

The Ease-of-Doing-Business and its Significance for the Performance of Small and Medium Scale Enterprises in Nigeria: A Focus on the Aba Shoe – Maker in Abia State of Nigeria

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Abstract

In a bid to improve on its rating on the ease-of-doing-business, the Nigerian Federal authorities introduced a number of measures in recent times. This study examined the extent to which such measures have enhanced the performance of small and medium scale (SMEs) enterprises. The focus of the study is Abia state shoe-making hub located in the commercial hub of Aba. The corporate Social Responsibility Theory (S.R) (Friedman, 1962) was adopted as the theoretical framework. It was a survey research method which covered a hundred shoe-makers in the Aba metropolis using simple percentages and the pie chart in its analysis. The results showed that the Ease-of-doing-business measures by the government is only a paperwork as it has not led to any improvement on the performance of the average shoe-maker in Aba.

Keywords: *Ease-of-doing-business, SMEs, Performance, Federal government measures, Aba shoe-makers*

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Background to the Study

The economic system notwithstanding, the role of government is to craft policies which aim at smoothening the operations/activities in every sphere of life in the economy. Thus, the role of government policy in the daily operations of small and medium-sized local firms is a central focus of the Doing-Business initiative. Government formulates rules which create an enabling environment whereby new entrants with drive and innovative ideas can get started in business and where productive firms can invest, expand, and create new jobs. The objective is encouraging regulation that is efficient, transparent, and easy to implement so that businesses can thrive. Doing Business is founded on the principle that economic activity benefits from clean rules: rules that allow voluntary exchanges between economic actors, set out strong property rights, facilitate the resolution of commercial disputes, and provide contractual partners with protections against arbitrariness and abuse. Such rules are much more effective in promoting growth and development when they are efficient, transparent, and accessible to those for whom they are intended.

Doing Business captures several important dimensions of the regulatory environment affecting domestic firms. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. Doing Business also measures aspects of employing workers and contracting with the government (public procurement).

Going by the World Bank's (2019) Doing Business Index (DBI) released on October 31, 2018, "Nigeria has implemented over 140 reforms in the past 3 years, increased its Distance-to-Frontier (DTF) score by over 11 basic points, and moved up 24 places in the World Bank Doing Business rankings. The country was ranked among the top 100 countries in business dynamism and as one of the most entrepreneurial countries in the world, according to the World Economic Forum (WEF). On the whole, 32 Nigerian states improved in their ease-of-doing-business environment led by Kaduna, Enugu, Abia, Lagos and Anambra states. Interestingly, an independent EoDB survey adjudged Nigeria's reforms as impactful in terms of reduction in time, cost and procedures of doing business.

Small and medium – sized enterprises may be referred to as enterprises with a total capital base of over 1.5 million Naira but not more than 500 million Naira including working capital, but excluding the cost of land and a labour size of 11 – 100 workers. Essien (2001; Ajayi, 2002; Gberville and Isaivwe – Ogbari, 2007; Ihua, 2009; and Alaye – Ogan, 2012) all view medium scale enterprises as, "enterprises with a total capital base of over 50 million Naira but not more than 500 million Naira including working capital, but excluding the cost of land and/or a labor size of 101-300 workers". SMEs have contributed to the growth and development of the industrialized economies of the world and over time have proved to be one of the most potent forces for the emancipation and growth in any economy (Lawal, Worlu and Ayoade, 2016).

Finally, against the background of the pervasive nature of SMEs in virtually every sector of the Nigerian economy and the realization of its centrality as drivers of economic growth, no government in any country can afford to treat the sub-sector with disdain. Hence, government

in Nigeria had rolled out measures like the establishment of agencies which include Small and Micro Enterprises Development Agency (SMEDAN), the Bank of Industry, the Small and Medium Enterprise, Industries Equity Investment Scheme (SMIEIS) and even the 2014 Central Bank of Nigeria (CBN) 220 Billion naira Launch of Special SME intervention fund. These measures were designed to soften the grounds and enhance the ease-of-doing-business in the country. The extent to which such measures/policies have enhanced the startup, sustenance and survival of SMEs in Nigeria, is the concern of this paper. This concern is triggered on the heels of the open secret that several SMEs hardly celebrate their fifth anniversaries.

Objectives of the Study

This study is a bold attempt at assessing the ease-of-doing-business in Nigeria with small and medium scale enterprises as its focus. While the Aba shoemaker constitutes the central focus, the study will pencil itself down to three specific objectives:

- a) To ascertain the ease of fund accessibility by the average shoemaker in Aba, Abia state of Nigeria.
- b) To examine incidence of multiple taxation on the Average shoemaker in Aba, and
- c) To assess the effect of multiple taxation on the performance of the Aba shoemaker.

Research Questions

Three questions will be answered in this study. They include:

- (a) What is the ease of fund accessibility available to the average shoemaker in Aba, Abia state of Nigeria?
- (b) To what extent does the average Aba shoemaker experience multiple taxation?
- (c) How does the incidence of multiple taxation affect the average shoemaker in Aba, Abia state of Nigeria?

Literature Review

Conceptual Literature

Ease-of-doing-business: In many countries, governments knowingly or unknowingly, adopt or maintain regulations that burden entrepreneurs. The result is that entrepreneurs resort to informal activities, away from the oversight of regulators and tax collectors, or even seek opportunities abroad – or join the ranks of the unemployed. Doing business analyses regulations that encourage efficiency and supports freedom to do business. It measures the processes for business incorporation, getting a building permit, obtaining an electricity connection, transferring property, getting access to credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts, and resolving insolvency. Doing business also collects and publishes data on regulation of employment, as well as contracting with the government. Ease-of-doing-business may be defined as an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in any country. It is computed by aggregating the distance to frontier scores of different economies. The distance to frontier score uses the 'regulatory best practices' for business as the parameter and benchmark economies according to that parameter. The Economic Times (2019) define the ease-of-doing-business as, 'how easy

it is to conduct business in a country'. It goes ahead to define the index as, 'an aggregate figure which includes different parameters that define the ease--of-doing-business in a country'.

Small and Medium Scale Enterprises (SMEs): In the views of the organization for Economic Cooperation and Development (OECD), “the characteristics of SMEs not only reflect the economic patterns of the country, but also the social and cultural dimensions”. While some countries refer to the number of employees as their distinctive criteria for defining SMEs, others use invested capital, and some others use a combination of the number of employees, invested capital, sales and industry type (Dabbabneh and Tukan, 2007). However, “despite the disparity in the definitions of SMEs, the enterprises have some common characteristics, of which the foremost is that ownership and management are borne by one individual/family (Scott & Bruce, 1987) and therefore, decisions are often subjective”.

In Nigeria, a small-scale business is a firm employing a workforce of 11 – 100 persons or capital not exceeding N50 million, including working capital but excluding cost of land. A medium scale enterprise on the other hand is an enterprise with a workforce of 101-300 persons or capital exceeding N50 million, but not more than N200 million, including working capital but excluding cost of land. The Central Bank of Nigeria (2010) in its definition of SMEs accepted the number of staff employed at the above level, but differs on asset value. This is to say that firms with asset ranging between N5 million and N500 million, are classed under SMEs.

Empirical Literature

Past and current works on the subject matter are hereby presented on a tabular format as follows:

Table 1.

| Name of Research(s)/Year and Title of study | Geographical & content scope covered | Data source and analytical tools | Findings/Conclusion/Recommendations |
|---|---|--|--|
| Ufua, Olujobi, Ogbari, Dada & Edefa (2020). Operations of small and medium enterprises and the legal system in Nigeria. | Nigerian Economy: Legal system and SMEs operation | Secondary sources – conceptual review relying on extant literature relating to the antecedence of the Nigeria Legal System. | The study highlighted the weaknesses of the legal system in providing the needed backing and conducive business environment for SMEs in Nigeria. A model was proposed depicting the need for restructuring of the legal system, improvised support of other government functionaries and other relevant stakeholders, to facilitate SMEs operations and enhance their contributions to the Nigerian economy. |
| Adebeyi (2020). PWC’s MSME Survey 2020 Building to last. | Nigeria: Tax issues, Access to finance, Growth and Obstacles to growth. | Primary Source – Questionnaire and interviews. | Key finding is that payment policies imposed by big corporates severely affect 33% of MSMEs whose payments were delayed for more than one month. The impact on cashflow is worse when the double-digit interest is considered or inflation. It is therefore not surprising that about 50% of SMEs surveyed did not record growth about 20% over the last 3 years. |
| Igwe, Amaugo, Ogundana, Odafe and Anigbo (2018). Factors affecting the investment climate, SMEs productivity and entrepreneurship in Nigeria. | Nigeria: Investment-climate, SMEs productivity and Entrepreneurship | Data was secondary material obtained from World Bank enterprises survey in Nigeria | Paper found that the most ranked obstacles to business in Nigeria included among others – access to finance, access to electricity, the level of corruption, infrastructure, size of firms, etc. |
| Effiom and Etim (2018) success of small and medium Enterprises in Nigeria: Do environmental factors matter? | Nigeria: SMEs and environmental Factors. | Survey in which primary source (questionnaire) was used to obtain data analysis was descriptively done with the aid of frequencies and simple percentages. | Results from the regression analysis showed that FNC, MKTP, INFR, and INST are statistically significant at five percent level of significance. |

Theoretical Framework

The Corporate Social Responsibility Theory (S.R.) (Friedman, 1962, 1970; Levitt, 1958).

This theory was adopted as the theoretical framework of this study as it underscores the responsibility of the government to provide a conducive environment for business to thrive in any given society. Thus, Clarkson (1995) opines that the fundamental idea underpinning Corporate Social Responsibility (CSR) is that business corporations have an obligation to work towards meeting the needs of a wider array of stakeholders. BSR (2001), views CSR as.

A set of management practices that ensures the company maximizes the positive impacts of its operations on society or “operating in a manner that meets and even exceeds the legal, ethical, commercial and public expectations that society has of business.

As a specific theory of the way corporations interact with the surrounding community and larger world, Corporate Social Responsibility (CSR) is composed of four obligations:

- (i) The economic responsibility to make money. As required in simple Economics, this obligation is the business version of the human survival instinct. In modern market economy, companies which do not make profits are doomed to perish.
- (ii) The legal responsibility to adhere to rules and regulations: Responsible organizations are expected to accept the rules as a social good and make good faith efforts to obey not just the letter but also the spirit of the limits.

- (iii) The ethical responsibility to do the right thing even when not required by the letter or spirit of the law. This is the theory's keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship usually entails.
- (iv) The philanthropic responsibility to contribute to society's projects even when they are independent of the particular business.

Source: Mark Camilleri – The Corporation Social Responsibility Notion

Methodology

Frequency tables and simple percentages will be used to analyze data obtained from the responses to interviews conducted on fifty (50) shoe-makers in the heart of Aria-Aria market in Aba. The population of the shoemakers are indeterminate but given the area they occupy, not more than eighty shops are cited with an average of one shoe-maker per shop. Few shops are occupied by two persons. This informed the adoption of the purposive sampling technique for this study.

Research Question one (1): What is the ease of fund accessibility available to the average shoemaker in Aba?

The table below presents responses on the interviews granted to elicit data on access to credit facilities available to Aba shoemakers.

Table 2: Responses on interview on accessibility of credit facilities.

| S/N | Question item | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Total | |
|-----|---|----------------|-----|-------|----|----------|-----|-------------------|-----|-------|----|
| | | No. | % | No. | % | No. | % | No. | % | No. | % |
| 1 | There are many financial institutions in the Aba metropolis. | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 2 | The financial institutions provide loans to shoemakers in Aba | 5 | 10% | 5 | 10 | 20 | 40% | 16 | 32% | 36 | 72 |
| 3 | The conditions for the loans are easy to meet. | - | - | - | - | - | - | 36 | 72% | 36 | 72 |
| 4 | The conditions are moderate | 6 | 12% | 3 | 6 | 10 | 20% | 17 | 34% | 36 | 72 |
| 5 | The interest rate on the loans are too high (25% and above) | 26 | 52% | 9 | 18 | 1 | 2% | - | - | 36 | 72 |
| 6 | The interest rates are quite low (5%) | - | - | - | - | - | - | 36 | 72% | 36 | 72 |
| 7 | The interest rate is low (10%) | - | - | - | - | - | - | 36 | 72% | 36 | 72 |
| 8 | Shoemakers seldom apply for these loans | 26 | 52% | 10 | 20 | - | - | - | - | 36 | 72 |
| 9 | Often times, I apply for the loans | - | - | - | - | - | - | 36 | 72% | 36 | 72 |
| 10 | I have never applied for the loan | 22 | 44% | 6 | 12 | 5 | 10% | 3 | 6% | 36 | 72 |

Source: Compiled by researcher.

Table 2 above clearly shows the reality on ground in terms of access to credit facilities by the shoe makers in Aba. So much frustration is manifested on the approach of the interviewees who did not want to be interviewed. The response rate was only 72% (36) who all admitted the existence of many financial institutions in the town. However, only 5(10%) strongly agreed that the institutions provide loans to the shoemakers while 40% (20) disagreed and 32% strongly disagreed. There is unanimity in the responses which strongly disagreed (72%) that the conditions for the loans are easy to meet. No response in favour of the loans being low or very low (i.e. between 5% and 10%). The result is that most of the shoemakers (52%) hardly go for these loans.

Research Question Two (2): To what extent does the average Aba shoemaker experience multiple taxation?

Table 3 below shows the extent of multiple taxation incident on the Aba shoemaker. Responses from interviewees on taxation shows the extent of multiple taxation imposed on the shoemakers. All interviewees strongly agree that they pay taxes. Some strongly agreed 8(16%) that the taxes are paid to government, 40%(20) only agreed, others, 12%(6) and 4%(2) disagree and strongly disagreed due to the mode of tax collection. All responses (72%) agree strongly that other levies are imposed. The entire interviewees strongly agree that they pay income tax. Again, all interviewees strongly agree they pay taxes on the business, raw materials (leather) and on the finished products. While electricity bills are irregular and expensive as they all agree (72%), they underscore the point that some other bodies apart from government also levy and collect taxes. This is to imply that they do not enjoy government protection from such exploitation. This is an established case of multiple taxation.

Table 3: Incidence of Multiple Taxation

| S/N | Question Item | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Total | |
|-----|---|----------------|----|-------|----|----------|----|-------------------|---|-------|----|
| | | NO | % | NO | % | NO | % | NO | % | NO | % |
| 1. | Do you pay taxes? | 8 | 16 | 20 | 40 | 6 | 12 | 2 | 4 | 2 | 4 |
| 2. | I pay other levies apart from taxes | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 3. | I pay income tax | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 4. | I pay taxes on the business raw materials (leather) and the finished products | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 5. | Electricity bills are irregular and expensive | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 6. | Apart from government agencies, other bodies come to collect levies | 36 | 72 | - | - | - | - | - | - | 36 | 72 |

Source: Field work by Researcher (2021)

Research Question Three (3): How does the incidence of multiple taxation affect the average shoemaker in Aba, Abia state of Nigeria?

Table 4 presents the effect of multiple taxation on the growth of the shoe industry in Aba.

Table 4: Effect of Multiple Taxation on the Shoe Industry

| S/N | Question Item | Strongly Agree | | Agree | | Disagree | | Strongly Disagree | | Total | |
|-----|---|----------------|----|-------|----|----------|----|-------------------|----|-------|----|
| | | NO | % | NO | % | NO | % | NO | % | NO | % |
| 1. | The Aba shoe industry is lucrative and profitable | 8 | 16 | 13 | 26 | 10 | 20 | 5 | 10 | 36 | 72 |
| 2. | The business would have been most lucrative but for nature and multiple taxes | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 3. | Many have quit the business due to heavy and multiple taxes | 36 | 72 | - | - | - | - | - | - | 36 | 72 |
| 4. | In spite of those who quit, many also join the business annually | 8 | 16 | 25 | 50 | 3 | 6 | - | - | 36 | 72 |
| 5. | The industry is growing at a slow pace | 36 | 72 | - | - | - | - | - | - | 36 | 72 |

Source: Field work by Researcher (2021).

Against the background of 36 (75%) response rate, 8 (16%) strongly agreed, 13 (26%) agreed, 10 (20%) disagreed while 5 (10%) strongly disagreed that the shoe industry in Aba is profitable and quite lucrative business. However, all interviewees 36 (72%) strongly agree that the business would have been most lucrative but for the nature and magnitude of taxes and levies imposed on it. The taxes are so heavy and multiple that many have quit the business due to

such taxes as agreed by 36 (72%) responses. In spite of those who quit, many also join the trade annually as strongly agreed by 8 (16%), agreed by 25 (50%) only disagreed by 3 (6%). Few interviewees 8 (16%), strongly agreed, 20 (40%) agreed, 5 (10%) disagree that the industry is growing. However, all responses 36 (72%) strongly agree that the industry is growing at a slow pace.

Findings

The study revealed the following:

1. The numerous financial institutions in Aba have not enhanced accessibility to credit facilities by the shoemakers in the town.
2. The interest rates offered by the institutions are as high as other conditionalities which are too high for the average shoemaker in Aba.
3. There is a clear manifestation of incidence of multiple taxation on the shoemakers. Apart from the personal income taxes, taxes are imposed on their raw materials, finished goods, and levies are also imposed on their shops. They find these taxes and levies so frustrating that many quit the business.
4. Despite the rate of exit, the entry rate is also high as many youths are unemployed in the area.
5. The manner in which the taxes and levies are imposed suggest that these payments may not be going to government alone. Many other entities are involved in these levies and tax collection.
6. Electricity is quite irregular, ineffective and very expensive. This adds to cost of running the business.
7. All responses suggest that the business environment has not been improved by government as shoemakers complain of lack of government protection.

Conclusion

This study examined the effect of Ease-of-doing-business on the shoemaking industry in Aba, Abia State of Nigeria. It was a survey in which primary data (interview) was obtained from the responses of fifty shoemakers out of a population of 120 shoe makers clustered within the Arai-Aria market in Aba town. Analysis of the data obtained via frequency tables and simple percentages revealed a negation of the recent improved rating of Nigeria on the global scale of Ease-of-doing-Business. The rating has not manifested on the Aba shoe industry as the business environment is far from being conducive. Findings further show that access to credit facilities, poor infrastructural facilities, multiple taxation, insecurity, etc. still continued to pose great challenges, forcing many to quit the business. The traders allege exploitation by government rather than their guaranteed protection. Against such background, the study goes ahead to make some suggestions.

Suggestions

The shoe industry in Aba is capable of becoming a high revenue generator to the state government, employment creator, foreign exchange earner to the country, and contributor to socioeconomic growth and development of the region. Thus, it cannot afford to be ignored. Hence, this study suggests as follows:

1. Government should take steps to ensure accessibility to credit facilities by the average shoemaker in Aba by establishing specialized banks in the Area – e.g. Bank of industry (BOI).
2. Interest rates offered by financial institutions should be reviewed downwards and the issue of collaterals scrapped.
3. Multiple taxation of the shoemakers should receive the attention it deserves as a matter of agency.
4. Road and power infrastructure must be seriously beefed up to meet the demands of the shoemakers.
5. Security of the area should be improved to reduce the incidence of burglary which is currently being experienced by the shoemakers.
6. Other factors which encourage the ease-of-doing-business need be address in favour of the average shoemaker in Aba.

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