



EASE OF DOING BUSINESS AND ITS IMPACT ON SMALL BUSINESSES GROWTH IN ILORIN, KWARA STATE-NIGERIA

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Abstract

The running and operations of small businesses in Nigeria has been challenging because of the business environment. The basic objective of this study is to examine Ease of Doing Business (EODB) and its impact on small business growth in Ilorin, Kwara State-Nigeria. The study adopted a cross sectional design and the population of study was 1,000 small business owners. A purposive and stratified sampling random technique was used to draw 300 respondents from the population. The method of data analysis used is multiple regression statistics. The findings reveal that Ease of Doing Business (EODB) variables (Starting a business, processing construction, credit loan, electricity, registering property, taxes payment, trading across borders, enforcing contracts, resolving insolvency, labour market and government contract) in varying proportions have significant impact on small businesses growth in Ilorin, Kwara State-Nigeria. The study recommends that measures for access to credits should be instituted at low interest rates. The power generation in the country should be improved. The challenges in processing business permits should be addressed while automation of the judicial system to reduce timelines and boost investors' confidence in contract enforcement and for businesses to growth should be enhanced.

Keywords: Businesses Environment, Businesses Growth, EODB, Kwara State, SMEs.

1. INTRODUCTION

Government in a country has a cardinal duty to create conducive environment for startups and businesses to thrive. This involves enacting laws, making rules and regulations that are friendly for the growth of entrepreneurship and business enterprises, Nigeria is a country in Africa continent that is endowed with a rich population. According to Shah, Jehangir, Faiz, Iftikan, Akhtar, Alikhan, Ahmed and Gillani (2023), since 2004 the world bank reports the ranking of business environment in countries using benchmarks which can influence the ease of functioning of businesses in the economy. World bank uses ten benchmarks in evaluating the business environment, starting a business, processing construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading among borders, enforcing contracts, resolving insolvency, employing workers or labour market regulations and contracting with the government (Ndukwe and Allison, 2021). However, the Bank suspended the release of the Ease of Doing Business Report in August, 2020 due to several anomalies identified relating to data manipulations in 2018 and 2020 reports (Frost, 2020).

A good business environment promotes competition and encourages innovation and expansion (World Bank, 2015). Nevertheless, before success, there could be great challenges and difficulties that a new business or startups has to face (Ndukwe and Allison, 2021). The challenges have constrained the successful operation of businesses and become clogs for investments flow into the country.



But in October 2017 the former vice president of Nigeria, Professor Yemi Osinbajo launched the 2nd National Action Plan on Ease of Doing Business to reduce the socio-economic challenges faced by Small and Medium Enterprises (SMEs) when getting credit, paying taxes, among others (Silva, Nsikan & Oshilike, 2022). Ease of Doing Business (EODB) is a challenge that affect small business growth in Nigeria. Business growth is the expansion or rise in the business resources in term of capital, employees, material, plant and equipment, sales, profit, etc.

Empirically, Nnabuife, Okeke & Ndubuisi (2018) reveal that procedures for starting a business, getting electricity, registering property and paying taxes are the most problematic areas encountered by Nigeria businesses. Olayemi, Okonji and Ogbeiwi (2021) indicate that components of ease of doing business reforms (starting a business, getting credit, getting electricity, registering property, tax payment, entry and exit of people and construction permits) have significant impact on revenue growth and cost reduction. However, the components of ease of doing business reforms have insignificant impact on employment generation among SMEs operating in Lagos-Nigeria. In Shah *et al* (2023) show that there is a significant association between perceived ease of doing business and growth motivation of SMEs in Pakistan. However, the study was conducted in Pakistan. These are gaps (place, period and proxies) that necessitate to undertake an empirical study on ease of doing business and its impact on small business growth in order to contribute to knowledge. The main objective is to examine Ease of Doing Business (EOBD) and its impact on Small Businesses Growth. The study hypothesized that Ease of Doing Business (EOBD) has no significant impact on small businesses growth in Nigeria.

2. LITERATURE REVIEW AND THEORY

Various studies have made conceptual, empirical and theoretical contributions to the issue of Ease of Doing Business that may affect business growth. A few of the studies are highlighted.

2.1 Conceptual Literature

Singh (2015) asserts that the World Bank Ease of Doing Business rankings is the widely accepted standard for rating how pro-business regulations in various countries. The objective of the Ease of Doing Business index is to do away with hindrances that could affect the operations of business activities. Leal-Rodriguez and Sanchis-Pedregosi (2019) assert that there is no sufficient evidence that there is a causal link between the ease of doing business indices and actual growth of businesses. The World Bank (2020) has given the Ease of Doing Business indices as registering property, getting credit, protecting minority investors, paying taxes, trading among borders, enforcing contracts, resolving insolvency, employment of workers or labour market regulations and contracting with the government. Shah *et al.* (2023) stress that the developed constructs of ease of doing business (EDDB) which have been refined is based on seven indicators which are more relevant to small business environment of small and medium business of developing countries. They are construction permits, getting electricity, registration of property, enforcing contracts, ease of getting credit for business, paying taxes and trading across borders. Kallas & Parts (2020) assert that improvement in perceived ease of enterprise registration and perceived ease of doing business in any economy increase entrepreneurial motivation significantly. Qiang, Wang & Xu (2021) believe that countries with better contract enforcement system have more effective business indicators for improving business performance, and hence it is vital to evaluate the relation between government enforcement capability and strength of institutional framework.



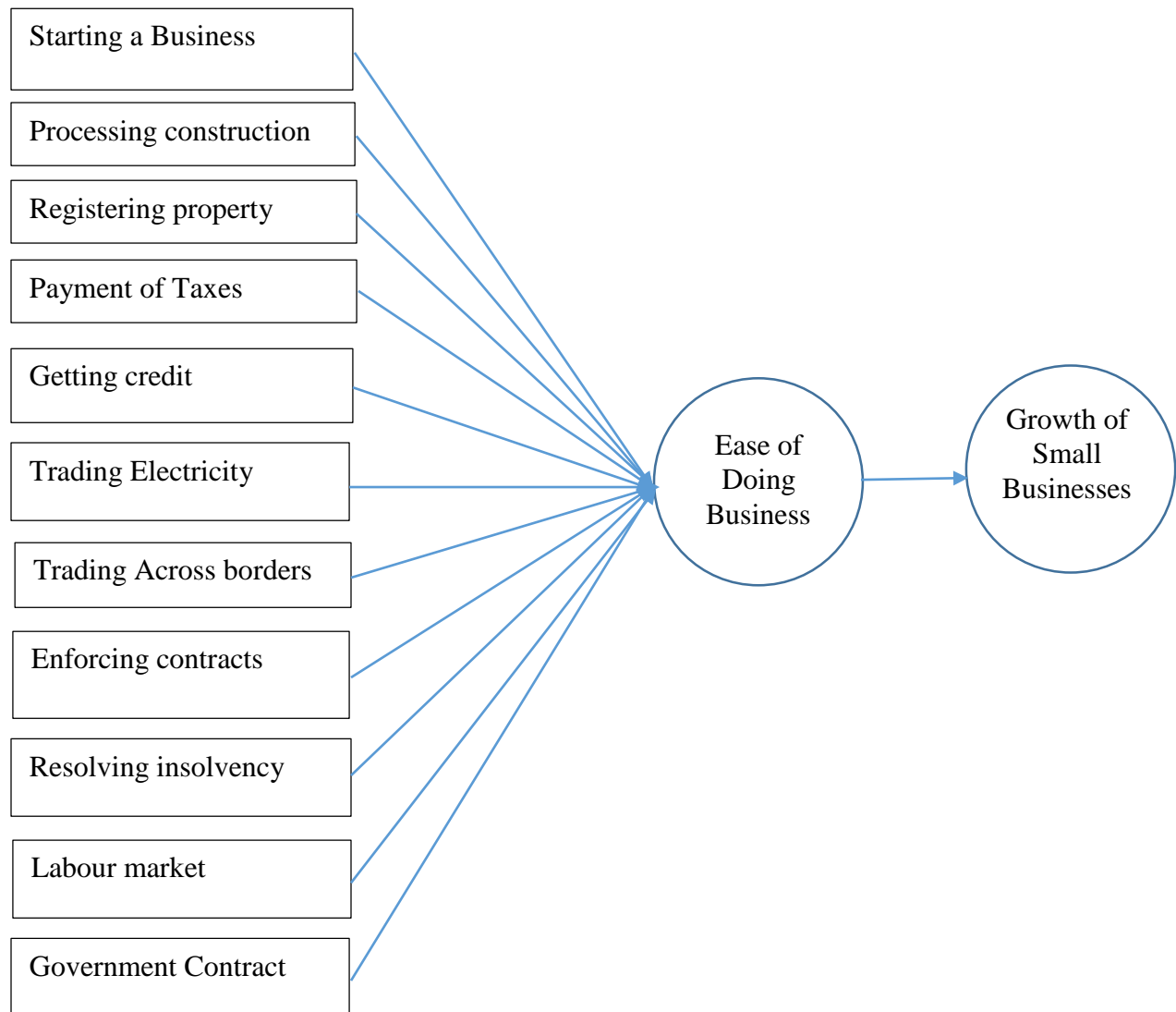
Thus, Olayemi, Okonji and Ogbeiwi (2021) stress that ease of doing business refers to the seamless procedure for getting involved in business and conducting business activities within jurisdiction. Ndukwe and Allison (2021) argue that a high ease of doing business ranking implies that a country's regulatory environment is more conducive for starting operating and expanding local business, compared to others countries. It measures the improvement in the laws and official practices that support formal business processes. Business growth on other hand, is the expansion or rise in the business resources in term of input resources (capital, employees, material, plant and equipment) and output resources (turnover, sales and profit) .

2.2 Review of Empirical Literature

Akpan, Essien & Isihak (2013) conducted a survey in Nigeria. The findings of the survey show that businesses in areas connected to the electricity grid have been profitable than others. In addition, small business owners are well aware of the significance of energy availability to the success of their businesses. Nnabuiife, Okeke & Ndubuisi (2018) in their study; Doing Business in Nigeria; Implication for Africa's industrialization. It used mean and ranking approach on the specific factors militating against the ease of doing business in Nigeria and comparing them with those of selected nations. The findings revealed that procedures for starting a business, getting electricity, registering property and paying taxes are the most problematic areas encountered by Nigeria businesses. It recommended that procedures for ease of doing business be made easily accessible and multiple taxations be checked.

Olayemi *et al.* (2021) investigated impact of ease of doing business reforms on business growth among Micro, Small and Medium Enterprises (MSMES) operating in Lagos-Nigeria. The research used purposive sampling technique to draw a sample of 200 operators of MSMEs in the Lagos state comprising clusters in Ikeja, Apapa, Lagos Mainland and Lagos Island business districts. The result reveals that components of ease of doing business reforms (starting a business, getting credit, getting electricity, registering property, tax payment, entry and exit of people and construction permits) have significant impact on revenue growth and cost reduction. However, the components of ease of doing business reforms have insignificant impact on employment generation among SMEs operating in Lagos-Nigeria.

Silva, Nsikan & Oshilike (2022) investigated Socio-economic influences on Ease of Doing Business in the Niger Delta. Data collection was from 113 small business owners and managers. Analysis was done by simple percentage, mean and ranking. Findings show that lack of power supply, getting credit and starting a business are the major hindrances to the ease of doing business in the Niger Delta region. The study recommends setting up effective policies and programs in the areas of attracting investment in the energy sector and restructuring of indicators to ensure the ease of doing business. This study is similar but conducted in another zone of the country North central region with different method of data analysis. Shah, Jahangir, Faiz, Iftikhan, Aktar, Alkhan, Ahmed & Gillani (2023) in their study on perceived Ease of Doing Business and Businesses Growth motivation of SMEs used PLS-SEM method to analyze primary data from SMEs. Findings show that there is a significant association between perceived ease of doing business and growth motivation of SMEs. However, the study was conducted in Pakistan, which makes it different from the current study on Nigeria with different peculiarities. The conceptual framework proposed is as follows:

Figure 1: Study Variables

Source: Researcher's Conceptual Model (2023).

2.3 Theoretical Framework

This study adopts the Keynesian Theory with propounded in 1940s that good intervention in economic activities of the State to save a dwindling economy, especially where there is continuous rise of market failure. He argues that through the use of expansionary fiscal and monetary policy measures, government increases of total expenditures and lowers taxes to stimulate demand can pull the economy out of undesirable state and place it on the path of a more desirable state. In this case, lowering small and medium enterprises taxes, creating enabling environment through government polices may reduce SMEs sales tax rate, narrow interest rate, increase domestic credit to private sector (entrepreneurs) can create an atmosphere of ease of doing business (Godwin, 2021).



3. METHODOLOGY

3.1 Research Design

The study adopted a cross sectional research design. This is because different small business owners were investigated. The population of the study comprises of 1,000 small business owners operating during a national trade fair held in Ilorin, Kwara State stadium complex. A sample of 300 respondents were selected for the study using Israel (1992) sample size table. The sampling technique used was stratified and purposeful sampling.

The World Bank (2020) indices of Ease of Doing Business questionnaire was adopted. It has a five-point Likert Scale ranging from five (5) for strongly agree (SA) to one (1) for strongly disagree (SD) 300 questionnaires were distributed and 246 returned, 5 of which were invalid leaving 241 as valid.

3.2 Model Specification

The model specified small businesses growth (SBG) as the dependent variable while being explained by Ease of Doing Business (EODB) as the independent variables. In a general form, the multiple regression is mathematically expressed as follow.

$$SBG = f(EODB)$$

Where:

SBG = Business growth is the expansion or rise in the business resources in term of capital, employees, material, plant and equipment, sales, profit, etc

EODB = It is the seamless procedure for getting involved in a business and conducting business activities within jurisdiction.

$$SGB = \beta_0 + \beta_1 SB + \beta_2 PC + \beta_3 CL + \beta_4 EL + \beta_5 RP + \beta_6 TP + \beta_7 TB + \beta_8 EC + \beta_9 RI + \beta_{10} LM + \beta_{11} GC + \mu$$

β_0 = constant

$\beta_1 \dots \beta_{11}$ = Regression Coefficients

SB = Starting a business

PC = Processing construction

CL = Credit loan

EL = Electricity

RP = Registering property

TP = Taxes payment

TB = Trading across borders

EC = Enforcing contracts

RI = Resolving insolvency

LM = Labour market

GC = Government contract

μ = Error term



World Bank (2020) uses ten indicators for ease of doing business. Shah *et al.* (2021) have developed constructs of EODB and it has been refined to eleven indicators as per recommendations of experts' panel. The instrument was validated as satisfying a Cronbach's Alpha of 0.766 (Olayemi *et al.*, 2021). The method of analysis is regression to determine the impact of the dependent variable over the independent variables. The variables were measured by their responses to the likert scale five point.

4. RESULTS AND DISCUSSIONS

The analysis of data was based on the reliability of the modified World Bank (2020) EODB questionnaire adopted and validated as satisfying a Cronbach alpha of 0.766 (Olayemi, Okonyi & Ogbeiovi, 2021).

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847	.717	.707	.5435
a. Predictors: (Constant); starting a business, processing construction, electricity, registering property, credit loan, taxes, trading across borders, enforcing contracts, resolving insolvency, labour market, government contract				
b. Dependent: Small business growth variable				

Source: Survey Data, 2023.

Table 1 presents the summary of the results of the multiple regression. It shows that EODB variables which are the independent variables of the model jointly explained about 71.7% of the relationship with small business growth. The remaining percentage of 28.3% is explained by other variables not captured in the model. This shows the model is robust enough.

Table 2 ANOVA

Model		Sum of Square	Df	Mean Square	F	Sig.
1	Regression	112.941	5	22.588	75.71	.0000 ^b
	Residual	132.216	235	.563		
	Total	245.157	240			
a. Predictor: (Constant): starting a business, processing construction, getting, registering property, credit loan, taxes, trading across borders, enforcing contracts, resolving insolvency, labour market, government contract						
b. Dependent Variable: Small business growth						

Source: Survey Data, 2023.

Table 2 further reveals that the model is fit as shown by a F-statistic of 75.71 with a corresponding P-value of .0000. This explains that EODB variables significantly impact on the growth of business.

**Table 3 Regression Coefficients Results**

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.751	.645		5.536	.000
Starting a business (SB)	0.707	.151	.661	4.682	.000
Processing construction (PC)	0.621	.187	.582	3.321	.001
Credit loan (CL)	0.736	.143	.714	5.147	.000
Electricity (EL)	0.469	.109	.427	2.244	.002
Registering property(RP)	0.649	.066	.419	8.468	.000
Taxes payment (TP)	0.643	.0530	.576	12.11	.001
Trading across borders (TB)	0.619	.035	.661	17.836	.001
Enforcing contracts (EC)	0.616	.035	.658	17.697	.001
Resolving insolvency (RI)	0.768	.688	.871	8.788	.000
Labour market (LM)	0.722	.701	.722	8.652	.001
Government contract (GC)	0.504	.497	.962	6.785	.002

Source: Survey Data, 2023.

Table 3 shows the regression coefficient results of the dependent variable in relation to the independent variables, namely, starting a business, processing construction, getting registering property, getting credit paying, taxes, trading across borders, enforcing contracts, resolving insolvency, labour market, and government contract have significant impact on small business growth.

The unstandardised β coefficients of the independent variables 0.707, 0.621, 0.736, 0.469, 0.649, 0.643, 0.619, 0.616, 0.768, 0.722, and 0.504 respectively indicate a unit increase in the independent variables (starting a business (0.707), processing construction permit (0.621), getting (0.736), registering property (0.469), getting credit, (0.649), paying taxes (0.643), trading across borders (0.619), enforcing contracts (0.616), resolving insolvency (0.768), labour market (0.722), and getting government contract (0.504) contribute to a change of 70.7%, 62.1% 73.46.9% 64.9%, 64.3%, 61.9%, 66.6%, 76.8%, 72.2%, and 50.4% increase in small businesses growth. From the results, it can be observed that resolving insolvency (76.8%) ranks highest while getting electricity (46.9%) ranks lowest among the factors that can affect growth of small scale business in Nigeria. The findings have implications. This is because the findings are consistent with the earlier work done by Ali Shah *et al.* (2023) who found a significant association between EODB and growth of SMEs. The variables are getting electricity, ease of paying taxes, registration of property and getting credit. Similarly, empirical evidence from Silva-Opula, Nsikan & Oshilike (2022) is in agreement with the study's findings who reported that major constraints variables are getting credit, starting a business and lack of power supply. A support is also found in the findings of Olayemi *et al.* (2021) and Ndukwe and Allison (2021) who reported ease of doing business affect SMEs growth significantly. Therefore, the hypothesis that ease of doing business has no significant impact on small business growth is rejected. This discloses that there is EODB in Ilorin- Kwara State of Nigeria.



5. CONCLUSIONS AND RECOMMENDATIONS

The running and operations of small businesses in Nigeria has been challenging because of the business environment. The study examined the Ease of Doing Business (EODB) and its impact on small business growth in Ilorin- Kwara State of Nigeria. The study concludes that EODB variables (Starting a business, processing construction, credit loan, electricity, registering property, taxes payment, trading across borders, enforcing contracts, resolving insolvency, labour market and government contract) have significant impact on small businesses growth in Ilorin, Kwara State- Nigeria.

The study recommends that measures for access to credits should be instituted at low interest rates. The power generation in the country should be improved. The challenges in processing business permits should be addressed while automation of the judicial system to reduce timelines and boost investors' confidence in contract enforcement and for businesses to growth should be enhanced.

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