

# THE IMPACT OF BUSINESS COMPLIANCE: PERCEPTIONS OF NEW ZEALAND FIRMS

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Prepared for

Ministry of Economic Development

May 2003

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# Executive Summary

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There has been a considerable amount of research undertaken on the topic of business compliance both in New Zealand and overseas. Many of these studies have focused on estimating the 'cost' of compliance (and defining the different types of cost), and on exploring the ways in which these costs can be minimised (by changes in the way legislation and regulations are developed and/or administered by government agencies). A secondary focus has been on gaining a greater understanding of what motivates the individuals who exhibit high levels of compliance.

Some research has focused on comparing the cost of compliance in different countries, and in 2001 the OECD undertook a study of eleven countries<sup>1</sup>. This study made a distinction between administrative compliance costs (filling in forms etc), capital costs (capital investments needed for compliance purposes), and indirect or efficiency costs which arise when regulations reduce productivity and innovativeness. The study<sup>2</sup> (which suggested that in New Zealand the direct cost of compliance is low by comparison with other OECD countries) provided important information to the government agencies that are charged with reducing the negative impact of compliance in New Zealand.

The Ministerial Panel on Business Compliance Costs was established in December 2000 to provide advice to the government on ways to reduce unnecessary or over-burdensome compliance costs to business arising from central and local government regulation. The Panel identified a number of concerns that are held by New Zealand firms, and the various reports that were produced as a result of the Panel's work provided the platform for further work by the Regulatory and Competition Policy Branch of the Ministry of Economic Development (MED).

One of the priorities of this work programme was to undertake a pilot study into the way in which the managers of New Zealand firms perceive regulations and legislation as having an impact on their performance and on their ability to be innovative.

## ***PROJECT OBJECTIVES***

The focus of the present project was to assist the Ministry of Economic Development in understanding more about the way in which New Zealand firms (particularly those that are small and medium in size) are currently facing their compliance commitments. The intention was to undertake (and report upon) a piece of research while at the same time developing and testing a method for measuring the perceptions of New Zealand business people about compliance. In keeping with this dual focus, two main objectives were identified:

### **Objective 1: To gain an understanding of the perceptions of NZ managers on the consequences of compliance**

In terms of this objective the researchers were asked to provide MED with a report which:

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<sup>1</sup> OECD. (2001). Businesses' views on red tape: Administrative and regulatory burdens on small and medium-sized enterprises. Paris: OECD.

<sup>2</sup> There are some limitations that are important to note when relating the findings to New Zealand. The most important is that the survey excluded firms with no employees and did not include all areas of regulation.

- 1.1 Identifies and describes the perceptions held by the managers of New Zealand firms in respect of their compliance commitments (with a particular focus on the way this commitment affects the firm's performance and its ability to innovate).
- 1.2 Provides information on the impact of the compliance commitment (and its associated costs) on the firm's performance and its ability to innovate (relative to other factors).
- 1.3 Provides information on the types of strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs<sup>3</sup>.

## **Objective 2: To develop an appropriate methodology for assessing compliance perceptions**

In terms of this objective the researchers were asked to develop a methodology that will make it possible for MED to measure the three items listed above, and which has been tested within the context of this project. This methodology will enable MED to:

- 2.1 Identify changes over time in the perceptions held by the managers of New Zealand firms in respect of their compliance commitment.
- 2.2 Understand how the compliance commitment affects the firm's performance and its ability to innovate (relative to other factors).
- 2.3 Build up a picture of the strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs.
- 2.4 Assess whether the actions taken by government agencies are having the desired effect.

The objectives were modified slightly after Treasury became involved with the project. Their interest in firms that are exporting (or which have the potential to do so) meant that the researchers identified exporters (and potential exporters) as a specific sub-sample, to be addressed in the data gathering that was undertaken for Objective 1.

## ***PROJECT METHODOLOGY***

The studies already undertaken in New Zealand provided the research team with a valuable starting point for this project, by identifying some aspects of the nature of the compliance burden, and to a certain degree exploring the way in which this burden manifests itself for different groups. For example, in the 2001 review respondents identified three main ways in which compliance impacted on their business: the time spent complying, the fact that compliance has a stifling effect on innovation and competition and the cost of expert assistance. These general concepts were used by the researchers in this project, to explore more specific ways in which the compliance burden can express itself within the context of a single firm.

The project had three components:

1. A review of the international and New Zealand literature on compliance.
2. A series of focus groups to identify the particular concerns of New Zealand exporters<sup>4</sup>.

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<sup>3</sup> After some discussion between the researchers and MED about the difficulty of collecting valid data on this topic (see Section 7 for further discussion of this point), it was decided not to attempt to address this topic in the project.

<sup>4</sup> These groups were not part of the initial proposal, but were added to answer the needs of the Treasury team. The results from this component of the project are reported on separately.

3. A telephone survey of approximately 400 business owners and managers. Those recruited to take part in this survey were selected to provide data on the following characteristics: firm size; export involvement; firm stage; growth intentions and industry type.

These methods are explained in more detail in Appendix A.

## **RESULTS**

A summary of the findings follows.

### **Constraints on exporting**

When asked to comment on a number of factors (a list of these was read to the respondents) and to consider whether these factors were restricting or slowing their export growth (or their ability to earn foreign exchange if this was more appropriate), the 388 respondents (those who were already exporting or felt they had the potential to do so), most commonly identified:

- ◆ The conditions and regulations placed by overseas governments (over 60% said this was a factor that restricted their export growth, or had the potential to do so, compared to 37% who said that this factor was not a concern).
- ◆ The cost and time needed to represent the firm overseas (over 60% said this was a factor that restricted their export growth, or had the potential to do so, compared to 37% who said that this factor was not a concern).
- ◆ The effort and distraction of complying with regulations in NZ (over 54% said this was a factor that restricted their export growth, or had the potential to do so, compared to 45% who said that this factor was not a concern).
- ◆ The executive time and the expense of collecting information and researching a possible new overseas prospect (54% said this was a factor that restricted their export growth, or had the potential to do so, compared to 45% who said that this factor was not a concern).
- ◆ Getting identity and exposure for the firm or brand overseas (51% said this was a factor that restricted their export growth, or had the potential to do so, compared to 48% who said that this factor was not a concern).

However, the factors were not raised to the same degree by the five different groups that were surveyed. The key differences between the groups in relation to the top three factors shows that:

- ◆ Respondents that answered “yes, significantly” in relation to the ‘conditions and regulations placed by overseas governments’ were most likely to be from firms that: employ more than 11 FTEs, export, are neither ‘mature’ nor ‘new’, intend to grow strongly and come from the food and primary industry sectors.
- ◆ Respondents that answered “yes, significantly” in relation to the ‘cost and time needed to represent the firm overseas’ were most likely to be from firms that: do not employ and that employ more than 11 FTEs, do not export, are new, intend to grow strongly and are from the software and primary industry sectors.
- ◆ Respondents that answered “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’ were most likely to be from firms that: employ 2-10 FTEs, export, are ‘mature’ and ‘new’, intend to contract or consolidate, and are from the food, tourism and primary sectors.

Viewing the entire set of factors from the perspective of the groups themselves, there were also visible differences:

- ◆ In terms of firm size, all groups identified the 'cost and time needed to represent the firm overseas' and the 'conditions and regulations placed by overseas governments' as factors that restrict growth. Firms with fewer staff were more likely to identify the 'effort and distraction of complying with regulations in NZ' as a factor.
- ◆ In terms of export involvement, both groups identified the 'cost and time needed to represent the firm overseas' and the 'conditions and regulations placed by overseas governments'.
- ◆ In terms of firm stage, all three groups identified the 'cost and time needed to represent the firm overseas' as a factor. However, recently established firms noted 'getting identity/exposure for firm overseas' and 'time/expense re possible new overseas prospect' as factors.
- ◆ In terms of growth intentions, all three groups identified the 'conditions and regulations placed by overseas governments'. Respondents from firms that are contracting identified 'NZ's requirements for health/safety at workplaces' and the 'effort and distraction of complying with regulations in NZ' as factors.
- ◆ In terms of industry type, almost all groups identified the 'conditions and regulations placed by overseas governments' and the 'cost and time needed to represent the firm overseas'. However, the other answers demonstrate the varied nature of the New Zealand business population, and the variance in the impact of compliance on different industry sectors.

### **Constraints on productivity & growth**

In relation to factors that divert and distract the firm away from focusing on productivity and growth, it is noticeable that on almost all of the factors the majority response was that the firm readily deals with the issues involved. However, given the focus of this study (on providing MED and other agencies with information that they can use to reduce the compliance burden for New Zealand firms), the researchers identified all those factors where more than 30% of respondents identified the factor as an issue – irrespective of the proportion of those who indicated that they were 'dealing with it'. On this basis the issues of most concern to the 490 respondents (the whole sample) were:

- ◆ The regulations that apply to releasing a person who no longer suits the business (46% said this was a factor that diverts or distracts them, compared to 39% who said that this factor was not a concern).
- ◆ The ACC insurance arrangements as they relate to the firm business (37% said this was a factor that diverts or distracts them, compared to 58% who said that this factor was not a concern).
- ◆ The arrangements that are needed for health and safety of employees business (32% said this was a factor that diverts or distracts them, compared to 59% who said that this factor was not a concern).
- ◆ Providing a range of employment and other data on the firm to government agencies business (30% said this was a factor that diverts or distracts them, compared to 57% who said that this factor was not a concern).

However, the factors were not raised to the same degree by the five different groups that were surveyed. The key differences between the groups in relation to the top three factors shows that:

- ◆ Respondents who identified 'releasing an employee' as a factor that diverts and distracts them were most likely to be from firms that: employ 6-10 FTEs and more than 11 FTEs, export, are 'mature', intend to contract, and are from the primary, non-food, wholesale, retail and manufacturing sectors and the food industry.
- ◆ Respondents who identified 'labelling controls and standards' as a factor that diverts and distracts them were most likely to be from firms that: employ 6-10 FTEs and those that do not employ, are not currently exporting (but anticipate doing so) and those that are exporting, are neither 'mature' nor 'new', intend to grow and are from the food, and wholesale, retail and manufacturing sectors.
- ◆ Respondents who identified 'getting consent to use land, water and air' as a factor that diverts and distracts them were most likely to be from firms that: employ more than 11 FTEs and those that employ 6-10 FTEs, export, are neither 'mature' nor 'new, intend to contract and are from the food and primary sectors.

Viewed from the perspective of the groups themselves, there were also some differences, although the responses to this question provided the least differences between the groups.

- ◆ In terms of firm size, all groups identified 'arrangements expected when need to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them. Respondents from larger firms were more likely to identify 'arrangements for health and safety of employees' as a factor that diverts and distracts them.
- ◆ In terms of export involvement, all groups identified 'arrangements expected when need to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them.
- ◆ In terms of firm stage, all groups identified 'arrangements expected when need to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them.
- ◆ In terms of growth intentions, all groups identified 'arrangements expected when need to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them.
- ◆ In terms of industry type, almost all groups identified 'arrangements expected when need to fire someone', 'ACC levy arrangements as they relate to your firm' and 'arrangements for health and safety of employees' as factors that divert and distract them.

### **Costs versus benefits**

In relation to costs versus benefits, the issues of most concern (i.e. where respondents perceived that the cost and time outweighed the benefit) were:

- ◆ The regulations that apply to the process of releasing a person who no longer suits the business (43% said that the cost and time outweighed the benefit, compared to 13% who felt that the benefit was greater than the cost)
- ◆ The ACC insurance arrangements as it relates to the firm (39% said that the cost and time outweighed the benefit, compared to 15% who felt that the benefit was greater than the cost)
- ◆ Providing a range of employment and other data on the firm to government agencies (37% said that the cost and time outweighed the benefit), compared to 13% who felt that the benefit was greater than the cost)

The issues of least concern (i.e. where respondents perceived that the benefit outweighed the cost and time involved) were:

- ◆ The guidelines for firms trading fairly in relation to each others products and services, and in relation to customers (27% said that the benefit was greater than the cost, compared to 9% who felt that the cost and time outweighed the benefit).
- ◆ The regulations that need to be taken into account when a new person is being hired (27% said that the benefit was greater than the cost, compared to 16% who felt that the cost and time outweighed the benefit).
- ◆ The arrangements expected of the firm in regard to clean air, water and environment protection (21% said that the benefit was greater than the cost, compared to 14% who felt that the cost and time outweighed the benefit).

Again, these perceptions were not identical across the different groups that were surveyed. The key differences between the groups in relation to the top three factors shows that:

- ◆ Respondents who described the time, effort and cost of 'releasing an employee' as outweighing the benefits were most likely to be from firms that: employ 6-10 FTEs and employ more than 11 FTEs, are not currently exporting, are 'mature', are contracting and are from the non-food, primary sectors and the wholesale, retail and manufacturing trades.
- ◆ Respondents who described the time, effort and cost of 'ACC insurance arrangements' as outweighing the benefits were most likely to be from firms that: employ 2-5 FTEs, are not currently exporting, are 'mature' and from the primary, non-food and food sectors (there was no difference in terms of firm growth intention).
- ◆ Respondents who described the time, effort and cost of 'providing data to government agencies' as outweighing the benefits were most likely to be from firms that: employ more than 11 FTEs, are not currently exporting, are 'mature', and are from the software and business service industry and the primary sector (there was no difference in terms of firm growth intention).

Viewed from the perspective of the groups themselves, there were also some differences:

- ◆ In terms of firm size, all groups identified 'the ACC insurance arrangements as they relate to your firm', 'the regulations that apply to releasing a person who no longer suits the business' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.
- ◆ In terms of export involvement, all groups identified 'the regulations that apply to releasing a person who no longer suits the business', 'the ACC insurance arrangements as they relate to your firm' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.
- ◆ In terms of firm stage, all groups identified 'the regulations that apply to releasing a person who no longer suits the business', 'the ACC insurance arrangements as they relate to your firm' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.
- ◆ In terms of growth intentions, all groups identified 'the regulations that apply to releasing a person who no longer suits the business', 'the ACC insurance arrangements as they relate to your firm' and 'providing a range of employment and other data on your firm to

government agencies' as examples of legislation where they felt the costs outweighed the benefits. The exception was contracting firms, which were more likely to comment on taxation.

- ◆ In terms of industry type, all groups identified 'the regulations that apply to releasing a person who no longer suits the business' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.

### **Compliance & firm dynamics**

- ◆ In relation to whether the time and effort that respondents have put into compliance has changed over the previous year or two, 273 (56%) said there had been an increase. Respondents who said that there had been an increase were more likely to be from firms that were contracting, and were from the food and primary sectors.
- ◆ In terms of the potential for compliance commitments to impact on firm dynamics, 283 (58%) respondents said they could identify a particular piece of legislation in relation to the nine factors that were read to them. This compares to 206 (42%) who said they could not identify a piece of legislation that had this effect.
- ◆ Respondents who could identify particular pieces of legislation that they saw as having the potential to 'distract and divert senior staff', were most likely to be from firms that: employ more than 11 FTEs and employ 6-10 FTEs, export, are 'mature', are contracting and are from the food, non-food and primary sectors.
- ◆ 312 (64%) respondents could identify particular pieces of legislation that they saw as having the potential to be 'ambiguous to interpret or apply'. This compared to 178 (36%) who said no to this question.
- ◆ 179 (36%) respondents could identify particular pieces of legislation that they saw as having the potential to 'draw the firm into legal expenses'. This compared to 310 (63%) who said no to this question.
- ◆ 121 (25%) respondents could identify particular pieces of legislation that they saw as having the potential to 'generate conflict and disagreement with regulatory agency staff'. This compared to 368 (75%) who said no to this question.
- ◆ 177 (36%) respondents could identify particular pieces of legislation that they saw as having the potential to 'dampen the manager's enthusiasm for innovating'. This compared to 312 (64%) who said no to this question.
- ◆ 118 (26%) respondents could identify particular pieces of legislation that they saw as having the potential to 'impact on the value or speed with which your industry can grow export earnings'. This compared to 363 (74%) who said no to this question.
- ◆ 189 (38%) respondents could identify particular pieces of legislation that they saw as having the potential to 'oblige the firm to engage outside consultants'. This compared to 301(62%) who said no to this question.
- ◆ 162 (33%) respondents could identify particular pieces of legislation that they saw as having the potential to 'leave a sense of unfairness with your firm'. This compared to 328 (67%) who said no to this question.

# Section 1: Introduction

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During recent decades there has been an increasing focus on the importance of firm growth and innovation in many countries. Owners and managers of enterprises (particularly those that are categorised as small or medium in size) are encouraged to pursue innovative products, processes and solutions in order to maximise their potential, and improve their performance. In New Zealand this is evidenced by a number of government initiatives, including the *Innovation Framework* and the various reports from the *Science and Innovation Advisory Committee*. Policy statements such as these have provided the underpinning for programmes that encourage firms to become more effective, and business people to become more enterprising.

In parallel with the focus on 'capability building' and developing a 'culture of enterprise' (as exemplified by programmes such as BIZ and the Enterprise Culture and Skills Activities Fund respectively), recent governments have emphasised the need to decrease the barriers that prevent innovation and enterprising behaviour from occurring. One area of particular focus is the cost of complying with the various regulations and the pieces of legislation that exist to guide the operation of business. As part of the government's commitment to the goal of decreasing the cost of compliance, a Ministerial Panel on Business Compliance Costs was established. This panel consulted widely with business, seeking the views of individual business people and industry groups<sup>5</sup>. In its final report<sup>6</sup> 162 recommendations were made. In the government's response to the report<sup>7</sup> it was noted more than 80% of the recommendations had already been implemented or were agreed with totally, in part or in principle.

The key message from this response is that while the government is aware of the need for laws and regulations that guide the actions of firms, it has recognised that there is a burden for them. This concern with the implications for individual firms that is evident in New Zealand is in contrast to much of the international discourse on the impact of compliance costs, which has focused at a macro or industry level, rather than attempting to understand the issues at a firm level.

Another characteristic of these international studies is that certain facets of compliance (such as specific legislative areas) have drawn more attention than others have. For example, a large number of studies address the environment in general terms or assess specific approaches to environmental management such as resource management legislation. Another area that has been dealt with extensively is taxation. To an extent, the same situation exists in New Zealand, where specific pieces of legislation have attracted considerably more attention than others. As well as taxation, significant work has been carried out on the costs and benefits for business of compliance with the Health and Safety in Employment Act<sup>8</sup>.

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<sup>5</sup> Massey, C., & Quin, P. (2001). Review of responses to the Ministerial Panel on business compliance costs. Wellington, NZ: NZ Centre for SME Research.

<sup>6</sup> Ministerial Panel on Compliance Costs. (2001). Finding the balance: Maximum compliance at minimum cost. Wellington, NZ: Ministry of Economic Development.

<sup>7</sup> Ministry of Economic Development. (2001). Striking the balance: Government response to the Ministerial Panel on Business Compliance costs. Wellington, NZ: Ministry of Economic Development.

<sup>8</sup> Mickell, K., Adams, M., Anderson, D., Corrigan, A., Kousary, L., & McGill, P. (2001). The costs and benefits of complying with the HSE Act, 1992 (Occasional paper 2001/4). Wellington, NZ: Labour Market Policy Group.

In addition to the reports from the compliance cost panel (as described in the next section), this broader work has provided the context for the study presented here.

## ***PROJECT OBJECTIVES***

The Ministerial Panel on Business Compliance Costs was established in December 2000 to provide advice to the government on ways to reduce unnecessary or over-burdensome compliance costs to business arising from central and local government regulation.

This process identified a number of concerns that are held by New Zealand firms, and the various reports that were produced as a result of the Panel's work provided the platform for further work by the Regulatory and Competition Policy Branch of the Ministry of Economic Development (MED). One of the priorities of this work programme was to undertake a pilot study into the way in which the managers of New Zealand firms perceive regulations and legislation as having an impact on their performance and on their ability to be innovative.

The purpose of the project was to provide MED with a snapshot of the way in which New Zealand firms are dealing with compliance, while also providing it with a way of measuring changes over time. In keeping with this dual focus, two main objectives were planned:

### **Objective 1: Undertake research into the perceptions of NZ managers on the consequences of compliance**

In terms of this objective the researchers were asked to provide MED with a report which:

- 1.1 Identifies and describes the perceptions held by the managers of New Zealand firms in respect of their compliance commitments (with a particular focus on the way this commitment affects the firm's performance and its ability to innovate).
- 1.2 Provides information on the impact of the compliance commitment (and its associated costs) on the firm's performance and its ability to innovate (relative to other factors).
- 1.3 Provides information on the types of strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs<sup>9</sup>.

### **Objective 2: Develop an appropriate methodology for assessing compliance perceptions**

In terms of this objective the researchers were asked to develop a methodology that will make it possible for MED to measure the three items listed above, and which has been tested within the context of this project. This methodology will enable MED to:

- 2.1 Identify changes over time in the perceptions held by the managers of New Zealand firms in respect of their compliance commitment.
- 2.2 Understand how the compliance commitment affects the firm's performance and its ability to innovate (relative to other factors).
- 2.3 Build up a picture of the strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs.
- 2.4 Assess whether the actions taken by government agencies are having the desired effect.

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<sup>9</sup> After some discussion between the researchers and MED about the difficulty of collecting valid data on this topic, it was decided not to attempt to address this topic in the project.

## **PROJECT METHOD**

Given the intention to repeat the study, the researchers were asked to develop a methodology that was cost effective and which would focus on MED's primary interest (in the perceptions of business people about their compliance commitments). The approach included a review of the literature, a set of focus groups (these were not part of the initial proposal but were added in response to the particular information needs of the Treasury) and a telephone survey of 490 firms (more detailed information on the method is contained in Appendix A). It is envisaged that the telephone survey component would be the component of the study that would be repeated.

### **Literature review**

To provide a context for the study (and as one of the project's specified outputs), the researchers undertook a comprehensive study of the international literature on business compliance. While much of this literature addresses compliance solely in relation to taxation (and focuses on providing detailed calculations of the actual costs involved in complying with this particular legislation), there have been several important contributions that have been useful in this study:

1. The first area is in defining the different types of 'compliance cost'. This has been comprehensively covered, and the existing literature provides researchers with a terminology for dealing with a complex area, and addresses fundamental issues such as how to define compliance, how to research it and how to identify 'best practice' in terms of developing legislation with low compliance costs.
2. There are a number of studies (such as the OECD study) that estimate *direct* compliance costs.
3. A number of studies canvassed the general impressions of business people about compliance. The reports from the New Zealand Ministerial panel on Business Compliance Costs are an example of this type of work, which is important because it records the general concerns of business people and their particular concerns with specific pieces of legislation.
4. The last type of studies are those that focus on the *indirect* 'cost' of compliance, and particularly the way in which compliance has the potential to divert and distract the attention of senior management, thus making them less likely to consider growth strategies such as exporting.

A summary of the completed literature review is included in Appendix D of this report.

### **Focus group interviews**

Four focus groups were conducted to gather views from business people in small and medium enterprises (SMEs) on the factors that they perceive as constraining their ability to export. There was also an attempt to gain an understanding of the relative burden of New Zealand based considerations and compliance issues. This contributed to addressing objectives 1 and 2, and was used to help construct the questions on firm dynamics that are written up in section 6 of this report. This component of the study was reported upon separately<sup>10</sup>.

### **Telephone survey**

In consultation with the MED and a number of other government agencies, a survey was designed and administered to 490 respondents. The sampling frame ensured that the focus

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<sup>10</sup> NRB. (November, 2002). Constraints & hurdles to SME exporting. Auckland, New Zealand: NRB.

was on SMEs (for the purpose of this survey, the focus was on small and micro enterprises). A number of other dimensions (firm stage, export involvement, industry sector and the firm's growth intentions) were also used to enable the researchers to gain a better understanding of the relationship between these factors and the respondents' views of compliance in New Zealand.

The purpose of the survey was to gather perceptions from the managers of New Zealand firms in relation to:

1. The factors that restrict export growth (Section A of the questionnaire).
2. The factors that have the potential to 'divert and distract' the firm's managers away from focusing on improving productivity and/or growth (Section B of the questionnaire).
3. The costs of compliance (for the firm as well as for the industry) compared to the benefits (Section C of the questionnaire).
4. The time and effort that respondents put into compliance (Section D of the questionnaire).
5. The extent the firms' compliance commitments have impacted on a range of internal firm dynamics (Section D of the questionnaire).

### ***PROJECT TEAM***

The project team consisted of researchers from the New Zealand Centre for SME Research at Massey University and the National Research Bureau Ltd. The team consulted with staff from the Ministry of Economic Development, Treasury, the Department of Labour and the Inland Revenue Department.

### ***REPORT STRUCTURE***

This report presents the results of the project in 8 sections. Section 2 presents the demographics of those surveyed; Section 3 summarises the results from Section A of the questionnaire; Section 4 summarises the results from Section B of the questionnaire; Section 5 summarises the results from Section C of the questionnaire; and Section 6 summarises the results from Section D of the questionnaire. The results are discussed in Section 7, and Section 8 contains the report's conclusions. As already noted, the results of the focus groups have been reported upon separately.

## Section 2: Survey Demographics

As already noted in the introduction, the researchers were interested in examining the way in which different groups of firms respond differently to their compliance obligations. For the purpose of this study a number of ways of exploring the difference between firms were identified: firm size; export involvement; firm stage; growth intentions and industry type. These five 'dimensions' (and their respective sub-categories as explained below) were used throughout the study to collect and organise the data. The following section presents the demographic data from the total sample (490 firms).

### *FIRM SIZE*

There is evidence to suggest that firms that are of different sizes will exhibit differences in the way they perceive their compliance commitments. In particular, it is clear that non-employing firms have a different experience of compliance to those encountered by firms that employ. In order to examine the impact of size on the perceptions of compliance, firms in this study were grouped in terms of four size categories. These categories focused on those firms that might be described as micro, to reflect the characteristics of the New Zealand business population, in which over 85% of all firms employ fewer than 5 FTEs <sup>11</sup>.

**Figure 1: Sample by size**

	Number of Respondents	Percentage
Non-employing	49	10.0%
Employing 2-5 FTEs	155	31.6%
Employing 6-10 FTEs	140	28.6%
Employing more than 11 FTEs	146	29.8%
TOTAL	490	100%

### *EXPORT INVOLVEMENT*

Given the interest in this study on the way in which compliance may have an impact on a firm's ability to engage in growth-related strategies (such as exporting), the researchers categorised the respondents in relation to exporting.

**Figure 2: Sample by export involvement**

	Number of Respondents	Percentage
You currently export a physical product that is made in NZ from NZ raw materials or a plant or animal product.	210	42.9%
You earn foreign exchange from overseas clients by selling a skill or service undertaken largely in NZ - for example consulting, tourism, and software.	91	18.6%
Neither of these.	184	37.6%
Both of these.	5	1.0%
TOTAL	490	100%

<sup>11</sup> Industry & Regional Development Branch, Ministry of Economic Development. (2002) SMEs in New Zealand: Structure and dynamics. Wellington, New Zealand: MED.

All respondents were asked to describe their firm's involvement in export over the last 24 months in terms of whether they are currently exporting or not. Respondents who answered that they were not currently exporting were then asked whether they considered their product or service 'to be inherently capable of export, or being provided to overseas customers, from New Zealand'. This question elicited the responses below:

**Figure 3: Export capability &/or intentions (for non-exporters)**

	Number of Respondents	Percentage
Yes (inherently capable of being exported)	77	41.9%
Maybe	5	2.7%
No	102	55.4%
TOTAL	184	100%

### ***FIRM STAGE***

When considering the possible implications of compliance, it is intuitively attractive to assume that mature firms will find compliance less onerous than those that are new. For this reason the researchers were interested in examining compliance perceptions in relation to firm stage. Given the difficulty of defining firm 'maturity' in a way that is appropriate to firms of all sizes and in all industries, the respondents in this study were asked to define their own stage of growth, i.e. if they saw their firm as 'recently established and still finding a market', 'mature and stable' or 'somewhere between these two'.

**Figure 4: Sample by firm stage**

	Number of Respondents	Percentage
Recently established and still finding its market	61	12.5%
Mature and stable	278	56.7%
Somewhere between those two	151	30.8%
TOTAL	490	100%

### ***GROWTH INTENTIONS***

The focus of this study was on the way in which manager's perceptions of compliance impact on growth. Given the difficulty of defining growth in a way that is appropriate to firms of all sizes and in all industries, respondents were again asked to provide their own view on their growth intentions: They were asked if they saw their firm as 'contracting to a smaller size or volume of business', 'consolidating at about its current size or turnover' or 'growing significantly through current or new products, services or clients'.

**Figure 5: Sample by growth intention**

	Number of Respondents	Percentage
Contract to a smaller size or volume of business.	25	5.1%
Consolidate at about its current size or turnover	190	38.8%
Grow significantly through current or new products, services or clients	272	55.5%
Not known	3	0.6%
TOTAL	490	100%

### ***INDUSTRY TYPE***

There is considerable agreement that compliance is not experienced in the same way by all industry sectors. Nor are the direct or indirect costs or consequences of compliance equally borne by all. To ensure that these differences were reflected in the study, a decision was

made to identify a number of sectors of potential interest because of anecdotal evidence of their compliance problems. For this survey six sectors were chosen<sup>12</sup>.

**Figure 6: Sample by industry group**

	Number of Respondents	Percentage
Primary sector	73	14.9%
Food industry	66	13.5%
Non-food industry	51	10.4%
Tourism and allied services	93	19.0%
Software and business services	53	10.8%
Wholesale/retail with export/manufacturing	154	31.4%
TOTAL	490	100%

**SUMMARY**

Firms and their managers are not all the same, and the 490 respondents in this study were deliberately selected to demonstrate the heterogeneity of the New Zealand business population. As a result the sample offers a unique glimpse into the way in which firms that are different in terms of firm size, export involvement, firm stage, growth intentions and industry type, differ in the way they regard the impact of compliance. This notion is explored in the following sections of this report.

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<sup>12</sup> These sectors were chosen by MED. If the survey is repeated other industry sectors could be substituted, and although the responses would not be directly comparable to the initial study, it would allow a picture of compliance across sectors to be built up.

## Section 3: Constraints on Exporting

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As noted in the introduction, one of the main concerns of this study was to gain an understanding of the *consequences* of compliance that are less easy to identify than those that can be measured in terms of time and cost. This was consistent with the OECD study<sup>13</sup>, which noted that compliance is often discussed solely in terms of its direct ‘costs’ (which refers to the actual costs incurred by individuals in meeting the requirements laid upon them in complying with a given regulatory structure).<sup>14</sup> The OECD report goes on to make the point that gaining a clearer understanding of the *indirect* costs (which arise for example when regulations reduce a firm’s level of productivity and innovativeness) is important if the full impact of compliance is to be assessed.

The full impact of compliance was the focus here, as was the way in which complying with regulations has the potential to divert the attention of managers, and to act as one of the factors that may prevent the firm from engaging in a variety of growth-oriented activities (such as exporting).

This section presents the results from Section A of the questionnaire (see Appendix B for the questionnaire text). Here we were concerned with identifying constraints to exporting. First we asked the relevant respondents (the 388 who are either exporting currently or who consider their products or service as being inherently capable of being exported) to identify “any one need or constraint (whether New Zealand based or based in the overseas market) that is uppermost in your mind in holding back or limiting growth in your exporting”? This question deliberately avoided mentioning the term *compliance*, in order to minimise the degree to which respondents were ‘primed’ into framing their answers in ways that fitted the study’s focus.

The question elicited a large number of detailed comments: A number of respondents were concerned with the practicality of representing the firm overseas, while other respondents were more concerned with the regulations imposed by overseas governments or the trading conditions in these countries. Some talked about growth and a number commented on New Zealand based regulations. Others had particular concerns about the impact of compliance on smaller firms or identified issues that were industry-specific, or which related to particular pieces of legislation.

The primary purpose of this question was to stimulate the respondents’ thinking, before exposing them to the list of statements that was read to them in the next question. For this reason there is no analysis of these comments presented in this report.

### ***FACTORS THAT CONSTRAIN EXPORT GROWTH***

Following the preliminary open-ended question, respondents were asked to comment on a number of factors and to consider whether these factors were restricting or slowing their export growth (or their ability to earn foreign exchange if this was more appropriate)<sup>15</sup>. Figure 7 presents the responses from the sub sample of 388, showing that the factors that were most commonly selected (where respondents answered ‘yes’ and ‘yes significantly’) were: G

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<sup>13</sup> OECD. (2001). Businesses’ views on red tape: Administrative and regulatory burdens on small and medium-sized enterprises. Paris: OECD.

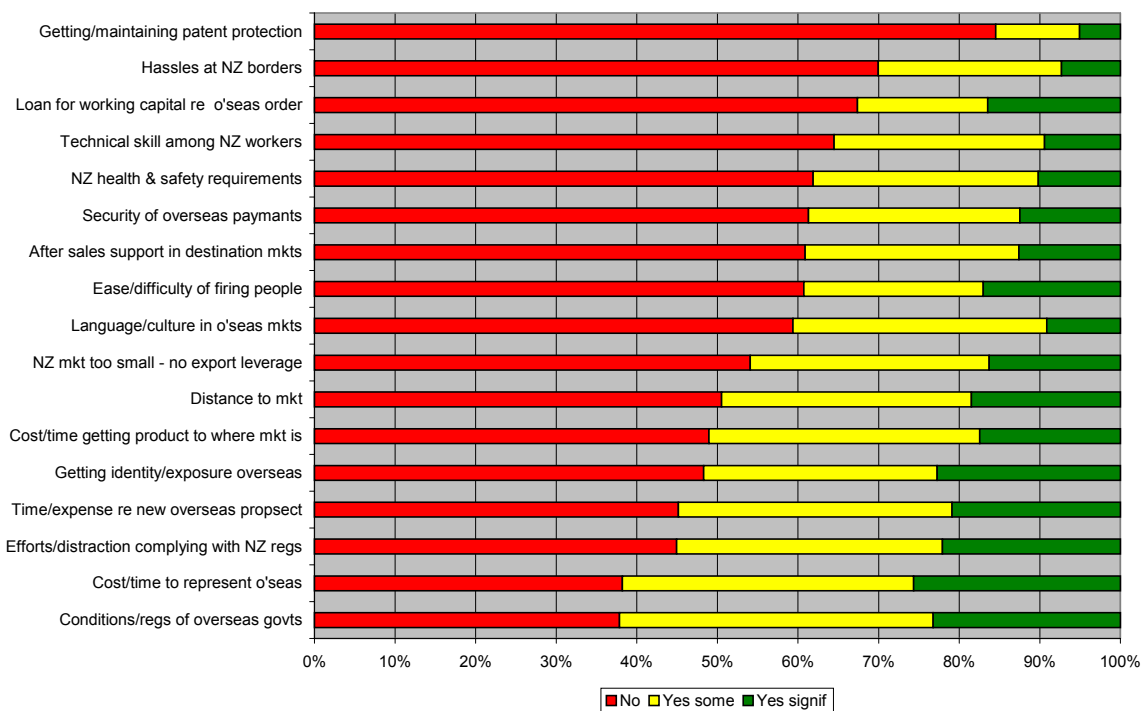
<sup>14</sup> Sandford, C. T., Godwin, M., & Hardwick, P. (1989). Administrative and compliance costs of taxation. Bath: Fiscal.

<sup>15</sup> This list of factors was derived from those identified in the international literature as well as those that were derived from earlier New Zealand studies and the focus groups.

(conditions and regulations placed by overseas governments), A (the cost and time needed to represent the firm overseas), M (the effort and distraction of complying with regulations in NZ), N (the executive time and the expense of collecting information and researching a possible new overseas prospect) and L (getting identity and exposure for the firm or brand overseas).

Conversely, factors B (getting/maintaining patent protection), K (hassles at NZ borders), Q (getting a loan for working capital against an overseas order), E (level of technical skill among NZ workers) and C (NZ health and safety requirements) were indicated the least frequently (i.e. respondents answered 'no' to the question of whether the factors restricted or hindered export growth).

**Figure 7: Factors that restrict export growth**



## RESPONSES BY SURVEY SUB-SAMPLES

While the identification of the 'conditions and regulations placed by overseas governments' as the factor that is regarded by most respondents as restricting growth is heartening given the New Zealand government's recent efforts to reduce the burden of compliance facing firms as a result of its own policies and regulations, it is necessary to take a more detailed look at the data to understand the issues that are being signalled by the respondents. This shows that the different groups had distinctly different views on the relative importance (or lack of importance) of the various factors. The following section analyses the data in terms of the five groups, and using two techniques: 1) by ranking the issues in order, and 2) by indexing (explained later in the report).

### Firm size

The issues of most concern to firms of different size groups are ranked and displayed in Figure 8<sup>16</sup>.

<sup>16</sup> The ranking was done after totalling the percentage of the respondents who answered 'yes' and 'yes significantly'. Where the totals came to 50% or more the factor was ranked.

**Figure 8: Ranking of factors that restrict export growth (by firm size)**

	Non- employing	2 to 5	6 to 10	11+
A Cost/time needed to represent yourself overseas	1	2=	2	2
G Conditions/regulations placed by overseas governments	2=		1	1
I NZ domestic market too small - no leverage to exports				4=
J Distance to market			3	4=
L Getting identity/exposure for firm overseas	5	2=	6	
M Effort/distraction of complying with regulations in NZ	2=	1	4	7
N Time/expense re possible new overseas prospect	4		5	3
P Costs/time taken up getting product to where market is			7	4=

Further analysis of the responses was undertaken using the process of ‘indexing’. This technique is useful in demonstrating the ‘order of difference’ between groups that are of different sizes. A diagrammatic representation of this technique and an explanation of how the technique was carried out in relation to this question is contained in Appendix C.

Indexing the responses showed that respondents whose firms do not employ and respondents from firms that employ more than 11 FTEs were over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to ‘conditions and regulations imposed by overseas governments’, while firms employing between 2-5 FTEs were under-represented amongst those giving this answer. Respondents whose firms do not employ and respondents from firms that employ more than 11 FTEs were over-represented amongst the 25.3% of respondents answering “yes, significantly” in relation to ‘cost and time needed to represent the firm overseas’, while firms employing between 6-10 FTEs were under-represented amongst those giving this answer. Respondents whose firms that employ 2-10 FTEs were over-represented amongst the 21.9% of respondents answering “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’, while firms employing more than 11 FTEs and those that do not employ were under-represented amongst those giving this answer.

## Export involvement

The issues of most concern to firms that export (cf. those that are not currently exporting but which anticipate doing so) are ranked and displayed in Figure 9.

**Figure 9: Ranking of factors that restrict export growth (by export involvement)**

	Export/earn foreign exchange	Not currently exporting
A Cost/time needed to represent yourself overseas	2	1
G Conditions/regulations placed by overseas governments	1	2
J Distance to market	6	
L Getting identity/exposure for firm overseas	7	3
M Effort/distraction of complying with regulations in NZ	3	
N Time/expense re possible new overseas prospect	4	4
P Costs/time taken up getting product to where market is	5	

Indexing the data showed that respondents whose firms are exporting were over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to ‘conditions and regulations imposed by overseas governments’. Respondents whose firms are not exporting were over-represented amongst the 25.3% of respondents answering “yes, significantly” in relation to ‘cost and time needed to represent the firm overseas’.

Respondents whose firms are exporting were over-represented amongst the 21.9% of respondents answering “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’.

## Firm stage

The issues of most concern to firms of different stages are ranked and displayed in Figure 10.

**Figure 10: Ranking of factors that restrict export growth (by firm stage)**

	Recently established	Neither recent nor mature	Mature & stable
A Cost/time needed to represent yourself overseas	3	1	2
G Conditions/regulations placed by overseas governments	5	2	1
J Distance to market	7	5=	
L Getting identity/exposure for firm overseas	1	5=	
M Effort/distraction of complying with regulations in NZ	4	3=	3
N Time/expense re possible new overseas prospect	2	3=	
P Costs/time taken up getting product to where market is	6	7	

Indexing the data showed that respondents whose firms are neither ‘mature’ nor ‘new’ were over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to ‘conditions and regulations imposed by overseas governments’, while firms that are mature and new were under-represented amongst those giving this answer. Respondents whose firms are ‘new’ were over-represented amongst the 25.3% of respondents answering “yes, significantly” in relation to ‘cost and time needed to represent the firm overseas’, while firms that are neither mature nor new and those that were mature are slightly under-represented amongst those giving this answer. Respondents whose firms are ‘mature’ and ‘new’ were over-represented amongst the 21.9% of respondents answering “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’, while firms that are neither ‘mature’ nor ‘new’ were under-represented amongst those giving this answer.

## Growth intentions

The issues of most concern to those with different growth intentions are ranked and displayed in Figure 11.

**Figure 11: Ranking of factors that restrict export growth (by growth intentions)**

	Contract to smaller size	Consolidate	Grow significantly
A Cost/time needed to represent yourself overseas		3=	1
C NZ's requirements for health/safety at workplaces	1		
G Conditions/regulations placed by overseas governments	2=	1	2
I NZ domestic market too small - no leverage to exports			6=
J Distance to market			6=
L Getting identity/exposure for firm overseas			3
M Effort/distraction of complying with regulations in NZ	2=	2	6=
N Time/expense re possible new overseas prospect		3=	4
P Costs/time taken up getting product to where market is		5	5

Indexing the data showed that respondents whose firms that intend to grow strongly were over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to ‘conditions and regulations imposed by overseas governments’, while firms that are contracting or consolidating were under-represented amongst those giving this answer. Respondents whose firms that intend to grow strongly were over-represented amongst the 25.3% of respondents answering “yes, significantly” in relation to ‘cost and time needed to represent the firm overseas’, while firms that are contracting or consolidating were under-represented amongst those giving this answer. Respondents whose firms that intend to contract or consolidate were over-represented amongst the 21.9% of respondents answering “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’, while firms that are growing were under-represented amongst those giving this answer.

## Industry type

The issues of most concern to those involved in different industries are ranked and displayed in Figure 12.

**Figure 12: Ranking of factors that restrict export growth (by industry type)**

	Primary sector	Food industry	Non-food industry	Tourism & allied service	Software & business service	Wholesale/ retail with export/manu-facturing
A Cost/time needed to represent yourself overseas	7	3	1=		1	2
C NZ's requirements for health/safety at workplaces	9					
D Security of your payments from overseas	8					
E Level of technical skill among NZ workers	6					
F Getting after sales support in the destination markets					5	
G Conditions/regulations placed by overseas governments	1	1	3			1
I NZ domestic market too small - no leverage to exports					3	
J Distance to market	2	4				
L Getting identity/exposure for firm overseas	10	7		1	2	
M Effort/distraction of complying with regulations in NZ	3=	2				3
N Time/expense re possible new overseas prospect	5	5	1=		4	
O Getting to grips - language/culture some overseas markets		8				
P Costs/time taken up getting product to where market is	3=	6			6	4

This shows that some sectors (for example, tourism) are on the whole not concerned with the impact of compliance. By contrast, respondents from the primary sector are concerned with a number of issues.

Indexing the data showed that respondents whose firms are from the food and primary industry sectors were over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to ‘conditions and regulations imposed by overseas governments’,

while firms from the software and business service industry, the tourism industry and the non-food sector were under-represented amongst those giving this answer. Respondents whose firms are from the software and primary industry sectors were over-represented amongst the 25.3% of respondents answering “yes, significantly” in relation to ‘cost and time needed to represent the firm overseas’, while firms from the tourism and non-food sector were under-represented amongst those giving this answer. Respondents whose firms are from the food, tourism and primary sectors were over-represented amongst the 21.9% of respondents answering “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’, while firms from the software and business service industry and the wholesale, retail and manufacturing sectors were under-represented amongst those giving this answer.

## ***SUMMARY***

When asked to comment on a number of factors, and to consider whether these factors were restricting or slowing their export growth (or their ability to earn foreign exchange if this was more appropriate), the 388 respondents (those who were already exporting or felt they had the potential to do so), most commonly identified:

- ◆ The conditions and regulations placed by overseas governments (over 60% said this was a factor that restricted their export growth, or had the potential to do so, compared to 37% who said that this factor was not a concern).
- ◆ The cost and time needed to represent the firm overseas (over 60% said this was a factor that restricted their export growth, or had the potential to do so, compared to 37% who said that this factor was not a concern).
- ◆ The effort and distraction of complying with regulations in NZ (over 54% said this was a factor that restricted their export growth, or had the potential to do so, compared to 45% who said that this factor was not a concern).
- ◆ The executive time and the expense of collecting information and researching a possible new overseas prospect (54% said this was a factor that restricted their export growth, or had the potential to do so, compared to 45% who said that this factor was not a concern).
- ◆ Getting identity and exposure for the firm or brand overseas (51% said this was a factor that restricted their export growth, or had the potential to do so, compared to 48% who said that this factor was not a concern).

However, the factors were not raised to the same degree by the five different groups that were surveyed. The key differences between the groups in relation to the top three factors shows that:

- ◆ Respondents that answered “yes, significantly” in relation to the ‘conditions and regulations placed by overseas governments’ were most likely to be from firms that: employ more than 11 FTEs, export, are neither ‘mature’ nor ‘new’, intend to grow strongly and come from the food and primary industry sectors.
- ◆ Respondents that answered “yes, significantly” in relation to the ‘cost and time needed to represent the firm overseas’ were most likely to be from firms that: do not employ and that employ more than 11 FTEs, do not export, are new, intend to grow strongly and are from the software and primary industry sectors.
- ◆ Respondents that answered “yes, significantly” in relation to the ‘effort and distraction of complying with regulations in NZ’ were most likely to be from firms that: employ 2-10 FTEs, export, are ‘mature’ and ‘new’, intend to contract or consolidate, and are from the food, tourism and primary sectors.

Viewing the entire set of factors from the perspective of the groups themselves, there were also visible differences:

- ◆ In terms of firm size, all groups identified the 'cost and time needed to represent the firm overseas' and the 'conditions and regulations placed by overseas governments' as factors that restrict growth. Firms with fewer staff were more likely to identify the 'effort and distraction of complying with regulations in NZ' as a factor.
- ◆ In terms of export involvement, both groups (i.e. those that are currently exporting as well as those that are not), identified the 'cost and time needed to represent the firm overseas' and the 'conditions and regulations placed by overseas governments'.
- ◆ In terms of firm stage, all three groups identified the 'cost and time needed to represent the firm overseas' as a factor. However, recently established firms noted 'getting identity/exposure for firm overseas' and 'time/expense re possible new overseas prospect' as factors.
- ◆ In terms of growth intentions, all three groups identified the 'conditions and regulations placed by overseas governments'. Respondents from firms that are contracting identified 'NZ's requirements for health/safety at workplaces' the 'effort and distraction of complying with regulations in NZ' as factors.
- ◆ In terms of industry type, almost all groups identified the 'conditions and regulations placed by overseas governments' and the 'cost and time needed to represent the firm overseas'. However, the other answers demonstrate the varied nature of the New Zealand business population, and the variance in the impact of compliance on different industry sectors.

## Section 4: Constraints on Productivity & Growth

In Section B of the questionnaire we asked firms specifically about the way in which they deal with a series of factors (which were read to them)<sup>17</sup>, in order to assess what factors are seen as having the most potential to ‘divert and distract’ the firm’s managers from improving productivity or concentrating on growth. Respondents were told “the next set of questions is about productivity and growth of businesses in New Zealand. That includes the products and services you have already as well as any initiatives you might take. I’ll read out a number of aspects of the business environment in New Zealand and ask you to answer by saying A or B. ‘A’ means your firm can readily deal with it and largely put it out of mind. ‘B’ means that it continues to divert and distract your business. Say not applicable if that is what fits best”.

**Figure 13: Dealing with the business environment**

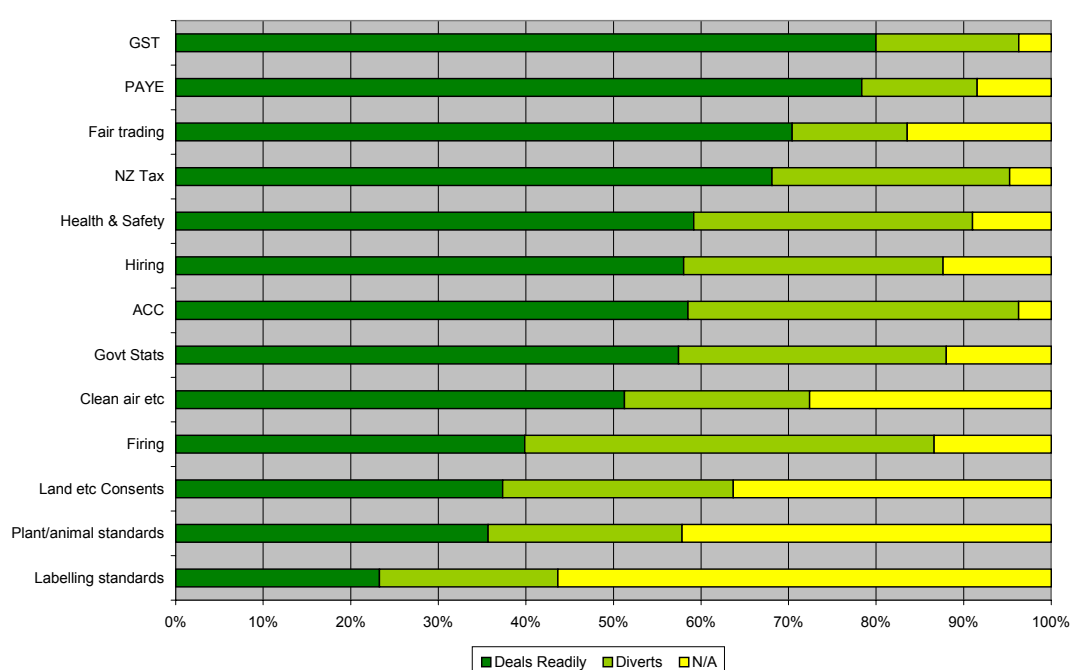


Figure 13 presents the responses from the total sample (490 responses), showing that the factors that were most commonly selected as being ‘distracting’ were: B (the regulations that apply to releasing a person who no longer suits the business – referred to in Figure 13 as ‘firing’), J (the ACC insurance arrangements as they relate to the firm), I (the arrangements that are needed for health and safety of employees – referred to in Figure 13 as ‘health and safety’) and L (providing a range of employment and other data on the firm to government agencies – referred to in Figure 13 as ‘govt stats’).

Conversely, factors F (running the firm’s part of the GST system), G (running the firm’s part of the PAYE system) and E (the guidelines for firms trading fairly in relation to each others’

<sup>17</sup> This list of factors was developed by the researchers in consultation with the interested government agencies (as listed in the introduction). It was designed to guide respondents into focusing on the events and occurrences within the business that have a related need for compliance (e.g. employing staff for the first time) rather than naming the legislation itself (which can provoke responses that are not fully considered). The exception to this was the use of the terms GST and PAYE, which were named for reasons of clarity, and ACC which was named only after the questionnaire pre-test showed that without the insertion of the term ACC, respondents were not able to understand the question.

products and services, and in relation to customers), were seen as least 'distracting'. Also identified by significant numbers of respondents were factors H (understanding and delivering your part of the NZ tax system), I (the arrangements you need to have for health and safety of employees), J (the ACC insurance arrangements as it relates to your firm), A (the regulations that you need to take into account when you are hiring a new person), and L (providing a range of employment and other data on your firm to government agencies) and C (the arrangements expected of you in regard to clean air, water and environment protection). Clearly the identification of these factors as not being distracting by some respondents contradicts the summary in the previous paragraph (where they were identified as being distracting). However, these contradictions are inherent in a study of this kind; issues that are 'distractions' to some are 'easily dealt with' by others.

In an overall sense it is worth noting the high number of factors where the respondents answered that they readily deal with the issue (and by a large margin). However, given the focus of this research (on identifying aspects of policy where improvements can be made) the emphasis in the analysis is on the distracting nature of some regulations.

A significant number of respondents stated that some of the factors referred to in this question were not applicable, and recalculating the percentages had an effect on the ranking of the factors. However, it should be noted that this new representation may not be any more accurate than the first: While it was clear that some respondents were correct when identifying a factor as not applicable (for example, to a non-employing firm the arrangements needed to release someone from employment are not applicable), it is less clear why some gave the answers they did (e.g. reasonable numbers noted the New Zealand tax system as not applicable). This is an illustration of an issue that has already been noted: the difficulty of gaining an accurate picture of the compliance burden (or benefit) when there is likely to be quite high levels of ignorance about some legislation. Having said this, the analysis below focuses on the reweighted totals (totals that exclude the 'don't know' and 'not applicable' answers).

## ***RESPONSES BY SURVEY SUB-SAMPLES***

As with the previous section, it is necessary to take a more detailed look at the data to understand the issues that are being signalled by the respondents. This shows that the groups had distinctly different views on the relative diversionary potential of the various factors. In the following sections the factors that were most commonly nominated are examined in detail. The data is also analysed in terms of the five groups, and using two techniques: 1) by ranking the issues in order, and 2) by indexing (explained in Appendix C).

### **Firm size**

The issues of most concern to firms of different size groups are ranked and displayed in Figure 14.<sup>18</sup>

Indexing the data showed that respondents whose firms employ 6-10 FTEs, and those employing more than 11 FTEs, are over-represented amongst the 45.7% of respondents who answered that 'releasing an employee' diverts and distracts them, while non-employing firms and those employing 2-5 FTEs were under-represented amongst those giving this answer. Respondents whose firms employ 6-10 FTEs, and those that do not employ, are over-represented amongst the 20.0% of respondents who answered that 'labelling controls and standards' diverts and distracts them, while firms employing more than 11 FTEs were under-represented amongst those giving this answer. Respondents whose firms employ more than 11 FTEs and those that employ 6-10 FTEs are over-represented amongst the 25.9% of

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<sup>18</sup> Again this ranking was done on the percentage of the respondents. In this section the top three factors were included in the ranking.

respondents who answered that 'getting consent to use land, water and air' diverts and distracts them, while those employing 2-5 FTEs and non-employing firms were under-represented amongst those giving this answer. Respondents whose firms do not employ are under-represented amongst the 37.1% of respondents who answered that 'making ACC arrangements' diverts and distracts them.

**Figure 14: Ranking of factors that divert & distract (firm size)**

	Non-employing	2 to 5	6 to 10	11+
B Arrangements expected when need to fire someone	1	1	1	1
I Arrangements for health and safety of employees			2=	3
J ACC levy arrangements as they relate to your firm	2	2	2=	2
L Providing statistics on your firm to government agencies		3		
M Standards for plant or animal products	3			

**Export involvement**

The issues of most concern to those that export (cf. those that are not currently exporting but which anticipate doing so) are ranked and displayed in Figure 15.

**Figure 15: Ranking of factors that divert & distract (export involvement)**

	Export/earn foreign exchange	Not currently exporting	Not exporting
A Arrangements expected when hiring a new person		3=	
B Arrangements expected when need to fire someone	1	1	1
I Arrangements for health and safety of employees	3		3
J ACC levy arrangements as they relate to your firm	2	2	2
L Providing statistics on your firm to government agencies		3=	

Indexing the data showed that respondents whose firms are exporting are over-represented amongst the 45.7% of respondents who answered that 'releasing an employee' diverts and distracts them, while non-exporting firms were under-represented. Respondents whose firms are not currently exporting and those that are exporting are over-represented amongst the 20.0% of respondents who answered that 'labelling controls and standards' diverts and distracts them, while non-exporting firms were under-represented. Respondents whose firms are exporting are slightly over-represented amongst the 25.9% of respondents who answered that 'getting consent to use land, water and air' diverts and distracts them, while non-exporting firms were under-represented. Respondents whose firms are not currently exporting are over-represented amongst the 37.1% of respondents who answered that making ACC arrangements' diverts and distracts them, while firms that are not planning to export were under-represented amongst those giving this answer.

**Firm stage**

The issues of most concern to firms of different stages are ranked and displayed in Figure 16.

Indexing the data showed that respondents whose firms are 'mature' are over-represented amongst the 45.7% of respondents who answered that 'releasing an employee' diverts and distracts them, while firms that are 'new' and firms that are neither 'mature' nor 'new' were under-represented amongst those giving this answer. Respondents whose firms are neither 'mature' nor 'new' and those that are 'new' are over-represented amongst the 20.0% of respondents who answered that this 'labelling controls and standards' diverts and distracts them, while firms that are 'mature' were under-represented amongst those giving this

answer. Respondents whose firms are neither 'mature' nor 'new' are over-represented amongst the 25.9% of respondents who answered that 'getting consent to use land, water and air' diverts and distracts them, while firms that are 'mature' and firms that are 'new' were under-represented amongst those giving this answer. Respondents whose firms are 'new' are over-represented amongst the 37.1% of respondents who answered that making ACC arrangements' diverts and distracts them.

**Figure 16: Ranking of factors that divert & distract (firm stage)**

	Recently established	Neither recent nor mature	Mature & stable
B Arrangements expected when need to fire someone	1	1	1
C Arrangements expected re clean air, water etc	3		
I Arrangements for health and safety of employees		3	3
J ACC levy arrangements as they relate to your firm	2	2	2

**Growth intentions**

The issues of most concern to those with different growth intentions are ranked and displayed in Figure 17.

**Figure 17: Ranking of factors that divert & distract (growth intentions)**

	Contract to smaller size	Consolidate	Grow significantly
A Arrangements expected when hiring a new person	3=		
B Arrangements expected when need to fire someone	1=	1	1
H Understanding/delivering your part of the NZ tax system		3	
I Arrangements for health and safety of employees	3=		3
J ACC levy arrangements as they relate to your firm	1=	2	2
L Providing statistics on your firm to government agencies	3=		

Indexing the data showed that respondents whose firms that intend to contract are over-represented amongst the 45.7% of respondents who answered that 'releasing an employee' diverts and distracts them, while firms that are consolidating were slightly under-represented amongst those giving this answer. Respondents whose firms that intend to grow are slightly over-represented amongst the 20.0% of respondents who answered that 'labelling controls and standards' diverts and distracts them, while firms that are contracting were under-represented amongst those giving this answer. Respondents whose firms that intend to contract are markedly over-represented amongst the 25.9% of respondents who answered that 'getting consent to use land, water and air' factor diverts and distracts them. Respondents whose firms are contracting and consolidating are over-represented amongst the 37.1% of respondents who answered that making ACC arrangements' diverts and distracts them, while firms that are growing were under-represented amongst those giving this answer.

**Industry type**

The issues of most concern to those involved in different industries are ranked and displayed in Figure 18.

**Figure 18: Ranking of factors that divert & distract (industry type)**

	Primary sector	Food industry	Non-food industry	Tourism & allied service	Software & business service	Wholesale/ retail with export/manufacturing
A Arrangements expected when hiring a new person					2	
B Arrangements expected when need to fire someone	1	2	1	1	1	1
I Arrangements for health and safety of employees	3=		3	2		3
J ACC levy arrangements as they relate to your firm	2	3	2		3	2
K Getting consents to use land, water or air	3=	1				
L Providing statistics on your firm to government agencies				3		

Indexing the data showed that respondents whose firms are from the primary, non-food, wholesale, retail and manufacturing sectors and the food industry are over-represented amongst the 45.7% of respondents who answered that 'releasing an employee' diverts and distracts them, while firms from the software and business service industry and the tourism sector were under-represented amongst those giving this answer. Respondents whose firms are from the food, and wholesale, retail and manufacturing sectors are over-represented amongst the 20.0% of respondents who answered that 'labelling controls and standards' diverts and distracts them, while firms from the software and business service industry and the tourism and non-food sectors were under-represented amongst those giving this answer. Respondents whose firms are from the food and primary sectors are over-represented amongst the 25.9% of respondents who answered that 'getting consent to use land, water and air' diverts and distracts them, while firms from the software and business service industry, non-food, and the tourism sectors were under-represented amongst those giving this answer. Respondents whose firms are from the primary, food and non-food sectors are over-represented amongst the 37.1% of respondents who answered that making ACC arrangements' diverts and distracts them, while firms from the tourism and software and business service industries were under-represented amongst those giving this answer.

## ***SUMMARY***

In relation to factors that divert and distract the firm away from focusing on productivity and growth, it is noticeable that on almost all of the factors the majority response was that the firm readily deals with the issues involved. However, given the focus of this study (on providing MED and other agencies with information that they can use to reduce the compliance burden for New Zealand firms), the researchers identified all those factors where more than 30% of respondents identified the factor as an issue – irrespective of the proportion of those who indicated that they were 'dealing with it'. On this basis the issues of most concern to the 490 respondents were:

- ◆ The regulations that apply to releasing a person who no longer suits the business (46% said this was a factor that diverts or distracts them, compared to 39% who said that this factor was not a concern).
- ◆ The ACC insurance arrangements as they relate to the firm business (37% said this was a factor that diverts or distracts them, compared to 58% who said that this factor was not a concern).

- ◆ The arrangements that are needed for health and safety of employees business (32% said this was a factor that diverts or distracts them, compared to 59% who said that this factor was not a concern).
- ◆ Providing a range of employment and other data on the firm to government agencies (30% said this was a factor that diverts or distracts them, compared to 57% who said that this factor was not a concern).

However, the factors were not raised to the same degree by the five different groups that were surveyed. The key differences between the groups in relation to the top three factors shows that:

- ◆ Respondents who identified 'releasing an employee' as a factor that diverts and distracts them were most likely to be from firms that: employ 6-10 FTEs and more than 11 FTEs, export, are 'mature', intend to contract, and are from the primary, non-food, wholesale, retail and manufacturing sectors and the food industry.
- ◆ Respondents who identified 'labelling controls and standards' as a factor that diverts and distracts them were most likely to be from firms that: employ 6-10 FTEs and those that do not employ, are not currently exporting (but anticipate doing so) and those that are exporting, are neither 'mature' nor 'new', intend to grow and are from the food, and wholesale, retail and manufacturing sectors.
- ◆ Respondents who identified 'getting consent to use land, water and air' as a factor that diverts and distracts them were most likely to be from firms that: employ more than 11 FTEs and those that employ 6-10 FTEs, export, are neither 'mature' nor 'new', intend to contract and are from the food and primary sectors.

Viewed from the perspective of the groups themselves, there were also some differences, although the responses to this question provided the least differences between the groups.

- ◆ In terms of firm size, all groups identified 'arrangements expected when need to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them. Respondents from larger firms were more likely to identify 'arrangements for health and safety of employees' as a factor that diverts and distracts them.
- ◆ In terms of export involvement, all groups identified 'arrangements expected when it is necessary to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them.
- ◆ In terms of firm stage, all groups identified 'arrangements expected when it is necessary to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them.
- ◆ In terms of growth intentions, all groups identified 'arrangements expected when it is necessary to fire someone' and 'ACC levy arrangements as they relate to your firm' as factors that divert and distract them.
- ◆ In terms of industry type, almost all groups identified 'arrangements expected when it is necessary to fire someone', 'ACC levy arrangements as they relate to your firm' and 'arrangements for health and safety of employees' as factors that divert and distract them.

## Section 5: Costs versus Benefits

In the third section of the survey the respondents' perceptions of the factors that were used in the previous section were also the basis for the questions on the costs versus the benefits of compliance. Respondents were told "may I run through those aspects of the business environment quickly again. This time would you answer from the viewpoint of whether you feel that in the bigger picture your firm or industry is getting more or less benefit from it, than the effort you 're putting in. Say A if you feel the benefits you get are greater than the effort and cost. Say B if you feel the time effort and cost just about balance out the benefits you get. Say C if you feel the time effort and costs outweigh the benefits you get".

**Figure 19: Costs versus benefits**

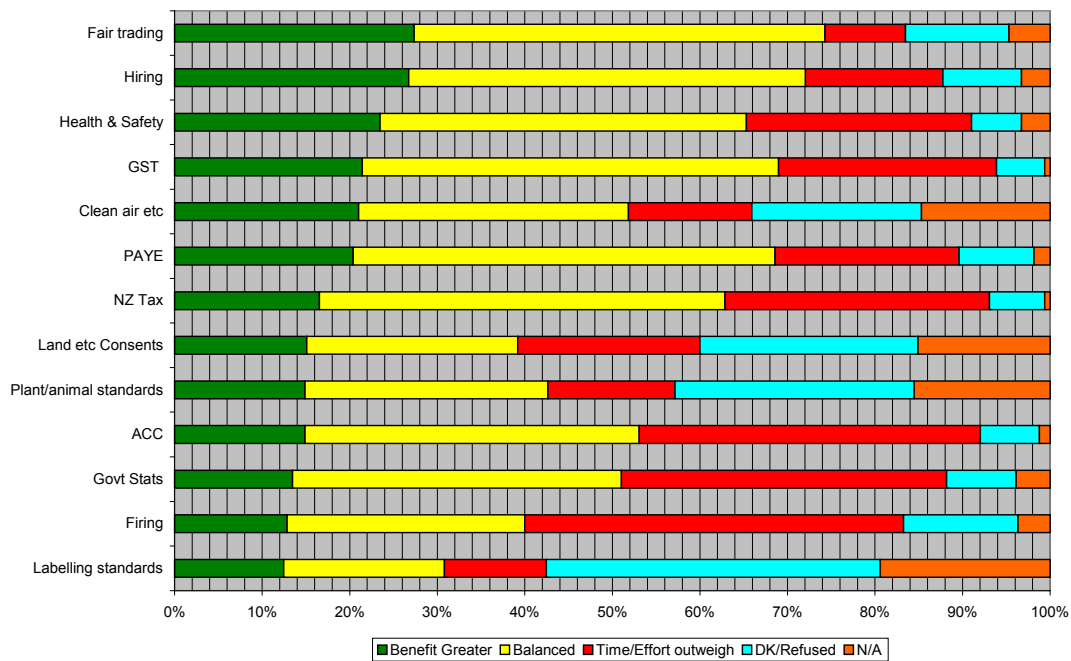


Figure 19 shows that in relation to most factors, the respondents indicated that the time, effort and cost they put in just about balances out the benefits that they receive. The exceptions were factor B (the regulations that apply to releasing a person who no longer suits the business – referred to in Figure 19 as 'firing') and J (the ACC insurance arrangements as they relate to the firm).

This figure also shows that in terms of a number of factors some respondents felt that the benefits they receive are greater than the effort and cost. However, there was no single factor where this opinion was held by the majority of respondents. It should also be noted that there were high numbers of 'don't know' responses to this question (see for example, the responses to 'getting consents to use land, water or air'), despite the fact that there was also a 'not applicable' option. This raised questions about the extent to which respondents understood their responsibilities in relation to some legislation.

As Figure 19 shows, factors that were seen as providing more benefits than effort and costs were factors E (the guidelines for firms trading fairly in relation to each others products and services, and in relation to customers – referred to in Figure 19 as 'fair trading'), A (the regulations that need to be taken into account when a new person is being hired – referred to in Figure 19 as 'hiring'), I (the arrangements the firm needs to have for health and safety of employees – referred to in Figure 19 as 'health and safety').

The factors that were seen as taking more time and effort than the benefit provided were factors B (the regulations that apply to the process of releasing a person who no longer suits the business – referred to in Figure 19 as ‘firing’), J (the ACC insurance arrangements as it relates to the firm), L (providing a range of employment and other data on the firm to government agencies – referred to in Figure 19 as ‘govt stats’).

**RESPONSES BY SURVEY SUB-SAMPLES**

As with the previous section, it is necessary to take a more detailed look at the data to understand the issues that are being signalled by the respondents. This shows that the groups had distinctly different views on the relative diversionary potential of the various factors. In the following sections the factors that were most commonly nominated are examined in detail. The data is also analysed in terms of the five groups, and using two techniques: 1) by ranking the issues in order, and 2) by indexing (explained later in the report).

**Firm size**

The issues of most concern to firms of different size groups are ranked and displayed in Figure 20.<sup>19</sup>

**Figure 20: Ranking of factors that are perceived to have higher costs than benefits (firm size)**

	Non-employing	2 to 5	6 to 10	11+
B Arrangements expected when need to fire someone	3=	3	1	1
H Understanding/delivering your part of the NZ tax system	3=			
J ACC levy arrangements as they relate to your firm	1	1	2	3
L Providing statistics on your firm to government agencies	2	2	3	2

Indexing the data showed that respondents whose firms employ 6-10 FTEs (and those that employ more than 11 FTEs) are over-represented amongst the 43.3% of respondents who answered that the time, effort and cost of the arrangements for releasing an employee outweighs the benefits, while firms that do not employ and those employing 2-5 FTEs were under-represented amongst those giving this answer. Respondents whose firms employ 2-5 FTEs are slightly over-represented amongst the 39.0% of respondents who described the time, effort and cost of the ACC insurance arrangements as they relate to the firm as outweighing the benefits, while firms that do not employ were under-represented amongst those giving this answer. Respondents whose firms employ more than 11 FTEs are over-represented amongst the 37.1% of respondents who answered that the time, effort and cost of providing a range of employment and other data on the firm to government agencies outweighs the benefits, while firms that do not employ were under-represented amongst those giving this answer.

**Export involvement**

The issues of most concern to those that export (cf. those that are not currently exporting but which anticipate doing so) are ranked and displayed in Figure 21.

Indexing the data showed that respondents whose firms are not currently exporting are over-represented amongst the 43.3% of respondents who answered that the time, effort and cost

<sup>19</sup> Again this ranking was done on the percentage of the respondents. In this section the top three factors were included in the ranking.

of the arrangements for releasing an employee outweighs the benefits, while firms that are not exporting (and do not intend to) were under-represented amongst those giving this answer. Respondents whose firms are not currently exporting are marginally over-represented amongst the 39.0% of respondents who described the time, effort and cost of the ACC insurance arrangements as they relate to the firm as outweighing the benefits. Respondents whose firms are not currently exporting are over-represented amongst the 37.1% of respondents who answered that the time, effort and cost of providing a range of employment and other data on the firm to government agencies outweighs the benefits, while firms that are not currently exporting and those that are not planning to export were under-represented amongst those giving this answer.

**Figure 21: Ranking of factors that are perceived to have higher costs than benefits (export involvement)**

	Export/earn foreign exchange	Not currently exporting	Not exporting
B Arrangements expected when need to fire someone	1	1	1
J ACC levy arrangements as they relate to your firm	2	3	2
L Providing statistics on your firm to government agencies	3	2	3

**Firm stage**

The issues of most concern to firms of different stages are ranked and displayed in Figure 22.

**Figure 22: Ranking of factors that are perceived to have higher costs than benefits (firm stage)**

	Recently established	Neither recent nor mature	Mature & stable
B Arrangements expected when need to fire someone	3=	1	1
H Understanding/delivering your part of the NZ tax system	3=		
J ACC levy arrangements as they relate to your firm	1	2	2
L Providing statistics on your firm to government agencies	2	3	3

Indexing the data showed that respondents whose firms can be described as ‘mature’ are over-represented amongst the 43.3% of respondents who answered that the time, effort and cost of the arrangements for releasing an employee outweighs the benefits, while firms that are ‘new’ and those that are neither ‘mature’ nor ‘new’ were under-represented amongst those giving this answer. Respondents whose firms can be described as ‘mature’ are over-represented amongst the 39.0% of respondents who described the time, effort and cost of the ACC insurance arrangements as they relate to the firm as outweighing the benefits, while firms that are ‘new’ and those that are neither ‘mature’ nor ‘new’ were under-represented amongst those giving this answer. Respondents whose firms can be described as ‘mature’ are over-represented amongst the 37.1% of respondents who answered that the time, effort and cost of providing a range of employment and other data on the firm to government agencies outweighs the benefits, while firms that are ‘new’ and those that are neither ‘mature’ nor ‘new’ were under-represented amongst those giving this answer.

**Growth intentions**

The issues of most concern to those with different growth intentions are ranked and displayed in Figure 23.

Indexing the data showed that respondents whose firms are contracting are over-represented amongst the 43.3% of respondents who answered that the time, effort and cost

of the arrangements for releasing an employee outweighs the benefits. There is no significant between those firms that report growth, contraction, or consolidation in relation to the ACC insurance arrangements. Nor was there a significant between those firms that report growth, contraction, or consolidation in relation to 'providing a range of employment and other data on the firm to government agencies'.

**Figure 23: Ranking of factors that are perceived to have higher costs than benefits (growth intentions)**

	Contract to smaller size	Consolidate	Grow significantly
B Arrangements expected when need to fire someone	1	1	1
H Understanding/delivering your part of the NZ tax system	2		
I Arrangements for health and safety of employees	3=		
J ACC levy arrangements as they relate to your firm	3=	2	2
K Getting consents to use land, water or air	3=		
L Providing statistics on your firm to government agencies		3	3

### Industry type

The issues of most concern to those involved in different industries are ranked and displayed in Figure 24.

**Figure 24: Ranking of factors that are perceived to have higher costs than benefits (industry type)**

	Primary sector	Food industry	Non-food industry	Tourism & allied service	Software & business service	Wholesale retail with export/manufacturing
B Arrangements expected when need to fire someone	1	3	1	1	3	1
H Understanding/delivering your part of the NZ tax system			3			
J ACC levy arrangements as they relate to your firm	2	1	2	2	2	3
K Getting consents to use land, water or air		2				
L Providing statistics on your firm to government agencies	3			3	1	2

Indexing the data showed that respondents whose firms are from the non-food, primary sectors and the wholesale, retail and manufacturing trades are over-represented amongst the 43.3% of respondents who answered that the 'time, effort and cost of the arrangements for releasing an employee' outweighs the benefits, while firms from the software and business service industry, tourism and the food sectors were under-represented amongst those giving this answer. Respondents whose firms from the primary, non-food and food sectors are over-represented amongst the 39.0% of respondents who described the 'time, effort and cost of the ACC insurance arrangements as they relate to the firm' as outweighing the benefits, while firms from the software and business service industry and the tourism sector were under-represented amongst those giving this answer. Respondents whose firms are from the software and business service industry and the primary sector are over-represented amongst the 37.1% of respondents who answered that the 'time, effort and cost of providing a range of employment and other data on the firm to government agencies' outweighs the benefits, while firms from the food and tourism sectors were under-represented amongst those giving this answer.

## ***EXPLORING THE PERCEPTIONS***

Respondents who commented that the time, cost and effort outweighed the benefit were asked to enlarge upon these comments. This generated a large number of comments (some 1100) and while it is beyond the scope of this report to deal with them, it is worth noting that some issues generated far more comments than others. While counting the number of comments is a simplistic approach (see Figure 25), it does support other evidence gained in this survey and elsewhere; that compliance is an issue that generates intense feeling.

**Figure 25: Numbers of comments on different factors**

Factor	Number of comments
A The regulations that you need to take into account when you are hiring a new person.	42
B The regulations that apply to releasing a person who no longer suits the business.	159
C The arrangements expected of you in regard to clean air, water and environment protection.	40
D Accommodating the controls and standards that relate to producing and labelling food and drink products.	32
E The guidelines for firms trading fairly in relation to each other's products and services, and in relation to customers.	65
F Running your part of the GST system.	57
G Running your part of the PAYE system.	61
H Understanding and delivering your part of the NZ tax system.	88
I The arrangements you need to have for health and safety of employees.	81
J The ACC insurance arrangements as they relate to your firm.	137
K Getting consents to use land, water, or air in ways that suit your business.	66
L Providing a range of employment and other data on your firm to government agencies.	116
M The standards you are asked to observe for plant or animal products, or how these are applied.	41

## ***SUMMARY***

In relation to costs versus benefits, the issues of most concern (i.e. where the 490 respondents perceived that the cost and time outweighed the benefits) were:

- ◆ The regulations that apply to the process of releasing a person who no longer suits the business (43% said that the cost and time outweighed the benefit, compared to 13% who felt that the benefit was greater than the cost)
- ◆ The ACC insurance arrangements as it relates to the firm (39% said that the cost and time outweighed the benefit, compared to 15% who felt that the benefit was greater than the cost)
- ◆ Providing a range of employment and other data on the firm to government agencies (37% said that the cost and time outweighed the benefit), compared to 13% who felt that the benefit was greater than the cost)

The issues of least concern (i.e. where respondents perceived that the benefit outweighed the cost and time involved) were:

- ◆ The guidelines for firms trading fairly in relation to each others products and services, and in relation to customers (27% said that the benefit was greater than the cost, compared to 9% who felt that the cost and time outweighed the benefit).
- ◆ The regulations that need to be taken into account when a new person is being hired (27% said that the benefit was greater than the cost, compared to 16% who felt that the cost and time outweighed the benefit).

- ◆ The arrangements expected of the firm in regard to clean air, water and environment protection (21% said that the benefit was greater than the cost, compared to 14% who felt that the cost and time outweighed the benefit).

Again, these perceptions were not identical across the different groups that were surveyed. The key differences between the groups in relation to the top three factors shows that:

- ◆ Respondents who described the time, effort and cost of 'releasing an employee' as outweighing the benefits were most likely to be from firms that: employ 6-10 FTEs and employ more than 11 FTEs, are not currently exporting, are 'mature', are contracting and are from the non-food, primary sectors and the wholesale, retail and manufacturing trades.
- ◆ Respondents who described the time, effort and cost of 'ACC insurance arrangements' as outweighing the benefits were most likely to be from firms that: employ 2-5 FTEs, are not currently exporting, are 'mature' and from the primary, non-food and food sectors (there was no difference in terms of firm growth intention).
- ◆ Respondents who described the time, effort and cost of 'providing data to government agencies' as outweighing the benefits were most likely to be from firms that: employ more than 11 FTEs, are not currently exporting, are 'mature', and are from the software and business service industry and the primary sector (there was no difference in terms of firm growth intention).

Viewed from the perspective of the groups themselves, there were also some differences:

- ◆ In terms of firm size, all groups identified 'the ACC insurance arrangements as they relate to your firm', 'the regulations that apply to releasing a person who no longer suits the business' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.
- ◆ In terms of export involvement, all groups identified 'the regulations that apply to releasing a person who no longer suits the business', 'the ACC insurance arrangements as they relate to your firm' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.
- ◆ In terms of firm stage, all groups identified 'the regulations that apply to releasing a person who no longer suits the business', 'the ACC insurance arrangements as they relate to your firm' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.
- ◆ In terms of growth intentions, all groups identified 'the regulations that apply to releasing a person who no longer suits the business', 'the ACC insurance arrangements as they relate to your firm' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits. The exception was contracting firms, which were more likely to comment on taxation.
- ◆ In terms of industry type, all groups identified 'the regulations that apply to releasing a person who no longer suits the business' and 'providing a range of employment and other data on your firm to government agencies' as examples of legislation where they felt the costs outweighed the benefits.

## Section 6: Compliance & Firm Dynamics

In the final section of the questionnaire, firms were asked in general terms about the impact compliance has had on the firm. The first question concerned their perception of whether the time and effort that they have put into compliance has changed over the previous year or two. Given that this study was undertaken as a pilot, this question was included to provide MED with a point of comparison for any surveys that follow.

In this section of the questionnaire respondents were also asked to comment on the particular effects complying has had on internal firm dynamics, in relation to a set of factors that the researchers derived from previous research on compliance (including the New Zealand Ministerial Panel) and from the comments made within the focus groups. This question was designed to assess the degree to which the managers of New Zealand firms feel that compliance is having a stifling effect on their ability to be innovative.

### *CHANGES IN COMPLIANCE*

Respondent firms were asked to consider whether the overall time and effort that firms like theirs have been required to put into complying with acts and regulations have changed over the last 2 years. As Figure 26 shows, the perception of most respondents is that the compliance burden has increased over the last two years.

**Figure 26: Changes in compliance over time**

	Number of Respondents	Percentage
Has become less over the past year or two	10	2.0%
Has stayed much the same	197	40.2%
Has increased, or become more, over the past year or two	273	55.7%
Don't know	10	2.0%
Total	490	100%

Respondents were then asked whether any particular government act or regulation creates one or more of nine effects for the firm. As noted above, the researchers selected these factors (listed in Figure 27) after reviewing the international literature and the previous studies undertaken in New Zealand.

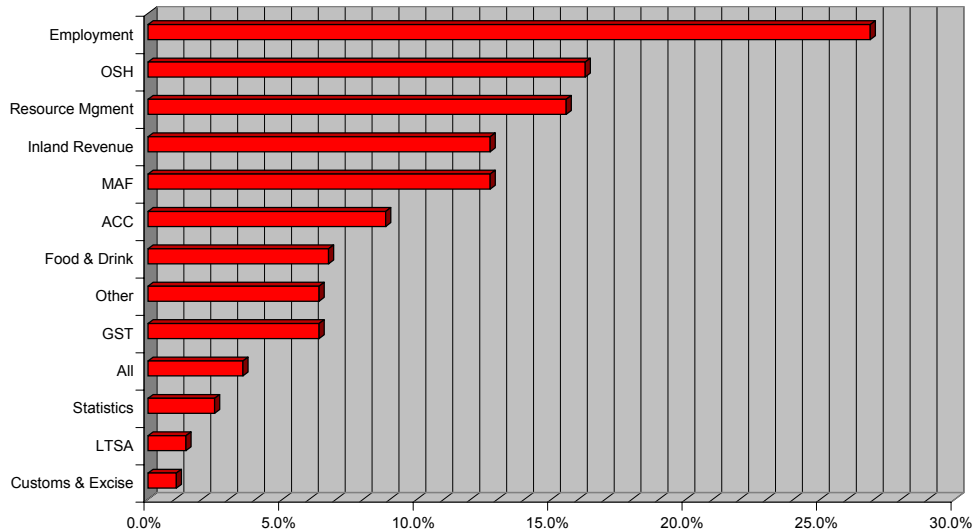
**Figure 27: Indirect effects of compliance**

	Number of respondents	Percentage	Ranking
A Especially distracts and diverts senior staff time	283	57.8%	1
B It's ambiguous to interpret or apply	178	36.3%	4=
C Draws you into legal expenses	179	36.5%	4=
D Generates conflict and disagreement with regulatory agency staff	121	24.7%	
E Dampens manager's enthusiasm for innovating	177	36.1%	4=
F Impacts the value or speed with which your industry can grow export earnings	118	24.1%	
G Obliges you to engage outside consultants	189	38.6%	2=
H Leaves a sense of unfairness with your firm	189	38.6%	2=
I Draws me into conflict with staff	64	13.1%	

As Figure 27 shows, factor A ('especially distracts senior management time') was clearly the most important factor. Factors G ('obliges you to engage outside consultants') and H ('leaves a sense of unfairness with the firm') elicited similar levels of response.

Those who responded 'yes' to any of these factors were then asked to identify the particular piece of legislation that was of concern to them. Figure 28 summarises the responses, showing that of all those who answered yes to any factor in the previous set of questions (as listed in Figure 27) more than 26% identified employment legislation as the piece of legislation that generated the effect.

**Figure 28: Legislation identified as having an indirect effect on firm dynamics**



Another way of representing this ranking is the following table, which rank orders the legislation for all those who responded 'yes' in relation to each of the nine effects. This analysis shows the respondents' concerns with employment legislation, the Resource Management Act, MAF and OSH (the four pieces of legislation that received a first place ranking in relation to one of the nine effects).

**Figure 29: Legislation & firm dynamics (factors ranked by respondent group)**

	Staff Conflict	Impacts Export Earnings	Conflict with Reg Agency	Sense of Unfairness	Dampens Enthusiasm	Ambiguous	Legal Expense	Outside Consultants	Distracts
Employment	1	3	10	1	3	4	1	3	1
MAF	5	2	1	3	6	6	5	8	5
OSH	2	8	3	6	3	1	4	6	2
Resource Mgmt	8	1	2	2	2	2	2	1	3
Inland Revenue	4	4	5	3	5	3	5	2	4
GST	8	10	11	9	13	10	10	6	9
ACC	3	11	11	7	9	8	10	9	6
Statistics	8	11	11	13	11	13	13	13	11
Food & Drink	8	6	5	8	8	7	7	4	7
Customs & Excise	8	9	8	9	10	12	12	12	13
LTSA	8	11	9	12	12	11	9	10	12
Other	5	4	4	5	7	8	3	4	8
All	5	7	7	11	4	5	7	10	10

**SUMMARY**

- ◆ In relation to whether the time and effort that respondents have put into compliance has changed over the previous year or two, 273 (56%) said there had been an increase. Respondents who said that there had been an increase were more likely to be from firms that were contracting, and were from the food and primary sectors.
- ◆ In terms of the potential for compliance commitments to impact on firm dynamics, 283 (58%) respondents said they could identify a particular piece of legislation in relation to the nine factors that were read to them. This compares to 206 (42%) who said they could not identify a piece of legislation that had this effect.

- ◆ Respondents who could identify particular pieces of legislation that they saw as having the potential to 'distract and divert senior staff', were most likely to be from firms that: employ more than 11 FTEs and employ 6-10 FTEs, export, are 'mature', are contracting and are from the food, non-food and primary sectors.
- ◆ 312 (64%) respondents could identify particular pieces of legislation that they saw as having the potential to be 'ambiguous to interpret or apply'. This compared to 178 (36%) who said no to this question.
- ◆ 179 (36%) respondents could identify particular pieces of legislation that they saw as having the potential to 'draw the firm into legal expenses'. This compared to 310 (63%) who said no to this question.
- ◆ 121 (25%) respondents could identify particular pieces of legislation that they saw as having the potential to 'generate conflict and disagreement with regulatory agency staff'. This compared to 368 (75%) who said no to this question.
- ◆ 177 (36%) respondents could identify particular pieces of legislation that they saw as having the potential to 'dampen the manager's enthusiasm for innovating'. This compared to 312 (64%) who said no to this question.
- ◆ 118 (26%) respondents could identify particular pieces of legislation that they saw as having the potential to 'impact on the value or speed with which your industry can grow export earnings'. This compared to 363 (74%) who said no to this question.
- ◆ 189 (38%) respondents could identify particular pieces of legislation that they saw as having the potential to 'oblige the firm to engage outside consultants'. This compared to 301 (62%) who said no to this question.
- ◆ 162 (33%) respondents could identify particular pieces of legislation that they saw as having the potential to 'leave a sense of unfairness with your firm'. This compared to 328 (67%) who said no to this question.

## Section 7: Discussion

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In this section the data collected in this project are considered in the context of the increasing interest in barriers to growth that is occurring world-wide. A review of the international literature (which is included Appendix D) on compliance provided the context for this section.

### ***RESULTS FROM THIS STUDY***

The 2001 OECD study concluded that the **indirect** costs of compliance affect the ability of firms to innovate, operate efficiently and adjust to changes over time. Specifically, these costs affect the ability of firms to innovate (to develop and exploit new products, services and operating procedures); to maximise operating efficiency (to minimise the costs of producing goods and services of a particular quality, and the maximum flexibility); and to make structural adjustments over time (to respond effectively to major changes in the competitive environment).<sup>20</sup> In the OECD survey it was clear that SMEs believed that compliance with employment regulations was particularly problematic. They felt that regulations increased non-wage costs; regulations created difficulties in making staff reductions; and regulations created difficulties in hiring new staff. This survey provided a basis for the current study. In particular, it provided its primary objective: To provide information on the impact of compliance on the firm's performance (i.e. the indirect costs of compliance) and its ability to innovate (relative to other factors).

### **Findings & the project's objectives**

As already noted, the focus of the present project was to assist the Ministry of Economic Development in understanding more about the way in which New Zealand firms (particularly those that are small and medium in size) are currently facing their compliance commitments. The intention was to undertake (and report upon) a piece of research while at the same time developing and testing a method for measuring the perceptions of New Zealand business people about compliance. In keeping with this dual focus, two main objectives were identified:

#### **Objective 1: To gain an understanding of the perceptions of NZ managers on the consequences of compliance**

In terms of this objective the researchers were asked to provide MED with a report which:

- 1.1 Identifies and describes the perceptions held by the managers of New Zealand firms in respect of their compliance commitments (with a particular focus on the way this commitment affects the firm's performance and its ability to innovate).
- 1.2 Provides information on the impact of the compliance commitment (and its associated costs) on the firm's performance and its ability to innovate (relative to other factors).
- 1.3 Provides information on the types of strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs<sup>21</sup>.

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<sup>20</sup> OECD. (2001). Businesses' views on red tape: Administrative and regulatory burdens on small and medium-sized enterprises. Paris: OECD. p32.

<sup>21</sup> After some discussion between the researchers and MED about the difficulty of collecting valid data on this topic (see Section 7 for further discussion of this point), it was decided not to attempt to address this topic in the project.

## **Objective 2: To develop an appropriate methodology for assessing compliance perceptions**

In terms of this objective the researchers were asked to develop a methodology that will make it possible for MED to measure the three items listed above, and which has been tested within the context of this project. This methodology will enable MED to:

- 2.1 Identify changes over time in the perceptions held by the managers of New Zealand firms in respect of their compliance commitment.
- 2.2 Understand how the compliance commitment affects the firm's performance and its ability to innovate (relative to other factors).
- 2.3 Build up a picture of the strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs.
- 2.4 Assess whether the actions taken by government agencies are having the desired effect.

The objectives were modified slightly after Treasury became involved with the project. Their interest in firms that are exporting (or which have the potential to do so) meant that the researchers identified exporters (and potential exporters) as a specific sub-sample, to be addressed in the data gathering that was undertaken for Objective 1.

Objectives 1.1 and 1.2 were primarily addressed through the telephone survey (some material from the focus groups was also of value here). As already noted, objective 1.3 was not addressed as preliminary exploration with different business people suggested to the researchers that respondents found it difficult to discuss the strategies that they put in place to 'manage' their compliance commitments. It appeared that this was because of the different way in which they conceptualised 'compliance' and 'strategy'. It was clear from the respondents with whom the researchers undertook preliminary testing that they saw strategy as voluntary and compliance as mandatory. As a consequence they found it difficult to describe the relationship between their compliance commitments and the actions (strategies) they chose to take. Subsequent discussions with the MED meant that this objective was omitted from the final study.

A discussion of the findings in the context of these objectives follows.

### **Constraints on exporting**

Respondents to the survey were first asked to respond to an open-ended question on the factor that was most significant in terms of constraining their export growth. While the purpose of this question was to stimulate the respondents' thinking before exposing them to a list of statements, (and because of this no results have been presented in this report), it was clear that relatively few respondents identified issues that could be described as compliance issues. Instead, they raised issues that are more properly described as being concerned with firm strategy.

**Figure 30: Most significant 3 factors by sample group**

	Conditions & regulations imposed by overseas governments	Cost & time needed to represent firm overseas	Effort & distraction of New Zealand regulations
<b>Firm size</b>			
Non employing	+	+	-
2-5 FTEs	+	=	+
6-10 FTEs	-	-	+
11+ FTEs	+	+	-
<b>Export involvement</b>			
Exporting	+	-	+
Not currently exporting	-	+	-
<b>Firm stage</b>			
New	-	+	+
Neither new nor mature	+	-	-
Mature	-	-	+
<b>Growth intentions</b>			
Contract	-	-	+
Consolidate	-	-	+
Grow significantly	+	+	-
<b>Industry type</b>			
Primary	+	+	+
Food industry	+	-	+
Non-food industry	-	-	-
Tourism & allied services	-	-	+
Software & business services	-	+	-
Wholesale & retail	+	+	-

In response to a set of factors that was read to the respondents, ‘the conditions and regulations imposed by overseas governments’ was the most frequently identified as a constraint. Next was ‘the cost and time needed to represent the firm overseas’, followed by ‘the effort and distraction of complying with regulations in New Zealand’. Within these groups it was possible to look in more detail at the various groups that were more or less likely to identify particular factors. This showed that on the whole the groups responded in ways that related to their particular experiences. For example, those who are not currently exporting were less likely to identify the regulations of overseas governments as an issue, while those who are exporting were more likely to do so.

Figure 30 summarises these different responses, with a + symbol indicating those groups that were over-represented in identifying the different factors, a – indicating that the group was under-represented and an = showing that the groups was not significantly under or over-represented.

### Constraints on productivity & growth

Next we asked respondents to comment on a set of common business events (e.g. the employment of a new person) and asked them whether they could readily deal with it and largely put it out of mind or whether it continues to divert and distract them. Respondents most commonly identified ‘releasing a person who no longer fits the business’ as the most significant factor in terms of diverting and distracting them. This was followed by ACC, health and safety, the ‘provision of statistics to government agencies’ and the ‘arrangements needed for hiring a new person’. When the rankings were adjusted to exclude those who answered not applicable, the list (ranked by most diverting) was releasing an employee, labelling controls and standards, getting consent to use land, water and air and ACC. Again,

looking at the various groups (Figure 31) revealed significant variation in the way they reacted to these events.

**Figure 31: Most ‘diverting’ 3 factors by sample groups**

	Releasing an employee	Labelling controls & standards	Getting consent to use land, water & air
<b>Firm size</b>			
Non employing	-	=	-
2-5 FTEs	-	=	-
6-10 FTEs	+	+	+
11+ FTEs	+	-	+
<b>Export involvement</b>			
<b>Exporting</b>			
Not currently exporting	+	+	-
Not planning to export	-	-	-
<b>Firm stage</b>			
New	-	+	-
Neither new nor mature	-	+	+
Mature	+	-	-
<b>Growth intentions</b>			
Contract	+	-	+
Consolidate	=	=	=
Grow significantly	=	=	=
<b>Industry type</b>			
Primary	+	+	-
Food industry	+	-	-
Non-food industry	+	-	-
Tourism & allied services	-	-	-
Software & business services	-	+	+
Wholesale & retail	+	+	+

### Costs versus benefits

In the third section of the survey the respondents’ perceptions of the factors that were used in the previous section were also the basis for the questions on the costs versus the benefits of compliance.

Again looking at the responses by the groups revealed differences in the way in which they react to the three factors where costs were mostly likely to be seen as outweighing benefits (Figure 32).

**Figure 32: Factors where costs outweigh the benefits**

	Releasing an employee	ACC arrangements	Providing data to government agencies
<b>Firm size</b>			
Non employing	-	-	-
2-5 FTEs	-	=	=
6-10 FTEs	+	=	-
11+ FTEs	+	=	+
<b>Export involvement</b>			
Exporting	-	=	=
Not currently exporting	+	=	+

Not planning to export	-	=	=
<b>Firm stage</b>			
New	-	=	-
Neither new nor mature	-	=	+
Mature	+	+	+
<b>Growth intentions</b>			
Contract	+	=	=
Consolidate	=	=	=
Grow significantly	=	=	=
<b>Industry type</b>			
Primary	+	+	=
Food industry	-	-	+
Non-food industry	+	+	+
Tourism & allied services	-	+	-
Software & business services	-	+	-
Wholesale & retail	+	-	=

### Indirect effects

In terms of the indirect effects of compliance, it was clear that the key issue was the extent to which compliance “distracts and diverts senior staff time”. This was followed by three factors that elicited similar levels of response:

Respondents were then asked whether any particular government act or regulation creates one or more of nine effects for the firm. As noted above, the researchers selected these factors (listed in Figure 27) after reviewing the international literature and the previous studies undertaken in New Zealand.

Of those who answered yes, Factor A (especially distracts senior management time) was identified most often (by 58% of all respondents). Some 36 % of respondents identified factors G (obliges you to engage outside consultants), H (leaves a sense of unfairness with the firm) and E (dampens manager’s enthusiasm for innovating). When asked to identify the particular piece of legislation that was of concern to them, more than 26 % identified employment legislation as the piece of legislation that generated the effect.

## Section 8: Conclusions

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The New Zealand research on compliance that existed prior to this study provided valuable feedback on how particular pieces of legislation could be improved, in order to make compliance less onerous. On another level, it also provided researchers and policy makers with an understanding of the intangible costs of compliance overall, rather than focusing solely on those costs that are tangible and/or measurable (e.g. financial). This approach (which combines an awareness of tangible costs with those that are intangible) is important if policymakers are to fully understand this broader perspective on the 'costs' of compliance. This depends on studies in which researchers take an integrated approach to the problem, using sociological and psychological frameworks as well as those provided by the study of economics<sup>22</sup>. Conceptually this broader perspective is reflected in emerging perceptions of compliance as a *commitment*, rather than a cost or burden. Instead of 'having to' comply with government regulations, a firm is *choosing to* commit to (or invest in) its own future.

Re-framing compliance issues so that negative (i.e. cost) aspects are de-emphasised is useful in defining the boundaries for investigating the situation (i.e. enabling questions to be more neutrally phrased can be helpful in obtaining constructive suggestions). It may also have benefits for government agencies that are engaged in encouraging certain behaviours (by individuals and/or firms). Given that the extensive international research on compliance suggests that the majority of firms maintain a 'reactive' stance in terms of compliance, irrespective of initiatives undertaken by governmental agencies to encourage 'proactive' behaviour, (with small firms particularly at fault in this regard<sup>23</sup>), government agencies need all the help they can get in 'selling' compliance as an important element in every firm's development.

However, no matter how businesses are presented with the benefits of compliance, and however frequently they hear that compliance is not a cost but an investment, they will only act willingly if they believe that government will listen to their concerns and is interested in their perceptions of the impact that compliance has on their ability to improve firm performance and act in innovative ways. The recent reports from the New Zealand government suggests that this situation exists, but to date the agencies concerned with reducing the compliance burden have been hampered by a lack of evidence about the way in which the managers of New Zealand view the indirect impacts of compliance.

As the results summarised above show, New Zealand business people are articulate about the impact of legislation and regulations on their business practices. The respondents to this survey could name the pieces of legislation that concerned them and describe in some detail the way in which they felt they impacted upon them. They could also clearly voice their opinion that the impact of compliance has increased over the last two years. However, when they were asked to select from a list of factors where the 'effort and distraction of complying with New Zealand regulations' was included, this was not the top factor. This place instead went to the 'conditions and regulations placed by overseas governments' (see Figure 7). While this may be of little comfort to those concerned with growth in New Zealand firms (given the difficulty of removing or minimising the impediments placed by overseas governments), it is heartening that in the context of a study on the relationship between growth and business compliance, that the New Zealand government was not automatically blamed for restricting growth.

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<sup>22</sup> Sutinen, J.G. (1999). A socio-economic theory of regulatory compliance. International Journal of Social Economics, 26(1/2/3), 174-193.

<sup>23</sup> Harris, L. (2000). Employment regulation and owner-managers in small firms: Seeking support and guidance. Journal of Small Business and Enterprise Development, 7(4), 352-362.

Having said this, there was considerable detail about some legislation, particularly from the perspectives of certain **industry groups**. Food labelling is an issue that is causing great concern to those in the food industry at present, while MAF came in for criticism from the primary sector. The researchers expected this situation to occur. They also expected there to be identifiable differences in the responses of the other groups that were sampled.

For example, it was assumed that managers from firms with **growth intentions** would exhibit concerns with some pieces of legislation, for example, acts that they were dealing with for the first time because of expansion. The researchers also expected respondents from these firms to be more tolerant towards compliance as a whole, seeing it perhaps as a necessary corollary of growth. These assumptions were largely borne out.

Similarly, it was assumed that managers from firms of different **stages** would hold different perceptions of compliance. This was borne out to a degree. For example, firms that are 'new' were under-represented amongst those citing the arrangements surrounding the release of an employee as a distracting factor. Conversely, 'mature' firms were over-represented in relation to this factor, perhaps demonstrating an example of the cumulative nature of compliance: perhaps the respondents from the mature firms were in fact remembering an experience from the past.

Finally it was assumed that there would be differences in the responses between firms of different **sizes**. The reports from the Ministerial Panel suggested that non-employing firms would have different perceptions of compliance than those that do employ, and that those employing reasonable numbers of staff (in this survey those with more than 11 FTEs were grouped together) would also exhibit different perceptions. Again, this assumption was largely borne out, though there were some interesting deviations from the researchers' intuitive conclusions. For example, it appeared that larger firms had appropriate systems in place for dealing with compliance (with those employing more than 11 FTEs often under-represented in the groups identifying a concern). However, they were over-represented in relation to some issues, such as getting consents to use land, water or air.

This study has gathered a large amount of detailed information on the way in which New Zealand firms view the various activities that go under the heading of 'compliance'. This has confirmed the assumption that the managers of different types of New Zealand firms would have different perceptions of compliance, and different experiences of the way in which complying has impacted on their ability to improve productivity and to plan and undertake strategies that will assist the firm to grow. Particular concerns were identified which relate to the size of the business, its stage, its involvement in export, its growth intentions and the sector to which it belongs. This information will be of value to all those agencies that are concerned with minimising the burden of compliance.

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*APPENDIX A: PROJECT METHODOLOGY*

*APPENDIX B: QUESTIONNAIRE*

*APPENDIX C: FACTORS THAT RESTRICT EXPORT GROWTH  
(DETAILED ANALYSIS)*

*APPENDIX D: A REVIEW OF THE LITERATURE ON COMPLIANCE*

## ***APPENDIX A: PROJECT METHODOLOGY***

The studies already undertaken in New Zealand provided the research team with a valuable starting point for this project, by identifying the nature of the compliance burden, and to a certain degree exploring the way in which this burden manifests itself for different groups. For example, in the 2001 review respondents identified three main ways in which compliance impacted on their business:

1. The time spent complying.
2. The fact that compliance has a stifling effect on innovation and competition.
3. The cost of expert assistance.

These general concepts provided the scope for exploring more specific ways in which the compliance burden can express itself within the context of a single firm, such as the potential for compliance concerns to:

- ◆ Distract and divert senior staff.
- ◆ Generate disagreement and vexation as to their interpretation/application.
- ◆ Create anxiety and/or uncertainty as to whether the requirement has or has not been met, at a given point.
- ◆ Create vexing or problematical interaction with regulatory staff.
- ◆ Shut down or dampen project morale/enthusiasm, particularly those that are innovative, for fear of regulatory burden.

On the basis of these findings, we recommended that the findings from the should be used as the foundation for this project, which would have the following components:

1. A review of the international and New Zealand literature on compliance.
2. A series of focus groups to identify the particular concerns of New Zealand exporters<sup>24</sup>.
3. A telephone survey of approximately 400 business owners and managers (with a small number of one to one interviews undertaken as part of the testing phase).

These methods are explained in more detail in the following sections.

## ***LITERATURE REVIEW***

The body of literature pertaining to compliance costs was reviewed for this project. The focus was on academic literature and material relating to compliance costs rather than good regulatory practice. In order to supplement this a general search of websites was made to ensure that recent work by governments' and other agencies in a global context was also reviewed.

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<sup>24</sup> These groups were not part of the initial proposal, but were added to answer the needs of the Treasury team.

## ***FOCUS GROUPS***

The objective of the focus groups was to try to extract/reflect the experiences and perceptions of SME exporters on three dimensions:

1. Constraints to export growth: What business inputs, outputs, contexts or leverages are the ones most likely to inhibit growth of their export volume by say 10% to 20% from this year to the next?
2. The New Zealand regulatory environment: Which acts and regulations, if any, feature in their efforts to grow exports from current levels to greater levels? Are these largely negative, largely positive, or mixed in their impact on export growth efforts?
3. Distance to market: How do exporters interpret/define this notion? How is the distance to market perceived by current SMEs who are exporting? How have they dealt with it to date? Are their current strategies (still) viable for increasing their exports by 10% to 20%?

The focus group method was selected as an appropriate method of conducting an open exploration into the research issues. The method aims to investigate people's attitudes, opinions and knowledge of a certain matter in an in-depth manner. A strength of the focus group method is its ability to generate group interactions to bring up issues that might not surface using other research methods. Since it is a less structured research method, it also provides a method of uncovering and probing relevant issues that may not have been anticipated.

The focus group method is excellent for discovering the range of responses of participants, and exposing dimensions or attributes relevant to the research issue. It does not measure the statistical incidence of responses in a population or target market. Caution should therefore be given to not directly infer findings from this kind of qualitative research, without separate quantification or verification.

### **Conducting the focus groups**

The four focus groups were conducted at the NRB focus group facilities in Auckland, with participants from the Auckland region. Focus group sessions were of approximately 2 hours each. All the groups were moderated by an experienced moderator.

In each group session, participants were seated boardroom style in a quiet room, with refreshments provided. The intention was to create a relatively relaxed and comfortable environment in which to encourage open response. However, participants were advised not to reveal trade secrets or information confidential to their firm, due to the presence of other participants. There were no real problems with participants discussing the issues and presenting viewpoints in this environment.

Established focus group procedure was employed to ensure an adequate depth of response from the participants. This included the avoidance of leading questions and acquiescent responses. For this particular study, care was taken to not specifically raise the issues of 'compliance', but rather to allow participants to bring up and discuss impediments to export in a general sense. Likewise, 'distance to market' was also not raised early in discussions, until there had been opportunity to observe the manner and extent to which participants themselves raised such issues.

A moderator's guide was used to ensure coverage of the research issues and to assist 'steer' proceedings. However, care was taken to not follow this too rigorously, but rather allow the participants to bring up and discuss issues they saw as of importance relative to export impediments.

A brief questionnaire (see Appendix B) was also used during group sessions to assist in anchoring response regarding how burdensome participants felt various New Zealand based factors relating to their business environment were).

## **Analysis & reporting of results**

Each focus groups was video taped and audio taped (with the participants' agreement) to enable a thorough analysis of the discussions by an experienced qualitative researcher. In the separate report on the sessions <sup>25</sup> the results are presented descriptively (rather than numerically) in a generally thematic manner, as is usual with this qualitative style of research. In this summary report this approach has also been taken.

## ***TELEPHONE SURVEY***

The questionnaire that was used for the telephone survey was developed by successive interaction between the MED, the Treasury, Massey University, and NRB Ltd. It benefited from a series of four focus groups that explored the way managers of small business thought and spoke about the two areas of study, viz. the impact of compliance on their business, and obstacles to growth with particular reference to growth in export. These focus groups are reported under separate cover.

A selection of one-on-one interviews was carried out by the principal researcher to assess how well managers could relate to the constructs and question phrasing in the initial draft of the questionnaire. Changes were incorporated as a result of these interviews, and as a result of the MED's review of the questionnaire against their information needs.

The questionnaire (see Appendix A) was built around 4 sections engaging mostly closed questions, and extending to probes on "reasons why" for verbatim commentary on one section.

## **Respondents**

The interviewer contacted the sampled firms and asked for the General Manager, Managing Director, and/or Owner/Proprietor. If this person was not available, a senior manager was contacted. Since the sample list contained the name of the most senior person, or equivalent, the interviewer was generally asking for the person by name. NRB interviewers carried out all interviews over the phone during business hours. Interviews were conducted over October-November 2002.

## **Sample structure**

The general framework for the sample was that:

1. Firms were sampled nation-wide, urban and rural.
2. The firms were to be "small-to-medium" as defined by having employee numbers in FTE terms of **50** or fewer, as reported at the time of listing.

Quotas were then assigned to ensure adequate sample sizes within:

1. Firm sizes of 1-5, 6-10, and 11-50 employed.
2. Activity types which were of interest to the MED and Treasury respectively. For Treasury, this was firms that export, or had the inherent product/service type capable of being exported. For the MED, this was an informed selection of activities known from background information to have potential for growing the New Zealand economy and/or

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<sup>25</sup> National Research Bureau (2002). Constraints and hurdles to SME exporting. NRB: Auckland.

with particular concerns about compliance. These were primary sector firms, the food industry, small non-food manufacturers, tourism and allied services, and software and business services.

## Sampling

1. Sample lists were purchased from UBD Ltd, a firm which systematically canvasses at street level to list all operating firms, their contact particulars, employee numbers and activity type as close to the NZSIC codes as the reporting staff members are able to define it. While both employee numbers and firm type classifications show some variation with those produced by Statistics New Zealand, and while firm type description and list ageing are considerations, this is the nearest quality listing enabling access to purposive samples available in New Zealand.
2. Sample lists were bought to two specifications:
  - ◆ SME firms engaged in export.
  - ◆ SME firms falling within selected activity type codes that suited the survey objectives. Codes were chosen from the NZSIC classification, and their grouping into the study targets are shown below.

In each case, the list supplier was directed to divide the available names on the national listing by the required number, multiply this by 3 to allow for non-contacts, and then to sample according to the interval produced by this division, viz. every xth name. The activity groups and their corresponding NZSIC statistical classification are shown below:

### Sampled sectors against NZSIC codes

Activity Group	Industry Codes
Primary Sector	11 – 13
Food Industry	31
Non-food industry	32 – 39
Tourism and allied services	71
Software and business services	81-83, 91-96
* Wholesale/retail with export/manufacturing	61 – 62

\*This group emerged from the sampling of firms engaged in exporting a product or service.

## Tabulation

The data is presented in the tables as unweighted. The total column is therefore the simple total of the replies of the targeted activity groups. The total column does not purport to reflect SMEs at large; rather the tables should be read as providing insight into the experiences and perceptions of five types of firms of SME size, on a quasi quantitative basis.

Diagnostic opportunity, rather than projectable quantification, has been the priority. Numerical extrapolation of quantities, e.g. relating to turnover, staff numbers, etc. of these segments would not be appropriate.

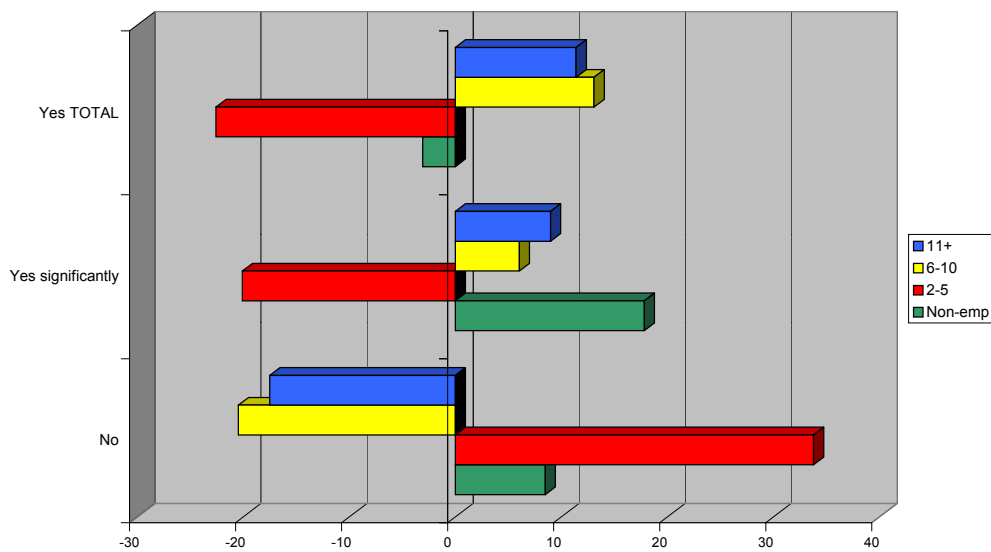
## ***APPENDIX B: QUESTIONNAIRE***

## **APPENDIX C: FACTORS THAT RESTRICT EXPORT GROWTH (DETAILED ANALYSIS)**

Studies of this type often involve sub-samples which are of different sizes. This can present difficulties when the focus is on differences between the groups. This problem can be minimised by using the technique of indexing, which involves selecting a base (commonly 100) against which the different groups are compared. This makes it possible for the researchers to examine the differences in the responses from groups of different sizes.

In relation to firm size, this showed that respondents whose firms do not employ and respondents from firms that employ more than 11 FTEs are over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to this factor, while firms employing between 2-5 FTEs were under-represented amongst those giving this answer.

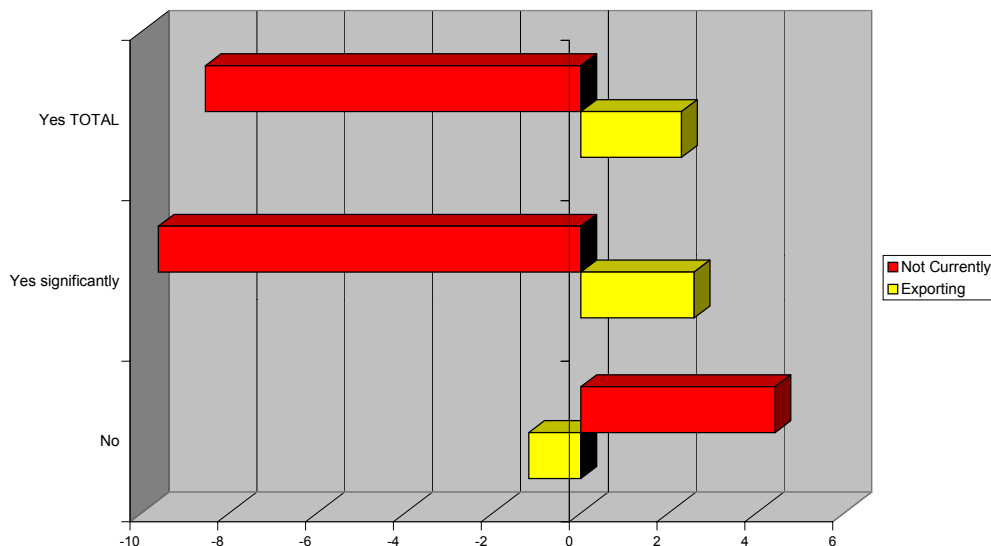
### **Conditions & regulations placed by overseas governments (firm size)**



Respondents whose firms are exporting are over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to this factor.

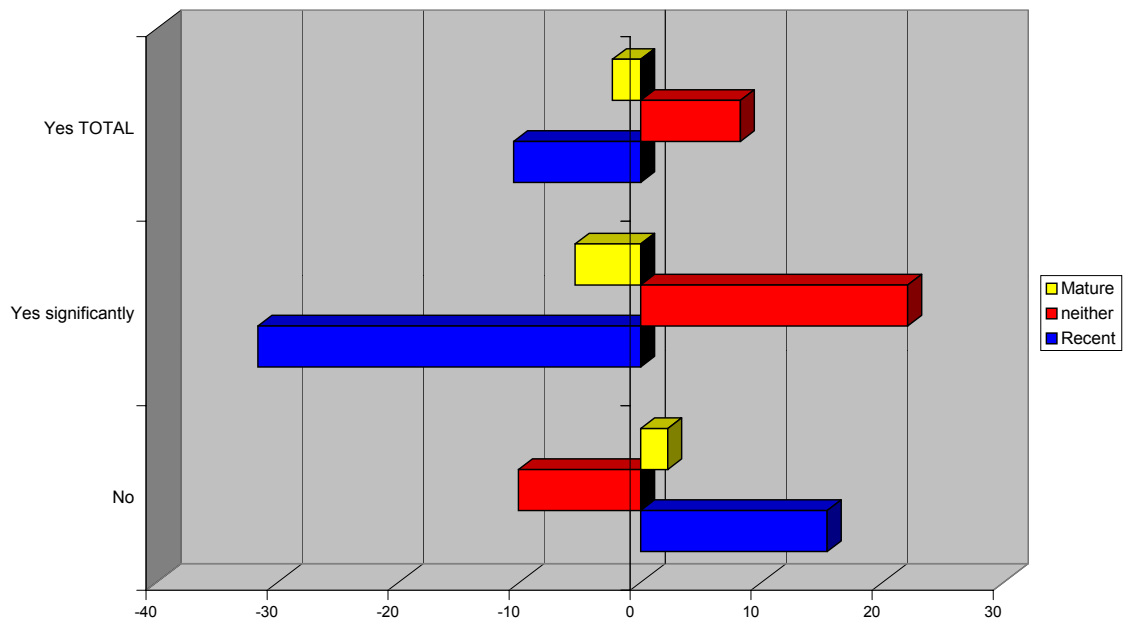
### **Conditions & regulations placed by overseas governments (export involvement)**

Respondents whose firms are neither ‘mature’ nor ‘new’ are over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to this factor, while firms that



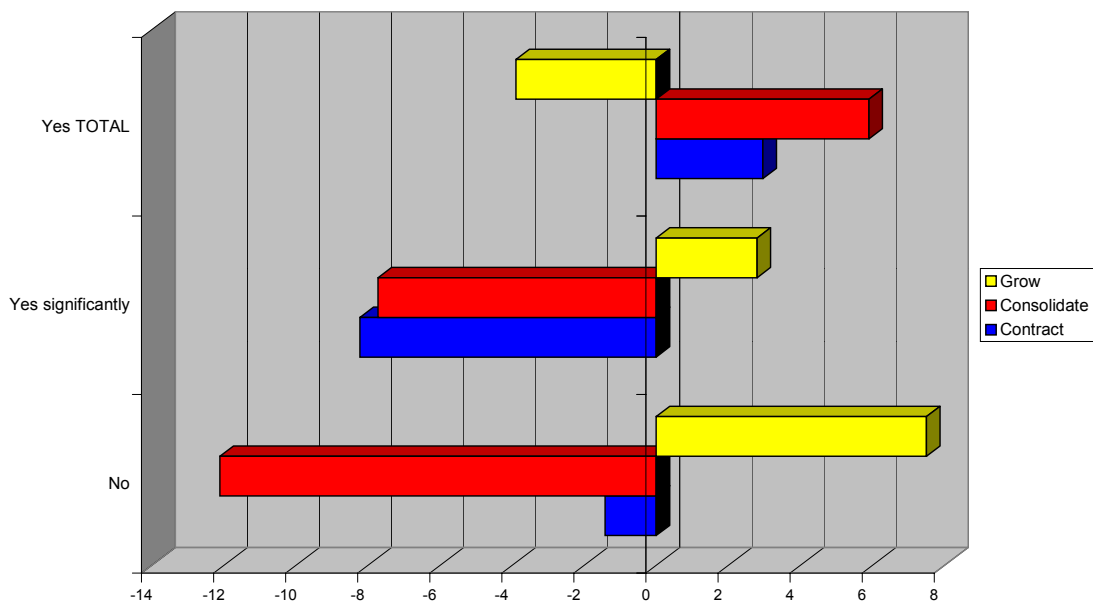
are mature and new were under-represented amongst those giving this answer.

**Conditions & regulations placed by overseas governments (firm stage)**



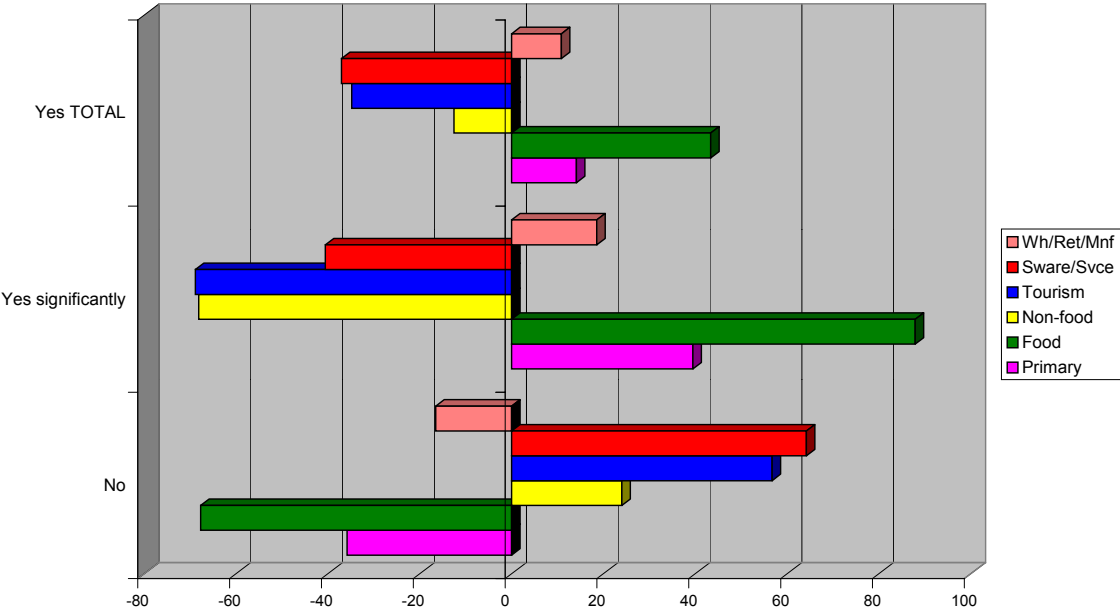
Respondents whose firms that intend to grow strongly are over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to this factor, while firms that are contracting or consolidating were under-represented amongst those giving this answer.

**Conditions & regulations placed by overseas governments (growth intentions)**



Respondents whose firms are from the food and primary industry sectors are over-represented amongst the 22.9% of respondents answering “yes, significantly” in relation to this factor, while firms from the software and business service industry, the tourism industry and the non-food sector were under-represented amongst those giving this answer.

**Conditions & regulations placed by overseas governments (industry type)**



Although this section presents the detailed analysis of one section of the questionnaire only, all the results were indexed. A commentary of this analysis is contained in the relevant report sections.

## ***APPENDIX D: A REVIEW OF THE LITERATURE ON COMPLIANCE***

In general terms an interest in the cost of business compliance (as a potential business constraint) began in the 1950s in the United States.<sup>26</sup> This interest was sparked by the post-war commercial environment, where industrial growth meant that more firms were dealing with an increasing volume of legislation, which was increasingly complex. In the 1960s this interest in the topic of 'compliance costs' and 'compliance behaviour' spread to Europe (Germany in particular), and over recent years a number of countries have examined compliance in the context of their particular regulatory and legislative environments. Some countries have focused on specific groups of businesses (such as small or medium enterprises), others have examined particular industry sectors with specific issues (the primary sectors in relation to environmental pollution for example), while others have focused on groupings of legislation and regulation that is seen as having the potential to be problematic (such as taxation). In terms of specific studies, some of the best known are those carried out in the UK, the US, Canada and Australia. The United Kingdom addressed the issues in a number of reviews during the 1980s,<sup>27</sup> the Small Business Administration in the United States reported on compliance in 1995<sup>28</sup>, Canada focused on tax and SMEs in their 1996 report<sup>29</sup>, and Australia examined taxation<sup>30</sup> and other aspects of compliance<sup>31</sup> in the mid 1990s, and established a Small Business Deregulation Task Force.<sup>32</sup> In New Zealand, a Ministerial panel on Business Compliance Costs was established in 2000 and reported in 2001.<sup>33 34</sup>

The context for all of these reviews was the complex set of changes that accompanied the changing face of public management that has become particularly apparent since the 1980s. In this era of "the new public management"<sup>35</sup>, the relationship between government and the business sector has changed in a number of fundamental ways. At the core of the change is a shift away from government intervention in the economy. In relation to compliance, reducing intervention has often meant a focus on 'reducing compliance costs' and 'cutting red tape'. One of the manifestations of this attitude (that businesses are better equipped to

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<sup>26</sup> Pope, J., Fayle, R., & Duncanson, M. (1990). The compliance costs of personal income taxation in Australia 1986/7. Sydney: Australian Tax Research Foundation.

<sup>27</sup> Boden, R., & Froud, J. (1996). Obeying the rules: Accounting for regulatory compliance costs in the United Kingdom. Accounting, Organizations and Society, 21(6), 529-547.

<sup>28</sup> Small Business Administration, 1995, cited in Bickerdyke, I., & Lattimore, R. (1997). Reducing the regulatory burden: Does firm size matter? Melbourne: Industry Commission, Commonwealth of Australia.

<sup>29</sup> Erard, B. (1997). The income tax compliance burden on small and medium-sized Canadian businesses. Ottawa: Department of Economics, Carleton University.

<sup>30</sup> Productivity Commission. (1996). Compliance costs of taxation in Australia. Australia: Office of Regulation Review.

<sup>31</sup> Bickerdyke, I., & Lattimore, R. (1997). Reducing the regulatory burden: Does firm size matter? Melbourne: Industry Commission, Commonwealth of Australia.

<sup>32</sup> Small Business Regulation Taskforce. (1996). Time for business. Canberra: Commonwealth of Australia.

<sup>33</sup> Ministerial Panel on Business Compliance Costs. (2001). Finding the balance: Maximising compliance at minimum cost. Wellington: Ministerial Panel on Business Compliance Costs.

<sup>34</sup> Ministerial Panel on Business Compliance Costs. (2001). Seeking the views of New Zealand business. Wellington: Ministerial Panel on Business Compliance Costs.

<sup>35</sup> Hood, 1995, cited in Boden, R., & Froud, J. (1996). Obeying the rules: Accounting for regulatory compliance costs in the United Kingdom. Accounting, Organizations and Society, 21(6), 529-547.

make decisions than government agencies) in some sectors has been a shift away from prescriptive legislation towards self-regulation by industries and firms themselves.<sup>36</sup> This change shifted responsibility from government to private enterprise, and necessitated a major shift in the mindset of business people. However, if this shift is to work, it needs a mental shift within the business sector. There is also a need to build capability, either internally (through the firm's managers becoming more knowledgeable about the different aspects of compliance) or externally (through the firm expanding its network of personal advisers).

In situations where responsibility for compliance increasingly falls on the shoulders of business, (either in countries where deregulation and non-intervention are key drivers of government policy or in sectors where self-regulation has become the norm), there has been a growing perception that more compliance activity is occurring at the firm level. As compliance in general terms became a matter of concern for business, in particular in reference to the level of cost associated with complying, this perception becomes even more firmly held: Now it is received wisdom that complying with government regulations is a heavy burden for business. This remains true despite the lack of empirical evidence to support the contention that businesses finds compliance with controls imposed from the outside (i.e. government) any more burdensome than those that are internally driven (i.e. in line with the firm's own strategy).

While the debate about compliance increasingly focused on its cost to businesses, there was also a shift in the way in which the community expressed its tolerance of non-compliance with certain types of legislation (such as environmental pollution). The result of these dynamics is that today's business owner is faced with an acute awareness of the cost of compliance, has more responsibility than ever before in terms of self-regulation (and/or accessing the appropriate advisers to ensure compliance), and is facing an increasing level of compliance and community disapproval over non-compliance with certain pieces of legislation.

### **Government responses to compliance**

In the face of this sensitivity on the part of business and government to a) the high levels of compliance activity needed in the light of increasingly complex legislative systems, and b) the perceived high cost of compliance, a number of governments have established permanent agencies for monitoring new legislation in the light of its impact on business. These agencies have promoted a variety of systems for monitoring the impact of new legislation. The United Kingdom has the CCA (compliance cost assessment) and the United States takes a cost-benefit analysis approach to all new legislation.<sup>37</sup> Australia announced a business regulation reform package in 1994 in *Working Nation*<sup>38</sup>, and since then a number of reports have continued this work and there is now a set of well accepted principles for the design and implementation of government regulation.

Another approach has been in line with the changing approach to compliance that has emerged over recent years in relation to some specific areas where compliance is an issue. Partly in response to changes in society generally, the traditional (regulatory) paradigm is being replaced in some sectors (and/or in some countries) by a participatory, educative paradigm. There are two implications of this new approach. First there is a need for a change

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<sup>36</sup> Lamm, F. (1997). Small businesses and OH&S advisors. *Safety Science*, 25(1-3), 153-161.

<sup>37</sup> Boden, R., & Froud, J. (1996). Obeying the rules: Accounting for regulatory compliance costs in the United Kingdom. *Accounting, Organizations and Society*, 21(6), 529-547.

<sup>38</sup> Keating, 1994, cited in Bickerdyke, I., & Lattimore, R. (1997). *Reducing the regulatory burden: Does firm size matter?* Melbourne: Industry Commission, Commonwealth of Australia.

in the role of the regulatory and advisory agencies;<sup>39</sup> instead of acting as the monitor of compliance, the agency practitioner becomes a facilitator, assisting firms to comply. The second implication is the increased need for the firm's owners and managers to develop their own capacity so that they can comply. The consequence of both these changes is that the interaction between the parties is altered: Interactions become based on identifying needs and building capacity rather than on monitoring compliance.<sup>40 41</sup>

This approach is well documented in the literature, with a number of examples of training programmes for enhancing compliance in different areas (such as occupational safety and health<sup>42</sup>). However, it could be argued that there is still a conceptual gap within the field. Until relatively recently the only framework for understanding compliance behaviour was Becker's economic model of non-compliance with legislation, which was originally developed as a framework for examining criminal behaviour.<sup>43 44</sup> Dominant in the literature for many years, more recently this solely economic model has been challenged by researchers from psychology and sociology. The psychologists have examined individual behaviour (cf. 'firm behaviour'), using the perspective of social learning and cognitive theory and the sociologists have introduced the notion of instrumental (cf. normative) behaviour to the subject. This has meant that new concepts have been introduced (such as the concept of 'mental accounting', which comes from examining an individual's cognitive models),<sup>45</sup> and there is a greater understanding of the limitations of using a wholly economic perspective.

This somewhat broader understanding has been the basis for the development of some practice-based models for encouraging taxpayer compliance. Generally developed by statutory bodies, they are based on the assumption that compliance behaviour can be changed by government agencies<sup>46</sup> through a variety of strategies (such as persuading people that it is in their self-interest to comply; or making people feel that it is their responsibility to comply).<sup>47</sup> This line of thinking is the basis for some recent work on categorising individuals as "environmental laggards, reluctant compliers, committed compliers, environmental strategists and true believers" (the latter two relying on building reputational capital).<sup>48</sup>

This typology, and others like it, are helpful in allowing the agencies charged with ensuring compliance occurs with a way of understanding the factors that enhance compliance (as well as those that act as barriers to it). One of these factors is the way compliance is often seen by the firms as an admission of limited autonomy. Small firms in particular are often run by

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<sup>39</sup> Lamm, F. (1997). Small businesses and OH&S advisors. Safety Science, 25(1-3), 153-161.

<sup>40</sup> LaFollette, S., Broadbear, J., & Bazan, C. (1999). Beyond regulatory compliance: Enhancing environmental health with an education paradigm. Environmental Health, 62(5), 8-13.

<sup>41</sup> Lamm, F. (1997). Small businesses and OH&S advisors. Safety Science, 25(1-3), 153-161.

<sup>42</sup> Stokols, D., McMahan, S., Clitheroe Jr, H. C., & Wells, M. (2001). Enhancing corporate compliance with worksite safety and health legislation. Journal of Safety Research, 32, 441-463.

<sup>43</sup> Becker, G. S. (1968). Crime and punishment: An economic approach. Journal of Political Economy, 76(2), 169-217.

<sup>44</sup> Sutinen, J. G., & Kuperan, K. (1999). A socio-economic theory of regulatory compliance. International Journal of Social Economics, 26(1-3), 174-193.

<sup>45</sup> Adams, C., & Webley, P. (2001). Small business owners' attitudes on VAT compliance in the UK. Journal of Economic Psychology, 22, 195-216.

<sup>46</sup> Weil, D. (1996). If OSHA is so bad, why is compliance so good? RAND Journal of Economics, 27(3), 618-640.

<sup>47</sup> Levi, M. (1988). Of rule and revenue. Berkeley, CA: University of California Press.

<sup>48</sup> Kagan, R. A., Gunningham, N., & Thornton, D. (2002). Explaining corporate environmental performance: How does regulation matter? Berkeley, CA: University of California at Berkeley School of Law. p.10.

individuals who are strongly motivated by the independence that being “one’s own boss” can bring, and they have a tendency to regard legislation as a challenge to their management rights.<sup>49</sup> In the same context, the discussion about what constitutes a public good adds to our understanding of why some individuals comply, and how this number can be increased. This is important in a society which in general terms is moving away from an acceptance of governmental intervention, but which at the same time is losing a sense of the individual’s ‘duty’ towards an economy.<sup>50</sup>

## Developing concepts & definitions

While on one level there has been a large amount written on compliance with an abstract perspective (as seen above), there has also been a continuing focus on ensuring that basic definitions have been developed. In this context it is important to remember that much of the initial work on compliance has been done in the context of taxation, and that therefore many of the key concepts and definitions refer to the particular regulatory environment for taxation. In this context, compliance costs are “those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given tax structure”.<sup>51</sup> This definition has become standard when discussing compliance in any context, and is the basis for the typical focus on compliance costs rather than the benefits that may accrue to either firms or governments from high levels of compliance. Despite this traditional focus on costs, some benefits have been identified. These include the fact that legislation and regulation can establish frameworks in which commercial transactions can take place at lower cost, which can help smaller firms get access to markets and ensure that accounting and information systems for small firms are improved.<sup>52</sup>

Another ‘developing concept’ concerns ‘additionality’ (i.e. the fact that the compliance cost refers to the time and expense outlaid that is *over and above* normal commercial practices). This cost may include lost opportunities and disincentives to expand the business.<sup>53</sup> Despite this caveat, there is increasing agreement that the ‘cost’ of compliance includes time, effort, financial and ‘psychological’ costs;<sup>54 55 56</sup> that there can be negative impacts on a firm’s productivity and other non-economic costs;<sup>57</sup> that there may be opportunity costs associated with compliance;<sup>58</sup> and that there are internal compliance costs, external compliance costs

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<sup>49</sup> Golby & Johns, 1971, cited in Westrip, A. (1982). Effects of employment legislation on small firms. In D. Watkins, J. Stanworth, & A. Westrip (Eds), Stimulating small firms (pp. 32-66). Aldershot, Hampshire: Gower.

<sup>50</sup> Rankin, K. (1997). Persuasive compulsion. New Zealand Political Review, 7(3), 36-39.

<sup>51</sup> Houghton, J. Measuring the compliance costs of excise taxation. Washington DC: United States Agency for International Development Bureau for Africa.

<sup>52</sup> OECD. (2001). Businesses' views on red tape: Administrative and regulatory burdens on small and medium-sized enterprises. Paris: OECD. p12.

<sup>53</sup> Small Business Regulation Taskforce. (1996). Time for business. Canberra: Commonwealth of Australia.

<sup>54</sup> Sandford, 1986, cited in Pope, J., Fayle, R., & Duncanson, M. (1990). The compliance costs of personal income taxation in Australia 1986/7. Sydney: Australian Tax Research Foundation.

<sup>55</sup> Houghton, J. Measuring the compliance costs of excise taxation. Washington DC: United States Agency for International Development Bureau for Africa.

<sup>56</sup> Bickerdyke, I., & Lattimore, R. (1997). Reducing the regulatory burden: Does firm size matter? Melbourne: Industry Commission, Commonwealth of Australia.

<sup>57</sup> van der Horst, R., Nijssen, A., & Gulham, S. (2000). Regulatory policies and their impact on SMEs in Europe: The case of administrative burdens. In D. L. Sexton, & H. Landstrom (Eds), The Blackwell Handbook of Entrepreneurship (pp. 129-149). Oxford, UK: Blackwell Publishers.

<sup>58</sup> Sandford, C. T., Godwin, M., & Hardwick, P. (1989). Administrative and compliance costs of taxation. Bath: Fiscal.

and net compliance costs.<sup>59</sup> Some discussions use the term incremental compliance costs to refer to the costs that exceed those that are incurred in normal business practice,<sup>60</sup> and make the point that some compliance 'costs' are temporary (e.g. the 'learning curve' associated with dealing with a new piece of legislation).<sup>61</sup>

## Empirical work

The detailed terms included above suggest that the empirical work (compared to the largely theoretical studies already cited) on compliance will be sophisticated and rich. However, the vast majority of studies have focused on identifying the actual (direct) costs of compliance such as financial costs and estimating the time commitment needed. Most studies omit indirect costs,<sup>62</sup> and/or others that are regarded as intangible: Despite the fact that there is an awareness of the presence of other 'costs' (e.g. psychological costs), there is as yet no generally agreed method as to how these should be measured. Much of the research also focuses on understanding *non-compliance*, rather than improving fairness attitudes and compliance behaviour.<sup>63</sup>

One of the other main reasons for this lack of empirical work on all of the issues that surround compliance is the methodological complexity implicit in researching a complex phenomenon, where the issues are not simple for respondents to articulate, and where there is likely to be a high level of ignorance in the target population as to what constitutes a 'reasonable' level of regulations and legislation.

Other methodological challenges include defining what activities constitute a compliance activity; deciding whether opportunity or marginal costs should be used; and developing an approach that minimises the impact of the efficiency/inefficiency of the firms being studied, ensures that the most appropriate person is located, and makes some allowance for the subjective measures that respondents use.<sup>64</sup>

The consequence is that most research has addressed compliance in a relatively simplistic way, or as a by-product of a study on a related topic. For example, a New Zealand study on the barriers for exporters identified administrative procedures and 'red tape' as one of the most common barriers faced.<sup>65</sup> Whilst this research was useful in a broad sense, more detail is needed if government agencies are to address the compliance concerns of New Zealand business owners.

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<sup>59</sup> Pope, J., Fayle, R., & Chen D. L. (1993). The compliance costs of employment-related taxation in Australia. Sydney: Australian Tax Research Foundation.

<sup>60</sup> Franks, J. R., Schaefer Stephen M, & Staunton, M. D. (1998). The direct and compliance costs of financial regulation. Journal of Banking and Finance, 21, 1547-1572.

<sup>61</sup> Sandford, C. T., Godwin, M., & Hardwick, P. (1989). Administrative and compliance costs of taxation. Bath: Fiscal.

<sup>62</sup> Chittenden, F., Kauser, S., & Poutziouris, P. (date not known). Regulatory burdens of small business: A literature review. Manchester: Manchester Business School, University of Manchester.

<sup>63</sup> Roberts, M. L. (1994). An experimental approach to changing taxpayers' attitudes towards fairness and compliance via television. The Journal of the American Taxation Association, 16(1), 67-86.

<sup>64</sup> Wallschutzky, I. (1995). Cost of compliance for small business: Results from twelve case studies in Australia. In C. Sandford (Ed), Tax compliance costs measurement and policy (pp. 275-298). Bath: Fiscal Publications.

<sup>65</sup> AC Nielsen. (2001). Assessing the presence and impact of non-tariff trade barriers on exporters. NZ: AC Nielsen.