Kitching, John (2019) Regulatory reform as risk management : why governments redesign micro company legal obligations. International Small Business Journal, 37(4), pp. 395-416.
 DOI: https://doi.org/10.1177%2F0266242618823409

Introduction

This paper contributes to the literature on small business and regulation by presenting and testing a comprehensive framework for explaining government motivations to implement regulatory reform targeting micro companies as beneficiaries. Regulatory reform can be defined as government action changing the legal rights or obligations of organisations and individuals. Regulatory reform, and the motivations to implement it, are important topics to investigate because the legal framework is a fundamental and necessary contextual influence on small firm activity and performance, simultaneously imposing constraints and enabling various possibilities for action (Kitching et al. 2015a). Regulatory reform has been a major instrument of public policy in developed and developing countries for much of the past four decades (Nijsen et al. 2009; OECD 2010; World Bank 2017). UK governments have targeted small businesses as beneficiaries of reform, with the espoused aim of reducing compliance costs, and of contributing to economic growth and public welfare through more competitive markets, wider product choice and lower consumer prices (Kitching 2007; Bennett 2014).

This question of government motivation to reform is to be distinguished from the equally important issue of the effects of regulation on small business activity and performance (e.g. Chittenden et al. 2002; Edwards et al. 2004; Kitching 2006; BEIS 2016a, 2018a; Mallett et al. 2018) and small firm responses to regulation (Arrowsmith et al. 2003; Ram et al. 2003; Vickers et al. 2005; Kitching et al. 2015a, 2015b; Deakins et al. 2016; Mayson and Barrett 2017; Peck et al. 2018). In addition, a large stream of quantitative research investigates the impact of regulation as one of a number of institutional influences on small firm market entry, activity and performance (e.g. Djankov et al. 2002; Capelleras et al. 2008; Boettke and Coyne 2009). There is no straightforward, linear relationship between motivation to reform and the consequences of reform because there is no single or typical 'small business effect' of regulation (Kitching et al. 2015a) but understanding why governments implement reform provides insights into the nature and scale of any reforms proposed and their potential effects on business activity and performance.

The principal existing approaches to studying regulatory reform, market failure and equity, are each able to explain reform only in terms of a narrow set of government rationales. In place of these two approaches, following Haines (2011), I argue that reform initiatives might be conceptualised in terms of different types of risk concern. This risk concern framework was not developed with small firms specifically in mind, but rather was intended to be applicable to all businesses. Regulatory reform is an instrumental activity oriented towards dealing with a specific risk, defined in terms of threats or harms to anything humans value such as physical health, personal safety, economic interests, community cohesion or the natural environment (Douglas and Wildavsky 1982). But regulatory reform is also a project with wider social and political objectives (Haines 2011). Small business policy formulation is not simply a rational, linear exercise conducted by discrete groups of policymakers who identify a problem and find a solution, but rather is a complex, interactive process characterised by diverse interests that reflect the wider social structures through which policy goals can be formulated and achieved (Bager et al. 2012; Arshed et al. 2014; Xheneti 2017). The political motivations underpinning policy are acknowledged in passing in the small business literature, but left largely under-analysed (Storey 1994; Curran and Storey 2002). Such insights have not been integrated fully into explanations of why governments implement regulatory reforms targeting small firms as beneficiaries. Reforms imposing *and* removing legal obligations both reflect specific risk concerns.

Using the example of the Small Companies (Micro-Entities' Accounts) Regulations 2013 (henceforth 'the Regulations'), which transposed EU Accounting Directive 2012/6/EU (the 'Micros Directive') into British law, I investigate three questions, drawing on documentary sources:

- What objectives did policymakers consider when contemplating the introduction of the Regulations?
- Why did policymakers prioritise some objectives and subordinate others when implementing the Regulations?; and
- To what extent did policymakers 'think small first', as advocated by UK governments (DTI 2001) and the EU (Commission of the European Communities 2008), in their deliberations?

Three contributions to the literature on small business regulatory reform are proposed. First, reforms targeting micro companies are prompted by diverse risk concerns; they cannot be explained fully in terms of conventional market failure or equity rationales alone. Second, reforms explicitly targeting micro companies as beneficiaries might be better explained as a strategy for managing risks in addition to those that policymakers use explicitly as justification, for example, threats to government legitimacy and power. Third, reforms might be motivated more by such risks where the change is minimal, where robust research evidence to support reform is limited or non-existent, or where the issue is of low salience to the business owners targeted themselves. The data presented relate to a single UK regulation but the argument is intended to inform wider debates on motivations for public policy intended to support small businesses.

The paper is organised as follows. First, I review the literature on rationales for regulatory reform targeting small businesses and offer some criticisms of the conventional market failure and equity approaches, preparing the ground for an alternative. Next, I elaborate Haines' (2011) regulation risk framework, distinguishing three types of risk concern that motivate reform. These concerns encompass, but extend beyond, market failure and equity arguments in order to address the limitations of these two approaches. The following section describes the UK financial reporting regime to contextualise the specific Regulations that are the focus of the study. Methods of analysis and data sources are then discussed before presenting the findings in relation to the three types of risk concern elaborated in the Haines framework. I conclude by setting out the main contributions to the literature, and briefly consider the wider implications for the study and evaluation of small business policy.

Rationales for Regulatory Reform

Two rationales are customarily cited for public policies targeting small businesses – market failure and equity (Bannock and Peacock 1989; OECD 1999; Bennett 2014); both are relevant to the issue of regulatory reform. Mainstream economists conventionally view government intervention in the economy as motivated by market failure (Audretsch et al. 2007; Minniti 2008; Acs 2017), a concept grounded in the theory of perfect competition and the welfare theorems that link to optimum resource allocation. Market failure typically refers to instances of oligopoly/monopoly, negative externalities such as pollution, information asymmetry and the under-production of public goods (Bennett 2014; Vogel 2018). Information asymmetry, which is particularly relevant to the present study, is a well-established market failure argument for governments to impose legal obligations on companies to provide robust information about their financial position in order to enable stakeholders to make decisions to invest in, or trade with, the company. Each of these types of market failure is argued to distort price signals and lead to resource misallocation and economic inefficiencies (Hutton and Schneider 2008). In the market failure model, the role of government is restricted to 'fixing' markets to ensure resources are allocated efficiently with the consequence of enhancing public welfare (Mazzucato 2013). Facilitating market entry by small firms and enabling them to compete with larger businesses can be justified on market failure grounds where this leads to increased efficiency, greater product choice and lower prices for consumers.

Equity rationales address the size-related disadvantages small firms face accessing resources and markets. Policy aims to help small firms compete on a 'level playing field' with larger rivals (Bennett 2014). Such arguments reflect a policy commitment to 'think small first', to consider how government might support and promote small businesses (DTI 2001:1). Governments in both developed and developing economies have, in recent years, come to define the performance of their regulatory functions as a potential cause of harm because they impose compliance costs and burdens on businesses (Nijsen et al 2009). Such costs are argued to fall disproportionately on smaller firms (Bannock and Peacock 1989; Chittenden et al. 2002; Crain and Crain 2010; Schoonjans et al. 2011). Equity arguments usually encourage governments to deregulate by exempting small firms or reducing their legal obligations (Bradford 2004; European Commission 2011). Equity and market failure arguments overlap where reforms reducing small firms' regulatory burdens also generate public welfare benefits.

The major problem with both market failure and equity arguments for regulatory reform targeting small businesses as beneficiaries is that each encompasses only a single set of motivations. Market failure and equity arguments are unable to explain other motivations because they lack the conceptual vocabulary to do so; all policymaker concerns would have to be shoe-horned into the categories of market failure or equity. Yet governments legislate to pursue a variety of objectives, not only to tackle market failure or to treat small firms more equitably. Reform rationales might include policymaker or regulator self-interest, for example. Here, government is treated as a corporate agent pursuing political, ideological and moral policy agendas, while recognising that individuals and factions within the executive may take different, and sometimes competing, policy positions (Arshed et al. 2014).

Research on regulatory agencies suggests that they are as concerned with managing secondary risks - threats to their own reputations – as well as with the primary, operational, societal or public risks they were created to regulate (Power 2004; Rothstein 2006a). Political motivations for small business policy in its various forms are acknowledged in passing in the small business literature (Storey 1994; Curran and Storey 2002), but such insights have not been integrated fully into explanations of why governments reform regulation targeting small firms as beneficiaries. Taking the limitations of market failure and equity arguments and insights from the wider literature on regulators' management of risk together, I propose that a broader analytical framework incorporating policymaker concerns in addition to market failure and equity would be preferable to explain government motivations to reform. We now turn to presenting an alternative approach.

Analytical Framework: Reconceptualising Regulatory Reform as Risk Management

This section sets out an analytical framework, drawing heavily on Haines (2011; see also 2009a, 2009b, 2013, 2017), to investigate government motivations to undertake regulatory reform. The framework is intended to be applicable to all forms of business regulation. It is not restricted to reform targeting small firms as beneficiaries, although this is the primary empirical focus here. The framework provides a more comprehensive conceptual toolbox for researchers to study government rationales for regulatory reform. These rationales are irreducible to market failure or equity arguments alone. Such arguments lack the conceptual vocabulary to deal with other rationales for reform.

Haines conceptualises regulation risk as a complex of three interdependent risk concerns – actuarial, sociocultural and political – within a single, unitary framework. This classification overlaps with notions of primary/secondary and operational/ reputational risk but is broader. These risk concern types are analytical distinctions; in practice, particular reforms might combine several concerns. Defined this way, regulatory reform encompasses a broader array of risk, risk assessment and risk management concerns than discussions of reform rationales customarily consider. Reform offers a potential solution for each type of risk concern, although successful outcomes can never be guaranteed. Policymakers pursue multiple reform objectives simultaneously, each carrying a distinctive set of risks. Legislation intended to deal with one type of risk may aggravate another. By changing legal rights and obligations, reform inevitably redistributes exposure to risks, and the capacity to exploit new possibilities for action, between stakeholder groups (Sunstein 2005; Haines 2011).

Actuarial risk refers to a specific harm or threat, for example, to public health such as the ebola virus, to the economic system such as those arising from the near-collapse of the banking system during the financial crisis or to the environmental arising from the use of plastics; these examples capture the popular understanding of risk (Haines 2011). Financial reporting regulation is one aspect of corporate governance regimes intended to support market functioning. High-profile corporate scandals like Enron and WorldCom highlight the value of robust accounting and disclosure practices (Leuz and Wysocki 2016). Reform might address the problem of the burden of regulation by reducing small companies' statutory reporting obligations, while addressing the problem of information asymmetry by mandating companies to disclose financial data. The law seeks to balance the interests of limited liability accounts preparers in reduced legal burdens with the interests of accounts users in disclosure. Limited liability enables company owners (shareholders) to restrict personal financial risk, while disclosure reduces accounts users' risk when making business and credit decisions on the basis of information provided (Arruñada 2011).

Sociocultural risk refers to threats to collective identity and well-being (Haines 2011). This differs from actuarial risk in referring to people's subjective perceptions of risk independent of any actuarial harm.[1] Societies vary with regard to what they define as harms and what ought to be done about them (Douglas and Wildavsky 1982). Social groups such as businesses, trade unions, political parties, think tanks, professional bodies, trade and consumer associations, campaign and lobby groups, charities, churches, media organisations and other stakeholders all shape public perceptions, constructing 'risks' that demand a policy response (Hood et al. 2001). Stakeholder groups define different issues as risks partly because different interests are at stake and partly due to normative influences about how society should function. Governments placate stakeholders by implementing preferred policies and by addressing media risk amplification (Hood et al. 2001; House of Lords 2006; Burgess 2009). Business associations often report compliance as a burden, cost or constraint on member firms' activities (FSB 2012, 2014, 2017a; BCC 2012; IoD 2013; CBI 2015, 2016). Governments might therefore choose to address business owners' *perceptions* of a regulatory burden even in the absence of strong evidence that one exists.

Political risk refers to threats to government legitimacy and power arising from failure to manage actuarial and sociocultural risk (Haines 2011). Here the threat is to bodies claiming authority over the collective - not to the collective itself. Identification, selection and prioritisation of risks are inescapably normative and political choices (Baldwin and Black 2016). Policymakers may pursue objectives in addition to, or in place of, those explicitly set out in official documents or ministerial speeches; public justifications for legislative proposals might not indicate the full range of policy objectives. Policymakers construct 'risks' filtered through the prism of their policy agendas (Curran and Storey 2002), shaped in part by relations with stakeholders (Grabosky 1995). Government legitimacy and power depend, to a large degree, upon the capacity to manage two risks that are often in tension: to encourage the business risk-taking that generates the economic growth upon which prosperity depends; while, at the same time, reassuring anxious publics regarding the possible consequences of that risk-taking (Habermas 1976; Tierney 1999).

How government chooses to balance competing stakeholder demands will be influenced by the relative power of the various parties. Governments operate in a socially-structured environment populated by unequally-resourced corporate and individual agents possessing widely-varying capacities to influence policymaking processes and outcomes. To maintain legitimacy, governments often become preoccupied with particular risk concerns defined by important stakeholders (Power 2004; Rothstein et al. 2006b; Black 2010), rather than with the actuarial risks that purportedly provide the declared impulse for reform (Haines 2011). Political risk concerns often encourage governments to adopt presentational strategies intended to enhance reputation, by taking the credit for actual or claimed policy successes (Leong and Howlett 2017) and by avoiding blame for failure (Hood and Rothstein 2001; Hood 2011).

Regulation risk, in its distinct varieties as actuarial, sociocultural and political risk, is a necessary correlate of reform. The three types of risk concern generate different pressures on government. All three risk concerns are 'equal players' in driving reform (Haines 2013:39). Reform might be oriented towards the management of sociocultural and political risk as much as of actuarial risk. Where the consequences of reform are expected to be limited or difficult to gauge, or where stakeholders perceive an issue to be of low salience, reform may be motivated principally by sociocultural and political risk rather than by actuarial risk. We apply this analytical framework of risk concerns to the issue of micro company financial reporting reform, but first we set out, in brief, the legal landscape of corporate financial reporting.

The UK Financial Reporting Regime

Governments operate diverse risk regulation regimes in different domains, varying in how they set regulatory standards, gather information and enforce compliance (Hood et al. 2001; Baldwin and Black 2016). The financial reporting regime for micro and small companies might be characterised as ‘light touch’: government sets relatively undemanding statutory standards and does little to detect non-compliance or to punish infringement. The Companies Act 2006 obliges limited liability entities to prepare accounts giving a true and fair view of their financial position and to file a copy at Companies House, the UK agency responsible for storing and disseminating corporate information. However, Companies House is only a repository for corporate accounts; it does not validate the accuracy of the accounts filed. It is an offence under the 2006 Act to knowingly or recklessly provide false or misleading information to Companies House. But beyond checking to ensure documents have been completed and signed, Companies House undertakes no further scrutiny.

UK law, influenced by the EU, permits businesses of different sizes to file different types of accounts at Companies House (Financial Reporting Council 2015). Large companies must file full accounts providing a profit and loss account (statement of comprehensive income), summarising revenue and expenditure over the accounting period, and a detailed balance sheet (statement of financial position), summarising the value of assets, liabilities and equity on the last day of the accounting period for which the profit and loss account has been prepared. Medium-sized, small and micro companies are permitted to file accounts disclosing less detailed information.

EU Accounting Directive 2012/6/EU is ntended as a deregulatory measure: to reduce the burden of regulation on micro-entities by permitting them to prepare and publish simplified financial statements. The Directive permits Member States to define a category of micro-entities (including companies, qualifying partnerships and qualifying limited partnerships) and to exempt them from a general accounts publication requirement provided that balance sheet information is filed with a designated authority and transmitted to the business register so that a copy is obtainable upon application (European Commission 2012). The Directive defines micro-entities as not exceeding two of three size criteria (balance sheet £316,000, net turnover £632,000, and average employment of 10 or fewer). Implementation of the Directive is optional. Member States may implement the Directive in full, in part or not at all.

The UK government implemented the Directive as the Small Companies (Micro-Entities' Accounts) Regulations 2013 (SI 3008/2013), which came into force in December 2013. The Regulations refer only to micro companies - but not to other micro-entities (Financial Reporting Council 2015). Micro companies may now file a shorter, less detailed balance sheet than small, medium or large companies. They may publish only total current fixed assets, but not the elements of each, and there is no requirement to include a profit and loss account or a Director's Report. Accounts prepared in accordance with the Regulations are deemed to give a true and fair view of the company's financial position.[2] Take-up by micro companies is optional. They may choose the type of accounts they believe best suit their interests – micro, small or full (Financial Reporting Council 2015). An estimated 1.56 million micro-entities reportedly fell within the scope of the Regulations at the time of the Impact Assessment (BIS 2013a). In the financial year 2017-18, 971,000 companies filed micro-entity accounts (Companies House 2018). We turn next to the conduct of the study.

Methods and Data Sources

To investigate how government manages regulation risk, an analytical approach is adopted combining critical discourse analysis with the argumentation approach in policy analysis (Fairclough 2005, 2010; Fairclough and Fairclough 2011; Fairclough 2016). This approach acknowledges the potent influence of discourse on social events but situates it within a critical realist-informed conception of the extra-discursive, material realm (Fairclough 2005; Sims-Schouten et al. 2007; Elder-Vass 2011; Banta 2012). The social world is a stratified open system comprising distinct, though related, strata of emergent causal powers, events/actions and experience (Bhaskar 1978, 1979). Framed this way, discourse is conceptualised as a causal power capable of influencing agents' experience and of contributing to the production of social events. But discourse is treated as a causal power that interacts with other, non-discursive, powers such as social structure and personal embodiment to generate events (Fairclough et al. 2004; Elder-Vass 2012). Social structures include relations between government and variably-resourced and variably-motivated corporate and individual civil society agents, each with some capacity to influence public policy processes and outcomes through membership, voting, lobbying, financial donations and other forms of political action. Agents draw on discourses intentionally in order to act and to account for their actions while, at the same time, discourses supply cultural meanings that shape agents' beliefs and motivations unself-consciously (Porpora 2015).

Critical discourse analysis focuses on how power is exercised through the use of language and systematically connects instances of text and talk to wider social structures of power and inequality (Fairclough 2005). The approach examines how policy discourses constitute regulation and its effects as epistemic objects, encouraging specific ways of understanding while excluding others. Particular understandings support specific proposals for regulatory reform (Bridgeman and Barry 2002). Analysis allows researchers to map how agents use discourse to construct particular images of reality while also positioning those constructions within the material, extra-discursive realm that agents must negotiate (Sims-Schouten et al.

2007). Investigating regulatory reform discourses provides important insights into government attempts to manage actuarial, sociocultural and political risk and how these endeavours are influenced by relations with specific stakeholder groups.

Following Norman and Isabella Fairclough's (2011) adoption of the 'argumentative turn' in policy analysis, regulatory reform proposals, as a form of discourse, can be conceptualised as arguments connecting goals, means, circumstances, and explicit or implicit theories about means-goal linkages to conclusions that ground decision and action (Fairclough and Fairclough 2011; Fairclough 2016). The concepts of goals, means, circumstances and means-goal linkages provide the primary tools to interrogate the four principal documentary sources used to answer the research questions. Argumentation typically starts with a description of circumstances as a 'problem', one that highlights particular aspects of the situation. These problematized circumstances provide premises for arguments seeking to legitimise specific reforms (Fairclough 2013). Problematising the context of reform provides an external reason for government to act, whether or not policymakers actually internalise this reason (Fairclough and Fairclough 2011). We would therefore expect, at a minimum, that reform proposals make explicit their objectives, the circumstances that prompt action, and how those proposals will produce the outcomes sought.

Four primary documentary sources relevant to the Regulations are examined in depth: the UK government's discussion paper on small business financial reporting issued prior to the publication of the Micros Directive (BIS/FRC 2011); the UK government consultation on the proposal to implement the Directive (BIS 2013b); the UK government's response to the consultation (BIS 2013c); and the final Impact Assessment on the proposals for the

Regulations (BIS 2013a). Additional sources are referred to briefly to establish the public policy context that has framed UK regulatory reform discourses in recent years and to present an argument regarding the wider objectives of government beyond those espoused in the four primary documentary sources examined.

These four primary sources are analysed to extract data on the objectives underpinning the Regulations, the circumstances that encouraged policymakers to introduce them, the precise measures proposed and assumptions about how the Regulations will achieve their aims. Sources are not accepted at face value, however. Using secondary sources, the analysis seeks to uncover the real reasons underlying discursive practices, rather than simply describing those practices, by situating the Regulations in their economic, social and political context, and by exploring the research literature on UK government policy. This encourages researchers to pay attention not only to prior discursive constructions of regulatory reform and its effects on business, but also to reflect on the impact of the financial crisis and subsequent recession on micro companies and to examine the wider network of relations between government and powerful business stakeholders that influences policy processes and outcomes. Data are now presented on how the Regulations reflect government responses to each of the three types of risk concern.

Attending to Actuarial Risk: Prioritising Regulatory Burden Risk; Subordinating Information Asymmetry Risk

The four documents reviewed frame the Regulations in relation to two distinct actuarial risk concerns - regulatory burden and information asymmetry (defined as transparency loss in the documents) (BIS/FRC 2011; BIS 2013a, 2013b, 2013c). These concerns are not described explicitly as risks but they are clearly intended to refer to the potential harms that might arise for micro company accounts preparers and other stakeholders, notably accounts users relying on the information disclosed to support their own decision-making. Reducing regulatory burdens has been a longstanding public policy concern in the UK and internationally (OECD 1999; World Bank 2017), while the issue of corporate transparency has recently become prominent as government seeks to increase trust in UK companies and to tackle problems of tax evasion, money laundering and terrorist financing (BIS 2013e, 2013f).

All four sources prioritise regulatory burden risk over information asymmetry risk. Framing reporting requirements as a 'burden', rather than as a means of increasing corporate transparency, constitutes them as a particular epistemic object, to be understood in a particular way. The discussion paper published a year prior to the Micros Directive revealed policymakers' preferences by inviting views on "a new reporting regime that … is based on the *minimum* that is required to meet the needs of users" (BIS/FRC 2011:6, italics added). By the time the consultation document was published in early 2013, the government was clearly committed to a new reporting regime permitting more limited disclosure: "The UK strongly supports the Micros-Exemption … and the intention is to implement the Micros Directive as soon as possible" (BIS 2013b:10).

The Regulations are intended to exempt micro companies from the purported "unnecessarily onerous administrative burdens" of "comprehensive financial reporting requirements" (BIS 2013c:5) that are "disproportionate to their size" (BIS 2013a:4) for very small companies with "limited resources to comply" (BIS 2013b:5) with "burdensome and complex financial reporting procedures designed primarily for larger companies" (BIS 2013a:4). Moreover, the

Regulations are also considered “disproportionate to the value obtained from the production of the financial statements” (BIS 2013b:11). The Regulations are argued to enable “cost savings” (BIS/FRC 2011:7; BIS 2013b:12; BIS 2013c:7) that will contribute to the UK becoming “one of the best places in Europe to start, finance and grow a business” (BIS 2013b:10). The Impact Assessment suggests two other potential benefits. First, in future, “some of the simplest micro-entities [might] avoid the need for external accountancy/bookkeeping services because they are confident that they can present the now simplified information themselves” (BIS 2013a:5, text inserted to retain sense). A second anticipated benefit is that the Regulations might “encourage entrepreneurs to take that first step to establishing a new company” (BIS 2013a:4). The Regulations are therefore claimed to benefit both established micro companies and aspiring business owners.

By reducing disclosure standards, the Regulations subordinate concern with information asymmetry risk. The four sources recognise that micro company accounts might provide insufficient information “to protect the interests of third parties such as such as creditors, shareholders and tax authorities” (BIS 2013a:1) and, further, that requiring companies to “make accounts information publicly available enables third parties to understand the financial health of a company and helps them to decide whether or not to enter into business with that company” (BIS 2013d:11). But, policymakers still prefer to focus on purported regulatory burdens instead. The Regulations make it easier for micro companies to reduce the quality of public information, increasing the chances of concealment of poor performance and fraud. Such outcomes would undermine recent UK policy initiatives seeking to enhance corporate transparency and trust (BIS 2013e, BIS 2013f).

Transparency loss was reported as a concern by many stakeholders responding to the consultation. The Impact Assessment states that a majority of those making submissions "expressed concerns around the deeming of 'true and fair' to accounts prepared in accordance with the provisions in the Micros Directive…" (BIS 2013a:23), while others raised issues regarding the "reduction in the quality of publically available information for lenders, trade creditors, and other users" (BIS 2013a:23). Documents also recognise that lack of transparency might rebound on micro companies themselves, affecting "companies' credit scores and, therefore, their ability to access funding, credit from suppliers and trade credit insurance" (BIS/FRC 2011:18), a point also made in other research (Beyer et al. 2010; Kitching et al. 2015b).

Documents reviewed offer two reasons for subordinating concern with information asymmetry (transparency loss) to tackling the regulatory burden. First, the principal-agent problem is claimed to be less important in micro companies because "45% of micro-entities have only one shareholder" (BIS 2013a:4). There is often no division between ownership and management in micro companies; owners, it is assumed, do not therefore require protection. Second, banks are presumed to "have the power to request extensive financial information from companies so they do not necessarily rely on company financial statements" (BIS 2013a:8). Banks will therefore "still have access to the same information available now, which essentially acts to mitigate this risk" (BIS 2013a:8). Information asymmetry risk is therefore perceived to be minimal. Studies show, however, that large companies are much more likely to be able to demand additional financial information from companies than micro and small firms who may be forced to rely on less-than-adequate accounts filed at Companies House and other public sources of information (Kitching et al. 2013).

What is striking about the four documentary sources is that none of them problematise circumstances as in need of the Regulations or demonstrate in detail how reducing reporting obligations will benefit micro companies. Policymakers perceive no need to explain *why* the Regulations are needed; it is simply assumed they will benefit micro companies. No research is presented on micro, or small, company financial reporting to support the decision to introduce the Regulations. Indeed, data collected in one recent study suggests the conflicting finding that only 3 per cent of 121 micro companies surveyed, reported 'ease, simplicity, saving time' reasons as the primary motivation for filing small company abbreviated accounts (an option no longer available), suggesting that the administrative burden imposed by erstwhile reporting obligations was small (Kitching et al. 2011). Observers might therefore deduce that policymakers perceive the Regulations to be beneficial for micro companies *whatever* the circumstances.

In place of careful argument sensitive to the specificities of financial reporting, supported by detailed evidence, the government implicitly rely on the longstanding, deeply-entrenched, hegemonic policy discourse (Fairclough 2005) of 'regulation as a business burden' to support the decision to implement the Regulations. Wapshott and Mallett (2017) have suggested that UK governments since the 1960s have characterised small firms as over-burdened by regulation. This 'business burden' narrative intensified during the 1980s with policy documents constituting regulation as an epistemic object with a dominant property, being a burden. This discursive construction has powerful implications for how policymakers should deal with regulation - by lifting, cutting, reducing or lightening that burden. Policy document titles reflect these assumptions: burdens on business (DTI 1985); lifting the burden (Minister without Portfolio 1985); cutting red tape (DTI 1994); lightening the load (Better Regulation Executive 2010); reducing regulation (HM Government 2010); less is more (Better Regulation Task Force 2005); building business not barriers (Department of Employment 1986); better regulation (HM Government 1999; HM Treasury 2002); and releasing enterprise (DTI 1988). Commentators identify few substantive differences between Conservative and Labour governments since the 1980s (Dodds 2006).

However, there is very strong evidence that the Regulations were *not* intended to tackle the actuarial risk of regulatory burdens in the government's own Impact Assessment (BIS 2013a). This document provides a 'Best Estimate' of likely costs and benefits arising from the preferred option for implementing the Regulations. It suggests micro companies will incur a *net aggregate cost* of £1.43m (£0.95m for preparing abridged accounts and a further £0.48m for the exemption from the obligation to draw up notes to the accounts) (BIS 2013a:16-17).[3] The Impact Assessment accepts the point made by previous research that companies filing shorter accounts incur *higher* costs because full accounts must be prepared first in order to shorten them (BIS 2013a:13) but then, surprisingly, draws the perverse conclusion that the Regulations will provide "relatively limited overall cost savings because the proposals only consist of minor changes to reporting requirements" (BIS 2013a:7) and will only "introduce minor presentational changes to the reporting requirements" (BIS 2013a:11). The government's own estimates therefore undermine the principal rationale for the Regulations which is to reduce the burden.

Moreover, studies show that regulatory reform generates contradictory effects for micro and small firms (Edwards et al. 2004; Kitching 2006; Mallet et al. 2018). The effects of legislative change on individual companies are contingent upon how regulated entities and their stakeholders adapt to it (Kitching et al. 2015a, 2015b). For micro company preparers, *both* confidentiality *and* disclosure potentially serve their interests, while simultaneously exposing them to different types of harm (Kitching et al. 2011). Conversely, confidentiality limits the harm that competitors and others might do with the preparer's financial information. But limited information might also restrict access to resources and markets where suppliers and customers lack the confidence to trade with the accounts preparer. Micro companies will likely vary in their experience of changes in the reporting regime. Some commentators suggest there is insufficient evidence on the effects of small company financial reporting to develop soundly based policies (Singleton-Green 2015).

Summarising, the four primary documentary sources examined identify two distinct actuarial risks relevant to reforming the micro company reporting regime. By choosing to implement the Regulations, government has prioritised a concern with regulatory burden risk while subordinating information asymmetry risk. But, the government's highly equivocal case for reforming the micro company reporting regime, and the likely variable effects of the Regulations on different companies, undercut the public rationale proffered for reform. Crucially, the government's own Impact Assessment does *not* support the argument for reform. The question might be posed therefore whether policymakers were really motivated by the actuarial risk of regulatory burdens when deciding to implement the Regulations or whether other objectives were paramount.

Selecting Sociocultural Risks: Reassuring Business Owners?

This section and the next present data to support an alternative argument that the Regulations might be better explained as an instrument intended to manage sociocultural or political risk rather than the actuarial risk of the regulatory burden. This argument illustrates the value of using an analytical framework that incorporates a wider range of risk concerns than either the actuarial risk of managing regulatory burdens that provided the impulse to introduce the Regulations, or the actuarial risks related to conventional market failure and equity arguments for regulatory reform. Both this section and the next therefore draw on a wider evidence base than the four documentary sources examined previously.

Government policies often serve their purpose by being publicly announced to reassure selected stakeholders rather than because of their actual effects (Arshed et al. 2014; Atkinson 2016), which cannot be known in advance of their implementation in the open system of society where government interactions with other stakeholders generates consequences for business. Policymakers, in any case, often ignore research that does not support the introduction of their initiatives (Arshed et al. 2014; Wapshott and Mallett 2017). This evidence suggests policymakers are often more concerned with presenting policies that tap into particular stakeholder concerns than with their actual or anticipated effects.

UK governments have sought to legitimise regulatory reform by reassuring business owners that legislation is designed and enforced with their interests foremost in mind (e.g. HM Treasury 2017). Governments have portrayed themselves as the champion of small businesses (HM Government 2017) and sought to elicit their electoral support (May and McHugh 2002; Beresford 2015). There are more than four million working directors/proprietors in micro companies with fewer than 10 employees; this is a large electoral constituency (BEIS 2017: Table 1). The Regulations are intended to reassure a micro company owner audience concerned that regulation is burden. The volume and rate of legislative change, inspection and enforcement costs, and advice and consultancy fees have all been identified as distinct dimensions of the regulatory burden for small business owners (FSB 2014). The Regulations might therefore be understood as a form of government credit-seeking (Leong and Howlett 2017), or anticipatory blame avoidance. behaviour (Hood and Rothstein 2001).

Indeed, the entire UK regulatory policymaking architecture might be conceived of as an instrument to reassure businesses that government is focused on managing the regulatory burden on their behalf. The Small Business, Enterprise and Employment Act 2015 mandates government to publish a 'Business Impact Target' specifying the compliance costs to be saved in each parliamentary term. The government has announced a commitment to making business savings of£9bn in the current parliament (BEIS 2018b). Government departments and regulators are required to conduct Impact Assessments on significant regulatory proposals to estimate their likely costs and benefits. The 'Red Tape Challenge', 'Cutting Red Tape Review' and 'One-in, three-out' policies have sought to simplify, remove or reduce the stock of regulation. One-in-Three-out, introduced in 2017, and superseding 'One-in, one-out' and 'One-in, two-out', requires new legislative proposals to save three times their proposed costs through offsetting measures.

The Better Regulation Executive, a unit within the Department for Business, Energy and Industrial Strategy, is responsible for leading the regulatory reform agenda across government. The Regulatory Policy Committee scrutinises and validates Impact Assessments and can return them to their originating departments and regulators for further consideration if judged not 'fit for purpose' (Regulatory Policy Committee 2017). Post-implementation reviews of major legislation are mandatory within five years to monitor performance against target. All of these policies and organisations are intended, in part, to manage business stakeholders' perceptions, to persuade them that government is attending to regulatory burden risk.

Reassuring business stakeholders is a continuous challenge for government. Business associations, academic researchers and public bodies have all been critical of recent regulatory reform agendas. Critics have complained that Impact Assessments are often poor quality (FSB 2012) and used to justify, rather than challenge, decisions to regulate (Chittenden and Ambler 2015). Business Impact Targets have excluded some regulatory costs and have not ensured that the wider societal costs and benefits of regulation are considered adequately (National Audit Office 2016). Scrutiny of Impact Assessments is inconsistent (FSB 2014) and post-implementation reviews are rarely undertaken to ascertain the actual impact of reforms (House of Commons Committee of Public Accounts 2016; Regulatory Policy Committee 2017). Nilsson et al.'s (2008:352) contention that policymakers often choose policy tools to support their preferred policies – a practice they refer to as 'politically based evidence making' - seems apt.

It is possible, however, to question whether reassuring micro company owners was the primary purpose of the Regulations. Financial reporting law is an issue of low salience to micro and small business owners relative to other regulatory concerns: health and safety, employment, data protection and tax administration law are all more commonly reported as concerns (FSB2017b). Reform of the micro company reporting regime offers government a 'low-hanging fruit' policy option. It provides up-front benefits by enabling policymakers to present themselves in a positive light to an important stakeholder constituency, micro company owners, while very likely exposing themselves to very limited critical scrutiny later because of the issue's low salience and the difficulty of attributing specific business consequences unequivocally to particular reforms.

Summing up, it might be suggested that the primary purpose of the Regulations was neither to manage the micro company regulatory burden (actuarial risk) *nor* to reassure micro company owners' with specific regard to the financial reporting regime (sociocultural risk). It is possible that government were signalling a *general* concern with managing regulatory burdens on behalf of businesses rather than a *specific* focus on financial reporting. But this then raises the question of whether the rationale underpinning the Regulations was a concern with something other than the burden of micro company financial reporting, or micro company owners' perceptions of that burden. This leads us to consider the issue of political risk.

Protecting Against Political Risk: Thinking Small First or Supporting Large Companies?

Managing business owners' perceptions of regulatory burdens (sociocultural risk) is closely tied to the issue of political risk (Haines 2011). Failure to attend to the concerns of powerful stakeholders will likely translate before too long into problems of government legitimacy and power. This section reflects on the argument that government were 'thinking small first' when implementing the Regulations before offering a counter view that reform of the micro company reporting regime might be better explained as one small reform in a comprehensive policy programme intended to support a form of capitalism dominated by large companies (Dannreuther and Perren 2013a, 2013b). It should be emphasised that supporting large companies might only be a *means* by which governments might attempt to protect themselves against political risk, rather than an end in itself.

The Regulations were arguably motivated, in part, by the global financial crisis, and subsequent recession, although direct references to economic circumstances were conspicuously absent from the policy documents reviewed. In these years, government sought to support, and to be perceived as supporting, micro and small companies facing severe economic difficulties. In the 2008-12 period, during and immediately following the crisis, an annual average of 20,900 new company insolvencies (seasonally adjusted) were commenced in England and Wales, some 32% higher than the pre-crisis 2007 figure of just 15,865 (Insolvency Service 2017).[4] The vast majority of insolvencies are likely to have been micro companies because these comprise almost all of the business population (BEIS 2017). In response, government introduced a 3-year 'moratorium' on new UK regulation for micro businesses in April 2011, and later extended it from 2014.

Whether policymakers were 'thinking small first' when developing the Regulations, however, is debatable. Reform policies explicitly targeting micro companies as beneficiaries also legitimise broader deregulatory measures from which large companies, and the corporate elites who manage them, benefit. The reverence policymakers accord to the 'phantom construction' of the 'small firm' (Dannreuther and Perren 2013a; Atkinson 2016) provides them with a flexible, multi-purpose discursive device that can be deployed to justify a wide range of policies (Rainnie 1985; Wapshott and Mallett 2017), some with only a tangential connection to real small firms (Atkinson 2016). Dannreuther and Perren (2013a, 2013b) suggest that the use of the small firm construct provides a fictitious legitimising constituency of everyday actors, but a disorganised one, so there are few consequences if promises are not delivered, partly because the group is highly heterogeneous (Wapshott and Mallett 2017).

Regulatory reform might therefore be better explained, in part at least, in terms of government support for a particular regime of capital accumulation (Dannreuther and Perren 2013a). Governments in market economies, whatever their political affiliation, inevitably attach a high priority to business interests because they are the primary drivers of the economic growth upon which prosperity and public welfare depend (Habermas 1976; Crouch 2004). Governments are heavily dependent on large companies to provide goods and services, jobs (either as employment or as subcontracted self-employment), tax revenues and public services. Large enterprises (employing 250 or more people) contribute 49% of private sector turnover (excluding financial intermediation) and 47% of private sector employment (BEIS 2017).

For almost four decades UK governments have pursued 'neoliberal' policy programmes (Carstensen and Matthijs 2018). Mercille and Murphy (2018) conceive of neoliberalism as a political economic project whose aim is to enhance and extend corporate and elite power through market, non-market, and anti-market policies. Policies reducing regulatory control of businesses are a crucial component of neoliberal programmes (Harvey 2005; Crouch 2011; Kotz 2015). Non-market policies include: tax reforms to encourage global firms to 'regime shop' (Crouch 2004, 2011) and fiscal and monetary policies focused primarily on controlling inflation and maintaining economic stability rather than on stimulating aggregate demand.

Anti-market policies include supporting monopolies. To give one example, UK public policy has effectively guaranteed the profits of large companies delivering public services by limiting market competition and by effectively renouncing government powers to fine or exclude delinquent companies from future contracts, even in the event of catastrophic failure, as in rail, legal services and social security provision (Bowman et al. 2013; Froud et al. 2017). Such companies arguably believe they are 'too big to fail' (House of Commons Committee of Public Accounts 2018). Government dependence on large corporations has become so great therefore that such companies are arguably subject neither to the rules of the market economy nor of the democratic polity (Crouch 2016).

Corporate elites, particularly in finance, use state power to serve their own interests (Harvey 2005) a process Johal et al. (2014) refer to as sovereign state sponsorship of the finance sector. Government has played a central role in the financialisation of the British economy since the 1980s (Davis and Walsh 2016), increasing the wealth accruing to banks, and enabling corporate financial elites to extract a greater share of national wealth through high, profit- or share price-related remuneration packages, dividends, capital gains and rent (Sayer 2016). The interdependence of large banks and the state has become clear following the financial crisis and the subsequent bailouts and nationalisations (Cable 2010). The UK now, arguably, has a quasi-public sector banking system, where the state underwrites the debts of the large banks, leading one respected commentator to describe the financial system as "a ward of the state, rather than a part of the market economy" (Wolf 2014:9).

Pursuing regulatory reforms congenial to corporate elites, and the large companies they control, protects policymakers from political risk. Privileged access to ministers and civil servants enables elites to convey their concerns to the heart of government. Through professional lobbying (Crouch 2004) and the creation of positive 'trade narratives' (Bowman et al. 2017), elites are able to influence policymaker attitudes and agendas. Such political processes might be considered a form of large company regulatory capture, whereby corporate elites are able to exploit their power to secure state regulation that creates enclaves of privilege (Stigler 1971; Vogel 2018). It is plausible therefore to argue that policymakers 'think large first' when implementing regulatory reform, in so far as its primary purpose is to support forms of capitalism dominated by large companies while permitting policies to be presented as serving the interests of micro and small business owners.

Conclusions and implications

Regulatory reform policies reflect particular risk concerns. Using Haines' (2011) regulation risk framework, three types of risk have been found to provide distinct motivations to reform – actuarial, sociocultural and political. In practice, rationales to regulate or deregulate typically embrace all three types of risk. This analytical framework extends explanations of reform beyond market failure and equity and contextualises reform in terms of government relations with a range of variably-resourced and variably-motivated stakeholder groups. These include the micro company owners explicitly targeted as beneficiaries, but also encompass other stakeholders too such as the corporate elites who control the large companies that dominate the UK economy. To illustrate the value of the framework, I have investigated the arguments supporting one particular reform targeting micro companies - the Small Companies (Micro-Entities' Accounts) Regulations 2013 – drawing on four policy documents as the primary data sources. The study therefore demonstrates the potential value of document analysis in entrepreneurship and small business research.

The paper makes three main contributions to the literature on small business and regulation. First, reform policies targeting micro companies as beneficiaries are prompted by diverse risk concerns; they cannot be explained adequately in terms of the conventional policy goals of market failure or equity alone. The Haines framework provides researchers with a more comprehensive conceptual toolbox to explain why governments redesign micro companies' legal obligations than market failure and equity arguments can offer. Second, in certain circumstances, regulatory reform might be better explained as a strategy for managing political and sociocultural risk rather than as an approach for managing the actuarial risk of the regulatory burden that provides the public justification for the Regulations.

Third, particular reforms might be motivated more by political and sociocultural risk in particular circumstances, notably: where the legal change implemented is minimal and might be expected to have only minor influence on any actuarial risk; where robust research evidence to support the reform is limited or non-existent (and may even contradict it); or where the issue is of low salience to the purported beneficiaries of reform themselves. Given that; the Regulations made minimal changes to micro company reporting obligations; that the government's own Impact Assessment estimated that the Regulations would *increase*, rather than decrease, costs for micro companies; and that financial reporting regulation appears to be an issue of low salience to micro company owners, policymakers were arguably more interested in *protecting themselves* from threats to their legitimacy and power than in tackling genuine regulatory burdens (actuarial risk) or addressing micro company owners' concerns (sociocultural risk). There may be no real imperative to 'think small first' when targeting regulatory reform at micro and small businesses. Micro companies might not benefit at all from the Regulations or just as many might suffer a detriment as enjoy gains. Rather, the Regulations arguably reveal policymaker preferences to support corporate elites by legitimising, and thereby helping to reproduce, a large company-dominated form of capitalism in the UK. By implementing reforms acceptable to elites, government aims to avoid conflict with powerful organisations that may be able to frustrate attainment of wider public policy objectives, for example, jobs, innovation and growth.

Two principal implications for small business researchers follow from the analysis in relation to public policy targeting micro and small businesses as beneficiaries. First, researchers should explore the sociocultural and political risks that motivate government to introduce small firm regulatory reform and broader policy initiatives. Studies might investigate how policies intended to support established and aspiring business owners address risks to government legitimacy and power (political risk) and the concerns of policy publics, including, but not limited to business owners themselves (sociocultural risk), as well as tackling specific public harms (actuarial risk). Sociocultural and political risk might be more important drivers of public policy, including regulatory reform, than the actuarial risks that are their declared object. The range of risk concerns might help to explain why appeals to adopt evidence-based approaches to policymaking often fall on deaf ears. If governments believe regulatory reform or other policies are useful to manage political or sociocultural risk, they might stick with them even if there is little or no evidence they enable genuine actuarial risks to be managed better.

A second implication concerns the evaluation of small business regulatory reforms and policy initiatives. Researchers typically focus on governments' *publicly* declared objectives, when judging whether initiatives have been successful. But once we depart from a strictly instrumental view of policy as addressing a specific actuarial risk, for example, threats to business survival and growth, evaluations of policy success and failure become much more problematic. Policymakers' explicitly expressed objectives should not be ignored; after all, these aims will likely attract the most attention. Public rationales should, however, be interrogated closely using criteria relevant to assessing sociocultural and political risk rather than just actuarial risk alone. Policymaker pronouncements that regulatory reforms or other initiatives ostensibly targeting micro and small businesses impart an intention to 'think small first' should be investigated critically rather than assumed.

Notes

[1] Sociocultural risk might be confused with agenda-setting. The latter differs as it refers to the capacity to influence policy formulation and implementation rather than being a particular category of risk concern.

[2] The Regulations do not implement two provisions related to the recognition and presentation of prepayments and accruals (BIS 2013a:11)

[3] The Impact Assessment also reports a 'High' estimate of £2.14m costs and a 'Low' estimate of £0.72m (BIS 2013a:16-17). So, even the low estimate suggests the regulations will impose a net cost on micro companies rather than benefit them.

[4] The number of insolvencies reported in each year was: 21,072 (2008), 24,011 (2009), 19,796 (2010), 20,285 (2011) and 19,349 (2012).

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