FACTFILE:

GCE PROFESSIONAL BUSINESS SERVICES

UNIT AS 1: GOVERNMENT REGULATION

Rewarding Learning

Learning Outcomes

Students should be able to:

- demonstrate understanding of the purpose of the regulation of business; and
- evaluate the benefits to a client's business of a code of conduct versus external regulation

What is regulation?

Regulations are rules about how businesses operate, often in the form of government intervention in markets. These interventions can protect consumers, for example laws on the age you can buy cigarettes and alcohol, or a system of regulatory bodies who monitor an industry for example, to stop companies price fixing.

REASONS FOR REGULATION

1. Ensures minimum standards are met either in an industry or more generally, for example, health and safety regulations for the workplace

2. Ensures fair prices and that the market isn't restricted in newly privatised industries, mostly utilities for example OFGEM, the government regulator for gas and electricity markets in Great Britain

3. Creates standards and ethical frameworks

4. Protects small companies against larger companies and unfair competition

A criticism of regulation is the 'red tape' that arises for companies to ensure they comply with any rules imposed on their industry. However regulation also gives customers protection and confidence about the quality of service provided.

What do regulators do?

- Design regulations to protect the public interest
- Ensure firms comply with laws/regulations
- Possibly aim to promote national economic objectives, for example, the types of regulations imposed will be shaped by current market issues

Types of regulation

Types of regulation for professional business service firms range from external regulation on a global scale, industry wide across a country, or self-regulation within an individual firm or group of firms.

Codes of conduct

Self-regulation can take the form of a corporate code of conduct. These appeared in various industries following a global move to deregulation in the 1980s and often they form part of a company's corporate social responsibility agenda.

Benefits of codes of conduct for clients
Codes of conduct can demonstrate the culture of a professional business services firm to their clients. A code of conduct can show their commitment to conduct beyond the external requirements they face from regulators. Clients of professional business services firms can then gain confidence about the quality of service provided.

External regulation can be costly to adhere to, whereas a code of conduct is unlikely to increase costs significantly for the professional business service firms, so there is unlikely to be a knock on impact on the fee for the clients.

Limitations of codes of conduct
Codes of conduct are voluntary and without compulsory regulation with legal sanctions, for example fines, they may not be enforced by professional business service firms as rigorously.

Codes of conduct may be used to prevent criticism and try to reduce the demand for external regulation. This may be the case in industries that claim their area of expertise is too specialised and complex for regulation. Is this just a tactic to divert more formal regulation?

External regulation

Professional services firms are regulated as organisations and the individual consultants working in the firms are regulated themselves by their professional bodies, depending on their specialism.

Industry wide regulation comes from regulators such as the Financial Conduct Authority, the UK conduct regulator for financial services firms. Professional bodies set and enforce standards of performance and conduct for their members. For professional business services firms many consultants are qualified accountants, but others may be Insolvency Practitioners, or chartered Tax Advisers.

Benefits of external regulation for clients
Areas of business such as external audit, which provides an independent examination of the financial statements used for investment decisions, need to be properly regulated in order to provide clients with protection should firms have failed to perform their duties with reasonable care or skill. External regulation gives clients a clear system and due process for complaints about a professional business services firm, that can be enforced legally. There is a need for accredited consultants in professional roles such as audit or tax advice. Disciplinary action taken against professionals is published publically which gives clients reassurance that individuals are also scrutinised and their behaviour regulated.

Limitations of external regulation for clients
The cost of regulation could be part of the reason for such high fees for the services provided by professional business services firms.
External regulation can take time to respond to changes in the business environment, and this can leave clients exposed to standards that will not regulate firms appropriately until the legal framework is brought up to date.

References

http://businesscasestudies.co.uk/

Corporate Codes of Conduct: Self Regulation in a Global Economy, report by Rhys Jenkins:

http://www.unrisd.org/80256B3C005BCCF9/(httpAuxPages)/E3B3E78BAB9A886F80256B5E00344278/$file/jenkins.pdf

http://www.icaew.com/

Sources for further study:

United Nations Research Institute for Social Development http://www.unrisd.org/

Times 100 business case studies, search for both ‘regulation’ and ‘government influence’ for a range of case studies.