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The Entrepreneurial Capital of SMEs and Business Compliance in New Zealand: A Study of the Relationship

A thesis presented in partial fulfilment
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Robyn Leigh de Bruin-Judge

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Abstract

Despite New Zealand receiving the number one ranking for ease of doing business in a major international comparative survey of compliance requirements, SME owners continue to rate compliance as a significant concern. This research project set out to investigate why this was so.

The qualitative research undertaken for this thesis involved case study interviews with six SME owners. A resource-based approach was taken, looking at the resources SME owners needed to address the compliance task, and how they sourced and applied these. The scope of the study extended beyond the confines of the workplace to encompass the impact of compliance on the personal lives of SME owners and their families. Firkin's model of entrepreneurial capital was applied and extended. Accordingly, the study encompassed an examination of economic, human, social, cultural and personal capital. An original concept, temporal capital, was developed to address the application of 'potentially productive time' as a resource.

The findings are applied to a discussion of the Quality Regulation Review currently underway in New Zealand. It is recommended that SME issues could be more comprehensively addressed by incorporating screens within the Business Cost Calculator that estimate the relative psychic and opportunity costs associated with proposed regulations. A gender analysis of the compliance task was also undertaken. This revealed that the impact of compliance measures may be disproportionately borne by those whose business and personal lives are intertwined, primarily women. The invisibility of these workers has contributed to their needs being inadequately addressed by traditional processes of consultation and data analysis.

The thesis concludes that it is not the regulatory regime alone that determines ease of doing business. It is the *match* between the requirements of the regime and the compliance-related entrepreneurial capital accessible to those subject to it. Recommendations relate therefore, to improving both the institutional capital of the regulator and the compliance-related entrepreneurial capital accessible to the SME.

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¹ EMA

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CHAPTER ONE

INTRODUCTION

Introduction

New Zealand recently ranked number one out of 155 countries, for ‘ease of doing business’ in the international business compliance survey, ‘Doing Business’ (World Bank, 2006). The results of ‘Doing Business’ have been used in political debate to rebut opposition to further regulatory intervention and to suggest the government’s approach to compliance is creating a supportive business environment (Chapple, 2004). This is despite a series of New Zealand based studies (Business NZ/KPMG, 2004; Chamber of Commerce, 2004; SBAG, 2006) which suggest compliance remains a significant constraint and cost to business. The publication of these apparently contradictory reports on the ease of business compliance was the stimulus for this thesis. I wanted to investigate why New Zealand businesses found the compliance task difficult despite being subject to a comparatively light compliance regime. While the ‘Doing Business’ survey measures official compliance standards and costs, my own experience as a business owner suggests ‘ease of doing business’ is not solely a function of these formal requirements. Rather, the complexity of the task appears to be a function of the *match* between the demands of the compliance regime and the compliance-related entrepreneurial capital accessible to the business unit to address those demands. My thesis investigates this contention in relation to small and medium enterprises (SMEs).

I was most interested in the impact of compliance requirements on SMEs because they comprise 96.3 percent of the New Zealand business community. As co-preneur² of a business founded with my husband in 1993, I had gained insights into the compliance task that did not appear to be documented in the compliance-related research or media reports I had read. Most previous research on compliance has focused on compliance costs and the time taken to complete tasks. Costs have tended to be tightly defined and restricted to the formal work environment. However, I was conscious that many compliance costs, or dimensions of the compliance burden, are not recorded on the balance sheet or indeed incurred by businesses or paid workers. As a consequence I wanted to investigate how other family-owned SMEs approached the compliance task and whether they experienced similar impacts on their business and personal lives. The challenge was not to merely report on the findings, but to apply this examination of lived experience to compliance - related policy content and processes. Therefore, I have applied the findings of my research to a critical review of the proposals under the Review of Regulatory Frameworks³ currently underway in New Zealand. For this aspect of the thesis I have drawn heavily on skills I developed as a policy analyst and strategic planner for local government prior to entering business.

Drawing on my experience as an SME owner, 'compliance' has been conceptualised within this research project as a task or process involving multiple steps. Activities and costs are examined in relation to the steps involved in the compliance process rather than in relation to specific regulatory requirements such as the Health and Safety in Employment Act 2000. I adopted a resource-based approach, analysing what resources would be needed by participants as they moved through the compliance cycle. To facilitate this process I employed Firkin's (2001b) model of entrepreneurial capital in conjunction with principles from three methodological approaches (phenomenology, reflexivity and feminism). Entrepreneurial capital refers to the elements of economic, human, social, cultural and personal capital that have value in the business context (Firkin, 2001b). The model resonated with my own business experience, allowing me to envisage how it might accommodate the seamless flows of capital between home and

2 Spouse sharing ownership of, commitment to and responsibility for management of the business (Smith., 2000).

3 A ministerial review with the "overarching objective of committing to a regulatory framework that promotes economic growth, business confidence, globally competitive firms and social well-being" (Ministry of Economic Development (MED), 2006f, p.1). Has since been renamed the Quality Regulation Review.

business environments that are so characteristic of SME management. My analysis examines which forms of capital are used by SME owners to address the compliance task and how this varies across businesses with different characteristics and owners. Patterns of capital use and conversion have been noted, along with identification of a further resource I have named ‘Temporal Capital.’

Although business compliance has traditionally been regarded as a gender-neutral issue this premise is challenged on the basis of the project findings. The widespread conversion or substitution of social capital to compensate for deficits of other capital forms within SMEs, introduces gender issues not necessarily relevant to larger businesses. As the mother of two children this is a fact with which I am well acquainted. Our first child was three months old when our business began trading, and even now I continue to combine full-time parenting with responsibility for business compliance. I have found many aspects of the compliance task are compatible with a more flexible mode of working and, in particular, multi-tasking. However, legislation conceptualised for application within the formal, traditional working context can result in the compliance burden falling more heavily on those performing the compliance role outside that context. I have identified examples of this dynamic evident in the lives of my research participants and canvassed the implications of this for policy development and the consultative processes.

Recommendations based on this thesis fall into two distinct categories. The first set identifies potential improvements to Firkin’s model while the second outlines policy-related recommendations in relation to the practical findings.

In summary, the specific goals of this research are:

1. to describe the compliance task of New Zealand SMEs;
2. to determine, through case study interviews, why SME owners might find the task difficult;
3. to analyse the material gathered using Patrick Firkin’s model of entrepreneurial capital;

4. to consider the implications of these findings for compliance-related policy development and programme delivery.

Structure of the Thesis

This introductory chapter outlines the rationale behind the research and identifies the key questions the research is intended to address. Chapter Two involves a literature review which examines the key building blocks of the study - the SME and the compliance task - providing an overview of these constructs, and traversing the background material essential for interpreting the remainder of the thesis.

Chapter Three is dedicated to exploring Firkin's model of entrepreneurial capital which is the major theoretical framework employed in this study. The model is presented and each constituent form of capital is then outlined utilising compliance-related examples where possible. Conceptual weaknesses in relation to some of the concepts are identified and addressed.

Chapter Four identifies and justifies the choice of methodologies employed in this research. The purpose of this section is to illustrate how I have applied phenomenological, reflexive and feminist principles in this project and this is followed by an examination of the method used. The reasons why the semi-structured case study interview method was chosen are articulated, and the processes employed in the selection and interviewing of participants are detailed. Finally ethical issues associated with the project are canvassed.

A thematic approach has been taken to the presentation of the research findings. Chapter Five explains how Firkin's model was applied to the case study material. It goes on to identify what forms of entrepreneurial capital were applied to the compliance task, when these were used and how they were sourced and applied. This chapter provides a number of new insights. The first involves the identification of a new resource that I have chosen to label 'temporal capital'. Secondly, descriptors I attached to the major forms of capital are detailed, along with justification for these. Finally, patterns of capital conversions observed are categorised and described.

Chapter Six examines the interface between the entrepreneurial capital of the SME and the institutional capital of the regulator. Ways in which institutions can compound or address deficits in the compliance-related capital of the SME owner are identified. The lived experience of SME owners is applied to assess the likely impact of proposed changes associated with the Review of Regulatory Frameworks.

Finally, Chapter Seven is used to highlight gender issues identified during my examination of the compliance task. The discussion examines how the overlap between business and domestic relationships that characterise family businesses, influence assignment and performance of the compliance task. This chapter explores the proposition that those performing the compliance task in conjunction with primary responsibility for dependents incur greater compliance costs than those performing the compliance task according to traditional business norms.

Recommendations and Conclusions are identified in Chapter Eight and are separated into those related to the use of Firkin's theoretical framework, and those targeted specifically at public agencies responsible for development and implementation of compliance policy.

A list of abbreviations and a glossary are included to assist the reader. The questionnaire templates and coding sheet that I developed and used in this research are attached as appendices.

CHAPTER TWO

THE BUILDING BLOCKS OF THE STUDY

Introduction

A clear understanding of both the small and medium enterprise (SME) and the compliance task, in the New Zealand context, is essential for interpreting the findings of this research. The first section of the literature review is therefore devoted to describing these constructs in more detail. This is done by examining the small and medium enterprise, its characteristics, its life-cycle and its place in the New Zealand economy. An in-depth description of ‘the compliance task’ follows, including an analysis of the skills required to address it, and an overview of significant compliance-related research to date. Chapter Three constitutes part two of the literature review and focuses on the theoretical frameworks chosen for this study.

The New Zealand Small And Medium Enterprise

What are Small and Medium Enterprises (SMEs)?

A number of criteria have been used to define the SME. These include the number of employees, turnover, ownership structure, management style and location of markets. In some cases a combination of measures is used.

Quantitative Descriptions

At a quantitative level size is one of the primary measures used to define the SME. However, there is considerable variation in how different nations and studies define an SME. It is important that politicians and policy makers take account of such differences when making comparisons, or determining the appropriateness of policy initiatives developed elsewhere.

Statistics New Zealand defines the SME as an enterprise employing between zero and 19 people (MED⁴, 2006g, p.5). It should be noted that use of the term ‘people,’ rather than ‘full-time equivalent (FTE)’ reflects a recent decision to replace the term FTE with ‘employee count’ (EC). The EC is the head-count of all wage and salary earners, both full-time and part-time. The new term excludes working proprietors if they are not paid a wage or salary by their company, for example, unpaid work by shareholding spouses. The New Zealand Institute of Chartered Accountants require a business to have two or more of the following characteristics to be considered ‘large’: a turnover of \$5 million or more, total assets of \$2.5 million or 20 or more employees. Anything below this level is regarded as an SME (Cameron and Massey, 1999, p.6).

In contrast, definitions used by the European Commission and in the United Kingdom describe a ‘small’ business as having fewer than 50 employees, and a ‘medium’ business as having fewer than 250 employees. Australia defines small businesses as having between five and 19 employees while a medium Australian enterprise can have between 20 and 200 staff (MED, 2006g, p.35).

The zero to 19 people (employee count) benchmark established by Statistics New Zealand has been adopted for this thesis. This was considered the most appropriate number because it ensures consistency between statistical and research terminology and categorisation, facilitating application of the findings. In addition, 96.3 percent of New Zealand businesses fall into this category, with 86.5 percent employing fewer than five people. Thus, the research is applicable to a large proportion of the New Zealand business community despite the 0-19 benchmark appearing restrictive by international standards.

⁴ Ministry of Economic Development

Qualitative Features of the SME

SMEs also exhibit a number of qualitative differences to larger businesses. The Small Business Advisory Group (SBAG) listed typical characteristics of New Zealand SMEs in its 2004 Annual Report. Despite its length, this list is included in its entirety (Table 1) because of the central significance of these features to the research being undertaken.

Individual SMEs will vary in the extent to which each characteristic applies. However, as a group these characteristics are typical. Determining whether the structural and cultural features of an SME impact on performance of the compliance task, and if so, how this might be appropriately addressed by public administrators, is the focus of this research.

The Family Business

This thesis focuses on a particular form of SME: the family business. Official statistics are not collected on exactly how many New Zealand businesses are family-owned however, it is estimated that family-based enterprises account for between 65 and 80 percent of all businesses world-wide (Floren, 1998, in Glassop, Hagel & Waddell, 2006, p.11).

According to Litz, “there is no universally accepted definition of family business” (1995, in Cameron & Massey, 1999, p.154). This was confirmed by Firkin, Dupuis and de Bruin (2003) in their discussion of familial entrepreneurship. They adopted a broad definition of the family business as one “owned and/or managed by one or more family members” (Heck et al, in Firkin et al, 2003, p. 92). I have adopted their definition for this project because it has been used in previous studies of entrepreneurial capital in New Zealand businesses (Firkin, 2001a). Use of the same definition promotes greater consistency and comparability across research projects.

Table 1 Typical Features of New Zealand SMEs (SBAG, 2004, p.3).

Typical Features of New Zealand SMEs

- have begun spontaneously from just one idea or new product and may continue to be an incubator for innovative ideas and products;
- have an owner/manager with little formal business experience and few generic business skills;
- have begun because the founder/owner has particular technical expertise;
- comprise the founder/owner and up to four employees, (often with an unpaid family member providing administrative support);
- have the owner as the only person in a managerial position, and no board or formal governance arrangements;
- operate on trust, rather than on systems and contracts;
- have a tight, family-like culture where the values of the owner are strongly shared by the staff, and workplace practices are flexible and suited to individual employees' needs;
- focus on a small range of products or services sold mainly on the local domestic market;
- have all personal assets, including the owner's home, committed as security for the business;
- acknowledge the owner's time as one of the scarcest and most valuable assets;
- operate flexibly on a 'reasonable person' basis, rather than on an informed and strict observance of regulations basis;
- have a vision and outlook bounded by the horizons, skills and experience of the founder/owner, the pressures of day to day management and tight resource constraints (i.e. tactical rather than strategic approach);
- endeavour to operate independently of other businesses and institutions and to favour self-help over seeking advice;
- not aware of the regulations to which it is expected to adhere;
- in provincial areas they are a key part of the social fabric of the community;
- close within three years of its inception, not infrequently in circumstances that could have been prevented.

The SME Business Life-cycle

The business life-cycle is a concept employed by business analysts to describe the process whereby a business transitions from start-up to maturity and/or into decline. During this process the character and quantity of resources available to the SME varies, as does the relative demand for those resources. The business life-cycle provides a useful framework for examining the compliance-related experiences of SME owners and has been applied here in developing the method and interpreting the findings of this research.

Business Growth and Development Patterns

The key piece of New Zealand literature concerning business life-cycles outlines a research project co-ordinated by the New Zealand Centre for Small and Medium Enterprise Research (NZCSMER). A research team headed by Claire Massey sought, among other things, to determine how well conventional models of the business life-cycle apply to New Zealand SMEs. Massey et al. (2004) developed a synthesis of a number of models which depict the five main stages of initiation, development, growth, maturity and decline, through which a business is expected to transition and against which they compared their own findings.

Massey et al. interviewed 50 randomly chosen businesses which employed fewer than 50 people. The participants were asked to identify key milestones in the life of their business. The most common responses related to the employment of staff, broad economic trends at a particular time and events that impacted significantly on their industry, for example, changes in regulations that affected the market dramatically. Massey et al. identified three life-cycle patterns evident in their sample: those that fitted the classic model described earlier, those that produced further growth and those which produced little growth at any time, either intentionally or unintentionally.

Major changes in legislation or compliance requirements are traditionally highlighted in both the popular media and institutional publicity campaigns. As such, businesses are alerted to these changes and the need to take action. Less obvious are the compliance-related information needs and practical measures required as the firm moves through

different stages in the business life-cycle. Little work appears to have been done on the relationship between business life-cycle patterns and compliance. Instead business life-cycle research has focused on factors that influence the speed and direction of transitions within the cycle, or the characteristics of enterprises at certain points. The participants in my own study were purposely drawn from businesses at different points of the business life-cycle. The intention was to provide detailed insight into the compliance issues and resources required at the different stages.

Survival Rates and Structural Changes

No reliable figures on the survivability of New Zealand SMEs are currently available. Survival rates have traditionally been calculated by Statistics New Zealand, using data on entries and exits from the business frame (Statistics New Zealand, 2006). Use of this method has led to the perception that “four out of five new firms fail within the first five years” (Berryman in Cameron & Massey, 1999). Statistics New Zealand (2006) are in the process of adopting a longitudinal business frame which should bring New Zealand into line with international data collection (e.g. Eurostat), and offer far more accurate and comprehensive information on business survivability rates as the new approach distinguishes between actual enterprise births and deaths and ‘administrative churn’, that is, changes in registration due to changes in such factors as ownership, mergers and restructuring.

Regardless of what method is used and whether business failure itself is as common as first thought, what is apparent is that changes in business ownership or structure are extremely common. The degree of ‘administrative churn’ in the SME sector means that although many businesses are actually continuing to operate, they are doing so in a different form or with different owners. Therefore, there is a significant turnover of operators who must familiarise themselves with the compliance issues related to the business, and access the resources required to address them.

The Broader Significance of the SME to the New Zealand Economy

As a whole the SME sector accounted for 29.7 percent of total employment as at February 2005. Many of these jobs exist in very small companies with 86.5 percent of New Zealand businesses employing fewer than five people. In fact 63.2 percent employ no people at all. In addition to formally employed, paid staff a further 0.7 percent of the labour force is recorded as being an ‘unpaid relative assisting in a family business’ (MED, 2006c, p.6). The SME sector produced 39 percent of the deflated value-added output⁵ from the New Zealand economy in 2004 (MED, 2006g, p.13).

Having established an understanding of the nature of SMEs, and their significance to the New Zealand economy, it is now appropriate to examine the second aspect of the research in more detail - the compliance task.

The Compliance Task

Compliance as a Process

Compliance is frequently referred to as an ‘act’. Such a portrayal misrepresents the process involved, and leads to research and support programmes that focus on one or two points in the process, rather than on the whole cycle. I have chosen to depict the compliance process as a cycle, comprising the major questions faced by the SME owner with respect to regulatory requirements, in order to emphasise the sequential and ongoing nature of the task. The cycle is illustrated in Figure 1.

⁵ A measure of the contribution to total output by enterprises in the economy. Calculated as a gross output minus intermediate consumption. Serves as a proxy measure for Gross Domestic Product (MED, 2006g).

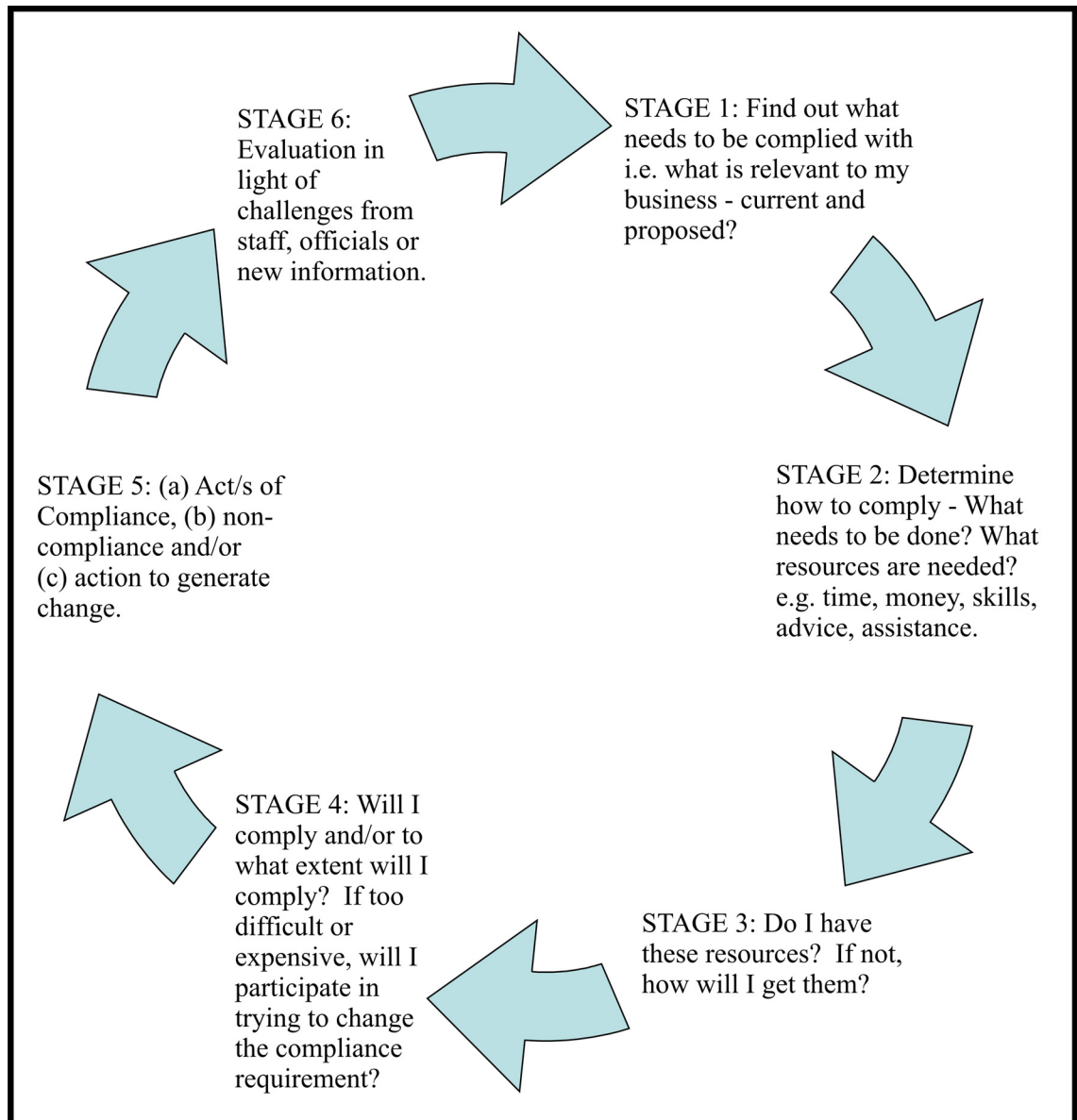


Figure 1 The Compliance Cycle

The term ‘compliance task’, is used in this thesis to refer to the complete set of activities depicted in the compliance cycle (Figure 1).

The Compliance Skill Set

An analysis of this process from a human resource perspective reveals that specific skills are needed to engage effectively in the compliance process illustrated above. I have drawn on my own experience as an SME owner to identify the skills specific to each stage (Table 2).

Table 2 Human Resource Analysis of the Compliance Task

STAGE OF COMPLIANCE PROCESS	SKILLS REQUIRED
Stage 1: Determining what needs to be complied with.	<ul style="list-style-type: none"> • Environmental Scanning Skills • Investigative Skills - including ability to identify and read relevant publications/sources of information • Ability to liaise with government departments, local authorities • Sifting skills to determine relevance.
Stage 2: Determining how to comply, i.e. what needs to be done, what resources are needed?	<ul style="list-style-type: none"> • Interpretative Skills • System Design Skills • At least Entry Level Legal Skills • Information Management Skills • Networking Skills
Stage 3: Determining whether the resources are available to the business.	<ul style="list-style-type: none"> • Financial/Budgeting ability • Human resource skills • Time Management • Knowledge of sources of assistance and ability to access these, e.g. computer skills to access internet support • Networking skills to access skills/ideas of others • Ability to transfer skills
Stage 4: Cost/Benefit Analysis of compliance.	<ul style="list-style-type: none"> • Moral/Ethical Development • Risk Management • Ability to calculate trade-offs/ opportunity costs of scarce resources • Innovation - to use scarce resources to achieve tasks effectively
Stage 5A: Act of Compliance.	<ul style="list-style-type: none"> • Specific ability to actually do, or commission others to do, what is asked by the legislation/regulation, e.g. write a policy, consult in good faith, effectively resolve conflict, physically install barriers etc., and/or • Financial capital to pay others for addressing the compliance task.
Stage 5B: Act of non-compliance	<ul style="list-style-type: none"> • Risk Management - legal, financial and psychological.

Stage 5C: Action to negotiate/ lobby for change	<ul style="list-style-type: none"> • Knowledge of the regulations/case law and ability to negotiate with enforcement agencies in relation to the manner in which it is implemented. • Knowledge of the government or local government structure and political processes • Oral and Written communication skills • Networking Skills • Time management
Stage 6: Evaluation of compliance/non-compliance decision and implementation in light of consequences. Monitoring of this to assess whether change of stance is desirable.	<ul style="list-style-type: none"> • Information Management - data collection and processing • Analytical skills • Risk management skills • Change management skills, e.g. negotiation, change implementation.

It is likely that many SME owners would not initially possess the full range of skills needed to perform the compliance task. In the event that they did, it is probable these skills would be used more productively in other areas of the business. The role of the SME owner is therefore to identify, source and co-ordinate the resources or skills necessary to achieve the compliance task, while minimising negative impacts on the primary income-generating function of the business. The processes involved in performing this role have been the major focus of my research. This process- oriented approach distinguishes my research from most other studies of business compliance I have read which, by contrast, tend to be content-oriented, that is, focused on the absolute standards or impacts of specific regulatory demands.

Overview of Compliance-related Research

Despite such differences in conceptualising the compliance task useful material can be drawn from existing compliance-related studies. Most such studies document the direct time and costs involved in addressing formal regulatory requirements with some serving a benchmarking function, allowing comparisons to be made across nations and over time. The key findings of these projects are outlined in the following section. I have identified methodological strengths and weaknesses that affect the application of these

studies to my investigation, and have highlighted lessons drawn from each project that have influenced the design of my research.

The most significant comparative international survey of business compliance requirements is the annual ‘Doing Business’ Survey, co-ordinated by the World Bank. It ranks economies from one to 155 on ten business related topic areas. Standard scenarios are utilised to allow for comparisons, replication and valid benchmarking across countries. New Zealand ranks extremely well, taking out the overall number one ranking for ‘ease of doing business’ (World Bank, 2006).

While the survey provides international comparison of *official* regulatory requirements such rankings do not necessarily correlate with ease of performing the compliance task. Many of the scenarios employed do not reflect the structure of New Zealand SMEs. For example, the ‘paying taxes’ scenario involves a business with 60 employees including four managers, eight assistants and 48 workers. The company described in the business start-up scenario has up to 50 employees one month after start-up. Therefore, the time estimates for compliance will reflect the use of specialist labour and advice.

Additionally, the manner in which questions are asked in the ‘Doing Business’ survey can obscure other significant factors that determine the ease of an activity in real terms. For example, in New Zealand’s response summary, the maximum duration of term contracts is described as having no time limit. While New Zealand’s restrictions on contractual work may appear comparatively light, many SME owners do not effectively benefit from this because the procedural complexity and associated legal liability involved in managing longer term contracts is extremely high. An illustration of this complexity is offered by *Bryson v Three Foot Six Ltd* in which Mr. Bryson’s status as a contractor or employee was the matter of dispute. The Employment Institutions Information Centre (EIIC) notes that:

“Through the employment institutions and appeal courts he has changed status four times - first being an independent contractor in the Employment Relations Authority⁶, then an employee in the Employment Court⁷, back to an independent

⁶ *Bryson v Three Foot Six Ltd* unreported, P Stapp, 7 January 2003, WA 1/03.

⁷ *Bryson v Three Foot Six Ltd* [2003] 1 ERNZ 581

*contractor in the Court of Appeal*⁸, and finally following the Supreme Court's decision⁹, once more an employee" (EIIC, 2005, p.12).

This case implies that legislation relating to long-term contracts is ambiguous and that failure to interpret it accurately could incur significant economic cost. Such legislative ambiguity can therefore negate the value of apparently 'light' regulation by deterring SME owners from using it, ultimately offering no commercial advantage over a heavier requirement.

Locally based surveys complement international data, providing greater detail on the time, cost and difficulty involved in meeting specific regulatory requirements. The annual survey conducted by Business New Zealand in conjunction with KPMG, defines compliance costs as "both tangible and intangible" including non-monetary costs, such as "time spent dealing with paperwork as well as stress and anxiety" (Business NZ/KPMG, 2004, p.26). In addition to assessing costs, the survey monitors changes in the perception of the compliance burden, and the degree of helpfulness experienced when dealing with central and local government agencies. The survey is web-based, and in 2004 involved 949 respondents drawn from the database of Business NZ members¹⁰. The report claims results are sufficiently representative to be indicative of the economy as a whole (BusinessNZ/KPMG, 2004). Key results of the BusinessNZ/KPMG survey are summarised in Table 3 and highlight the differences between large and small businesses.

While the commentary on this study drew particular attention to the psychic costs of compliance, the survey itself did not ask any questions specifically concerning these costs or experiences, nor did it seek to rate or quantify these in any tangible way. Many of the 232 responses to the open-ended question regarding ideas for compliance cost reduction, revealed the frustration and stress experienced by the respondents. These provided a snapshot of the 'lived experience' of a large number of business-people in relation to the compliance tasks faced by their enterprises. Many of the comments made

⁸ *Three Foot Six Ltd v Bryson* unreported, McGrath, William Young and O'Regan JJ, 12 November 2004, CA 246/03.

⁹ *Bryson v Three Foot Six Ltd* unreported, Elias CJ, Gault, Keith, Blanchard and Tipping JJ, 16 June 2005, SC CIV 24/2004

¹⁰ EMA-Northern and Central divisions, Canterbury Employers' Chambers of Commerce, and Otago-Southland Employers' Association.

by the survey respondents correspond with the concerns or comments made by the participants in this research project suggesting that, although only six interviews have been conducted, the concerns raised are consistent with the broader business population.

Table 3 Key Results of the Business/KPMG Survey (Business NZ/KPMG, 2004).

<p>On an FTE basis, enterprises with between zero to five employees had compliance costs that were 5.8 times higher than enterprises with 100 or more employees.</p> <p>Compliance costs associated with taxation were the highest area of concern. These were a significantly higher priority for smaller businesses (0-19 FTE). This was followed by employment related concerns (health and safety in employment, employment relations, ACC and holidays), which were of higher priority for larger (20 plus FTE) businesses.</p> <p>Larger enterprises tended to report more contact with government departments, with the exception of the IRD which received enquiries from enterprises across the full size range.</p> <p>Larger enterprises reported finding government departments more helpful than smaller enterprises did. In particular the six to nine FTE group rated the helpfulness of government departments poorly.</p>
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The Combined Chamber of Commerce ‘Red Tape’ survey (2003) was also web-based and involved 800 business owners, general managers and/or key decision makers who were members of the Auckland Chamber of Commerce. Of the businesses that participated, 39 percent employed between one and five people while a further 35 percent employed between six and 20 staff. The high concentration of SMEs makes the study particularly relevant to this research.

The project examined which compliance tasks were undertaken by the owner and which were undertaken by staff. Unfortunately, the potential role of unpaid assistance was completely overlooked by those who constructed the survey. However, it is clear that staff are more likely to be employed to assist with payroll and non-payroll taxation issues than with human resource requirements. In the vast majority of small businesses (one to five staff), owners performed the human resource task independently (91 percent). While 32 percent of those employing between six and twenty staff had

assistance, this appeared to be mainly in the form of staff to *administer* human resource requirements rather than external *advisors*. This tendency of owners to deal with human resource issues themselves may be one of the reasons why procedural errors are so common. Large companies are required to comply with the same legislation, yet they employ and have access to legal and human resource specialists, and are often not solely and personally liable for breaches or fines.

Measuring the Tax Compliance Costs of Small and Medium-Sized Businesses - A Benchmark Survey (Colmar Brunton, 2005), was commissioned by the Inland Revenue Department (IRD), and represents a model that could potentially be employed by other compliance bodies. The primary purpose of their study was to estimate the tax compliance costs of SMEs, and in doing so establish a benchmark against which the potential or actual impact of compliance changes could be measured. The IRD envisage the survey being used to pre-test the impact of proposed initiatives in an experimental manner, to monitor tax compliance costs over the business life cycle and to provide more accurate information for Business Compliance Cost Statements required in the policy development process.

The sample population included small and medium businesses and self-employed individuals with substantial income from business activities, selected using information from the IRD database. The IRD wanted to determine whether the taxation-related costs incurred by businesses were solely compliance-related. Consequently questions were asked regarding anticipated use of certain procedures if New Zealand was hypothetically made tax free. For example, 84 percent of those using computerised accounting software confirmed they would continue to use the software. The services of an external tax accountant would continue to be used by 44 percent, while 45 percent indicated they would no longer utilise this service. A further nine percent were unsure. This helped indicate to the IRD the extent to which tax-related compliance procedures were also management tools. The benefits accruing to management as a byproduct of addressing these compliance requirements could be conceptualised as a 'credit', ameliorating some of the compliance 'costs' associated with meeting the IRD's standards. This principle applies to the broader range of activities performed as part of the compliance task, and has been addressed in my study, by including questions on potential benefits in the interview schedule.

In the IRD research, psychological costs of taxation compliance were examined in two ways: firstly the stress of taxation compliance *exclusive* of finding the money to pay, and secondly the stress incurred *inclusive* of finding the money to pay. This allowed cash flow factors related to taxation to be isolated. It also represented a departure from previous definitions of compliance (BusinessNZ/KPMG, 2004; Chamber of Commerce, 2003) which have excluded issues such as finding the money, focusing instead, on the administrative time and costs involved in calculating and paying the taxation. In this respect the IRD study is more consistent with the holistic approach adopted in this project.

Other compliance-related studies provide insight into more qualitative issues. *The Impact of Business Compliance: Perceptions of New Zealand Firms* (Massey, 2003) was commissioned by the Ministry of Economic Development, in response to the recommendations of the Ministerial Panel on Compliance Costs.¹¹ Overall there were two key objectives: first, to gain an understanding of the perceptions of New Zealand managers of the consequences of compliance; and secondly, to develop a methodology for assessing compliance perceptions. The project involved four focus groups and a telephone survey of 490 businesses. The sampling frame was constructed to allow an emphasis on small and micro enterprises. The study had an intentional bias toward firms involved in exporting. Other selection criteria included firm stage, industry sector and the firm's growth intentions.

Respondents noted the extent to which compliance distracts or diverts management time as the major indirect impact of compliance demands (57.8 percent). Other indirect impacts of compliance identified by respondents related to potentially ambiguous legislation (36.3 percent); legislation having the potential to draw the firm into legal (36.5 percent) or consultancy expenses (36.6 percent), or generate conflict with regulatory agency staff (24.7 percent); and dampening enthusiasm for innovation (36.1 percent). This focus on 'indirect' impacts of compliance is significantly different from many other studies which tend to focus only on direct (monetary/time) costs and ignore other impacts (opportunity costs). My own research focuses strongly on the indirect costs of compliance. However, it extends the scope of analysis beyond the business unit,

¹¹ The Ministerial Panel on Business Compliance Costs was an eleven-member panel established in 2000 to consult with business on compliance issues. The panel submitted 162 recommendations to government.

to encompass the social impact of compliance-related entrepreneurial and institutional capital deficits.

An initial objective, to provide information on “the types of strategies that firms put in place to manage their compliance commitment and ameliorate any associated costs” (2003, p.2), was dropped at an early stage of Massey’s study. This was because pilot work indicated respondents found it “difficult to discuss the strategies that they put in place to ‘manage’ their compliance commitments” (Massey, 2003, p.38). Massey suggested the reason for this was the manner in which compliance and strategy were conceptualised by respondents. Strategies for managing compliance tend to be more reactive than those for managing other areas of the business. As such, SME owners may have been unaware of the strategies they have employed. My research overcomes this issue by examining the lived experience of participants, identifying patterns or strategies in their compliance-related behaviour from the source material.

In addition to these research findings, the compliance concerns of SMEs are documented in the formal reports of government projects and associated working groups, and more informally in the business and popular press. All support a similar conclusion: New Zealand SMEs find compliance a demanding and often complex task.

Other Sources of Information on SME Compliance Issues

The Small Business Advisory Group (SBAG)

The Small Business Advisory Group was established in 2003 to improve the ease with which Ministers and Government Departments could access the views of the small business sector. The first annual report of the SBAG made reference to the Government’s vision for New Zealand SMEs as “well-run, innovative and world-class businesses” (SBAG, 2004, p.5). The SBAG described the characteristics of well-run businesses, three of which relate particularly to the compliance function. These include the need to:

- protect staff as a critical asset through good employment and health and safety practices;

- have management, human resources and financial systems that support day to day management; and
- understand their legal obligations, and have in place systems to ensure that they comply.

The 2006 report of the SBAG identifies seven broad areas they consider need serious attention if the government is to realise its vision. Almost all have strong links to compliance in one form or another including the business environment, relationship to Australia, developing ‘helpful’ government, access to and facilitation of skills and training, the regulatory environment and improving local government regulation and service. Despite improved representation in the policy making process many SME owners remain skeptical that sufficient political will and bureaucratic competence exist to achieve real reductions in compliance costs (Peart, 2006; SBAG, 2006). This is observable in the SBAG’s comments to the Minister of Small Business:

“we have some evidence that you positively considered our recommendations ...but have done little to transform that response into tangible outcomes for business” (SBAG, 2006, p.2).

It could be argued that these views reflect a sense of relative political powerlessness, ultimately contributing to the psychological compliance burden on the SME sector.

The Media and Business Compliance

Finally an examination of the popular press provides evidence that despite the reported simplicity of the New Zealand compliance regime both large and small businesses are regularly failing to meet the standards required. No fewer than ninety articles appearing in New Zealand’s largest daily newspaper,¹² between January 2005 and October 2006 relate to compliance issues. The majority of these outline proposed or actual changes to legislation, concerns that affect the business sector or detail the prosecution of individual businesses that have failed to comply adequately. Non-compliance occurs for a variety of reasons, all of which can be traced to a deficiency in some form of entrepreneurial capital. These articles provide additional evidence that the compliance

¹² The New Zealand Herald

task is not simple, and the failure of businesses to perform it adequately is of ongoing interest to a broad audience.

Conclusion

It has been established that for the purposes of this study an SME is defined as an independently owned and managed family business employing between zero to 19 people. SMEs account for over 96 percent of New Zealand businesses and as such justify research interest. The components of the compliance task and the skills required to perform these have been identified. A range of studies commissioned by a variety of agencies all conclude that business compliance is a significant issue despite outstanding rankings for ease of doing business in comparative international studies. This is supported by anecdotal evidence from the popular press. Thus, the context for this study has been established. The next section of the review focuses on the theoretical frameworks used in my research.

CHAPTER THREE

THEORETICAL FRAMEWORKS

Introduction

The major theoretical framework employed in this research is a model of entrepreneurial capital developed by Patrick Firkin (2001b). The rationale for this is explained below, followed by presentation of the model and an explanation of each of the constituent forms of capital, namely economic capital, human capital, social capital, cultural capital and personal capital.

Choice of Analytical Framework

The rationale supporting the choice of Firkin's Model of Entrepreneurial Capital is four-fold. First, Firkin's model is based on a well-documented theoretical foundation which is discussed in some detail in this section. Secondly, the model has proven useful in a context similar to that in this research project. Firkin developed the model for use in analysing case studies of New Zealand entrepreneurs, conducted as part of the Labour Market Dynamics research project¹³ (Firkin, 2001b). Thirdly, Firkin envisaged that the model would be applied to a range of issues in the field of entrepreneurial research. He described the potential to compare and contrast cases analysed in this fashion and to

¹³ The Labour Market Dynamics Research Programme (LMDRP) is a long-standing programme that has examined issues concerned with: labour markets and sustainable urban communities; non-standard work; and pathways to sustainable employment for younger workers. The LMDRP has been funded by the Foundation for Research Science and Technology over the last decade.

examine an “entrepreneur’s possession, acquisition and exercise of capital in relation to particular factors...” (2001b, p. 23). In this case, the application of capital is studied in relation to a component of the entrepreneurial task (i.e. compliance) rather than to the entrepreneurial role as a whole. Finally, the model has proven to be relatively easy to apply to the material gathered and is concordant with my own compliance-related experiences. This suggests the model accommodates reality. In particular the model accommodates uncertainty through the application of the notion of constrained entrepreneurship; the dynamic nature of capital use in businesses by acknowledging the convertibility of types of capital; and the existence of certain capital resources in different forms by placing them at multiple levels (micro through to macro) in the model. This contrasts with other better known models such as the classical image of rational economic man operating in an environment characterised by perfect information and competition, which persist despite employing clearly deficient conceptions of economic reality. I consider the realism offered by Firkin’s model is ethically superior if policy recommendations affecting the lives of real SME owners are to be drawn from the research.

Firkin’s model (Figure 2) refers to six major forms of capital: economic capital, social capital, cultural capital, human capital, personal capital and entrepreneurial capital. A description of each form of capital and a discussion of the strengths and weaknesses of these concepts is presented in the following sections. However, prior to examining these concepts, it is useful to define two other notions Firkin considers important. These are constrained entrepreneurship and convertibility.

de Bruin and Dupuis argued that “all entrepreneurship occurs within constraints: of social processes including institutional restraints at the macro level, and of cognitive limitations at the micro level of the individual” (2003, p. 25). These constraints set the context for accessing and exercising the forms of capital identified in Firkin’s model and, as such, influence the way in which they are used to overcome barriers or obstacles. The notion of constrained entrepreneurship is particularly relevant to compliance tasks because of a range of factors, which includes, among other things, the fact that compliance regimes are non-negotiable, imposed by organisations outside the firm, have set timeframes, do not often take account of firm size, stage or resources and do not directly generate income despite carrying substantial costs for non-compliance.

In addition to this, the entrepreneur's skill set and personality are often ill-matched to those required for the compliance task. In fact, these constraints are the primary factors driving the conversion of one form of capital into another in an attempt to address the compliance task appropriately.

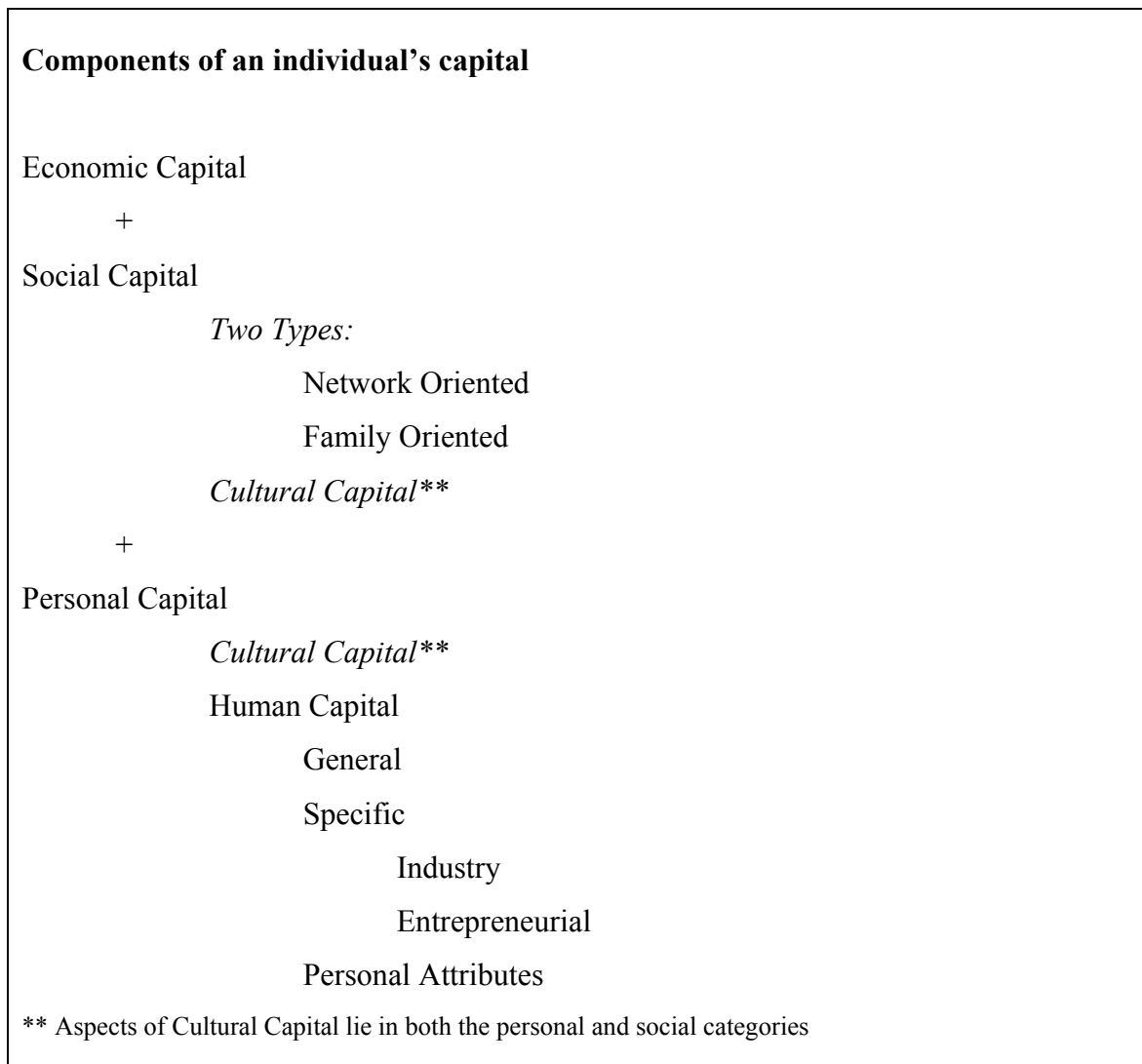


Figure 2 Firkin's Model of Entrepreneurial Capital (Firkin, 2001b, p.14).

Convertibility, a concept first described by Bourdieu (1986) refers to the process of transforming one form of capital to another. He notes that conversion or transformation of capital forms requires effort, involving investment of both labour and time. Bourdieu argues that economic capital is at the root of all types of capital, however other forms of capital "produce their most specific effects only to the extent that they conceal (not

necessarily from their possessors) the fact that economic capital is at their root” (1986, p.252). For example, a spouse may undertake compliance work for an SME on an unpaid basis. In my experience the presence of altruistic motives tends to result in observers labelling the compliance activity ‘helping’, obscuring the economic nature of the activity undertaken by the spouse. The economic impact of such social capital between spouses may therefore be concealed and officially unrecorded, yet according to Bourdieu it would play a significant economic role. Based on Bourdieu’s conceptualisation of the nature and dynamic of capital I have specifically noted the capital conversions evident in the participant transcripts. This has enabled patterns of capital use and conversion to be identified, where these exist, in relation to the compliance function.

Forms of Capital

In this section the primary qualities of each form of capital are examined. Within each section key issues relating to the use or credibility of the concepts are raised.

Economic Capital

Economic capital is the most straight-forward form of capital and normally constitutes cash or assets that can be turned into cash quickly, such as current debtors. Economic capital is critical to compliance. It enables businesses to employ administration staff, to purchase equipment that meets specified safety standards, to train staff, to print labels, implement inspection regimes or protect and defend the intellectual property inherent in new and innovative products. In addition to this, the working capital to pay other staff the required wages and leave is essential. SME owners are faced with accessing the economic capital for these things; or making a choice between breaking the law, abandoning, or delaying the projects concerned.

Human Capital

‘Human capital’ is a term that first appeared in work by Schultz in 1961 (Davenport, 1999). Since then a raft of definitions have been proposed but “most agree human capital comprises skill, experience and knowledge” (Davenport, 1999, p.19). Firkin (2003) adopts Becker’s model which identifies both general and specific human capital

forms. General human capital describes an individual's formal education and previous work experience while specific human capital relates to both industry-specific and entrepreneur-specific talents.

Firkin (2003b) notes that there is wide variation in how human capital dimensions have been operationalised. Bruderl, Preisendorfer and Ziegler (1992) have taken Becker's concepts and operationalised them. The current study has utilised these constructs in the questionnaire construction to investigate the human capital dimension. Specifically Bruderl et al. (1992) identify years of schooling and work experience as an indication of general human capital. They use correlations observed in earnings studies as justification for this. To assess specific human capital they recommend determining prior self-employment; leadership experience, such as having managed employees; and parental self-employment, based on research (Young, 1971; Carroll & Mosakowski, 1987; Bates, 1990a; Laband & Lentz, 1985; in Bruderl et al., 1992) demonstrating children pick up entrepreneurial skills by virtue of exposure to business activities in their everyday environment.

Yet there is not necessarily a correlation between the existence of human capital and its impact on compliance-related entrepreneurial behaviour. This is evident in case study interviews conducted by the New Zealand Centre for SME Research (Lewis et al., 2005), described in some detail in the next section. Their research examined the link between the capability of SME owners and assistance seeking behaviour. Among those with high levels of human capital, Lewis et al. found that "half said that their personal capability meant they did not need to seek assistance, whilst the other half reported that it meant they sought out more assistance" (2005, p.17). Other factors are clearly involved in the decision whether or not to seek assistance. These may include the entrepreneur's anticipation of the added value this assistance will provide, and the relative opportunity costs involved in seeking assistance versus not seeking it. These factors vary depending on the total capital mix accessible to the SME.

Bruderl et al. (1992) recognised the limitations of examining the human capital of the founder/s in isolation. Specifically, they suggested examining whether there is a positive correlation between the founder's human capital and social networking

resources and whether social capital can compensate for a lack of human capital. These questions have been addressed by some of the social capital research discussed below.

Social Capital

The following examination of social capital is extensive compared with the other forms of capital discussed. In part this is because social capital is present in two forms within Firkin's model (network-oriented and family-oriented). Additionally, the current research project incorporates macro level social capital associated with institutions, creating the need to examine this. Finally, there is more academic debate surrounding the conceptual credibility of social capital, compared with the other forms of capital.

Social Capital in Firkin's Model: Network and Family Oriented Forms

Bourdieu defined social capital as:

“the aggregate of the actual or potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition- in other words, to membership of a group” (1986, p.248).

Firkin adopted this definition and went on to utilise a distinction between network-oriented and family-oriented forms of social capital. Network-oriented social capital refers to benefits embedded within networks outside the immediate family such as those attached to relationships with friends, business colleagues or professional associates. Bourdieu noted that clubs in particular are “deliberately organised in order to concentrate social capital” (1986, p.249). He claimed such concentration of social capital produces a multiplier effect on the individual's social capital, producing profits for group members. Family-oriented social capital refers to benefits accruing from relationships within the immediate family and is based on Bourdieu's view of the family as an ‘institutionalised relationship’ affording privileged access to its resources by family members.

Two research projects are outlined below to illustrate how these concepts of social capital have been applied to the study of SMEs.

The Role of Network-oriented Social Capital in Accessing Entrepreneurial Resources: An Example

Uzzi (1999) details an interesting study of how embedded and arms-length ties impact on the likelihood of a firm obtaining economic capital from a middle market bank, and the effect that different types of embeddedness have on the cost of that capital to the firm. Uzzi defines arms-length ties as those that can function without the need for the parties to know each other well. Consequently contact between these ties can be minimal and sporadic. By contrast socially embedded ties are those where “commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social, non commercial attachments to govern business dealings” (Uzzi, 1999, p.482).

Uzzi used data gathered as part of the National Survey of Small Business Finances in the United States. The final sample size was approximately 2300 businesses, of which almost 90 percent were owner-managed. The study found neither the duration of relationship nor the number of banking services the business used affected the probability of obtaining credit. Instead the effect of relationships appeared to take effect after the firm was regarded as credit worthy enough to obtain a loan. Those businesses with a mix of ties used arms-length ties to obtain information on market innovations and availability of different loan products, and accordingly obtained greater leverage with embedded ties in their existing bank resulting in a reduction in the cost of capital. This differs from standard negotiations in that the bank gains the confidence and motivation to reduce the cost of capital because of the private knowledge voluntarily shared over the course of the embedded relationship; information such as the state of relationships between family or business partners, ambitions and proprietary information that had not yet been publicly released. The conclusion that there is not a straight forward link between greater embeddedness of network ties and more effective use of social capital in the entrepreneurial context is supported by other studies (Hite, 2005) and will be explored further under the heading cultural capital in this chapter.

The Role of Family-Oriented Social Capital in Addressing the Compliance Task: An Example

Doing the Books: Social Capital between Spouses in Business Owning Families (2001a) by Patrick Firkin is a New Zealand based piece of work that illustrates family-oriented

social capital in relation to the compliance task. This paper applies concepts developed by Bourdieu (1986) on social capital to co-preneurship, that is, where husband or wife (or couples in a similar relationship) “work in, share ownership of, commitment to, and responsibility for their businesses” (Smith, in Firkin, 2001a, p.3). Firkin analysed interviews with 21 couples who owned businesses. None of the businesses employed more than 12 people; most had fewer than five employees and 60 percent were managed in some way from home. Every enterprise clearly had a principal, that is, someone who played the major role in the business and had the primary responsibility for it.

Firkin found that principals tended to be the primary beneficiaries of the flow of social capital. He noted that the flow of social capital in other networks tended to be based on principles of reciprocity, whereas within more intimate relationships, altruistic motives appeared to play a much more significant role. Despite this, he noted that the utilisation of social capital did appear to be negotiated rather than simply appropriated. The roles concerned could be performed formally, as an employee or partner in the business, or informally, as a role with no legal standing or recognition. According to Firkin, this can result in the conversion of social capital being heavily concealed within a business.

As with network-oriented ties more social capital was not always a positive thing. Firkin (2001a) identified a number of cases in which the wife’s ability to handle all of the family-related responsibilities enabled the husband to indulge an overemphasis on business responsibilities. A number of men in his study initially failed to recognise the opportunity cost (time with their children) they were paying. When they finally did, the loss was often irretrievable. Many of Firkin’s examples demonstrate the application of social capital between spouses in relation to compliance tasks and illustrate the critical importance of this to the business success.

Social Capital at the Macro Level

There is some debate about whether social capital should be regarded as a phenomenon evident at both the micro (individual) level and the macro (societal) level as argued by theorists such as Coleman (in Firkin, 2001a) and Putman (in Firkin, 2001a), or whether it should be applied only at the micro level. Davidson utilises critiques by Lin and Portes & Mooney (in Davidson, 2005) to argue that it should apply only at the micro

level. Indeed, in relation to his model of entrepreneurial capital, Firkin has adopted this individually-oriented approach to social capital.

In contrast to Firkin's approach, I have incorporated an analysis of macro level social capital into my study of the relationship between entrepreneurial capital and business compliance. Justification for this stems from the fact that institutions play a key role in the compliance process, being responsible for developing and enforcing compliance regimes. In a number of cases these institutions are also charged with assisting businesses in their quest to comply. Furthermore, in a public policy context the relative merit of theoretical perspectives are significant, but equally important are the stances articulated in the documents of public institutions, as these often form the framework within which future policy proposals are evaluated. The literature outlined below identifies the theoretical frameworks adopted by significant public institutions in relation to social capital and examines how these have been applied. While these institutions acknowledge the importance of social capital at the micro level, macro-level social capital is also clearly regarded as a valid and appropriate construct by these bodies.

The World Bank has produced a guide to the measurement of social capital. In it they describe the social capital of a society as "the institutions, relationships, attitudes and values that govern interactions among people and contribute to economic and social development" (Grootaert & van Bastelaer, 2002, p.17). The World Bank utilises Uphoff's conceptualisation of social capital. This incorporates structural capital, that is, "relatively objective, and externally observable social structures such as networks, associations and institutions and the rules and procedures they embody" (Grootaert & van Bastelaer, 2002, p.3), and cognitive social capital, or "more subjective and intangible elements such as generally accepted attitudes, norms or behavior, shared values, reciprocity and trust" (ibid. p.3). These forms can exist separately or in tandem.

The report identifies three levels of observation: micro, meso and macro. At the micro level horizontal networks of individuals and households can be observed. In my research project this is where social capital between spouses and family friends is located. At the meso level horizontal and vertical relationships can be observed. This dynamic is evident in the roles played by groups such as Chamber of Commerce or the

HER Business Networks¹⁴. Study of social capital at these levels is consistent with Firkin's model. Finally at the macro level, social capital can be identified in the wider institutional and political environment. This represents a departure from Firkin's model and is more reflective of a new institutional approach, such as that associated with North (2005). It involves consideration of "formalised relations and structures of macro-institutions, such as the political regime or the legal and judicial systems" (Spellerberg, 2001, p.11). Thus the approach encompasses issues related to government departments, prevalent attitudes to both business and compliance and relative political power in the policy making process. However, the relative dominance of macro (as argued in institutional theory) verses meso or micro social capital in contributing to effective business compliance remains an open question in this research.

Woolcock and Narayon (in Grootaert & van Bastelaer, 2002) identify four categories of social capital: communitarian, networks, institutional and synergy. The synergy approach provides the greatest analytical value for this project because it acknowledges the interdependence of economic actors in the pursuit of improvements. Woolcock and Narayon comment on the role of relationships between government and civil society. This serves as a reminder that government regulations alone do not create compliance. These structural institutions also rely on a certain level of social capital existing within businesses and society in order for these laws to be addressed seriously. This interdependence is evident in the findings presented in Chapter Five and the implications of this are explored in greater depth in Chapter Six.

The Social Capital Project has been significantly funded by the Foundation for Research, Science and Technology with the objective of developing a framework for understanding social capital in the New Zealand context. In the introduction to the third set of published papers, Robinson (2002) makes it clear that social capital is viewed in different ways by different contributors. However, it is obvious social capital at the macro level is considered a valid phenomenon for research and consideration: "the capital is owned by the community, it is shared and does not belong to individuals" (Robinson, 2002, p.6). Robinson goes on to argue that social capital is a resource that can be built up through supportive relationships, though these need not be friendships; and that this capital can be drawn upon in the future. He contends that it can also be

¹⁴ Formally known as the Women in Self Employment (WISE) network.

depleted through a lack of reciprocity, removal of opportunities or localities to interact, or through the growth of distrust or uncertainty.

Statistics New Zealand (Spellerberg, 2001) has developed a framework for the measurement and subsequent monitoring of social capital stocks in New Zealand. The framework identifies potential statistical measures of factors believed to contribute to an environment that enhances social capital development and use. The framework is based on work by leading social capital theorist, James Coleman, and as such considers both horizontal and vertical relationships between individuals and groups. The Social Capital Framework is comprised of four major building blocks: Behaviours; Attitudes and Values; Population Groups and Organisations. The measures particularly relevant to compliance-related social capital stocks are set out in Table 4. These measures are operationalised further in the Statistics New Zealand report (Spellerberg, 2001), and if monitored, would serve as one way of determining whether social capital at the macro level was likely to be more or less supportive of those performing the compliance task.

The report also addresses Māori concepts of social capital, highlighting the interplay between cultural perspectives and determining appropriate social capital indicators. Cultural differences in perceptions of social capital should also be borne in mind when analysing responses of participants from different cultural backgrounds and when recommendations regarding social or entrepreneurial capital development are considered.

Thus there is sufficient support for consideration of social capital at the macro level, despite the reservations of some theorists. Additionally there is an established set of measures and constructs to guide the process of examining social capital at all levels. The study discussed below is an example of research that offers insights into social capital at multiple levels, much as the current research project is designed to do.

Table 4 Measures of Social Capital Stocks Considered Particularly Relevant to the Compliance Function (adapted from Spellerberg, 2001, p.21-25).

FRAMEWORK CATEGORY	COMPLIANCE RELATED MEASURE
Behaviour	Participation in Voluntary Organisations Participation in Informal Networks Wider interest in society Compliance with rules and norms that support the formation and maintenance of social capital
Attitudes	Attitudes toward others Trust and Reciprocity Attitude to Government and other societal institutions
Population Groups	Demographic Family Culture Employment Communication
Organisations	Type Size Links between organisations

Multi-Level Social Capital Research

Family, Friends and Government Agencies: A Report on SMEs and the Support Infrastructure (Lewis, Ashby, Coetzer, Harris and Massey, 2005) describes observations of assistance seeking behaviour by SME owners at micro, meso and macro levels. The combination of resources released by social capital at these different levels, and the entrepreneur's own skills, talents and resources constitute the total resource pool the SME can draw on to address compliance.

The research project was conducted in 2004, by the New Zealand Centre for SME Research, as part of the BusinessSMEasure¹⁵ project the Centre is conducting. Firms recruited for the Lewis et al. study employed fewer than ten employees, and some that employed between ten and 50 staff FTE. In total, 50 companies from manufacturing and service industries were interviewed face to face. Ten of these interviews were with women. The businesses varied in age, and nineteen were family firms.

The survey asked participants to identify sources of assistance they used and to rate the ‘usefulness’ of assistance which was related to addressing immediate or short term issues and ‘significance’ of assistance which was related to longer term concerns that had the potential to influence the shape of the business. Specific data on compliance-related assistance is not recorded in the ‘Family, Friends and Government Agencies’ report. However, as assistance was usually sought in relation to everyday operational issues, it is reasonable to infer that many of these related to compliance concerns, particularly as accountants and lawyers rate reasonably highly as sources consulted.

Table 5 presents some of the findings of this study.

Table 5 Usefulness and Significance of Source of Assistance (adapted from Lewis et al., 2005, p. 12).

Source	Average Rating of usefulness by users (rank out of 24)	Average Significance of source by user (rank out of 24)
Accountants	1	1
Family	4	5
Employees	6	2
Friends	10	7
Personal/Social Networks	12	12
Industry/employer Assoc.	13	20
Ministry of Economic Dev.	24	24

¹⁵ BusinessSMEasure is a series of investigations involving a total of 250 firms, designed to gain insight into the behaviour and performance of the SME sector. Further information on the wider project is available at www.sme-centre.massey.ac.nz

It is clear from Table 5, that input of family and friends at the micro level holds the potential to influence decisions made by SME owners; in many cases more so than formal assistance offered by official agencies or bodies at the meso and macro levels. In fact, the Inland Revenue Department, Local Economic Development Agencies, other government departments, New Zealand Trade and Enterprise, and the Ministry of Economic Development occupied five of the seven lowest rankings for 'usefulness' of assistance (Lewis et al., 2005). These results reinforce the need to understand the dynamics of social capital at all levels and to apply this knowledge to assistance service-planning targeted at the SME sector. Detailed information obtained through the case study approach taken in this research enables the reasons for these attitudes to be explored more fully than in survey research.

Before leaving this examination of social capital it is important to recognise that the validity of the concept has been challenged. Although these challenges have not persuaded a large number of theorists to abandon their use of the concept, it is important to bear the weaknesses of the concept in mind and take measures to address these where possible.

Criticism of the Social Capital Concept

There are critics of the social capital concept. Quibra (2003) presented a paper at the Asian Development Bank Institute in Tokyo summarising the major criticisms of the social capital concept and its application. One of the primary criticisms is the variation in definitions, reflecting the different views on the collective character of social capital. This has been addressed in the previous section. Secondly, Quibra refers to deficiencies in the capital metaphor, arguing that the concept fails to meet three important aspects of physical and human capital: having a time dimension, requiring deliberate sacrifice now for future benefit and being able to transfer ownership (Quibra, 2003). These criticisms are addressed below and provide the justification for utilising the concept in the context of this study.

In response to such criticisms Arrow (in Quibra, 2003) has argued that social capital does have a time dimension as it takes time to build. It could also be argued that it is depreciable since, if maintenance of relationships is neglected, the same level of social

capital cannot be drawn down or accessed with the same speed as in well-maintained relationships, for example, the impact of divorce on family-oriented social capital.

Likewise, the argument that social capital does not require deliberate sacrifice now for future gain can be disputed. In the context of modern society, where families are often geographically separated, the effort involved in developing an alternative support network can involve deliberate sacrifices of time and effort with a view to developing new sources of social capital which, among other things, can be drawn on in time of need or stress. Coleman (in Spellerberg, 2001) identifies obligations and expectations as a clear component of social relations. He makes reference to 'credit slips' "resulting from the obligations of one party to reciprocate in some way, for the favours done by another party" (ibid., p.11). Social capital can be 'overdrawn' if obligations are not repaid within a culturally or socially acceptable timeframe. Coleman identifies the level of trustworthiness, which ensures obligations will be repaid, and the extent of the obligations held, as critical factors. With respect to the compliance task, women in particular draw on social capital resources to obtain the time to do compliance work, for example, getting a friend to babysit. This carries with it the need to sacrifice other time prior to, or after completing the compliance task, to invest in the relationships that provide that support e.g. doing something for a friend in advance so the relationship draw down is not too 'unbalanced' on an ongoing basis. Coleman considers these obligations reflect a shared sense of values and identity existing, but varying in form to some extent, across cultures. References to these sacrifices are apparent in the transcripts, and the implications are discussed in Chapter Seven.

The perception that social capital cannot be owned can also be debated. Fischer (in Quibra, 2003) suggests that if it could be owned then social capital would be capable of being borrowed, be subject to an interest rate and be able to be moved off-shore. Hite (2005) makes reference to the transfer of social capital that exists between two parties, to an unknown third party - establishing their credibility and enhancing access to resources that would not be accessible without the accompanying recommendation or obligation. In some respects this illustrates the 'borrowing' of social capital from one relationship to gain credits in a new one. Over time the third party will be expected to develop their own social capital with the new contact, but in the first instance the social

capital from the third party relationship provides a basis of trustworthiness that would not exist otherwise between two strangers.

In research conducted by Firkin (2001a), the expectation of some form of ‘interest rate’ on social capital was evident in spouses undertaking compliance work on an unpaid basis, in order to increase the long term viability of businesses. The expectation was not simply of being ‘back paid’ in the future for unpaid work undertaken now. Spouses anticipated that the business would do so well, it would more than justify the initial investment of unpaid labour. This expectation of returns over and above the market rate for the work done is consistent with the idea of investing a form of capital, rather than labour.

Finally, the nature of globalisation and communication means social capital is now an immensely mobile resource. Indeed, the New Zealand government’s own plans to utilise the goodwill ex-patriots feel toward their country of origin, to advance the off-shore interests of New Zealand¹⁶ is one example of how this social capital is being utilised in an economic sense at a macro level. At a meso level social capital is evident among international networking groups such as Business Networking International (BNI) whose members recommend and assist each other, both locally and internationally. An example of the operation of off-shore social capital at a micro level may involve family, friends or their contacts providing information about markets, networks and regulations that may benefit an entrepreneur planning to export. Hence Fischer’s scepticism about whether social capital can perform as ‘capital’ can be countered to some extent (in Quibra, 2003).

Further concerns about the credibility of social capital as a genuine form of capital pertain to the ability to measure it. Solow (in Quibra, 2003) claims, that unlike physical or human capital rigorous measurement of social capital is not possible. Although intangibles have traditionally been more difficult to measure than tangible assets this does not mean they do not exist or have value. Goodwill is an intangible asset that, despite being complex to value, has remained a consideration in business sale and purchase calculations. The fact that social capital is difficult to measure should not exclude a consideration of the costs of its creation and use. The framework for

¹⁶ World Class New Zealand network administered by Ministry of Trade and Enterprise.

measurement of social capital in New Zealand developed by Statistics New Zealand has already been described. The World Bank used a similar set of criteria to measure social capital existing in communities, to facilitate planning for economic and social development (Grootaert & van Bastelaer, 2002). These frameworks make assessments of likely social capital levels in communities, by examining existing social structures and dynamics.

The case study approach, by contrast, allows for retrospective valuation of work done as a result of drawing on social capital; offering a potential means of measuring the entrepreneurial value of social capital for each respondent. For example, one might consult a relative who is an accountant or lawyer and save the value of the legal fee. This social capital may even be worth a premium if the advice was received outside normal working hours, allowing an urgent response to be formulated. Other costs such as production downtime, transport and parking costs may also be saved. The value of childcare is measured daily in different settings. The value of childcare obtained through social capital in order to provide time to address compliance requirements may be 'worth' more due to the carer's special relationship with the child, lack of a universally applicable pick-up time, ongoing accessibility despite personal financial restrictions or ability to obtain it at short notice or even while the child is sick. Perhaps one of the reasons why social capital appears difficult to measure is that the relevant questions have not yet been studied in sufficient depth. This research considers social capital only in relation to the compliance task. Drawing these boundaries facilitates the assessment of the relative, and in some cases, absolute value of social capital. It is possible to put a price on compliance work and childcare done by paid staff or advisors. This should provide an adequate starting point for measuring the value of social capital in relation to compliance. These issues are explored in relation to the research findings in Chapter Six.

Finally, users of the social capital notion have been criticised for exaggerating its benefits. Quibra points out that social capital can carry costs, including "exclusion of outsiders, excessive claims by insiders, restrictions of individual freedoms, and perpetuation of backward norms" (2003, p.9). This is a valid criticism that has also been demonstrated in relation to SMEs in embeddedness research (Sofer & Schnell, 2002; Taylor, 2002). I have addressed this bias towards positive social capital effects by

specifically looking for potentially negative or restrictive impacts of embeddedness or social capital during analysis of the transcripts.

Cultural Capital

Cultural Capital is incorporated as a sub-category in two areas of Firkin's model: firstly under social capital and secondly under personal capital. According to Firkin this allows for the overlap and interaction between these types of capital to be accommodated, while still distinguishing some of the specific contributions cultural capital makes to the entrepreneurial process.

Firkin utilises Bourdieu's conceptualisation of cultural capital. Bourdieu (1986, p.243) identifies three states of cultural capital. The first form is an embodied state that represents the result of ongoing socialisation such as language use, shared values, knowledge and understandings. The second form, the objectified state, involves items with both material form and symbolic value. Such items include books, instruments, machines and other similar more modern equivalents such as official information available on the internet. Finally, Bourdieu refers to an institutionalised form of cultural capital whereby a person's knowledge or skill is captured in a culturally understood framework. Educational qualifications are the primary example of this form of cultural capital.

Firkin draws on work by de Bruin and Dupuis (in Firkin, 2003) to extend the notion of cultural capital to incorporate the 'culture' of communities of interest, rather than simply those that share an ethnic background. Basu (2004) has undertaken a study of ethnic business owners in the United Kingdom and supports the notion of culture being applied to non-ethnic groups. In fact, Basu goes as far as supporting Mulholland's contention that ethnic differences may be overstated (in Basu, 2004); and suggests that "all family businesses, regardless of ethnicity, share a similar business culture" (ibid. p. 3), stemming primarily from similarities in class background and business strategies. This research offers an insight into the 'culture of the New Zealand SME sector' and examines the implications of this for compliance policy development, implementation, and enforcement.

As reflected in Firkin's model, Bourdieu was concerned with the interaction between social and cultural capital. Robbins' comments that research by Bourdieu was "designed to show that social and cultural differences are inseparable and that through time the social, which is synonymous with natural or indigenous culture is modified by degrees of initiation into artificial or acquired culture" (2005, p.23). This suggests that a simple analysis of individual cultural differences related to a person's ethnicity or national background is insufficient, and that an understanding of the interaction of this with the 'culture' of both the SME sector and the wider society is needed. This dynamic can be observed in the case studies in relation to an immigrant business owner and those entering business from outside the SME sector, such as those moving from corporate environments.

In concluding this section it should be pointed out that "cultural capital does not have a strong presence in the literature on entrepreneurship" (Firkin, 2003, p .64). I argue that this should be remedied. The concept of cultural capital has much to offer the analysis of contemporary business issues associated with business immigration and the globalisation of labour, product and investment markets. Its value in addressing compliance issues is increasing as human rights associated with ethnicity and religion gain greater protection in the workplace environment, necessarily extending the cultural understanding an SME owner must have to ensure the law is not violated. In relation to this study I consider the inclusion of cultural capital in Firkin's model a major strength.

Entrepreneurial Capital

Firkin argues that an individual's capital is the sum of their economic, social and personal capital with only some of this having entrepreneurial value, that is, worth in the entrepreneurial context or process. Compliance is a component of the entrepreneurial task, with both performance of the task and minimisation of transaction costs associated with it, being critical for business performance at all stages. The focus of this study then, is on determining what entrepreneurial capital is required to perform the compliance task and what impact the make-up and amount of this entrepreneurial capital has on the performance of the task. It is posited that the New Zealand SME has relatively restricted access to compliance-related entrepreneurial capital compared with 'small' businesses in many other countries, which tend to be larger, and that this

intensifies the compliance burden, despite the official requirements in New Zealand being lighter than in comparable nations.

Conclusion

As explained above, this study employs Firkin's (2001b) concept of entrepreneurial capital as the sum of a person's economic, social, and personal capital that has value in the business context. I have been concerned specifically with forms of capital that are relevant to performance of the compliance task. Like Firkin, I have applied Bourdieu's (1986) notion of convertibility and de Bruin and Dupuis' (2003) concept of constrained entrepreneurship to my analysis. The section that follows introduces the methodological approaches I applied to examine the relationship between entrepreneurial capital and the compliance task and outlines the methods employed in the research phase.

CHAPTER FOUR

METHODOLOGY AND METHODS

Introduction

Methodology is concerned with the “theory and analysis of how research should proceed, how research questions might be best addressed and the criteria against which research findings might be evaluated” (Maynard, 1994, p.14). Three complementary methodological approaches have influenced the design and execution of this research: phenomenology, reflexivity and feminism. The first part of this chapter identifies and justifies the choice of these methodologies. The specific methods used are discussed in part two which outlines the practical details of the project, including how participants were chosen, where and how interviews were conducted, issues that arose in relation to these and ethical considerations that needed to be taken into account.

Methodology

A brief overview of each methodological influence on my research is set out below. It is important to note that I do not claim to have adopted these approaches in their entirety but instead have drawn from their major principles and applied these to the research process.

Phenomenological Influences

Phenomenology is a complex philosophical framework which has been interpreted by different theorists in different ways. According to Ferguson, the aim of phenomenology is to “gain insight into the essential characteristics of phenomena...into the essentially phenomenal character of reality” (2006, p.26). The phenomenon under investigation in this study is the performance of the compliance task by SME owners in New Zealand: what does it involve for them and what is the experience like? Phenomenological influences are evident in this study in three forms. First, in the examination of the ‘lived experience’ of those charged with the compliance task; secondly, the grounding of general findings in those experiences; and finally, in the examination of this experience in the context of a temporal dimension.

Ferguson reports that Husserl, founder of modern phenomenology, described it as a ‘way of seeing’ experiences (in Ferguson, 2006). Husserl made reference to ‘intentionality’ or ‘lived experience’, as perceptions which are generally “already furnished with interpretation in the shape of objectives, values, meanings and the like” (Spiegelberg in Alvesson & Skoldberg, 2000, p.36). In the context of this study, these views have been applied by ascribing credibility to the actual experiences of people by taking time to examine their experience rather than simply analysing the official requirements of the compliance task; and viewing this experience as ‘data’ from which recommendations and conclusions may be drawn, that is, the experience is self-evident without additional frameworks necessarily having to be imposed upon it.

Husserl described the task of sifting through the variance of a phenomenon to identify the ‘essence’, or the point of invariance. Such a process involves a move from the specific circumstances to the general, while still maintaining clear contact with the concrete experience of the people involved. I considered this approach to be a natural complement to the case study method adopted for this project, where individual experiences are examined in depth and analysis focuses on the common themes, or ways of thinking, that emerge across the case studies. With its emphasis on the actual experiences of the participants, the phenomenological approach accords a dignity to the their participation in the research, which is sometimes lost in surveys or statistically based approaches, which tend to tally experiences rather than examine them.

Finally, Husserl introduced a temporal dimension to examining the lived experience of a participant. He made reference to a ‘stream of experience’ or *Erlebnisstrom*, implying that “every individual must be seen as embedded in and bearing the imprint of a conceptual world, with historical dimensions going backward in time with allusions to the future...” (Alvesson & Skoldberg, 2000, p.38). This concept is useful at a micro level for examining the place of compliance in the lives of SME owners. Their previous experiences and earlier conceptualisations of what SME ownership would be like, impact heavily on the lived experience of those performing the compliance function. Expectations surrounding the likelihood and timing of changes in the compliance task and the business itself also influence current perceptions of it.

At a societal level, Dilthey (in Ferguson, 2006) introduced the significance of the historical context of experiences. Ferguson used this perspective to examine exchange as “the essential phenomenon of society” (Ferguson, 2006 p.167). Ferguson referred to work by Weber which described the role of accounting and book-keeping as reducing “complicated and multifaceted social encounters to simple economic exchange... these simplified phenomena were codified in terms of type and value rather than time, place, personal relation, circumstance and so on” (Ferguson, 2006, p.168). Weber regarded this reduction of exchange as the foundation of capitalism. I considered it important in this project to return to Husserl’s examination of actual ‘lived experience’ and the exchanges involved in the process, rather than dealing with the record of exchanges such as the cost of a lawyer or accountant recorded in a balance sheet. This is because many exchanges associated with the compliance process are not recorded in the balance sheet, and hence not accorded economic value, nor even acknowledged by policy makers as a factor to be addressed in compliance-related decision making. Many of these exchanges relate to the role of spouses or family members. The capacity to identify these ‘un-captured’ economic exchanges illustrates the benefit of using a phenomenological approach.

Reflexivity

‘Thinking about how and what you are thinking about’ sums up the essence of reflexivity. Davidson and Tolich (2003) identify reflexivity as critical to good social research, describing it as the process by which reasons for choices are made explicit. To

assist with this process I referred to Alvesson & Skolberg's (2000) model of reflexivity as a mechanism for evaluating the impact of my own business and family-related experiences on the research design and as a checklist of considerations during the analysis and reporting stages of this project.

Alvesson & Skolberg (2000) identify four levels of interpretation and argue that reflexivity occurs in the relationship and interfaces between the levels. The levels and the focus of each are identified in Table 6.

Table 6 Alvesson and Skolberg's Levels of Interpretation (Alvesson and Skolberg, 2000, p. 250).

Aspect/Level	Focus
Interaction with empirical material	Accounts in interviews and observations of situations and other empirical materials
Interpretation	Underlying meanings
Critical Interpretation	Ideology, power, social reproduction
Reflection on text production and language use	Own text, claims to authority, selectivity of the voices represented in the text.

In their model of reflexivity (Table 6) no level is regarded as inherently superior. The extent of consideration at a particular level may vary depending on the nature of the project or the researcher. The critical point is that the different levels and the interaction between them are addressed by the researcher.

My experiences as an SME director responsible for compliance, a co-preneur and mother, are likely to have impacted upon this research both positively and negatively. According to Alvesson and Skoldberg "prestructured understandings dominate seeing. The capacity for reflection, if not altogether eliminated is at least reduced" (2000, p.250). I have outlined likely impacts of my experience below and indicated what steps I have taken to address potentially negative impacts.

From a positive perspective my roles have allowed greater insight into the lived experiences of participants, extending or altering the type of questions asked, and

enabling greater sensitivity in the interpretation of responses and the type of recommendations generated. My experiences afforded me greater empathy with participants, eliciting more information than they may have shared with a researcher outside their reference group. Experiences in both business and domestic realms allowed me to provide more constructive responses to some of the participant's compliance-related questions. Similarly, experience as a public sector policy developer motivated me to take a solution-focused approach to the findings of this study. I wanted to provide explicit examples of how my findings might impact existing policy development protocols and implementation practices in order to facilitate the practical application of my research.

My roles have the potential to negatively impact on this project in a number of ways. First, there is danger of bringing a personal agenda to the research, effectively eliciting responses to support this. Secondly by consciously or unconsciously working with a business framework representative of my own business rather than those of the participants or SMEs more generally. Finally, by allowing emotions related to one's own past experiences to unduly colour similar experiences of others without verifying that the participant did actually feel similarly.

These concerns have been addressed in a number of ways. Reference to the reflexivity framework illustrated in Table 6 at each stage of the research process acted as a safeguard, helping to minimise the impact of these biases. Given my close identification with the research participants the question of whether to write the text of the thesis in the first or third person was a consideration. Consistent with the methodological approaches applied in the research, the decision was made to write in the first person. A number of my experiences as an SME owner, spouse or parent were shared with participants in the course of the interviews. As such these were captured in the transcripts as examples of my own 'lived experience'. These stories were shared not as a researcher but as a fellow SME owner, and are typical of communication that takes place between business owners outside the interview context. I became at times a participant-observer in the research. Where my own contributions are included, these have been clearly identified in the interests of transparency.

Feminist Perspectives

The style of interviewing I intended to undertake, and the nature of critical analysis I planned to apply to the material gathered, were consistent with a feminist approach to research. Kelly argues that what is distinctive about feminist research is “the questions that are asked, the way we locate ourselves within our questions and the purpose of our work” (in Maynard, 1995, p.14-15). Thus, within my thesis a feminist approach is particularly evident in relation to the style of interviewing, the perspective employed to develop interview content and analyse participant contributions, and the transformational intent of the research.

I conducted the interviews in a manner consistent with an approach outlined by prominent feminist Ann Oakley (1981). Specifically the relationship between the participants and myself was as non-hierarchical as possible, participants were regarded as experts in relation to their experience and the interview structure provided substantial opportunity for participants to influence the emphasis placed on different topic areas.

Establishing a non-hierarchical relationship during the research process was relatively easy to achieve in most cases as the existing relationship I had with known respondents was already characterised by such equality. In cases where the respondent was previously unknown to me, my status as an SME owner meant they quickly felt at ease and clearly felt that I understood their perspective on issues due to my own business background. My experience of combining motherhood and SME management meant this dynamic extended to discussions of the interaction between business and domestic worlds. Participants appeared to exhibit a level of confidence characteristic of normal business relationships. However, they did ask more questions and sought advice in relation to questions concerning health and safety. I did not attribute this to my role as researcher but rather to the fact that all participants were aware that our company had won two regional awards for excellence in health and safety management.

Answering questions with integrity rather than using the persona of the ‘objective researcher’ as an excuse for more superficial responses, is another characteristic of a feminist approach to research (Oakley, 1981). Such openness to participant’s questions was a natural response for me and proved in hindsight to have had a valuable spin-off.

Responses to questions and the willingness to share some stories as well as receive them actually resulted in the transcripts, at times, revealing ‘social capital in action’. A more detached interview style would have yielded only a participant’s account of what social capital is used and how, rather than also capturing social capital ‘live’.

A feminist stand-point urges the researcher to consider the ‘participant as expert’ (Maynard, 1994). Given my close identification with the characteristics of the intended participants I felt it was appropriate to develop questions about the compliance task and burden based on my own experience, rather than restricting myself to formal definitions of these constructs adopted in previous research. Participants related well to the broader experience-based understanding of the compliance task and burden that I developed, convincing me that no further changes to these constructs were necessary to facilitate analysis of the transcripts. This openness to the participant’s conceptualisation of the compliance task and burden contrasted significantly with the approach taken in a report by the Ministry of Economic Development in response to the Business Compliance Costs Perceptions Survey (2003b). Their report points out that in the government policy environment compliance costs are “understood to be the administrative or ‘red tape’ costs of regulatory compliance.” They point out that businesses tend to view compliance costs more broadly and that the business perception survey confirmed this tendency. The report describes this tendency by businesses to use a broader understanding of compliance costs as “problematic” (MED, 2003b, p.3).

The scope of my investigation was therefore wider than that traversed by most compliance surveys which tend to measure the commitment of time and money directly applied by SME owners to address specific regulatory requirements. Consistent with a feminist approach to research I did not restrict the study of compliance impacts to the formal work environment or to direct costs only. Instead I took a more holistic approach, which encompassed the impact of the compliance task on the personal and domestic lives of SME owners, their families and extended networks. This approach has enabled me to document compliance costs which normally remain invisible. Many of these costs relate to labour that supports performance of the compliance task indirectly, for example, a spouse extending their responsibility for household tasks and parenting so the SME owner can complete compliance work, or neighbours providing childcare in an unpaid capacity to allow SME owner/s time to attend training on compliance issues.

Thus another major theme of feminist approaches is that of increasing the visibility of women's often, unacknowledged economic contribution, which is evident in my study. These issues are highlighted in the gender analysis of the compliance task outlined in Chapter Seven, and have influenced the logic of valuing compliance-related labour and costs outlined in my proposal for amendments to the structured policy tool, the business cost calculator.

An examination of emotional responses was integrated into the research design. Most questions were open-ended, providing significant scope for participants to share stories or illustrate their points with examples they felt particularly strongly about. In addition to accommodating free-flowing responses, a significant number of the interview questions related directly to emotional responses experienced in relation to the compliance task. For example, questions addressed the extent of enjoyment or satisfaction derived from the task; sources of frustration and the intensity of this; the impact of compliance-related stress on relationships at work and within the family; and physical symptoms of compliance-related stress participants had experienced. Oakley (1981) notes, that emotions have traditionally been excluded from sociological analysis, a fact she attributes to a masculine tendency to regard emotion as 'unscientific'. Although some recent compliance-related studies (BusinessNZ/KPMG, 2004; Colmar Brunton, 2005) incorporate brief consideration of psychic costs, my study accords emotional responses to the compliance task a much more central position, ultimately illustrating how findings concerning emotions might be incorporated into the Business Cost Calculator. I have indicated how potentially negative emotional impacts can be more accurately assessed and accorded a relative value. The current regulatory impact process incorporates consideration of psychic costs in a more ad-hoc and subjective fashion, carrying with it the potential that these costs will in fact be overlooked or under-valued. The mechanism I have recommended accords emotional costs a position more congruent with the experience of those performing the compliance task, illustrating that my respect for emotion extends beyond the interview stage to the analysis and application of findings.

I considered it necessary to recognise that the experience of spouses in addressing business compliance, as reported by the business principal and their marriage partner, will necessarily differ from the spouse's own experience of the compliance task. To

acknowledge this, I developed a pilot questionnaire¹⁷ for spouses responsible for compliance work in an SME. Unfortunately, as explained under the methods heading later, this part of the investigation did not proceed beyond the pilot due to other constraints. However, the pilot indicated that this approach offers rich potential for analysis from a feminist perspective. Perceptions of the time and complexity involved in the compliance task differed markedly between the SME owner and their spouse, with the SME owner significantly underestimating both. Such discrepancies highlight the potential for inaccurate responses when SME owners respond to compliance-related surveys on behalf of the people actually performing the compliance task or elements of it.

Finally, I consider my research meets a widely held view of feminist researchers that their work should be transformational in some respect, at either a personal or political level (Maynard, 1998). I chose this research topic because I felt debate on compliance issues has been unduly restricted by previous definitions of the compliance task and its associated costs. This in turn has restricted policy options for improving compliance and/or reducing impacts on SMEs. I wanted to illustrate how a broader conceptualisation of the compliance task and a greater appreciation of the lived experience of SME owners could facilitate the development of policy options that would make a tangible difference to SME owners and their families, in turn, making a contribution to both the economic and social wellbeing of New Zealand. Already this broader conceptualisation of the compliance task has captured the interest of a wide range of people including politicians, policy developers, representatives of business groups and SME owners, who have expressed interest in my finished work, suggesting that this thesis has potential to broaden debate on compliance.

In relation to the transformational effect of research, at the personal level I observed that the interview process raised each SME owner's awareness of compliance issues that were being unattended to in their business. In order to address this I answered questions where appropriate and provided a list of websites where SME owners could obtain further information. Given the paucity of time experienced by most SME owners I arranged six month memberships of the Employers and Manufacturers Association¹⁸

¹⁷ Appendix II

¹⁸ EMA

(Northern) and/or training vouchers, which were given to the interviewees to offset some of the opportunity costs associated with the interview and transcript checking processes. This provided opportunities for participants to follow up and address any unattended compliance concerns identified during the interview. In one case an SME owner was completely unaware of how to access information on health and safety requirements. Another apologetically described health and safety as a low priority issue for his company in the interview and specifically rang me a few days later to say that as a result of his involvement in the research project, he had reprioritised health and safety and was setting out to systematically address it.

Methods

Given the demands of the methodological approaches outlined in the previous section I considered a case study approach using a semi-structured interview format was the most appropriate method to achieve the research goals. My rationale for this and details of the approach taken are provided below.

Choice of Method

The choice of method was driven by the three goals of the project: to determine why New Zealand SME owners tend to find the compliance task difficult; to uncover what entrepreneurial capital is applied to the compliance task; and to gain insight into how the constituent forms of capital are sourced and mobilised by SMEs.

After considering potential methods I decided not to adopt a survey approach as my primary investigation tool on the following grounds:

- The quick and simple format of survey questions provides insufficient depth to assess what forms of capital are actually being used, leading to the need to make potentially incorrect assumptions. Statistics New Zealand admit that “the nature of relationships is critical to accessing the type and amount of capital present and that this can only be observed in the context of an action or an event” (Spellerberg, 2001, p.10). They go on to commend a case study method over a statistical approach for this purpose.

- The need to include non-traditional questions in a business survey (e.g. do you hold any strong religious beliefs?), without the opportunity to explain why, leads to the possibility that these questions may not be answered by participants.
- It is more difficult to evaluate the strength or breadth of participant emotion in a lengthy survey, as cues such as tone of voice, body language and facial expression are absent and participants would be likely to restrict written responses due to time or energy constraints.
- The opportunity to follow up on information shared is restricted, curtailing opportunities to uncover significant information not initially thought of by the participant.
- Given the range of issues to be covered, any survey was likely to be very lengthy, potentially deterring SME owners from participating.

However, there was a considerable amount of content that did suit a survey-type format, thus I applied a survey format to some questions. Participants were asked to complete these sections at pre-determined points during the interview. While the survey format served to structure the data collection, survey completion was an interactive process with participants continuing to make comments while filling out the forms, rating scales and demographic profile.

Participants

Criteria for Choice of Participants

The focus of my research was the ‘family business’, that is, “an enterprise in which family members influence the direction of the business through the exercise of kinship ties, ownership rights or management roles” (Brockhaus in Nunns, 2001, p.3).

Family businesses were chosen firstly, because these businesses make up a sizable proportion of start-ups in New Zealand (although data is not collected in a manner that allows an official statistic to be obtained¹⁹), and secondly, this criterion allows social

¹⁹ Personal communication with representative, Statistics New Zealand booth, Small Business Expo, Auckland, 2006.

capital dynamics within families to be examined in relation to performance of the compliance task.

I also considered it important that the businesses owned by participants reflected a range of size, life-cycle stages and business activities, in order to address issues raised in the literature review, notably that:

- the way in which businesses approach similar compliance tasks can vary depending on their size;
- both the compliance task and entrepreneurial capital may change over the life-cycle of the business. Interviewing owners of businesses at different points in this life-cycle provided insight into those changes and the impact of them;
- the content of the ‘compliance task’ can vary greatly across industries or activities. Choosing only one field of activity may have over or under represented the compliance task faced by other SMEs and therefore misrepresented the scope of entrepreneurial capital required.

My study involved a total of six participants, therefore I required two participants who owned businesses with five or fewer employees; two with businesses with between six and ten employees and two with a business employing between 11 and 19 employees. In each category one business needed to be in the first two years of the business life-cycle, while the other needed to have operated for at least five years. There were no specific criteria applied regarding industry or activity, except that diversity was considered preferable to similarity due to the reasons set out above.

Businesses could be any legal form (sole trader, partnership, limited liability company or trading trust) however franchisees or affiliated businesses were excluded. Exclusion of these business forms was justified on the basis that many franchisers or parent companies address compliance issues on behalf of the network. Lewis et al. noted that although only a few participants in their study identified a parent/related company as a source of assistance, those who did “rated its usefulness very highly” (2005, p.10), indicating that this type of structure does offer support not available to independent businesses. I considered it likely that interviews with franchise owners would not

provide the depth of insight into the entrepreneurial capital dynamics I was seeking. However, the opportunity does exist for a future comparative study to examine differences in access to compliance-related entrepreneurial capital between independent and affiliated SMEs.

Number of Participants

After the initial questionnaire was drafted it became apparent that the content required to comprehensively investigate the application of entrepreneurial capital to the compliance task was significant, resulting in an interview length of two hours. As a result a decision was made to restrict the number of respondents to six. This was considered acceptable in this case because:

- the goal was to provide insight into the use of entrepreneurial capital in relation to the compliance task in order to alert other researchers and policy developers of the potential of this type of approach, rather than to offer a definitive explanation of all aspects of compliance-related entrepreneurial capital;
- the depth of the interviews provided significant material to work with in the analysis and interpretation stages;
- analysis of the results has revealed high levels of consistency between the characteristics and responses of the respondents and those noted in the surveys and reports described in the literature review; suggesting that none are notably different to other businesses in the SME sector.
- the research structure offers a format that could be replicated by other researchers in a larger project if this was considered desirable;
- the time and financial resources available to the researcher did not allow a larger sample to be interviewed.

Finding Participants

My own business and personal networks were used to locate participants. This approach was considered preferable to using formal networks such as those of the Enterprise Development Agency, EMA or the Chamber of Commerce. Using these networks to

find participants would have biased the study toward business owners already known (and most likely, reasonably well attached to) business networks and consequently may not have identified any participants who had poorly developed, informal or unconventional networks. Instead the method used identified business owners with formal network attachments ranging from none at all to extensive integration. Two of the six SME owners were not known to me personally prior to the study but were referred by a third party. All businesses operated in Auckland and were involved in a diverse range of activities including manufacturing, importing, retail and service.

Interviews

The Pilot Interview

At the commencement of the research phase a pilot interview was conducted to trial the questionnaire and to hone my interviewing skills. The pilot revealed that the interview would take approximately two hours, inclusive of a coffee break which I considered desirable given the length and intensity of the questionnaire.

Given the length of the interview, consideration was given to shortening the questionnaire. However, I regarded the quality of material gathered using the full set of questions as too valuable. Instead I clearly warned potential participants of the length of the interview, and as previously noted, the sacrifice of time was acknowledged with membership and training vouchers from EMA (Northern). Very few changes were made to the questionnaire after the pilot; consequently material from the pilot has been incorporated in the analysis where appropriate. The final interview schedule is provided as Appendix I.

In order to address potential differences in the principal and spouse's views on the compliance task, I developed an additional questionnaire. This was designed for use with spouses who were not business principals or co-preneurs and is included in Appendix II for reference purposes. I trialled this questionnaire with the wife of the pilot respondent, however, it was not used in the main research project because none of the arrangements surveyed required it. If a larger sample were used it is likely there would be similar arrangements and the pilot results indicate that inclusion of this

perspective would be valuable. Some of the material from the pilot spouse interview has been utilised in Chapter Seven.

Participant Interviews

Most interviews were conducted during the evening to accommodate the busy day time schedules of SME owners. This was particularly appropriate given the extended length of the interview. The timing of the interview meant participants tended not to monitor the time involved and therefore shared more information. All interviews were taped although there were some technical difficulties experienced with one taping. I was in the habit of taking notes during the interviews, reducing the impact of this problem. Tapes were later transcribed to facilitate analysis.

This research project was subject to the Massey University Code of Ethical Conduct for Research, Teaching and Evaluations involving Human Participants. Accordingly participants were required to give their informed consent to participate and be taped, and had the right to withdraw from the project. In addition to this, participants received a transcript of the interview for their approval prior to my progressing to the analysis of results. Although this process was generally straight forward one participant with-held their formal release of the transcript. The participant did not disagree with the transcript content but was concerned that it provided more detail than they had intended being included in the project. A number of options were offered to this participant including reiterating the right to withdraw from the project, the option to indicate parts of the transcript they did not want used, discussing the issue further with the research supervisors or to allowing me to progress, taking the participant's concerns into account and submitting the final draft of the thesis to the participant so they could approve the use of material relevant to their business at that stage. The last of these options was chosen by the participant and confirmed with the supervisors for this project.

Environmental Scanning for Potential Sources of Compliance-related Capital

In addition to conducting interviews with SME owners, I undertook a process of environmental scanning involving the collection of press articles, promotional material

from the government and private sectors and a search of compliance-related websites. A considerable amount of this material was obtained at the 2006 Small and Medium Business Show held in Auckland. This environmental scanning process served a number of purposes including:

- confirming that compliance related issues are of ongoing interest to the New Zealand public;
- confirming that the newspaper is used as a cultural capital medium for developing the human capital of SME owners and employees in relation to compliance; and
- determining the range and nature of compliance-related material and assistance available to SME owners in order to facilitate preparation of interview questions and analysis of findings.

Conclusion

The method chosen resulted in the collection of a large amount of detailed information about how participants approach and view the compliance task. The material gathered had a rich texture containing strong opinions and emotional depth, and I continued to apply the methodological approaches to the analysis and application of the findings. I initially examined the lived experience of participants to identify themes associated with the compliance task and burden. I then analysed these themes using Alvesson and Skolberg's reflexivity model as a prompt for iterative consideration of my material. Finally, I examined what the themes emerging from the participants lived experience might mean for compliance-related public policy. Consistent with the feminist influences on this project I noted, valued and integrated the unpaid or invisible work that contributes to performance of the compliance task and examined power dynamics associated with its performance in the SME context. The following chapters document the findings and recommendations emerging from this process.

CHAPTER FIVE

COMPLIANCE RELATED ENTREPRENEURIAL CAPITAL

Introduction

This chapter explains how Firkin's model was applied to the case study material in order to determine what forms of capital were used to address the compliance task, and when and how these were sourced and applied by the participants. In particular it is noted that, while Firkin's model provided an excellent base for analysis, I considered some modifications were necessary to more comprehensively address the findings. Specifically I developed the notion of temporal capital to acknowledge the pivotal role of potentially productive time as a resource and added descriptors to other forms of capital to identify their character more definitively. I observed that availability of, and demand for, compliance-related capital fluctuated over both business and family life-cycles. The extent to which the demand and availability of capital matched, determined the complexity of the compliance task. Finally, distinct patterns of capital use by participants to address the compliance task emerged and I constructed a typology to describe these.

What Forms of Capital Were Used?

The initial analysis involved examining each transcript and identifying and coding the forms of capital present using the codes set out in Appendix III. This stage of analysis revealed that respondents did, in fact, utilise all the forms of capital identified by Firkin.

In addition to coding the presence or deficit of pure forms of capital (i.e. social, cultural, human, financial or personal), I prefaced the capital coding with a character descriptor where appropriate. The terms I chose as capital descriptors were atrophied, latent, emergent and complementary.

The term, atrophied capital (AC) draws to some extent from de Bruin and de Bruin's (2002, p.403) notion of atrophied embeddedness and was used here to code forms of capital that had been present or utilised previously, but had now depreciated in some way so that they were no longer useful, for example, the skills were outdated, or divorce had altered access to social capital. Hite's (2000) description of latent embeddedness was used as the base for the term latent capital (LC), which is used here to refer to compliance-related capital that was available and potentially useful to the SME owner, that is, it was embedded within the networks of the entrepreneur, but was currently unused. The term, emergent capital (EmC) is my own and was adopted to describe a developing form of capital that did not yet qualify as the pure form, for example, someone in the process of learning accounting would be coded as possessing emergent human capital (EmHC). Finally I created another new term, complementary capital (Com.C), to describe the deliberate application of different, yet complementary forms of capital, by spouses and/or business partners almost as if they were acting as 'one' person, that is, in this context neither was subordinate to the other, rather they operated in tandem to access the full range of skills required. The examples in Table 7 illustrate how the codes were applied.

Where the capital or corresponding deficit was attached to an organisation or its representative rather than an SME, the capital was identified as institutional capital. Applying this type of analysis to compliance-related institutions provided opportunities to observe the interaction between micro, meso and macro level capitals and to identify

where improvements might be made. As Chapter Six is devoted to the interaction between capital at the micro, meso and macro level it will not be discussed further here.

Table 7 The Application of Capital Descriptors.

Compliance Related Capital Descriptors	Transcript Example with Coding
<p>Atrophied Capital</p> <p>The atrophied human capital in this example is the network support skills which would be applicable to the compliance task in an SME as they facilitate the flexible use of computer programmes, saving financial and temporal capital. However these skills are likely to be outdated due to rapid changes in technology and associated knowledge, which the spouse has not kept up with. While still of some value, the human capital would require significant upgrading to restore value.</p>	<p>Spouse discussing their previous employment over 12 years ago:</p> <p>Interviewer: <i>“What did you do there?”</i></p> <p>Respondent: <i>“Network Support”</i></p> <p>Interviewer: <i>“Computer Network?”</i></p> <p>Respondent: <i>“Yeah... I used to... (laughing)... in a previous life”</i> (Atrophied Human Capital)</p>
<p>Latent Capital</p> <p>The parents who had been or were in business but were not consulted were coded as latent social/human capital. This indicated that they were a potential resource which was currently untapped. If circumstances changed these resources could be called upon for assistance, e.g. if the SME owner's health deteriorated their parents could potentially assist with compliance issues for a short period (Latent Human/Social Capital).</p>	<p>In a number of cases respondents had parents who had been in business but some of these parents were not consulted with respect to compliance issues. Usually this was because the SME owner now had enough experience of their own or they had other social capital networks that were able to provide higher quality advice.</p>
<p>Emergent Capital</p> <p>This example illustrates emerging human capital: in terms of understanding that there are ways to structure the company that provide better legal protection and taxation advantages, given this respondent's role in the business. It also demonstrates emergent cultural capital with respect to the New Zealand context whereby the respondent and her husband are exposed to alternative ways of doing things in New Zealand and set about adjusting their previous culturally</p>	<p><i>“I will take half shares from this year according to my accountant's suggestion. In (my home country) the wife doesn't do this.”</i></p> <p>(Emergent Human Capital/Emergent Cultural Capital)</p>

prescribed roles to tap into the compliance related advantages.	
<p>Complementary Capital</p> <p>In this example the co-preneurs have identified the personal capital they possess individually and apply these in a complementary manner to effectively address a compliance task, i.e. disciplining an employee in a manner consistent with the law. It is coded as compliance-related entrepreneurial capital because it is the <i>deliberate</i> use of one partner's personal capital rather than the others, in order to minimise the chance of a personal grievance situation arising, thereby avoiding the associated financial, psychic and temporal costs.</p>	<p><i>"That's why if you have difficult situations, like I'll quite often do it because I don't mind letting somebody go and taking a backward step myself, just to let them feel they are getting a bit of support, before I start explaining the hard truths. (Name of Co-preneur/Spouse) is not so good at that but I don't mind doing it."</i> (Personal Capital/Complementary Capital/Entrepreneurial Capital)</p>

Temporal Capital (TC)

As I was coding the transcripts the role of time or lack of it was repeatedly mentioned by participants. As an SME owner I was well aware of the critical role of time in the exercise of entrepreneurship, and I experimented with the idea of time as a form of capital. This appeared consistent with the manner in which people refer to their experience of time, using expressions such as 'making time', 'saving time', 'wasting time', 'donating time', 'shortage of time', 'time spent', 'generating or investing time'. The application of broadly accepted criteria for 'capital', identified in Table 6, suggested that the quality of time referred to by respondents could indeed qualify as a form of capital. Consequently I have chosen to refer to this resource as 'Temporal Capital'.

Temporal Capital differs slightly from time in its pure form. Shallis (1983) acknowledges that there are complex philosophical debates about whether time even exists and what the true nature of it might be. Consistent with the phenomenological influences bearing on my research, Shallis argued that "...to deny time's existence is to deny human experience" (Shallis, 1983, p.13). He went on to argue that the experience of time is "circumscribed by the age in which we live" (ibid. p.16) and that in our age

this experience of time revolves primarily around clock based time. Shallis outlined work by Newton and Leibnitz examining the relationship between time and motion stating “this mathematical technique, then has built into it the idea of change and hence of time, but rather than deal with time explicitly as some quantity ‘out there’, it incorporates time in the description of changing events” (ibid. p.18).

The linkage of time to change is central to entrepreneurship, thus I have chosen to draw from these ideas and define temporal capital as that quality of time in which people can potentially initiate or facilitate change or motion. In economic terms this may be described as potentially productive time but I use this term cautiously lest it be associated with workplaces or ‘work hours’ only.²⁰ Instead, productivity in this sense is intended to encompass all productive activity including parenting, provision of care and voluntary service, development of friendships (social capital), participating in education, as well as work in the traditional sense (Table 8).

Temporal capital appears in the transcripts in a number of ways. These include comments on a lack of productive time available, strategies for maximising temporal capital, and opportunity costs associated with the use of temporal capital on compliance. The following comment provides an example. When asked if the need for compliance had ever restricted his business plans, one participant replied:

“Not so much in actual... pay-out money cost, but in terms of opportunity costs, fairly significantly. My business is a brand new business and trying to build a business from scratch requires very, very high front-end sales and marketing effort and being the only employee until recent weeks, then that’s me. It means rubber on the road, it means... trying to sell the concept of our service to people, and so every hour spent on compliance is an hour less that I’m actually out trying to... turn over revenue and in that regard, a loss of focus on the job and a lack of time to do the job, i.e. sales and marketing, has been fairly significantly encumbered by the effort and thought and stress surrounding compliance.”

20 Davenport (1999) described time as a component of human capital, rather than a form of capital in its own right and only in the context of market exchange.

Table 8 Evaluation of ‘Potentially Productive Time’ as a Form of Capital.

Qualities of Capital	How the notion of ‘Temporal Capital’ meets the criteria
Can be traded, i.e. it has a value	Labour is regularly traded on the basis of an hourly rate. The rate that is paid usually represents the market value of skill multiplied by the productive hours spent. The human capital alone does not attract monetary reward. It is the pairing of human with temporal capital that generates returns.
Can be increased/depleted	By investing in appropriate technological advances or skill development the time required to perform a task decreases, essentially increasing the productive time available for other activities. Alternatively, temporal capital can be depleted through poor management of the resource; for example, allowing irrelevant interruptions, paying inadequate care to health or sleep requirements, thus reducing the productive quality of the time available.
Can be accumulated	Temporal capital cannot be accumulated in the sense that money can be. Accumulation of temporal capital is more readily evident in outputs, e.g. temporal capital spent exercising may be accumulated in the form of a fit body, temporal capital spent on compliance may be accumulated as a business that meets the applicable regulations. In turn the value of these outputs, e.g. less illness or no fines in the case of legal challenge, represent the returns on this accumulated temporal capital. In this sense it is similar to human capital.
Can be sacrificed now for future gain	<p>This is evident in a number of forms including: assisting someone now so they will assist you or free you of responsibilities later; or allowing you to use the time for something you consider more desirable.</p> <p>Investing more time than others in a particular type of activity now (e.g. building a business or career), with the expectation of freeing up more time than others at a later date (e.g. in pre-retirement years).</p>

While there is considerably more potential for the conceptual development and application of the temporal capital notion, opportunities for elaboration within the context of this thesis are restricted. Therefore, I have applied temporal capital as a

working concept only at this point for the purposes of explaining the use of entrepreneurial capital in relation to the compliance task.

When Were the Forms of Capital Needed by Participants?

Much of the complexity of the compliance task is derived from its interaction with business and family life-cycles. It became apparent that the requirement and availability of compliance-related capital fluctuated over both business and family life-cycles. The discussion that follows examines this variation, firstly in relation to the business life-cycle and then with respect to family life-cycles.

I noted that the participants demand for compliance-related entrepreneurial capital was higher when their business was embarking on a particularly entrepreneurial phase. In order to illustrate this dynamic I have used material from the case study interviews and related this to both Massey's synthesis of major business life-cycle models²¹ and de Bruin and Dupuis' concept of the entrepreneurial continuum. de Bruin and Dupuis' entrepreneurial continuum is based on work by Liebenstein (in de Bruin & Dupuis, 2003) who drew a distinction between routine and new-type entrepreneurship. de Bruin and Dupuis have extended this notion to propose a continuum with static forms of business management at one end and much more innovative and riskier activities at the other. Although still potentially exhibiting entrepreneurial characteristics such as risk-taking, the compliance-related requirements of failing businesses differ from those of entrepreneurial businesses that are succeeding. For the purposes of illustrating the link between entrepreneurial activity and compliance in both successful and unsuccessful businesses I have therefore found it necessary to adapt de Bruin and Dupuis' continuum.

I have developed a diagram which illustrates a number of business scenarios (Figure 3). Comments made by participants that convey their 'lived experience' of the compliance task at appropriate points on the model are documented, and illustrate what forms of capital were needed at each point.

²¹ Described in the literature review.

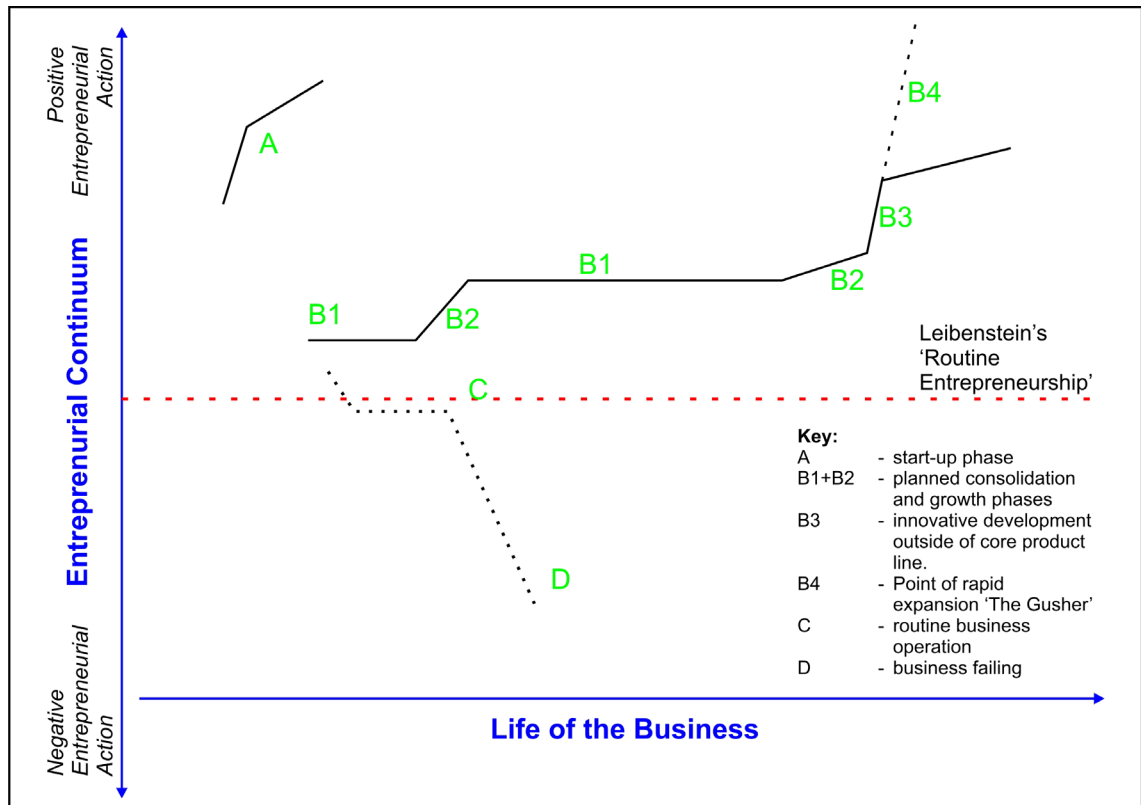


Figure 3 The Dynamics of Entrepreneurship in an SME.

Point A in Figure 3 is indicative of a business in the initiation phase. Many of the businesses in this study were started from scratch with one being in this phase at the time of the interview. A key task in this phase is to put compliance management systems in place to reduce the proportion of temporal capital it can consume. This need is clearly evident in the following quote:

“...probably as high as 50 percent of my incoming mail was from the IRD. It’s just non-stop compliance...and in the end you just feel like burning it! You know there are so many communications from the IRD, it’s just ...it ...it ...it just absorbs you and it really ends up, even with someone like me, you end up getting flustered and thinking, my goodness, someone turn the tap off... Phew... that’s why you don’t get to it sometimes.”

Developing effective compliance management systems can be difficult because of the numerous competing demands for the temporal, human and financial capital required:

“For a small business when... you’re new, you’re a one man band or a two man band and you’re trying to survive and deal with the cash flow and revenue generation, then that takes priority over things that...”

“...I mean all this is quite new to me because working in a big corporate environment, it was all done for you... I’m the arms and legs and she (the accountant) just gives me the advice and that’s just to save money really.”

Points in series B portray the activities of a slightly more established business which has its core functions and markets in place. It undertakes planned and managed development and growth (Point B2) and then consolidates (Point B1), possibly embarking on other similar growth strategies over time. None-the-less, these planned development initiatives have a significant impact on the business. Examples of B2 points could include a move from smaller or leased premises into larger, owned premises, the routine introduction of new product ranges, or the hiring of staff or management. The following comment was made by a participant who had recently directed her business through a B2 point:

“...I found last year when we moved, we had all this tax to pay , but actually we didn’t make all that much money because we had moved... it’s really hard when you’re trying to... like when you have all these extra expenses and in the scheme of things that probably has put your income down, so you probably don’t need to be paying so much provisional tax, but you don’t know until you get through that period and you don’t want to not pay it, because if you did that you’d have use of money interest. So it’s sort of a bit of a catch 22... But I mean, I don’t know any other ways you could do it either.”

Point B3 illustrates a very entrepreneurial activity of a more established firm. An example would be an innovative research and development initiative which spawns a product or service with greater entrepreneurial potential (and associated risk and returns) than existing products, or a major expansion such as launching new branches or franchises. Speaking in relation to a prolonged resource consent process, associated with such an expansion a participant made the following comments:

“It was about \$210,000 for (the resource consent for the new location)... I mean the boat went... All our friends were driving around in near new flash cars and here was us in our ancient old (vehicle model) ...I always had \$20,000 to spend on something else.”

“Well the QCs bill alone was \$16,000. That was just one case. There’s other bills on top of that... I was constantly talking to suppliers, can we pay you next month, can we pay you in six months... I did actually phone the IRD a couple of times and arrange for late payment...”

Point B4 is characteristic of the point of rapid expansion and growth (sometimes referred to as the ‘gusher’), experienced by innovative firms in relation to their core products or services. Although all successful, no SMEs in this study were at this point.

Point C represents a stable business which has relatively little change in its day to day activities. The major compliance-related concerns of these businesses are dealing with new legislative initiatives introduced by regulatory agencies. One participant who had run the same type of business for over twenty five years attributed their low ratings on the compliance stress scale to the fact that:

“I have been doing it for so long”

By contrast Point D depicts a firm in decline. Fortunately none of the businesses in this study fitted this profile but it is included here for the sake of completeness. Businesses at Point D face numerous compliance related issues. Among them would be difficulty paying taxes and the need to negotiate with the IRD concerning this, legal action by suppliers and/or consumers, the need to renegotiate staff contracts with lower wages and conditions or making staff redundant, along with facing the prospect of losing key company and/or personal assets, put at risk previously through personal guarantees, terms of trade and mortgage documents.

As is evident in Figure 3, compliance demands are determined not only by the size or activity of the business but the extent of entrepreneurial activity occurring within it. Each significant change in entrepreneurial activity involves an associated set of

compliance requirements an SME owner must get to know and implement. This holds true whether the change in entrepreneurial activity is positive or negative.

What is particularly important is that, when this model is overlaid with compliance changes driven by political forces outside the business (such as the recent introduction of four weeks annual leave; the restructuring of the apprenticeship schemes; or the requirement to consult in good faith with staff prior to restructuring or introducing significant changes in the workplace), the interaction between increased compliance related to the business life-cycle and entrepreneurial character, and new legislation can be observed. These changes are more difficult to predict and this interaction can intensify the compliance task for an SME owner going through, for example, an expansion phase or trying to save his/her business from bankruptcy.

If family life-cycle patterns are then laid over this, the compliance task intensifies further. Family life-cycle activities impacting on the participants in this study included the arrival of a baby in a home where the other children were now at school reducing the hours able to be worked by a spouse; the building and renovation of personal homes requiring time and cash flow resources; and the discovery of serious child disability issues requiring time and energy to address. The interaction between family and business life-cycle issues is amply evident in the comment below and is explored further in Chapter Seven:

“Well that’s what I used to say to [husband’s name] ... like you’re expecting me to have a baby and learn all this stuff, and your brain is not there when you’ve just had a baby and you’ve got to learn all this stuff and deal with a very active 2 ½ year old and a baby and learn how to do the GST and PAYE and...”

There is an interactive relationship between the family and business life-cycle with restrictions in one impacting on the other. The level of compliance-related social capital present within the family can play a critical role in determining the future of both the business and the family unit as the following extract demonstrates:

“The cost to our family... four kids... if we hadn’t managed that in the way we had of, our marriage could have broken... it was only our marriage and the

support of our parents and the knowledge that we were doing the right thing for the right reason that got us through that” [a lengthy resource consent battle to establish another branch of the business].

Finally, it should be noted that the application of capital to the compliance process was not the sole preserve of business owners. The transcripts describe three cases in which family-oriented social capital was converted by employees, into compliance-related human, personal and financial capital to challenge the employer. In two cases parents confronted employers on behalf of their teenage children and threatened legal action. The high embeddedness of the parent-child relationship can add a new dynamic to disciplinary or compliance related challenges, making high levels of personal capital desirable for the SME owner. In another instance an employee’s partner carried out a prolonged and threatening campaign against an employer, incorrectly believing the employer could pay out annual leave in cash without requiring the employee to actually take paid time off. The worker concerned was legally protected from any action by the employer as the threatening action was carried out by a third party, not subject to the employment relationship. These challenges can occur at any time in the business or family life-cycle and at such points the SME owner must immediately use or redirect relevant forms of capital to address these issues, whether or not these resources could be more productively used in other areas of the business at the time.

Thus, it can be observed that the compliance burden does not relate to regulations alone, but rather to how well the forms of capital available at any one point match, or can be converted to match, the capital required to address regulatory requirements. The need for, and availability of, this capital is influenced by the degree of entrepreneurial activity being undertaken by the firm, the interaction of this with the family life-cycle and with new compliance requirements being introduced.

How were the forms of capital sourced and applied?

The discussion that follows examines patterns in the sourcing and application of capital that emerged when examining the participants lived experience. Patterns in capital use took a variety of forms, appearing almost as mathematical formulae on coded pages of the transcripts. These included the use of a single form of capital in isolation, concurrent

use involving application of one form of capital alongside others, single or multiple step capital conversions and the interaction of multi-person capitals. Each of these dynamics and their potential implications are explained in greater depth below.

Single Capital Use

Single capital use was the simplest form of capital utilisation and involved the direct application of one form of capital to the compliance task. The most common example of single capital use was the application of financial capital to meet compliance requirements that could not be addressed in any other way. Examples usually concerned taxation, licensing processes or obtaining essential professional assistance for those without appropriate social capital alternatives. The transcripts illustrated that when only one form of capital could be used to address an issue this tended to place stress on participants. For example:

“...provisional tax (pause) well that’s usually pretty stressful because I usually have to budget quite hard to make sure that I’ve got it... It’s always a worry that someone else is not going to pay that bill that’s going to actually cover...”

Although the simplest form of capital use, this pattern was relatively sparse, with SME owners, more often having to utilise a mix of skills, resources and time to address compliance issues.

Concurrent Use of Capitals

Concurrent use of capitals involved the simultaneous use of two or more forms of capital, not involving conversion of one into another. This is illustrated in the following example where the participant describes utilising their professional organisation:

“In fact, I’ve downloaded the Employment Contract (HC) which is applicable to (my type of business specifically)” (NSC/IC).

In this instance, human capital is involved in the ability to download the contract. Network-oriented social capital is evident in the professional association membership, while institutional capital is represented by the fact that a template of an employment

contract specific to that profession, was readily available, and obviously meeting the needs of members. Implicit in this example is also the presence of financial capital necessary to purchase a computer, an internet connection and association membership. These forms of capital work alongside one another to facilitate SME compliance, however, it is necessary for each form to be present. Without the computer skills the template may have been inaccessible, particularly after hours. If the social capital network did not exist, the resources and co-ordination required to produce an industry-specific form of contract would not be present. If the institutional capital levels were lower, the meso organisation may not be aware of the need, or be able to address it; this was indeed the case with some other meso organisations. Evidence for this is presented in Chapter Six.

Capital Conversions

During the coding process I made particular note of instances in which Bourdieu's concept of convertibility was evident in the transcripts, that is, where participants substituted one form of capital for another in order to meet a compliance-related need. I observed two patterns of capital conversion: those that occurred in a linear form and those that took a cyclical form. Linear forms are illustrated below and were evident in simple and more complex forms. Arrows are used to indicate conversions.

The simpler form is represented by this example in which the participant's general human and cultural capital is converted to economic capital in the form of money not spent on legal expenses:

HC + CC → EC.

Where: HC = Human Capital; CC = Cultural Capital; EC = Economic Capital

"...and pay \$300 per hour... I mean, I did everything... My accountant said do you want me to get you sorted out for your IRD and GST registration and I said, oh, I've already done it. She said, oh I would normally do that. I said, well, I've done it, it wasn't that hard."

More complex forms of linear conversions were observed. For example:

SHC →EntC (DHC) + EC + NSC →IC/HC →EC (increased margin)

Where: SHC = Specific Human Capital; EntC = Entrepreneurial Capital; DHC = Deficit of Human Capital; NSC = Network-oriented Social Capital; IC = Institutional Capital; HC = Human Capital; EC = Economic Capital.

This coding series describes a situation whereby the participant, based on experience in similar previous businesses, recognised that the company they had taken over had margins much lower than they should have (Specific Human Capital). They recognised that they did not have the human capital required to perform the restructuring required, without a high likelihood of a successful legal challenge by staff (Entrepreneurial Capital applied to Deficit of Human Capital). Consequently, they used money (Economic Capital) to source appropriate human capital in the form of a well-regarded consultant (Human Capital/Institutional Capital) attached to an employer's organisation, of which the respondent was a member (Network-oriented Social Capital). This resulted in the business being restructured and achieving much improved margins without legal challenges (Economic Capital in the form of improved gross profit). Hence, through a series of multiple, linear steps specific human capital was successfully converted to economic capital.

Cyclical forms observed involved a series of conversions which eventually returned to the capital of origin. I noted that these took both positive and negative forms. In a positive conversion cycle the capital transformations undertaken by participants drove in a positive direction, culminating in an outcome that was an improvement on the starting point. This contrasted with negative conversion cycles which were driven by deficits which compounded, eventually leaving the SME owner in a worse situation.

Positive Capital Conversion Cycle:

“...I used to give the boys a split of the profit... but if we got a new person in and they weren't up to scratch, either they got up to scratch or they'd drive them out because they didn't want to lose out on profit just because somebody else wasn't up to scratch.”

In this example entrepreneurial, personal and economic capital (EntC/PC/EC) are converted to social capital (SC), which in effect, reduced the need for the employer to use disciplinary action or lay off underperforming staff. This reduced the legal risks

attached to improving the human resource pool available to the enterprise (HC/EC/EntC), in turn increasing the economic capital of the firm.

Negative Capital Conversion Cycle:

“This is the issue with small business and compliance though, it’s a vicious cycle. You’re so damn busy... that you can’t get on top of it to learn that there is a better way, you know and you’re chasing your tail...”

DTC → DHC+DSC → DEC → DTC

Where: DTC = Deficit of Temporal Capital; DHC = Deficit of Human Capital; DSC = Deficit of Social Capital; DEC = Deficit of Economic Capital.

In this example a negative conversion cycle driven by a lack of temporal capital (DTC), leads to a deficit in human and social capital (DHC + DSC), which in turn puts a greater strain on cash flow or economic capital (DEC), which then intensifies the need to spend time on income generation thus reducing the temporal capital (DTC) available to find out about ‘better ways of doing things’.

There was some evidence that SME owners had different levels of ability to convert forms of capital. For example where one SME owner may effectively learn by watching a consultant perform a role and then be able to independently perform the role later (EC→HC), another SME owner may not, requiring them to seek advice on an ongoing basis. Temporal capital also plays a critical role in the positive development, utilisation and conversion of the other forms of capital. Without temporal capital one cannot attend seminars to learn compliance rules and skills, seek the advice of others, hold staff meetings to ‘consult’ as required by many regulations, or network with others to develop social capital resources that facilitate compliance.

Multiple Person Capital Use:

Finally patterns related to multiple person capital use emerged from my data. In many cases successful compliance necessarily involved the compliance-related capital of a number of people in the firm. Difficulties emerged where multiple capital use was

required but not present. Participants described how this exposes the SME to legal liabilities and the psychic costs associated with this:

Participant: *"...sometimes he doesn't realise what is meant to be and then it becomes an issue later on and I get left with it and then I can't do much about it, you know... That's where I find I'm not very good at dealing with... like if (co-preneur) wasn't on the scene, I 'd probably be absolutely fine... but if (co-preneur) comes into the equation, that becomes a big grey area and... that's when (co-preneur) could be dealing with all the process himself, all the way through."*

Interviewer: *"We had a situation dealing with a work place bully, other people hadn't realised that it had legal implications in how we deal with it, so they just kind of dealt with it in the way they felt it should be dealt with but then I found out about it, oh my goodness, there's a whole set procedure for dealing with it...but then like you say your confidence is kind of... you don't necessarily know what has gone on before and how..."*

Participant: *"And then you ask people... they might be lying to you, but they don't realise that this is an issue and... then you're going on what they've said"*

This incongruity between the approaches taken to compliance by SME owners of the same business was more evident where one co-preneur combined working at the workplace and working at home. This meant they were not always present when issues arose or were dealt with, yet the co-preneur present had neither the human, personal or temporal capital to ensure all issues were addressed in a fully compliant manner. The co-preneur present sometimes felt they had dealt with the concern and did not feel a need to mention it until it became a more complicated issue. By this stage, the company could have already committed procedural errors leaving it open to prosecution.

Ultimately, it was the net cost or benefit of applying these forms of capital to the compliance task that mattered to the SME owner. Consideration of the case study material suggests that there is a point where the SME owner decides to restrict investment in compliance. In the scenario below SME owners stop investing resources

in compliance when the perceived opportunity costs outweigh the perceived benefits. Benefits and costs include psychic benefits; the value of alternative uses of capital (including temporal capital); and the relative risks and returns associated with those alternatives, compared with the risks and returns on compliance. This process reflects the operation of constrained entrepreneurship and as such assessment of the relative risks and opportunity costs will depend on both the SME owner's compliance-related knowledge and entrepreneurial capacity. As discussed earlier these relative risks and returns vary over the business and family life-cycle and by business activity.

Comments reflecting this process included:

"...the cost of getting all the health and safety stuff done... we were needing, like a welder or something that would have helped with the work flow but we really needed to spend the money on the compliance so you couldn't..."

"... because I mean... it's a matter of the more I know the more I'm going to have to do... and it's been ignorance is bliss, even though I know it's dangerous, even in our small situation."

As one participant put it, there are no prizes for being able to say:

"I'm a perfectly complying business but I'm actually in liquidation."

Conclusion

The patterns of capital conversion observed, suggest that capital in many forms can be converted to address compliance needs providing adequate temporal capital is available to facilitate these conversions. However, the absence of appropriate capital or inadequate temporal capital can initiate negative conversion cycles whereby deficits intensify the compliance burden. Insufficient or inadequate access to capital means trade-off processes become skewed, either toward utilising capital reserves in business processes other than compliance or alternatively toward addressing compliance needs at the expense of essential business development, risking business failure. Neither are desirable outcomes. The role of agencies should therefore be threefold: first, to

minimise the need for capital by streamlining and reducing regulatory requirements; secondly, to support the SME owner to gain access to the forms of capital required either directly or by facilitating the conversion process; and thirdly, to ensure the SME owner has sufficient information to evaluate and manage the trade offs required. These roles will be explored further in Chapter Six.

CHAPTER SIX

INSTITUTIONAL AND ENTREPRENEURIAL CAPITAL: THE INTERFACE

Introduction

Compliance necessarily involves two parties - one which sets and enforces the rules and one which is required to abide by them. The ease of the compliance task is therefore dependent upon both the compliance-related capital of the small and medium business (SME) sector and the institutional capital of the regulator. My intention in writing this thesis was to present more than a list of concerns SMEs have raised about regulatory agencies. Rather than simply repeating information already gathered and analysed in compliance surveys, I considered it particularly important to capitalise on the detailed data obtained in my longer interviews. Hence, I have sought to utilise the findings in an assessment of proposals made under the current Review of Regulatory Frameworks. I consider to what extent the initial recommendations of the review are likely to reduce the compliance-related demands on entrepreneurial capital within SMEs, and in turn deliver the national economic returns that motivated the review.

In the first instance, compliance-related initiatives at the macro level are identified. This is followed by an assessment of whether these initiatives are likely to reduce the non-productive application of entrepreneurial capital by SMEs at street level. In the context of this chapter the term ‘institutional capital’ is used to refer to knowledge and

understanding of SME issues and experience, held within compliance-related organisations *and* the ability to apply this in a manner that meets public good objectives, while simultaneously minimising negative impacts on SMEs.

Initiatives at Policy Level

The New Zealand government has devoted significant attention to addressing compliance issues. Key initiatives have included the establishment of a Ministerial Panel on Business Compliance Costs in 2000; the creation of a unit within the Ministry of Economic Development (Regulatory Impact Analysis Unit/RIAU), responsible for promoting, monitoring and reviewing Regulatory Impact Statements and Business Compliance Cost Statements; and the establishment of the Small Business Advisory Group (SBAG) which, as part of a broader brief, draws attention to the impact of compliance issues on SMEs in New Zealand.

The need to address issues identified in these fora has culminated in the Review of Regulatory Frameworks, currently being undertaken and expected to be complete by mid 2007. The background papers to the regulatory review indicate that it is an integral part of the economic transformation agenda. The major objective of the review is “to commit to a regulatory environment that promotes economic growth, business confidence, globally competitive firms and social wellbeing” (Ministry of Economic Development, 2006b, p.1). The initial Cabinet Paper on the review (Minister of Commerce, 2006a) identifies five principles of high quality regulation; efficiency, effectiveness, transparency, clarity and equity. The paper goes on to describe the process of Regulatory Impact Analysis (RIA) as a key tool in encouraging this quality regulation. The paper outlines a number of issues in relation to the RIA and recommends adjustments to improve the quality of this process.

In line with international best practice, the New Zealand RIA process demands that departments presenting proposals to Cabinet that result in government bills or statutory regulation must prepare Regulatory Impact Statements (RIS). For all proposals with business compliance cost implications a Business Compliance Cost Statement (BCCS) must also be prepared. These statements are intended to highlight the impact of the change on businesses and hence produce more informed decision making by legislators.

The guidelines for these processes are comprehensive, have been mandated by Cabinet, and reflect many of the issues important to the SME owners in this study. For example the guidelines (Department of the Prime Minister and Cabinet, 2001) define compliance costs broadly, including not only administrative and paperwork costs but the cost of specialist advice, increased legal liability and psychic costs. It is specifically recommended that the compliance cost assessment be an “integral part of the policy development process” (Department of the Prime Minister and Cabinet, 2001, p. 5).

This requirement for RIA has been in place since 1997. Despite the adoption of theoretically sound policy guidelines, SME owners in this study felt the regulations and associated implementation they encountered, failed to reflect an understanding of their lived experience.

“...I think a better understanding from the Government of the pressures of small business... compliance costs for large business is... but they have the infrastructure and the expertise and the manpower to do it... a small business, I really don't think the Government can understand very well, or they wouldn't be doing it the way they are...”

“...they just made me send all this information ...and I presented it in a different way from what they wanted for their question and it used to take me ages and I tried to get out of it and I couldn't, so now when they send me letters saying hurry up those details I just bin it....”

“You'd strike the same in your business, irrelevant, over the top, expensive, etc.”

“You're supposed to say now girls, we have an electric jug in here and it's used to boil water.”

The development of policy guidelines that address SME concerns do not, in and of themselves, produce reductions in the compliance burden at SME level. Public administrators must also have the will, resources and ability to adhere to them. The failure of government to adhere adequately to its own policies was highlighted as the

primary source of poor quality regulation by the SABG in its 2006 Annual Report to the Minister of Small Business:

“What is clear is that the government has not adhered to its own impact analysis rules, and has allowed perfunctory and superficial Regulatory Impact Analyses (RIAs) and cost-benefit analyses to precede the imposition of new regulations. This has led to the passage of legislation that has business cost and compliance impacts that no one assessed or appears to have anticipated” (SBAG, 2006, p.6).

The SBAG claims that the Holidays Act is a stand-out example of this. For example, the Business Compliance Cost Statement for the Holidays Act states that the proposal to allow sick and domestic leave to be accumulated to a maximum of 15 days compared with the current five day maximum “will involve a minimal increase in compliance costs in terms of additional information to be recorded in an employer’s leave records” (Department of Labour, 2003, p.4). This is identified as the *sole* impact of the increase in maximum leave accumulation levels. No mention is made of the impact of a compulsory fourth week of annual leave.

The omission of so many potential impacts is indicative of substantial deficits in institutional capital. The starting point for evaluation should be that of an employer meeting the minimum legal requirements under the current Holidays Act. An analysis of impacts using the model of entrepreneurial capital outlined in my thesis and the lived experience of SME owners described in the case studies would suggest that the SME might need the forms of capital outlined in Table 9.

The discrepancy between the RIS/BCCS and the likely lived experience of SME owners confirms that important impacts of the Act have been overlooked, increasing the likelihood that negative capital conversion cycles will be stimulated within SMEs when the Act becomes fully operative in 2007.

The government has acknowledged that there are manifest deficiencies in the present design and implementation of RIA within New Zealand and has made a number of

Table 9 Impact of the Holidays Act Proposal on Entrepreneurial Capital in an SME.

Form of Capital Required	Application to Holidays Act Proposals
Cultural/Human/Temporal	To find out about the Act and its requirements.
Human, Social or Economic	To administer the Act or employ/convince and train someone else to do so and to upgrade payroll software to accommodate the change to Relevant Daily Pay as the basis of leave payments.
Economic	This would need to be substantial. In the case of a business currently providing the statutory minimum annual leave to 19 full time staff this would involve funding over one third of a year's extra wages for one Full Time Equivalent without the corresponding production to generate it. Potential interest costs involved in covering this if the business is operating using an overdraft facility or opportunity costs of alternative use of capital, if not using an overdraft facility. Whether or not extra sick leave entitlement is taken it would be imprudent for the business owner not to make additional budgetary provision for increased accumulation, since the threshold for writing off liability associated with unused sick leave has moved from five days to fifteen days for every employee. Employers are liable to pay employees for days that previously would have been unpaid. Increased provisional taxation would be payable should projected net productivity gains be expected to exceed additional costs.
Temporal/Human/Social/Economic	To replace staff on additional leave and associated opportunity costs of this in terms of business development/management/family time. Economic and human capital would be needed to hire temporary staff and to ensure their contracts did not open the company to long-term liabilities when the temporary period finished.
Personal/Social	To deal with psychic costs associated with pressure to generate greater economic capital in fewer hours and pressure associated with staff absences and less leisure and family time while covering for absent staff.

recommendations to address these. Potential strategies are outlined in the Cabinet Paper submitted on the Review of Regulatory Frameworks, and include preparing a draft RIS earlier in the policy development process so changes to poor policy analysis can, in fact, be made rather than merely documented; actively analysing issues, rather than simply disclosing them; extending the requirement for an RIS to cover some regulatory work currently excluded; and requiring details of the planned implementation, monitoring and review of a proposal (Ministry of Economic Development, 2006f).

It is difficult to ascertain whether these changes will make a tangible contribution to the economic transformation agenda. Examination of the following example of ‘monitoring’ suggests they may not. The Department of Labour made some effort to redress the initial inadequacies in its RIS by commissioning a report on the first stage of the implementation of the Holidays Act. However, the terms of the brief “excluded assessment of the policy under the Act and assessment of any consequential costs or economy-wide impacts of the legislation” (Capital Strategy, 2005, p.6). As a result, all comments made by research respondents relating to those issues were excluded from the consultant’s report. The material regarding sourcing and converting capital resources (discussed in the previous chapter), clearly indicates that consequential costs (including psychic and opportunity costs) are integral to the SME owner’s experience of regulatory impacts. A significant contribution to economic transformation through regulatory change is unlikely to occur if assessment of these consequential costs and their economy-wide impacts are excluded from the monitoring and analysis process.

The Business Cost Calculator

One of the more significant recommendations to improve the RIA process is the proposal to pilot the ‘Business Cost Calculator’ within government departments over the next two years. The Business Cost Calculator is a policy tool derived from the Standard Cost Model applied in the Netherlands and adapted by the Australian government. An initial assessment of the Business Cost Calculator²² suggests it offers significant potential to improve policy development and reduce business compliance costs. However, the examination of the Holidays Act RIS offers evidence that without a

22 Able to be downloaded through the Australian government site www.industry.gov.au

simultaneous increase in the institutional capital of government departments, it too may fail to deliver to its full potential.

The Business Cost Calculator guides policy makers through the series of steps illustrated in **Figure 4**. The quality of information entered at each stage is critical to the outcome. Given that SMEs make up 96.3 percent of New Zealand business enterprises (MED, 2006c), an understanding of how SMEs learn about and address compliance is essential for officials utilising this tool. The parallel diagram in **Figure 4** has been developed to illustrate adjustments and considerations that could be justified on the basis of the research findings in this study.

Those recommending the business cost calculator are not presenting it as a substitute for broader considerations of regulatory impacts. However, given that significant depth of analysis is incorporated within the BCC, together with the failure to follow policy guidelines (as demonstrated above), it is possible that supplementary analysis, such as the consideration of non-tangible costs, including psychic and opportunity costs, will become superficial. The participants in my study identified psychic and opportunity costs as being major contributors to the compliance burden they experienced. It follows that failure to adequately acknowledge the impact of such costs would significantly disadvantage SMEs. For this reason I have conceptualised additional screens that would integrate consideration of these two issues into the Business Cost Calculator phase.

The Case for Inclusion of SME Psychic Costs

Psychic costs are defined as “the mental stress faced by businesses in complying with their many and changing regulatory obligations” (Business NZ/KPMG, 2004, p.5). In my research the highest stress levels were reported by relatively new entrepreneurs. I asked participants to complete a number of rating scales describing their compliance-related stress. Of the two relatively new entrepreneurs in my sample, one rated themselves as *usually* experiencing ‘mental anxiety and fear’ in relation to compliance issues while the other rated this experience as *regular*. A lack of experience or clarity about the compliance task increased the likelihood of error, and hence vulnerability, in case of a legal challenge or audit. However, compliance-related stress symptoms were

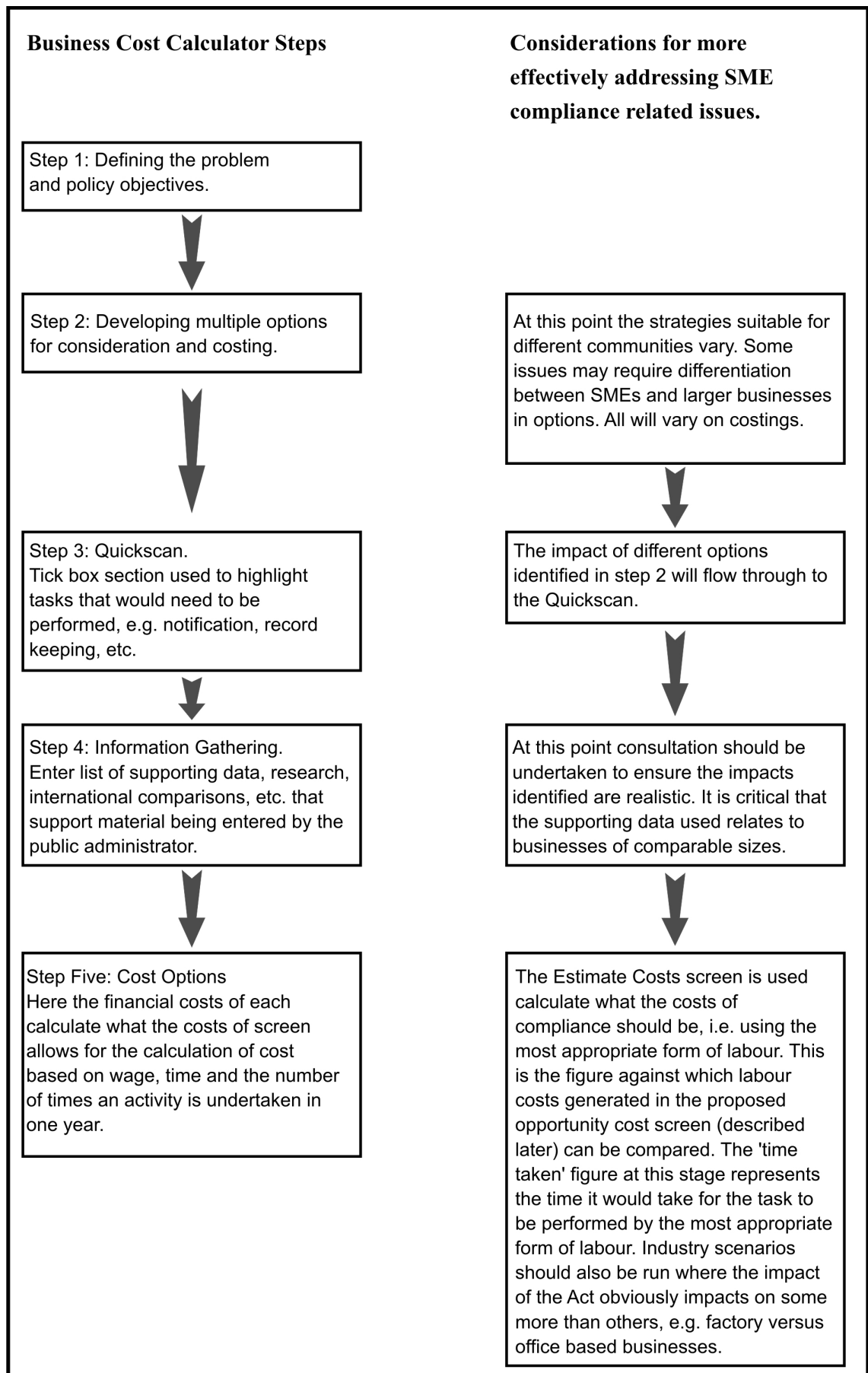


Figure 4 Integrating SME concerns into the Business Cost Calculator.

also reported by more experienced business owners, with increased heart rate, headache and stress-induced back pain being those experienced *regularly*. It is evident that psychic costs diverted energy away from both productive entrepreneurship and/or socially productive activities such as effective parenting or household management. This diversionary effect appears consistent with the findings of Massey's (2003) study which documented how compliance diverted energy away from the income-generating function of the business. Analysis of the interview material revealed that psychic costs were a factor of the variables provided in Table 10.

Table 10 Variables influencing Intensity of Psychic Costs experienced by SME owners.

VARIABLE INFLUENCING INTENSITY OF PSYCHIC COST	SUPPORTING EVIDENCE
Time required for the task versus time available.	<p><i>"...probably as high as fifty percent of my total incoming mail was from the IRD. Its just non-stop compliance and in the end you just feel like burning it... You know there are so many communications from the IRD, it's just it... it... it just absorbs you... even with someone like me, you end up getting flustered and thinking, my goodness, someone turn the tap off... That's why you don't get to it sometimes."</i></p> <p><i>"It just depends whether it's school holidays or not... like there's always a month every ten weeks that I don't get time to do much of the stuff I have to do to make everything work."</i></p>
Competing demands for resources needed to perform the task and the relative importance of those for the SME owner or the person performing the compliance task.	<p><i>"...we were really needing a welder... that would have helped with the work flow but we really needed to spend that money on compliance so you couldn't."</i></p>
Ability to perform the task.	<p><i>"...in an ideal world, if you treat your staff in a decent, fair manner you will not be burned with a \$20,000 payout."</i></p> <p><i>"...because it just scared the living daylights out of</i></p>

	<p><i>her... And then I think if I do this, am I going to remember... you know... or you say the wrong thing... and they'll take it the wrong way then you'll be..."</i></p> <p><i>"...like even though ...and it's pretty hard really to... we've not really fired anybody... We have wanted to but it's all been so..."</i></p>
Likelihood of prosecution and/or perceived severity of impact of prosecution.	<p><i>"Get that one wrong and you will cost yourself \$30,000-\$40,000."</i></p> <p><i>"The only trouble is, if you ever wound up in court, of course, you know who's going to get hit the hardest. It will be the employer. Absolutely without a doubt."</i></p> <p><i>"Everything's pretty much a priority isn't it, because if you don't do it..."</i></p> <p><i>"...I'd be terrified of being caught. I mean, and the chances of being caught... or the cost of being caught is Pheww... it'd be terrible wouldn't it? Can you imagine the IRD coming in to audit you and they find... And they'd find it."</i></p>
Interpersonal emotional content of the task	<p><i>"I don't think it is fair because I didn't have to know about that. I mean she was a lovely employee and there was no need for me as her employer to... I was dragged in to it... it's a terrible position for us as employers to be put into."</i></p> <p><i>"We've got to deal with things like when people come in and offer you cash to do a job and its basically... I'm sick of it."</i></p>

Incorporating SME Psychic Costs in the Business Cost Calculator

I drafted the screen in Figure 5 to demonstrate how this information on the psychic costs experienced by my participants might be incorporated into the Business Cost Calculator. I have utilised the existing format of the Business Cost Calculator screens as a base.

Business Cost Calculator - test

File Tools Reports Help

Introduction Problem & Objective Develop Options Quickscan Information Gathering **Cost Options** What is Next?

test

- New option 1
- New task 1
- New estimate

Prepopulated from data entered on previous screens.

Enter the maximum liability under the legislation.

Enter expected prosecution rate for SMEs. This may vary by industry.

This figure is automatically calculated based on information entered in this screen.

Enter based on patterns of prosecution under similar legislation locally or internationally as data is available and appropriate.

Estimate SME Psychic Costs

Time Demand (hours per annum)

☐ High
☒ Medium
☐ Low

Complexity of tasks involved for non-specialist with 3-6 hours training

☐ High
☒ Medium
☐ Low

Financial Demand (costs per annum)

☐ High
☒ Medium
☐ Low

Level of interpersonal skill required to perform the tasks involved

☐ High
☒ Medium
☐ Low

Potential Liability Level

Prison	60
Debarred from company directorship	50
Formal prosecution	40
Fines over \$10,000	30
Fines between \$5,000 - \$20,000	20
Fines less than \$5,000	10

Average likelihood of prosecution

☐ High
☒ Medium
☐ Low

Average SME penalty expected under the legislation

Prison	50
Debarred from company directorship	40
Fines over \$20,000	30
Fines between \$5,000 - \$20,000	20
Fines less than \$5,000	10

Psychic Cost Weighting:

Back Next

Help Create Task Estimate Costs

Figure 5 Conceptual Draft of SME Psychic Cost Screen for Business Cost Calculator. (Screen format adapted from Business Cost Calculator template, Department of Industry, Tourism and Resources, Australia, 2006.)

The draft psychic cost screen (Figure 5), assigns a weighting to the anticipated psychic cost of the regulatory proposal. This weighting is derived from data entered on each of the major variables that were found to contribute to psychic compliance costs in this study. These included the amount of time required for the task (time demand) and the relative expense of measures required under the regulation (financial demand). These considerations relate to the direct demand on SME resources. Users would not be required to estimate the relative levels of these. These rankings would be assigned automatically based on more specific data entered in previous screens, which would be electronically compared against the existing database of other regulatory costs and times, and a relative rating generated to reflect the band into which the proposed regulation fell. The ‘complexity of the task for a non-specialist’ variable was included to acknowledge non-specialists are likely to find tasks more difficult, and consequently more stressful than those with specialist skills in relevant disciplines such as accounting, law, business administration, health and safety, environmental management or human

relations. None of the participants in my study possessed qualifications in these compliance-related disciplines prior to entering business.

The level of interpersonal skill required increased the stress related to the task, even for those who rated themselves as having excellent ability to relate to others. This was particularly so where the regulatory requirement conflicted with aspects of New Zealand's culture. For example, Hofstede's (in Hull, 2003, p.40) study of international cultures found that "New Zealanders are the fourth most sensitive to any distance of power between themselves and a manager" suggesting they are "very sensitive... to suggestions of superiority or inferiority." This dynamic may be one of the factors contributing to the reluctance of SME owners to transfer the structure of their companies to more hierarchical forms, despite much of the legislation being more compatible with the formal processes and structures associated with these. The following example illustrates the implications of these factors for the SME owner's lived experience of compliance.

Participant: *"And like some of our guys, they don't want to wear ...work boots, which I'm really angry about, but they don't want to wear them because they've seen accidents where the steel caps of the boots have actually caused more injury than if they had their toes crushed in the first place. And that's it. When I hear them talking like that, that's actually relevant and I don't have anything much to say about that, because who am I to comment, you know, they've seen these accidents. "*

Interviewer: *"And it's their toes."*

Participant: *"And it's their toes, but legally..."*

Interviewer: *"I know, you're responsible."*

Participant: *"Yeah. So what do you do? You can't do anything. Even the guy that came in from the Health and Safety [consultant] said, well ... 'by the time I've left, I'm going to have him wearing'... and there's no way. You know, he's just not going to do it."*

This example is indicative of reluctance other SME owners expressed in simply imposing their authority as employers. In periods of skill shortages, threatening dismissal for failure to follow health and safety requirements is an economically costly option. Situations like these become a trade-off between facing liability under the employment legislation or continuing liability under the health and safety regulation, both of which impose significant psychic costs on an employer genuinely attempting to comply.

Finally, the likelihood and potential severity of prosecution impacted on the stress levels of participants, thus the inclusion of scoring columns to reflect this. The final weighting would be automatically generated for consideration within the RIA process. If the weighting appeared high, the contributing variables could be examined to determine where intervention might be best targeted to reduce the weighting. For example, this might involve reducing the requirement for legal costs and interpersonal skill by providing templates and noting that use of these fulfills the obligations for ‘notification’ under the Act. Placement within a list of legislation with similar weightings may assist policy makers and businesses to relate to the rating. The psychic cost weighting could appear on the final screen as is presented in Figure 6.

Resource Management Act	Weighted 60
Employment Relations Act	Weighted 57
Health and Safety in Employment Act	Weighted 56
PROPOSED LEGISLATION	WEIGHTED 50
Building Act	Weighted 45
Paid Parental Leave Act	Weighted 40

Figure 6 Presentation of Psychic Cost Weightings.

Such a list would also assist in obtaining feedback from SME owners on whether the screen was generating reasonable reflections of psychic costs or whether it needed adjustment.

The Case for Inclusion of SME Opportunity Costs

Likewise participants in my research identified opportunity costs associated with capital use in the compliance process, as the major compliance burden they experienced. Opportunity costs are defined as “a resource sacrificed or foregone to achieve a specific objective... the value of the best alternative can be considered to be the value of the resources used” (Jergers et al., 2002, p.681). As evident in the comments below, opportunity costs associated with compliance tended to fall in to four main categories: those associated with a reduction in temporal capital to pursue the main revenue generating function of the business; reprioritising the use of economic capital needed for other business activities, for example, purchasing assets; the sacrifice of temporal capital that should be applied to their family and household management roles; and the loss of time and energy to participate in personal pursuits such as study and recreation. Comments on compliance-related opportunity costs included:

“oh, huge... The trade-offs are that compliance is one of those things that you have to do, you don't want to do and therefore generally gets left to the last minute... you are having to put it as a number one priority because if you don't do it you are going to be in trouble and when that happens you are generally having to cancel, postpone opportunities to build your business, to grow your revenue, to network, which is really important for small business, or its cutting into your time with your family, your weekends, your nights with the children and your family.”

*“I spend a lot of time on compliance, which takes me away from other things I would like to do and some of them I **should** be doing, no doubt about that.”*

“Not so much the cost in terms of the monetary cost, well a straight out payment cost, but in terms of opportunity costs... fairly significantly. My business plan, because it's a brand new business requires very, very high front-end sales and marketing effort and being the only employee, until recent weeks, then that's me. ...and so every hour spent on compliance is an hour less that I'm actually out there trying to sell... and a lack of time to do that job, i.e. sales and marketing,

has been fairly significantly encumbered by the thought and the stress surrounding compliance.”

A participant, who performed compliance tasks after hours due to the other roles she needed to perform while at work, described having to give up her university business course, due to the demands of her baby and the business:

“Although I like it so much... no sport, no recreation - no time to do anything.”

Although traditionally considered non-financial costs, the opportunity costs associated with family and personal lives should be integral to compliance cost assessment within an SME context. Pinfold (1999) notes the importance of non-financial motives for business owners. In his New Zealand based study, 50.4 percent of his sample ‘strongly agreed’ that a major motivation for starting a business was ‘gaining more personal control and freedom of choice’; a further 33.4 percent ‘agreed somewhat’, with that statement. The lived experience of SME owners in the current study suggests the extent and complexity of the compliance task can impact on the realisation of these anticipated benefits. Failure to address this, may contribute to a greater number of business sales or closures for personal reasons, than would occur under a more manageable compliance regime.

Incorporating SME Opportunity Costs in the Business Cost Calculator

Although it is impossible to accurately quantify these opportunity costs at the macro level this does not eliminate the possibility of incorporating some consideration of these within the Business Cost Calculator process. Wolff, Helminiak and Kraemar Tebes note that “the definition of resource cost changes with the perspective of who pays” (1997, p. 736) and accordingly they recommend that any study perspective “must match the perspective of the funder” (ibid., p.742). Performance of the compliance task within an SME is funded by the business owner and/or the person performing the task in an unpaid capacity. The following screens and justification for them have been developed on this basis.

The opportunity cost screen-set is designed to generate four cost figures. Two represent the opportunity costs of *temporal capital* likely to be applied to the measure, by micro and larger SMEs. The other two figures represent the opportunity cost associated with the application of *financial capital* to the proposed compliance measure; again for micro and larger SMEs. A ‘micro’ enterprise is defined as one with five or fewer employees, while the term ‘larger SME’ (LSME) is applied to businesses employing between six and nineteen people. This distinction is made to accommodate the administrative arrangements that predominate in different size SMEs and is expanded on below.

Like the psychic cost screen, the screen in Figure 7 is based on the format of the existing Business Cost Calculator and is designed to demonstrate how the opportunity cost of temporal capital might be incorporated into the computer based policy tool.

Business Cost Calculator - test

File Tools Reports Help

Introduction Problem & Objective Develop Options Quickscan Information Gathering **Cost Options** What is Next?

test

New option 1

New task 1

Defaults to zero.

Figures automatically generated - weighted for performance of task by generalist.

Drop down list of key industry categories.

Prepopulated field calculated using database content held 'behind' BCC e.g. NZBBS, Dairybase

Opportunity Costs of SME Temporal Capital

Internal Time required to meet regulatory proposal (ongoing)

Admin Managerial

MICRO

LSME

Adjusted Managerial Time Required

Temporal Capital Investment Required (hours)

Industries Covered by Regulatory Proposal:

All

Retail

Manufacturing

Average operating profit per hour per person for industries subject to the regulation:

Opportunity cost of Temporal Capital for MICRO

Opportunity cost of Temporal Capital for LSME

No. of Micros Affected

No. of LSMEs Affected

Opportunity Cost of Temporal Capital at Macro Level

Calculated automatically. Represents Admin & Adjusted Managerial Time

Calculated automatically by multiplying average op. profit per hour per person by temporal capital investment required

Prepopulated from business database & material entered in drop down field.

Back Next

Estimate Costs Save Del

Figure 7 Conceptual Draft of Business Cost Calculator Screen - Opportunity Cost of Temporal Capital for SMEs. (Screen format adapted from Business Cost Calculator template, Department of Industry, Tourism and Resources, Australia, 2006.)

Details of the hours required for compliance within the company (internal time required) would be pre-populated from data entered in the 'estimate costs' panel of the 'cost options' screen. The administrative component is included to make some allowance for LSMEs that are more likely to employ administrative staff to perform some aspects of the compliance task. The administrative component for the micro businesses should default to zero to reflect the fact that businesses of this size have very limited administrative support, if any (Chamber of Commerce, 2003).

A weighting would then be automatically applied to the managerial time component to reflect the fact that the labour performing the task would most likely be labour of a generalist rather than a specialist nature, as is usual in larger companies. The weighting reflects the additional time it is likely to take a generalist to administer the compliance task, compared with a specialist, and as such is labeled the 'adjusted managerial time'. This is intended to accommodate factors such as the application of emerging human capital or a deficit of personal capital, such as when difficulty is experienced due to incompatibility between the task requirements and the personality of a person performing it out of necessity rather than choice. Further research would need to be undertaken to determine an appropriate weighting. Together the administrative time and the adjusted managerial time figures identify the temporal capital investment required by an SME to address the compliance requirement under consideration.

At this point the temporal capital investment is recorded in units of time. Converting this time to a monetary value should occur automatically and could utilise information from existing databases. The users would use the drop-down industry list to choose the industry categories covered by the proposed legislation. This information would then be used to source and calculate, according to set formulae, data located behind the Business Cost Calculator. This 'data' might include for example, the annual New Zealand Business Benchmarking Survey (NZBBS), co-ordinated by the Waikato School of Management; and DairyBase, which provides similar information in relation to dairy farmers.

The NZBBS provides key accounting figures and ratios for a wide range of industry categories that could be utilised or modified for estimating opportunity costs. Although 'size of business' in the NZBBS is currently presented in terms of turnover figures, raw

data on the number of working owners and the number of FTE staff is collected and consequently could be utilised to create micro and LSME categories. The survey also collects data on the hours worked by each owner, although a minor adjustment to the specified criteria applying to this field would be required to yield data appropriate for use in the Business Cost Calculator. Dividing the ‘average operating profit per person’ by the ‘average number of hours invested per person’ would produce a figure that described the ‘average operating profit produced per person per hour’ in the industries concerned. If this figure were then multiplied by the ‘adjusted number of managerial hours’ and the ‘administrative hours’ expected to be spent addressing the compliance requirement the result would be *indicative* of the projected opportunity cost of temporal capital associated with the regulatory proposal. If the ‘temporal capital opportunity cost’ figures generated for micro and LSMEs were multiplied again by the number of micro or LSMEs that would be subject to the regulation, this would provide an indication of the macro level impact of these opportunity costs.

The Opportunity Cost of SME Economic Capital

Likewise it is possible to estimate the opportunity cost of economic capital expected to be invested in addressing the compliance proposal, as demonstrated in the screen in Figure 8. The example is presented using on-going costs per annum as the unit of analysis, however, the basic process could also be applied to one-off start-up costs.

The opportunity cost of financial capital invested in compliance could be calculated in the following manner. The estimated financial cost of the requirement could be pre-populated from data entered in to the ‘estimate costs’ screen (ongoing economic costs: including outsourced costs, but excluding internal labour costs, as these have been accounted for in the opportunity cost of temporal capital screen). Based on the assumption that net profit is available to invest in generating returns either within the business or elsewhere, the gross opportunity cost of using it to address the proposed compliance costs could be estimated as follows:

Projected ongoing cost of proposed compliance measure	X	Average net profit as a percentage of total income per micro/LSME in the applicable industry
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Business Cost Calculator - test

File Tools Reports Help

Introduction Problem & Objective Develop Options Quickscan Information Gathering **Cost Options** What is Next?

test

New option 1

New task 1

New estimate

Opportunity Costs of SME Economic Capital

Ongoing economic cost (excluding internal labour costs [OEC])

MICRO

LSME

Average net profit as a % of turnover for industries covered by the proposal

Margin for anticipated benefits (MAB)

Supporting Evidence for MAB:

% of OEC costs

Opportunity cost of Economic Capital for MICRO

No. of Micros Affected

Macro Level Economic Opportunity Cost to SMEs

Compounded OC of economic capital over 5 years

MICRO

LSME

MACRO

Opportunity cost of Economic Capital for LSME

No. of LSMEs Affected

$\text{Opportunity Cost} = \text{Opportunity Cost of Economic Capital} \times \text{No. of SMEs Affected}$

$\text{Macro Level Economic Opportunity Cost to SMEs} = \text{Compounded OC of economic capital over 5 years} \times \text{Opportunity Cost}$

Help Create Task Estimate Costs Save Delete Print

Prepopulated from costs options screen.

Estimated by policy developer.

Automatically calculated once MAB % is entered.

Automatically calculated from data entered above (OEC and av. net profit as % of turnover minus MAB).

Prepopulated from business database & material entered in Temporal capital screen.

Calculated automatically using industry list from Temporal Capital screen & database content e.g. NZBBS, Dairybase.

As per existing BCC system. Policy staff would enter supporting evidence to justify MAB adopted for the calculation.

Automatically calculated using relevant financial formula.

Figure 8 Conceptual Draft of Business Cost Calculator Screen - Opportunity Cost of Economic Capital for SMEs. (Screen format adapted from Business Cost Calculator template, Department of Industry, Tourism and Resources, Australia, 2006.)

The average 'net profit as a percentage of total income' figure could be obtained from the NZBBS or other relevant database. A margin would then be subtracted to allow for anticipated benefits (MAB) of the regulation accruing to the SME owner (as opposed to employees personally or wider society). For example, a reduction in Employer ACC levies due to a lower accident rate in the industry as more businesses put health and safety measures in place, might be represented by a margin using the average drop in employer levies per annum per SME. These reductions should be itemised and supported by evidence where available, as required in the 'supporting evidence' panel of the existing 'cost options' screen.

The final figures automatically generated from this data would represent the opportunity costs of applying economic capital to the proposed regulation by micro and LSMEs. As with the temporal capital opportunity costs, these figures could be multiplied by the number of SMEs affected by the legislation, in order to obtain an indication of macro level economic opportunity costs on a per annum basis. While the figures are indicative

of an actual cost, they would be best used in comparative analysis with other opportunity cost figures generated using the same process.

It should be noted that opportunity costs are compounding in nature because the profit generated in one year is available to invest in the next and so on. These profits are a key source of equity to fund growth, and research and development. Thus a field has been created to alert policy makers to the longer term consequences of redirecting this economic capital to a compliance measure.

Acknowledging Unpaid and After-Hours Compliance Work in the Business Cost Calculator

Before leaving this discussion on the opportunity cost screen I feel it is important to make explicit why no adjustment has been made to recognise differences in compliance activity performed during working hours compared with that performed outside working hours; or between compliance work performed by unpaid labour, and that performed by the SME owner. First, temporal capital comprises ‘potentially productive time’. The quote below illustrates that for an SME owner temporal capital clearly exists beyond formal business hours.

“...well, as a small business owner there are no hours, as you would well know, so my day and my nights are still almost the same. I do it when I really have to really and it can be daytime, it can be night-time, and it can be weekend.”

Accordingly, time spent on compliance outside formal business hours could conceivably be spent on other business-related productive activities such as marketing, networking, or performing work that does not require client contact such as interviewing potential staff. In addition to this, ‘socially productive time’ is incorporated within the scope of temporal capital as it was defined in Chapter Five.²³ Consequently the value of family or recreational time to the SME owner has been assigned the same value as managerial time.

²³ That quality of time in which people can potentially initiate or facilitate change or motion, i.e. potentially productive time. Includes socially productive activities such as active parenting, care-giving, voluntary work, health and fitness activities, etc.

No adjustment in the price of labour performing the compliance task has been made to recognise the fact that in the participant's lived experience, this work was sometimes performed by unpaid labour. This is justified on the following basis. Firstly, accounting for the temporal capital invested by an unpaid member of the owner's social capital network is consistent with the approach taken in DairyBase, a New Zealand database of accounting information for the dairy industry.²⁴ Within DairyBase 'Total FTEs' is defined as "total paid and unpaid labour hours as a proportion of the working year (2,400 hours)" (DairyBase, 2006, p.7). The rationale underlying this inclusion of unpaid labour is that it provides for more accurate comparisons of profitability and costs to be made between similar businesses, regardless of the form of labour being utilised to generate the return. There is definite potential to apply the principles underlying the DairyBase definitions and calculations, to surveys measuring investment of time on compliance-related activities within SMEs, and in turn to the development of the BCC.

Although DairyBase distinguishes between a managerial and worker rate for unpaid labour this study proposes assigning a managerial value only to the unpaid labour used in SME compliance for the following reasons. First, in an SME context unpaid labour used to address the compliance task is usually a substitution for managerial labour. If it were not performed by the unpaid labour the business principal would most likely be the person performing the task, often because the SME cannot afford appropriate paid labour to address the task. Principles associated with contingent valuation methods of calculating opportunity cost offer support for this contention. The contingent valuation method assesses opportunity costs associated with an activity by asking respondents how much they would be prepared to pay to reduce, or avoid, the phenomenon under discussion, in this case, hands-on compliance work. The frequency and relatively early stage at which workers are employed to attend to basic compliance issues such as the administration of GST and PAYE (Chamber of Commerce, 2003), suggest that once SME owners generate sufficient working capital many are prepared to pay others to perform it in an effort to reduce the opportunity costs associated with performing it themselves.

24 Being collaboratively developed by Dairy Insight, Dexcel, dairy farmers, New Zealand Institute of Chartered Accountants (NZICA), and the New Zealand Institute of Primary Industry Management (NZIPIM).

Secondly, examination of the lived experience of the SME owners in this research indicates that valuing unpaid labour at the managerial rate is a conservative approach in many instances. Much of the unpaid labour applied to the compliance task had a commercial value higher than the SME owner's own charge out rate. This included the assistance of accountants, a lawyer and experienced business managers.

Finally, the fact that household management, parenting, or caring for dependents, are unpaid does not mean that sacrifices of real value are not made by those responsible for this work, in order to perform the compliance task. The sacrifice of time ordinarily allocated to unpaid work, or to personal or recreational activities, has welfare costs attached. These are the 'costs' of labour from the 'funder's' perspective and are examined in more detail in Chapter Seven. The application of the managerial rate to this unpaid labour recognises these 'off-balance sheet' costs. It also provides a mechanism for acknowledging additional time involved in sourcing resources too distant from the workplace core to be accounted for as direct compliance costs yet none-the-less need to be done in order to address the compliance task, for example, sourcing a babysitter in order to release time to complete compliance requirements. This is consistent with the feminist principles adopted in this research, the government's own goals of "valuing the contribution of women" (Ministry of Women's Affairs, 1996) and the recognition that unpaid work is qualitatively different from personal time (Department of Labour, 2004,).

Business Cost Calculator Reporting

In order to reflect the changes recommended above, the final reporting screen of the BCC should be altered to accommodate the distinction between overall compliance costs of a particular proposal and the costs to the SME sector. Given the proportion of SMEs within the New Zealand economy and documented evidence (Business NZ/KPMG, 2004) that compliance costs tend to fall disproportionately upon them, reporting on this distinction should be a mandatory requirement of the RIA process. Totals presented should include: the anticipated direct cost of the legislation using the appropriate labour; the anticipated opportunity costs to SMEs specifically; and a running total of cumulative compliance costs and times (assuming all existing business legislation has been subjected to a BCC evaluation). This final figure can be used to

assess the proportion of time compliance is theoretically consuming within an SME context. If desired, this could be periodically evaluated using diary based research, such as that conducted by Alexander, Bell and Knowles (2004), who required SME owners to actually note the time and costs of compliance over a 13 week period. The summary should also include the contextualised weightings of SME psychic costs associated with the proposal.

Implementing Compliance Measures: The Importance of Institutional and Entrepreneurial Capital

In its first annual report (2004) the SBAG recommended establishing a stand alone group of representatives from business, trade unions, academia and the government to look specifically at compliance issues and, in particular, the cumulative impact of compliance costs. The Cabinet paper on the Review of Regulatory Frameworks (Minister of Commerce, 2006a) noted that the role that implementation practices can play in the efficacy of a regulatory framework in meeting the objectives of both government and business. Accordingly, it recommends extending the brief of any stand alone group to include these issues. Certainly my examination of the lived experience of SME owners for this thesis reveals that much of the compliance burden, and its associated cost, can be attributed to systemic flaws. These were primarily related to the communication of compliance requirements and the delivery of business assistance services. Material from my research is presented below to support this claim. This is accompanied by recommendations for improving the productivity of both the entrepreneurial capital of the SME owner and the institutional capital of the regulatory agency invested at this stage of the compliance process.

Navigating the Regulatory System

Difficulty navigating the regulatory system was universal. Among the extracts illustrating this were:

“If we’re aware it exists, then we give it importance, it’s just a normal case of due diligence. If we didn’t know it existed, we wouldn’t go out and hunt for it

because we probably wouldn't know where to go out and hunt for it for a start. But if it was a requirement, all of a sudden we ventured into an area which involved dangerous goods, then we would investigate our liability or our concerns or what needs to be done but nine times out of ten you wouldn't know where to go."

"As long as you're aware that there is... you know, you can't know everything, can you?"

"...don't want to break the policy in this country... except I don't know all of them"

"...you need to know, you need to have help before you have a difficulty in getting it."

It appeared participants in my study had insufficient cultural capital to locate all the regulations or administrative bodies relevant to their businesses. Participants were asked to rate certain abilities on a five point scale with one being poor and five being excellent. Four of the seven SME owners interviewed rated their 'knowledge of how the New Zealand government is organised' as just satisfactory, while **only one** participant rated their 'level of confidence approaching government agencies for assistance' as excellent. Overall, methods of determining which legislation applied to their businesses appeared haphazard and unco-ordinated. When asked how they found out about legislation and whether it applied to their business all participants mentioned the newspaper (predominantly *The New Zealand Herald*²⁵) and radio (predominantly 1ZB), followed by professional and trade organisations (5/7), printed material from government departments (5/7) and friends and acquaintances in business (4/7). Only three out of seven mentioned websites, the same number who mentioned post office box circulars from potential suppliers. Unions and the local enterprise agency were mentioned by only one participant. In six out of seven cases the SME owner pieced together information from all the sources listed above to determine whether or not they were addressing the full range of applicable legislation.

²⁵ New Zealand's largest daily newspaper.

This approach was not particularly effective. A list of legislation was read out to participants and they were asked to indicate whether or not it applied to their firm. All respondents conveyed hesitation over whether certain (but different) Acts applied. A ‘best guess’ approach was applied to some of the Acts – for example, business operators providing a service were suddenly in a dilemma as to whether or not the ‘Sale of Goods Act’ applied to them and responded with phrases such as “if it relates to services it would”, while at other points participants would ask me more about the Act prior to answering the question. This often revealed they knew about the legislation but did not know its name. In some cases SME owners thought certain legislation applied to them when in fact it did not.

It would appear the cultural capital deficits of SME owners are being compounded by institutional deficits, specifically the failure to provide a regulatory system that key stakeholders are able to navigate. This tends to produce the following linear negative conversion:

DCC → DHC → DSC*

Where: DCC = Deficit in cultural capital; DHC = deficit in human capital; DSC = deficit social capital*

* Macro level, i.e. failure to achieve public good objectives such as the protection of worker safety.

The Role of Meso Organisations and the Private Sector

Public officials may, in fact, consider that it is the role of private sector professionals and industry organisations to determine and communicate relevant legislative requirements to their clients or members. If this is the case, this should firstly be clearly communicated to these businesses and organisations and, secondly, the government must ensure that the principles in the ‘Code of Good Regulatory Practice’ are not compromised by this. The lived experiences of participants in this study suggest reliance on the private sector or meso organisations can compromise the code’s requirements for both clarity and equity. Access to high quality advice on regulatory requirements depended upon: the nature of the SME owner’s social capital networks;

the quality of meso organisations servicing the firm; and the availability of financial, temporal and cultural capital reserves necessary for accessing these sources of advice.

Access to private sector sources of advice varied, with all participants expressing distress over the cost of professional assistance. Participants identified the cost of legal and accounting advice as between \$320-350 per hour compared with some of their own charge-out rates of between \$50-60 per hour. Those SME owners with access to professional advice through their social capital networks had a distinct advantage over those who did not, as indicated by the following comments:

“[accountant/daughter] will give me assistance... when we set up... two new companies... [accountant/daughter] pretty much totally set them up for us... She will help us with software issues to do with PAYE, payment of wages... we don’t often ring our accountant. We’re incredibly fortunate.”

“No, no, we have an accountant, but she’s free”

“ ...so [lawyer/daughter] I got her to search all the legislation and she formulated this fantastic letter which we posted off... and I haven’t heard from him since. I had written something that was quite emotive and she said no, no, no, you can’t have any of that... [lawyer/daughter] said it [getting the letter drafted] would have probably cost about \$1000 actually.”

“My Dad’s trained me... he’s an accountant for the company [he works for]”

Commenting on availability of this social capital, one participant remarked:

“Twenty-four hours a day, seven days a week, for no payment, in fact they pay us!”

Trade and professional organisations were an alternative source of advice on regulation. The quality of advice and assistance provided by meso organisations varied, meaning that while some SME owners had access to high quality advice through these channels others did not.

“You have to become a member. You’ve got to be a member of them because they dish out the templates like for my [accreditation] consultant to use... they’re the only ones that have got them, ... and to buy them off them you’ve got to be a member and to be a member you have to shell out \$350... and you get stickers for your car and you get those gold pins for your suit.”

“...I do get a lot of assistance from places like [two industry-specific organisations] ... if I’ve had any issues I just ring them and say ‘look I’ve got a problem with a staff member, what’s the procedure, what do I need to do?’”

“Well the organisation that we have for our industry is (a) partially non-existent and (b) worse than the [name of another industry organisation we both knew of].”

“Oh we use them for business advice and for training... its just brilliant... they have their briefings, like every sort of quarter, so it’s not too burdensome... but it’s like a summary of all the new legislative changes that have happened... and they run through some of the court cases on particular things...”

Access to advice through meso organisations demanded a threshold of cultural capital. The participant who had immigrated to New Zealand within the previous five years was unaware of any meso organisations, indicating that a deficit in cultural capital can restrict access to these sources of information and assistance. She described a preference for written rather than oral material due to an inability to process oral presentations at the speed required in seminars. This SME owner was the sole English speaker in her company. The prevalence of such situations in New Zealand is not well-documented. However, it is clear that policy makers should consider whether any organisations that are assumed to be an integral part of the regulatory system are accessible to the business immigrants and investors the government is actively recruiting.

Legislation that is applicable, is presumably so because it is actually needed for the public good, for example, it may protect labour, the environment or competitive markets. No matter how well drafted the legislation, these objectives cannot be fulfilled if the businesses charged with implementing them are unaware that the legislation, or

parts of it, even exist. Effective intervention to improve this awareness would involve increasing the cultural capital of the entrepreneur through education, or reducing the amount of cultural capital required to navigate the system. The latter could be achieved either by improving the manner in which regulatory requirements are communicated to SMEs or by facilitating access to those with the cultural capital to navigate the current system, such as lawyers, accountants or business and professional organisations.

The Interface between Institutional Capital and Entrepreneurial Capital

The value of attempts to address institutional capital deficits can be diluted if insufficient regard is paid to the capital deficits of SME owners. Two participants noted that the government had made recent attempts to improve access to applicable regulations. They mentioned the emergence of on-line access to legislation, departmental websites and more generalist sites such as biz.org, which provides a list of core legislation likely to apply to all businesses. However the lived experience of SME owners suggests that potential reductions in the compliance task may not be fully realised due to deficits in general human or cultural capital. For instance, when rating their ability to use the internet to find reliable compliance information, two participants rated themselves only a two on the five point scale, while another rated their skill level as only 'satisfactory'. Only one participant rated their ability as 'excellent' in relation to this skill. Five out of seven were unaware of the primary business related site: biz.org.nz. Entrepreneurs in this study ranged in age from their late 30s through to the late 50s, meaning none acquired computer skills at school. Those who entered self-employment without exposure to computer training in another employment setting had largely self-taught computer skills. Although sometimes trained in a specific package, such as small business accounting software, general computer skill development appeared to have been a low priority compared with the myriad of other skills these SME owners had to acquire and tasks they needed to perform. In this instance, it was observed that deficits in the temporal and/or human capital of SME owners prevented the value of institutional cultural capital investments being fully realised.

Once the SME owner had identified a regulation or piece of legislation that they thought was applicable to their business they then had to familiarise themselves with its requirements. This involved the application of considerable financial capital or

investment in converting temporal and social capital to obtain the human capital required to interpret legislation adequately. Consulting the actual legislation was seen to be of relatively limited value by participants. Most felt they could interpret it but that a lawyer acting on behalf of an aggrieved party may well be able to extract a different interpretation. This lack of legislative clarity falls short of the standards for quality regulation.

“...and it all depends how you are interpreting it, not being a lawyer and all... you think, oh yeah, that’s fine but then the lawyers read it and they go, yeah but you could read it blah, blah, blah”

“ Like all legislation when you get down to the letter of the law... it’s sometimes not crystal clear in terms of its interpretation and then you have to go to... EMA or someone to get clarity on it.”

In fact, there was some debate as to whether even the writers of the law could interpret it:

“I still don’t think anyone really knows and they are really just waiting for someone to go to court to figure it out for the government.”

Knowledge of case law is frequently required for determining standards for business compliance. The interpretation of terms such as ‘good faith’ in the Employment Relations Act or ‘all practicable measures’ in the Health and Safety in Employment Act are examples. The necessity for knowledge of case law, in addition to consulting the legislation itself, would appear to compromise regulatory standards of efficiency, transparency and clarity. If the SME owner has insufficient human or cultural capital to alert them to the fact that case law may be applicable, they are liable to fall short of the regulatory standard despite apparently meeting all the requirements of the actual written legislation.

A significant number of government departments provide assistance services to SME owners. When asked whether or not they would seek advice from various government agencies a number of respondents indicated they were sometimes in a dilemma over

this. Interestingly, hesitation to consult departments varied by government agency rather than as a characteristic of the SME owner personally, suggesting that institutional capital plays a role in this. However, across respondents there was no consistency about which departments were regarded as worthwhile approaching.

I noted that the participant's confidence approaching a government department was enhanced by previous positive, personal experiences with a department representative. Participants reported a tendency to approach a known departmental contact regardless of the issue; suggesting the representative acted as an 'entry point' to the department's services. These personal contacts developed in a variety of ways, including meeting at functions hosted by others such as a bank or enterprise agency, having to co-operate on other issues, for example, the audit of third party, or a particularly positive first encounter on a compliance-related issue. These contacts were arms-length ties similar to those described by Uzzi (1999) in his discussion of network-oriented social embeddedness. It was clear that respondents had had the opportunity to assess these representatives and determined they could trust them to some extent. This involved a conversion of the public administrator's personal and network-oriented social capital to institutional capital, contributing to the compliance-related personal, human and social capital of the SME owner.

PC/SC (of public official) → IC → EntC, i.e. increases the PC/HC/SC (of entrepreneur)

Where: PC = Personal Capital; SC = Social Capital; IC = Institutional Capital; EntC. = Entrepreneurial Capital; HC = Human Capital.

Comments demonstrating this dynamic included:

“And if I had got issues over FBT²⁶ or whatever, I'd just ring that lady, [first name of public official], and I'd say hey it's me....”

“There's one guy in there that we've actually hooked up with, just as an aside he says he shares my philosophy - everyone should pay the tax they owe but should not pay the tax they don't need to pay...[name of business partner] actually hooked into him but I had previously, I believe, met him though a small

²⁶ FBT- fringe benefit tax.

business/franchising seminar that I went to some time ago. They had a physical representation stand...”

This contrasted with comments on departments where SME owners had not developed these positive relationships:

“Well, what I’ve done with IRD recently I wouldn’t do with Accident Compensation because the more information you give them, I personally believe the more information they have to hold against you.”

And with respect to Occupational Safety and Health (OSH):

“They are in the same league as Accident Compensation.”

Clearly the personal capital of institutional employees has the potential to facilitate or impede SME compliance over a much longer period than the initial interaction. In particular, this can occur through challenging or reinforcing existing attitudes held by the SME owner. In the first instance these attitudes are likely to be a product of cognitive social capital at the macro level.

In some cases government departments had instituted proactive procedures to upgrade the compliance-related capital of new SME owners by offering induction services. The lived experience of respondents suggests that this is helpful:

“...He [the IRD contact] offered to come in... which was good... and really just gave me an overview, and they provided me with a calendar and it’s got your provisional tax dates and that sort of thing marked on it which was good and gave me an info pack which has been quite helpful and... his business card if I needed him.” (IC)

This is an example of pairing institutional capital with general human capital in order to convert it to emergent specific human capital, represented as:

Where: IC = Institutional Capital; GHC = General Human capital; ESHC = Emergent Specific Human Capital.

Conversely, deficits of human capital within institutions charged with assisting businesses, could in fact compound the SME owners compliance-related capital deficits. The excerpts below provide examples of this:

Participant: *“...like when I asked certain questions, they didn’t even have plans of our building or....you know, it was a bit vague and like I... it was almost like you could read into it what you wanted...don’t you feel that... and probably if you don’t ask, you’re probably better off than [laughs] asking.”*

Interviewer: *“...we were asking what we needed for the [type of equipment being installed] for this new expansion...and he said that they had had a conference of all the [a specific type of] inspectors in New Zealand, just the week before and they had spent the whole day arguing what the regulations meant... and they couldn’t agree amongst themselves... so it came down to which particular one you got... but then no one was prepared to put anything in writing in case they were wrong and got done for it.”*

Participant: *“Because you can have someone say this is exactly what we need to do, and then someone else turn around and say, no...”*

The government appears to recognise that these types of institutional deficits exist, as indicated by the quotes below taken from background papers for the Regulatory Review.

“A lack of certainty arises particularly in performance-based regulatory frameworks, where it can be difficult or costly for SMEs to establish the threshold for adequate compliance” (Ministry of Economic Development, 2006a, p.2).

Recommendations for addressing this institutional deficit have been included in the Review of the Regulatory Framework:

“Consider whether ‘safe harbour’ provisions should be provided in legislation so that businesses, which have worked proactively... can be given genuine comfort that they...will not be ‘punished’ for genuine error or mishap.”
(Ministry of Economic Development, 2006f, p.8)

Currently the legal liability associated with regulatory ambiguity remains with the SME owner, despite them seeking clarification from the ‘experts’. Even reliance on printed departmental material appears insufficient as indicated by an article in *The New Zealand Herald* which highlighted flaws in the Inland Revenue’s guide for individual income taxpayers:

“Accountants warn that a defence of following IRD instructions does not get a taxpayer off the hook if what the department says is wrong.” (July 7, 2006, C1)

It would be reasonable to expect that the compliance-related human capital of an institutional representative dealing daily with such regulations or those writing a formal government manual on how to comply, should be greater than an SME owner undertaking a new or irregular activity. The inability to obtain definitive advice when seeking it reflects a deficit in institutional human capital. This contributes to high psychic and financial capital costs in the form of delays and opportunity costs associated with over-compliant responses designed to ensure all possible interpretations are addressed. Interim enforcement concessions to business owners seeking to comply under such regimes could be offered until such institutional capital deficits are adequately addressed.

Conclusion

It is apparent that while public documents developed by the Ministry of Economic Development and the Department of the Prime Minister and Cabinet portray a reasonable appreciation of the issues faced by SMEs, this institutional cultural and human capital is not yet impacting on the quality of regulation and implementation in a manner observable at street level. The reasons for this appear to be three-fold. First, examination of the RIA documentation suggests deficits in the understanding of SMEs by public officials at departmental level exist, resulting in the poor *application* of policy

guidelines. Secondly, the failure of officials at the SME:Regulator interface to offer definitive advice, clearly identifying how an SME owner might comply, compounds rather than relieves the complexity, financial and psychic costs associated with the compliance task. Finally, planned interventions need to take into account deficits located outside the regulatory system which have the potential to nullify otherwise appropriate assistance measures. These include deficits characteristic of SME owners such as restricted financial capital or low-level computer skills, and those of other parties assumed to be part of the compliance system such as trade or professional organisations. This examination of the lived experience of respondents suggests the assumption underlying the Review of Regulatory Frameworks is valid: significant potential does exist to redirect the considerable reserves of entrepreneurial capital currently being employed by SMEs to address the compliance task, by improving the institutional capital of the regulator.

CHAPTER SEVEN

THE COMPLIANCE TASK: GENDER ANALYSIS OF THE LIVED EXPERIENCE

Introduction

I have dedicated this chapter to a gender analysis, focusing on the impact of the compliance task on women and/or the roles predominantly performed by them such as parenting and care-giving. Compliance is generally considered simply a business task; something that is undertaken as part of the formal work roles in the business, even if it is performed after hours. It is widely regarded as gender-neutral and is therefore not usually subject to this type of analysis. The source material for this chapter was drawn from all the transcripts, but in particular, from those of the two women participants. I have also used material from the interview I conducted to pilot the ‘questionnaire for spouses’. Finally, I drew also on my own experience of combining performance of the compliance task with full-time parenthood. The gender analysis undertaken reveals that the concerns and costs borne by a significant number of the people performing the compliance task are inadequately addressed in studies of compliance, because either their contribution or the costs they experience fall beyond the scope of traditional economic models.

One of the key strategies used by SME owners to minimise transaction costs associated with compliance is to move the performance of compliance-related tasks outside what I

term the ‘workplace core’ – or the recognised work hours during which paid workers meet to perform the primary income earning function of the business. Scarce resources critical to the income generating function such as the time of the principal, any staff, and cash flow reserves are closely guarded lest they be diverted to non-income generating activities such as compliance. Consequently the use of social capital or the application of the principal’s human capital outside formal business hours, are usually employed to address these tasks. A direct impact of this is that much of the compliance burden shifts to the spouse and/or family of the business principal. This happens in a number of ways which are identified below.

Role Choice

Women in my study appeared to be allocated the compliance role by default. In some cases the compliance role was assigned or allocated in the start-up phase with women participants feeling they had little option to refuse given the compulsory nature of compliance, the scarcity of financial resources preventing the employment of others to perform the task, and what was at stake if the principal could not spend enough time on the income generating functions of the business. The comments below lend support to this contention:

One female participant described the ‘negotiation’ of roles in the following way:

“...he didn’t want to do it so I was going to do it... We’re going into business and you’re doing this and you’re doing the books. Oh am I now?!”

“Sometimes he doesn’t want to deal with it either and he makes me deal with it, which is really... It’s just him pushing, pushing, pushing, you know.”

The following interaction between a male business principal and an unpaid, non-shareholding spouse took place during an interview:

Principal: *“You’re doing compliance as we speak aren’t you [name of spouse]?”*

Spouse: *“Yes, complying with your orders”*

Principal: *“No, you’re complying with our accounting requirements by the government...”*

Another participant described the business plans he had for his spouse:

“Once [name of spouse] doesn’t have to look after the baby twenty-four hours a day, she’ll be able to come in and gradually take bits and pieces of my role off me and one of those bits... may well be compliance... There’s no reason why [name of spouse] couldn’t do the ACC and PAYE returns and the GST returns and that sort of thing and just once a month say to me, it’s all sorted [own name], rest easy and get on with building the business.”

Assignment or acceptance of the compliance role tended to be on the basis of personal embeddedness rather than competency embeddedness (Hite, 2000), meaning women were allocated the task on the basis of their relationship with the business principal rather than on the basis of the compliance-related skills they could bring to the task. This resulted in women participants experiencing steep learning curves and high psychic costs after taking on the compliance role. In only one case in this study was the compliance role assigned to a spouse who already possessed the specific human capital required for the task and in that instance, the spouse was a male. In every other instance where the compliance task was undertaken by the spouse she had to learn the specifics of the task, having had no directly relevant previous experience. This was typically represented by a conversion cycle which could be represented as follows:

DEC/DHC/DTC → family-oriented SC (DSHC) → TC + GHC → ESHC → EC/ EntC	
(principal)	(spouse)

Where: DEC = Deficit of Economic Capital; DHC = Deficit of Human Capital; DTC = Deficit of Temporal Capital; SC = Social Capital; DSHC = Deficit of Specific Human Capital; TC = Temporal Capital; GHC = General Human Capital; EHC = Emergent Specific Human Capital; EC = Economic Capital; EntC.=Entrepreneurial Capital.

In the positive conversion cycle above a deficit of economic capital and an inability to perform the task or time to learn it (DEC/DHC/DTC) leads to the need to utilise social capital resources in the form of the spouse taking on the major compliance role (family-

oriented SC). The spouse then invests their own temporal and general human capital (TC + HC) to develop compliance skills (Emergent Specific Human Capital- ESHC), resulting in the freeing up of financial capital (EC) for use in business survival or development. In the case of a business established by recent immigrants, the compliance role was allocated on the basis of English language ability, which the male co-preneur did not have (Deficit in Human/Cultural Capital).

Women in my study reported that undertaking the compliance role with low levels of specific human capital had resulted in them incurring high psychic costs. The conversation below concerning the potential of an Inland Revenue Department (IRD) audit is an illustration of this dynamic.

Participant: *“Yeah. I do worry about that. As much I don’t think I’m doing anything wrong... My sister-in-law had it, within three to six months of her going into business... it’s just scared the living daylights out of her and she saw exactly... every little thing they went through... And then I think, if I do this am I going to remember...you know how sometimes you think if you’re put on the spot you just won’t be able to remember... you know, or you say the wrong thing, just because it’s the interpretation of the ... then they’ll take it the wrong way and then you’ll be...”*

Interviewer: *“I know, I used to be terrified because I was just learning accounting from scratch, I’d never done that before.”*

Participant: *“No neither had I”*

Interviewer: *“and I thought if I’ve made a mistake and it’s a completely genuine mistake. How can I be expected to know everything I need to know in the business, in the first week? It was really scary.”*

Participant: *“Well that’s what I used to say to [name of spouse]... like you’re expecting me to have a baby and learn all this stuff... and deal with a very active two and a half year old...”*

Such high levels of task-specific psychic costs are not usually incurred by women who return more formally to the workforce, often to their previous job or at least to one where they have some relevant background. The psychic costs incurred by the spouses in my study represent more than those associated with learning new skills. The psychic burden was intensified by the fact that participants would remain legally liable for errors in task performance for the following seven years.

The lived experience of the women associated with the businesses in this study also demonstrated that considerable psychic and opportunity costs were associated with having to organise the rest of their life to accommodate relevant compliance deadlines and tasks. In the pilot spouse interview the participant was asked about how the compliance roles impacted on her other roles. This person did not agree to be taped but my notes taken during and immediately after the interview read:

This question elicited a lot of emotion related to the fact that the compliance role was taken on reluctantly, was lasting longer than the participant wanted it to and that the principal did not appear to appreciate the difficulty and extent of the work involved. There was clear resentment that the role was consuming the participant's only child-free time to organise the household and have some personal leisure time.

The additional psychic and opportunity costs imposed by performing the compliance task were particularly significant given that the participant worked part-time four days per week for another employer and one of their children had a severe intellectual disability. Carer support hours allocated to provide respite from her child were often used to complete compliance work. She mentioned having to work until 11.30pm to meet compliance deadlines and having to restrict time spent with the children on outdoor and school activities.

Another participant described her regret at having to give up her business studies to combine her business roles with her ten month old baby.

"Although I like it [the study] so much... No sport or recreation- no time to do anything"

The impact of these trade-offs is significant. In this instance the participant was a relatively recent immigrant to New Zealand. Not only were her studies providing valuable information about the New Zealand business environment (cultural capital), her English language skills (human capital), friendships and business connections (network-oriented social capital) were expanding. She clearly listed these aspects as losses. A negative conversion cycle was evident:

DEC → DTC → DCC/DHC/DSC → DEntC

Where: DEC = Deficit of Economic Capital; DTC = Deficit of Temporal capital; DCC = Deficit of Cultural Capital; DHC = Deficit of Human Capital; DSC = Deficit of Social Capital; DEntC = Deficit of Entrepreneurial Capital.

A deficit in financial capital (DEC) led to a deficit in temporal capital (DTC) which compounded deficits in cultural, human and social capital (DCC/DHC/DSC) which, in turn, was likely to mean potential returns that could have been generated in the business, would not be, or would take much longer to be realised (DEnt.C). Thus the interaction between the compliance load, her income generating roles in the business and the responsibilities of motherhood were clearly restricting the economic contribution the company could make to the New Zealand economy at this point.

Multi-tasking and the Use of Social Capital

Although participants developed strategies to manage the compliance task these strategies came with a series of social, temporal and psychic costs attached. The women in this study described applying two major strategies to accommodate the competing and often incompatible demands of their different roles. The first involved multi-tasking, while the second involved utilising their own social capital networks, moving the impact of the compliance burden yet another layer back from the ‘workplace core’.

Multi-tasking was clearly a strategy used by co-preneurs and spouses of business principals to address aspects of the compliance task, while also attending to their other responsibilities, most notably caring for children. Examples of multi-tasking ranged from performing compliance work in the domestic environment while children were present, taking children to work with them, or taking children to meetings with compliance-related professionals as indicated in the excerpts below:

Participant [male]: *“...She’s the sort of lady where you take the kids and she spills the toys on the floor and the kids play. But at [a major well-known law firm] you’re in their posh meeting room and they serve you drinks.”*

Interviewer: *No, my accountant is good like that. I’ve always had the attitude that I’m the client, I pay for it... unfortunately if my kids have to be there...”*

Multi-tasking in relation to some aspects of the compliance task is therefore clearly possible if others engaged in the process are willing to accommodate some departure from accepted business norms, in the cases above this involved the presence of children in a business meeting.

Despite the fact that aspects of the compliance task, and indeed the wider business role, are being conducted in this fashion the assumptions underlying many legislative compliance measures are based on a conceptualisation of working life as reasonably discreet from the domestic world. The lived experience of women in this study and indeed my own experience is that performance of the compliance task and domestic responsibilities are often closely intertwined and frequently occur simultaneously as in the examples above. In the terminology employed by Lee and Liebenau (2002) we perform the compliance task according to a polychronic, rather than monochronic schedule. According to Lee and Liebenau monochronic schedules are based on time as defined by mechanical clocks, with rigid timeframes dedicated to specified activities. By contrast, polychronic time frames involve the more ready acceptance of interruptions and engagement in multiple activities simultaneously. Lee and Liebenau suggest that “in common management practice monochronic procedures are considered superior to polychronic ones” (2002, p.132) and as such, many business related activities tend to be oriented around monochronic schedules.

An examination of lived experience does in fact reveal that working in a polychronic manner under a regime designed using a monochronic worldview actually incurs official costs. This dynamic is evident in a number of areas, but for the purposes of illustrating how these costs are incurred the policy regarding fringe benefit taxation (FBT) on vehicles will be used. The Inland Revenue Department website outlines

criteria for vehicles eligible for exemption from FBT and including the following statement:

“The principal design of the vehicle cannot be for carrying passengers.” (Inland Revenue, 2006)

This criterion effectively means that all ‘family-friendly’ vehicles which are utilised for multiple purposes are subject to FBT. If a passenger vehicle is used in a business context there is a requirement for vehicle use to be documented, to facilitate the calculation of FBT on the private component or to claim business expenses if the vehicle is privately owned. As few SME owners regard ownership of a fleet of vehicles for specific uses as an efficient use of economic capital they have traditionally addressed this requirement by utilising a flip-flop 9-5 lease on their family vehicle. The design of the flop-flop lease recognised that use of a vehicle may switch between private and business use over the course of a day or week. This type of lease has recently been disestablished on the grounds that it gave SME owners an advantage that large business did not have. Consequently, every time a trip is undertaken mileage and other details must now be fully documented. In a monochronic, strictly ‘work’ environment recording mileage tends to be an instituted practice. Such documentation requirements become much more of an issue for those operating a polychronic schedule where one might well be dealing with a leaky iceblock given as a treat for being ‘good at the accountant’ and racing to meet another child by the three o’clock deadline before throwing them in soccer gear and dropping off the GST return in the post on the way to practice; or in fact using the vehicle as a mobile office at the sports grounds while the children are under the supervision of the team coach. Similar examples could be given in relation to mobile phones and the logging of personal calls or the use of computers located in domestic environments. Thus, while the application of a regulatory requirement under monochronic conditions may appear reasonable, application of the same regulation under polychronic conditions may result in a much higher compliance burden or cost being imposed.

The second major strategy used by the women in this research to address points of incompatibility between the compliance role and other roles was to tap into their own pool of social capital, mainly to obtain childcare to meet statutory deadlines. This often

involved a second tier of women, usually unpaid, who then became critical to the performance of the business compliance task. Only one participant in this study had an ongoing childcare arrangement in place. The participant's mother cared for the baby concerned on a regular basis in an unpaid capacity. The hours of childcare were inadequate and this participant planned to arrange a nanny in the foreseeable future to enable her to spend more time working during normal working hours instead of at night or while the baby was sleeping. The other women performing compliance work were dependent on neighbours, friends or relatives to mind children at short notice, although this was not always possible. Most of the children in the families of these participants were now primary school aged, making the need for care irregular such as when children were sick or a compliance related training course overlapped with after school hours or holiday periods. Participants tended to resort to make-shift arrangements to accommodate these factors.

Performance of compliance work by a spouse represents the substitution of social capital for economic capital. If economic capital is expended on childcare to provide time to perform the compliance task the benefits of such substitution are abated, if not fully negated. Alternatively, delaying compliance with certain regulations would result in financial penalties, also negating the economic value of participants undertaking the work themselves. Thus the use of social capital to address childcare issues is, in part, a strategy to minimise the indirect costs attached to addressing compliance requirements. Practical issues such as the fact that formal childcare does not usually accommodate irregular attendees or sick children, also makes utilisation of informal care while completing compliance work, a more appropriate choice for co-preneurs and spouses of SME principals.

However, tapping into other social capital resources often activated the obligations described by Coleman (in Spellerberg, 2001) in the literature review, requiring the women to reciprocate in some way at another time. Hence, the utilisation of support from families and friends came with psychological and moral obligations attached; ones which must be met in the spouse's 'free' time. According to Bourdieu (1986) use of such social capital also carries risk, since there are no formal guarantees of return or accessibility on demand, as is common with the investment in, or exchange of, economic or physical forms of capital.

The Influence of Highly Embedded Relationships on the Compliance Task

Consistent with Smeeding and Marchand's claim that "some public policy decisions can have obvious household time allocation effects" (2004, p.37) the lived experience of the participants in this study illustrates that the nature and quantity of business compliance requirements imposed by regulatory agencies can significantly impact on the quality of life experienced by families of SME owners. Women who were not performing the compliance task still experienced higher work loads if their spouse had to perform the compliance role after hours in what was previously family time. Performance of the compliance task outside working hours usually occurred in response to a financial capital deficit in the SME which prevented employment of others, either staff or professionals, to assist with the task. If considered at all in previous studies, the loss of family time is only referred to as an opportunity cost experienced by the person undertaking the compliance work. The costs imposed on the spouse and children of the SME principal are never considered. According to the participants in my study, these costs include additional stress through social isolation, extra work in the form of caring and household responsibilities, and the loss of personal and family leisure time.

There was some evidence in the case studies that a concerted commitment to keeping compliance contained within work hours was usually effective in larger, more mature SMEs. Three male participants described 'ring fencing' their personal lives to protect them from over-encroachment of work, and compliance in particular. This involved a conscious decision to lower levels of priority in some areas of compliance, and the arrangement broke down in the case of compliance-related crises, for example, a personal grievance being lodged, but was generally achievable on a daily basis. The decision to ring fence was a strategy to reduce the opportunity costs participants and their families had previously been paying by investing long hours in work.

The existence of highly embedded social relationships, such as those that exist in families can increase the complexity of some compliance functions. This dynamic was evident in one case study with respect to company directorship responsibilities. One participant described his wife signing personal guarantees for leases without even asking what the documents contained. This took place at home in the early evening, a

time renowned for heavy demands from children. He explained that she asked much later what they were about, and was then somewhat concerned:

“but then she said, oh it must be okay. She trusts me 100 percent... for our interests. I do it by my best judgement and if I stuff up she can live with it, but she is not interested at all... She asks me very little about work, she’s not really into it.”

This is an example of what Hite (2005) describes as ‘personal goodwill trust’, in which network partners look out for each other’s best interests. However, it is possible that a similar interaction might be observed where the desire not to upset the family dynamic acts to deter immediate family members from exercising their own best judgement in the interests of the company as required by the Companies Act. Immediate family members are the most likely to operate in this manner because of the higher levels of trust and social capital observed amongst them and because the power dynamic in a domestic relationship may transfer to a business situation. For these reasons it is essential that all SME directors are fully aware of the ramifications and legal responsibilities attached to their role as company director. Co-directors and spouses are required to develop high levels of personal capital to fulfil these responsibilities, while managing possible impacts on the domestic partnership.

The Compliance Role as an Expression of Entrepreneurship

Finally I regard it as important to emphasise the significance of the work performed by the women in this study who either undertook the compliance task or indirectly supported the performance of it. Nunns noted a tendency in overseas studies to portray women in enterprise as “passive and non-assertive” (2001, p.38). By contrast, the women I interviewed could be regarded as assertive, positive and professional in their approach to their roles. Despite being ‘allocated’ the compliance role all realised the importance of performing it. In fact, most were taking a proactive stance to ensure the long-term viability of their family businesses and, in doing so, protecting family assets such as their home, which in a number of cases had been offered as security to the bank. In this regard their contribution was critical to both business success and social wellbeing.

In a wider context, successful performance of compliance work by these women is fundamental to the achievement of the policy objectives attached to the regulations with which they are complying. Therefore, it is important for policy-makers to acknowledge the significance of these women regardless of whether they are paid or unpaid, and where and when they perform such work. Policy-makers should note that, if these women perform compliance work in an unpaid capacity, they will now be excluded from the calculation of business size in New Zealand, as the definition of ‘employee count’ excludes unpaid working proprietors. It is important to take steps to ensure their exclusion from the definition of employee count does not obscure their economic contribution to the firm or their contribution to the performance and integrity of the New Zealand regulatory system.

The performance of the compliance role outside of the formal work context and in conjunction with other roles clearly plays an important role in facilitating the establishment of new businesses. It can be tempting to regard compliance work as routine and mundane. Such an attitude would undervalue the entrepreneurial component of this work. It must be remembered that the women in this study undertook compliance roles outside their preferred area of interest and expertise; adapted to these for a period necessary to secure the future of the business; and combined this work with other significant family and employment roles. The characteristics exhibited by them, such as working hard, perseverance, pursuing vision despite initial sacrifice and setbacks, and ability to co-ordinate and convert resources in ways not necessarily envisaged by others, are all indicative of entrepreneurial spirit. This does not imply that undertaking these roles was easy, as evident in their lived experiences, and there is certainly potential to enhance the effectiveness of this resource by addressing institutional biases against multi-tasking and the operation of polychronic schedules.

Conclusion

Applying a gender analysis to an examination of the compliance task reveals a number of compliance-related burdens that are not usually highlighted in surveys on the ease of doing business. The compliance task is often assigned to women on the basis of their relationship with the principal rather than on their previous compliance-related

experience. These women often feel compelled to accept and learn the role for economic reasons. They then face the challenge of fitting this around other responsibilities such as employment outside the family business, parenting and household management. From a cursory examination of taxation legislation it would appear that regulatory regimes based on monochronic time systems, and distinct work and home lives, can discriminate against women performing these roles.

CHAPTER EIGHT

CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations derived from this research fall into two main categories. First, there is a set that relate to the methodological findings pertaining to the use of Firkin's model of entrepreneurial capital. Secondly, there are implications for compliance-related public policy that can be drawn from the SME owner's lived experience of the compliance task.

Methodological Conclusions and Recommendations:

I chose Firkin's (2001b) model of entrepreneurial capital as the key framework for analysis. The key strengths of the model, as I experienced them in relation to this study are documented below along with details of modifications considered necessary for this research project.

I found the key strength of Firkin's model to be its capacity to accommodate a holistic approach to analysis. Specifically the model enabled personal and work lives to be considered seamlessly. This was particularly necessary given the SME context in which participants drew on the entrepreneurial capital resources embedded within both family and business oriented networks. It facilitated consideration of capital forms or deficits outside those traditionally considered by economic analysis, for example, cultural and social capital. In turn, evidence was produced indicating that these forms do, in fact,

influence performance of the compliance task and as such, consideration of them within the compliance policy development process is warranted.

Originally intended for application to the entrepreneurial task as a whole, this model has proved useful in analysing resource application to sub-sets of the entrepreneurial task - in this case the compliance responsibilities associated with a business. It would appear the approach would be equally applicable to the study of other components of the entrepreneurial task such as marketing, entering export markets, or human resource management. Application of a similar framework of analysis to research in these areas is likely to facilitate theory development and the assessment of specific interventions on the overall entrepreneurial task of SMEs.

Some modifications were made to Firkin's model to accommodate the forms of capital identified during the analysis stage. The most significant was the development and introduction of a new concept to recognise the pivotal role of potentially, productive time as an entrepreneurial resource. I chose the term 'temporal capital' to describe this capital form which was used as a working concept in this research project. The notion of temporal capital warrants further development. It requires rigorous testing to determine its theoretical validity and usefulness. It could potentially be applied broadly within economics, management and the social sciences.

In addition to this, the character of capital forms have been refined by adding descriptors where appropriate; specifically atrophied capital, latent capital, emergent capital and complementary capital. Use of these terms more accurately identifies the ease with which a resource may be applied and the likely returns attached to utilising it. The terms also suggest strategies that could be used to improve the value of entrepreneurial capital present within the SME owner's network. Identification of cases where complementary capital is required alerts those responsible for implementing or enforcing the policy that effective compliance will involve more than simply educating one person.

The application of Bourdieu's notion of capital conversion²⁷ during the coding process revealed not only the presence of capital conversion activity but distinct patterns in

27 A key component of Firkin's model.

capital use and conversion. The patterns I identified included singular and concurrent capital use, linear capital conversions, and positive and negative capital conversion cycles. Given the sample size in this project, application of such conversion coding in future research could assist in verifying whether these patterns exist in a wider context and what the implications of these patterns for planned interventions in other contexts might be.

There is potential to apply Firkin's model and the study of capital conversion patterns to other fields of research. For example, I consider this model is appropriate for application to poverty and welfare issues where deficits in human, social, cultural, temporal or economic capital often prevent conversion of existing resources into more desirable forms. The application of Firkin's framework to individual cases would identify not only the relevant deficits, but the factors required to address them. For example, to access a route out of poverty a 'catalyst' form of capital may be required to facilitate the conversion of other forms of capital to which the individual has access. Alternatively the capital deficits driving a negative conversion cycle can be identified and appropriate interventions developed. The study of the interaction between individual and institutional capital as discussed in Chapter Six, also has parallel applications to the field of welfare. Although such scenarios closely resemble work already occurring in this area, it would be interesting to see whether exploratory research applying Firkin's model to the analysis of these issues and cases would offer new insights.

Finally, there is potential for further research, based on this model, to be undertaken in other countries to determine whether SMEs of comparable size operate in a similar manner. This would provide greater insight into whether New Zealand SMEs employ compliance-related entrepreneurial capital in ways distinct to our economy and culture or whether the approach taken is simply a function of their size. This knowledge would assist policy makers in determining the appropriateness of adopting approaches used elsewhere.

Compliance-related Policy Recommendations

Analysis of my research findings has confirmed that the compliance burden experienced by SME owners is determined to a large extent, by the ‘goodness of fit’ between the regulatory requirements and the compliance-related capital SME owners have available to address these. The lived experience of participants in this study suggests that the institutional capital of regulatory agencies plays a key role in addressing or compounding the compliance-related entrepreneurial capital deficits of SME owners. The New Zealand government is currently undertaking the Quality Regulation Review (QRR)²⁸ with the intention of upgrading its compliance-related institutional capital. The findings of my study lend strong support to some of the interim recommendations submitted to Cabinet in both the background papers and first progress report on the QRR. The most strongly supported recommendations are identified below along with my qualifying remarks where appropriate. This is supplemented by an additional set of recommendations that I believe to be worthy of consideration by regulators.

The need to more effectively apply the principles of good regulatory practice is identified in background papers on the Review presented to Cabinet and is supported by my thesis. The initial Cabinet paper proposes strengthening the regulatory process by requiring all government agencies responsible for creating and/or enforcing regulatory frameworks to confirm they have complied with the ‘Principles of Good Regulatory Practice’ and the requirements of the RIS process (Minister of Commerce, 2006a). It is my view that consideration associated with the principle of equity should extend to the consultative methods employed. In particular, regulators should ensure consideration is given to the needs of those performing the work who may not necessarily be undertaking the compliance role as part of their primary employment, or who are in a formal or paid capacity; may not be competent performers of the compliance task; and who are not necessarily well represented by formal business organisations; or confident approaching government agencies.

28 A ministerial review with the “overarching objective of committing to a regulatory framework that promotes economic growth, business confidence, globally competitive firms and social well-being” (MED, 2006f, p.1). Was previously called the Review of Regulatory Frameworks and is referred to by this name in the rest of the thesis.

A number of recommendations contained in the Cabinet papers on the QRR relate to the preparation of Regulatory Impact Statements (RISs). Institutional deficits resulting in the preparation of poor quality RIS's, such as that for the Holidays Act evaluated in Chapter Six, would be partially addressed if the government adopted recommendation m (i) (Minister of Commerce, 2006, p.15) to introduce a requirement to prepare a draft RIS for consultation, and recommendation m (ii) (Minister of Commerce, 2006, pp.15-16) with respect to allowing the RIAU to deem a RIS inadequate according to set criteria. An opportunity for early evaluation of the RIS would facilitate consideration of potential impacts initially overlooked by officials, promoting higher quality policy development and implementation practices. However, the requirement to prepare a draft RIS should not be regarded as a substitute for training those responsible for writing them. Presentation of poor quality RISs to the business community on an ongoing basis is likely to undermine the cognitive social capital of the regulator at the macro level. I consider the criteria for rejection of a RIS should be extended to include failure to distinguish between impacts on business in general and impacts on SMEs. This would ensure size-specific impacts of regulatory proposals are considered. The inclusion of an implementation and review section in the RIS has been proposed in the Cabinet papers (Minister of Commerce, 2006a). Attention should be directed to ensuring that the terms of such reviews are not so restrictive that they effectively thwart the objectives of the RIS process more generally.

Consideration of potential 'safe harbour' provisions which would provide certainty and a degree of protection from prosecution for businesses that have worked proactively with the relevant regulator and have been approved as complying, has been recommended in both reports to Cabinet on the RRF/QRR (Minister of Commerce, 2006a; Minister of Commerce, 2006b). I strongly support this recommendation on the grounds that it is likely to substantially reduce the psychic costs incurred by participants in this study as a result of contradictory advice received from regulatory agencies, and concern that genuine mistakes would be interpreted as deliberate evasion of regulatory responsibilities. It is likely that economic capital currently being invested in over-compliant responses to ambiguous legislation will be redirected to more economically productive activities, facilitating achievement of the economic transformation objectives underlying the QRR.

Finally, conditional support is offered to the proposal to pilot the Business Cost Calculator in government departments over the following two years (Minister of Commerce, 2006). Such support is conditional upon the calculator being adapted to accommodate a distinction between the impacts on business generally and the impacts on SMEs. According to my research SME impacts are strongly influenced by the psychic and opportunity costs associated with a specific regulatory requirement. For this reason serious consideration should be given to incorporating these dimensions within the Business Cost Calculator. My work on conceptual screens in Chapter Six provides an example of how this might be done.

The recommendations above endorse or expand on those made in the Cabinet papers on the QRR. The recommendations that follow raise additional issues that warrant consideration on the basis of my research findings.

First, I consider further research is required to investigate the extent to which SME owners can determine what legislation applies to their businesses. If, as in this study, it is determined that this is a significant barrier to effective compliance and a major contributor to psychic costs, this situation must be addressed. There is some evidence of businesses asking for improvements in the way requirements are communicated, with the most recent report on the QRR identifying the need for “clear, assessable and user-friendly information to assure businesses of exactly what they need to do to comply with the law” (Minister of Commerce, 2006b, p.1).

The second is the need for regulatory agencies to recognise that deficiencies in the institutional capital of public administrators at the SME:Regulator interface are currently compounding the compliance-related capital deficits and the psychic costs of SME owners. Accordingly regulators need to ascribe priority to:

- a) upgrading the human and personal capital of public administrators (at both central and local government level); and
- b) accepting accountability for current deficits and reflecting this by fast-tracking the introduction of ‘safe harbour’ provisions outlined above.

Thirdly, I consider further research is warranted on the gender implications of compliance requirements within the SME sector. In particular consideration should be given to the following:

- a) conducting more research on who does the compliance work within SMEs, whether this is paid or unpaid and what other responsibilities these people have both within the business and outside it;
- b) integrating such research into the policy development and cost assessment processes; implementation and training plans; and the design of compliance-related consultative programmes;
- c) reviewing current and proposed regulations to ensure that those utilising polychronic schedules to meet the needs of their families and businesses, are not subject to a disproportionate compliance burden;
- d) explicitly identifying the implications for women SME owners where women are excluded from legislative entitlements on the basis of SME ownership, such as was the case in the initial phase of paid parental leave.

Consistent with the methodologies adopted for this research project, the reflexive approach applied to the lived experience of respondents has produced a set of practical recommendations for consideration by researchers and public officials. Application of Firkin's model of entrepreneurial capital has revealed that effectively addressing the compliance task within an SME context involves the application of human, social, cultural, personal, economic and temporal capital. Deficits in the availability or quality of these forms of capital at SME level can be addressed or compounded by the application of institutional capital at meso and macro levels. To reap the benefits of New Zealand's internationally competitive compliance regime 'ease of doing business' must be more than a description of our formal regulatory requirements: it must describe reality at street level. Improving the match between compliance requirements and the compliance-related entrepreneurial capital accessible to SMEs is the key to achieving this.

ABBREVIATIONS

ACC- Accident Compensation Corporation

AC- Atrophied Capital

AMT- Adjusted Managerial Time

BCC- Business Cost Calculator

BCCS- Business Compliance Cost Statement

ComC- Complementary Capital

D- Capital Deficit

EC- Economic Capital

EIIC- Employment Institutions Information Centre

EmC- Emergent Capital

Ent.C- Entrepreneurial Capital

EMA- Employers and Manufacturers Association

FOSC- Family-oriented social capital

FBT- Fringe Benefit Taxation

FTE – Full Time Equivalent

GHC- General Human Capital

GST – Goods and Services Tax

HC- Human Capital

IC- Institutional Capital

IRD- Inland Revenue Department

MAB- Margin of Anticipated Benefit

MED-Ministry of Economic Development

LC- Latent Capital

LSME- Larger small or medium enterprise

NOSC- Network-oriented social capital

NZBBS- New Zealand Business Benchmarking Survey

NZCSMER- New Zealand Centre for Small and Medium Enterprise Research

OSH- Occupational Safety and Health

PAYE- 'Pay as You Earn' income tax.

PC- Personal Capital

QRR- Quality Regulation Review

RIA- Regulatory Impact Analysis

RIAU- Regulatory Impact Analysis Unit

RIS- Regulatory Impact Statement

RRF- Review of Regulatory Frameworks

SBAG- Small Business Advisory Group

SC- Social Capital

SME- Small or Medium Enterprise, employs up to nineteen people (employee count).

SHC- Specific Human Capital

TC- Temporal Capital

GLOSSARY

Adjusted Managerial Time (AMT) – weighting applied to managerial time component of the compliance task to reflect the fact that the labour performing the task is likely to be of a generalist rather than specialist nature.

Administrative Churn- changes in registration due to changes in such factors as ownership, mergers and restructuring.

Atrophied Capital (AC) - forms of capital present or previously utilised, but no longer as useful as they once were due to depreciation e.g. specific knowledge which is no longer current.

Business Cost Calculator (BCC) - a computer-based policy tool for assessing likely impacts of regulatory proposals.

Business Lifecycle- process whereby a business transitions from start-up to maturity and/or decline.

Capital Deficit (D) - absence or inadequate supply of capital required.

Complementary Capital (ComC) - deliberate application of different yet complementary forms of capital by spouses and/or business partners.

Compliance Costs- all costs incurred in performing the compliance task, from the perspective of the ‘funder’ i.e. the person/s responsible for performing the task. Includes psychic and opportunity costs as well as financial costs.

Compliance Cycle- sequential and ongoing series of steps through which the SME owner progresses when addressing compliance issues.

Compliance Task- addressing all the steps in the compliance cycle, whilst minimising the negative impacts on the income generating function of the business.

Conversion Cycle- a series of capital conversions which eventually return to the capital of origin. In a positive conversion cycle the conversions drive in a positive direction, producing improvements for the SME owner. In a negative conversion cycle capital deficits compound, leaving the SME owner in a worse situation.

Convertibility- ability to substitute one form of capital for another (Bourdieu, in Firkin, 2003, p.65)

Constrained Entrepreneurship- constraints within which the entrepreneur must perform their role, including macro level social process constraints such as those associated with institutions and micro level constraints such as the cognitive limitations of the SME owner (de Bruin & Dupuis, 2003, p.25).

Co-preneurship- where husband and wife (or couples in a similar relationship) “work in, share ownership of, commitment to, and responsibility for their businesses” (Smith, in Firkin, 2001a, p.3).

Cultural Capital- occurs in three forms: an embodied state including language use, shared values, knowledge and understandings; an objectified state, including items with material form or symbolic value such as books; and an institutionalized form; where knowledge or skill is captured in a culturally understood framework e.g. qualifications (Bourdieu, 1986 in Firkin, 2003, p.63).

Direct Costs- formal costs incurred in relation to meeting a compliance requirement e.g. fee for professional advice.

Economic Capital- constitutes “financial assets of any form that are directly convertible to money” (Bourdieu, 1986, Jary & Jary, 1995, in Firkin, 2003, p.61).

Embeddedness- the degree to which individuals or institutions are integrated in to a set of social relations that impacts their structure and/or behaviour. Associated with Granovetter (1985).

Emergent Capital (EmC) – a developing form of capital that does not yet qualify as the pure form.

Employee Count –head count of all wage and salary earners, both full-time and part-time. Excludes working proprietors if they are not paid a wage or salary by their company (Ministry of Economic Development, 2006c, p.5).

Entrepreneurial Capital (Ent.C) – the sum of economic social and personal capital that has worth in the entrepreneurial context (Firkin, 2003, p. 65).

Family Business- one owned or managed by one or more family members (Heck et al, 1999, in Firkin, 2003, p.92).

Human Capital (HC) –made up of general and specific forms. General human capital (GHC) relates to an individual's formal education and previous work experience. Specific human capital (SHC) refers to industry-specific knowledge and skills and/or entrepreneurial specific talents (Firkin, 2001b, p.4).

Indirect costs- cost incurred (formal or informal) in meeting a compliance measure, which would not traditionally be recorded as a compliance cost due to its character e.g. loss of family time or the secondary or tertiary nature of the cost e.g. loss of future return on capital spent on compliance measures.

Institutional capital- knowledge and understanding of SMEs, held within compliance-related organisations and the ability to apply this in a manner that meets public good objectives, whilst simultaneously minimising negative impacts on SMEs.

Latent Capital (LC) – compliance-related capital that is available and potentially useful but is currently unused.

Linear Conversions- capital conversion pattern in which one form of capital is converted to another via a single (simple capital conversion) or multiple step process (complex linear conversion).

Larger small or medium enterprise (LSME) – business that employs between six and nineteen people.

Margin of Anticipated Benefit (MAB) - percentage of ongoing economic costs associated with a regulatory proposal that would be expected to produce a tangible benefit to the SME owner.

Micro Enterprise- business that employs between zero and five people.

Monochronic Time Schedule- based on time as defined by mechanical clocks and rigid timeframes dedicated to specified activities (Lee & Liebenau, 2002, p.132).

Opportunity Cost- a resource sacrificed or foregone to achieve a specific objective. Value of best alternative can be considered the value of the resource used (Jergers et al, 2002, p.681).

Personal Capital (PC) –In Firkin’s model this is comprised of elements of cultural capital, general and specific human capital and personal attributes (Firkin, 2001b, p.14). Used in this thesis to refer to personal attributes.

Polychronic Time Schedules- involve more ready acceptance of interruptions and engagement in multiple activities simultaneously (Lee & Liebenau, 2002, p.132).

Principal- the person who plays the major role in the business, having primary responsibility for it.

Psychic Costs- mental stress faced by businesses in complying with many and changing regulatory obligations (BusinessNZ/KPMG, 2004, p.5).

Social Capital- “the aggregate of the actual or potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition- in other words to membership of a group” (Bourdieu, 1986, in Firkin, 2001a, p.6). Can be classified as network or family oriented, cognitive or structural.

Temporal Capital- that quality of time in which people can potentially initiate or facilitate change or motion i.e. potentially productive time. Includes socially productive

activities such as active parenting, care-giving, voluntary work, health and fitness activities etc.

Value-added output- a measure of the contribution to total output by enterprises in the economy. Calculated as a gross output minus intermediate consumption. Serves as a proxy measure for Gross Domestic Product (Ministry of Economic Development, 2006c, p.38).

Appendix I

Questionnaire

Checklist of legislation

Scale one- perception of compliance scale

Scale two- priority of compliance scale

Responsibility schedule

Outside compliance assistance schedule

Agency schedule

Scale three – skill and confidence self-ratings

Scale four - stress symptom scale

Scale five- sources of compliance stress rating scale

The Relationship between the Entrepreneurial Capital of SMEs and Business Compliance.

RESPONDENT:

COMPANY:

DATE:

Interview to be with the business partner/person most responsible for compliance issues within the SME.

INTEVIEW SCHEDULE

Objective 1: Define the compliance task in relation to that business?

1. What legislation or regulation is your business required to comply with?

Go through attached check-list of legislation and ask which of these other Acts/Regulations relate to their business.

2. *Provide a scale and get the owner to indicate where on the scale their business is in relation to compliance with specific pieces of legislation.*

SCALE ONE: PERCEPTION OF COMPLIANCE

Objective 2: Assessment of attitude toward compliance

3. *Provide another scale and ask them to indicate the priority they assign to complying with that particular piece of legislation within their business.*

SCALE TWO: COMPLIANCE PRIORITY RATING SCALE

4. On a scale of 1-5 (1 = hate it and 5 = really enjoy it), how much would you say you enjoy the compliance task?

Hate					Really enjoy
1	2	3	4	5	

Comment:

Assessment of level of pro-activity:

5. This question is about existing legislation i.e. not new things coming in.

As a general rule: Does your company tend to address compliance issues when:

- (i) you begin a new project or service?
- (ii) you get around to it?
- (ii) you feel you have no choice e.g. are forced to by the union or an outside agency?
- (iv) Other comment:

6. If your company has not addressed all the compliance issues, what are the main reasons? (Tick all that apply)

	Yes	No
Not enough time	<input type="checkbox"/>	<input type="checkbox"/>
Not sure what we are doing	<input type="checkbox"/>	<input type="checkbox"/>
Don't have the skills in our organization	<input type="checkbox"/>	<input type="checkbox"/>
Help is too expensive	<input type="checkbox"/>	<input type="checkbox"/>
Don't know how to get help	<input type="checkbox"/>	<input type="checkbox"/>
Staff aren't interested	<input type="checkbox"/>	<input type="checkbox"/>
Not a priority for management	<input type="checkbox"/>	<input type="checkbox"/>
Other. What?	<input type="checkbox"/>	<input type="checkbox"/>

7. Have you ever made a conscious decision not to address a compliance issue?

☐ Yes ☐ No

7a. What and why?

Objective 3: Determine who is responsible for compliance within the company and what skills/experience they bring to the task?

8. *USE RESPONSIBILITY SPREADSHEET*

9. Has your company ever written a submission on proposed business legislation?

TO WHO	ON WHAT	WHY	WHO WROTE IT?
Central Government			
Local Government	What?	Why?	Who wrote it?

10. Have you ever participated in a focus group or survey regarding a business compliance issue?

WHAT TOPIC	RUN BY WHO	WHY DID YOU PARTICIPATE?

Objective 4: Determine what other (outside the company) assistance is utilized?

11. Does anyone outside the company assist with these compliance tasks?

USE OUTSIDE ASSISTANCE SPREADSHEET

12. Has your company utilized assistance from central or local government or agencies associated with them?

USE AGENCY SPREADSHEET

13. What are your main sources of information about compliance issues?

- ☐ Newspapers. Which? _____
- ☐ Radio. Which stations? _____
- ☐ P.O. Box circulars
- ☐ Professional or Trade organizations. Which? _____
- ☐ Union information or representative
- ☐ Printed material from Government Departments
- ☐ Websites. Which? _____
- ☐ Friends or acquaintances in business
- ☐ Other. What? _____

14. How do you work out that an Act or regulation should be applied in your business?

15. Have you ever directly consulted legislation i.e. read the actual relevant Act? If not, why not? If so, which one/s? Was it a helpful experience?

ACT	READ	WHY/WHY NOT?	HELPFUL

16. Where would you get a copy of an Act you needed to comply with?

17. Have you ever read reports or summaries of court rulings or legislation? If not, why not? If so, which one/s? Was it a helpful experience?

READ COURT FINDINGS	WHICH AND WHY?	WHY NOT?	WAS IT HELPFUL?

18. How did you get access to these?

Objective 5: Determine how the company follows the business compliance cycle using Health and Safety as an example.

This section looks at how you carry out the compliance-related tasks when addressing health and safety issues in your organization.

19. Describe your main obligations under the Health and Safety in Employment Act?

20. How did you find out about these?

21. What health and safety measures has your company taken to address these obligations?

22. Who co-ordinates this process?

23. Do you have the following:

- ☐ written health and safety plan?
- ☐ written health and safety policy?
- ☐ a formal hazard identification process?
- ☐ formal health and safety meetings?

COMPLIANCE SYSTEMS GENERALLY:

24. What systems do you have in place for ensuring your organization is complying with legislation/regulation on an ongoing basis?

25. How do you go about Costing/Budgeting/Gaining financial resources for compliance requirements?

Objective 6: Determine what trade-offs the owner makes for compliance work and what other support allows these trade-offs to be made.

26. What are your other roles in the business?

ROLES	DESCRIPTION	F/T OR P/T?	PAID OR UPNPAID?

27. Do you consider compliance part of your normal daily responsibilities or is compliance additional to your normal daily job?

☐ Part of normal job ☐ Additional to normal daily job Both

If both:

What proportion would you consider additional to the normal job %

28. When do you do compliance work?

29. Describe any trade-offs you feel you make e.g. family time, sport or recreation, further business development?

30. Does anyone else support you in this e.g. someone minding the children, someone assisting with some other aspect of the business to allow time for compliance, someone else sharing responsibility for compliance?

What support?	Who?	Relationship to you?

31. Describe any ways in which your responsibility for business compliance contributes positively to the other roles in your life e.g. skill development, peace of mind, self-esteem?

32. To what extent has the cost or need for compliance ever restricted your business plans? Can you give a specific example?

If the compliance task is fairly evenly shared then permission will be sought to ask the relevant employee the questions under objectives 5 and 7. If the person who does compliance is the spouse/life partner of the principal then the spouse/partner question sheet will be used.

Objective 7: Assessing entrepreneurial capital utilized by the company to address the compliance task

33. With respect to compliance-related training:

a.

What Compliance Related Training have you had?	Was this prior to this role or after you took it on?	Who provided this e.g. formal, self, friend, helpline?	Charged for or free?	Convenience of that training: Where or when?

b. Do you generally find it easy to participate in formal training events?

c. Do you generally find it easy to participate in more informal, social networking events? Describe which of these you participate in.

34. What would make the compliance task easier? Think about anything- not just changes in regulations or systems but other things as well e.g. more time, someone to mind the children, a better computer package.

35. How easy is it for you to access finance to address compliance issues/needs?

- (i) easy
- (ii) depends on the issue/need
- (iii) quite difficult
- (iv) almost impossible

36. What proportion of your compliance work is done at home and work?

At home? _____ %

At work? _____ %

37. Do you have a broadband internet connection? (tick all that apply)

- ☐ at home?
- ☐ at work?

38. Use the rating scale to rate your own skill level in each of the areas listed.

SCALE THREE: SKILL AND CONFIDENCE SELF-RATINGS

39. Are there any particular religious views you hold strongly?

40. In what ways do these views influence how your company approaches the compliance task e.g. honesty policy, caring for staff, environmental programme, etc.?

41 Are there any particular ethical views you hold strongly?

42. In what ways do these views influence how your company approaches the compliance task e.g. member of Business for Social Responsibility, honesty policy, caring for staff, environmental programme, sexual harassment or racial awareness programme etc.?

Objective 8: Assessment of the Psychic Costs of Compliance

43. *SCALE FOUR: STRESS SYMPTOM SCALE*

44. *SCALE FIVE: SOURCES OF COMPLIANCE STRESS RATING SCALE*

45. In summing up, are there any strategies or approaches to compliance that you/your company has found particularly effective e.g. membership of a business organization, use of a particular computer programme, training courses, use of a laptop or other technology, bringing family in to work, outsourcing?

Objective 9: Sight independent evidence of some of the content covered in the discussion.

46. Can you show me some examples of your company's compliance work? e.g. Health and Safety Plan, ACC accident register, environmental records or certificates, Employment Contract template.

My general comments on what is available:

BUSINESS AND PERSONAL DEMOGRAPHIC INFORMATION:

1. How many months/years has your enterprise been in operation?

_____ years _____ months

2. Is your company (tick which)

- ☐ A sole trader
☐ Partnership
☐ Limited Liability Company.

3. Is the company owned by family members?

- ☐ Yes ☐ No

If yes,

RELATIONSHIP TO OWNER	ROLE IN BUSINESS	JOB TITLE	AV. NO OF HOURS PER WEEK	SHARE HOLDING	PREVIOUS EMPLOYMENT
Owners Details					
Others:					

4. Was ability to deal with compliance requirements a consideration when deciding on a business partner? (Tick which)

- ☐ Yes ☐ No

Comment:

5. Did yourself, or any of the other shareholders in this company have parents who ran their own business?

Who:	Same Business?	Same Industry?	If no, what?	Any other comment.

6. How many full-time people (i.e. those who work 30 hours or more per week) work in your enterprise, including owners?

Paid full time staff _____ Unpaid full-time staff _____

7. How many part-time people (i.e. those who work 30 hours or less per week) work in your enterprise, including owners?

Paid part-time staff _____ Unpaid part-time staff _____

8. Does your company own or lease their current business premises? (tick which)

☐ own ☐ lease

9. Do any of your staff belong to a union?

☐ yes ☐ no

If yes, which union? _____

10. Do you or your company belong to any of the following organizations? (tick all that apply)

- ☐ Employers and Manufacturer's Association
- ☐ Chamber of Commerce
- ☐ Lions
- ☐ Rotary
- ☐ Toastmasters
- ☐ Women's business network
- ☐ Industry Association, Which? _____
- ☐ Local Area Business Association e.g. Albany Basin Business Assoc, Mainstreet Programmes.
- ☐ Enterprise North Shore Mailing List
- ☐ Informal Network of business people that meet regularly
- ☐ Other, what? _____

11. What is your highest educational qualification? (tick which)

- ☐ No qualification
- ☐ Secondary School Qualification
- ☐ Certificate/Vocational Qualification
Please specify:
- ☐ Bachelor Degree
Please specify:
- ☐ Higher Degree
Please specify:
- ☐ Other
Please specify:

12. With which ethnic group do you most identify? (tick which)

- ☐ Pakeha/NZ European
- ☐ Other European
- ☐ NZ Maori
- ☐ Pacific Island
- ☐ Asian
- ☐ Other (please specify) _____

13. Please indicate which age bracket you fall into (tick which):

- ☐ 20-29 ☐ 30-39 ☐ 40-49 ☐ 50-59 ☐ 60-69 ☐ 70+

14. Please indicate your marital status (tick which):

- ☐ Never Married
- ☐ Married
- ☐ Separated or Divorced
- ☐ Civil Union
- ☐ de facto relationship

15. How long have you lived in New Zealand? (tick which)

- ☐ all my life
- ☐ most of my life but have spent some time living overseas
- ☐ less than 2 years
- ☐ 2-5 years
- ☐ 6-10 years
- ☐ more than 10 years

CHECKLIST OF LEGISLATION**COMPANY NAME:****RESPONDENT:****DATE:**

LEGISLATION	NEVER HEARD OF IT	NEED TO COMPLY	COMMENTS
Accident Rehabilitation and Compensation Insurance Act 1992			
Building Act			
Carriage of Goods Act			
Clean Air Act			
Companies Act			
Consumer Guarantees Act			
Copyright Act			
Credit Contracts and Consumer Finance Act 2003			
Customs and Excise Act			
Designs Act			
Disputes Tribunal Act			
Employment Relations Act			
Equal Pay Act			
Factories and Commercial Premises Act			
Fair Trading Act			
Goods and Services Tax Act			
Hazardous Substances and New Organisms Act			

Health and Safety in Employment Act			
Hire Purchase Act			
Holidays Act 2003			
Human Rights Act			
Import and Export (Restrictions) Act			
Insolvency Act			
Layby Sales Act			
Minimum Wage Act			
Modern Apprenticeship Training Act			
NZ Bill of Rights Act 1990			
Parental Leave and Employment Protection Act 1987			
Personal Properties Securities Act 1999			
Privacy Act			
Protection of Personal and Property Rights Act			
Receiverships Act 1993			
Resource Management Act			
Sale of Goods Act			
Shop Trading Hours Act			
Smoke Free Environments Act			
Takeovers Act			
Trade Marks Act 2002			

Trustee Companies Act			
Trustee Companies Management Act 1975			
Unsolicited Goods and Services Act 1975			
Vocational Training Act 1982			
Volunteers Employment Protection Act			
Wage Protection 1983			

SCALE ONE: PERCEPTION OF COMPLIANCE SCALE**COMPANY:****RESPONDENT:****DATE:**

Circle the number that best reflects how well you feel your company complies with legislation in the following areas. 1 represents a low level of compliance, 3 means meets the major compliance requirements and 5 represents meeting all the compliance requirements.

TYPE OF LEGISLATION	LEVEL OF COMPLIANCE					
	LOW		MEETS MAJOR REQUIREMENTS		MEETS ALL REQUIREMENTS	
Accounting related e.g. Financial record keeping, GST, PAYE	1	2	3	4	5	n/a
Health and Safety	1	2	3	4	5	n/a
Statistics Department Requirements	1	2	3	4	5	n/a
Building Regulations e.g. fire, warrants of fitness etc.	1	2	3	4	5	n/a
Employment related e.g. employment contracts, personal grievance etc.	1	2	3	4	5	n/a
ACC related regulations	1	2	3	4	5	n/a

	LOW		MEETS MAJOR REQUIREMENTS		MEETS ALL REQUIREMENTS	
Hazardous Goods related	1	2	3	4	5	n/a
Labeling products	1	2	3	4	5	n/a
Importing regulations	1	2	3	4	5	n/a
Exporting regulations	1	2	3	4	5	n/a
Local or Regional Authority regulations	1	2	3	4	5	n/a
Any other standards you must comply with e.g. Enviromark. List:						
a.	1	2	3	4	5	n/a
b.	1	2	3	4	5	n/a
Voluntary or compulsory membership of an industry body or scheme e.g. NZKBA, Chartered Accountants Society etc. What organisation/s?						
a.	1	2	3	4	5	n/a
b.	1	2	3	4	5	n/a

SCALE TWO: PRIORITY OF COMPLIANCE SCALE**COMPANY:****RESPONDENT:****DATE:**

Circle the number that best reflects the priority your company gives to complying with the different types of legislation. 1 = lowest priority, 3= medium priority and 5 = highest level of priority.

TYPE OF LEGISLATION	LEVEL OF PRIORITY					
	LOWEST PRIORITY		MEDIUM PRIORITY		HIGHEST PRIORITY	
Accounting related e.g. Financial record keeping, GST, PAYE	1	2	3	4	5	n/a
Health and Safety	1	2	3	4	5	n/a
Statistics Department Requirements	1	2	3	4	5	n/a
Building Regulations e.g. fire, warrants of fitness etc.	1	2	3	4	5	n/a
Employment related e.g. employment contracts, personal grievance etc.	1	2	3	4	5	n/a
ACC related regulations	1	2	3	4	5	n/a

	LOWEST PRIORITY		MEDIUM PRIORITY		HIGHEST PRIORITY	
Hazardous Goods related	1	2	3	4	5	n/a
Labeling products	1	2	3	4	5	n/a
Importing regulations	1	2	3	4	5	n/a
Exporting regulations	1	2	3	4	5	n/a
Local or Regional Authority regulations	1	2	3	4	5	n/a
Any other standards you must comply with e.g. Enviromark. List:						
a.	1	2	3	4	5	n/a
b.	1	2	3	4	5	n/a
Voluntary or compulsory membership of an industry body or scheme e.g. NZKBA, Chartered Accountants Society, Medical Practitioners Association.						
What organisation/s?						
a.	1	2	3	4	5	n/a
b.	1	2	3	4	5	n/a

RESPONSIBILITY SCHEDULE**COMPANY:****RESPONDENT:****DATE:**

COMPLIANCE AREA	PERSON RESPONSIBLE	RELATIONSHIP TO PRINCIPAL	WHY THEM?	FULL OR PART-TIME	PAID OR UNPAID	LEVEL OF COMPETENCE AT TASK	TRAINING OR SKILL DEVEL.
Accounting related e.g. financial records, GST, PAYE							
Health and Safety							
Statistics Dept requirements							
Building regulations e.g. fire, Warrants of Fitness etc.							

COMPLIANCE AREA	PERSON RESPONSIBLE	RELATIONSHIP TO PRINCIPAL	WHY THEM?	FULL OR PART-TIME	PAID OR UNPAID	LEVEL OF COMPETENCE AT TASK	TRAINING OR SKILL DEVEL.
Employment related e.g. employment contracts, personal grievance etc.							
ACC related regulations							
Hazardous Goods related							
Labeling Products							
Importing regulations							
Exporting regulations							
Local or Regional authority regulations							

COMPLIANCE AREA	PERSON RESPONSIBLE	RELATIONSHIP TO PRINCIPAL	WHY THEM?	FULL OR PART-TIME	PAID OR UNPAID	LEVEL OF COMPETENCE AT TASK	TRAINING OR SKILL DEVEL.
Any other standards you must comply with e.g. voluntary or compulsory membership of an industry body such as NZKBA, Chartered Accountants Association, Medical Association, Enviromark							
Other 1:							
Other 2:							

OUTSIDE COMPLIANCE ASSISTANCE SCHEDULE**COMPANY:****RESPONDENT:****DATE:**

WHO?	WHAT FOR?	WHY DID YOU CHOOSE THEM?	WHEN DO THEY DO THIS?	PAID OR UNPAID? OR ALTERNATIVE REWARD?	NO. OF HRS PER MONTH	TEMPORARY OR PERMANENT ARRANGEMENT
Accountant						
Lawyer						
Enterprise Agency						
Friend						
Family Member						
Union						
Other 1:						
Other 2:						

AGENCY SCHEDULE**COMPANY:****RESPONDENT:****DATE:**

AGENCY	APPROACHED FOR HELP/WHAT	MODE i.e. face to face, phone, web.	WHY NOT?	COMMENT ON THE EXPERIENCE
ACC				
OSH				
IRD				
DOL				
Local Authority				
Ministry for the Environment				
Ministry of Economic Development				
Other				

SCALE 3: SKILL AND CONFIDENCE SELF-RATINGS

COMPANY:

RESPONDENT:

DATE:

Please rate yourself on the following skills:

1 = poor, 3= satisfactory, 5= excellent

RATING OF PERSONAL SKILL AND CONFIDENCE

SKILL AREA	Poor		Satisfactory		Excellent
Reading Speed	1	2	3	4	5
Ability to understand legal material	1	2	3	4	5
Ability to use the internet to find reliable compliance information	1	2	3	4	5
Ability to use computer based word processing programmes e.g. Microsoft Word	1	2	3	4	5
Ability to use computer based spreadsheets e.g. Excel	1	2	3	4	5
Ability to use computer accounting packages e.g. MYOB, Quickbooks	1	2	3	4	5

	Poor		Satisfactory		Excellent
Ability to produce a balance sheet	1	2	3	4	5
Ability to understand financial information	1	2	3	4	5
Knowledge of the way the NZ Government is organised	1	2	3	4	5
Knowledge of NZ culture and protocols	1	2	3	4	5
Level of Confidence approaching Government agencies for assistance	1	2	3	4	5
Interpersonal skills i.e. dealing with people	1	2	3	4	5

SCALE 4: STRESS SYMPTOM SCALE**COMPANY:****RESPONDENT:****DATE:**

Have you ever experienced any of the following in relation to business compliance tasks?

1=Never, 2 = occasionally, 3= regularly, 4= usually, 5= always

SYMPTOMS	REGULARITY OF SYMPTOMS INDUCED BY COMPLIANCE- RELATED STRESS				
	NEVER	OCCASIONALLY	REGULARLY	USUALLY	ALWAYS
Difficulty Sleeping	1	2	3	4	5
Mental Anxiety or Fear	1	2	3	4	5
Increased Heart Rate	1	2	3	4	5
Headaches	1	2	3	4	5
Stress Induced back or neck pain	1	2	3	4	5
Negative impact on relationship with staff	1	2	3	4	5
Negative impact of relationships at home	1	2	3	4	5
Increased alcohol consumption	1	2	3	4	5
Increased tobacco consumption	1	2	3	4	5

SCALE 5: SOURCES OF COMPLIANCE STRESS RATING SCALE

COMPANY:

RESPONDENT:

DATE:

Which tasks do you find most stressful?

Use the following scale to rate which aspects of compliance tasks you find most stressful
1= not stressful, 3= typical level of work-related stress, 5= extremely stressful

Area of Compliance	Level of Stress Caused					Not applicable to my company
	Not stressful		Typical Level of work-related stress		Extremely stressful	
Taxation Compliance						
a. GST (Goods and Services Tax)	1	2	3	4	5	n/a
b. PAYE (Pay as you earn)	1	2	3	4	5	n/a
c. Provisional Taxation	1	2	3	4	5	n/a
d. FBT (Fringe Benefit Tax)	1	2	3	4	5	n/a
e. Withholding Tax	1	2	3	4	5	n/a
f. Potential for IRD Audit	1	2	3	4	5	n/a

	Not stressful		Typical Level of work-related stress		Extremely stressful	Not applicable to my company
ACCIDENT RELATED COMPLIANCE						
g. Health and Safety Compliance	1	2	3	4	5	n/a
h. Accident Compensation Compliance	1	2	3	4	5	n/a
EMPLOYMENT RELATED COMPLIANCE						
i. Hiring Compliance	1	2	3	4	5	n/a
j. Employment Contracts	1	2	3	4	5	n/a
k. Staff Disciplinary Compliance	1	2	3	4	5	n/a
l. Privacy Act Concerns	1	2	3	4	5	n/a
m. Firing Compliance	1	2	3	4	5	n/a
ENVIRONMENTAL COMPLIANCE						
n. Resource Management Act	1	2	3	4	5	n/a
o. Local Authority Bylaws	1	2	3	4	5	n/a
p. BUILDING RELATED COMPLIANCE						
e.g. Building Warrant of Fitness etc.	1	2	3	4	5	n/a
q. INDUSTRY SPECIFIC LEGISLATION	1	2	3	4	5	n/a

	Not stressful		Typical Level of work-related stress		Extremely stressful	Not applicable to my company
r. LABELING AND PACKAGING	1	2	3	4	5	n/a
s. IMPORTING COMPLIANCE	1	2	3	4	5	n/a
t. EXPORTING COMPLIANCE	1	2	3	4	5	m/a
u. COMPANIES ACT COMPLIANCE e.g. Solvency Test, Minute keeping	1	2	3	4	5	n/a
v. CONSUMER PROTECTION COMPLIANCE	1	2	3	4	5	n/a
w. INTELLECTUAL PROPERTY COMPLIANCE	1	2	3	4	5	n/a

Appendix II

QUESTIONNAIRE FOR SPOUSES/LIFE PARTNERS

NAME:

COMPANY:

DATE:

Determining Roles:

1. How would you describe your whole role in the business?

2. What proportion of your role is compliance work?

.....%

3. How many hours per week would you usually spend doing compliance work?

4. Where is this work carried out?

..... % work
..... % home
..... % other: where

5. Are you paid for this work?

Paid at market rate for this work
Paid but less than market rate
unpaid

Comment:

6. Why have you taken on compliance work within the business?

7. What previous work experience do you have?

- ☐ secretarial/administration
- ☐ trade
- ☐ sales/marketing
- ☐ parenting
- ☐ professional role
- ☐ management/supervisory position
- ☐ Other

Comments:

8. How have your previous roles helped you with your own business compliance tasks?

9. What other roles do you currently have?

- ☐ Parent with dependent children
- ☐ Carer for other dependent
- ☐ Part-time worker in another job
- ☐ Full-time worker in another job
- ☐ Voluntary worker. How many hours per week? _____
- ☐ Other. What?

10. How do these other roles impact on your ability to fulfill your business responsibilities?

Note to me: hinder and/or improve- look for both possibilities.

11. Determining Access to opportunities to improve skill base

With respect to compliance-related training you have had:

11a. Compliance Related Training:

What Compliance Related Training have you had?	Was this prior to this role or after you took it on?	Who provided this? E.g. formal, self, friend, helpline	Charged for or free?	Convenience of that training: Where or when?

11b. Do you generally find it easy to participate in formal training events?

11c. Do you generally find it easy to participate in more informal, social networking events? Describe which of these you participate in.

Note to me: Why is it easy/hard? What makes it easy/hard?

11d. Are there any areas you feel you need more training in?

11e. What are the main reasons you haven't taken up the training you feel you need?

Not enough time

Time of training not suitable

Location of training not suitable

Not sure where to get the training

Cost of training

Educational background is not good enough to enroll

Other: what?

12. What would make the compliance task easier? Think about anything- not just changes in regulations or systems but other things as well e.g. more time, someone to mind the children, a better computer package.

13. How easy is it for you to access finance to address compliance issues/needs?

- (i) easy
- (ii) depends on the issue/need
- (iii) quite difficult
- (iv) almost impossible

14. Describe your home office set-up.

15. Access to the Internet

15a. Do you have a broadband internet connection (tick all that apply)?

At home?

At work?

☐ Do not have access to broadband at all.

If broadband is not available at both home and work, ask:

15b. Do you find lack of access to broadband a hindrance to your compliance work?
Comment.

16. How would you rate the following?

SCALE FOUR: SKILL AND CONFIDENCE SELF-RATINGS

17. Religious Views:

17a. Are there any particular religious views you hold strongly?

17b. In what ways do these views influence how your company approaches the compliance task? e.g. honesty policy, caring for staff, environmental programme, etc.

18. Ethical Views:

18a. Are there any particular ethical views you hold strongly?

18b. In what ways do these views influence how your company approaches the compliance task? e.g. Member for Business for Social Responsibility, honesty policy, caring for staff, environmental programme, sexual harassment or racial awareness programme etc.

Objective 8: Assessment of the Psychic Costs of Compliance

19. *SCALE FOUR: STRESS SYMPTOM SCALE*

20. *SCALE FIVE: SOURCES OF COMPLIANCE STRESS RATING SCALE*

Determining Costs and Benefits

21. If you were not working in the business, what would you do with the time?

Work more hours in other paid employment

Be a full-time parent

Work for a voluntary organisation

Participate in study or training

Other. What?

22. Do you anticipate using the compliance skills you have learnt in this business in any other way? e.g. part of a voluntary group, a consultant/sub-contractor, other business venture.

If you are a parent answer questions 23-30, If not: GO DIRECTLY TO DEMOGRAPHICS

23. Ages of children:

24. Do you ever bring your children to work?

Yes

No

If yes:

24a. How often?

24b. When?

24c. Is there a suitable place for your children at work?

25. Do you work from home to accommodate your children's requirements?

26. Do you use childcare?

Yes

No

Sometimes e.g. if child is sick.

Explain the circumstances where you use childcare:

27. Who provides this?

- ☐ family member. Who?
- ☐ friend
- ☐ daycare centre
- ☐ other. What?

28. Does the childcare cost:

Nothing

below market rate for that type of care

market rate for that type of care

free but there are other obligations attached. Explain:

.....

29. In your opinion, is this childcare essential to performing your compliance role or could you manage the compliance work without childcare?

30. Are your children involved in the business in any way? e.g. holiday or after school work

What?

SPOUSE DEMOGRAPHICS

1. Do you personally attend meetings of any of the following organisations? (tick all that apply)

- ☐ Employers and Manufacturer's Association
- ☐ Chamber of Commerce
- ☐ Lions
- ☐ Rotary
- ☐ Toastmasters
- ☐ Industry Association, Which? _____
- ☐ Local Area Business Association e.g. Albany Basin Business Assoc, Mainstreet Programmes.

- ☐ Enterprise North Shore functions
- ☐ Informal Network of business people that meet regularly
- ☐ Other, what? _____

2. What is your highest educational qualification? (tick which)

- ☐ No qualification
- ☐ Secondary School Qualification
- ☐ Certificate/Vocational Qualification
Please specify:
- ☐ Bachelor Degree
Please specify:
- ☐ Higher Degree
Please specify:
- ☐ Other
Please specify:

3. With which ethnic group do you most identify? (tick which)

- ☐ Pakeha/European
- ☐ NZ Maori
- ☐ Pacific Island
- ☐ Asian
- ☐ Other (please specify)

4. Please indicate which age bracket you fall into (tick which):

- ☐ 20-29 ☐ 30-39 ☐ 40-49 ☐ 50-59 ☐ 60-69 ☐ 70+

5. Please indicate your marital status (tick which):

- ☐ Never Married
- ☐ Married
- ☐ Separated or Divorced
- ☐ Civil Union
- ☐ de facto relationship

6. How long have you lived in New Zealand? (tick which)

- ☐ all my life
- ☐ most of my life but have spent some time living overseas
- ☐ less than 2 years
- ☐ 2-5 years
- ☐ 6-10 years
- ☐ more than 10 years

7. What is your first language?

English

Other. What?

Appendix III

CODING SHEET- APRIL 2006

SC Social Capital

HC Human Capital

FC Financial Capital

CC Cultural Capital

EC Entrepreneurial Capital- interaction of the above applied to business

DSC Deficit of Social Capital

DHC Deficit of Human Capital

DFC Deficit of Financial Capital

DCC Deficit of Cultural Capital

DEC Deficit of Entrepreneurial Capital

TC Temporal Capital- my term- relating to time. Time is a critical and finite resource. Specific use of time carries corresponding opportunity costs. More is available through higher levels of entrepreneurial capital re the compliance task and due to factors such as life stage, circumstances, business stage, and simplification of the compliance task by agencies.

DTC Deficit in temporal capital.

FP- Feminist Perspective- to indicate items worthy of comment/further analysis from a feminist perspective- both within the text and later as a whole – bringing together all the FP items.

FD Family Dynamic- examples of family issues re compliance

OC Opportunity Costs

PC Psychological costs

NM Network Member
Types
Family
Business
Professional Advisors
Social

Embeddedness Level

High (HE)

Medium (ME)

Low (LE)

Embeddedness Type

Structural (SE)

Individual (IE)

Cultural (CE)

Atrophied (AE)

Can mark capital flows between network members and relate to literature on embeddedness.

Think about Entrepreneurial Continuum (de Bruin and Dupuis)

- Where is the company?
- Where are particular aspects of the company?
- Does the company have access to adequate compliance related entrepreneurial capital to facilitate its general entrepreneurial development?

Is a lack of compliance related EC restricting the company's general entrepreneurial development or putting it at risk (knowingly or unknowingly)?

- How best do we represent these concepts graphically?

TE< Efforts to reduce transaction costs

ID Institutional deficit

IC Institutional Capital

Both relate to the capability of the government agency to relate to the SME, i.e. the degree of bounded rationality demonstrated by the agency/representative of the agency.

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