

Guest Editorial

Issues and Future Directions in the Regulation and Technology of Small Business Enterprises

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The papers in this edition of the Journal of Business Systems Governance and Ethics were initially presented at a conference that introduced the results of research conducted in two projects by the Governance Research Program of the Victoria Law School, Victoria University, into regulation and the use of information and communications technology (ICT) by small business.

The first project, **Developing a responsive regulatory system for Australia's small corporations** was supported by an Australian Research Council (ARC) Linkage grant in which the partners were the Australian Treasury and the Confederation of Small Business Organisations of Australia (COSBOA).

Australia's small corporations play a vital role in national economic and social wellbeing. They comprise more than 99% of all firms, employing more than 5 million people. Their regulatory needs, however, are largely ignored because regulation is aimed at large listed firms, and it is assumed there will be 'trickle down' compliance by small firms. This project draws together the experiences of small corporation owners/managers, regulators, the Federal Treasury, industry leaders and academic experts. Its prime focus is the regulatory environment of the Corporations Law. The aims of the project are to:

1. Identify and document the organising principles adopted by the regulators of Australian corporations in order to control, govern and regulate small corporations.
2. Identify and distil the particular Federal regulatory requirements relevant to the growth and expansion of small corporations.
3. Develop a map of the most effective regulatory framework to assist and enable optimum performance by small corporations.
4. Link item 3 to a law and policy reform agenda.

The first step in the project was to produce an annotated bibliography of the major studies of small business regulation. This provided a basis for developing a questionnaire to be used to interview a purposive sample of small business leaders on their views of regulation and how it can best be managed. The next stage will be a major survey of small business corporations located across Australia.

The project team brought together Professors Anona Armstrong and Andrew Clarke from Victoria University, Professor Michael Adams, University of Western Sydney, Professor Thomas Clarke, University of Technology, Sydney, Professor Ian Eddie University of the Southern Cross, Professor Dr Alice Richardson and Professor Phil Lewis University of Canberra.

The second project, **The use of Internet Reporting for Small Business** was made possible by the award of their major 2009 grant by the National Institute of Accountants (NIA). The project team were: Professor Anona Armstrong, Ms Kumi Heenetigala, Professor Colin Clark, Associate Professor Arthur Tatnall, Dr. Wei Dai, Professor Ronald Francis, and Professor Andrew Clarke.

The purpose of this study was to determine how accountants could assist small businesses to make better use of emerging web based technologies to communicate with their accountants. The research was supported by a major grant from the National Institute of Accountants. The paper in this volume of the JBSGE reports research in which twenty two accountants and their clients were interviewed to determine the potential adoption and use of web based information and communications technology to provide immediate on-going communication between small businesses and their accountants.

Most businesses now have computer based financial accounting systems. Many use E-Commerce or E-Business to share business information, maintaining business relationships and conducting business transactions by means of internet-based technology. The internet offers a range of services and opportunities including data exchange, mobile telephone, internet, intranet, and email. In the context of this study it specifically refers to two way interactive access by accountants with their small business clients. This mode of communication would enable ongoing monitoring of the small businesses and their performance and the provision of management accounting services to the businesses.

The main interface of small businesses with the regulatory bodies is through their accountants. Hence, how accountants interact and communicate with small business and the role that ITC can play in this is of central interest, not only to accountants and their small business clients but also to government. The research questions addressed in this paper were: What uses do small businesses currently made of ICT? What are some of the new opportunities offered by ICT to accountants? What are the barriers to the use of new technology? What are the benefits to accountants and their small business clients?

In recent times, there have been a number of State and National Government inquiries and reports that have addressed the issue of regulation in small businesses in Australia. Most have reported the difficulties encountered by small businesses in meeting the 'regulatory burden'. All governments have expressed a need to reduce the amount of regulation. Post the global financial crisis, this is highly unlikely. An alternative approach is to address the question of how can the process of compliance with regulations be reduced.

In Australia the next generation of technologies will be made possible by the roll-out of the national broadband network at an estimated cost of \$43 billion. The Australian Government is also investing \$4 million in a Standard Business Reporting Program (SBR) based on XBRL. This technology policy initiative aims not only to reduce the administrative burden for business but has a clear set of policy objectives, including participatory democracy, improvements to government efficiency and effectiveness and transparency as a tool for accountability.

It is the above issues that have been the stimulus for the *Regulation and Technology in Small Business conference* and the publication of this issue on small business in the Journal of Business Systems, Governance and Ethics.

This issue of six papers begins with a review of government policy in regard to regulation of small business by Mr Geoff Miller, the General Manager Corporations and Financial Services Division, Australian Treasury.

The Corporations Act currently defines a small proprietary company as one that satisfies at least two of the following criteria:

- Consolidated revenue for the financial year of less than \$25 million
- Consolidated gross assets at the end of the financial year of less than \$12.5 million and
- Fewer than 50 employees at the end of the financial year.

Under this definition, around 98 per cent of Australia's 1.6 million proprietary companies are classified as small and, with some exceptions, do not have to prepare annual financial statements and lodge them with ASIC. However, there are over 30,000 small and medium companies with must meet the full regulatory requirements.

Mr Miller pointed out that the current corporate governance regulatory environment is too heavily geared to large companies and that governance norms are based on the assumption that there is a separation between the ownership and management of a company, an assumption which is the exception rather than the rule in small corporations. Some government departments such as the Australian Taxation Office and regulatory bodies such as the International Accounting Standards Board have provided assistance or issued specific standards for small businesses that are intended to promote flexibility in small business responses to regulation. Treasury is considering whether similar provisions should be introduced for small businesses.

Mr Miller expects that the research and data from the first of the projects, especially in respect to three areas, (i) tailoring the replaceable rules in the Corporations Act to small corporations, (ii) modifying directors' duties and meeting requirements, and (iii) a draft governance code or other educational instruments, will help to reduce the burden on small business and play a valuable role in future policy development.

Members of the Research Teams are the authors of the remaining papers. Professor Michael Adams presents a review of the historical development of the Corporations Law from the co-operative agreements between the States in the late 1980s to the Corporate Simplification Law introduced in 1997 and the relevance of the Law for small businesses. This includes modification of the definition of 'small business', the introduction of a guide and details of the reporting requirements for small business. He concludes with an analysis and assessment of the impact on directors' duties and the role of governance through civil and criminal law, as applied to small corporations.

Thomas and Klettner in their paper on governance issues for small business discuss the difficulties imposed by the use of various definitions of small business.. These differ not only across different sectors and organisations within Australia but also vary across countries. The paper then explored the particular issues that governance regulations raise for small and medium enterprises (SMEs). The authors noted that the governance regime is designed to protect investors who buy publicly listed shares and is predicted on the assumption of the separation of ownership and management. This led to a discussion of how the structure and nature of SMEs differ from those of large corporations and to the results of their research. They interviewed nineteen directors and /or company secretaries of SMEs on the responses of their businesses to the *Corporate Governance Principles and Recommendations* issued by the Australian Securities Exchange. In particular, they explored SME corporate governance structures and processes, how SMEs had chosen to implement the Principles in relation to appointing independent directors and establishing board committees, and the reasons for their choices. From the results the authors drew some conclusions about whether the ASX governance guidelines were appropriate for SMEs.

Some results from the research conducted on the use of the internet by accountants and small business are presented in the next paper by Kumi Heenetigal and Anona Armstrong. The purpose of this study was to determine how accountants and small businesses could make better use of emerging web based technologies to communicate. Twenty two accountants and their clients were interviewed to determine the potential adoption and use of web based information and communications technology to provide immediate on-going communication between small businesses and their accountants. Accountancy firms used a variety of financial analysis programs including MYOB, Excel, Quick, Books (/quicken and BankLink and electronic lodgement of Government returns (Taxation, BAS, Payroll tax, ASIC returns, WorkCover, etc) was widespread. Three quarters of the Accountants in this sample reported that their firm had a website. All the businesses used IT packages for a variety of tasks including client control, financial plans, receiving and transmitting information, liaising, making appointments, and on-line training. The business respondents identified the practical advantages of ITC as having ease of transfer of information and increased efficiency. The study found that among the barriers to adoption of ICT were cost, compatibility with existing systems and privacy issues.

The final two papers are indicative of the future direction of ITC for SMEs. Dr. Wei Dai describes the potential for new information and communications technology (ITC) to impact on the ways in which SMEs will do business and Professor Andrew Clarke concludes this edition with some suggestions for new approached to regulation policy.

New types of ICT are on the horizon. Dr Wei Dai's paper describes the potential access of SMEs to new types of ICT technology. These combine existing software systems, cloud technology and an application called the Phoenix program developed by the research team at VU. Cloud computing is the term used to describe off-business services delivered via the Internet which can be accessed by SMEs on demand. These services can include repositories, usual business systems or be extended to provide the equivalent of a private network tailored to a specific business need, such as balancing purchases from suppliers with customer needs. Phoenix provides the 'black box' that makes the services available to SMEs irrespective of the software systems used by the SME business. The first advantage of this ICT is that it is interactive; users can access the suite of programs on demand. Second these

sophisticated programs can be very costly to purchase by individual businesses but on-demand means lower costs due to access to a shared and serviced ICT service, and costs are directly attributed to use.

In the final paper Andrew Clarke noted the inherent paradigm conflict between regulators and the regulated. Regulators often are imbued with the objective of maintaining quality standards and perceptions of servicing an industry, while the regulated see regulation as an evil and a cost to doing business. Whilst much of the analysis in this area focuses on the apparently relentless growth of regulation, the corollary is to seek a more simple set of regulatory rules, especially for small, resource constrained firms. The paper presents two case studies that illustrate the problems. They address the questions: what are the contextual imperatives of regulation in Australia? How is regulation set up and what are the political attitudes towards it and theoretical options available? And what lessons can be learned from other countries. The paper concludes by canvassing the possibilities offered by ICT. Clarke states that one of the interesting ideas to be gleaned from regulatory practices is the notion of networks and informal networks. He suggests that if the regulators are using networks and swapping information and collectively gathering information and using it, then this practice may be usefully applied to the regulated market. That is, small businesses should behave more like the regulators and also begin to develop, between themselves, fairly complex and efficient informal networks. The network agencies could be the accountants' associations such as NIA or small business associations such as COSBOA.

In conclusion, regulation of small business sector is an important area of policy reaching across all government and economic activity in Australia. The research teams in both projects are grateful to the sponsors for their interest and support. We hope that this issue of the Journal will add to the knowledge and debate about the issues surrounding small business regulation and the use of ICT technology.