

**strategic responses of growing firms to regulation over time:**

**a longitudinal and behavioural analysis of the formalisation process**

**Simon Down**



### the project

ESRC study of how small firms receive, understand and respond to regulation

### why?

we know lots about what entrepreneurs say/think, less about what they *do*

researching businesses over time needed to see how they adapt to change

### what we did

researched high growth small firms in the North East and East Midlands over 28 months

### outcomes

insights for small firms  
encouraging better regulation to support growth  
deepening the knowledge base



# the benefits of our approach

- grounded, holistic approach providing understanding of firms' day to day experience
- existing research is often 'snapshot' and lacks depth
  - all small firms are not the same
- multi-method, longitudinal
  - interviews with owner-managers, workers, policy-makers, regulatory bodies, VCs...
  - observations in firms
- three sweeps of fieldwork in each of 14 sample firms
  - allows understanding of how firms adapt and change over time and space
- guided by impact/policy agenda (steering group comprising key stakeholders; firm engagement events)

## sample includes high-growth firms

Sector	Firm	Approx size	Year founded	Location
Bio-Business	Bio 1 (bio-tech software development)	30	1989	North East
	Bio 2 (drug manufacture)	50	2008	
	Bio 3 (drug delivery technologies)	15	2002	East Mids
	Bio 4 (drug development)	52	2007	
Environmental Services	ES 1 (waste treatment )	20	2002	North East
	ES 2 (environmental testing service)	40	1999	
	ES 3 (pollution control )	10	1995	
	ES 4 (sustainable energy)	20	2007	East Mids
Security	S1 (vision technology)	32	1992	North East
	S2 (imaging technologies)	40	2003	
	S3 (clothing/armour protection)	40	1989	East Mids
Film & Media	FM 1 (digital communications)	10	2000	North East
	FM2 (design agency)	7	1990	East Mids
	FM3 (TV facilities company)	7	1998	



# general findings

- **yes there are burdens**
  - the usual suspects – employment; uneven enforcement
  - and some less well-known – displacement burdens
- **there's government regulation and “regulation”**
- **most regulations are experienced as everyday, routine and unproblematic**
- **regulation can generate growth**
  - but firms experience sectoral and context-specific barriers
  - entrepreneurial firms shape the policy and regulatory environments




# regulation and growth

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- **growth-oriented firms see sectorally-based regulation as market creating/shaping**
    - heating/solar equipment supplier firm relies on FIT regulations
    - autoclaving firm relies on landfill tax price setting
    - high-tech security firm relies on airport security regulations



**“it’s a double-edged sword in that we benefit from regulation but then regulation can also make sure we incur a cost”**

**“...the regulations create a market for us but they also create hurdles...so you don’t get wide boys coming in...”  
(CFO, airport security)**





# uneven enforcement/advice from inspectorates and consultants

- **individual auditors**
  - “some UKAS auditors are firm but fair, which is exactly what you want; some are pedantic” (Quality Manager, environmental testing service)
- **professional services**
  - “it was a consultancy which threw me into disarray...you end up doubting yourself even though you have thoroughly checked something out” (H&S Manager, environmental testing service)

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- How can we further reduce unevenness? Self/co-regulation...?
  - Do consultants thrive on ambiguity?
  - Beware: more clarity = a smaller professional services market

# but creating and sustaining markets not easy

- **clash of cultures and timescales**
  - **bio-tech software development and the NHS**
    - “my main beef is clarity – and I mean not so much on the regulatory side – but the NHS and commissioning which is extremely opaque”
  - **waste treatment and local authorities**
    - “landfill sites have got 25 year contracts with local authorities”
- **vacillation over policy generates uncertainty**
  - especially in nascent sectors with emergent rules
  - “the speed and clarity of decisions damages businesses” (sustainable energy – Feed-in-Tariff policy)

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- **firms often struggle to fully exploit regulatory-inspired opportunities**
  - **Is there a lack of sectoral and scientific understanding?**
  - **Is a more coherent, sectorally-based industrial policy required?**



## **inspectorate/regulation regimes can support growth**

- **not just in a negative sense by cutting and ‘releasing’ firms**
- **but in a positive sense**
  - **by increasing clarity and consistency**
  - **by creating/sustaining new markets**
  - **by understanding sectoral realities and joining up policies**



# dynamics of informality/informality

- paper will show how firms use and respond to regulation as they apply formal policies and procedures in pursuit of growth
- previous research focused on employment relationships/regulation, not on wider managerial practices associated with growth
- formality-informality span – a matter of degree (Marlow et al. 2009; Ram et al. 2001; Mallett and Wapshott 2012)
  - formality is not a switch that owner-manager's throw, transforming their businesses
  - both formal and informal relational interactions occur in different degrees within firms contemporaneously



# contributions

1. **longitudinal/qualitative design enables contemporaneous behaviour, not simply perceptions/self-reports**
2. **real time view of managerial behaviours/practices that lead to growth is shown as organisational complexity develops/unravels**
  - **responses to regulation useful proxy for understanding the oscillating interplay between formal and informal relational practices**
  - **broader set of management practices examined than employment relationship**



### **3. because more managerial practices considered, both intra- and inter-organisational aspects of firm growth are examined**

- **‘dilution of power’ (Marlow *et al.*, 2009) that comes with re-negotiation of authority around regulation**
- **growth brings new demands from public/private regulatory entities:**
  - **government inspectorates**
  - **sectoral association’s codes of practice**
  - **venture capital management and financial controls**
  - **purchaser quality controls**
  - **tendering requirements**
  - **joint venture policies and procedures**



## conclusions – empirical and theoretical considerations

- empirically operationalises
  - informality-formality span, including a broader range of managerial practices
  - temporally extensive take on behaviour not perceptions
- paper will further erode confidence in firm level analysis by demonstrating how firms are fully and inherently embedded in broader spatial networks (Herod *et al.*, 2007; Dicken and Malmberg, 2001)