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*Seeking Solutions for Greater Minnesota's Future*

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

How do state and local regulations affect Minnesota businesses?

The answer to this question would be long and complicated. However, asking how Minnesota business owners *perceive* the impact of state and local regulations on their businesses and on the state's business environment in general can be just as informative, perhaps even more.

The idea is often asserted that Minnesota's regulatory climate has a significant impact on Minnesota's business environment, positive or negative, and hence the state's competitiveness in attracting and keeping businesses. While it is the state and local officials who make the regulations, it is the business owners who make the decision whether to stay or go, and those decisions are based on the owners' attitudes toward and perceptions of regulations.

The empirical study forming the basis for this brief examines the perceptions Minnesota business owners hold regarding the impacts state and local government regulations have on Minnesota businesses. The study 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, however, provide a clearer picture of Minnesota

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Table V: “Most important challenges facing your company.”

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

business owners’ attitudes toward regulations, their perceptions of the degree of impact on their businesses, and their view of 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, bringing in 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 Greater Minnesota cities, 38 from rural counties).

The survey found that the top four challenges for businesses

were government regulation; business costs other than labor; increased competition; and 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. Labor and other costs were a close second in rural areas. The 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, were 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.

### 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

Table VII: Impact of regulation on business.

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

Table VIII: Regulations that have most significant impact on *your* 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

**differential impact** of regulatory compliance on various categories of businesses, including rural businesses.

#### *Impact of Regulatory Compliance on Business*

Overall, respondents ranked regulations as the greatest challenge (Table V). (Table numbering has been preserved from the full report.) 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.*

Table IX: Reasons for stating regulations have 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%

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

Table XLIII: Level of burden by location (% reporting burden to be heavy).

	Income/ Corp Tax	Land Use Regs	Business Licensing	Health & Safety	Other Em- ployment Law	Environ- mental Regs	Corporate Regs	Statistical Data	Reporting
Metro	0%	3%	17%	17%	20%	9%	9%	3%	6%
Non-Metro	8%	16%	14%	11%	11%	27%	8%	15%	11%
Rural	6%	11%	6%	20%	14%	17%	6%	14%	11%

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

Table XXXVIII: Top-Ranked Challenge by Location (%)

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

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

	Income/ Corp Tax	Land Use Regs	Business Licensing	Health & Safety	Other Employment Law	Environmental Regs	Corporate Regs	Statistical 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%

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 play-

ing 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.

*This full report can be found online at [www.ruralmn.org](http://www.ruralmn.org).*



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