to the compliance breach.
“Modelling”: Aspirational examples of good regulatory practice.	Automatic motivation: Processes, guidelines, messengers, etc. that individuals / businesses imitate to achieve regulatory outcomes.	Use case studies and examples in communications which express a clear link between positive business outcomes and regulatory compliance.

Mapping evidence to the behavioural model

The COM-B model for this study primarily focusses on motivational aspects of behaviour in relation to communication interventions (See Figure B1 in Annex B). A summary of the evidence related to the functions and sources of behaviour listed about in Table 3 follows:

Education | Psychological capability

Knowledge and experience of directly administering regulations plays a role in deciding how to comply with a regulatory requirement. The business will administer themselves if they employ staff with the right skills, in cases where regulations are simple to understand, or for long-standing regulations that are viewed as standard operational practice. Business managers are more likely to outsource to an agent if there are limited or no skills within the business, for complex regulations or for new regulatory areas / changes to regulations. For the latter, external advice may be accessed until processes become embedded or learned by business representatives.

Communication conclusions: The channel and messaging used will vary depending on the nature of a regulation. Generally, communication regarding complex regulations that require some professional expertise to administer (e.g. application / assessment of multiple legal requirements) are more likely to influence businesses if delivered to intermediaries. The content of communication to businesses should concentrate on their overall responsibilities: communications to intermediaries can include more detailed information on administration.

One useful exercise for subsequent research is to identify which regulations are more likely to be administered by intermediaries. This could be achieved through primary research. However, it may also be useful to conduct some detailed analysis on secondary data such as the Inter-Departmental Business Register (IDBR) to assess the volume of businesses operating under relevant four/five digit Standard Industrial Classification (SIC) areas.

Education | Reflective motivation

Past experiences affect behaviours towards regulations. A direct experience will inform subsequent decisions although the processes involved are complex. For example:

- **The age of the regulation.** Long-standing regulations are typically viewed as part of standard business operations. Further, administration methods will have developed over

time and a range of efficiency measures will already be in place. **Communications** that explain what successful administration looks like and how it has been achieved in the past will be of value to new sector entrants.

- **Regulatory complexity.** As per the capability discussion, past experiences of attempting (and possibly failing) to administer complex regulations will affect decisions to outsource. Outsourcing is more likely if administration impacts on the time a manager has for other tasks and any costs incurred (actual or perceived). Where the purpose of **communication** is to encourage or support regulatory compliance, messaging or advice that advocates professional support from intermediaries maybe the best solution for businesses.
- **Administrative practice.** Regulations that require repeated action to administer or that are collectively burdensome may lead to businesses exploring ways to administer more efficiently or consider non-compliant actions. Efficiency communications could present examples of how businesses have adopted new administration methods and the benefits they perceive to accrue. However, there is an argument that some businesses develop competitive advantage via such efficiency and so may not wish to share their practice. **Messages** highlighting the consequences of non-compliance would require testing to ensure there are no resulting unintended consequences such as advertising methods to bypass regulation.

Persuasion | Automatic motivation

Several underlying, sub-conscious drivers affecting perceptions of regulatory burden were identified. Regulations embedded into business practice were usually perceived as the "cost of doing business" and required little persuasion to ensure compliance. Similarly, regulations that ensured customer or staff safety, or provided a competitive advantage to the business were not viewed as burdensome.

A larger issue was unsubstantiated or unconsidered conceptual views of regulation. Some respondents made a sub-conscious negative connection between regulation and burden. The burden of repetitive practices and/or multiple regulations requiring the same base data for administer could seem more burdensome as they confirmed an existing negative perception.

Communication conclusion. Changes to reduce repetition or increase the use of shared data across may reduce the time required to administer regulations however it may not shift perceptions of burden.

Persuasion | Reflective motivation

The research found no examples where an experience of a (changing) business practice improved the underlying perception of administrative burden. The closest corollary was the use of regulation to generate a competitive advantage such as, for example, achieving a high standard of environmental regulatory compliance ahead of their competitors to attract more business.

Maintaining compliance was also a way for a few respondents to relieve the stress of managing a business. In such situations, knowledge that the business was compliant removed some anxiety and pressure from the respondent.

Communication conclusion. As views and some regulatory practice are entrenched in the minds of respondents, shifting underlying perceptions via reflection does not appear

straightforward. Strong, proven examples that link effective compliance to positive business outcomes (growth, productivity, profitability) may deliver some benefits.

Incentivisation | Automatic motivation

Regulations that align to the purpose of the business or help the business operate in a fairer market were viewed more positively than those that were dissonant. These includes "rules" that ensured fair procurement practice (such as licenses and permits) or regulations that define the legal parameters within which a business can operate.

Several respondents made unsubstantiated comments about less stringent regulatory environments in other countries creating a disadvantage to UK businesses. However, two counter comments suggested this view was not necessarily based on experience. One respondent referenced the high level of paperwork required of US firms relating to products that could be used for weaponry. Another noted the repeat forms required when exporting abroad that were required for every export even if the same product was being sent to the same client.

Communication conclusion. As above, the more weight of evidence used in communications that links effective compliance to positive business outcomes is likely to be more effective. Ensure examples are sector / product / service specific.

Incentivisation | Reflective motivation

There was a strong connection between the purpose of regulation and potential serious risks associated with non-compliance, especially in the case of health and safety. This was in part driven by social mores regarding human interaction and wellbeing (keeping others safe) and also the potential reputation and hence competitive damage that would arise from a serious health and safety breach.

Some businesses leveraged regulations (or associated standards) to gain a perceived competitive advantage. For these businesses, regulatory compliance was synonymous with quality services and products with compliance used as a proof-of-quality in their business offer. This included using regulations to ensure good working practices from staff and food standard ratings to differentiate from other food outlets.

Communication conclusion. The communication potential of using regulations to demonstrate the benefits of regulation – as one interviewee put it, "*no one speaks to you about the benefits*" and the evidence shows some businesses place strong value in compliant behaviour.

Coercion | Automatic motivation

Risk and consequences affected views of actions that could be taken to ensure compliance. No business interviewee took issue with regulations and associated sanctions designed to keep staff or customers from *obvious* risk of death or serious injury. This was especially the case in manufacturing where machinery or site work was part of service delivery.

However, where the health or safety consequences were less severe or where the risk of serious health consequences were less obvious, a few interviewees would question penalties for non-compliance. In particular, a several retail interviewees felt penalties for minor infringements were unjustified. Penalties for incomplete fridge temperature records is the main

example. Part of this reaction was disbelief that missing the occasional temperature record would result in serious food contamination and illness for customers.

Communication conclusion. The connection between non-compliance and potential consequences should be clear in communications and messaging. Clear messaging should explain the importance and purpose of multiple and / or repetitive administration alongside a clear chain of potential consequence for non-compliance.

Coercion | Reflective motivation

There were few examples of significant past compliance action were found in the study. However, some lower-level compliance actions (such as the temperature reporting above) were reported and for most, such infringements were due to error caused by a lack of awareness or unclear requirements from regulators. These factors tie in with the skills discussion under Education | Psychological capability earlier.

Interviewees reflect that a penalty regime is a central component of regulatory compliance. The value of penalties is they should create a foundation for businesses to compete equally and they should be proportionate to the consequences of non-compliance.

Communication conclusion. No difference in existing communication regarding serious breaches i.e. strong messages about the sanctions of no compliance. However, for less serious non-compliance issues (those that do not result in physical harm or lead to criminal behaviour), messaging should balance the infringement with a proportionate sanction.

Modelling | Automatic motivation

Many regulations were synonymous with standard business practices which made it difficult for interviewees to isolate the work required to ensure they were meeting their requirements. Good regulatory practice resulted from good business administrative practice. Activity deemed burdensome was that which had a less obvious purpose, was viewed as overly-repetitive or required multiple submission of the same data. This made it difficult to model good regulatory administration because, by design, good regulation is part of general business administration.

From a modelling perspective, it is easier to identify when regulation is a burden to identify what to avoid. Taking several examples:

- **One size fits all.** Several smaller businesses noted no difference between the regulatory requirements of small businesses compared to larger ones. This includes examples where scale makes it easier to comply. One example is employing a specific member of skilled staff which adds proportionally more to the cost base for a small business than a large one. It does not necessarily follow that doubling the number of employees also doubles the amount of work for that skilled member of staff.
- **Excessive administrative activity.** This cover regulations that have a high burden of proof to show compliance. An example cited is providing the same data on the same product each time it is exported. Prior data is not kept so it means data entry is repeated rather than adapted.
- **Perceived Inconsistent enforcement of compliance activity.** Several anecdotal situations were described in interviews where rules appeared to be inconsistent between businesses. By example, on interviewee noted the actions they had to take to remove asbestos compared to inaction taken by a builder in their area.

Communication conclusion. Show where and how good regulation is embedded in other business administration thus how businesses achieve more than one action through recording the same data.

Tailoring communication approaches

This section of the chapter considers the ways in which government and other agencies currently communicate with businesses about regulations and additional sources of information sought by businesses to understand regulations, and the effectiveness of communication. Suggestions for tailoring communications to business representatives based on the prior behavioural analysis are also presented.

Use of gov.uk

All businesses interviewed believe they should be aware of the range of regulations to which they should comply. The most frequently cited way interviewees believed the government communicates with them about business regulations was through the 'gov.uk' website. The website was positively received by some owner-managers who valued information for starting up a business as well as material relating to food and safety and health and safety regulations. Other businesses highlighted several drawbacks about the way in which regulations were communicated via gov.uk and, in some cases, websites in general. These included:

- The passive dissemination of information with the onus placed on the business representative to seek out the relevant information by visiting a website and the time it takes them to do so;
- The reliance on the business representative's knowledge and experience to identify the regulatory information on gov.uk which is relevant to their type of business;
- The lack of a system on gov.uk to communicate directly with businesses to alert them to any changes to existing regulations and/or the introduction of new regulations; and
- The challenges faced by businesses representatives to speak to anyone in person regarding any queries they had about the information on the website and how it applies to their particular business.

Alternative sources of information

Instead of and/or in addition to accessing the 'gov.uk' website to gain information about business regulations many interviewees reported alternative ways in which they informed themselves about business regulations. These included:

- Approaching professional services they employ for business advice e.g. accountants, regulatory specialists, and business support advice lines to which they subscribe;
- Undertaking searches of other websites e.g. individual regulators, sector membership bodies, and trade associations;
- Depending on suppliers' websites which outline the regulations with which their customers should comply;
- Contacting peers, often competitors, within their sub-sector;

- Reading or participating in online forums about business regulations for particular sub-sectors; and
- Reading articles in the trade press.

Importantly the drawbacks of the 'gov.uk' website and activity to identify alternative sources of useful and actionable information were perceived by many businesses to add to the time burden of regulatory compliance and therefore increased their negative perceptions of administering regulations.

"The information is out there, but it's not given to you. You only know it's out there when you go looking for it." (Small-sized retailer)

Examples of effective communication

The interviews identified communication methods regarding regulations which business owner-managers had found effective and from which government more widely could learn. These examples were:

- Letters, employed by HMRC and providers of licences e.g. PPL PRS for the playing of music in public places, the receipt of which not only remind businesses of the need to comply with regulations but also clearly set out the consequences of not doing so.
- The multi-channel marketing campaign adopted for the introduction of auto-enrolment pensions. Interviewees referred to television, radio and newspaper advertisements, and advertising banners at the top of webpages which created a high level awareness of the introduction and enabled the imparting of messages about its purpose, what businesses were required to do to be compliant, and the timelines for them to do so. Furthermore, one small-sized manufacturer noted the messaging within the publicity campaign that smaller businesses would have a longer timeframe within which to comply than larger organisations. They suggested that the latter helped induce in them a more accepting response to the regulation's introduction. The authors note that pension auto-enrolment was a rare, significant change to the regulatory landscape which required a major level of marketing investment.
- Regular email alerts received by one business interviewee following their subscription to the Food Standards Agency's website regarding food products which have been recalled which helps the individual to keep the individual up to date on food safety issues which could affect their business.
- The role of the Financial Ombudsman is perceived by one small-sized retailer to have been effectively promoted. This was said to lead to a relatively good level of awareness among the public and businesses of the Ombudsman as a direct contact who can be approached to provide impartial advice and seek redress for any complaints with financial businesses.
- Briefing papers on emerging trends in regulations within particular sectors created by one of intermediary organisations interviewed is used to inform their clients about any forthcoming updates or introductions. The papers were perceived by the interviewee to be a well-received and effective way to raise client awareness about regulations and the implications for their business in terms of the steps required to comply.

A few of the intermediaries noted their role in informing their clients about regulation. One intermediary said they forwarded on updates from regulators, such as the Food Standards

Agency, to their clients via social media in order to more widely communicate the messages. Another created a regular briefing paper for clients which highlights emerging trends in regulation within a sector and illustrates how this could affect their clients' businesses.

"... How's [the newsletter] helped? We tend to use [questions like]. 'Why do you need to be interested?' 'Why do we need to comply?' ... If you really want people to buy into [regulations] then you've got to have more of a reason than just complying. There has to be a benefit or at least a reason why." (Intermediary organisation)

A few owner-managers also noted the valuable role that intermediaries can play in communication. These participants noted that communication about regulatory change was a key reason for employing advisors in the first instance as they specialise in understanding regulation and can interpret employers' requirement in language that businesses understand.

"[It] is probably as much through word of mouth and through the advisors that we [hear about new regulation or changes to regulations]. I certainly don't think we hear it [directly] from government. If there's an environmental [regulation] change, it tends to come through the external advisors certifying that we're meeting regulations... They're advising us, and then we would get to understand what we need to do." (Intermediary organisation)

Considerations for communications

The main implication for communication concerns the channels used to inform businesses of their regulatory responsibilities. This can split into three main categories:

- **Information on long-standing / standardised business regulations.** Typically, business owner-managers or assigned/specialist staff will learn how to administer these over time. A lot of existing information exists to support businesses. Communication channels should ideally signpost to existing data and sources known to be trustworthy by a target community. In cases of highly technical regulations or those that require professional training to comply, communications to intermediaries is also important.
- **Changes to existing regulations.** As above, an initial one-time cost may be incurred by the business. The decision-maker will decide whether they will manage change themselves and internalise the cost (sometimes with the tangential benefit of improving internal skills, or pay an intermediary to manage the change / design process for the business to regulate themselves). As above, intermediaries played greater role if the change was technical. Communications to businesses should describe and changes in plain English and signpost technical support for self-administration. More detailed information and guidance can be communicated to intermediaries straight away.
- **New regulations.** Any new regulations need a significant lead-in period. For example, auto-enrolment pensions were phased in over several years and despite some comments from interviewees in this study, a lot of information was provided to businesses regarding the introduction of GDPR. Businesses need enough information to make an informed choice whether to self-administer or whether to pay an intermediary. The potential danger of over-reliance on intermediaries was described by a few interviewees who experienced "mis-selling" of advice and guidance on GDPR. Businesses and intermediaries alike will face an initial cost in learning about new regulations, whether and how they apply to their business and in learning enough to

make an informed decision on the costs and benefits of self-administration over paying for associated services.

Potential adaptations to communication approaches

In this section of the chapter the ways in which communications about business regulations can be adapted in order to alleviate negative perceptions about burden are considered. The suggestions for ways to make business regulation communication better to influence perceptions of burden are outlined in Table 4 below and are rooted in the interview findings and the behavioural analysis.

Table 4: Potential methods of alleviating negative effects of perceptions of regulatory burden

Method	Ways in which method may influence business' perceptions of burden
<p>Clearly state the purpose of regulations, the anticipated audience, to whom the regulation is relevant and the implications for businesses to ensure compliance e.g. the activities which need to be undertaken to comply, by when, and the consequences if not.</p> <p>Align communications to the sector, products and services of the target businesses.</p> <p>Use case studies / examples that demonstrate a link to compliance and positive business outcomes.</p>	Spend less time understanding a regulation, how it applies to them, and the action they need to take.
	Reduce the need to invest, or target investment in business support to better understand regulations and their implications.
	Understand the reasons for and/or anticipated benefits of the regulation which might align with their business strategy or personal values and therefore have greater relevance to encourage compliance.
<p>Develop a checklist of all business regulations specifying the types of business to which they apply. Make the checklist available online and signpost businesses, particularly newly set-up ones, to this.</p>	Reduce the time businesses spend trying to identify regulations applicable to them.
	Ensure businesses have the opportunity to be fully informed about the range of regulations to which they should comply.
	Minimise the stress on business owner-managers by providing certainty about the regulations with which they should comply.
Use firmographic data provided in business' government registration records to tailor the checklist of regulations to their profiles.	See findings above for 'Develop a checklist'.
Provide an advice line for businesses to call to regarding queries they have about business regulation.	See findings above for 'Develop a checklist'.
Email businesses and intermediaries to alert them about any updates to existing regulations and/or the introduction of new regulations.	See findings above for 'Develop a checklist'.
<p>Develop repositories of / further utilise existing core data for businesses e.g. contact details and firmographics which can be used to flood-fill regulatory forms for different regulations and/or the same forms completed by businesses on multiple occasions e.g. annual licences or conformance forms. Learn from existing practice in this area.</p>	Reduces the time required to complete forms.
	Minimises the frustration caused by having to declare the same information on multiple occasions.

Annex A: Detailed Methodology

Aims and objectives

The three main aims of the study are:

Aim 1: To uncover the underlying issues that affect businesses' perceptions of whether and how regulation is burdensome, and why some businesses do not perceive burden;

Aim 2: The effects and consequences to businesses resulting from their views of regulatory burden; and

Aim 3: How government can communicate with businesses to influence these perceptions to alleviate any negative effects.

An initial review of some of the main research and behavioural frameworks informed the key research questions for the study which were then grouped into the four categories (see Figure 1 below).

Figure A1: Research questions

		Aims →	1	2	3
Causes of burden	What are the underlying drivers or regulatory burden?	✓✓	✓		
	What is the balance between measured and perceived burden?	✓✓	✓✓		
	What are the external / government drivers?	✓✓	✓✓		
	How do requirements and burdens differ between regulators / regulations?	✓✓	✓✓		✓
	How do employers interact with different regulators?	✓✓	✓		✓✓
Impact of, and response to, burden	The importance and internal impact of process drivers such as compliance; insurance; supply chain; administration	✓✓	✓✓		
	The importance and internal impact of attitudinal drivers such as reputation, growth/productivity; competition	✓✓	✓✓		
	The value of external advisors: specialism; assurance; independence	✓✓	✓		✓
Behaviours associated with burden	What is the role of behavioural factors in perceptions of burden?	✓✓	✓✓		✓✓
	How do participants perceive and interpret the behaviour of regulators?	✓			✓✓
	How do changes to regulation impact on perceptions and behaviours?	✓✓	✓✓		✓
Communicating with employers and advisors	What is the purpose of communication from regulators / government?		✓		✓✓
	What methods are used and views on effectiveness?		✓		✓✓
	Perceptions / examples / impacts of communication with main regulators?	✓	✓✓		✓✓
	How can communications improve views towards regulation?	✓	✓		✓✓
	What recommendations can be made for subsequent behavioural trials?				✓✓

Structure for the behavioural elements of the study

At the outset of the study it was agreed that Michie, Stralen and West's COM-B behavioural framework model (see Annex B) would be adopted for the analysis of the behavioural elements of the study and the ORGANISER mnemonic to adapt where necessary for business

audiences. The latter is outlined in Table A1. As the desired behavioural outcome of this study is to better understand the range of behaviours associated with organisations' responses to regulation and perceived burden ORGANISER provides a useful approach to codify the types of behaviours observed and described through the fieldwork.

Table A1: Using ORGANISER to describe and codify behaviours

Theme		Research purpose
External	Operating environment	Map the regulatory environment for each participating business recording how regulation enable and constrain the behaviours of decision-makers.
	Relationships	Describe the relationships that decision-makers have with regulatory bodies. Record examples of how personnel interact and describe regulatory bodies and regulations. Semiotic analysis of words used in descriptions and examples.
	Advantage and reputation	To what extent do business decision-makers use regulations to their competitive advantage? Examples of how businesses benefit from regulation and the potential benefit of bending the rules.
Internal	Aims	How do the aims and purpose of the business intersect with regulations? Where are the areas of regulatory harmony and conflict and how do these affect the direction of the business?
	Norms and culture	How does the stated culture of the business (as expressed by the decision-maker) resonate or clash with regulatory requirements. In the case of multiple interviews in one business, do all interviewees give corroborating responses? Add observational elements in fieldwork face-to-face.
	Internal structures	Who is responsible for which type of regulation / individual regulators? Why is responsibility devolved in that way? What experience / training to decision-makers have in relation to regulatory compliance?
Decision-making processes	Strategic processes	Examples of how past decisions have been influenced by a regulator or the requirements of specific regulations. What happened as a result of that decision?
	Estimation	How strict is regulation and to what extent are regulatory requirements aligned to the operations of the business? What regulations are well-designed, easy to implement and proportionate; which are the opposite. Why is this and how does that affect business operations.
	Trusted sources	Who do decision-makers go to for regulatory advice and does this differ by regulatory regime? What are the reasons for the difference? What constitutes / defines trust and what happens when decision-makers lack trust?

Table A2 maps and adapts the study's research questions identified in Figure A1 to our model and was used to develop research instruments with a strong focus on identifying desirable (and undesirable) existing behaviours relating to regulatory issues. The framework also governed the analytical approach, including identifying which components of support concepts had the greatest resonance with individuals and businesses.

Table A2: Mapping the research objectives and questions to the behavioural framework

Intervention functions	Source of behaviour	Objectives map
"Education": Increasing knowledge or understanding of regulation.	Psychological capability: Knowledge and experience of regulations.	Causes and impacts of burden. Use of agents to address shortfalls in knowledge.
	Reflective motivation: How regulations have been administered in the past by the individual / the business.	Reflecting successful management strategies in communication materials.
"Persuasion": Inducing feelings to stimulate preventative action.	Automatic motivation: What are the underlying, sub-conscious drivers of behaviour towards regulation?	What do the responses given in interview reveal about pre-conceptions of regulation?
	Reflective motivation: Examples of past personal or business experiences that have changed views regarding regulation.	How positive experiences can be used to inform and design communication.
"Incentivisation": Rewarding positive behaviour regarding regulation.	Automatic motivation: Which regulatory practices result in positive outcomes for the business?	Identification of attitudinal drivers towards good regulatory practice.
	Reflective motivation: Examples of planned action regarding regulation and compliance which led to a desired goal.	Identification of good regulatory processes within the business.
"Coercion": Creating an (expectation) of cost for non-compliance.	Automatic motivation: Which regulatory practices are managed effectively and correctly despite negative perception of their value?	What are the attitudes and views that drive compliance?
	Reflective motivation: Past examples of breaching regulations and how those failings were subsequently addressed.	Identify the strongest mechanisms to ensure compliance.
"Modelling": Aspirational examples of good regulatory practice.	Automatic motivation: Processes, guidelines, messengers, etc. that individuals / businesses imitate to achieve regulatory outcomes.	Who or what influences positive behaviours from individuals / businesses.

Primary fieldwork

Sampling

CFE Research aimed to conduct interviews with decision-makers at 30 businesses and five with representatives at intermediary organisations providing advice on different types of regulation, excluding tax. A randomly selected sample frame of c.1,000 businesses (i.e. a ratio of over 30 businesses per required interview) was purchased from a data supplier for the purpose of recruitment. The target achieved samples for businesses and intermediaries (see Tables A3 and A4) are based on discussions during the inception meeting.

Table A3: Sampling stratification and quotas for manufacturing and retail businesses

	Manufacturing	Retail	Total
Small businesses (10-49 employees)	10	10	20
Medium (50-249 employees)	5	5	10
England	9	9	18
Scotland	2	2	4
Wales	2	2	4
Northern Ireland	2	2	4
Total	15	15	30
Screeners (minimum quotas)			
Few / no regulation a burden	5	5	10
Find most / all regulation a burden	5	5	10
Exporting business	4	2	6
Use an intermediary for regulation	4	4	8
Innovative business	3	3	6
Online services provided	2	5	7

Table A4: Sampling stratification and quotas for intermediaries

	TOTAL
England	3
Other nation	2
Total	5

Screeners - intermediaries (minimum quotas)	
Manage paperwork on behalf of clients	2
Manage health and safety	2
Manage pensions	2

A purposive sampling approach was adopted and the data provider ensured the structure of the sample conformed to the following criteria:

- The sampled businesses were split evenly between the manufacturing and retail sectors defined as Section C of the ONS's Standard Industrial Classification (SIC) for manufacturing and Divisions 45 and 47 for retail. Intermediaries, harder to identify through specific SIC classes, although the following were relevant, Divisions 69, 70 and 84 (public administration). Prior to selection, the data provider stratified eligible businesses by four/five digit SIC code prior to random selection.
- The sampled businesses were then disproportionately stratified by size band. The sample comprised two-thirds small businesses (10 to 49 employees) and a third medium-sized (50 to 249 employees). The size and sector stratification were interlocked to give the same size distribution for each sector. Initially the research team planned to increase the number of suggested interviews undertaken across the 30 businesses as, in the case of medium-sized businesses and/or for businesses operating multi-sites, a single interview might have been perceived by the interviewee to be inadequate. However, all interviewees indicated that a single interview would suffice. No size criteria was assigned to intermediaries.

During the inception meeting, it was agreed that some face-to-face interviews were useful, although delivering these was not essential. In the event, all of the interviewees indicated that telephone interviews were their preference.

Interviewee screener questionnaire

A screener questionnaire was used to identify business characteristics and the different attitudinal characteristics of decision-makers based on measures in the 2018 businesses' perceptions of regulations survey (BPS). These attitudinal quotas were flexible to ensure recruitment was feasible. The characteristics (see Table A3) were based on a review of the BPS results and through comparing survey responses that significantly differ between manufacturing and retail businesses. A screener on intermediaries was necessary to ensure a wide range of regulatory advice was covered.

Interview recruitment

The interview recruitment was undertaken by two fieldwork agencies, one of which focused on securing interviews with businesses in Wales. The fieldwork agencies were provided with a recruitment script to describe the research and a screener questionnaire. A charitable incentive of £70 was offered to all interviewees.

Discussion guides

Interview guides were developed to address the research questions outlined in Figure A1 and the study's behavioural framework model (see Table A1). In particular, the guides sought to:

- Uncover the causes of perceived burden. For instance, burdens that can be measured through, for example, the time spent addressing regulation, any time saved through compliance or changes administration and the composition of staff employed / advisors used to ensure compliance. It also includes deeper-rooted perceptions regarding compliance such as whether and which regulations are good or bad and the ease with which they can be administered.
- Examine the impact of burden on measureable outcomes is important. What physical systems, process and methods are required to comply with different regulation and regulators should be collected plus any benefits or challenges that result. For example, how employers implement new or changing regulations and the role of advisors in this process.
- Explore an attitudinal line of questioning in order to understand behaviours that then inform communications. Not all decisions are made on a rational basis and interviewees' views and phrasing regarding regulation and associated issues reveal underlying perceptions. Similarly, understanding which types of regulation are administered regardless of participants' views on their value also reveal important information about automatic motivations.

Fieldwork

The fieldwork was undertaken in February and March 2019. In depth semi-structured telephone interviews of 45-60 minutes in length were conducted with 30 SME business decision-makers and five representatives of a range of intermediary organisations providing advice on different types of regulation, excluding tax. The breakdown of the samples achieved in relation to the sampling criteria are illustrated in Tables A5 and A6.

Table A5: Interviews achieved with manufacturing and retail businesses

	Manufacturing	Retail	Both	Total
Micro (6-9 employees)	2	3	0	5
Small businesses (10-49 employees)	6	8	1	15
Medium (50-249 employees)	7	1	2	10
England	10	10	2	22
Scotland	1	2	1	4
Wales	3	0	0	3
Northern Ireland	1	0	0	1
Total	15	12	3	30

	Manufacturing	Retail	Both	Total
Screeners (minimum quotas)				
Few / no regulation a burden	11	7	2	20
Find most / all regulation a burden	4	5	1	10
Exporting business	10	3	2	15
Use an intermediary for regulation	8	7	1	16
Innovative business	11	9	2	22
Online services provided	10	6	3	19

The business decision-makers interviewed differed from the target sample in the following ways:

- Fewer businesses in the devolved nations of the UK were interviewed than originally intended due to challenges identifying appropriate business leaders with availability to participate, however there is still representative in the sample from these countries.
- A small number of micro-businesses were also interviewed.

Table A6: Interviews achieved with intermediaries

	Total
England	3
Other nation	2
Total	5
Screeners - intermediaries (minimum quotas)	
Manage paperwork on behalf of clients	1
Manage health and safety	2
Manage pensions	2

Analysis

Transcription and coding

A total of 35 separate interviews with business decision-makers and intermediaries were conducted. All interviews were transcribed. The first 20 transcripts and were comprehensively

categorised to construct a coding frame to fit the data. The remaining interviews were coded using keyword and phrase searches.

Qualitative analysis

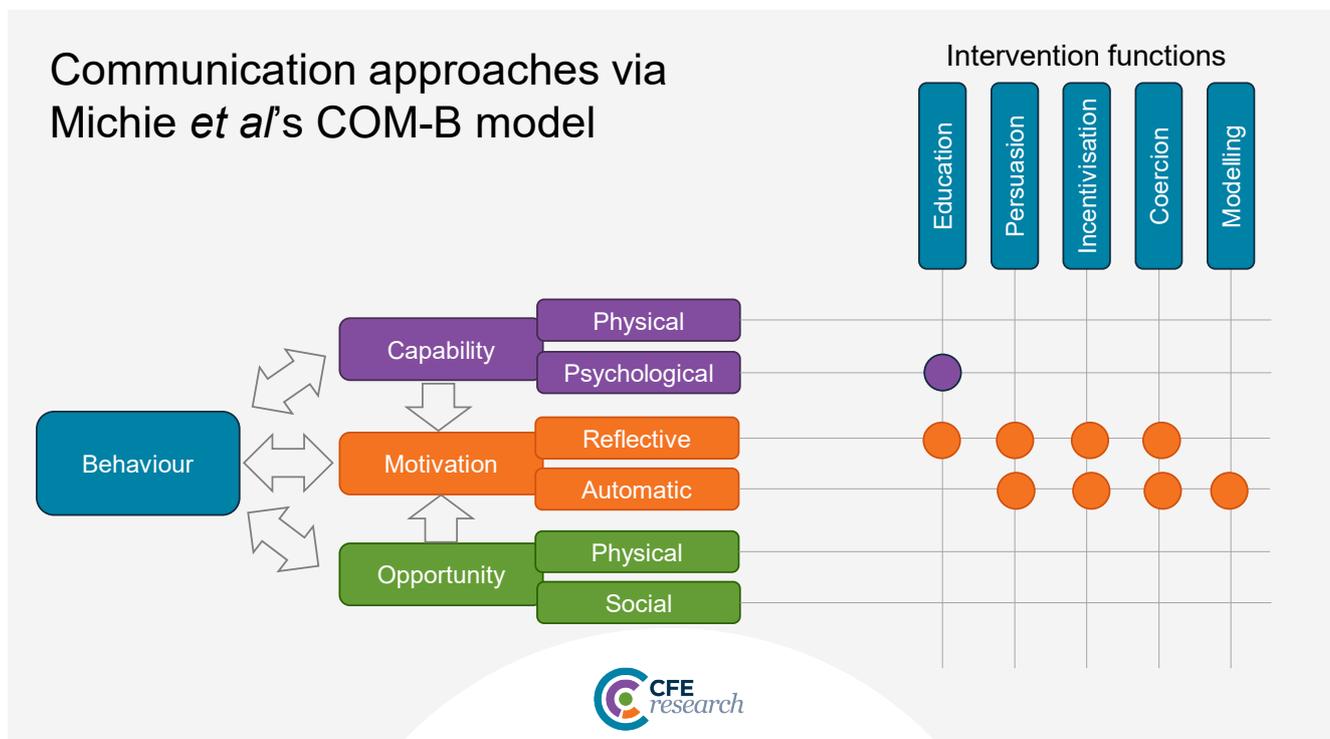
The research questions and behavioural change themes described earlier were used to structure the data analysis. An inductive approach to qualitative analysis was adopted to aid an understanding of meaning in the complex data through the development of the summary themes and categories identified, otherwise described as a process of data reduction. These themes and categories were then considered in the light of the behavioural categories in order to map chains of events used by decision makers to consider and enact regulations.

In practice this meant that the research team isolated the components of behaviour and prior actions towards regulation in order to draw conclusions as to what concepts should be considered in communications about regulation. The analysis also examined the issues and considerations relevant for subsequent behavioural insight trials.

Annex B: COM-B model for communication interventions

Michie, Stralen and West's COM-B model (2011) provides a framework for behavioural analysis. The COM-B model analyses components of behaviour based on actors' capabilities, opportunities and motivations. These components are considered in the context of "intervention functions" which describe the context in which behaviour manifests. Michie et al define a number of policies in which behavioural interventions operate. The main stated output from this research is improved communication to tackle perceptions of burden. COM-B allows us to codify the individual elements of communication and identify associated drivers of behaviour. The behavioural model is summarised in Figure B1. The model can be used to direct and design the research and attendant materials for the study.

Figure B1: Behavioural model for communication approaches from Michie et al, 2011



An intervention function is an action or activity that can be used to address behaviours. For example, "persuasion" describes how support can: use existing views of regulation (automatic motivation) in the effective design of support materials; and how support concepts lead to a shift towards desirable behaviour by explaining the benefits of good regulatory administration (reflective motivation). Each intervention function has a series of associated broad behaviours that it seeks to influence. In the case of communications, all but one behaviour is related to business owner-managers' motivation.

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