

Regulation reality gap for small businesses bodes ill for Brexit

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Small business owners lack understanding of critical regulations and compound the problem with over-confidence, shows research from the University of Bath which suggests small businesses will struggle to comply with the raft of regulatory changes post Brexit.

The study, published in the *British Journal of Management*, shows a disparity between perceived and actual knowledge of four key areas of [regulation](#) that impact on almost all firms: health and safety; fire; anti-discrimination, and employment.

Researchers fear that the gap between what business owners think they know and their actual grasp of the rules is leading to ill-informed decision-making and unintentional non-compliance that carries potentially serious risks for customers, employers and the firm itself. The knowledge gap can be as stark as the difference between one person using safety equipment and another not even knowing it is available.

For small firms falling foul of the law, the resulting fines, reputational damage and loss of business can quickly exceed their limited resources. Keeping up with regulatory change is not a problem that is unique to small businesses, but their size means the consequences have the potential to be more damaging than for big business.

In the study, having a positive attitude to regulation was associated with increased levels of both perceived and actual knowledge, suggesting these owners were more inclined to learn about regulation than owners

who have more negative feelings about 'red tape'.

Dr. Rob Branston, Senior Lecturer in Business Economics, in the University of Bath's School of Management, said: "Voters were lured to Brexit by the idea of ripping up red tape, but the reality is that the smallest firms that make up the bulk of businesses in the UK simply don't have the resources of bigger businesses to monitor any changes. With Brexit potentially leading to large changes in many areas of regulation, we urgently need to find new ways to reach small businesses."

University researcher Dr. Marc Betton, who also runs a family micro-firm, added: "As a [small business](#) owner myself I know how difficult it is to find time to cover all aspects of the business, as well as changes to regulation. Business owners in our study showed a hubristic approach to regulation, plus a level of acceptance of imperfect knowledge. It may not be surprising, but it's certainly worrying, especially with a raft of Brexit related changes on the horizon. If businesses are willing to settle for 'good enough' it stifles the motivation to learn about new regulation, and that is a problem with far-reaching consequences for employees, customers, and the business community."

The researchers, from the Centre for Governance, Regulation, and Industrial Strategy in the University's School of Management, focused on the holiday accommodation industry (including hotels, B&Bs, caravan parks and self-catering accommodation) and questioned over 700 small businesses in England with less than 10 employees, known as micro-firms, including those with just the owner.

Despite accounting for 96 per cent of all businesses in the UK economy (BEIS, 2016) micro-firms are often overlooked or deliberately excluded from business studies on regulation in favour of those with a greater number of employees.

The tourism sector is highly regulated, with over 21,000 regulations estimated to be in effect (Tourism Regulation Taskforce, 2012). It accounts for 9.5 per cent of UK employment and contributes 7.1 per cent of UK GDP (in 2014, published by Tourism Alliance 2016)

The study showed that small [business](#) rely on the internet, personal networks, and the media for information on regulatory changes. While Trade Associations function as one of the main sources of external expertise for most micro-businesses, the research found memberships had no measurable benefit to actual knowledge of regulation.

Despite this the researchers conclude that Trade Associations provide excellent advice and are best placed to devise and deliver solutions to address the regulatory [knowledge gap](#), including facilitating self-assessment to enable [business owners](#) to more accurately assess their knowledge levels; improving attitudes to regulation; and targeting older firms.

More information: Marc E. Betton et al, Managerial Hubris, Trade Associations and Regulatory Knowledge in Micro-Firms, *British Journal of Management* (2018). [DOI: 10.1111/1467-8551.12314](https://doi.org/10.1111/1467-8551.12314)

Provided by University of Bath

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