



# **Perceptions and Regulations: How Minnesota Business Owners See the Impact of State and Local Regulations on their Firms**

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Regulations on their Firms<sup>1</sup>**

**Executive Summary**

This empirical study examines the perceptions Minnesota business owners hold regarding the impacts state and local government regulations have on Minnesota businesses. It does not address the impact of federal regulations or address the comparative question of whether Minnesota's business climate is "better" or "worse" than neighboring states'. It does provide a clearer picture of Minnesota business owners' attitudes toward regulations, the degree of impact on their businesses, and the regulators who enforce them.

An online survey based on one developed for the Irish equivalent of the Department of Commerce was distributed to a random sample of 10,000 business corporations in Minnesota. The initial response rate was 199 respondents, or 2%. A second wave of survey responses was generated by inviting participation from subscribers to e-newsletters from Small Business Development Centers and Enterprise Minnesota. An additional 118 responses were generated. A supplemental survey, targeted specifically to the Metro/non-Metro/rural differences, was sent by e-mail to a sample of 1,500 businesses (500 from each location) listed by area chambers of commerce. This survey returned 112 responses (36 from Metro, 38 from Greater Minnesota cities, 38 from rural counties).

The survey found that the top four challenges for businesses were (in order):

1. Government regulations
2. Business costs other than labor
3. Increased competition
4. Labor costs

The comparisons among businesses in the Twin Cities metro area (Metro), regional population centers (non-Metro), and rural businesses (rural) revealed that, for major issues and impacts, there were few differences based on location in the state. While regulation was given as the greatest challenge everywhere in the state, competition came in a close second in both the Metro and non-Metro cities, while labor and other costs were a close second in rural areas. The

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pattern of responses indicates that businesses in the non-Metro cities are much more concerned about regulations than those in the Twin Cities metro area or in rural areas. Businesses in rural areas, particularly, are less concerned about state and local regulations than the cost of doing business.

The top priority for regulatory change was in the area of income and corporate taxation. Except for taxes, it appears that the issue is less with the regulations themselves than with the difficulty of compliance. It is as if the survey respondents were saying that the rules are inflexible, incomprehensible, ineffective, and inconsistent, but we comply with them. Given the stress in the literature on the negative impact of regulations on small businesses, it is interesting that it was the larger firms that were more likely to report perceiving compliance as burdensome. Respondents also reported that the regulations that have the most significant impact on one's own business do not have a particularly heavy compliance burden. Instead, they perceive the most burdensome regulations as those that have an effect on business in general.

While there are a number of op-ed essays about the impacts of government regulations on business competitiveness (for example, Kline, 2011; Myers, 2012; Economist, 2012), there has been very little done in the way of careful analysis. This study specifically addresses the impacts of state and local government regulations on Minnesota businesses. It does not address the question of the impact of federal regulations. It also does not address the comparative question of whether Minnesota's business climate is "better" or "worse" than neighboring states'. It does provide a clearer picture of where and how state and local regulations affect Minnesota businesses and the magnitude of the impacts.

### **Background and Literature Review**

A review of the literature reveals a wide range of opinions on the role and impact of regulations on business. The purpose of governments—even free-market democratic governments—is to make and enforce regulations (that is what laws *are*, after all—see Hobbes, 2006). The trick is to make only the laws that are necessary (see Locke, 1960). At the turn of the last century, Theodore Roosevelt said in a speech that

The true friend of property, the true conservative, is he who insists that property shall be the servant and not the master of the commonwealth.... The citizens of the United States must effectively control the mighty commercial forces which they themselves have called into being...." (Roosevelt, 1910).

More recently, in *That Used to Be Us*, Friedman and Mandelbaum (2011) argue that regulations are necessary for the success of business—they "provide the vital foundation of trust that fosters innovation and risk-taking" (p. 43). They cite as examples of positive regulations the formation of the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the North American Free Trade Agreement, American patent laws, and the American form of bankruptcy law. By bringing predictability into the market, they provide the framework within which entrepreneurs can thrive. But they also argue that regulation must occupy a "middle ground: neither so strong as to stifle innovation, entrepreneurship, and economic growth, nor too light to prevent the excesses and failures to which the free market is susceptible" (p. 233).

In the last several years, nonetheless, the critique of government regulation has become more pointed as a number of organizations have called for a re-assessment of the regulatory environment in which business operates. The Business Roundtable in February 2011 called for a "government-wide...assessment of the cumulative effect of the total regulatory burden on the macro economy." While acknowledging that individual regulations may appear

to be cost-effective and manageable, these critics assert that the cumulative impact of government regulation is particularly burdensome for small businesses. The market research organization Focus reported on July 15, 2011, that 41% of the businesses they surveyed feel that government regulation was detrimental to their business (although, curiously, they also reported that the major impact was from regulations that are not yet in place—pending tax reforms and the healthcare regulations that are phasing in) (Groopman, 2011). Scott Shane, an economics researcher, in a blog on “Small Biz Trends” (2011), argues that government regulations hurt small businesses in four ways:

“First... regulatory compliance exerts a disproportionately large burden on small companies because the fixed costs of adhering to rules can be spread out over more revenue in large firms than in small ones. Second, government regulations make small businesses less competitive against foreign competition. Third, adding regulations creates uncertainty, which keeps small business owners from investing and hiring. Fourth, new regulations often have unintended consequences.”

An earlier position paper written by Peter Berkery for the National Society of Public Accountants (1992) stated

“In fact, taken in isolation, the majority of government regulations would appear to serve valid purposes; from protecting the environment to ensuring workplace safety, most federal regulations seem to espouse laudable goals. In application, however, the cumulative burden of federal regulations can quickly overwhelm small business owners.”

These contemporary criticisms of government regulations are based on three issues. These issues form the basis of our research questions:

1. The fiscal impact of regulatory compliance on a business’s profits.
2. The relative impact of regulatory compliance on a business in relation to its competitors.
3. The differences (if any) in the impact of regulatory compliance on small businesses (which should also have an impact on entrepreneurs and start-up firms).

What little research there is on these issues has been done at a macroeconomic scale, usually focusing on federal regulations and global competitiveness. Echeverri-Carroll and Ayala, in a 2008 study published by University of Texas Austin, concluded that “the literature shows that macro (country-level) studies have failed to arrive at clear conclusions concerning the impact of environmental regulations on competitiveness, technological change, and industrial location.” Most of the research, even research on the impact of environmental regulations on global competitiveness, has found that “differences in...compliance costs rarely have a serious effect on industrial competitiveness.” There have also been a few studies on local economic effects. Kobeissi (2009) found that the Community Reinvestment Act has had a

positive effect on new business start-ups and local economic growth (but does not report the impact on the local banking industry). Beale (2004), in a study of government regulation of home-based businesses, looks at both federal and state/local regulations and finds that local zoning restrictions are especially restrictive for growing home-based businesses that need to take on additional employees (but does not consider the community—and property-value—benefits of those zoning restrictions). The Australian Productivity Commission inaugurated a “Business Regulating Benchmarking” study of the role of local government in September 2011, but it has no results to report yet.

The Minnesota House developed an informal survey of small businesses in Minnesota in the fall of 2009. Of the 63% of the businesses replying to a question about the impact of “regulations” on their business, roughly 25% reported positive impacts to regulation. Of the 75% who reported negative impacts, about 40% of those felt regulation was harmful because it was “inconsistent, overregulated, unchecked, inefficient, outdated, or unnecessary”; another 30% felt it was too expensive; and 20% thought compliance was burdensome and took too much time. Yet when asked what action the Legislature might take, 54% argued for tax reform (only 16% wanted reduced or better regulations—including lower fees).

To summarize, most of the research to date has been on macroeconomic effects and frequently does not distinguish between different types of regulations or the impacts of regulations on different types of industries. None have focused on the impacts on rural areas compared to metropolitan ones.

The exception to this is the Irish Business Regulation Survey (Department of Taoiseach, 2007). This national study disaggregated the types of regulations (and in some cases distinguished between cost of the regulation itself and the cost of complying with the regulation) and the types of industries affected. The study found that

“In general, regulation occupies a middle position in terms of the challenges faced by businesses. Labour costs, increased competition and other business costs were more likely to be ranked as the most important challenge, while inadequate infrastructure and staffing issues were less likely to be ranked as most important.”

A recent five-state comparison of the impact of state regulations on small business start-ups (Dhakal *et alii*, 2011), commissioned by the Minnesota Legislative Coordinating Commission, found that businesses “did not appear to object as much to the number of requirements and regulations as they did to the perceived cumbersome process of securing the necessary information in order to comply” (p. 6). Dhakal addressed only the costs due to state regulations for business start-ups (it did not consider the ongoing impact of regulations, state or local). The study also noted that the complexity of regulation appears to correlate to the size of the population in the state—larger states have more requirements, higher standards, and more state agencies mandating compliance.

## Methodology and Procedures

This project, then, addresses the question of the impact of **state and local government** regulations on businesses in Minnesota, disaggregating businesses by **location** (the 11 Twin Cities metropolitan counties (Metro), the 17 metropolitan counties outside the Twin Cities region (non-Metro), and 59 rural counties (rural)); **industry type** (NAICS 2-digit categories); and **size** (based on number of employees). “Impact” considers the **financial burden** (such as the cost of fees and licenses), **compliance burden** (time and cost involved in becoming compliant with a regulation, such as purchasing new technology), and the **administrative burden** (time and cost of the administration associated with compliance, such as preparing reports).

A project advisory committee was assembled comprised of representatives from the regional development commissions (RDCs), Small Business Development Centers (SBDCs), chambers of commerce (C of C), Economic Development Association of Minnesota (EDAM), and the Minnesota Department of Employment and Economic Development (DEED). The advisory committee met initially to advise and review the survey instrument and to assist in developing a sampling frame. After the survey was completed they met again to review the results of the survey and to assist in identifying potential benchmark measures.

The survey instrument was an online survey based on the one developed for the Irish Department of Taoiseach (2007). The original survey had many branching questions. Creating a computer-driven survey for this study simplified the response pattern for the respondents. In addition, the Irish survey had to be modified for the American context (we don’t have a value-added tax for example, and the relation between the national and the lower levels of government are very different).

An invitation to participate in the survey was distributed by e-mail to a random sample of 10,000 business corporations selected by Reference USA. The initial response rate was 199 respondents, or 2% (according to Reference USA, 1% is the expected response rate for e-mail surveys). A second wave of survey responses was generated by inviting participation from subscribers to e-newsletters from SBDCs and Enterprise Minnesota, producing an additional 118 responses. A supplemental survey, targeted specifically to the Metro/non-Metro/rural differences, was sent by e-mail to a sample of 1,500 businesses (500 from each location) listed by area chambers of commerce. This survey returned 112 responses (36 from Metro, 38 from non-Metro cities, 38 from rural counties). These additional surveys were not used to measure the relative proportions of responses (those analyses were based on the random sample), but they were used to generate more detailed characterizations of particular responses within groups.

In developing recommendations for potential benchmark measures, the advisory committee was asked to consider quantitative measures that are already collected and reported by other organizations/agencies. These might include measures developed by the U.S. Census Bureau (including the Census of Business) and the state of Minnesota (including the Department of Revenue and DEED). But they might also include data from regular surveys conducted by chambers of commerce, the SBDCs, the RDCs, and others.

## Characteristics of Respondents

The initial pool of respondents was 199, although not all respondents answered all questions. With a sample this size, the margin of error is about  $\pm 6.7\%$ . Almost all of the respondents (91%) represented American-owned private businesses (Table I<sup>2</sup>). As stated earlier, in the Metro/non-Metro/rural survey, the distribution of the 112 responses was almost even (36 from Metro, 38 from Greater Minnesota cities, 38 from rural counties). While the U.S. standard is to categorize firms as “small” or “large,” for this study we categorized firms as “micro” (1-9 employees), “small” (10-49 employees), “medium” (50-250 employees), and “large” (more than 250). The distribution of companies by size is displayed in Table II. While the majority of the sample responding to this survey were small- and medium-sized companies (79.4% combined), according to the U.S. Census Bureau (2009), the overwhelming majority of businesses in Minnesota are micro-sized (72.3%). This difference is probably due both to bias in the method (micro-businesses might be less likely to have e-mail addresses) and response bias (micro-businesses may have been less inclined to take the time to complete the survey).

The largest industrial sector in the sample was Manufacturing (28%), followed by Professional, Scientific, and Technical Services (17%) (see Table III). Manufacturing is heavily overrepresented compared to U.S. Census figures (28% vs. 5%), as are Services (17% vs. 11%). At the same time, the sample under-represents Construction (5% compared to 12%), Retail and Wholesale Trade (10% compared to 19%), Waste Management (1% compared to 5%), Health Care (5% compared to 10%), and Food and Hotel (3% compared to 7.5%). The survey sample was purposely over-selected for Agriculture (almost 7%, compared to 0.3% in the population). The majority of the firms (72%) had been in operation for more than 10 years (Table IV).

## Survey Findings

To begin, survey respondents were asked to indicate their top business challenges. Among the entire group, respondents ranked government regulation as their most significant business challenge. Regulation scored the highest both in Rank 1 and as the sum of the top three rankings (Table V). Government regulation was cited by 33% of the respondents as their top challenge, while 67% put it among their top three. Increased competition came in second (23%), followed by insurance/other costs (20%), and access to capital (20%). Among the top three rankings, government regulations were tied with insurance/other costs (67%) for first place, followed by increased competition (57%) and labor costs (51%). It appears, then, that the top four challenges for businesses are (in order):

1. Government regulations.
2. Insurance/other costs (business expenses other than labor).
3. Increased competition.
4. Labor costs.

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<sup>2</sup> Tables can be found in the Appendices, starting on page 19.

As a side note, we did not ask participants to focus specifically on state and local government regulations on this question. Judging from written responses to open-ended questions later in the survey, however, even when they were instructed to focus only on state and local regulations, about one third of the respondents referred to federal regulations (immigration and visa regulations, patent enforcement, Medicare mandates, Dodd-Frank requirements, etc.).

The ranking of challenges by industry sector vary a bit (Table XXVI), although in almost every case the top three challenges were given as government regulations, increased competition, and labor costs. These rankings come from the expanded sample, which includes another 113 responses from an open call for participation. Government regulation was the most important challenge among Extraction/Construction (39%), Retail (36%), Transportation (39%), Services (36%), and Education/Health (36%) sectors. It tied with labor costs in the Manufacturing sector (29%). Labor costs are ranked as the most important issue in the Ag (39%), Wholesale (38%), FIRE (Finance, Insurance, and Real Estate; 46%), Food (36%), and Other (33%) industries. Increased competition was generally in third place (ranging from a high of 27% to less than 10%), except for the Service sector, which ranked it second at 28% and labor costs in third place at 17%.

### *Impact of Regulations*

Attitudes toward government regulation as a challenge varied considerably by size of business. Government regulations ranked highest for large- (61%) and medium- (31%) sized businesses (Table XXXI). “Other business costs” ranked highest for small- (31%) and micro- (25%) sized firms, while regulation ranked third.

Government regulation was the most important challenge no matter the age of the firm (Table XXXVI), ranging from 24% to 35%, and the frequency of responses increased with age. For younger firms (three years or less), increased competition came in a close second as the most important challenge (20%-22%, compared to 25-26% for regulations). For more established firms, workforce and other business costs were the more important challenges.

Analyzing responses by location reveals similar patterns (Table XXXVIII). Government regulation was the highest-ranked challenge reported for each of the three locations (Metro/non-Metro/rural), although it was ranked highest more often by businesses outside the Twin Cities metropolitan area. Competition was ranked second highest, coming in close in importance for both Metro and non-Metro businesses, while other costs weighed heavily for Metro and rural areas.

We asked respondents who did business outside of Minnesota how Minnesota compares to other states in terms of regulation (Table VI). Nearly one half (48%) perceived Minnesota as having more regulation, while 43% perceived Minnesota as about the same as other states, and 9% perceived Minnesota as having less regulation than other states. Medium-sized firms were more likely to report less regulation in other states (Table XXXII), while small- and medium-sized firms were more likely to report more regulation in other states. Non-Metro businesses were much more likely than Metro or rural

businesses to report that Minnesota has more regulations (Table XXXIX). Interestingly, of the rural businesses that had business experience outside Minnesota, one-third reported that other states had more regulations. (The number reporting is very small, so the absolute magnitude of the difference is probably not reliable. However, the comparison with the other locations, particularly the non-Metro cities, is significant.)

Respondents were asked to comment on the impact of regulations on *business in general* and on *their own business specifically*. When asked about the level of impact various types of regulations have on business in general in Minnesota, respondents ranked health and safety regulations as having the highest impact (25%), followed by environmental regulations (24%), land use regulations (23%), and Minnesota tax reporting (20%) (Table VII). The smaller the firm, the more likely they were to report a major impact from the corporate income tax (Table XXXIII), while the larger firms were more likely to report a major impact due to reporting requirements.

When respondents were asked what had the most significant impact on their own businesses, the rankings shifted. They responded that Minnesota tax reporting was the most significant (33%), with almost two and a half times the responses as the next choices (Table VIII). The next choices, bunched in the lower teens, were licensing (14%), land use regulations (13%), state employment law (also 13%), health and safety regulations (12%), and environmental regulations (11%). In other words, while *in general* the respondents believed that health and safety, environmental, and land use regulations have the greatest impact on business in general, when it comes to *their* businesses, tax regulations were far and away the most important issue (environmental and land use regulations combined were not ranked first as frequently as tax regulations).

This pattern was replicated, with minor variations, in the Metro/non-Metro/rural comparisons (Table XL). Income and corporate taxes were reported to have the greatest impact (Metro, 32%; non-Metro cities, 33%; rural, 26%), ranking well above all other options.

Respondents were next asked what their main issues were with the regulations that had the most significant impact on their businesses (Table IX). The major complaints were lack of flexibility (65%) and difficulty in understanding (62%), followed by ineffectiveness (55%), and inconsistency (54%). Interestingly, however, only 25% responded that they were unable to comply with the regulations. In other words, respondents reported that the rules are inflexible, incomprehensible, ineffective, and inconsistent, but they comply with them. The issues of inflexibility and inconsistency are carried across the Metro/non-Metro/rural respondents (Table XLI), but the businesses in the non-Metro cities were, in addition, particularly critical of the effectiveness, comprehensibility, and enforcement of state and local regulations. While businesses in all three locations reported that they are mostly able to comply (72%-74%), rural businesses in particular reported that compliance was possible (84%).

### *Attitudes Toward Regulators*

Respondents also replied to a series of questions about their perceptions of the implementation and enforcement of the regulations separate from the character of the regulations themselves (Table X). The most common contact with regulators was providing information (33%) or submitting to inspections (28%). Those contacts with regulators were mostly annual or less than annual (48%), although 22% reported more than six contacts a year (Table XI). When respondents were asked about their contact with regulators (Table XII), the most common response was that the process was too inflexible (66%). Less strongly, they responded that the regulators did not sufficiently understand the practices in the respondents' businesses (49%), that the regulators' decisions were not predictable (40%), that the process for appeals was not clear (47%), and it was not clear who was responsible for decisions (47%).

There were some clear differences among industry sectors in their contacts with regulators. The Ag, Mining/Construction, Manufacturing, and Wholesale sectors were very strong in reporting negatively in regard to clarity of responsibility, the appeals process, and flexibility, yet they expressed much less negativity in regard to consistency of enforcement and understanding of the industry being regulated (Table XXVIII). The Food and the Health sectors expressed the least negativity in regard to flexibility but were among those expressing dissatisfaction with the consistency with which regulations were enforced.

There were also differences in responses based on location. Businesses in non-Metro cities particularly cited lack of flexibility (73%). At the same time, though, 59% also cited inconsistency in application of the regulations. In fact, non-Metro city businesses reported significantly higher negative contacts with regulators in five of the seven areas addressed, while rural businesses consistently reported fewer negative contacts with regulators, differences of more than 20 points in some cases, and more than 40 points below non-Metro cities in regard to flexibility. Two possible reasons can be considered: Perhaps in rural areas interactions are more personal, even when those interactions are institutional in purpose; or perhaps because those regulated are more dispersed in rural areas, they have less contact with regulators, and potential violations go unnoticed. But neither option would explain why Metro-area businesses usually fell between rural and non-Metro city businesses in their assessment of their contact with regulators.

Interestingly, only 42% of businesses responding reported that they felt the regulations were not appropriately enforced (Table XIII)—30% felt that regulations were appropriately enforced, and 28% offered no opinion. The most common reason given for reporting that regulations are not appropriately enforced was the opinion that regulations were inconsistently enforced (Table XIV). Despite these perceptions, however, almost 60% of the respondents believed that the level of compliance with regulations among firms in their industry is high (Table XV). It is interesting that the reports of high compliance are fairly similar across industry sectors (Table XXX), ranging from 45% to 62% (most were between 50% and 59%). Low compliance, however, was reported

more frequently by the Agriculture, Construction, Manufacturing, and Wholesale sectors (20%-15% range). This same group was strongest in expressing problems in their contact with regulators.

### *Burden of Regulatory Compliance*

The survey probed for specific information on the burden imposed by regulatory compliance (Table XVI). Respondents ranked environmental regulation as the heaviest burden (24%), followed by employment regulations (18%), and health and safety (16%), with income taxes, land use regulations, and business licensing all within a few points of each other (10%-13%). There were only minor differences in ranking based on industry sector. By firm size, the larger the firm, the more frequently compliance with regulations was reported as creating a burden (Table XXXIV), with taxes and environmental regulations ranked at the top.

There was more divergence of opinion among Metro/non-Metro/rural businesses about where the heaviest burden of regulation fell (Table XLIII). The non-Metro city businesses reported that environmental regulations were a greater burden, while they were less concerned about health and safety regulations. Metro area businesses were much less concerned about reporting, statistical data, and land use regulations (6%, 3% and 3%, respectively) than non-Metro and rural businesses (11-16%), while they were more concerned with employment law (20% versus 11%-14%). Rural areas were less concerned about business licensing regulations (6%) than either of the urban areas (14%-17%). The Metro/non-Metro/rural data were drawn from a separate (truncated) survey. It is noteworthy that the income/corporate tax regulations were rated by this sample as being much less burdensome (in the single digits) than they were to the initial sample (which responded to a longer survey).

It is also instructive to compare the rankings of these same items from Table VII ("Impact on Business") and Table VIII ("Most Significant Impact on Your Business") with Table XVI ("Regulatory Compliance Burden") (see Table XVII for the comparison). There is a moderate positive correlation between the impact on business and the impact on one's own business (0.55) and between the impact on one's own business and the compliance burden (0.47). There is a fairly strong correlation between business impact and the compliance burden (0.77). The scoring was identical across all three rankings for the last two categories—corporate regulations and statistical data regulations. Leaving aside those bottom two rankings, the first two correlations flip from moderately positive to strongly inverse (-0.54 and -0.77 respectively).

In other words, for the first five choices, what was reported as the most significant impact for business in general was less significant for one's own business. At the same time, the choices reported as having the heaviest compliance burdens were, in fact, those reported as having less impact on one's own business. The positive correlation between compliance burden and impact on business in general remains, although at a much weaker level (0.26). It appears, then, that the respondents felt that the most significant areas of impact on one's own business do not have a particularly heavy compliance burden, although they did think that there was a relationship for business in general.

Respondents were also asked to assess the impact of regulations and compliance on the business environment (Table XVIII). The dominant response was that regulations had no significant effect on the business environment. (Three of the six impacts were rated as “neutral” by more than 50% of the respondents; the lowest was rated neutral by 46%.) There was some recognition of positive impacts such as maintaining quality (18%), but mostly high negative ratings on the other impacts (especially labor costs, at 50%). In other words, the respondents felt that, when they are not seen as a burden, state and local government regulation is neutral at best.

The question asked about business in general, however. Perhaps respondents would have a more nuanced response about impacts on competition in their own sector (Table XIX). Here, they perceived that state and local government regulations make it difficult for new firms to enter the sector (48%), do not break down barriers to competition (56%), and do not prevent price undercutting (47%). They perceived the regulations as having little or no effect on the intensity of competition. From their point of view, there is too much regulation (65%, Table XX); the Manufacturing sector felt this particularly strongly (Table XXIX). The larger firms tended to be more accepting of the level of regulation than the smaller ones, although the micro-sized firms were the most likely to feel there is too little regulation (Table XXXV). In terms of location, non-Metropolitan businesses concurred that there is too much regulation (66%), although rural businesses were a little less critical (54%) and Metro businesses even less so, at 49% (Table XLV).

Among all businesses, firms that have been around longer were more accepting of their current level of regulation than newer businesses (Table XXXVII). More than two thirds of businesses reported needing to hire outside assistance to comply with regulations (70%, Table XXI), and the cost of getting help has been increasing (63%, Table XXII), due mostly to the introduction of new regulations (33%) and the increasing complexity of existing regulations (28%, Table XXIII). They felt that the viewpoint of their sector was rarely or never reflected in new regulations that were developed (50%), and the new requirements are not communicated clearly (52%) (Table XXIV).

At the end of the survey, respondents were asked their priority for changing state regulations (Table XXV). The clear priority was tax regulations (38%), followed by finance/banking regulations (24%). Energy came in a distant third (13%).

## Discussion & Implications

This study set out to explore three questions regarding business owners' attitudes toward regulation—the **impact** of regulatory compliance on business; the **relative impact** of regulatory compliance on a business in relation to its competitors; and the **differential impact** of regulatory compliance on various categories of businesses, including rural businesses.

### *Impact of Regulatory Compliance on Business*

Overall, respondents ranked regulations were the greatest challenge (Table V). The survey found that the top four challenges for businesses were:

1. Government regulations.
2. Business costs other than labor.
3. Increased competition.
4. Labor costs.

The findings also indicated that it was difficult for respondents to separate the impacts of state and local agencies and regulations from those of federal agencies and regulations.

Examining the issue more closely, questions about the impact of regulations on business *in general* vs. the impact on *their own* businesses exposes a discrepancy (Tables VII, VIII and IX). When considering the impact on their own businesses, respondents were most concerned about corporate income taxes; when they were asked about the impact on business in general, they were most concerned about safety, environmental, and land use regulations. In fact, the top five rankings show an inverse correlation between whether the question is posed about business in general or one's own business. The issues most important to a business owner's own business were least important to business in general, and vice versa. This suggests that *at least part of the concern being expressed is a matter of perception rather than direct experience.*

*The top priority for regulatory change was in the area of income and corporate taxation.* Unlike the other issues, the problem here seems to be with regulations themselves rather than how they are enforced. The open-ended responses referred to the sheer number of taxes, to the role of some businesses in collecting taxes from customers for the state, and to the amount that was taken in taxes (especially compared to neighboring states).

*Except for taxes, it appears that the issue is less with the regulations themselves than with the difficulty of compliance.* This finding coincides with the findings of the state Legislative Coordinating Commission study (Dhakal, 2011). It appears that survey respondents consider the rules inflexible, incomprehensible, ineffective, and inconsistent, but they comply with them anyway. While taxes were perceived as having the greatest impact, the burden of complying with tax regulations was not considered to be as heavy as other regulations. In rural areas, health and safety compliance was perceived as the

most burdensome; in non-Metro cities, it was compliance with environmental regulations; in the Metro area, it was employment regulations (Table XLIII).

There is some tension among the types of firms between consistency of enforcement and flexibility in enforcement. For some, the issue is that the regulators are too inflexible; for others, it is that they are inconsistent (one person's "inconsistency" could be another's "flexibility"). Some of the open-ended responses stated that there were too many regulations from too many sources to keep them all straight. Others took the position that the regulators were not there to help the businesses, but to punish them, and that they came with demands but no answers or authority to make final decisions about how one was to comply with those demands.

One finding of particular interest, though, was when respondents reported that *their cost of compliance is increasing because of new regulations and the increasing complexity of existing regulations.*

Some pointed to duplication of authority, such as the Department of Agriculture and EPA, state and federal employment regulations, the MPCA and the DNR, the Minnesota Department of Revenue and Minnesota Unemployment, and multiple inspectors at the same worksite, each with his or her own mandates that could stop construction.

Although respondents reported that compliance is more at issue than the nature of the regulation, compliance is reported as a burden less frequently than the overall "impact" of regulations. Also, given the stress in the literature on the negative impact of regulations on small businesses, it is interesting that it was the larger firms that were more likely to report perceiving compliance as burdensome. Respondents reported that the regulations that have the most significant impact on one's own business do not have a particularly heavy compliance burden. Instead, they perceive the most burdensome regulations as those that have an effect on business in general.

#### *Relative impact of regulatory compliance on a business in relation to its competitors*

The dominant response concerning regulations and their effect on competition was that regulations had no significant effect on the business environment in general. When asked about the competitive impact on their business specifically, on balance respondents reported that regulations had little effect on the intensity of competition, although regulations did limit the entry of new competitors into the market. In terms of competition with firms outside Minnesota, perceptions were about evenly split on whether Minnesota has more regulations or about the same amount.

And yet, while the respondents clearly expressed a desire for fewer and less intrusive regulations, and while few of them reported perceived benefits from regulation (at best, they perceived regulations as neutral), on the open-ended questions many asked for tighter oversight of banks and real-estate lenders, limitations on bank fees and Internet commerce, limitation on utility rate increases, limitations on lobbying, and increased support for renewable energy. Although these comments were offered by only a few respondents and are not necessarily representative of the group, they do suggest areas in which

regulations might be perceived as having a particularly noticeable effect on relative competitiveness.

*Differential impact of regulatory compliance on various categories of business*

The pattern of responses indicates that businesses in the non-Metro cities are much more concerned about regulations than those in the Metro area or in rural areas. This finding suggests that further research is needed to explore whether the difference is due to differences in enforcement or differences in expectations. Perhaps non-Metro cities are compact enough for more intense enforcement than in rural areas, while enforcement in the Metro area is focused more on a number of complex cases. Or perhaps businesses in non-Metro cities expect a more “personal” style of enforcement like rural areas, rather than a more bureaucratic style common in very large metropolitan areas. It also suggests that future research look into the conditions that generate different business expectations in different areas in regard to regulation and what regulatory agencies might learn from those expectations.

*The Metro/non-Metro/rural comparisons revealed that, for major issues and impacts, there were few differences based on location.* State and local regulations were perceived as the greatest challenge regardless of location in the state, although businesses in non-Metro cities responded more strongly (Table XXXVIII). Within the category of regulations, however, regional differences begin to emerge. Businesses in all three areas were most concerned with income/corporate taxes (Table XL). Burden of compliance also varied (Table XLIII). Businesses in the non-Metro cities were most concerned about complying with environmental regulations, while businesses in rural areas reported the greatest burden from health and safety regulations. Businesses in the Metro area reported their greatest burden from employment law.

## **Recommendations**

The findings from this survey appear to confirm the findings from the report to the Minnesota Legislative Coordinating Commission cited at the beginning of this report (Dhakal, 2011): The primary issue expressed by business owners is *in complying with regulations*, rather than the number or character of the regulations themselves.

The trick, therefore, is to find a balance between having and enforcing enough regulation to keep everyone on an even playing field, but not so much as to stifle innovation and entrepreneurship. Finding this balance will require effort at the local as well as the state level—local government regulations like land use controls and business licensing were mentioned as much as state regulations like pollution control and sales tax reporting.

### Potential next steps

- *Coordinate and streamline the tangle of regulations already in place.*

First of all, we would recommend that policy makers, whether at the state or local level, consider the impact any new regulation will have *in combination* with already existing regulations. One of the most telling findings in this study was that business owners say the cost of compliance is increasing because of the increasing number and complexity of regulations. Some state agencies are

already working to streamline their regulatory processes and coordinate them with other agencies. This is great for businesses, where time is money.

- *Go beyond “customer service” training for regulators.*

Business owners reported that their biggest issue with regulators was that the process was too inflexible. However, nearly half of business owners also reported that regulators did not sufficiently understand the practices in the respondents’ businesses, that the regulators’ decisions were not predictable, that the process for appeals was not clear, and it was not clear who was responsible for making decisions.

While some agencies may be practicing customer service training for their regulators, the issues stated above go beyond learning standard customer service practices and need to be addressed through agency policy. Agencies could consider examining these issues of inconsistency that are causing frustration for business owners and take steps to address them if necessary, ensuring that any new policies that result are communicated down to those who work directly with the public.

- *Education for “customers” on the various regulations—including processes—and the benefits they provide.* Education also falls to the business owner. Plain-English explanations of the regulations, available through printed materials, web sites, and regulators, could lower the frustration level for the people who are expected to comply.

Comparing Minnesota’s regulations with those of other states may be less important than doing a better job with what we have. As Dhakal (2011) pointed out, businesses do not necessarily choose the states with fewer regulations. They choose the states with the best opportunities and figure out how to deal with the regulations.

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### Appendix I—Data Tables: Random Sample

| Type of Company                | Number |
|--------------------------------|--------|
| American Owned – Private       | 183    |
| Subsidiary of Overseas Company | 7      |
| American-Owned Public          | 3      |
| Nonprofit                      | 6      |

Table I  
Type of Company

|        | Size of Company |               |               |              |
|--------|-----------------|---------------|---------------|--------------|
|        | Micro (1-9)     | Small (10-49) | Med. (50-250) | Large (>250) |
| Sample | 58.3%           | 30.7%         | 9.05%         | 2.01%        |
| Census | 72.3%           | 22%           | 5%            | 0.7%         |

Table II  
Company Size

| NAICS Category   | NAICS CODE | Count | Percent | Census Percent |
|--|------------|-------|---------|----------------|
| Agriculture, Forestry, Fishing, and Hunting                              | 11         | 14    | 6.93%   | 0.3%           |
| Mining   | 21         | 3     | 1.49%   | 0.1%           |
| Utilities  | 22         | 1     | 0.50%   | 0.2%           |
| Construction   | 23         | 10    | 4.95%   | 11.6%          |
| Manufacturing  | 31, 32, 33 | 57    | 28.22%  | 5.1%           |
| Wholesale Trade  | 42         | 4     | 1.98%   | 5.7%           |
| Retail Trade   | 44, 45     | 16    | 7.92%   | 13.5%          |
| Transportation and Warehousing   | 48, 49     | 1     | 0.50%   | 3.1%           |
| Information  | 51         | 3     | 1.49%   | 1.8%           |
| Finance and Insurance  | 52         | 11    | 5.45%   | 6.5%           |
| Real Estate, Rental, and Leasing   | 53         | 11    | 5.45%   | 4.3%           |
| Professional, Scientific, and Technical Services                         | 54         | 35    | 17.33%  | 11.2%          |
| Management of Companies and Enterprises                                  | 55         | 0     | 0%      | 0.8%           |
| Administrative and Support and Waste Management and Remediation Services | 56         | 2     | 0.99%   | 4.8%           |
| Educational Services   | 61         | 2     | 0.99%   | 1.3%           |
| Health Care and Social Assistance  | 62, 64     | 10    | 4.95%   | 9.9%           |
| Arts, Entertainment, and Recreation                                      | 71         | 5     | 2.48%   | 1.9%           |
| Accommodation and Food Services  | 72         | 6     | 2.97%   | 7.5%           |
| Other Services   | 81         | 10    | 4.95%   | 10.4%          |
| Public Administration  | 92         | 1     | .50%    | 0.1%           |

Table III  
Industry Type

| Length of Operation | Count |
|---------------------|-------|
| Less than 1 Year    | 1     |
| 1-3 Years           | 11    |
| 4-10 Years          | 44    |
| More than 10 Years  | 147   |

Table IV  
Length of Operation

| Challenges                | Rank 1 | Rank 2 | Rank 3 | Rank 4 | Rank 5 | Rank 6 | Rank 7 | Rank 8 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Increased Competition     | 40     | 28     | 27     | 20     | 20     | 18     | 14     | 7      |
| Inadequate Infrastructure | 5      | 7      | 15     | 12     | 19     | 39     | 29     | 24     |
| Regulation                | 61     | 27     | 33     | 16     | 12     | 13     | 12     | 2      |
| Labor Costs               | 16     | 31     | 40     | 29     | 28     | 14     | 3      | 5      |
| Insurance/Other Costs     | 38     | 53     | 32     | 21     | 16     | 10     | 7      | 0      |
| Workforce Issues          | 15     | 23     | 16     | 26     | 27     | 20     | 19     | 13     |
| Access to Capital         | 35     | 17     | 12     | 15     | 15     | 18     | 40     | 11     |
| Other                     | 11     | 6      | 15     | 10     | 6      | 5      | 5      | 72     |

Table V  
"Most Important Challenges Facing Your Company"

| Amount of Regulation        | Number | Percent |
|-----------------------------|--------|---------|
| More than Minnesota         | 7      | 8.64%   |
| About the same as Minnesota | 35     | 43.21%  |
| Less than Minnesota         | 39     | 48.15%  |

Table VI  
Do other States have more or less regulation than Minnesota?

| Areas of Regulation                | Major Impact | Moderate Impact | Little Impact | No Impact |
|------------------------------------|--------------|-----------------|---------------|-----------|
| State/Local Health and Safety Regs | 25.25        | 31.19           | 25.74         | 17.82     |
| State/Local Environmental Regs     | 23.65        | 29.06           | 26.11         | 21.18     |
| State/Local Land Use Regulations   | 22.66        | 20.20           | 28.08         | 29.06     |
| Reporting MN Income/Corporate Tax  | 20.10        | 39.22           | 30.39         | 10.29     |
| State/Local Business Licensing     | 19.70        | 31.53           | 36.45         | 12.32     |
| Other State Employment Law         | 15.27        | 42.86           | 31.53         | 10.35     |
| State/Local Corporate Regulations  | 14.22        | 32.35           | 40.69         | 12.75     |
| Reporting Industry Specific Taxes  | 10.15        | 22.84           | 34.01         | 33.00     |
| Return of Statistical Data         | 4.50         | 21.50           | 41.50         | 32.50     |
| Others                             | N=19         | X               | X             | X         |

Table VII  
Impact of Regulation on Business

| Most Significant                   | Percent | Number |
|------------------------------------|---------|--------|
| Reporting MN Income/Corporate Tax  | 33.33%  | 65     |
| State/Local Business Licensing     | 13.85%  | 27     |
| State/Local Land Use Regulations   | 12.82%  | 25     |
| State/Local Health and Safety Regs | 11.80%  | 23     |
| State/Local Environmental Regs     | 11.28%  | 22     |
| Other State Employment Law         | 12.82%  | 15     |
| State/Local Corporate Regs         | 5.13%   | 10     |
| Reporting Industry Specific Taxes  | 3.08%   | 6      |
| Return of Statistical Data         | 1.03%   | 2      |

Table VIII  
Regulations That Have Most Significant Impact on Your Business

| Statement  | Strongly Agree | Agree | Neither | Disagree | Strongly Disagree |
|--|----------------|-------|---------|----------|-------------------|
| The regulations are flexible                       | <.01%          | 10    | 25      | 39       | 26                |
| The regulations are easy to understand             | 2              | 17    | 19      | 39       | 23                |
| The regulations achieve their objectives           | <.01           | 14    | 31      | 37       | 18                |
| The regulations are consistent                     | <.01           | 13    | 33      | 39       | 15                |
| The regulations are appropriately enforced         | 3              | 20    | 34      | 27       | 16                |
| Despite the number, it is still possible to comply | 2              | 37    | 36      | 15       | 10                |

Table IX  
Reasons for Stating Regulations Have Significant Impact on Your Business

| Statement                            | Number | Percent |
|--------------------------------------|--------|---------|
| Providing required information       | 65     | 32.66%  |
| Inspection                           | 56     | 28.14%  |
| Seeking information on a regulation  | 51     | 25.63%  |
| Other                                | 17     | 8.54%   |
| Lobbying about a proposed regulation | 10     | 5.03%   |

Table X  
Nature of Contact with Regulators

| Frequency of Contact | Number | Percent |
|----------------------|--------|---------|
| Less than annually   | 27     | 17.76%  |
| Annually             | 46     | 30.26%  |
| 2-3 times per year   | 26     | 17.11%  |
| 4-6 times per year   | 20     | 13.18%  |
| 6+ times per year    | 33     | 21.71%  |

Table XI  
Frequency of Contacts with Regulators

| Character of Contact with Regulators                   | Strongly Agree | Agree | Neither | Disagree | Strongly Disagree |
|--|----------------|-------|---------|----------|-------------------|
| The practices are flexible and not bureaucratic        | 1.96%          | 10.46 | 21.57   | 35.29    | 30.72             |
| There's a good understanding of practices in my sector | 4.67           | 22.00 | 24.00   | 28.00    | 21.33             |
| Decisions are consistent and predictable               | 3.31           | 23.18 | 33.11   | 24.50    | 15.89             |
| The process for appeals and complaints is clear        | 2.01           | 19.46 | 31.54   | 30.20    | 16.78             |
| It is clear who is responsible for decisions           | 4.11           | 19.86 | 28.77   | 32.19    | 15.09             |
| Officials give definite answers to queries             | 5.30           | 35.10 | 26.49   | 23.84    | 9.27              |
| The response is given within a reasonable time         | 5.33           | 44.67 | 22.67   | 20.67    | 6.67              |

Table XII  
Characterization of Contact with Regulators

| Regulations appropriately enforced? | Number | Percent |
|-------------------------------------|--------|---------|
| Yes                                 | 61     | 30.05%  |
| No                                  | 86     | 42.36%  |
| No Response                         | 56     | 27.59%  |

Table XIII  
Are Regulations Appropriately Enforced?

| Reason not appropriately enforced | Number | Percent |
|-----------------------------------|--------|---------|
| Enforcement is inconsistent       | 52     | 46.85%  |
| Enforcement is too rigid          | 34     | 30.63%  |
| There are not enough inspectors   | 11     | 9.90%   |
| Other                             | 14     | 12.61%  |

Table XIV  
"Reason Regulations Are Not Appropriately Enforced?"

| Level of Compliance | Number | Percent |
|---------------------|--------|---------|
| High                | 46     | 58.23%  |
| Moderate            | 31     | 39.24%  |
| Low                 | 2      | 2.53%   |

Table XV  
Perception of Compliance Among Firms in the Industry

| Area of Regulation                    | No Burden |         | Moderate Burden |         | Heavy Burden |         |
|---------------------------------------|-----------|---------|-----------------|---------|--------------|---------|
|                                       | Number    | Percent | Number          | Percent | Number       | Percent |
| State/Local Environmental Regs        | 66        | 42.86%  | 51              | 33.17%  | 37           | 24.03%  |
| Other State Employment Law            | 52        | 33.77%  | 75              | 49.34%  | 27           | 17.76%  |
| State/Local Health and Safety Regs    | 59        | 40.97%  | 62              | 43.06%  | 23           | 15.97%  |
| Reporting MN Income and Corporate Tax | 51        | 32.90%  | 84              | 54.19%  | 20           | 12.90%  |
| State/Local Land Use Regulations      | 83        | 54.25%  | 51              | 33.33%  | 19           | 12.42%  |
| State/Local Business Licensing        | 57        | 36.77%  | 82              | 52.90%  | 16           | 10.32%  |
| State/Local Corporate Law             | 72        | 46.75%  | 67              | 43.51%  | 15           | 9.74%   |
| Return of Statistical Data            | 90        | 59.21%  | 53              | 34.87%  | 9            | 5.92%   |
| Reporting Industry Specific Taxes     | 85        | 56.67%  | 56              | 37.33%  | 9            | 6.00%   |

Table XVI  
Burden Imposed by Regulatory Compliance

| Area of Regulation                    | Ranking         |                      |                   |
|---------------------------------------|-----------------|----------------------|-------------------|
|                                       | Business Impact | Your Business Impact | Compliance Burden |
| State/Local Environmental Regs        | 2               | 4                    | 1                 |
| Other State Employment Law            | 6               | 5                    | 2                 |
| State/Local Health and Safety Regs    | 1               | 3                    | 3                 |
| Reporting MN Income and Corporate Tax | 4               | 1                    | 4                 |
| State/Local Land Use Regulations      | 3               | 6                    | 5                 |
| State/Local Business Licensing        | 5               | 2                    | 6                 |
| State/Local Corporate Law             | 7               | 7                    | 7                 |
| Return of Statistical Data            | 9               | 9                    | 8                 |
| Reporting Industry Specific Taxes     | 8               | 8                    | 9                 |

Table XVII  
Comparison of Rankings for Areas of Regulation

| Impact of Regulatory Compliance on Business Environment | Positive |         | Neutral |         | Negative |         |
|---|----------|---------|---------|---------|----------|---------|
|   | Number   | Percent | Number  | Percent | Number   | Percent |
| Maintaining Quality                                     | 26       | 18.44%  | 82      | 58.16%  | 33       | 23.40%  |
| Developing New Products                                 | 12       | 8.63%   | 78      | 56.12%  | 49       | 35.25%  |
| Entering New Markets                                    | 7        | 5%      | 75      | 53.57%  | 58       | 41.43%  |
| Competitiveness   | 15       | 10.71%  | 66      | 47.14%  | 59       | 42.14%  |
| Labor Costs   | 5        | 3.62%   | 64      | 46.38%  | 69       | 50%     |
| Other Business Costs                                    | 4        | 2.99%   | 66      | 49.25%  | 64       | 47.76%  |

Table XVIII  
Impact of Regulatory Compliance on Business Environment

| Statement  | Strongly Agree |         | Agree |         | Neither |         | Disagree |         | Strongly Disagree |         |
|--|----------------|---------|-------|---------|---------|---------|----------|---------|-------------------|---------|
|  | No.            | Percent | No.   | Percent | No.     | Percent | No.      | Percent | No.               | Percent |
| Helps to break down barriers to competition                | 2              | 1.42%   | 7     | 4.96%   | 52      | 36.88%  | 40       | 28.37%  | 40                | 28.37%  |
| Makes it difficult for new firms to enter                  | 22             | 15.60%  | 46    | 32.62%  | 41      | 29.08%  | 24       | 17.02%  | 8                 | 5.67%   |
| Increases the intensity of competition                     | 4              | 2.86%   | 13    | 9.29%   | 77      | 55.00%  | 23       | 16.43%  | 23                | 16.43%  |
| Prevents competitors from unfairly selling below my prices | 1              | 0.72%   | 15    | 10.87%  | 57      | 41.61%  | 30       | 21.74%  | 35                | 25.36%  |

Table XIX  
Impact of Regulations on Competition in Own Sector

| Level of Regulation    | Number | Percent |
|------------------------|--------|---------|
| Too Much Regulation    | 90     | 64.75%  |
| About the Right Amount | 40     | 28.78   |
| Too Little Regulation  | 6      | 4.32    |
| No Regulation at All   | 3      | 2.16    |

Table XX  
Level of Regulation

| Outside assistance to comply? | Number | Percent |
|-------------------------------|--------|---------|
| Yes                           | 99     | 69.72%  |
| No                            | 43     | 30.28   |

Table XXI  
Need Outside Assistance to Comply with Regulations?

| Change in compliance costs? | Number | Percent |
|-----------------------------|--------|---------|
| Yes, Increased              | 90     | 63.38%  |
| Yes, Decreased              | 1      | <.01    |
| No Change                   | 51     | 35.92   |

Table XXII  
Have Compliance Costs for Regulations Changed in Past Two Years?

| Reason for Increase in compliance costs            | Number | Percent |
|--|--------|---------|
| Introduction of New Regulations                    | 31     | 32.98%  |
| Increase in the Complexity of Existing Regulations | 26     | 27.66   |
| Expansion of your Company's Activities             | 8      | 8.51    |
| Increase in the Compliance with Regulations        | 16     | 17.02   |
| Other  | 13     | 13.83   |

Table XXIII  
Reason for Increase in Compliance Costs

| Statement  | Always | Often | Sometimes | Rarely | Never |
|--|--------|-------|-----------|--------|-------|
| ...the views of your business sector are taken into account when new regulations are being developed | 1.56%  | 3.90  | 44.53     | 32.03  | 17.97 |
| ...the requirements of new regulations that affect your business are clearly communicated            | 2.34   | 10.94 | 35.16     | 42.19  | 9.38  |
| ...changes in regulations are announced in a timely manner so that plans for compliance can be made  | 3.15   | 16.54 | 43.31     | 27.56  | 9.45  |

Table XXIV  
 Consultation and Communication of Regulations

| Priority area for regulatory reform | Number | Percent |
|-------------------------------------|--------|---------|
| Energy Regulations                  | 16     | 12.80%  |
| Finance/Banking Regulations         | 30     | 24.00   |
| Taxation Regulations                | 48     | 38.40   |
| Telecommunications Regulations      | 3      | 2.40    |
| Transportation Regulations          | 3      | 2.40    |
| Other Regulations                   | 25     | 20.00   |

Table XXV  
 Priority Area for Regulatory Reform

## Appendix II: Data by Type of Firm

|                              | Competition | Infrastructure | Regulation | Labor Cost | Other Cost | Workforce | Capital | Other |
|------------------------------|-------------|----------------|------------|------------|------------|-----------|---------|-------|
| Agriculture                  | 23%         | 2              | 31         | 39         | 1          | 2         | 0       | 0     |
| Mine, Utility & Construction | 10          | 8              | 39         | 37         | 5          | 1         | 0       | 0     |
| Mfg                          | 27          | 4              | 29         | 29         | 2          | 5         | 4       | 1     |
| Wholesale                    | 18          | 6              | 30         | 38         | 2          | 4         | 1       | 0     |
| Retail                       | 16          | 6              | 36         | 31         | 6          | 4         | 2       | 1     |
| Transport                    | 10          | 4              | 39         | 26         | 5          | 8         | 8       | 0     |
| FIRE & Info                  | 6           | 9              | 26         | 46         | 6          | 5         | 2       | 1     |
| Services & Administration    | 28          | 6              | 36         | 17         | 6          | 4         | 2       | 1     |
| Education & Health           | 21          | 5              | 36         | 27         | 3          | 5         | 3       | 0     |
| Food/Entertain               | 13          | 6              | 31         | 36         | 5          | 6         | 1       | 0     |
| Other & Pub Administration   | 10          | 8              | 32         | 33         | 5          | 7         | 5       | 0     |

Table XXVI  
Top-Ranked Challenge by Type of Firm (%)

|                              | Other States More | Same | MN More |
|------------------------------|-------------------|------|---------|
| Agriculture                  | 12%               | 46   | 42      |
| Mine, Utility & Construction | 10                | 34   | 56      |
| Manufacturing                | 15                | 37   | 49      |
| Wholesale                    | 10                | 47   | 44      |
| Retail                       | 6                 | 49   | 45      |
| Transportation               | 6                 | 42   | 52      |
| FIRE & Information           | 6                 | 52   | 43      |
| Services & Administration    | 6                 | 48   | 45      |
| Education & Health           | 7                 | 46   | 47      |
| Food & Entertainment         | 9                 | 45   | 46      |
| Other & Pub Administration   | 2                 | 45   | 53      |

Table XXVII  
Comparison with Other States by Type of Firm (%)

|                              | Definite Answers | Amount of time | Clear Responsibility | Appeals Process | Flexibility | Consistency/Predictability | Understands My Business |
|------------------------------|------------------|----------------|----------------------|-----------------|-------------|----------------------------|-------------------------|
| Agriculture                  | 74%              | 62             | 70                   | 69              | 86          | 43                         | 44                      |
| Mine, Utility & Construction | 79               | 62             | 69                   | 65              | 82          | 77                         | 39                      |
| Mfg                          | 66               | 64             | 69                   | 69              | 81          | 29                         | 43                      |
| Wholesale                    | 75               | 58             | 73                   | 67              | 84          | 47                         | 45                      |
| Retail                       | 76               | 64             | 46                   | 44              | 72          | 40                         | 79                      |
| Transport                    | 78               | 58             | 45                   | 33              | 68          | 47                         | 70                      |
| FIRE & Info                  | 74               | 56             | 40                   | 33              | 61          | 64                         | 70                      |
| Services & Administration    | 79               | 53             | 42                   | 33              | 65          | 45                         | 68                      |
| Education & Health           | 77               | 55             | 73                   | 77              | 27          | 68                         | 66                      |
| Food/Entertain               | 78               | 53             | 81                   | 86              | 34          | 65                         | 28                      |
| Other & Pub Administration   | 74               | 56             | 82                   | 85              | 31          | 64                         | 79                      |

Table XXVIII  
Contact with Regulators by Type of Firm  
(% Disagree & Strongly Disagree)

|                              | Too Much | Right Amount | Too Little |
|------------------------------|----------|--------------|------------|
| Agriculture                  | 54%      | 46           | 0          |
| Mine, Utility & Construction | 58       | 41           | 1          |
| Mfg                          | 70       | 30           | 0          |
| Wholesale                    | 53       | 46           | 1          |
| Retail                       | 57       | 42           | 1          |
| Transport                    | 51       | 49           | 0          |
| FIRE & Info                  | 54       | 43           | 2          |
| Services & Administration    | 55       | 45           | 1          |
| Education & Health           | 55       | 45           | 0          |
| Food/Entertain               | 55       | 45           | 0          |
| Other & Pub Administration   | 52       | 46           | 1          |

Table XXIX  
Level of Regulation by Type of Firm (%)

|                              | High | Moderate | Low |
|------------------------------|------|----------|-----|
| Agriculture                  | 45%  | 35       | 20  |
| Mine, Utility & Construction | 48   | 37       | 15  |
| Mfg                          | 50   | 31       | 19  |
| Wholesale                    | 52   | 33       | 15  |
| Retail                       | 62   | 37       | 1   |
| Transport                    | 59   | 38       | 2   |
| FIRE & Info                  | 53   | 37       | 9   |
| Services & Administration    | 56   | 35       | 10  |
| Education & Health           | 55   | 34       | 11  |
| Food/Entertain               | 58   | 41       | 2   |
| Other & Pub Administration   | 58   | 38       | 4   |

Table XXX  
Level of Compliance by Type of Firm (%)

### Appendix III: Data by Size of Firm

|        | Competition | Infrastructure | Regulation | Labor Costs | Other Costs | Workforce | Capital | Other |
|--------|-------------|----------------|------------|-------------|-------------|-----------|---------|-------|
| Micro  | 8%          | 2              | 21         | 18          | 25          | 22        | 3       | 0     |
| Small  | 6           | 2              | 17         | 15          | 30          | 5         | 25      | 1     |
| Medium | 9           | 3              | 31         | 17          | 24          | 9         | 9       | 1     |
| Large  | 4           | 2              | 61         | 16          | 18          | 10        | 9       | 0     |

Table XXXI  
Top-Ranked Challenge by Size of Firm (%)

|        | More Regulation | Same | Less Regulation |
|--------|-----------------|------|-----------------|
| Micro  | 0%              | 56   | 44              |
| Small  | 8               | 54   | 38              |
| Medium | 9               | 38   | 53              |
| Large  | 3               | 62   | 34              |

Table XXXII  
Regulation in Other States by Size of Firm (%)

|        | Income/<br>Corp Tax | Land<br>Use<br>Regs | Business<br>Licensing | Health<br>&<br>Safety | Other<br>Employment<br>Law | Environmental<br>Regs | Corporate<br>Regs | Statistical<br>Data | Reporting |
|--------|---------------------|---------------------|-----------------------|-----------------------|----------------------------|-----------------------|-------------------|---------------------|-----------|
| Micro  | 46%                 | 6                   | 29                    | 5                     | 2                          | 45                    | 21                | 31                  | 32        |
| Small  | 31                  | 1                   | 31                    | 6                     | 2                          | 47                    | 27                | 31                  | 35        |
| Medium | 32                  | 9                   | 37                    | 6                     | 2                          | 44                    | 11                | 36                  | 39        |
| Large  | 27                  | 5                   | 32                    | 4                     | 1                          | 45                    | 22                | 34                  | 41        |

Table XXXIII  
Major Impact of Regulations on Business by Size of Firm (%)

|        | Income/<br>Corp<br>Tax | Land<br>Use<br>Regs | Business<br>Licensing | Health<br>&<br>Safety | Other<br>Employment<br>Law | Environmental<br>Regs | Corporate<br>Regs |
|--------|------------------------|---------------------|-----------------------|-----------------------|----------------------------|-----------------------|-------------------|
| Micro  | 55%                    | 13                  | 31                    | 15                    | 0                          | 33                    | 2                 |
| Small  | 47                     | 18                  | 33                    | 12                    | 1                          | 42                    | 5                 |
| Medium | 49                     | 16                  | 41                    | 16                    | 3                          | 48                    | 6                 |
| Large  | 51                     | 15                  | 42                    | 33                    | 4                          | 50                    | 8                 |

Table XXXIV  
Level of Burden by Size of Firm (% Heavy)

|        | Too Much Regulation | Right Amount | Too Little Regulation | No Regulation |
|--------|---------------------|--------------|-----------------------|---------------|
| Micro  | 45%                 | 43           | 12                    | 0             |
| Small  | 52                  | 42           | 6                     | 0             |
| Medium | 37                  | 56           | 6                     | 0             |
| Large  | 35                  | 57           | 8                     | 0             |

Table XXXV  
Level of Regulation by Size of Firm (%)

#### Appendix IV: Data by Age of Firm

|                  | Competition | Infrastructure | Regulation | Labor Costs | Other Costs | Workforce | Capital | Other |
|------------------|-------------|----------------|------------|-------------|-------------|-----------|---------|-------|
| Less than 1 year | 20%         | 17             | 25         | 8           | 11          | 17        | 2       | 0     |
| 1-3 years        | 22          | 8              | 26         | 12          | 2           | 11        | 19      | 0     |
| 4-10 years       | 6           | 14             | 31         | 11          | 16          | 16        | 4       | 0     |
| 10 or more years | 4           | 2              | 34         | 18          | 23          | 16        | 2       | 1     |

Table XXXVI  
Top-Ranked Challenge by Age of Firm (%)

|                  | Too Much | Right Amount | Too Little | No Regulation |
|------------------|----------|--------------|------------|---------------|
| Less than 1 year | 61%      | 38           | 1          | 0             |
| 1-3 years        | 57       | 41           | 1          | 0             |
| 4-10 years       | 47       | 51           | 2          | 0             |
| 10 or more years | 46       | 48           | 7          | 0             |

Table XXXVII  
Level of Regulation by Age of Firm (%)

**Appendix V: Data by Metro/City/Rural Differences**

|                  | Competition | Infrastructure | Regulation | Labor Cost | Other Cost | Workforce | Capital | Other |
|------------------|-------------|----------------|------------|------------|------------|-----------|---------|-------|
| Metro            | 19%         | 3              | 22         | 11         | 19         | 8         | 17      | 0     |
| Non-Metro cities | 32          | 3              | 34         | 8          | 5          | 11        | 5       | 3     |
| Rural            | 13          | 0              | 26         | 18         | 21         | 8         | 3       | 11    |

Table XXXVIII  
Top-Ranked Challenge by Location (%)

|                  | Other States More | Same | MN More |
|------------------|-------------------|------|---------|
| Metro            | 0                 | 3    | 6       |
| Non-Metro cities | 0                 | 1    | 13      |
| Rural            | 3                 | 1    | 5       |

Table XXXIX  
Comparison with Other States by Location (Number Reporting)

|           | Income/<br>Corp Tax | Land<br>Use<br>Regs | Business<br>Licensing | Health<br>&<br>Safety | Other<br>Employment<br>Law | Environmental<br>Regs | Corporate<br>Regs | Statistical<br>Data | Reporting |
|-----------|---------------------|---------------------|-----------------------|-----------------------|----------------------------|-----------------------|-------------------|---------------------|-----------|
| Metro     | 32%                 | 10                  | 16                    | 3                     | 23                         | 6                     | 10                | 0                   | 0         |
| Non-Metro | 33                  | 14                  | 14                    | 6                     | 0                          | 17                    | 14                | 0                   | 3         |
| Rural     | 26                  | 9                   | 12                    | 15                    | 15                         | 9                     | 3                 | 6                   | 6         |

Table XL  
Major Impact of Regulations on Business by Location (%)

|           | Ease of<br>understanding | Achieve<br>objectives | Flexibility | Consistency | Able to<br>comply | Enforcement |
|-----------|--------------------------|-----------------------|-------------|-------------|-------------------|-------------|
| Metro     | 53%                      | 39                    | 69          | 58          | 28                | 39          |
| Non-Metro | 61                       | 66                    | 58          | 68          | 26                | 55          |
| Rural     | 46                       | 30                    | 51          | 54          | 16                | 27          |

Table XLI  
Reasons for Stating Regulations Have Significant Impact by Location  
(% Disagree & Strongly Disagree)

|           | Definite<br>Answers | Amount<br>of time | Clear<br>Responsibility | Appeals<br>Process | Flexibility | Consistency/<br>Predictability | Understands<br>My Business |
|-----------|---------------------|-------------------|-------------------------|--------------------|-------------|--------------------------------|----------------------------|
| Metro     | 29%                 | 23                | 54                      | 49                 | 43          | 43                             | 40                         |
| Non-Metro | 41                  | 38                | 46                      | 32                 | 73          | 59                             | 49                         |
| Rural     | 17                  | 11                | 26                      | 23                 | 31          | 29                             | 29                         |

Table XLII  
Contact with Regulators by Location (% Disagree & Strongly Disagree)

|               | Income/<br>Corp Tax | Land<br>Use<br>Regs | Business<br>Licensing | Health<br>&<br>Safety | Other<br>Employment<br>Law | Environmental<br>Regs | Corporate<br>Regs | Statistical<br>Data | Reporting |
|---------------|---------------------|---------------------|-----------------------|-----------------------|----------------------------|-----------------------|-------------------|---------------------|-----------|
| Metro         | 0                   | 3                   | 17                    | 17                    | 20                         | 9                     | 9                 | 3                   | 6         |
| Non-<br>Metro | 8                   | 16                  | 14                    | 11                    | 11                         | 27                    | 8                 | 15                  | 11        |
| Rural         | 6                   | 11                  | 6                     | 20                    | 14                         | 17                    | 6                 | 14                  | 11        |

Table XLIII  
Level of Burden by Location (% Heavy)

|           | Too much | About right | Too little | None |
|-----------|----------|-------------|------------|------|
| Metro     | 49%      | 43          | 5          | 2    |
| Non-Metro | 66       | 30          | 4          | 0    |
| Rural     | 54       | 39          | 3          | 3    |

Table XLIV  
Level of Regulation by Location (%)