



**ADDIS ABABA UNIVERSITY  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION  
DEPARTMENT OF ACCOUNTING AND FINANCE  
(GRADUATE PROGRAM)**

**Perception towards the burden of regulations on small and medium enterprises in  
Gulele sub-city: Addis Ababa**

**By:  
Derbew Kenubeh GSR/2343/02**

**June 2011  
Addis Ababa**

**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**(GRADUATE PROGRAM)**

**Perception towards the burden of regulations on small and medium enterprises in  
Gulele sub-city: Addis Ababa**

*A Thesis Submitted to the School of Graduate Studies of Addis Ababa  
University in Partial Fulfillment of the Requirements for the Degree of Master of  
Science in Accounting and Finance*

**BY:**  
**Derbew Kenubeh**

**June 2011**  
**Addis Ababa**

### **Statement of certification**

This is to certify that Derbew Kenubeh Dagneu has carried out his research work on the topic entitled “Perception towards the burden of regulations on small and medium enterprises in Gulele sub-city: Addis Ababa”. The work is original in nature and it’s suitable for submission for the reward of the Masters Degree in Accounting and Finance.

Advisor:-Wollela Abehodie(PhD):- \_\_\_\_\_

**Statement of declaration**

I, the undersigned, declare that this study is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

Declared by:

Confirmed by advisor

Name \_\_\_\_\_

Name \_\_\_\_\_

Sign \_\_\_\_\_

Sign \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_

**Approved by board of examiners:**

\_\_\_\_\_

**Advisor**

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**Examiner**

\_\_\_\_\_

**Signature**

## *Abstract*

*The study focuses on Perception towards the burden of regulations on small and medium enterprises in Gulele sub-city: Addis Ababa. The study adopts a mixed methods research approach to address the broad objective through answering research questions and testing the hypotheses developed from the literature review. Specifically, the study uses quantitative surveys of SMEs, in-depth interviews with a sample of SMEs owners, managers or employees. The study statistically analyzes the data elicited from surveys of SMEs. It also supports the result from survey questionnaire by triangulating the results with in-depth interviews and document studies*

*The result of this mixed approach methodology explores that SMEs face challenges from different factors but, they perceived challenges from regulatory burden outweigh other factors.*

*The result also identifies mechanisms mostly used by SMEs to mitigate problems from regulations and how much the regulators have smooth contact with them and to what extent the regulators made inspection, consultation and communication. Moreover, the result identifies the relation between regulations and SMEs performance and growth based on their view i.e. they have positively related each other.*

*As a whole, the study suggests a series of measures which could be taken by the government policy makers/regulators and for SMEs. This measure includes to adopt government impact assessment task force and review the existing regulations how much they enable and constrain businesses and at the same manner suggest for SMEs to incorporate different mechanisms to comply with regulation rather than rely more on specific mechanisms.*

## Acknowledgement

First and foremost, I thank the Almighty Lord for all things and next I would like to express my sincerest gratitude to my advisor, Dr. Wollela Abehodie Yesegat who encouraged me to work on this topic and supported with her comments, vast knowledge, and deep experience. Words fail me to express my appreciation for her support. Her efforts have been greatly appreciated. So, I remain grateful and thankful always. Furthermore, my gratitude is goes to SMEs survey questionnaire and interview participants and also gulele sub city customes and small tsx payers office and finally for Addis Ababa university effort and financial support to undertake this study.

## Table of contents

	Page
Abstract-----	i
Acknowledgements-----	ii
Table of contents-----	iii
List of tables -----	vi
List of abbreviations-----	viii
Chapter One Introduction-----	1
1.1. Statement of problems -----	3
1.2. Objective of the study-----	6
1.3. Research questions and hypotheses -----	7
1.4. Research methods -----	7
1.5. Significance of the Study-----	8
1.6. Scope of the Research -----	8
1.7. Limitation of the Study -----	9
1.8. Organization of the Study -----	9
Chapter Two Literature review -----	10
2.1. Theoretical review of SMEs and regulation -----	11
2.1.1 Definition and importance of SMEs -----	12
2.1.2. Overview of Regulation -----	16
2.1.2.1 Areas of regulations covered in this study -----	18
2.1.2.2 Aspects of regulations -----	19
2.1.2.3 Characteristics of ‘good’ regulations -----	21
2.1.2.4. What is a ‘regulatory burden’?-----	22
2.1.2.5. Defining business performance and growth -----	24

2.1.2.6. The effect of regulatory burden on SMEs performance and growth -----	26
2.2. Empirical review SMEs and regulations -----	29
2.2.1 Burden of regulations on SMEs in developed and developing countries-----	31
2.3. Conclusions -----	37
Chapter Three      Research Methodology -----	40
3.1. Objective, research question and hypotheses-----	40
3.2 Research approaches-----	44
3,2,1 Quantitative approach-----	44
3.2.2. Qualitative Approach-----	46
3.2.3. Mixed methods approach -----	47
3.3. Research Methods -----	49
3.3.1. Quantitative aspects of the research method -----	50
3.3.2. Qualitative aspects of the research method -----	54
3.4. Conclusions and the link between research questions/hypotheses and data sources-----	57
Chapter four              Results and analysis-----	60
4.1 Results -----	60
4.1.1 Survey results -----	61
4.1.1.1 .Response rate -----	61
4.1.1.2 .Respondents' profile -----	61
4.1.1.3. Respondents' enterprise profile -----	63
4.1.1.4. General issues on the study area i.e. on enterprises and regulations -----	65
4.1.2. In-depth interview results -----	86
4.1.3. Documentary analysis results -----	90
4.2. Data analysis -----	93
4.2.1 .Research question1 (What are the problems that SMEs faced on their performance in relation with regulatory burden?) -----	93
4.2.2 .Research question 2 (which areas of regulation create major burden	

on SMEs performance?)-----	96
4.2.3 .Research question 3 (Which aspects of regulation have significant burden on SMEs success?) -----	97
4.2.4 .Research question 4 (How do SMEs mitigate problems arising from burden of regulation?)-----	98
4.2. 5. Research question 5 ( Does the government consult with SMEs prior to regulating to lessen problems related with regulation?) -----	99
4.2.6. Hypotheses 1 and 2 (Regulations and businesses performance and growth in terms of customer satisfactions and number of employees) -----	102
4.3 Conclusions-----	106
Chapter five       Conclusions and recommendations -----	107
5.1. Overview of the whole study -----	107
5.2. Recommendations for regulators and SMEs -----	112
References -----	115
Appendix 1 Quantitative survey instrument (English version) -----	125
Appendix 2 Quantitative survey instrument (Amharic version) -----	135
Appendix 3 Qualitative survey instrument (English version) -----	143
Appendix 4 Main business activity Vs ranking challenges faced businesses: burden of regulation -----	144

## List of tables

Table 3.1. The link between research questions and hypotheses with each closed ended questionnaire and in-depth interview unstructured questionnaire -----	59
Table 4.1 SMEs survey respondents' gender -----	61
Table 4.2 Educational backgrounds of male and female SMEs survey respondents -----	62
Table 4.3 Survey respondents job title or position -----	63
Table 4.4 Survey respondents' year of service who has a managerial position or other employees other than owners -----	63
Table 4.5 Survey respondents' enterprise year of establishment -----	64
Table 4.6 Survey respondents grouped with main business activity -----	64
Table 4.7 Ranks given by survey respondents for challenges faced their business -----	66
Table 4.8 level of burden of areas of regulations on SMEs -----	68
Table 4.9 Views of respondents about aspects of regulations as an obstacle for businesses -----	69
Table 4.10 survey respondents' enterprise: frequency of inspection by regulators -----	71
Table 4.11 frequency of make information/report to the government depend on their main business activity, -----	72
Table 4.12 Regulatory burdens in case of reporting requirements -----	73
Table 4.13 Attitudes of survey respondents towards the contact with regulators -----	74
Table 4.14 Survey respondents' attitude towards government consultation and communication -----	76
Table 4.15 Survey respondents' perception on timing and arrangement of tax payment and cash flow distortions -----	78
Table 4.16 Survey respondents' attitude related with level of compliance -----	79
Table 4.17 Survey respondents' attitude towards psychological burden of regulations -----	79
Table 4.18 Survey respondents' measures taken by enterprises to	

mitigate problems with regulation-----	80
Table 4.19 Survey respondents' opinion on market and regulations -----	82
Table 4.20 Correlation between opportunity to new market and SMEs change in customer satisfactions and change in number of employees -----	83
Table 4.21 survey respondents' sector wise opinion on change in the level of customer satisfactions and number of employees -----	84
Table 4.22 Correlation between level of compliance and SMEs change in customer satisfactions and change in number of employees-----	85
Table 4.23 Correlation between reporting frequency and psychological cost with change in number of employees and level of customer satisfactions ---	86

## List of abbreviation

BEER	Business Enterprise and Regulatory Reform research centre
CSA	Central Statistical Agency
EBDSN	Ethiopian Business Development Service Network
ESRI	Economic and social research institute
ETB	Ethiopian Birr
FSB	Federation of Small Business
GDP	Gross Domestic Product
IFC	International Finance Corporation
ILO	International Labor Organization
MSMEs	Micro Small and Medium sized Enterprises
OECD	Organization for Economic Co-operation and Development
QSAE	Quality Standard Authority of Ethiopia
RQ	Research Question
SBDS	Small Business Development Service
SBS	Small Business Service
SBRC	Small Business Research Center
SMEs	Small and Medium sized Enterprises
UK	United Kingdom
UNIDO	United Nations Industrial Development Organization
UNECA	United Nations Economic Commissions for Africa
UNICE	Union of Industries of the European Community
USD	United States Dollar
VAT	Value Added Tax

## **Chapter One**

### **Introduction**

Currently, the major development challenge is the promotion of economic growth and the reduction of poverty. To alleviate poverty and bring economic development governments of different countries undertake different development strategies, such as creating an environment that encourages and supports small and medium-sized enterprises(SMEs) sector initiatives and enabling them to operate within a system of good regulations, which is necessary in order to create and sustain an enabling environment for development. With respect to this area, the Ethiopian government now struggles against poverty through adopting a better development strategy.

According to Quartey (2001), SMEs are necessary engines for achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation and industrial base, and local production escalation. The role of SMEs as engines of growth was shown, for example, by the postwar recovery in Austria and Germany and by the diverging paths of the Central European and Baltic countries from those of the Commonwealth of Independent States (Brixiova and Emerta, 2010).

Therefore, this sector is the backbone for the development of all developed and developing nations. To take the advantage of this major role, countries strive to adopt

better regulations, because regulations, within which SMEs operate, create a burden either directly or indirectly.

Regulations are usually introduced in order to achieve some specific social or economic objectives, although they sometimes have unintended impacts that slowdown the achievement of predetermined objectives. Regulations influencing the business sector require firms to impose cost that impede start-up, investment, innovation, employment, growth and, ultimately weaken national economic performance (Nicoletti and Scarpetta 2003).

Even though, no society can exist without the state providing some kind of order i.e. regulations, but excessive regulations on societies especially on business entities hinder to achieve their objective or business success. On this regard, British Chamber of Commerce (2002) stated that, excessive regulation is an emerging barrier to the survival and growth of SMEs.

These all issues discussed above pointed out SMEs are severely affected directly or indirectly by red tape that may emanate from inappropriate adoption, implementation and adverse administration of regulations. Because they are less proficient in dealing with aspects of regulation that affect their performance and growth mostly they exposed for business failures than larger businesses. The burden of regulations and SMEs performance and growth insist on policy makers and representatives of the business sector in all countries to undertake assessment of burden of regulations on SMEs and ensure that the extent that regulations affect SMEs. Up to the knowledge of the researcher with regard to this assessment of regulatory burden on SMEs, Ethiopia has got no regulatory burden assessment task force; as a result there appears to be

research on this issue. So, to fill this gap the study assesses burden of regulation on SMEs performance and growth.

The remaining discussions are organized in eight sections. The first section presents statement of problems. This is followed by statement of objective in the second section; the third section contains research questions and hypotheses while the fourth section presents methods used in the research. The significance and scope of the study are presented in sections five and six respectively. This section is followed by limitations of the study that challenged the researcher during the study in the seven sections; finally the organization of the thesis is outlined in section eight.

### **1.1. Statement of problems**

Since the late 1960s, it has been thought that the target to promote small enterprises has been changed with donors emphasizing on the role of SMEs in encouraging industrialization (Sievers and Vandenberg 2007). As a result, studies showed that in developed countries like, United Kingdom SMEs become the focus of the government. Consequently, even if limited studies are there in Ethiopia but, most studies in other countries showed that SMEs play an important role in the economic development of countries. More specifically, past studies indicated that in developing countries of South Asia SME constitute over 97% and contribute between 40–60% of the total output or value-added to their national economies (Fan 2005; Kamesam 2003; Nepal et al. 2002; Shrestha 2005, cited in Syed et al. 2008).

In addition, as stated in World Business Council for Sustainable Development (WBCSD, 2004, p.2),

*“In OECD economies SMEs and micro enterprises account for over 95% of firms, 60-70% of employment, 55% of GDP and generate the lion’s share of new jobs. In developing countries, more than 90% of all firms outside the agricultural sector are SMEs and micro enterprises, generating a significant portion of GDP.”*

The SMEs play an important role in the development of national economy of any country. In Indonesia SMEs have been the main players in domestic economic activities as they account for more than 90% of all firms and 96.2% of total workforce, especially women and the young. On average, the GDP growth share of SMEs was above 2%; whereas that of large enterprises was under 2% (Tambunan 2006). Ahmad et al. (2011) presented about the system approach for the effective adoption of rapid prototyping for SMEs and they pointed out the role of SMEs in the economy for instance, in the UK, out of a total of 4.8 million UK businesses, about 99% were SMEs while less than 1% were large corporations (i.e. over 250 employees) . Further, the study indicated that the share of SME employment accounted for 70% of total employment and the product share for over 46% in South Korea. In the case of Ethiopia, the industrial sector, which mainly comprises SMEs accounts for about 13 percent of GDP in the fiscal year 2008/09 (Ethiopia investment agency 2010)

Well regulated SMEs are particularly important in developing countries like Ethiopia for poverty-reduction strategy because they are seedbed for the development of large

enterprises, and because they absorb agriculturally under-employed labor, and diversify the sources of income for farming families. So, governments should set better regulation and good business environment to scale up the growth and performance of SMEs to take the advantage of economic growth.

Ethiopia is not unique in this regard ,considering the degree of unemployment as well as realizing the role of SMEs towards sustainable employment generation, the government has to give due attention in terms of promoting favorable business environment to take advantage of their contribution for economic development.

But, burden of administrative work and high amount of resources to comply with the regulations are some of the problems of regulations and government look through and assure all the above aspects of regulations not to become an obstacle for business success. Many of the traditional problems facing SMEs- lack of financing, difficulties in exploring technology, constrained managerial capabilities, low productivity, regulatory burden-become more acute in a globalised, technology-driven environment (OECD 2000)

Moreover, SMEs are argued to suffer disproportionately from regulation because of higher fixed compliance costs and their lower resilience to external shocks due to limited resources as compared to large enterprises (Chittenden *et al.* 2002 cited in Mark *et al.* 2008). Consequently, regulation and its burden upon businesses are major topics of public debate among politicians, media commentators, academics, lobby groups and practitioners because, the regulatory framework created and enforced by state organizations profoundly shapes all economic activity (Kitching 2006).

Therefore, before setting policies and regulations, policy makers and regulators themselves should assess regulatory burdens that influence the start up, growth and expansion of business enterprises. To assure the effect of regulations on businesses success there should be a serious assessment of those regulations whether they are effective or not.

In sum, the above issues coupled with the gap in the literature (to be established in chapter two) call for research in the area of assessing SMEs' managers, owners and employees perception towards regulatory burden on enterprises performance and growth.

## **1.2. Objective of the study**

In the context of the problems stated in the preceding discussion the intent of this concurrent mixed method approach study was to assess the perceptions of SMEs' owners ,managers and employees towards regulatory burden on SMEs performance and growth particularly in private limited and sole proprietorship businesses. Moreover, objective was to identify regulations those were considered problematic by businesses. In this study; for gathering data self-administered structured questionnaire was adopted. At the same time, additional information about burden of regulation was explored through unstructured face-to-face interview with randomly selected respondents for interview from formally registered SMEs in Gulele sub city, Addis Ababa. The reason for combining quantitative and qualitative data is for better

understand the research problem by converging concurrently the data from both instruments (Creswell 2009).

### **1.3. Research questions and hypotheses**

In order to achieve the broad objective fully, the following specific research questions (RQs) and hypotheses have been developed

*RQ1. What are the problems that SMEs faced on their performance and growth in relation with regulatory burden?*

*RQ2. Which areas of regulations create major burden on SMEs performance and growth?*

*RQ3. Which aspects of regulations have major burden on SMEs success?*

*RQ4. How do SMEs mitigate problems arising from the burden of regulations?*

*RQ5. Does the government consult with SMEs prior to regulating to lessen problems related with regulation?*

*H1: There is a relationship between regulation and SMEs performance.*

*H2: There is a relationship between regulation and SMEs growth.*

### **1.4. Research method adopted**

To answer research questions, test hypotheses and then achieve the broad research objective presented in section 1.3 the study adopted a concurrent mixed method. Specifically, the research employed both survey and in-depth interviews of SMEs' owners, managers or employees and documentary analysis. For the survey, a structured self administered questionnaire was distributed 150 randomly selected SMEs and 141 of them were completed and collected (response rate 94%). With

regard to the in-depth interviews, the study conducted the interview with 10 SMEs' owners, managers and employees. Further, the study reviewed the regulatory documents including tax regulations and quality and standard regulations. The study tried to analyze the results obtained from the above mentioned data sources using descriptive statistics and Pearson Correlation and also tried to answer the research questions, to test the hypotheses and then to achieve the broad objective.

### **1.5. Significance of the Study**

Regulations constitute a considerable part for the growth of SMEs in both developed and developing countries. Identifying problems pertaining to regulations released by government obviously has critical importance in addressing problems in related to SMEs operation. Therefore, this study highlighted the status of the Ethiopian regulations with respect to SMEs and identified the challenges that SMEs faced from the outset regulations of the government. Further, it is hoped that the study gives direction for other researcher who need to pursue further studies on the subject.

### **1.6. Scope of the Research**

The scope of the research was focused on assessment perceptions of SMEs' towards burden of regulations on SMEs performance and growth, in particular all SMEs sectors those are formal and registered businesses in Addis Ababa, Gulele sub city. The reason conducted the research in Gulele sub city was; when it is compared to other sub cities it is in the middle in terms of number of business entities, which saved time and other resources to conduct the research. Under those formally registered SMEs, based on their legal status sole proprietor and private limited companies were incorporated under the study, because more enterprises are existed in the form of sole

proprietors and private limited companies. For the purpose of this study, United Nations Industrial Development Organization (UNIDO) definition was taken and small businesses are those which have a paid-up capital of Birr 20,000 to 500,000 and medium enterprises are those which have 20 to 99 workers.

### **1.7. Limitations of the Study**

In due course of processing the research, the researcher faced with the following limitation. First lack of enough time to conduct the survey research because, survey research needs more time to collect the data and by the same token, inadequate organized information about the definition, classification and formally registered SMEs under the sub city. Furthermore, there was resistance of respondents and sub city's government bodies to give enough information for the study about the subject area. As a result, the main limitation of the study is associated with source of data, i.e. findings were more depend on ideas from respondents not incorporated data that indicates financial performance.

### **1.8. Organization of the Study**

The study assessed opinion of SMEs towards burden of regulation on SMEs performance and growth in Addis Ababa, Gulelie sub city .In due process, the reports of the paper logically organized in the following manner. The first chapter includes introduction followed by the second chapter that presents literature review. The third chapter of this thesis explains methodology, methods and tools used for the study. Data presentation and analysis of the results/ findings are presented in the fourth chapter .The last chapter comprised of conclusions and recommendations based on the findings.

## **Chapter Two**

### **Literature review**

SMEs are increasingly seen as playing an important role in the economies of many countries in terms of poverty alleviation, democratization and economic participation, employment creation, and industrial base and local production escalation. Thus, governments throughout the world focus on the development of the SMEs sector to promote economic growth and at the same time regulate this business sector, because regulations shape their activities and outcomes.

Even regulations influence businesses performance and growth by enabling and motivating SMEs to achieve their objective but, it also constrain them. In the context of the above the purpose of this chapter is to review the literature in the area of SMEs, regulations and burden of regulations on SMEs performance and growth. The literature review under this chapter is build-up on the existing theories and limited earlier studies.

The chapter is organized in three sections. The first section presents a review of the theoretical aspects of SMEs, regulations and regulatory burden on SMEs performance and growth. The second section is a review of the relevant empirical studies on burden of regulations on SMEs performance and growth. Finally the third section presents concluding remarks on the literature review and identifies the knowledge gap.

## **2.1. Theoretical review of SMEs and regulations**

As OECD (2004) showed, the notion of SME and entrepreneurship development was introduced into the growth and development landscape as early as the late 1940's with the introduction of targeted policies (grants, subsidized credits, special tax treatment, etc.) and the establishment of small businesses or SMEs support agencies by governments (*e.g.* publicly funded SME agencies were set up in 1948 in Japan, 1953 in USA, 1954 in India, 1966 in Tanzania, and 1976 in Turkey).

SMEs sector carries great hopes and great burdens in the evolution of all of the transitional economies. SMEs get serious concerns because of its contribution for countries ability to withstand competition in the global economy, to create jobs, and to continue to develop economically. The sustained and healthy growth of this sector is obviously necessary, since it is difficult to imagine rising overall living standards and social peace without such a development. For instance, as recently as the 1980s, the ability of the United States to withstand competition in the global economy was in question, as a result scholars began the difficult task of documenting the crucial role played by SMEs as a driving engine of growth, job creation, and competitiveness in global markets and policy makers responded with a supporter emphasis on policies to promote SMEs (Audretsc 2001). Further, the economic significance of the small business sector in generating income and sustaining employment has been recognized by successive UK Governments since the 1960's (Dilani 2003). Therefore the SMEs evolution and adaptability increase from time to time.

Government regulated SMEs' within the economy, since this regulatory framework created and enforced by governments profoundly shapes all economic activities including SMEs. Regulations play an important role in enabling or restricting the progress of businesses depending on how well they are prepared and implemented. No one doubts that production and market require regulations in order to operate fairly and competitively for the good of the society as a whole.

As the concerns of governments, regulatory practitioners, and commentators have developed, a corresponding changes that has taken place in the perspectives to provide foundations for the study of regulation. However, the evidence indicates that the regulatory burden is increasing and that there are a number of areas of concern for the SMEs community. Policy makers need to take account of areas where the regulatory burden is significant and be careful not to add to the regulatory burden, unless the benefits clearly outweigh the costs.

In the context of the above discussions, the first subsection presents SMEs' definition and their importance for the economy. The second subsection shows the regulatory environment.

### **2.1.1 Definition and importance of SMEs**

SMEs have no universally accepted definition and it is difficult to determine the SMEs defining thresholds by examining any obvious natural boundaries between small enterprises and medium enterprises. As a result, different countries and organizations use various measures based on their economy to define regulations. For instance, total number of employees, total investment and sales turnover are

commonly used yardsticks. UNIDO's definition of SMEs for Developing Countries is based on number of employees i.e. with 20-99 employees is classified under medium enterprise whereas small enterprises are with employees 5-19. Also its definition for industrialized countries is 100-499 employees for medium enterprise and less than 99 workers for small enterprise (Quartey 2001). The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees (OECD 2000)

According to the European Commission's definition medium enterprises are those enterprises that employ fewer than 250 but more than 50 people and have annual sales not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro, whereas small enterprises are defined as those enterprises employing less than 50 peoples and with annual sales or total assets that do not exceed 10 million euro (European commission, 2005). Furthermore, in terms of need for finance, the International Finance Corporation (IFC) defines SME based on loan size i.e. small enterprises are those with loan size of USD10,000 to USD 100,000 and medium enterprises are those with loan size of USD100,000 to USD 1 million.

SMEs are important and potential contributors to almost all economies in the world, but especially to those in developing countries and, within that broad category, to those with major employment and income distribution challenges. One of the significant characteristics of a flourishing and growing economy is a booming and blooming SMEs sector because SMEs play an important role in the development of a country's economy.

SMEs contribute to economic development in various ways like by creating employment for rural and urban growing labor force, providing desirable sustainability and innovation in the economy as a whole. Besides, a large number of people rely on SMEs directly or indirectly since they have a propensity to employ more labor-intensive production processes than large enterprises.

However, SMEs have advantages over large-scale businesses because of their adaptation to market conditions easily and withstand adverse economic conditions given their flexible nature, but they are the starting point for development of larger enterprises that directing the economy towards industrialization. Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty.

SMEs play significant contribution especially in the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process. SMEs hold up the expansion of systemic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked such linkages are very crucial for the attraction of foreign investment. SMEs are the major growing force behind the fastest growing economy of developed countries like China, in terms of contribution to the national GDP, scale of assets, diversification of products, creation of employment and reducing poverty and as a whole increasing the welfare of the society (Said , Ahmad and Javaid 2008).

There are a number of factors responsible for the importance of SMEs in developing countries. First, SMEs strengthen an entrepreneurial spirit and put forward flexibility in the economy. Second, SMEs emanate the fastest growing export sub-sectors, third, they can support the poverty alleviation endeavors through employment generation process. Above all, SMEs are more efficient in resource allocation as compare to that of large scale industry from a social point of view and they also provide and facilitate employment opportunity for more number of people as compare to that of large-scale industry. The significant roles of SME were indicated by research and statistics from many developed countries, however, efforts had remained restricted focusing on the large enterprises, and neglecting small and medium enterprises which are the back bone of the economy.

SMEs use mainly local resources and thus have less foreign exchange requirements while adapting easily to customer requirements. Due to their small and perceived flexible nature, SMEs are expected to be able to withstand adverse economic conditions and survive where many large businesses would collapse (Aryeetey and Ahene 2002). SMEs have been of increasing interest for academics and policy makers in recent years since their role in both developed and developing economies has been established as being major.

This contribution from SMEs for the overall economic development is currently acknowledged by several countries. For instance, evidence is available for the major role of SME in the growth and development of all leading economies in Asia (United Nations 2001). However, the ability of SMEs to realize these economic and social

objectives depends on the regulatory and policy environment within which they operate (ILO, 2000 cited in Quartey, 2001).

Despite the importance, SMEs in developing countries particularly in Africa face many obstacles. Among those obstacles policy and regulations can make a considerable difference to how well the SME sector fulfils its potential role in contributing to a healthy economy. In sum, SMEs are a distinctive foundation of the economy that requires owing attentiveness by the government. Therefore, failure to develop SMEs may slow down the restructuring process of the economy, increase the volume of unemployment, early retirement and other and discourage investment and other employment creating opportunity. The environment for SME is continually changing, especially in the scenario of globalization and openness of the economies. Therefore, the course of action for SMEs should be set for long-run period keeping in mind to put it in a suitable regulatory environment.

### **2.1.2. Regulatory environment**

Regulations are necessary for the private sector to operate competitively and in the public interest in terms of consumer and environmental protection. A simple, transparent, stable and enforceable regulatory environment creates the basis for the development of a dynamic enterprise sector. However, many SMEs in developing countries face heavy and costly regulatory burdens that discourage them from even entering the formal sector of the economy. No society can exist without the state providing some kind of regulations. Regulations are said to have occurred when a government exerts control over the activity of individuals and firms that enabling or restricting the progress of businesses depending on how well they are prepared and

implemented and no one doubts that production and market require regulations in order to operate fairly and competitively for the good of society as a whole. More definitions are given to regulations by different scholars and research centers for instance;-

OECD (1994, p.8) defined regulations as:

*“A set of “incentives” established either by the legislature, Government, or public administration that mandates or prohibits actions of citizens and enterprises and are supported by the explicit threat of punishment for non-compliance.”*

In addition department for business enterprise and regulatory reform research center (BERR, 2008, p.3) defined regulations as:

*“the legal and administrative rules created, applied and enforced by Government regulatory authorities – at local, national and transnational level – that both mandate and prohibit actions by individuals and organizations, with infringements subject to criminal, civil and administrative penalties.”*

Kitching (2006, p.5), also defined regulations in similar manner defined by BERR, which is regulations are:

*“the legal and administrative rules created, applied and enforced by state institutions – at local, national and supra-national level – that both mandate and prohibit actions by individuals and organizations, with infringements subject to criminal, civil and administrative penalties”.*

However, different organizations and scholars define regulations in different explanations at different time, they have the same root ideas towards the essence of the definition of regulations i.e. regulations shape all activities done by different public or business organizations that enable them to perform formal activities.

Following the above discussions about regulatory environment, the next sub sections reviewed about areas of regulations, aspects of regulations, characteristics of good regulations, meaning of regulatory burden, business performance and growth and effects of burden of regulations on SMEs performance and growth in an orderly manner.

#### **2.1.2.1 Areas of regulations**

A Government may set different regulations applied and enforced at its national and local level. Regulation on SMEs take different forms; it may be governing business starts –ups ,regulations governing business activities ,regulations on labor practices, payroll changes, health and safety standards, taxation and access to finance. These regulations set by the government constituted different areas. With respect to areas of regulations, the OECD (2000) identified the main areas where regulations plays a significant role. These include:

- **Employment Regulations** cover the hiring and firing of employees, complying with health and safety standards, the provision of facilities (e.g. for the disabled), statistical reporting of employment related data, social security

and pensions rights and other employee related benefits such as, maternity leave and sick leave.

- **Environmental Regulations** include licensing, permits, planning and environmental impact assessments; complying with regulations governing hazardous substances and materials; process and product quality standards; pollution control and product regulations; environmental reporting and testing; record keeping and the day to day administration requirements related to the environment, environmental levies and taxes.
- **Tax Regulations** covering tax policy, planning, taxing and auditing or inspecting the economic agents in related with business taxes / corporate income tax, sales taxes and other taxes. A shortage of information about tax policies, including difficulties and hidden costs in the application procedure for tax deterred SMEs from applying for them. Taxation officers appear to have strong power to enforce the tax rates, and this is creating tax return and tax incentive application difficulties for SMEs. The delay and bureaucratic assessment of tax incentive applications sometimes have led to unfair conduct in provision of tax incentives and have added hidden costs for SMEs. An inconsistently imposed tax also indirectly encourages corruption and tax evasion.

#### **2.1.2.2 Aspects of regulations**

Despite the potential importance of regulations as a policy tool its application in the case of SMEs has been undermined by difficulties from different aspects. Before

regulations are enforced to the business organizations it needs detail discussion about its aspects those brings failure during implementation such as complexity, volume/number, and rate of change and inspection. Aspects of regulations are argued to raise the substantive ,administrative and psychological cost to business, and to lead business owners to divert resources from profit generating to unproductive activities, from formal activities to informal and illegal activities and consequently to undermine business performance and growth. Such aspects may deter start-up, investment and innovation from SMEs.

- **Complexity of regulations:** - complex regulatory environment requires more business resources for understanding, handling and complying with the given regulation. SMEs find more costly and difficult to cope up about regulation whether they apply and how best to comply with them, particularly those regulations which are complex or badly drafted (OECD 2000).
- **Rate of change of regulations:** - In countries where regulations are continually changing, SMEs incur transaction costs in leaving and complying with new system. Because the more the frequent change of regulations, the more the staff needs to know the newly imposed regulation to implement; this includes extra cost and time for orientation and training (Watson and Blackwell 2007)
- **Volume/ number of regulations:** - excessive regulations are an emerging barrier to the survival and growth of SMEs. At the same manner like rate of change of regulations ,the more regulations that is out there, the more the staff needs to devote extra time and cost to adapt it with in the business. This includes extra training thus increasing in cost. This is a burden on performance and growth.

- **Inspection of regulations:** - Inspections are meant to make regulations safe and well implemented for businesses to achieve their success. When government's inspections systems work properly, it detect potential hazards that damage business success as well its revenue and existence when inspections fail, however, due to inadequate inspector training or remuneration, inconsistent enforcement, or unclear regulations, the costs can be high. A good inspections regime should maximize compliance with clear regulations, minimize uncertainty for businesses by operating transparently, fight corruption by reducing the discretionary power of inspectors, and minimize costs through efficiency. Totally, it enhanced support and education to improve the capacity of firms to comply with their obligations;
- **Enforcement of regulations:** - Where regulations are necessary, enforcement needs to be considered early in the policy-making process. Regulations those cannot be enforced properly are not just ineffective; it may actively harm businesses that do their best to comply, when their competitors fail to do so. Enforcement is actions taken by the state agencies, although some government departments and local authorities to comply with the regulations and minimized burden.

### **2.1.2.3 Characteristics of good regulations**

Regulations can be good or bad. To be good, regulations must not only bring net benefits to society, it must also be the most effective way of addressing an identified

Problem; and impose the least possible burden on those regulated and on the broader community (Banks 2001). The important features of regulations are

- Regulations should not be unduly prescriptive -where possible, it should be specified in terms of performance goals or outcomes - it should be flexible enough to accommodate different or changing circumstances, and to enable businesses and households to choose the most cost effective ways of complying.
- Regulations should be clear and concise - it should also be communicated effectively and be readily accessible to those affected by it. Not only should people be able to find out what regulations apply to them, the regulations themselves must be capable of being readily understood.
- Regulations should be consistent with other laws, agreements and international obligations. Inconsistency can create division, confusion and waste.
- Regulations must be enforceable - but it should embody incentives or disciplines no greater than are needed for reasonable enforcement, and involve adequate resources for the purpose.
- Finally, regulations needs to be administered with accountable bodies in a fair and consistent manner, and it should be monitored and periodically reviewed to ensure that it continues to achieve its aims.

#### **2.1.2.4. What is a regulatory burden?**

Regulatory burdens arise in the first instance through the requirements contained in legislation, regulations and other regulatory instruments. In order for most regulations

to achieve their objectives, it is unavoidable that some burden is placed on business. However, not all regulations create an incremental burden. When a business would behave in an identical manner regardless of whether a certain regulations were in effect, those regulations could not be considered to impose an incremental burden. On the other hand, where regulations induce businesses to behave differently or undertake additional tasks, an incremental burden can be said to exist. In the case where regulations are poorly designed, or enforcement and administration is poorly executed, they may impose greater burdens and costs than are necessary to achieve their objectives. Keter (2004) indicated Regulations may have unintended or unforeseen negative consequences, such as causing damage to particular markets or employment and training opportunities.

The actions of regulators may further create burdens for business. For example, a regulator's inconsistent application (or interpretation) of regulatory requirements may necessitate a number of changes in the operations of a business in order to achieve compliance, despite the underlying regulatory requirements remaining unchanged. Even where a business does not need to undertake such changes, the uncertainty caused by the inconsistent approach of regulators can, in itself, cause a regulatory burden. The partial enforcement, or non-enforcement, of regulations may also create a regulatory burden by placing businesses complying with the regulations at a competitive disadvantage when compared to non-complying businesses.

All these potential burdens can be exacerbated for enterprises doing business across. They are likely to have their compliance costs compounded because of differing or

duplicated regulatory requirements, even if that regulations have the same policy objectives.

According to Bickerdyke and Lattimore (1997) regulatory burden has been broadly defined to include:

- Additional administration and operational costs (including paperwork costs) and time needed to meet regulatory requirements;
- Additional costs and time associated with changing the ways that things are done and what is produced by businesses in order to meet regulatory requirements.

#### **2.1.2.5. Business performance and growth**

Business performance can be defined both in terms of processes (start-up, resource acquisition, development and deployment (i.e., the strategic direction of the business) and outcomes (sales, profit, asset value, intrinsic work satisfactions) and growth is a narrower concept, denoting a particular type of change in performance (Anyadike-Danes et al. 2008)

Growth is defined as a change in size over any given time period. For much of the government policy research in particular, growth is measured in terms of increases in employment This measure is most relevant to many policy makers since, as mentioned earlier, small business growth is seen to reduce unemployment(Dobbs and Hamilton 2006).

Chong (2008), noted that performance of SMEs can be measured using the financial and non-financial measures. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Further, he indicated financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain. Inaccessibility, confidentiality, completeness, accuracy and timeliness of data make comparisons among the sectors challenging and futile. Further, profits are subject to manipulations and interpretations. A possible way forward is to apply the non-financial measures, though subjective in nature, as supplements to the financial measures.

OECD (2002) stated that, high-growth firms, as measured by employment expansion rates, account for a significant share of jobs created and are key players in economic growth and high-growth firms exhibit a much stronger propensity to generate employment than average firms.

Moreover, Business growth is typically defined and measured, using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins (Delmar 1997; Davidsson et al. 2005; Allinson et al. 2006 cited in Blackburn, R. et al. 2008). Sales data are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance (Olawale and Garwe 2010).

The ability of a firm to attract, develop and retain skilled and capable employees affects the probability that they will be able to effectively implement and maintain a growth-oriented strategy (Barringer and Jones, 2004; Ichniowski et al., 1997; Pena, 2002 cited in Dobbs and Hamilton 2006). Furthermore, Dobbs and Hamilton (2006) indicated the sustained growth of these businesses that creates the new jobs and other benefits that communities are seeking. Those SMEs that have achieved high growth have also been pursuing a market strategy of differentiation. Therefore those businesses which are able to develop new products and services in existing markets, enter new markets with existing products and generally broaden their customer base are more likely to experience growth.

#### **2.1.2.6. The effects of regulatory burden on SMEs performance and growth**

SMEs are necessary engines for achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation, and totally strengthening economy and increasing global competitiveness of countries. However, the ability of SMEs to realize these economic and social objectives depend on the regulatory and policy environment within which they operate (Quartey 2001 cited in ILO 2000).

Regulations and its burden upon businesses are major topics of public debate. Small businesses are argued to suffer disproportionately from regulations because of higher fixed compliance costs and their lower resilience to external shocks due to limited resources (e.g. Chittenden et al., 2002, cited in Anyadike-Danes et al. 2008). With regulations, government can manage the economy to achieve sustainable social and

economic outcomes and it also serves as a means of protecting and assisting small businesses. However, for regulations to have the possible least burden, it should be based on careful estimates of the problems and cost of regulation to firms. Government's effort to improve regulations are a big issue and it is time to ask whether regulations, as a result, are now better for SMEs? It is acknowledge that SMEs are vital to the economy but, are disproportionately affected by regulatory requirements, red tape and burdens. Regulations can undermine their competitiveness, capacity to grow and viability. There are identifiable reasons why regulations hit SMEs hard and they have higher compliance costs than large businesses; because, they are less resilient to regulatory shocks, miscalculations and uncertainties; they lack regulation specialists; they face large costs of administration as well as regulatory burdens; and they often need the assistance of government to comply with regulations.

The cumulative effect of regulations slow down business responsiveness, diverts resources away from productive investment, hampers entry into markets, and reduces innovation. Countries where there are high costs associated with starting a new business generally have lower employment rates. Strict product market regulations are also likely to be detrimental to productivity performance (Keter 2004).

As a result of the above reasons small business have special vision of having better regulations which considers difficulties and expenses, small businesses experience in dealing with regulations; issues of competitiveness, needs for growth and cumulative burdens; and that takes account of small business confidence. Business owners or managers vary in their capacity to discover, interpret and adapt to regulations, those

with greater resources (finance, equipment, management capability, workforce knowledge and skills) are better placed to deal positively with regulations. Where businesses lack the resources to develop new practices and products, their capacity to adapt to regulations is constrained. Businesses also vary in the business objectives they seek to achieve and these also shape how they adapt to regulations.

SMEs in poor countries face more administrative and judicial procedures, more delays in terms of time and higher costs than SMEs in rich countries (World Bank 2005). If developing countries want SMEs to thrive, regulatory burdens in these two areas i.e. in starting business and registering property must be simplified and reduced. However, simplification is often opposed by the Government itself because it cuts down on licensing fees and for some Governments the opportunity to extract bribes (Ruffing 2006).

The better regulations movement has produced a large number of initiatives in developed countries by various small business research centers. For instance, as scholars stated that the main focus area of the tax and financial system is simplicity otherwise, the complexity of the system may pose distortions of economic decision. Improving and simplifying the business environment is considered to be of the highest priority, as the level of regulations imposed by governments is claimed to be one of the major obstacles to business success (UNICE 1995). That is why; regulations have become an important topic of public debate among politicians, media commentators, academics, lobby groups and practitioners. Government efforts to improve regulations are coming and it is time to ask whether regulations are really better or not for growth and performance of SMEs both in Ethiopia and other countries.

With regulations, government can manage the economy to achieve sustainable social and economic outcomes and it also serves as a means of protecting and assisting SMEs. However, for regulations to have the possible least burden, it should be on careful estimates of the problems and cost of regulations to firms. That is government should assess regulations around SMEs performance and growth whether they brought burden or not and to make improvement on regulations and minimize those burdens. It is acknowledged that SMEs are vital to the economy but, are disproportionately affected by regulatory requirements, red tape and burdens, so designing policies and creating rules from the SMEs point of view would also seem logical since they represent the overwhelming majority of all businesses.

## **2.2. Empirical review: SMEs and regulations**

Extensive research is needed on SMEs and burden of regulations. This is because SMEs are currently very important to the development of the economy; as a result governments give focus for the development of SMEs. For instance, studies importantly showed that there is high contribution for the economy from SME sector. For instance, 15.56% of GDP in the low-income countries, 39% in middle income countries and 51.45% in the high-income countries are contributed from SMEs role in the economy (Ayyagari, Beck and Demirguc-kunt 2003). Therefore, an increase in SME sector's contribution to employment is accompanied by increase in its share of GDP that is SMEs are major contributors to private sector employment.

Moreover, other studies on this issue indicated that the SMEs play an important role in the development of national economy of any country. With respect to this, Ahmad et al.(2011) indicated that about 99 % UK economy is SMEs, so out of the 4.8 million UK businesses less than 1% are large corporations i.e., corporations with over 250 employees then it shows the UK economy is dominated by SMEs . Further, the study also showed the role of SMEs in South Korea, Malaysia, Thailand and China as follows. The share of SME employment accounted for 70% of total employment and the product share for over 46% in South Korea and in Malaysia, SMEs accounted for about 48% of manufacturing establishment. In Thailand, there are about 118,648 SMEs those representing around 98% of the total firms in manufacturing sector and SMEs are key element in China's economy accounting for 99% of total number of firms and 69.7% of overall employment. The above statistics clearly shows the role of SMEs in the economy of the country and their contribution in labor absorption, poverty alleviation and revenue generation is significant.

In contrast to SMEs have been concerns of researchers since the 1970s, when they were primarily seen as a job creation tool (Yang 2010) and their broad advantage for economical development, there had been very limited empirical evidence available until recent times about regulations burden on SMEs performance and growth, particularly in developing countries. Most of the earlier survey studies generally focused on developed countries than developing countries like UK and conducted by different business representative organizations rather than individual researchers like Federation of Small Business (FSB), Small business survey (SBS), Small Business Research Center (SBRC) and others. Their survey study in general indicated that SMEs are frequently faced with constraints and challenges that impede their business

success particularly regulatory constraints in addition to competition and economical constraint.

The following sections review the empirical evidence on the burden of regulations on SMEs' business success i.e. performance and growth. The review incorporated previous studies conducted in developed and developing countries by individual researchers and business representatives of countries and the whole empirical studies reviewed are summarized.

### **2.2.1 Burden of regulations on SMEs in developed and developing countries**

SMEs currently evolve in a complex business environment, characterized by globalization, the internationalization of markets, and the need for greater efficiency, effectiveness and competitiveness based on innovation and knowledge. This has put increasing pressure upon performance and growth of SMEs. In developed countries, small business representatives and federations conduct a survey study about the problems of regulations that brought on SMEs performance and growth more importantly in UK.

Various studies have identified burdensome and costly government regulations as the most significant determinant of informality, and as a source of corruption (OECD 2006). In general, existences of poor quality law-making in developing countries have created a tangle of complexity and inconsistency that presents an almost insurmountable obstacle to the enterprises seeking formality. Regulatory burdens have a strong cumulative effect on the business environment.

SBS annual survey of small business in UK undertaken the field work in the fourth quarter of 2003, the findings are based on a large sample of 8693 small businesses and identified that four obstacles were cited by about two-fifths of all businesses. These were the economy (40.8%), competition (39.2%), regulations (38.7%) and taxation (38.1%). This 38.7 % of all businesses thought that regulations acted in some way to place obstacle in the way of their success, and for 14.5% this was their greatest obstacle (Atkinson and Hurstfield 2004).

As per the findings of annual small business survey in UK 2004/05 that was telephone-based survey with 7505 business, 31% of all businesses thought that regulations acted in some way to place obstacles on the way of their success. The core of this obstacle was the paperwork and administrative procedures (39% of those seeing regulations as an obstacle), the cost of making changes to ensure compliance (37%), and 32% difficulty in deciding how to comply (Wiseman, Roe and Elliott 2006).

Specifically, survey study on impacts of aspects of business regulations was conducted by Economic and social research institute (ESRI) in Ireland. The study was a quantitative survey of over 800 firms and supported by 10 qualitative interviews with 32 firms. The findings of this study indicated that most firms felt that the overall amount of regulations were about right (55%), over one third felt that there was too much regulations. Out of the total firm under the study 30% of firms expressed negative views the ease with which regulations can be understood and the extent to which regulations are constituent with one another. In relation with compliance cost

almost 60% of firms' report that costs have increased, more likely with medium sized firms and 42% of those reporting firms an increase in cost thought that the main reason for increased costs reported by firms was the introduction of new regulations (Watson and Sylvia 2007).

Other studies have produced similar findings as the federation of small business biennial membership survey (2006) indicates substantial dissatisfactions with various aspects of regulations. the study of nearly 19,000 business owners found that large proportions of respondents were either dissatisfied or very dissatisfied : with the complexity of legislation (54%), the volume(53%),the rate of change(51%), the cost of compliance (51%) and inspection regime (2%).

Annual Survey of Small Businesses conducts a survey of SMEs in Scotland in the year 2004/05 to identify their behaviour, needs and barriers, and their relationship with government bodies, as part of a larger UK-wide survey. The findings from the survey study showed that, 40% of businesses with employees thought that regulations acted in a way that placed obstacles on the way of their business's success (SBS 2006). Moreover, BERR conduct annual small business survey in 2007/08 and the survey interviewed 7,783 UK SME businesses with between 1 and 249 employees between December 2007 and February 2008. Then findings of this survey showed that 32% of the SME employers that reported regulations to be an obstacle cited Health and Safety regulations as the main area of difficulty. Employment and tax regulations were each mentioned by 17% of employers, while sector-specific regulations were mentioned by 13 % of employers, and regulations relating to the environment were mentioned by ten per cent. Just over 11% of employers that reported regulations as an

obstacle were unable or unwilling to identify a primary concern (Williams and Cowling 2009).

Anderson review group reported for BEER about health and safety regulations burden by undertaking a survey study in 2008, through interviewing 759 SMEs across England and Wales after analyzing the data descriptively the findings indicated that 14% of all SMEs deal with it at least weekly but this figure rises to over half (58%) for those with 10 employees or more. Furthermore, a third of SMEs (33%) with employees manage it at least on a weekly basis, rising to half (51%) at least monthly. Variations do exist by sector; construction and manufacturing. SMEs find health and safety a particularly time-consuming and costly (Anderson's review group 2008)

Survey study was conducted jointly by UK and Canada in relation with burden of regulations and SMEs. This Survey study was intended to be the first stage by the accountancy organizations in the UK and Canada. This report analyses data gathered from small businesses and accountants in the UK and Canada. The sampling frame from which the SMEs are drawn in the UK, these included any business employing fewer than 250 people drawn from a Dun and Bradstreet database, while in Canada the sampling frame comprised the 3,700 businesses trading on the Toronto Stock Exchange. After all the findings of the study reported that most notably, 78.6% of business owners surveyed said they were concerned about the quantity of regulations, with 46.4% being very concerned. The least worrying aspect of regulations was timing, with just 19% being very concerned. Nonetheless, only 10.1% claimed to be not at all concerned about timing. This was replicated across respondents generally.

An average of just 6.2% was not at all concerned about regulation (Blackburn et al. 2006).

Other researchers suggest that small business owners are dissatisfied with the volume and complexity of legislation (FSB 2002, 2004b cited in SBRC 2005). In their study of 18000 member business owners, the FSB found that the majority of respondents were either dissatisfied or very dissatisfied with various aspects of legislation; volume, complexity, rate of change, and cost of compliance. For each of these aspects only 1% of respondents reported being satisfied. In addition, about one-third of business owners' respondents were dissatisfied or very dissatisfied with inspection. In 2003, survey study conducted by SBS in UK, and the finding indicates that, 61% of small business and 69% of medium sized business thought regulations placed obstacles in the way of their business success. Moreover in 2004, survey finding 40% of small business and 39% of medium sized business thought regulations placed obstacles in the way of their business success (SBS 2004).

Regarding to volume of regulations, previous study was conducted in Australia found that 77% of SMEs had concerns about the volume of regulations and staying up to date with new or changed requirements. In addition to concern about the amount of regulations, the report found 66 % of SMEs are worried about the cost of regulations in proportion to the size of the business. When seeking advice to satisfy regulatory obligations, 72 % of SMEs turn to external accountants (Leung and Raar 2008).

There are little studies in developing countries about the problems of regulations that affected performance and growth of SMEs. In Nigeria, the survey study was

conducted on SMEs characteristics, problem and finance through using purposive sampling both Lagos and Oyo states of Nigeria. A total samples of 150 enterprises engaged in six related types of business operation were selected. Of this 80 were from Lagos state, while 70 were from Oyo state. Finally, the findings of the survey pointed that respondents react to the government policies; all the enterprise that failed blamed the government policies in one way or another for their failure (Ekpenyong and Nyong 1992).

Accordingly, Study in Ethiopia was conducted on related area i.e. on promoting micro, small and medium enterprises (MSMEs) for sustainable rural livelihood in Ethiopia and the method they used survey method and applied longitudinal data collection method. consequently based on their data they reach the following result i.e. 74% of their respondent mentioned legal and regulatory problem as a major obstacle to efficient operation in the sector .The respondents stated that, bureaucratic registration requirements for licensing, high policy control, over regulations, corruption, high tariffs and unfair tax were major policy related constraints that adversely affecting the sector. Therefore, the finding shows that how much the current regulations impacts the performance and growth of MSMEs ( Bekele and Muche 2009). All of the above studies reflect, and reinforce, notions of regulation as a burden for performance and growth of SMEs’.

The investment climate assessment report done by World Bank also found several constraints to doing business in Ethiopia. Firms in the sample identified problems with the tax rates and tax administration as constituting the most serious impediments in all regions of the country. For example, 80% of firms in Amhara reported tax issues

among the top three major impediments to doing business, followed by Tigray (70%), and the lowest (37%) in the Southern region. (World Bank 2004)

### **2.3. Conclusions and Knowledge gap identification**

In general, creating an enabling environment for the private sector to grow and create jobs is an important government responsibility. This review of the literature highlighted a number of issues on theoretical and empirical frame works which theories involving around SMEs and their contribution for development of the economy, regulations and its effect on SMEs performance and growth and researches inquiry aiming to enhance understanding and to address the burden of regulations and its problem on SMEs performance and growth.

SMEs are commonly recognised as one of the leading groups of economic activities globally, and causes for booming of the economy. Most countries are currently focused on SMEs because they are necessary engines for rapid economic development and achieving national development goals such as economic growth, poverty alleviation, democratization and economic participation, employment creation and industrial base, and local production escalation.

However, to assure their role in the economy they are influenced by several factors such as lack of resources (financial and non financial), market competition, regulatory environment, managements capability and others.

A review of the regulations that govern the establishment of an enterprise is of particular relevance for creating a favorable regulatory environment and should be at

the forefront of the overall economic policy agenda. One of the effects of such regulations is that they appear to discourage the creation of new technology-based firms and innovative start-ups which are important for employment growth, technological change and innovation.

Particularly, regulation is necessary for protection of the business environment and security of the economic agents, but at the same time it hampers the business with additional expenditures and administrative obstacles, when it place and implement in inappropriate way. The large enterprises have more possibilities to deal on regulations, but for SME this is a great expense out of their abilities. With regard to regulatory problem, previous survey studies found that burden of regulations are obstacles for businesses success. Regulations are widely argued by business lobby groups, policymakers and academics to be a key barrier to business performance and growth (SBRC 2005).

These barriers of regulations for businesses performance and growth are reflected on different areas and aspects of regulations. As indicated through review of empirical studies in the previous section, that tax regulations are viewed as most important challenge by SMEs particularly the volume, complexity and rate of change of regulations are the main aspects of regulations those brought burden and cause for not complying with regulatory requirements

Policymakers pursue a variety of economic and social objectives, to achieve those objectives they adopt regulations and some of which may entail problems and a net cost for SMEs, even in the long-term.

The cumulative burden of regulations slows down business responsiveness, diverts resources away from productive investment, hampers entry into markets, and reduces innovation. Countries where there are high costs associated with starting a new business generally have lower employment rates. Strict product market regulation is also likely to be detrimental to productivity performance (Keter 2004).

With respect to these regulations and SMEs, most studies were conducted by some business support organizations and individual researchers with in developed countries. Despite their importance for economic development in developing countries with large human capital, there is limited research in relation to burden of regulations on SMEs' performance and growth particularly in Ethiopia as per the knowledge of the researcher.

As a result, this knowledge gap leads the researcher to conduct the study and tried to answer grand research questions i.e. identify regulatory problems together with areas of regulations and particularly aspects of regulations those hinder SMEs from better performance and growth basically in Ethiopia.

## **Chapter Three**

### **Research methodology**

The purpose of this chapter is to present the research methodology. The chapter is organized in three sections. The first section presents the objective, research questions and hypotheses. This is followed by a discussion of the research approaches and methods adopted in sections two and three respectively. Finally conclusions and the link between research questions and hypotheses and the different data sources are presented in section four.

#### **3.1. Objective, research question and hypotheses**

As it was indicated in chapter one the broad objective of this study is to assess perceptions of SMEs owners, managers and employers towards regulatory burden on their performance and growth. Consequently, to address the broad objective of the research a series of research questions and hypotheses were developed.

#### **Research questions**

Government regulations are needed to achieve a range of economic and social objectives which are of benefit to the community generally. However, they invariably impose burden that pose problems on businesses.

These regulatory burdens include compliance cost, administration costs and frustrate (psychological cost) that may adversely influence overall business performance and growth (Bickerdyke and Lattimore, 1997). Regulatory burdens remain a major obstacle for SMEs as these firms tend to be poorly equipped to deal with the problems arising from regulations.

The problem of regulations for business owners involves the diversion of scarce resources away from what are argued to be productive, profit-generating activities and towards the discovery, understanding of, and compliance with regulations. Thus the primary question is

*RQ. 1. What are the problems that SMEs faced on their performance in relation with regulatory burden?*

Government regulated businesses under different regulation areas. Each regulations area have brought different level of degree of burden that impede business success. Since, all areas of regulations have no equal burden on businesses identifying those areas with major burden is necessary for policy makers and regulators. Thus the secondary question is

*RQ2. Which areas of regulations create major burden on SMEs performance?*

Even, only identifying areas of regulations is not a solution to simplify the burden, but also identifying the root cause of regulations area for becoming a challenge for businesses. There are different aspects of a single area of regulations that makes regulations enabling or constraining businesses performance and growth such as complexity, volume, rate of change, enforcement and inspection. Consequently, if these aspects of regulations are identified once as constraining performance and

growth by businesses, they adopt mechanisms to mitigate problems from regulations. Government also strives to minimize regulatory burden on businesses performance and growth through communicating with businesses, consulting, supporting and inspecting their compliance with existing and new regulations. Thus the third, fourth and fifth research questions were

*RQ3. Which aspects of regulations have major burden on SMEs success?*

*RQ4. How do SMEs mitigate problems arising from the burden of regulations?*

*RQ5. Does the government consult with SMEs prior to regulating to lessen problems related with regulation?*

### **Research hypotheses**

Regulations are usually introduced in order to achieve some specific social or economic objectives although they sometimes have unintended impact. Improving and simplifying the business environment is considered to be of the highest priority, as the level of regulations imposed by governments is claimed to be one of the major obstacles to business success (UNICE 1995).

Enterprise start ups and operation are influenced not only by market but also by the regulatory and institutional environment established by governments. The cumulative impact of numerous regulations and formalities originating in many areas and layers of government is to slowdown business responsiveness and to discourage entrepreneurship (Hudson 2003). That is regulations impacting on the business sector require firms to alter their behaviour and also to invest both time and money. By adding to costs, regulations can negatively impact upon productivity and can also divert resources away from more productive activities.

Reflecting the linkage between regulations and economic performance and the development of appropriate regulatory policy is seen as an area of importance for policy makers. Reducing administrative and regulatory burdens would constitute a major improvement in the business environment for SMEs.

Kitching (2006) identified in his study that, as far as any particular business is concerned, regulations can affect business entities directly or indirectly through changing the behavior of the businesses or the stakeholders whose action causally affect business owners. It implies that regulations directly or indirectly affect performance and growth of SMEs. Removing obstacles and reducing the regulatory and tax burdens on small business could have a substantial, positive impact on the ability of small business to facilitate job creation (Lopez 1999)

The relationship between more business-friendly regulations and higher growth rates is consistently significant in various specifications of standard growth models, and more consistently so than other determinants commonly used in the growth literature (Djankov, McLiessh and Ramalho 2006).

The burden of regulation is a prominent concern affecting small business. It is a recurrent and long standing complaint by business that the burden of compliance with regulations of all kinds has worsened in recent years, and that it acts as a major impediment to competitiveness, especially for the small business sector (Keter 2004).

Thus based on the above discussion hypotheses are developed

*H1: There is a relationship between regulation and SMEs performance.*

*H2: There is a relationship between regulation and SMEs growth.*

### **3.2 Research approaches**

Based on different knowledge claim there are different research approaches. The research problem along with the philosophy of research methodology would guide the choice of the appropriate research method. Depending on the nature of the research problem a research method could be based on the philosophy of quantitative or qualitative or a mixed approach. This section discussed those research approaches that used as a base to adopt the appropriate and specific method to address the broad objectives of the research based on the data needed to answer questions and to test hypotheses. The subsequent sub sections were dealt with quantitative research approach under the first sub section followed by qualitative research approach in the second sub section and finally mixed method approach is discussed.

#### **3.2.1 Quantitative approach**

A quantitative approach is one in which the investigator primarily uses postpositive claims for developing knowledge (i.e., cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories), employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistical data(Creswell 2003).

Quantitative research involves counting and measuring of events and performing the statistical analysis of a body of numerical data (Smith, 1988, cited in Matveev 2002). Moreover, Spratt, Walker and Robinson (2004), Quantitative research places the emphasis on measurement when collecting and analyzing data. Quantitative research is defined, not just by its use of numerical measures but also that it generally follows a

natural science model of the research process measurement to establish objective knowledge (that is, knowledge that exists independently of the views and values of the people involved). Generally it makes use of deduction, that is, research is carried out in relation to hypotheses drawn from theory. The assumption behind the positivist paradigm is that there is an objective truth existing in the world that can be measured and explained scientifically.

Creswell (2009) explained that, quantitative approach is best to test or verifies theories or explanations by specifying narrow hypothesis and collection of data to support or refute the hypothesis. It employs a review of the existing literature deductively to develop theories and hypothesis to be tested and it tends to assume that there is a cause –effect relationship. By using survey and experimental strategies of inquiry it collect information using preset standardized instruments that can generate relevant statistical data. Furthermore, it uses statistical methods in describing findings from sample population interest i.e. to generalize the result from the sample. Data collected on an instrument that measures attitude like closed ended questionnaire, predetermined approach and numerical data. Well-designed and implemented quantitative approach has the merit of being able to generalize for a broader population, based on findings from the sample. Amaratunga et al. (2002), indicated that quantitative approach can provide wide coverage of the range of situations, fast and economical and statistics are aggregated from large samples, they may be of considerable relevance to policy decisions

Despite of this advantage, quantitative approach has limitations such as, if it is standardized it would lead reliable outcomes besides, due to lack of information about

or access to the population and for convenience, the sample may not be representative of the population under study, this may introduce bias and if it is designed ones it is inflexible for certain situations Further,they are not very helpful in generating theories because they focus on what is, or what has been recently, they make it hard for policy makers to infer what changes and actions should take place in the future (Amaratunga et al. 2002).

### **3.2.2. Qualitative approach**

The second approach is qualitative approach and it uses the philosophical assumption of social constructivism worldview that provides an understanding of social reality based on the subjective interpretation (Creswell 2009). Under this approach, the researcher often makes knowledge claims based on the multiple meanings of individuals experiences and explore a phenomenon using participation in the activity themselves. Qualitative research emphasizes meanings (words) rather than frequencies and distributions (numbers) when collecting and analyzing data. Primarily qualitative research seeks to understand and interpret the meaning of situations or events from the perspectives of the people involved and as understood by them(Spratt, Walker and Robinson 2004). The researcher collects open ended emerging data with the primary intent of developing themes from the data (Creswell 2007).

Further, qualitative approach attempts to get an in-depth opinion from participants. Qualitative research aims to describe social phenomena and behavior through the means of rich contextual data. Unlike much quantitative data, numeration is not its objective. Rather, qualitative research seeks to explore and explain the world through

observation, by appreciating the subjective experiences of social actors and by unearthing data that are not easily accessed by quantitative means (Power 2002).

It is generally inductive rather than deductive in its approach, that is, it generates theory from interpretation of the evidence, albeit against a theoretical background (Spratt, Walker, and Robinson 2004).

This approach tries to study natural settings and researchers are a key instrument and do not detached themselves from a research. It uses different strategies of inquires like, narrative, case study, ethnography, phenomenology and grand theory studies. This approach has the merit of being flexible for different situations around the study area, data-gathering methods seen more natural than artificial, ability to look at change processes over time, ability to understand people's meaning, ability to adjust to new issues and ideas as they emerge and, contribute to theory generation.

Apart from its advantage it has its own limitation like lack of standardized rules, data collection can be tedious and require more resources, analysis and interpretation of data may be more difficult, harder to control the pace, progress and end-points of research process , readers may give low credibility to results from qualitative approach(Amaratunga et al. 2002).

### **3.2.3.Mixed methods approach**

The third approach is mixed approach research that seeks a pragmatic knowledge claim arise out of actions, situations, and consequences rather than antecedent conditions (as in post positivism). Under this approach the researcher conducts the

research by using all the necessary approach i.e. quantitative and qualitative approach that best helps to address the research problem. As a result it can answer a border and more complete range of research questions because the researcher is not confined to a single research approach. This mixed approach is appropriate when either quantitative or qualitative approach by itself is inadequate to understand a research problem. Apart from this, using mixed approaches can capitalise on the strengths of each approach and offset their different weaknesses (Spratt, Walker and Robinson 2004).

Under this approach, the researcher bases the inquiry on the assumption that collecting diverse types of data best provides on understanding of a research problem (Creswell 2003). Therefore, collecting both closed ended quantitative data and open-ended qualitative data proves its advantage. On the other hand, its disadvantage is the research will take extra time and resources because of the need to collect and analyze both quantitative and qualitative data. Also it can difficult for a single researcher to carry out both qualitative and quantitative research, especially if two or more approaches are expected to be done concurrently.

The researcher bases the inquiry on the assumption that collecting diverse types of data best provides on understanding of a research problem. The study begins with a broad survey in order to generalize results to a population and then focuses, in a second phase, on detailed qualitative, open-ended interviews to collect detailed views from participants.

Mixed methods is a methodology with philosophical assumptions and a set of specific designs that guide the collection, analysis, and mixing of quantitative and qualitative types of data, providing a better understanding of the research problem than any one method alone. Concurrent mixed method data collection strategies have been

employed to validate one form of data with the other form, to transform the data for comparison, or to address different types of questions (Creswell & Plano Clark 2006). In many cases the same individuals provide both qualitative and quantitative data so that the data can be more easily compared.

Generally, to address this general objective and to fill the gap, adequate data from both quantitative (survey questionnaire) and qualitative (face-to-face in-depth interview) sources are used, and converge data collected from both sources at the same time to get a comprehensive analysis of the research problem and interpret the overall result. Therefore, based on the above research approach theories and to achieve the broad objective of the research i.e. to assess perceptions of SMEs towards regulatory burden on their performance and growth through addressing questions and hypotheses the researcher used quantitative survey research questions and in-depth face to face interview data gathering instruments together with documentary analysis. Consequently, the researcher used concurrent mixed approach during the study.

### **3.3. Research Methods**

Research methods are specific techniques/methods of data collection and analysis used to achieve the broad research objective through addressing research questions and testing hypotheses. Consequently, this research used quantitative research methods particularly survey method and qualitative methods particularly in-depth interview and documentary analysis to assess the opinions of SMEs owners/managers towards regulatory burden on performance and growth. Under this section quantitative aspect of the research method in the first sub section is discussed followed by qualitative aspect of the research method in the second sub section and

the third section is discussion for data analysis method for both data from qualitative and quantitative aspect of the research methods.

### **3.3.1. Quantitative aspect of the research method**

Survey method is quantitative or numeric description of trends, attitudes, or opinions of a population by studying the sample of a population. Survey could be cross sectional (i.e. collecting data once) or longitudinal (collecting data for many years) based on the timing of collecting data.

Survey method is advantageous for its merit of economy of the design and it enables to gather enough information, which may not available from other sources (Creswell 2009). The purpose of this survey method is to infer the result from a sample about the population. Fowler (1984) explained that the strengths of survey methods is in their wider use including the value of statistical sampling, consistent measurement, and the ability to obtain information not systematically available elsewhere or in the form needed for analysis. Consequently for its merit of economy and enables to gather enough information survey method was employed in this research. Subsequently sampling design (i.e. discussed how sample frame, sample size and sampling procedure are determined and used) ; survey instrument design is discussed as follows:.

#### **Sample design**

Sample and instrument designs and mode of collecting data are crucial to generate representative statistical data about a population under study (Yesegat 2009). Sample

represents a population depends on the sample frame, the sample size and the specific procedures of selecting potential respondents.

The study population that the researcher intended to draw a sample is indicated in sample frame. Sample should be representative because based on the sample generalization is given for the entire population. Therefore under this study the sampling frame were all registered SMEs (1718 SMEs in number) in Gulelie sub city, Addis Ababa particularly private limited companies and sole proprietorship form of businesses because a large number of entrepreneurs are involved in such type of legal status.

This sample frame for this survey study included all businesses engaged in different business activities, those formally registered as SMEs in trade and industry ministry. The researcher categorized SMEs based on their paid up capital and number of employees. Based on the accessed data, there were 1718 formally registered SMEs in the form of private limited companies and sole proprietor types of legal status in Gulele sub city. Out of this 1718 total populations specifically, 1490 business enterprises were grouped under small businesses based on their paid-up capital of Ethiopian Birr (ETB) 20,000- ETB 500,000 and the remaining 228 business enterprises are medium scale enterprises based on number of employees through accessing their payroll prepared for tax purpose and submitted to Ethiopian revenue and customs authority Gulele sub-city small scale tax payers branch office.

In Ethiopian context there is no clear cut boundary to identify small, medium and large enterprises; as a result the researcher used definitions given by UNIDO for

developing countries i.e. medium enterprises are those firms with 20 – 99 workers (Quartey 2001). Therefore, for the purpose of this study medium enterprises were identified from the population through number of employees.

The other element of sample design is determination of sample size, given the limitation of availability of time and other resources the sample size was determined as follows even if, there is no a single right way for the determination of sample size (Fowler 1984). For quantitative aspect of the study i.e. for self administered questionnaire respondents were selected using through stratification of SMEs based on their activity and proportionally through applying simple random sampling method 150 sample participants were drawn ( 13 from manufacturing, 6 from construction ,67 from trading activity, 44 from hotel and restaurant service ,6 from professional service providing activities and 14 from other activities not specified under this study) from each strata.

In addition to sample frame and sample size, sampling design incorporate sample procedure. As it explained above the purpose of survey method is to generalize about the population from a sample then, the researcher conducted the study using samples drawn from the population. Therefore, to draw the sample the following procedures were applied i.e. firstly the list of SMEs from office of ministry of trade and industry was accessed and then grouped them based on their activity by using stratification-sampling method to incorporate all sector in the target population. Finally, to draw sample respondents for the questionnaire from the given stratum the researcher used simple random sampling particularly, lottery method because this sampling method gives equal chance for all given population(Creswell 2009).

### **Survey instrument**

To address the research problem using a survey method the researcher used self-administered structured questionnaire. With respect to questionnaire design Saunders et al. (2003) cited in Yang (2010) indicated that the validity and the reliability of the data collected depend, to a large extent, on the design and the structure of the questionnaire. In this study, the questionnaire design was developed by the researcher and adapted some ideas that help to develop the questionnaire from Small Business Research Center (SBRC) and Business enterprise and regulatory reform (BERR) survey report. The questionnaire comprised structured questions which made it easy for the respondents to indicate their views. Also used five-point likert scale questions enabled respondents to indicate their opinion on various issues of the regulatory environment that brought burden on performance and growth of SMEs.

The reason to implement self-administered closed ended questionnaire was because of its low cost requirement and not consume much time to be answered by the respondents and quicker to administer by the researcher but, if questions are wording unclear and if respondents are not literacy, its response rate is low.

This Survey instrument was prepared in two languages (English and Amharic) by taking in to account the background of their level of education of the respondents. Self administered questionnaire had two parts , the first part was comprised of profile of respondents and businesses that included sex, position in the business , educational background, year of service of the individual respondent and year of establishment and type of business activity of respondents enterprise and the second part was comprised of questions in relation with the study area which were. problems related

with burden of regulations, areas and aspects of regulations ,level of compliance , contacts of regulators , communication and consultation by regulators , mechanisms used by businesses to comply with regulations , level of change of customer satisfaction and change in number of employees and opportunity of market from contribution of regulations.

The 150 self-administered questionnaires were delivered by hand to each respondent and collected later (delivery and collection questionnaires). Questionnaires were completed by owners, managers or other employees in the SMEs. The questionnaires aimed to inquire into the participants' personal opinion in addition to what practically observed in the business regulatory frame work of Ethiopia and the performance and growth of the proposed sample firms.

### **3.3.2. Qualitative aspect of the research method**

Qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences meanings socially and historically constructed, with an intent of developing a theory or pattern) or advocacy/participatory perspectives (i.e., political, issue-oriented, collaborative, or change oriented) or both. It also includes strategies of inquiry such as narratives, ethnographies, grounded theory studies, or case studies.

The in-depth interview is a qualitative technique designed to elicit a vivid picture of the participant's perspective on the research topic. In depth interview is an effective qualitative method for getting people to talk about their personal feelings, opinions,

and experiences. It is also an opportunity to gain insight into how people interpret and order the world (Milena 2008). In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation (Boyce and Neale 2006)

A qualitative research interview seeks to cover both a factual and a meaning level, though it is usually more difficult to interview on a meaning level. (Kvale 1996). Interviews are particularly useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires for example, to further investigate their responses. (McNamara 1999). Generally, it is better because in-depth interviews are exploratory in nature and offering a more complete picture of what happened in the operation of businesses and why. The purpose of these qualitative interviews was to probe in more depth some of the issues arising from the quantitative Survey and to have an insight on the study issue. As a result of the above reasons the researcher conducted an in-depth interview method with unstructured questionnaire. Moreover, to have insight and triangulate perceptions of SMEs with different business regulations documentary analysis on Ethiopian business regulation was made.

For qualitative aspects of data collection method sample interviewees were determined based on their business activity, and then used purposive sampling method to select from each sector selected for survey questionnaire. The researcher selected

10 samples with a subset of firms who had participated in the quantitative Survey proportionally from each sector.

In relation with instrument, unstructured face to face interview was used because of its flexibility, high response rate and also allowing new questions to be brought up during the interview. Moreover, documentary analysis was made on Ethiopian business proclamations and regulations.

### **3.3.3 Data analysis methods**

Data analysis in different research design relate to the type of research method chosen for the study. The specific methods applied in the study were survey methods and in-depth interview together with documentary analysis. Therefore in this study, Quantitative data from the questionnaires were analysed using descriptive statistics. This enabled the researchers to make comparisons between perception of the business sectors. Moreover, Pearson's correlation was applied based on respondents' idea reflected through the questionnaire and assessed relation between regulations and firms' performance and growth. Because, Pearson's Bivariate correlation can be used to know linear relation (association) of two variables (Zou, Tuncali and Silverman, 2003). The rationale to use this descriptive statistics is to describe the basic features of the data in a study and to provide summaries about the sample and statistical package for social science (SPSS) tool was used.

Further, data collected from in-depth interview were transcribe in to word document and analyzed through triangulating with data collected through questionnaire and make argument i.e. the opinion of majority of interviewees forwarded is used for

argument by supporting the result of the questionnaire. Also, triangulation was made with the documentary analysis resulted from extracting Ethiopian regulations and proclamations document.

### **3.4.Conclusions and the link between research questions and hypotheses and different data sources**

In general, this chapter discussed and provides explanation about the research methodology and signified research approach and specific methods used in the study. The discussion on research methodology was comprised of the three research approaches namely, quantitative, qualitative and mixed approach.. For those specific method used sample design that includes sample frame, sample size, sampling procedure, data collecting instrument and data analysis method also identified.

For this study, the research approach adopted was mixed method approach and the researcher incorporated two specific methods and two sources of data for both methods those were self administered closed ended questionnaire quantitative aspect of the method and in depth interview and documentary analysis for qualitative aspect of the method.

The research sampling frame were 1718 formal registered SMEs engaged in different business activities and out of this sample frame 150 samples were drawn for survey questionnaire and 10 out of 150 were for in-depth interview and respondents for survey questionnaire were selected using simple random sampling from each strata under the population and for interview purposive sampling were used. These interviews were conducted with a subset of firms who had participated in the quantitative Survey. The data collected from questionnaire were analyzed through

descriptive analysis technique and then triangulated and supported by data collected through interview and documentary analysis. To test the hypotheses Pearson correlation is used based on their perception. Further, these in-depth interview and documentary analysis corroborated survey questionnaire results and addressed research questions. Finally, the overall study was evolving through study variables (research questions and hypotheses) to achieve the broad objectives of the study.

**Table3.1. The link between research questions and hypotheses with each closed ended questionnaire and in-depth interview unstructured questionnaire**

<b>Hypothesis and Research Questions</b>	<b>Closed ended questionnaire</b>	<b>Interview questions</b>
<i>H1. There is a relationship between regulation and SMEs performance.</i>	Q no. 12, 14 16, 19,22	6
<i>H2: There is a relationship between regulation and SMEs growth.</i>	Q no. 12, 14, 16, 18, 21	5
RQ1. What are the problems that SMEs faced on their performance and growth?	Q no. 9,11, 12,13,14,	2
RQ2. Which areas of regulation create major impact on SME s performance and growth?	Q no. 9	1
RQ3. Which aspects of regulations have dominant impact on SMEs success?	Q no.9,10	4
RQ4. How do SMEs mitigate problems arising from regulations?	Q no. 15.1, 15.2, 15.3	3
RQ5.Does the government consult with SMEs prior to regulating to lessen problems related with regulations?	Q no. 17	

## **Chapter four**

### **Results and analysis**

This chapter dealt with the results and analysis of the findings obtained from different data sources. Specifically, data obtained through questionnaire that involves profile of respondents and enterprises and issues related with regulation and SMEs. Consequently, results from both survey questionnaire, documentary analysis and information gathered through face-to-face in-depth interview are incorporated under the first section and in the second section results from both sources were analyzed and interpreted and the third section is comprised of conclusions..

#### **4.1 Results**

The purpose of this study is to assess the perceptions of SMEs' managers, owners and employees towards the regulatory burden on performance and growth. The principal data sources to achieve the broad objective are survey self administered questionnaire and in-depth interview together with document analysis. As main source of information, the respondent of this study were SMEs owners, managers, owner managers or employees who involved in various SMEs operation in Gulele sub city, Addis Ababa. The respondents profile, businesses profile and data gathered on main issues on the study area i.e. on enterprises and burden of regulations are presented under the first sub section.

The second subsection presents data obtained through qualitative in-depth interview and the last section presents results from documentary analysis.

#### **4.1.1 Survey results**

To address research questions and hypothesis the study used a self-administered questionnaire. The subsequent discussion presents the results of the self-administered questionnaire.

##### **4.1.1.1. Response rate**

For undertaking the study 150 questionnaires were distributed for sample respondents, of which 141 were completed and returned. That is the response rate was 94%. Therefore, it implied that reliability for the result is increased.

##### **4.1.1.2. Respondents' profile**

As presented in table 4.1, out of 141 respondents' participated in the survey 72.3% was male and female participants cover 27.7%.

**Table 4.1 SMEs survey respondents' gender**

<b>Gender</b>	<b>Count</b>	<b>Percent</b>
Male	127	72.3
Female	39	27.7
Total	141	100

Source: survey results and own computation

In terms of backgrounds of education the survey indicated that about 42.6% of respondents had completed high school or equivalent, where as 27% of them had completed college diploma. Those respondents who are vocational/technical school account the next proportion which is 16.3% and 12% consists those who had bachelor and masters degree and above. The smallest proportion is for respondents who had educational background other than specified (2.1%) that include respondents who completed primary school and other low level educational background.

**Table 4.2 Educational backgrounds of male and female SMEs survey respondents**

<b>Educational level</b>	<b>Count</b>	<b>Percent</b>
High school or equivalent	60	42.6
Vocational/technical school completed	23	16.3
College diploma	38	27
Bachelor's degree	15	10.6
Master's degree and above	2	1.4
Others	3	2.1
Total	141	100

Source: survey results and own computation

Moreover, survey respondents' job title or position in the businesses is presented in table 4.3 and showed that about 41.8 % are owners and at the same time manager of the enterprise and 24.8 % are managers followed by 19.9% of owners. The least proportion (13.5%) is comprised of others those are employees of the enterprises.

**Table 4.3 Survey respondents job title or position**

<b>Job position</b>	<b>Owner</b>	<b>Manager</b>	<b>Owner and manager</b>	<b>Others</b>	<b>Total</b>
Count	28	35	59	19	141
Percent	19.9	24.8	41.8	13.5	100

Source: survey results and own computation

Among those respondents, who have managerial position or others but not owners in the enterprises have different years of services and it is summarized and presented in table 4.4. The data showed that about 43.6 % of the respondents have 2 – 5 years of service and 34.5 % has only one year service. Whereas, the smallest proportion (21.8%) is comprised of managers or others who have more than five year of services.

**Table 4.4 Survey respondents' year of service who has a managerial position or other employees other than owners**

<b>Year of service</b>	<b>For the past one year</b>	<b>Two up to five years</b>	<b>More than five years</b>	<b>Total</b>
Count	19	24	12	55
Percent	34.5	43.6	21.8	100

\* Totals not equal to total sample respondents, it exclude owner and owner - manager

Source: survey results and own computation

#### **4.1.1.3. Respondents' enterprise profile**

Respondents' enterprise has been in operation for different periods of time (age of the enterprise after establishment) and engaged in different business activities. These enterprises profile is shown in table 4.5 and 4.6 respectively.

**Table 4.5 Survey respondents' enterprise year of establishment**

<b>Establishment year</b>	<b>more than 10 years</b>	<b>6 - 10 years ago</b>	<b>1 - 5 years ago</b>	<b>with in the past year</b>	<b>Total</b>
Count	50	46	37	8	141
Percent	35.5	32.6	26.2	5.7	100

Source: survey results and own computation

As presented in the above table 4.5 about 35.5% of the respondents enterprises was established and has age of more than 10 years followed by 32.6% has 6 – 10 years of age where as respondents enterprises with 1 – 5 years of operation were 26.2%. A small portion of the business enterprises were established with in the past year among the sample respondents' enterprise. Further, in terms of business activities which survey participant SMEs engaged in is summarized and presented as follows:

**Table 4.6 Survey respondents grouped with main business activity**

<b>Business activities</b>	<b>Mfg.</b>	<b>Con.</b>	<b>Trd.</b>	<b>Hot.</b>	<b>Prf.</b>	<b>Oth.</b>	<b>Total</b>
Count	12	5	67	44	512	88	141
Percent	8.5	3.5	47.5	31.2	3.5	5.7	100

Source: survey results and own computation

Note: Mfg.=Manufacturing; Cons.=Construction, real-estate, mining and quarrying ; Trd.= Trade(wholesaler and retailer); Hot.=Hotel and restaurant ; Prf.=Professional services ; Oth.= Others

And as indicated in the table 4.6 about 47.5% of the respondents' enterprise were engaged in trade (wholesaler and retailer) followed by 31.2% of enterprises were engaged in hotel and restaurant services. The rest respondents' enterprise engaged under manufacturing (8.5%), construction ,real estate and mining activities (3.5%),

professional service like legal service (3.5 %) and the rest 5.7 % engaged under other sectors like transport service, renting of cars and others.

#### **4.1.1.4. General issues on the study area i.e. on enterprises and regulations**

Under this section, results focused on problems related with burden of regulations, areas of regulations, aspects of regulations, mechanisms of mitigating regulatory problem, and consultation and communication of regulators with SMEs and other related issues incorporated in the data collection instrument is presented to answer the research questions and to test the hypotheses.

#### **Challenges faced SMEs**

SMEs survey respondents asked to rank regulation in the context of other challenges faced by businesses. As presented in table 4.7 out of survey respondents about 51.1% put on the first rank regulations or cited regulations as their biggest problem/challenge followed by access to finance with 34 % as a challenge for their enterprise. Out of 51.1% of respondents those put burden of regulation as a challenge for their businesses in first rank 53.7% are from trade (wholesaler and retailer) activity (see Appendix 5). Whereas, inadequate infrastructure and increased competition together with labor and related costs were less likely felt as a challenge or ranked on 3<sup>rd</sup> and 4<sup>th</sup> position as most challenges (9.2% and 7.1% of respondents respectively).

**Table 4.7 Ranks given by survey respondents for challenges faced their business**

Different sources of challenges	1 <sup>st</sup>		2 <sup>nd</sup>		3 <sup>rd</sup>		4 <sup>th</sup>		Obs.
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Total
Increased competition, labor cost and other related costs	10	7.1	26	18.4	52	36.9	53	37.6	141
Lack of infrastructure	13	9.2	21	14.9	38	27	69	48.9	141
Burden of regulation	72	51.1	43	30.5	24	17	2	1.4	141
Access to finance	48	34	51	36.2	24	17	18	12.8	141

Source: Source: survey results and own computation

1<sup>st</sup>= most challenge; 4<sup>th</sup>= least challenge

## **Regulatory burden on SMEs performance and growth**

The researcher tried to assess the overall burden of regulation on firms' performance and growth as a regulated entity. Following the practices in other survey of business regulations, the researcher asked respondents the extent to which they were affected by regulatory burden in each of areas of regulations.

As depicted in table 4.8, among the given areas of regulations about 61.3% of respondents perceived that tax related areas were seen as having a very significant burden followed by record keeping and reporting (29.1% of respondents) that most likely seen as having a significant burden on businesses performance and growth. Among the given areas of regulation, 64.5% of respondents made specific reference to licensing and permits that have no burden on their performance and growth and at the same manner 53.9% for hiring and firing of employees and 40.4 % of respondents were for process and product quality standards pointed have no burden on their performance and growth around these areas.

**Table 4.8 Level of burden of areas of regulations on SMEs**

	<b>LP (%)</b>	<b>RR (%)</b>	<b>T (%)</b>	<b>HF (%)</b>	<b>PP (%)</b>
Very significant burden	5	19.9	63.1	2.8	8.5
Significant burden	9.2	29.1	20.6	5.7	4.3
Little burden	15.6	31.2	0.7	12.8	17
No burden	64.5	13.5	7.1	53.9	40.4
Neutral	2.8	2.8	2.8	8.5	12.8
Don't know	2.8	3.5	5.7	16.3	17
Total observation	141	141	141	141	141

Source: Source: survey results and own computation

Note: LP= Licensing and permits; RR= Recording keeping and reporting; T= Tax related issue; HF= Hiring and firing of employees; PP= Process and product quality standards

### **Regulatory burden particularly related with aspects of regulations**

Businesses were asked to express their agreement or disagreement with statements concerned about different aspects of regulations. The statements are phrased such that agreement represents a negative view of the aspects of regulations. The overall results are shown in table 4.9.

**Table 4.9 Views of respondents about aspects of regulations as an obstacle for businesses**

		Regulation is obstacle because of complexity	Regulation is obstacle because of inappropriate enforcement	Regulation is obstacle because of rate of change	Regulation is obstacle because of Volume	Regulation is obstacle because of inappropriate inspection
SA	Count	41	14	26	23	15
	Percent	29.1	9.9	18.4	16.3	10.6
A	Count	47	25	67	75	29
	Percent	33.3	17.7	47.5	53.2	20.6
N	Count	7	35	11	14	28
	Percent	5	24.8	7.8	9.9	19.9
DA	Count	31	48	21	20	49
	Percent	22	34	14.9	14.2	34.8
SDA	Count	9	10	10	4	13
	Percent	6.4	7.1	7.1	2.8	9.2
DK	Count	6	9	6	5	7
	Percent	4.3	6.4	4.3	3.5	5
Mean		2.6	3.3	2.6	2.4	3.3
SD.		1.5	1.3	1.4	1.2	1.3
Min.		1.0	1.0	1.0	1.0	1.0
Max.		6.0	6.0	6.0	6.0	6.0
Obs.		141	141	141	141	141

Source: survey results and own computation

Note: SA= Strongly agree(1); A= Agree(2); N=Neutral(3); DA=Disagree(4)

;SDA=Strongly disagree(5); DK= Don't know(6)

Notably, about 69.5 % of respondents agreed with the statement volume of regulations are obstacles for their businesses success and 17% disagreed with the

statement whereas 3.5% and 9.9% of respondents select don't know choice about the statement and neutral respectively ( $\bar{x} = 2.4$ ,  $\sigma = 1.2$ ,  $n = 144$ ) and 65.9% of respondents were agreed with rate of change of regulations are considered as an obstacles for their businesses success and 22 % disagreed with the statement whereas, 4.3% select don't know choice about the statement ( $\bar{x} = 2.6$ ,  $\sigma = 1.4$ ,  $n = 144$ ). Regarding to complexity of regulations respondents (62.4 %) agreed that it is also a source of problem that hinders businesses success and 28.4% disagreed. whereas 4.3% select don't know choice about the statement ( $\bar{x} = 2.6$ ,  $\sigma = 1.5$ ,  $n = 144$  ). On the other side, 44 % followed by 38.3 % of respondents disagreed with the statement that states with inappropriate inspection and enforcement are obstacles for business success respectively.

Further, with regarding to aspects of regulations especially frequency of inspection by regulators was tried to assess by the researcher. Consequently, the result in Table 4.10 above showed that the frequency of inspection made by the regulator within a year in different regulation areas. Just over half of the respondents (54.6%) replied that regarding employment regulations, regulators never inspected SMEs. Moreover, concerning regulators inspection on environmental regulations, respondents (31.2%) identified that there businesses are inspected once a year by regulators. Whereas, 63.8% of respondents agreed that, there firm inspected once a year in line with regulations area related with tax at the same manner of environmental regulations.

**Table 4.10 survey respondents’ enterprise: frequency of inspection by regulators**

Areas of regulations	1		2		3		4		5		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Employment	77	54.6	9	6.4	5	3.5	5	3.5	45	31.9	141	100
Environmental	36	25.5	44	31.2	10	7.1	14	9.9	37	26.2	141	100
Tax regulation	6	4.3	90	63.8	11	7.8	24	17	10	7.1	141	100

Source: survey results and own computation

Note: 1= Never; 2= Once a year; 3= twice a year; 4= More than twice a year; 5=

Don’t know

### **Frequency of reporting to the government and its burden on businesses**

Regarding to this reporting frequency, respondents were asked how frequently they supply information for the government. The study result is sector wise for this question and presented in table 4.11

The result identified that 50.4 % respondents prepared reports annually. Whereas, 44 % of respondents indicated that their firms prepared reports more than 6 times a year. Majority of respondents from manufacturing, construction, real estate, mining and quarrying, trade (wholesaler and retailer), hotel and restaurant are supply information for more than six times a year.

**Table 4.11 Frequency of making information/report to the government by business activity**

			frequency of make information/report to the government				Total	
			annually	2 - 3 times a year	4 - 6 times a year	more than 6 times a year		
Main business activity	Mfg.	Count	4	1	0	7	12	
		Percent	33.3	8.3	0	58.3	100	
	Cons.	Count	2	0	0	3	5	
		Percent	40	0	0	60	100	
	Trd.	Count	35	2	2	28	67	
		Percent	52.2	3	3	41.8	100	
	Hot.	Count	21	1	1	21	44	
		Percent	47.7	2.3	2.3	47.7	100	
	Prf.	Count	3	1	0	1	5	
		Percent	60	20	0	20	100	
	Others	Count	6	0	0	2	8	
		Percent	75	0	0	25	100	
	Total		Count	71	5	3	62	141
			Percent	50.4	3.5	2.1	44	100

Source: Source: survey results and own computation

Note Mfg.=Manufacturing; Cons.= Construction, real-estate, mining and quarrying ; Trd.= Trade(wholesaler and retailer); Hot.=Hotel and restaurant ; Prf.=Professional services ;

Simultaneously, a question related with this reporting frequency was raised i.e. about the costs and time needed to prepare the reports frequently is really a burden or not? The result for this question is presented below.

**Table 4.12 Regulatory burdens in case of reporting requirements**

Is frequency of reporting brought a burden?	Yes	No	Don't know	Total
Count	57	69	15	141
Percent	40.3	48.9	10.6	100

Source: survey results and own computation

As shown in table 4.12 SMEs survey respondents (48.9%) agreed there is no burden in terms of cost and time as a result of reporting requirement. Whereas, 40.4% of respondents believed it causes high burden in terms of cost and time at a similar manner these respondents are from businesses enforced to prepare information more than six times a year it also identified through the interview. The rest 10.6% do not know about the burden of regulation on their business related with reporting frequency.

### **Contacts of SMEs with regulators**

With respect to contacts of businesses with regulators specific survey question was forwarded to respondents and their response is presented in table 4.13

**Table 4.13 Attitudes of survey respondents towards their contact with regulators**

		The response of regulators is definite and clear answer to queries	The response of regulators is given with a reasonable time	The process for appeals and complaints is simple and clear	Regulators are flexible and not bureaucratic
SA	Count	6	14	10	5
	Percent	4.3	9.9	7.1	3.5
A	Count	27	64	17	18
	Percent	19.1	45.5	12.1	12.8
N	Count	13	17	22	15
	Percent	9.2	12.1	15.6	10.6
DA	Count	62	28	71	72
	Percent	44	19.9	50.4	51.1
SDA	Count	23	14	15	25
	Percent	16.3	9.9	10.6	17.7
DK	Count	10	4	6	6
	Percent	7.1	2.8	4.3	4.3
Mean		3.7	2.8	3.6	3.8
SD.		1.3	1.3	1.2	1.1
Min.		1.0	1.0	1.0	1.0
Max.		6.0	6.0	6.0	6.0
Obs.		141	141	141	141

Source: survey results and own computation

Note SA= strongly agree (1); A= agree (2); N= neutral (3); DA= Disagree (4);

SD=strongly disagree (5); DK=don't know (6)

Under this question the first statement stated that, the responses of regulators are definite and clear to businesses queries. Accordingly, respondents (60.3%) disagreed and 23.4 % of respondents agreed with the statement whereas 7.1 % and 9.2% pointed they don't know and neutral for the statement respectively ( $\bar{x} = 3.7, \sigma = 1.3, n = 144$ ). Secondly, with respect to these contacts of regulators and enterprises, respondents expressed their level of agreement (55.3% of respondents agreed) with the statement that stated, the response of the regulators is given within a reasonable time and 29.8% of respondents disagree whereas, 2.8% and 12.1% of respondents were don't know about the issue and have neutral idea respectively on the statement ( $\bar{x} = 2.8, \sigma = 1.3, n = 144$ ).

Thirdly, a statement forwarded for survey respondents expressed the process for appeals and complaints are simple and clear. With this statement majority of the respondents (61%) expressed their disagreement and 19.2% respondents agreed with the statement. Whereas 4.3% and 15.6% of respondents pointed don't know about the statement and have neutral idea respectively ( $\bar{x} = 3.6, \sigma = 1.2, n = 144$ ). The fourth statement related with contacts of enterprises and regulators forwarded for survey respondents were particularly with respect to regulators are flexible and not bureaucratic. With this statement 68.8% of respondents disagreed with the statement and 16.3% agreed whereas, 4.3% and 10.6% of respondents were don't know about the issue and have neutral idea respectively ( $\bar{x} = 3.8, \sigma = 1.1, n = 144$ ).

### Consultation and communication made by the regulators

With respect to the issue of consultation and communication three statements forwarded for survey respondents to express their level of agreement, and the result is presented in table 5.14

**Table 4.14 Survey respondents' attitude towards government consultation and communication**

Statement		The government take in to account the concerns of SMEs during introduction of new regulation	The requirement of new regulations are clearly communicated	Changes in regulations are announced in a timely fashion
SA	Count	25	16	18
	Percent	17.7	11.3	12.8
A	Count	55	52	66
	Percent	39	36.9	46.8
DA	Count	39	40	27
	Percent	27.7	28.4	19.1
SDA	Count	7	15	13
	Percent	5	10.6	9.2
N	Count	10	14	8
	Percent	7.1	9.9	5.7
DK	Count	5	4	9
	Percent	3.5	2.8	6.4
Mean		2.6	2.8	6.4
SD.		1.3	1.2	1.3
Min.		1.0	1.0	1.0
Max.		6.0	6.0	6.0
Obs.		141	141	141

Source: survey results and own computation

Note: SA= strongly agree (1); A= Agree (2); DA=Disagree (3); SDA=strongly disagree (4);  
N=Neutral (5); DK= don't know (6)

As it is summarized in table 5.14 just half of the respondents (56.7%) agreed with the statement that stated government take in to account the concerns of their business and 32.7% disagreed with the statement whereas, the rest proportion of respondents (7.1% and 3.5%) were neutral on the statement and were not know about the issue respectively ( $\bar{x} = 2.6$ ,  $\sigma = 1.3$ ,  $n = 144$ ). The second statement was talk about regulators clearly communicated with businesses on introduction of new regulations with regard to this statement; about 48.2% of respondents agreed with the statement. On the other hand, 39% of respondents were disagreed with the statement whereas, the rest proportion (9.9% and 2.8%) are neutral on the statement and were not know about the issue respectively ( $\bar{x} = 2.8$ ,  $\sigma = 1.2$ ,  $n = 144$ ). Similarly, the respondents' perception with announcement of new regulations in timely fashion by regulators also presented in the table 5.14 and about 59.6% of respondents agreed and 28.3% of respondents disagreed with this early announcement. The rest small proportion of respondents (6.4% and 5.7%) is comprised with respondents who don't know and neutral i.e. not sure to agree or disagree respectively with the statement ( $\bar{x} = 2.7$ ,  $\sigma = 1.3$ ,  $n = 144$ ).

Also, survey respondents were asked whether the existing timing and arrangement scheduled by the respected regulator to pay tax liability disturb their cash flow or not. The result of their view summarized and presented in table 4.15

**Table 4.15 Survey respondents' perception on timing and arrangement of tax payment and cash flow distortions**

Did timing and arrangement of tax payment brought cash flow distortions?	Count	Percent
Yes	36	25.5
No	92	65.2
Don't know	13	9.2
Total	141	100.0

Source: survey results and own computation

As a result, this survey study confirmed that about 65.2% of the respondents did not perceive that the timing and arrangement for payments of tax liability brought cash flow distortions for their business. However, some respondents (25.5%) agreed with the statement followed by 9.2 % of respondents have no idea on the statement.

#### **Level of compliance of businesses with regulatory requirement and its effect**

Businesses through using different mechanisms they try to comply with regulations and minimize regulatory burden. With regard to this, the researcher was asked the respondents about the level of compliance of their enterprises with regulatory requirements. The result is summarized and presented in table 4.16.

**Table 4.16 Survey respondents' attitude related with level of compliance**

<b>Level of compliance</b>	<b>Count</b>	<b>Percent</b>
High	40	28.4
Moderate	80	56.7
Low	8	5.7
don't know	13	9.2
Total	141	100

Source: survey results and own computation

The result in table 4.16 depicted that majority of respondents (56.7%) felt that their business comply moderately with the regulations followed by 28.4 % felt that their compliance is high and 5.7% felt they still less likely to comply with the regulations.

Survey respondents were asked question on non monetary burden of regulations i.e. psychological distress as a result of non compliance with requirements of regulations.

**Table 4.17 Survey respondents' attitude towards psychological burden of regulations**

<b>There is a psychological burden as a result of regulation</b>	<b>Count</b>	<b>Percent</b>
Yes	38	27.0
No	85	60.3
don't know	18	12.8
Total	141	100.0

Source: survey results and own computation

Their responses summarized in table 4.17 and showed that about 60.3% had negative response i.e. they were not faced with challenges of psychological distress in case of burden of regulations whereas, 27% of respondents faced this challenges and the rest respondents do not have any idea about the point raised in the survey.

### **Mechanisms used by businesses to comply with regulations**

In this survey study to assess their way of mitigating problems, respondents were asked what mechanisms applied in their sector.

**Table 4.18 Survey respondents' measures taken by enterprises to mitigate problems with regulation**

<b>Mechanisms used to mitigate regulatory problem</b>	<b>Yes</b>		<b>No</b>		<b>Don't know</b>		<b>Total</b>
	<b>Count</b>	<b>Percent</b>	<b>Count</b>	<b>Percent</b>	<b>Count</b>	<b>Percent</b>	
Seeking external professional assistance to comply with regulation	109	77.3	17	12.1	15	10.6	141
Providing additional training for employees to comply with regulation	50	39	60	42.6	26	18.4	141
Buying new or upgrade equipment to comply with regulation	100	70.9	21	14.6	20	14.2	141

Source: survey results and own computation

The survey result in table 4.18 showed that seeking and using external professional assistance was deeply resented by respondents (77.3%) as a better way. This way of mitigating regulatory problem was followed by respondents (70.9%) used new or upgrading the existing equipments as a way of mitigating regulatory problems or a way to reduce the burden whereas, 39% of respondents were used less likely providing additional training to employees.

### **Regulations and opportunity to new market**

With respect to these marketing activities in relation with regulation respondents were asked about the existing regulation and create opportunity for new markets. Their perception is summarized in sector wise and presented in table 4.19.

**Table 4.19 Survey respondents’ opinion on market and regulations**

Main business activity perception Vs regulation provide new market opportunity			provide new market opportunity			Total	
			Yes	No	don't know		
Main business activity	Manufacturing	Count	8	4	0	12	
		Percent	66.7	33.3	0	100	
	construction, real estate mining and quarrying	Count	4	1	0	5	
		Percent	80	20	0	100	
	trade(wholesalers and retailer)	Count	25	36	6	67	
		Percent	37.3	53.7	9	100	
	hotel and restaurant service	Count	26	14	4	44	
		Percent	59.1	31.8	9.1	100	
	professional service	Count	2	3	0	5	
		Percent	40	60	0	100	
	Others	Count	3	4	1	8	
			Percent	37.5	50	12.5	100
	Total		Count	68	62	11	141
			Percent	48.2	44	7.8	100

Source: survey results and own computation

As presented in table 4.19 the respondents’ perception was different based on the nature their activity. As a result, about 48.2% felt that there is an opportunity to enter in to the new market, whereas, 44 % felt regulations did not provide opportunity to enter in to the market. Around 7.8% of the respondents had no idea whether the government provides opportunity to enter in to new market or not. When their response is in sector wise just 80% of SMEs who engaged in construction, real estate, mining and quarrying activities identified that regulations currently provide opportunity to enter in to the market this is followed by businesses engaged under

hotel and restaurants 55%. Whereas, businesses provide professional services 60 % and wholesalers and retailers 51.9% did not felt good with the statement that states existing regulations provide market opportunity.

Moreover, using Pearson Correlation based on the perception of survey respondents the study tried to see the relation /movement between market opportunity provided by regulations with performance and growth of businesses.

**Table 4.20 Correlation between opportunity to new market and SMEs change in customer satisfactions and change in number of employees**

		Changes in number of employees	Level of change of customer satisfaction
provide new market opportunity	Pearson Correlation	.240**	.236**
	Sig. (2-tailed)	.004	.005
	N	141	141

\*Correlation is significant at the 0.01 level (2-tailed). \*\* Correlation is significant at the 0.05 level (2-tailed).

Source: survey results and own computation

**Regulatory burden and businesses performance and growth (customer satisfactions and number of employees)**

With regard to burden of regulations on the performance and growth of businesses, respondents were asked about change in customers’ level of satisfactions on their businesses and at the same time level of change in number of employees as a result of contribution of regulation. The result of their view is presented in table 4.21 in sector wise.

**Table 4.21 Survey respondents' sector wise opinion on change in the level of customer satisfactions and number of employees**

			changes in number of employees					changes in level of customer satisfactions					
			1	2	3	4	Total	1	2	3	4	Total	
Main business activity	Mfg.	Count	8	1	3	0	12	8	1	3	0	12	
		Percent	66.7	8.3	25	0	100	66.7	8.3	25	0	100	
	Cons.	Count	2	0	1	2	5	4	1	0	0	5	
		Percent	40	0	20	40	100	80	20	0	0	100	
	Trd.	Count	26	10	23	8	67	33	17	11	6	67	
		Percent	38.8	14.9	34.3	11.9	100	49.3	25.4	16.4	9	100	
	Hot.	Count	28	3	10	3	44	23	6	14	1	44	
		Percent	63.6	6.8	22.7	6.8	100	52.3	13.6	31.8	2.3	100	
	Prf.	Count	2	0	3	0	5	3	0	2	0	5	
		Percent	40	0	60	0	100	60	0	40	0	100	
	Oth.	Count	1	1	6	0	8	1	4	2	1	8	
		Percent	12.5	12.5	75	0	100	12.5	50	25	12.5	100	
	Total		Count	67	15	46	13	141	72	29	32	8	141
			Percent	47.5	10.6	32.6	9.2	100	51.1	20.6	22.7	5.7	100

Source: survey results and own computation

Note: Mfg.=Manufacturing; Cons.= Construction, real-estate, mining and quarrying ; Trd.= Trade(wholesaler and retailer); Hot.=Hotel and restaurant ; Prf.=Professional services ; Oth.= Others

1=increased; 2=decreased; 3=remained the same; 4=don't know

Their opinions on the issue presented on table 4.21 above reflected that, out of the total respondents about 51.1 % believed that (80 % is from construction ,real estate

and mining) their customers' level of satisfaction increase and 20.6 % (50 % is from other business activities ) of respondents believed there is a decrease and the rest respondents (22.7 % and 5.7 %) reported there is no change on the level of customer satisfaction and they have no idea whether there is an increase or not respectively.

Besides, their perception were summarized in table 4.21 for change in level of number of employees and identified that 47.5 % of respondents (of which 66.7 % from manufacturing sector) indicated the number of employees is increased and 32.6% of respondents (60 % from professional services) indicated there is no change. Less amounts of respondents (10.6 %) indicated that the number of employees is decreased and the rest 9.2% respondents don't have any opinion on level of change of employees' number.

Moreover, the relation between regulation and SMEs performance and growth based on respondents view towards their level of compliance with regulations and change in customer satisfactions and at the same time change in number of employees are proven using two tailed Pearson correlation. The result is presented in table 4.22.

**Table 4.22 Correlation between level of compliance and SMEs change in customer satisfactions and change in number of employees**

		Level of change of customer satisfaction	Changes in number of employees
level of compliance with regulations	Pearson Correlation	.078	.236**
	Sig. (2-tailed)	.356	.005
	N	141	141

\*Correlation is significant at the 0.01 level (2-tailed). \*\* Correlation is significant at the 0.05 level (2-tailed).

Source: survey results and own computation

Furthermore, Pearson correlation was computed to test the relation between indicators of regulations and performance and growth namely reporting frequency and psychological cost with change in number of employees and level of customer satisfactions by using their response for survey questionnaire. The result is presented in table 4.23

**Table 4.23 Correlation between reporting frequency and psychological cost with change in number of employees and level of customer satisfactions**

		reporting frequency brought high cost and needs much amount of time	facing psychological cost in related with complying with regulations
regarding changes in number of employees	Pearson Correlation	.055	-.024
	Sig. (2-tailed)	.514	.773
	N	141	141
regarding level of change of customer satisfactions	Pearson Correlation	.032	.031
	Sig. (2-tailed)	.705	.715
	N	141	141

\* Correlation is significant at the 0.05 level (2-tailed)

Source: Survey results and own computation

#### 4.1.2. In-depth interview results

In depth interview is an effective qualitative method for getting people to talk about their personal feelings, opinions, and experiences. It is also an opportunity to gain insight into how people interpret and order the world (Milena 2008). Generally, it is better because in-depth interviews are exploratory in nature and offering a more complete picture of what happened and why in the operation of businesses. Having

these theories the researcher deployed this qualitative method and gathered information from SMEs' owners, managers and employees, to support results from quantitative sources. The results pertaining to this qualitative data is presented as follows:

Besides, quantitative questionnaire in the study area, the outcomes of in-depth interview conducted with sample interviewees (one from construction sector, one from trade sector and one from hotel and restaurant sector) concerning challenges faced their businesses. The participant from construction sector noted that "regulations brought challenges, for instance, for imported construction material there is a delay for clearing from revenue and customs authority and collect the material (takes much time)."

Also, a private limited company owner from trade sector shared the idea participants from construction sector. Further, he stated "except the intervention of government through regulations all other challenges are overcome through effort but we cannot reject regulations". Moreover, participant from hotel and restaurant sector said that "a challenge from regulation is high because for not violating it we suffer in many aspects".

To have a better and clear insight with their discussions on challenges of regulations questions were also raised specifically which area and why it become challenge for businesses success? Concerning to this areas of regulations, all participants highlighted similar idea . They said "dealing with taxation issues is of particular concern, with VAT and employee income taxes are considered as the greatest regulatory burdens for our business". Moreover, outcomes from the interview confirmed that, failing of to pay tax liabilities brought penalties and there are a lot of

ups and downs to forward complain and appeal on tax related problems for the respected government body.

Afterward, regarding the aspects of regulations a participant from wholesaler pointed that “currently regulations came from different regulators such as from sub cities, woreda and also from ministry level therefore we are suffering from those all regulation moreover, these regulators change regulations time to time”. In addition, one participant from hotel and restaurant sector forwarded similar ideas that is they are suffering from various regulatory aspects that are large volume and in addition to high rate of change of regulations that creates burden on our business whereas, regarding to inspection and enforcement they are not much worried.

In order to get more insight on frequency of inspection, interview was undertaken with sample interviewees and they were asked about frequency of inspection related with environmental regulations then participant from hotel and restaurant activities replied that “this yearly based inspection was particularly focused on recordkeeping and reporting, licensing and permits and less likely on processes and product quality standards.” Moreover, interviewees from wholesaler business sector (importer) was conducted and he said that “even if, most of the inspections that had been carried out by tax regulators is in a yearly base but, it contribute support for compliance with regulations.”

The other issue raised during discussions with participants was about problems in terms of cost and much time related with frequency of supplying information for regulators. Participants were from construction, manufacturing and wholesaler. The

result of the interview from construction and manufacturers identified that a monthly VAT return fillings and employment income tax return are particularly identified as a burdensome on business operation. The wholesaler said that “ VAT filings because it brings cost for the machine , for the operator and for other supplies for the register are really burden”

Interviews was made with sample interviewee to identify more on the issue in addition to results from the questionnaire, and with regard to level of compliance interviewee from hotel and restaurant business sector said that “there are several factors that causes not to comply with regulations. We have lack of financial and non financial resources, pressure from businesses those operate informally and market situation but, we are trying to comply as much as possible with regulatory requirements because we are always regulated.”

Likewise, qualitative interview was conducted on issues particularly in mechanisms used to cope up with regulatory burden with two wholesalers and one from manufacturing sector. Both of them said that “more recordkeeping and auditing activities are done with the help of external accountant and auditor to comply with tax requirement.” Besides, participants believed that using computers is useful to cope up with regulatory problems.

During qualitative face-to-face interviews the researcher sought to probe in more depth the issue of regulations and creating opportunity for new market. Then one limited private company in the construction sector activity pointed that “currently every business who wants to start a business or to enter to the market have a right to

get license and permit easily at the same manner every legal contractor in the area of construction have a right to enter in to any construction contract.”

Additionally, to strengthen the results from survey questionnaire, interviews were made with respect to the issue of regulations and change in level of customers’ satisfactions and number of employees. Interviews were conducted in two enterprises from the trade activity and small manufacturing activity. Interviewee from small manufacturing noted that “currently no requirement to fill out too much paper work and no need of much amount of capital to start a business as a result through diversifying products to different sites, customer satisfactions can be achieved apart from this customer satisfactions, opportunity to open branches easily can scale up job creation role of SMEs.” Interviewee from trade activity share the idea from small manufacturing but, she complained subsequent issues like tax after starting a business made us less competitive.

#### **4.1.3. Documentary analysis results**

Documentary analysis reveals what people do or did and what they value. This behaviour occurred in a natural setting, so the data has strong validity.

Commercial Registration and Business Licensing Proclamation No. 686/2010 (6:3 and 4) is released through the Fedral Negarit Gazeta and also accessible on website to read and comply with it. It stated that any person shall register in the commercial register only once, even though he carries on different commercial activities in different regions. Moreover, any person who opens branch offices in many places shall inform the registering office where his branch office is situated, the address of

the branch office and his special identification number of registration by completing the appropriate application form and attaching photocopies of his commercial registration certificate and business license before commencing operation.

Business Licensing Regulation No.14/1997 stated that any person engaged in a commercial activity whose capital is more than ETB 5,000 shall obtain a business license by applying through a relevant bureau in his/her region.

With regard to registration and licensing, Business development service (BDS) forum prepared a module for SMEs on business registration and legal issues in Ethiopia based on Regulation No. 14/1997 for Commercial Registration and Business Licensing in two cities - Addis Ababa and Dire Dawa. As the report of this BDS the registration fee needed from small business is low i.e. for principal registration up to ETB 5000 capital the registration fee is ETB 5 and for each additional Birr 1,000 Birr 1.00 provided that, however, that the total fee shall not exceed ETB 100 and summary registration the fee is ETB 10 (Gagel 2008). Further, BDS indicated that total fee and time required for business registration adapted for medium enterprises is a total of ETB 645 within 16 days.

Concerning tax proclamations and regulations, taxable business income shall be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the Generally Accepted Accounting Standards, subject to the provisions of this Proclamation and the directives issued by the Tax Authority. But, if any amount of tax is not paid by the

due date, the taxpayer is obliged to pay interest on such amount for the period from the date the tax is due to the date it is paid (Income Tax Proclamation No. 286/2002 )

Moreover, VAT returns and payment of liabilities amended VAT Proclamation No. 609/2008 (12: 1 and 2) stated, every registered person shall be required to file a VAT return with the Authority by appearing in person, or through electronic filing or through a third party delegated by the Authority for each accounting period, whether or not tax is payable in respect of that period; and simultaneously pay the tax to the Authority or to the person delegated by the Authority by the deadline for filing the VAT return for every accounting period.”

Concerning the conduct of tax authority employees, income tax proclamation No. 286/2002 stated that each employee of the tax authority shall be honest and fair, treating each taxpayer with courtesy and respect; apply the law, regulations and rulings to each case on the basis the objective. Further, the proclamation under article 48:1 states about record keeping i.e. all persons who are engaged in a business or trade or who own buildings held all or in part for rental, except for Category C taxpayers shall keep books and records. That is record of all daily income and expenses related to the business activity and the matter to which they relate; and a record of all purchases and sales of goods and services related to the business activity.

Pertaining to product quality, the enforcement of some Ethiopian Standards is made mandatory by the Government in view of health, safety, fair trade and related considerations: and their enforcement is carried out by Quality Standard Authority of Ethiopia (QSAE). Ethiopian Standards provide industry and users with the

framework for economies of design, greater product and service quality, more interoperability, and better production and delivery efficiency. At the same time, Ethiopian Standards also promote an improved quality of life by contributing to safety, human health and the protection of the environment (EBDSN 2004).

## **4.2. Data analysis**

The purpose of this section is to present the analyses part based on the findings of the previous section. Under this analysis the broad objective of the study is addressed through answering each research questions and testing hypotheses based on the findings. Accordingly, each research questions are addressed and hypotheses are tested based on the results under the subsequent sub section.

### **4.2.1 Research question 1 (What are the problems that SMEs faced on their performance in relation with regulatory burden?)**

As indicated in chapter two (literature review), regulations are necessary to behave business in a well manner to achieve their objective. But, if these regulations were poorly designed, or enforcement and administration is poorly executed, they impose greater administrative burdens and costs than are necessary to achieve their objectives. As a result this regulatory burden can be exacerbated for enterprises doing business across. The main problems emanate from burden of regulation can be reflected in terms of additional administration and operational costs (including paperwork costs), time needed to meet regulatory requirements and psychological distress for not complying with regulations.

Consequently, to address the question data obtained from SMEs survey questionnaire and in-depth interview was employed. The examination of the result showed that initially, among the given challenges to do business regulatory burden was ranked first by 51.1% (see table 4.7). This result also supported by interview data that pointed out challenges of regulations is very important as compared to others. This challenge is expressed in terms of problems related with not comply with regulatory requirements. Therefore, to comply with the regulatory requirements businesses should handle and implement regulations but, on the way of doing that, they are exposed to incur additional cost and waste much time if regulations are not well designed. These burden on their time and finance leads them to expend their resource out of their objective and makes the business unproductive.

Moreover, with regard to this regulatory problem, respondents were asked about reporting frequency to supply information to the concerned regulator. Previous survey studies identified high frequency of reporting requirements by the government were an issue raised because it is burdensome for businesses (Watson and Blackwell, 2007). So, regarding to this reporting frequency, the result shows majority of respondents find that they supply information annually. Almost at the same proportion businesses also prepare more than six times a year. But, out of the same sector respondents have different reporting frequency this is due to different factors mainly register for VAT as data from interview pointed out. Subsequently respondents were asked whether this reporting frequency cause for increasing in cost and paper work or not. As per the result more businesses who prepared more than six times a year perceived it as a significant burdensome on their business performance. In addition, to

have insight interviews were conducted and the result is presented in the previous section, further it also implies related with this frequency of reporting particularly VAT reporting is a major area of requirements that consume more time monthly and pose problem on businesses. Also, document analysis result noted for late payment of tax in addition to penalty, interest also paid.

As a whole the result implies that there is no uniform requirement of reporting and this become a source of problem on businesses who report more than six times a year, as a result VAT registered businesses may less perform compared to that of businesses not registered for VAT.

As explained in the literature psychological cost is another non monetary problem faced by businesses. Businesses fear or being distressed for not complying with regulatory requirement. With regard to psychological problem faced businesses as a result of burden of regulation the findings showed that about 60.3% had negative response i.e. they are not faced with psychological distress in case of burden of regulations it indicates either businesses tries to comply and minimize anxiety or regulators treat businesses not faced with psychological distress. .

Consequently, all the findings signify that problems related with regulatory burden are causes for majority of businesses to divert their resources out of their objective even if they are not affected psychologically.

#### **4.2.2 Research question 2 (which areas of regulation create major burden on SMEs performance?)**

Firms are affected by regulation not just by being themselves regulated, but by virtue of the fact that they operate in a different regulatory environment and this environment contains many areas of regulations which may enable or constrained businesses. As indicated in the literature review chapter, related study in Ethiopia identified problems with tax rates and tax administration as constituting the most serious impediments in all regions of the country to do business (World Bank 2004).

Besides, among various areas of regulation which were a heavy burden, taxation was most frequently mentioned. However, while health and safety regulation ranked second in terms of significance, it fell farther behind taxation in terms of burden (Watson and Blackwell 2007).

Following the practice in other surveys of business regulations, the study presented firms with a series of three broad types of regulation and asked the extent how much different areas of regulations pose burden on their business performance and growth. Therefore, as per results summarized in the data presentation section (see table 4.8), tax related areas of regulations have very significant burden and most problematic as perceived by the majority of the respondents (61.3%). Moreover, document analysis and in-depth interview result indicated that periodical VAT return is a must from businesses, for late payment business income tax and other tax liabilities interest is imposed in addition to penalty. This survey result implies businesses spending more time and additional cost to deal and comply with this particular regulation area and it becomes a barrier for their successes.

### **4.2.3 Research question 3 (Which aspects of regulation have significant burden on SMEs success?)**

Only developing and imposing regulations do not make businesses effective, because those regulations should be clear and understandable, have low rate of change, less in volume/number, enforceable and inspect properly. All these aspects of regulations have contributions for areas of regulation to become an obstacle for business performance and growth. With respect to these aspects of regulations, results (table 4.9) evidenced that volume of regulation identified first as an obstacle for businesses because when there is high volume it is difficult to handle and comply. Besides, at similar proportion rate of change and complexity are perceived by respondents as an obstacle for their businesses. The more the rate of change and complexity of regulations, the more the businesses need professional staff and in addition training program for existing staff to adapt with regulations. Therefore, all this causes to waste time and cost. This analysis is also supported by the in-depth interview that implies they are suffering from various regulatory aspects that are large volume and ambiguous regulations, whereas, the result of their perception on enforcement and inspections implies that they are not as such obstacle for businesses. We can infer that, as a result of these aspects of regulations businesses suffer a lot and become less competitive.

Under question dealt about aspects of regulations inspection was not perceived as a major source of problem currently for businesses, but the researcher drew and assessed separately because it has a key role through provision of support and

corrective actions for businesses to facilitate their compliance with the regulations. Their view was assessed using quantitative survey and qualitative interview document analysis. This result implies that the frequency of inspection by concerned regulator is very less, since businesses are inspected in a yearly base but, it does not give enough support for businesses to comply with regulations. Similarly the QSAE stated standards that have direct influence on health, safety and related considerations, compliance is often made compulsory, but its inspection performance is less.

#### **4.2.4 Research question 4 (How do SMEs mitigate problems arising from burden of regulation?)**

Not comply with regulations have a contributing factor for monetary and non monetary burden on businesses. This burden together with other factors impedes businesses from success and makes them less competitive in the market. So, to overcome these problems businesses used different mechanism to comply with regulations thus, among those proposed mechanisms for assessment the result in table 4.18 investigated seeking external professional assistance is believed to be a way that enable businesses complying with regulations (77.3 %). This result implies that, using external professional assistance enable businesses to have a superior regulatory problem handling capacity and/or a proactive orientation towards managing regulatory burden that could constrained. The interview result also implies using external professional assistance is beneficial than other methods when it compare in terms of cost incurred for buying equipment and providing training for employees.

#### **4.2.5 Research question 5 (Does the government consult with SMEs prior to regulating to lessen problems related with regulation?)**

This consultation and communication made by regulators to/with businesses create awareness how they comply with regulations and minimizing possibility of occurrences of regulatory burden on performance and growth.

A significant contributing factor to the administrative burden of regulations is the time and effort exerted by businesses attempting to keep up to date with new regulations and how changes in their business could create further regulatory issues for them. To alleviate this burden more, better and easily accessible information should be made available to businesses that informing their regulatory requirements as a result of the introduction of a new regulation. The provision of more and better information will not only reduce the time and effort spent by businesses attempting to understand their regulatory requirements but it may also reduce the expenditure by these firms on obtaining this information.

This study involves with consultation and communication particularly consultation in advance by taking businesses in to account with regarding to introducing new regulation, communication with businesses about requirements of new regulations and announcement in timely fashions of new regulations. All the above aspects play key role on complying with regulations for businesses, in contrast lack of this consultation and communication pose regulatory problems for business. Early and wide consultation with SME owners or representatives is essential, so that they can have meaningful input in the policy-making process, and central to the modern SME

policy. Moreover, in designing new or screening existing rules, the viewpoint of small businesses should be systematically considered.

The result concerning this consultation and communication signifies SMEs respondents have a positive view on over all actions under taken by the government in related with consultation and communication to minimize the possible occurrences of regulatory problems (see table 4.14). Therefore, these consultation and communication notions of government encouraged and enable businesses to participate in development or amendment of regulations; as a result the possible burdens of regulations are minimized and comply easily.

Further, in addition to consultation and communication government apply different measures to enable businesses to comply with regulations. Time schedule and payment arrangement of tax liability is one measure, because, notably the timing and any other related procedures to pay their tax liability causes for incurring additional time and cost, and also a cause for distortion of cash flow. The results presented in table 4.15 shows that majority respondents felt that there is no problem in terms of timing and payment arrangement related with tax liability and interview result and result from document analysis also support the view of questionnaire respondents and they stated already the timing to pay tax liability and the place where they pay is already available easily , known and adapted through every enterprise, then this adaptability enables businesses ready to pay with in the schedule for instance, every tax payer have an access to pay third nearby his work place those are parties assigned by the government to collect tax. All these results implies the government effort is encouraged and it minimize the regulatory burden.

Besides consultations and communication, particularly the contacts of regulators and SMEs have effect on the businesses performance and growth. The way regulators operate, provide information, issue licenses or permits, organize reporting, conduct inspections, and cooperate with businesses can have a significant impact on the levels of compliance costs and any associated burdens. As a whole the support of regulators plays a key role with complying of businesses to different areas of regulations. For instance this contact of regulators is supported by the tax proclamation of Ethiopia i.e. income tax proclamation No. 286/2002 stated that each employee of the tax authority shall be honest and fair, treating each taxpayer with courtesy and respect; apply the law, regulations and rulings to each case on the basis of the objective. In contrast, regarding to this contact, results from the view of the survey respondents is presented (table 4.13). This finding implies that regulators did not account for their responsibility and they are not flexible enough to treat SMEs. At the same manner there is no clear procedure to put complain and appeal about regulators inappropriate contact with SMEs. As a whole, the contacts of regulators with SMEs are not smooth enough and as a result it hampered the efficiency of enterprises.

Moreover, to test the hypotheses, business level of compliance, opportunity of new market , performance in terms of customers' satisfaction and growth in terms of number of employees have been assessed. First, their view is summarized statistically and results drawn and analyzed. Moreover, by correlating their perception using Pearson Bivariate correlation the relation (movement) between opportunity to new market as a result of regulations and change in customers satisfaction and number of employees (indicator of performance and growth under this study) at the same manner

level of compliance with regulations and change in customers' satisfaction and number of employees is correlated based on their perception their relations tested. Further to strengthen the test respondents' view of cost of supply information and psychological cost is correlated with performance and growth indicators.

#### **4.2.6 Hypotheses 1 and 2 (relation of regulations and businesses performance and growth in terms of customer satisfactions and number of employees)**

Regard to level of compliance with regulations, if businesses are in a state of low level of compliance they exposed for burden in terms of monetary and non monetary resources. This burden is reflected on their performance and growth i.e. they can't satisfy their customer or have less opportunity for job creation. With regard to this level of compliance the results presented in table 4.16 indicated that majority of the businesses are on a state of moderate level of compliance and some businesses comply highly with regulations. This moderate level of regulations implies that there is an improvement on both the side of the government and businesses as to development and implementing of regulations respectively. The result of the interview also implies that even if there are several regulatory burdens that impede performance and growth but through using different mechanism and exert their effort businesses improve their level of compliance with regulatory requirement and reduce the burden and become beneficiary from it.

Further, the contribution of regulations for providing market opportunity is also assessed in the study and the result is presented in table 4.19. Theories stated that the regulatory framework is a key component of the market mechanism, shaping buyers

and sellers actions and relations. The market is not independent of the regulatory framework. Without regulations, buyers and sellers would have neither the will nor the means to engage in market exchange. Clear and enforceable regulations are indicators of the ease of doing business that facilitate marketing activities .In turn, if the market is efficient enough it satisfies customers and at the same time creates job opportunity. The cumulative effect of burden of regulation down business responsiveness, diverts resources away from productive investment, hampers entry into markets, and reduces innovation.

Consequently, the result implies that businesses are encouraged to enter in to a market particularly in construction activity and hotel and restaurant sectors. Concurrently, this idea is supported by result from document analysis i.e. requirement for registration fee and time encourages entering in to the business. As a whole, results signifies that currently every business who wants to enter in to a market have a right to get licensing and permits within a short period and less cost. As a whole the environment to start a business get improvement on the side of the government..

Regulations have greater contribution for the performance and growth of businesses on the other side regulations are key barrier to business growth and performance as a result it has received considerable attention in recent years. Regarding to performance for the purpose of this study it measured through customer satisfactions i.e. non financial measures of performance and it is reflected through customer referral rate, delivery time, waiting time and employees turn over as it was stated in the literature review. The study by BERR undertaken in 2008 identified that when regulations influences prospective customers not to buy, job-seekers not to look for work or

suppliers not to sell to the business owner then these are resulted from indirect constraining that influences on businesses performance (Anyadike-Danes et al. 2008). The result of their view on change of their level of customer satisfactions showed there is an increase in level of customer satisfactions for over half of the respondents (table 4.21). So, we can conclude, this increase in customer satisfaction is resulted from different factors, among those factors contribution from regulations is the one that enables business performance. So, the opinion of respondents indicated that almost there was a contribution from the existing regulation environment for their customer satisfactions. Therefore, it signifies there is a positive relation with good regulatory environment and their performance i.e. regulation contributes for good performance of businesses.

Regulations also influences or enables growth of businesses .This growth can be measured financially and non-financially, non financial growth of a business can be reflected through employment growth as it is stated in the literature chapter and this non financial growth indicator is used for this study. With respect to this, sample respondents were asked questions to identify perceptions whether the existing regulation had contribution to bring a change on number of employees or not. The result from their view is presented in data presentation section (table 4. 21). A result indicated that majority of the respondents' perceived there is an increase on their number of employees. Therefore, based on this result we can conclude regulations contribute for the growth of the businesses; it also supported by data from interviewees that is the current investment opportunity creates an opportunity for businesses to diversify their business and causes to recruit more employees. All this

signifies that businesses growth and governmental regulations have positive relation i.e. better regulatory environment contribute highly for performance and growth.

Moreover, to support the above analysis Pearsons Bivariate correlation was applied and results are presented in table 4.22. The result implies that there is positive and significant relationship between level of compliance with regulations and change in number of employees (P value. 0.005) at 1 % significance level. The result also indicates that there is a positive relationship between level of compliance and change in customer satisfactions (P= 0.356). All these results signify that level of compliance with regulatory requirement contribute for a better performance and growth.

Business performance and growth and market opportunity have a positive relationship. It also tested by Pearson Correlation (see table 4.20). The result implies that there is positive and statistically significant relationship between opportunity to new market and change in number of employees ( P value. 0.004) at 5 % significance level. The result also indicates that there is a positive and significant relationship between opportunity to new market and change in customer satisfactions (P value. 0.005) at 5% significance level. All these results signify that market opportunity encouraged by the regulations contribute for a better performance and growth.

Furthermore, the result of the Pearson Correlation showed that Psychological cost faced businesses is negatively related with change in number of employees (P value = 0.773). It implies that if regulation causes to faced psychological cost then number of employees is decreased in other way regulation is positively related with increased in number of employees. Also, level of customer satisfactions is statistically

insignificantly positively related (P value= 0.715 at 5% significance level) with psychological cost faced by businesses, it implies that when regulation causes to increase psychological cost there is slight increase in change in level of customer satisfactions.

At the same manner, the result of Pearson Correlation showed the relationship between reporting frequency brought high cost and needs much amount of time with change in number of employees and level of customer satisfactions. Both, change in number of employees and level of customer satisfactions insignificantly positively related (P value =0.514 and 0.705 respectively at 5% significance level), so it implies that when regulation causes to increase reporting cost and time there is slight increase in change in number of employees and level customer satisfactions. In general this slight increase can be interpreted there relation is more inclined to negative relationship that implies relation between regulation and growth and performance of businesses

### **4.3 Conclusions**

In general, the discussions in this chapter tried to integrate the results of the quantitative and qualitative methods so as to address the research objective through answering the specific research questions and hypotheses and achieve the objectives of the study. The subsequent chapter presents the strengths together with recommendations for policy makers and enterprises and gives directions for further study.

## **Chapter five**

### **Conclusions and recommendations**

The purpose of this final chapter is to summarize the whole study and highlight possible suggestions for Ethiopian policy makers. Accordingly, this chapter presents an overview of the whole study and its key findings in the first section followed by recommendations for policy makers and regulators and SMEs.

#### **5.1. Overview of the whole study**

The study began with discussion of contribution of SMEs to the economy of all country and how regulations enable or constrain the operation of SMEs. In respect to this, theoretical review was done on SMEs and regulations and empirical studies particularly survey studies conducted in developed countries on burden of regulation, impact of regulation and setting of better regulation.

The review highlighted several issues, in theoretical aspect such as definition of SMEs that was difficult to put single definition but the review showed different definitions given from different countries and organizations but commonly to define SMEs different countries and business support organizations used number of employees, initial capital as a base and annual turnover.

At the same manner, definitions of regulation also reviewed that was given from different scholars and organizations but, all definitions of regulation have the same idea i.e. actions taken by the government to enable or constrain the behavior of the society or organizations. Regulatory burden also clearly stated in the literature review, i.e. when regulation requirements are a cause to incur more cost and needs much administrative time it becomes burden for businesses.

In respect with, role of SMEs government's and business related organization acknowledged SMEs contribution for the development of economy in terms of Gross Domestic Product (GDP) and creation of job opportunity. Areas and aspects of regulations are also theoretically reviewed that government implement different regulations in different areas of businesses particularly under this study employment regulation, environmental regulation and tax regulations were reviewed and each area of regulations has different aspects like complexity, volume, rate of change, inspection and enforcement those made regulations an obstacle or facilitator for businesses successes.

With regard to empirical aspects, survey studies those indicated perception of SMEs on regulations whether they are obstacle or not, and particularly which areas and aspects of different regulations affect their operation were reviewed. Concerning the areas of regulations most empirical studies identified that tax related regulations followed with employment regulations were brought burden on their operations. Particularly, complexity of regulations causes their businesses to incur additional cost and lost much time to understand and adapt with the requirements of regulations. The

empirical studies assessed the perceptions of regulatory burden towards their business performance and growth. But there had no model constructed and used to show the linkage between regulation and performance and growth.

In general, the literature review of this study finds there is limited study related with the topic especially in developing countries, as the knowledge of the researcher no survey study was conducted in Ethiopia and it causes as a knowledge gap to undertake a study i.e. assessing SMEs perception concerning their business and regulatory burden.

The aim of the study is to assess perception of SMEs towards regulatory burden on their performance and growth in Gulele sub-city, Addis Ababa. The study is a mixed approach one; particularly based on the data needed in the study survey questionnaire (quantitative aspect of the method) and in-depth face to face interviews and document analysis (qualitative aspect of the method) were employed.

To achieve the broad objective of the study research questions and research hypotheses should be answered by analyzing data gathered through closed ended self administered questionnaire and unstructured interview data collection instrument. The study incorporated 150 sample respondents for quantitative questions and 10 for in-depth interview were drawn through using simple random sampling after stratifying the population based on their business activity. Samples for interview were selected from those who participated in the survey questionnaire purposively.

After determining the size of the sample 150 questionnaire were prepared in Amharic version and distributed to sample respondents and the response rate were 141 questionnaires. Data from those 141 returned questionnaires were analyzed through descriptive analysis to answer the research questions and at the same time to know the relation or associations between regulation and SMEs performance and growth Pearson's Bivariate correlation was applied on the base of respondents view on some performance and growth related questions. Further, data gathered from in-depth interview was analyzed after transcribed in to word document not in number to triangulate the results obtained from survey questionnaire together with findings from document analysis.

Finally, the major findings identified under the study were summarized as follows:

Among the given challenge businesses faced burden from regulation was ranked first followed by access to finance it implies that regulatory burden is perceived as an obstacle for their successes compared to the context of other challenges. The next finding was concerning particularly with areas of regulation that pose problems for the operation of SMEs. Therefore, among the given alternatives of areas of regulations included under the three major categories of areas of regulations (employment, environmental and tax regulations) tax related issues of regulations imposed a very significant burden on SMEs. These burdens in turn pose problems like imposing extra cost and consume much time to understand, implement and manage it, even if, majority of the respondents felt that the timing and arrangement of payment of tax liability is fair and did not affect their cash flow.

The reason that makes each areas of regulation burden for businesses is a factor of different aspects of the regulations. With regard to this, the study identified that volume of the regulation forwarded from different regulators together with rate of change of regulations frequently were more important causes of regulatory problems. At the same manner, frequency of reporting is one part of regulatory requirements blamed (considered as a burden) by majority of sectors who registered for VAT.

Level of compliance of SMEs with regulation was one issue raised under the survey to know their opinion and the finding is majority ( more than half ) of the respondents are in a state of medium level of compliance or comply moderately.

Concerning mitigating regulatory problems external professional assistance than other mechanisms is mostly used by businesses to comply with regulations. Further, Consultation and communication made by regulators was found that, it was viewed by SMEs positively and contribute its part for minimizing burden from regulations.

Inspection of businesses by regulators are varied in different areas of regulations, for example, tax related areas of regulation is inspected in a yearly base whereas, related with employment regulation inspection was not undertaken. Contribution of regulations relating with market opportunity is viewed positively by respondents.

Finally, theories stated even if performance and growth of SMEs is not fully depend on regulations but regulations have contribution. Consequently, if regulations have contributions then they have relationship (association); it was the stand point for

formulating the hypotheses. As a result the study pointed out regulations and performance and growth of SMEs are associated positively.

## **5.2. Recommendations for regulators and SMEs**

Based on the key findings of the study the following suggestions are forwarded for both policy makers and SMEs.

- Policy makers and enterprises should give focus for regulations not to become a burdensome for business enterprises success. It means with the side of enterprises there should be ready to adapt with regulations through different mechanisms, also with the side of regulators to reduce regulatory burden they should try to implement, enforce and inspect properly. Moreover, policymakers need to take account of areas where the regulatory burden is significant and gives focus not to add to the regulatory burden, unless the benefits clearly outweigh the costs.
- Both regulators and SMEs should understand how regulations enable and constrain businesses performance. Failure to understand how regulation affects business performance means that policy interventions are likely to produce unwanted consequences.
- Government should undertake an assessment of regulations whether regulations become a burdensome for businesses or enables performance and to reduce the regulatory burden from the existing or newly introduced regulations on SMEs. Particularly, should establish assessment task force and

through undertaking the assessment identifying burdensome areas of regulation is necessary to take corrective action and minimize the burden.

- Policy makers should need to look through on aspects of regulations i.e. try to make regulations simple to understand, less in number to manage and minimize rate of changes of regulations in order to reduce the possible burden in terms time and effort and compliance cost. Besides, policy makers should ensure regulators regulate enterprises when necessary.
- During contact with enterprises, as much as possible regulators should be clear, flexible, reduce unnecessary bureaucracy and give respect for enterprises. These all enables enterprises to understand easily and adapt regulatory requirements. Moreover, there should be responsible body to hear complaint from enterprises for no satisfactions with contact of regulators and regulations. The Government should commit to continuing to listen to businesses to understand what they complain about regulations that they find most irritating.
- The frequency of reporting brought administrative burden and extra cost as identified in the study. Therefore, to reduce the administrative burden and extra compliance cost, policy makers should adopt mechanisms to reduce reporting requirement burden on enterprises like allowing them to fill forms online, or providing readymade forms.

- Inspection is one of the aspects of regulations and it involves government's movement to make regulations safe and well implemented for businesses to achieve their success and to take the advantage of economic development from SMEs . This regulatory inspection also plays a crucial role in shaping business owners' understanding on regulations and their responses to it. Therefore to minimize regulatory burden on SMEs and to give direction how they comply with regulatory requirements and update businesses, government should inspect and make serious follow up on the level of compliance with regulations using through knowledgeable inspectors.
- To avoid regulatory burden enterprises applied different mechanisms in addition to consultation and communication by regulators. The result of the study indicated major enterprises rely on external professional assistance but they should adopt long lasting mechanism to mitigate problems related with level of compliance like training employees rather than only depend on external professional assistance.
- In general, to take the advantage of the role of SMEs for country economic development particularly their job creation opportunity, policy makers and regulators should strive towards regulations not to become obstacle to do business.

## Reference:

- AACA (2000), The second five year of development plan.(2000 – 2004),Addis Ababa:  
Addis Ababa City Administration
- Ahmad, A., Ilyas, M. and Howard, I ,2011, ‘A *Systems Approach for the Effective Adoption of Rapid prototyping for SMEs:*’ Department of mechanical engineering, Curtin University of Technology, WA 6102, Australia, accessed 14 march 2011<  
[www.iiom.org/ieom2011/pdfs/IEOM028.pdf](http://www.iiom.org/ieom2011/pdfs/IEOM028.pdf) >
- Amaratunga ,D., Baldry,D., Sarshar, M., and Newton, R., 2002, Quantitative and qualitative research in the built environment: application of ``mixed" research approach accessed < <http://www.emeraldinsight.com/0043-8022.htm> >
- Anyadike-Danes, M., Athayde, R., Blackburn,R., Hart,M., Kitching,J., Smallbone,D. and Wilson,N., 2008, ‘*The Impact of Regulation on Small Business Performance: Report for the Enterprise Directorate of BERR*’ ,Kingston university ,London
- Aruna S. 2003, *a review of Small and medium enterprise development in sir Lanka:* accessed 11 march 2011,[http://wwwbiz.meijo-u.ac.jp/SEBM/ronso/no3\\_4/aruna.pdf](http://wwwbiz.meijo-u.ac.jp/SEBM/ronso/no3_4/aruna.pdf)
- Aryeetey, E, & Ahene, A, 2002,’ *Changing regulatory environment for small-medium size enterprises and their performance in Ghana*’ Institute of statistical, social and economic research, university of Ghana accessed 10march 2011<  
<http://www.competition-regulation.org.uk/conferences/southafrica04/AryeeteyAhene.pdf>>
- Atkinson,J. and Hurstfield,J.,2003,’ *Small Business Service: Annual Survey of Small Businesses UK,*’accessed 18 March 2011< <http://www.employment-studies.co.uk> >
- Ayyagari,M.,Beck,T.,and Demirguc-kunt,A. (2003), ‘*small and medium enterprise across the glob*’: World bank policy research working paper 3127

- Australian productive commission,2009,'*Performance Benchmarking of Australian Business Regulation: Occupational Health & Safety*' ,May11,2011 accessed<  
<http://pdf.aiigroup.asn.au/ohs/occupational-health-safety-issues.pdf>>
- Baldwin, R n.d., *Better regulation: is it better for business? FSB Press and Parliamentary Office*, London, accessed 10, March 2011< <http://www.fsb.org.uk/policy/better-regulation.Pdf> >
- Banks, G.2001,'*Reducing the Business Costs of Regulation*', *Address to the Small Business Coalition*, Brassey House, Canberra, 20 March, Productivity Commission, accessed 22 march 2011, <[www.pc.gov.au/speeches/cs20030320/cs20030320.rtf](http://www.pc.gov.au/speeches/cs20030320/cs20030320.rtf)>
- Bekele,E. & Muchie,M., 2009,'*Promoting micro, small and medium Enterprises (MSMEs) for sustainable rural Livelihood: Development, Innovation and International Political Economy Research (DIIPER)*', accessed 13 march 2011,<  
[http://vbn.aau.dk/files/17023673/DIIPER\\_wp\\_11.pdf](http://vbn.aau.dk/files/17023673/DIIPER_wp_11.pdf) >
- BERR, 2008, '*the impact of regulation on small business performance: Report for the Enterprise Directorate of BERR*' Small Business Research Centre, Kingston University, accessed 11 march, 2011< [www.bis.gov.uk/files/file46001.doc](http://www.bis.gov.uk/files/file46001.doc)>
- Bickerdyke,I. and Lattimore,R. 1997, *Reducing the regulatory burden : does firm size matter?* accessed 20 May 2011, [http:// www.pc.gov.au/ic/research/information/regburd.pdf](http://www.pc.gov.au/ic/research/information/regburd.pdf)
- Brixiova, Z.and Emerta, A.,2010, '*SME Start Ups in Ethiopia: Which Incentives Matter?*', African Development Bank, Development Research Department and Ethiopian Economic Association, Ethiopian Economic Policy Research Institute, accessed 20,march 2011,< [http://www.iza.org/conference\\_files/worldb2010.pdf](http://www.iza.org/conference_files/worldb2010.pdf)

Blackburn, R., Eadson, W., Lefebvre, R. and Gans, P., 2006, ' *small and medium enterprises, regulation and the role of the accountant* ' Certified Accountants Educational Trust, London accessed < [http://eprints.kingston.ac.uk/2276/1/rr96\\_01.pdf](http://eprints.kingston.ac.uk/2276/1/rr96_01.pdf)>

Boyce, C. and Neale, P., 2006, *Conducting in-depth interview: A guide for designing and conducting in-depth interviews for evaluation input*, Path finder international

Chamberlain, D, & Smith, A, n.d., ' *Recent Findings on Tax-Related Regulatory Burden on SMMEs in South Africa, Literature Review and Policy Options* ' accessed 02 march 2011 < [http://www.commerce.uct.ac.za/research\\_units/dpru/pdf](http://www.commerce.uct.ac.za/research_units/dpru/pdf)>

Chittenden F, Kauser S, Poutziouris P, n.d., *Regulatory Burdens of Small Business: A Literature Review*, A Research Project Funded by the Small Business Service And Supported By The Leverhulme Trust, Manchester Business School, accessed 12, March 2011 < <http://www.berr.gov.uk/files/file38324.pdf>>

Chong, H., 2008, 'Measuring performance of small-and-medium sized enterprises: the grounded theory approach' *journal of business and public affairs*, accessed 26 March, 2011, <http://www.scientificjournals.org/journals2008,1269.pdf>

Creswell, J. W, & Plano Clark, V. L. (2006), ' *Designing and Conducting Mixed Methods Research* ' accessed 27 May, 2011 <http://rsw.sagepub.com/content/early/2008.full.pdf>

Creswell, W 2007, *Research design: qualitative, quantitative, and mixed methods approaches*, 3 ed, thousand Oaks, Calif.: Sage Publications

Creswell, W 2009, *Research design: qualitative, quantitative, and mixed methods approaches*, 3 ed, thousand Oaks, Calif.: Sage Publications

Dobbs, M. and Hamilton, R. 2006, 'Small business growth: recent evidence and new directions' Department of Management, University of Canterbury, Christchurch, New Zealand

Djankov,S., McLiesh,C.,and Ramalho, R. ,2006, Regulation and growth, World Bank,<  
<http://www.doingbusiness.org/about-us/pdf> >

EBDSN 2004, 'standards and quality in Ethiopia', accessed 22 May 2011, <http://www.bds-forum.net/bds-reader/handbooks/standards-quality-27-2-04.pdf>

Ekpenyong, D. and Nyong,M., 1992,'*Small and medium enterprise their characteristics ,problem and finance*', accessed 28 March ,2011, <http://idl-bnc.idrc.ca/dspace/handle/>

Environment and Planning C, 2003,' *Government and Policy*, volume 21, pp 475 -477, Pion publication printed in Great Britain,' accessed 07 March 20011, <http://www.envplan.com/epc/editorials/cpdf>

European commission, 2005,'*the new SME definition: user guide and model declaration* 'accessed 28 march 2011, <http://www.sem.n.org.uk/context/library/documents/>

Federation of Small Business 2002, 'Lifting the Barriers to Growth in UK Small Businesses ', accessed 04 March 2011,<http://www.mln.org.uk/siteFiles/resources/pdf>

Fowler, F J 1984, *Survey research methods*, SAGA publications, Beverly Hills London New Delhi

Giuseppe, N &Stefano, S 2003, *Regulation, Productivity, and Growth OECD Evidence*, the World Bank, Human Development Network, Social Protection Team

- Gagel,D., 2008, 'business registration and legal issues : training module' accessed May 17, 2011 < [www.bds-forum.net/training-modules](http://www.bds-forum.net/training-modules)>
- Gurmeet, S and Rakesh, B, 2008, '*Entrepreneurship and SMEs in Ethiopia Evaluating the role, prospects and problems faced by women in this emergent sector*'vol. 23 No. 2, pp. 120-136, accessed 21 Feb.2011 from emrald full text database
- Hoffmann,A. and Junge,M, 2004,Documenting Data on High-growth Firms and Entrepreneurs across 17 Countries accessed May 24, 2011, [http://ice.foranet.dk/upload/high\\_growth\\_firms\\_pdf](http://ice.foranet.dk/upload/high_growth_firms_pdf).
- Hudson, J. 2003, '*Why regulations matter: A small business perspective*' accessed May 25, 2011, [www.regulation.org.uk/conferences/southafrica04/Hudson.pdf](http://www.regulation.org.uk/conferences/southafrica04/Hudson.pdf)
- Jayawarna, D, Wilson, A, & Homan, G, 2003, '*The Management Development Needs in Manufacturing SMEs: An Empirical Assessment*,' Manchester Metropolitan University Business School Working Paper Series, accessed 05 March 2011< <http://www.ribm.mmu.ac.uk/wps/papers/03-16.pdf> >
- Keter, V., 2004, '*Small firms red tape: Business & Transport Section*, accessed 12, March 2011, [www.parliament.uk/documents/commons/ /research/](http://www.parliament.uk/documents/commons/research/).pdf>
- Kitching, J, (2006). '*A burden on business? Reviewing the evidence base on regulation and small-business performance*,' London: Kingston University Research Repository, accessed 10 March 2011, < <http://eprints.kingston.ac.uk/archive/00001084> >
- Kirkpatrick, C. Parker, D. and Zhang, Y. ,2003, '*regulatory impact assessment in developing and transition economies: a survey of current practice and recommendations for further development*', Centre on Regulation and Competition Institute for Development Policy and Management ,University of Manchester

Kvale, S. ,1996 ,'Interviews An Introduction to Qualitative Research Interviewing, Sage Publications,'

*Leung,P. and Raar,J.,2008, ACCA Accounting Services and SMEs: An Australian Study, accessed 16May, 2011< www.wabusinessnews.com.au/story/1/69049/Red-tape-weighs-on-SMEs-research>*

Matthew Williams. M, and Cowling. M, 2009,'*Annual business survey 2007/08: institute for employment studies*, accessed 15 March 2011< [www.berr.gov.uk/files/ doc](http://www.berr.gov.uk/files/doc)>

Matveev,A.,2002, '*The advantage of employing quantitative and qualitative methods intercultural research*' accessed 13,May 2011, [http://www.russcomm.ru/eng/rca\\_eng.shtml](http://www.russcomm.ru/eng/rca_eng.shtml)

McNamara, C, 1999, General Guidelines for Conducting Interviews, Minnesota

Michaelis C., Smith K. and Richards S, 2001, '*Regular survey of small business' opinions First Survey - Final Report*' accessed 16 march 2011,< [www.databuild.ltd.uk](http://www.databuild.ltd.uk) >

Milena, R.,2008 '*Qualitative Research Methods: A Comparison Between Focus-Group And In-Depth Interview* ', accessed 09 May,2011 <http://steconomice.uoradea.ro/management-marketing/235.pdf>

Lopez,N. 1999,'Barriers to entrepreneurship: how government undermines economic opportunity',accessed 25 March 2011< [www.ipi.org/...nsf/](http://www.ipi.org/...nsf/) >

Nuno ,S,2003, '*Financing small, medium and micro enterprises in post-conflict situations Microfinance opportunities in the Democratic Republic of the Congo*', accessed 07 march 2011,< <http://www.microfinancegateway.org/gm/document-.pdf>>

Olawale,F. and Garwe, D., 2010, '*Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach, Department of Business Management, University of Fort Hare, South Africa*' accessed 11,March 2011< Business <http://www.academicjournals.org/AJBM>>

Onugu N, 2005,'Small and Medium Enterprises (Smes) In Nigeria: Problems and Prospects' PhD Thesis, St. Clements University, Accessed 06 March 2011 from e Thesis Website

OECD, 1994 '*Improving The Quality Of Laws and Regulations: Economic, Legal And Managerial Techniques*'paris, accessed 21 march 2011 <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=OCDE/GD\(94\)59&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=OCDE/GD(94)59&docLanguage=En)>

OECD,2000,'small and medium enterprise outlook',accessed 24 march 2011, <[http://www.insme.org/documenti/oecd\\_outlook\\_2000.pdf](http://www.insme.org/documenti/oecd_outlook_2000.pdf)>

OECD, 2002,'*High-growth SMEs and employment*', accessed 25 march 2011,< <http://www.oecd.org/dataoecd/18/28/2493092.pdf> >

Power, R 2002, '*the application of qualitative research methods to the study of sexually transmitted infections*', accessed May 26 ,2011 <http://www.ncbi.gov/pmc/articles/.pdf>

Poutziouris,P. and Chittenden,F.(2003),'*Impact of regulation on SMEs: Environment and Planning: Government and Policy*' Pion Ltd accessed 16 March 2011< <http://www.envplan.com/abstract.cgi?id=c2104ed> >

Promoting SME for sustainable development: World Business Council for Sustainable Development: A business guide for development actor 2004, accessed 11 march 2011<[http://www.wbcsd.org/DocRoot/pZgjPEvxdGu6hk9noQUM/PromotingSMEs\\_lat est.pdf](http://www.wbcsd.org/DocRoot/pZgjPEvxdGu6hk9noQUM/PromotingSMEs_lat est.pdf)>

Quarthey p, 2001, *regulation, competition and small and medium enterprises in developing countries*, University of Manchester, accessed 09 March 2011,<<http://ageconsearch.umn.edu/bitstream/30625/1/cr010010.pdf> >

Regulatory Burden in Thailand, 2004, Findings from the Thailand Investment Climate Assessment (ICA), accessed 10 may 2011, <http://www.bnm.gov.my/pdf>

Ruffing,L.,2006, *deepening development through business linkages: united nations conference on trade and development*, accessed 28 March 2011,<[http://www.unctad.org/en/docs/iteteb20067\\_en.pdf](http://www.unctad.org/en/docs/iteteb20067_en.pdf) >

Syed M, Quader and Abdullah M, 2008, *Constraints to SMEs: A Rotated Factor Analysis Approach*, accessed 02March 2011< <http://mpira.ub.uni-muenchen.de/26135/>>

Small Business Research Centre Regulation and Small Firm Performance and rowth:,2005, A Review of the Literature, Kingston university

Small business survey, 2006 ‘*Annual Report and Resource Accounts 2005-06*’, accessed 22 March 2011, < <http://www.officialdocuments.gov.uk/document/.pdf>>

Spratt, C., Walker, R. and Robinson, B., 2004, *Mixed research methods: Practitioner Research and Evaluation Skills Training in Open and Distance learning*, accessed 10May 2011< <http://www.col.org/SiteCollectionDocuments/A5.pdf> >

Tambunan, n.d., Development of Small and Medium Enterprises in a Developing Country: The Indonesian Case, centre for Industry and SME Studies, accessed 05 march 2011<  
[http://www.growinginclusivemarkets.org/media/publications/development\\_of\\_small\\_and\\_medium\\_enterprises\\_in\\_a\\_developing\\_country\\_indonesian\\_case.pdf](http://www.growinginclusivemarkets.org/media/publications/development_of_small_and_medium_enterprises_in_a_developing_country_indonesian_case.pdf)>

Tegegne, G, & Mulata, D, 2004, Small business in small towns of eastern Amhara region, nature and economic performance, IDR Addis Ababa university,  
<http://www.basis.wisc.edu/live/assets/microenterprise.pdf>

The Federal Democratic Republic of Ethiopia (FDRE) 2010, Proclamation No. 686/2010 (6:3 and 4), ‘Commercial Registration and Business Licensing’ Federal Negarit Gazet, Addis Ababa Ethiopia

The Federal Democratic Republic of Ethiopia (FDRE) 2002, Proclamation No. 286/2002, Income tax proclamation, Federal Negarit Gazet, Addis Ababa Ethiopia -

The Federal Democratic Republic of Ethiopia (FDRE) 2008 , Proclamation No. 609/2008 (12: 1 and 2), VAT proclamation, Federal Negarit Gazet, Addis Ababa Ethiopia

The Impact of Regulation on Small Business Performance Report for the Enterprise Directorate of BERR 2008, accessed 07 March 2011,  
<http://eprints.kingston.ac.uk/11954/>

United Nations 2001, *Growing Micro and Small Enterprises in LDCs: The “missing middle” in LDCs: Why micro and small enterprises are not growing*, New York, accessed 08 March 2011, <<http://www.unctad.org/en/docs/poitetebd5.en.pdf>>

USAID 2007, *Approaches to regulatory reform, “Past. Present and Future; SME policy in Egypt”* accessed 18 March 2011, <<http://www.sme.gov.eg/EndConference/Regulatory.PDF>>

World Bank, 2004, '*The investment climate assessment report: Determinants of Private Sector Growth in Ethiopia's Urban Industry*' accessed 20 May, 2011, [http://www.ethiopia.gov.et/Resources/Documents/Investment Ethiopia. PDF](http://www.ethiopia.gov.et/Resources/Documents/Investment%20Ethiopia.PDF)

Yesegat, W. 2009, 'Value added tax in Ethiopia': A study of operating costs and compliance, PhD thesis, University of New South Wales, accessed 22 March 2011 from <[www.atax.unsw.edu.au/news/taxmatters/](http://www.atax.unsw.edu.au/news/taxmatters/)>

Zou, K., Tuncali, K. And Silverman, S., 2003, Correlation and Simple Linear Regression < <http://radiology.rsna.org/content/227/3/617.full.pdf>>

## **Appendix- 1**

**ADDIS ABABA UNIVERSITY**

**SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

### **SMALL AND MEDIUM ENTERPRISES QUESTIONNAIRE**

This project is entitled “Assessment of perceptions of SMEs towards regulatory burden on performance and growth”. The investigator is Derbew Kenubeh who is currently an MSc (in accounting and finance) student at the Addis Ababa University.

The aim of this project is to assess the SMEs perception towards regulatory burden on performance and growth. Furthermore, the study aims to test the relations between regulations and performance and growth. To supplement the data obtained from in-depth interviews with 10 small and medium enterprises’ owners or managers using unstructured questionnaire, the investigator seeks to gather relevant information through survey of a randomly selected small and medium enterprises’ owners or managers using a structured questionnaire.

Participation in this project is completely voluntary. Results of the survey will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator’s MSc thesis.

For further information, please contact Derebew Kenubeh by the following address:

Tel.: 0912428483

E-mail: k.derbew@yahoo.com

**PART ONE- BACKGROUND INFORMATION**

1. Gender Male----- 1 Female----- 2

2. Educational background

High school or equivalent completed ----- 1

Vocational/technical school completed----- 2

College diploma holder----- 3

Bachelor's degree holder----- 4

Master's degree and above----- 5

Others----- 6, please  
specify.....

3. What is your position or job title?

Owner----- 1

Manager----- 2

Owner and manager----- 3

Others ----- 4 please

Specify-----

4. If your answer to question no 3 is manager or others, how long have you been in that position?

For the past one year ----- 1

2 – 5 years ----- 2

More than 5 years----- 3

5. When was your business established?

More than 10 years ----- 1

6 – 10 years ago----- 2

1 - 5 years ago----- 3

Within the past year----- 4

6. What is your main business activity?

Manufacturing ----- 1

Construction, real estate and mining and quarrying ----- 2

Agriculture, hunting and forestry ----- 3

Trade (whole seller and retailer) ----- 4

Hotel and restaurant services ----- 5

Professional services (like legal service) ----- 6

Other (please describe) ----- 7

**PART TWO – General issues on enterprises and regulations**

7. Rank from 1 to 4 among the given challenges facing your business (start to rank from 1 if the challenge is the highest for your business and rank others accordingly i.e. based on their weight of challenges for your business)

	1	2	3	4
Increased competition, labor cost and other related costs				
Lack of infrastructure (for example road, power supply, telecommunication services like telephone, internet etc.)				
Regulatory burden				
Access to finance				

8. How much burden does each of the following areas of regulation have on your business?

	Major burden 1	Moderate burden 2	Little burden 3	No burden 4	Neutral 5	Don't know 6
. Licensing and permits						
. Record keeping and reporting						
. Tax related issues						
. Hiring and firing of employees						
Process and product quality standards						

9. Please indicate your level of agreement or disagreement to the following statements

Statements	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly disagree 5	Don't know 6
9.1.Regulations are obstacles because of their complexity to understand						
9.2. Regulations are obstacles because of inappropriate enforcement						
9.3.Regulations are obstacles because rate of change of regulations is high						
9.4. Regulations are obstacles because of volume of regulation is high						
9.5. Regulations are obstacles because there is inappropriate inspection.						

10. What is the level of frequency of inspection on your business regarding with different regulation areas by respected regulators?

Statements	Never 1	Once a year 2	Twice a year 3	More than twice a year 4
10.1. Frequency of inspection by regulators regarding employment regulations like firing and hiring of employees				
10.2. Frequency of inspection by regulators regarding environmental regulations like licensing and permit, record keeping and reporting, product quality standards				
10.3. Frequency of inspection by regulators regarding tax related regulations like VAT, employments income tax				

11. How often does your business make information /reports like VAT reporting and employment income tax reporting?

- Annually -----  1  
 2-3 times a year-----  2  
 4-6 times a year-----  3  
 More than 6 times a year-----  4

12. Do you believe that this reporting frequency has brought high cost and needs much amount of time to comply with regulations?

- Yes-----  1  
 No-----  2  
 Don't know-----  3

13. To what extent you agree or disagree with the following statement about your contact with the regulators

statements	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly disagree 5	Don't know 6
13.1. Regulators give definite and clear answer to queries						
13.2. The response of the regulator is given with a reasonable time						
13.3. The process for appeals and complaints is simple and clear						
13.4. Regulators are flexible and not bureaucratic						

14. In your opinion, what is your level of compliance with regulation?

- High----- 1
- Moderate----- 2
- Low ----- 3
- Don't know----- 4

15. To comply with regulations, measures taken by your business are

	Yes 1	No 2	Don't know 3
15.1 Seeking external professional assistance to comply with regulations			
15.2 Providing additional training for employees to comply with regulations			
15.3 buying new or upgrading equipments to comply with regulation requirements?			

16. Have you got any psychological distress/ anxiety relating with complying your business with regulations?

Yes -----  1

No-----  2

Don't know -----  3

17 . To what extent you agree or disagree with consultation and communication made by the regulator

Statements	Strongly Agree 1	Agree 2	Neutral 3	Disagree 4	Strongly disagree 5	Don't know 6
18.1. The government take into account the concerns of small and medium enterprises during introduction of new regulations						
18.2 The requirements of new regulations are clearly communicated						
18.3. Changes in regulations are announced in a timely fashion so that plans for compliance can be made						

18. What is your opinion regarding to changes in number of employees as a result of existing regulations?

- Increased -----  1
- Stayed the same-----  2
- Decreased-----  3
- Don't know-----  4

19. What is your opinion regarding with level of customer satisfactions in your product /services in case of favor of regulation?

- Increased-----  1
- Stayed the same-----  2
- Decreased -----  3
- Don't know-----  4

20. Timing and arrangement of payments (under tax regulation) are challenges for businesses cash flow

- Yes-----  1
- No-----  2
- Don't know-----  3

21. Regulations in Ethiopia provide new market opportunities for your business?

- Yes-----  1
- No-----  2
- Don't know-----  3

-

**Thank you**

**Appendix- 2 Quantitative survey instrument (Amharic version)**

አዲስ በባ ዩኒቨርሲቲ  
ድህረ ምረቃ ትምህርት ቤት  
የድህረ ምረቃ ፕሮግራም በአካውንቲንግና ፋይናንስ

**በአነስተኛና መካከለኛ የንግድ ድርጅቶች ላይ የህግና ደንብ ተፅዕኖ ጥናት መጠይቅ**

የዚህ ጥናት ርዕስ የመንግስት ህግና ደንብ በንግድ ድርጅቶች አፈፃፀምና እድገት ላይ ያለው ተፅዕኖ የሚል ነው። አጥኝው ደርበው ቀንብህ ዳኘው ሲባል በአሁኑ ስዓት በአዲስ አበባ ዩኒቨርሲቲ በአካውንቲንግና ፋይናንስ የሁለተኛ ድግሪ ተማሪ ነው።

የጥናቱ ዓላማ የመንግስት ህግና ደንቦች በንግድ ድርጅቶች አፈፃፀምና እድገት ላይ ያለውን ተፅዕኖ መመርመርና ግንኙነታቸውን ማጥናት ነው። ይህንን ለማድረግ በአጣ ከተመረጡ ድርጅቶች መጠይቆችን በማስሞላትና፣ በአጣ ከተመረጡ ድርጅቶች የተወሰኑትን ለተከታታይ የአምስት ዓመት የሽያጭ ድምሬቸውን መውሰድ፣ በተጨማሪም ፊት ለፊት ጥያቄዎችን መሰበሰብ ያስፈልጋል። ሥለዚህ እርስዎ ወይም የእርስዎ ድርጅት በዚህ መጠይቅ ውስጥ ለመሳተፍ በአጣ ተመርጠዋል/ጧል። በዚህ ጥያቄና መልስ መሳተፍ ሙሉ በሙሉ በፈቃደኝነት ላይ የተመሰረተ ነው። የጥያቄና መልስ ሂደት ላይ ተሳታፊው የሰጣቸው ማንኛውም ሀሳቦች በሚስጥር የሚያዙ ይሆናሉ። በአጥኝው ማንነት እንደተጠቀሰው ሁሉ ጥናቱ የሚካሄደው ለትምህርት ማሟያ ጽሁፍ ብቻ ነው። ስለሆነም መጠይቁን ሲሞሉ ሌላ ምንም የተለየ ዓላማ የሌለው መሆኑን በመገንዘብ በመጠይቁ ውስጥ ያሉትን ጥያቄዎች በአዎንታ በመመልከት ትክክለኛውን መልስ እንዲያስቀምጡልኝ ከአክብሮት ጋር የጠየኩ ለሚያደርጉልኝ ትብብር ምስጋናዎ እጅግ በጣም ላቅ ያለ ነው።

ለተጨማሪ መረጃ ደርበው ቀንብህ በሚከተለው አድራሻ ማግኘት ይችላሉ

ስልክ: 0912428483  
ኢ-ሜል: k.derbew@yahoo.com

**ክፍል አንድ- ከየድርጅቱን /የርስዎን ጠቅላላ ሁኔታ በተመለከተ**

1. የታ ወንድ-----  1 ሴት-----  2

**2.የትምህርት ደረጃ**

ከፍተኛ ሁለተኛ ደረጃ ያጠናቀቀ-----  1

ቴክኒክና ሙያ ያጠናቀቀ-----  2

ዲፕሎማ-----  3

ዲግሪ-----  4

ሁለተኛ ድግሪ እና ከዚያ በላይ-----  5

ሌላ ከሰ ይጥቀሱ -----  6

**3. በድርጅቱ ውስጥ ያለዎት ድርሻ**

ባለቤት-----  1

ስራ አስኪያጅ-----  2

ባለቤትና ስራአስኪያጅ-----  3

ሌላ ከሆነ ይጥቀሱ -----  4

**4. ለጥያቄ ተራ ቁጥር 3 መልስዎ ስራ አስኪያጅ እና ለሎች ከሆነ ለስንት ዓመት በቦታው ላይ ሰርተዋል?**

ባለፈው አንድ አመት-----  1

2 - 5 ዓመት -----  2

ከ 5 ዓመት በላይ-----  3

**5. ድርጅትዎ መቸ ነው ስራ የጀመረው?**

ከ 10 ዓመት በላይ ሁኖል-----  1

ከ 6 - 10 ዓመት ሁኖል-----  2

ከ 1- 5 ዓመት ሁኖል-----  3

ባለፈው 1 ዓመት ውስጥ-----  4

**6. የርስዎ ድርጅት በየትኛው የስራ ዘርፍ ላይ የተሰማራ ነው?**

አምራች-----  1

በግንባታና ማዕድን ቁፈራ-----  2

በጅምላ አከፋፋይና ችርቻሮ -----  3

በሆቴልና ምግብ አግልግሎት-----  4

በግል የአዕምሮ ሙያ ለምሳሌ የጥበቅና ሙያ-----  5

ከተጠቀሱት ውጭ ከሆነ ይጥቀሱ-----  6

**ክፍል ሁለት ድርጅቱንና ህጉን በተመለከተ**

7. ከሚከተሉት ውስጥ በድርጅትዎ ሥራ ላይ ከፍተኛ ተፅዕኖ አለው የሚሉትን በደረጃ ከ1ኛ- 4ኛ ድረስ ያስቀምጡ( ለምሳሌ ከፍተኛ ችግር ያስከትላል የሚሉትን 1 ቁጥር ፣ መለስተኛ ችግር 2 ቁጥር፣ አነስተኛ ችግር የሚያስከትለውን 3 እና ምንም ችግር የማያስከትለውን 4 ቁጥር በመስጠት ደረጃቸውን ያስቀምጡ)

	1	2	3	4
የገብያ ውድድሩ መጠንክርና እንዲሁም የጉልበትና ሌሎች ተመሳሳይ ወጭዎች መብዛት				
የመሰረተ ልማት አለመሞላት ለምሳሌ የመንገድ፣ መብራተ፣ የውሀ፣ የስልክና ኢንተርኔት አገልግሎት				
የመንግስት ህግና ደንቦች ማለትም የግልፅነት አለመኖር፣ መብዛታቸው፣ ወጥ አለመሆናቸው፣ እንዲሁም የቁጥጥር ማነስ				
የፋይናንስ እጥረት				

8. የሚከተሉት ህግና ደንቦች በድርጅትዎ ላይ ያላቸው ተፅዕኖ ምን ያህል ነው ብለው ያስባሉ?

	ከፍተኛ 1	መለስተኛ 2	አነስተኛ 3	የለም 4	እርግጠኛ አይደለም 5	አላውቅም 6
9.1. የንግድ ምዝገባና ፈቃድ የማግኘት ሂደት						
9.2. መዝገብ መያዝና ሪፖርት ማድረግ ሂደት						
9.3. ከታክስ ጋር የተያያዙ ሁኔታዎች						
9.4. የሰራተኞች ቅጥርና ስንብትን በተመለከተ						
9.5. የምርት ሂደትና የምርት ጥራት ምደባ በተመለከተ						

9. የሚከተሉት የህግና ደንብ ገፅታዎች ለድርጅትዎ እንቅፋት ሊሆኑ ይችላሉ ወይ? የስምምነት ደረጃዎትን ያስቀምጡ

	በጣም እስማማለሁ 1	እስማማለሁ 2	እርግጠኛ አይደለሁም 3	አልስማማም 4	በጣም አልስማማም 5	አላውቅም 6
9.1. የህግና ደንብ ግልፅ አለመሆንና በቀላሉ መረዳት አለመቻሉ ለድርጅቱ ሥራ እንቅፋት ሁኖል።						
9.2. የህግና ደንብ ተገቢ ያልሆነ የአተገባበር ስርዓት ለድርጅቱ ሥራ እንቅፋት ሁኖል።						
9.3. የህግና ደንብ በየጊዜው የመቀያየር ሁኔታ ለድርጅቱ ሥራ እንቅፋት ሁኖል።						
9.4. የህግና ደንብ መብዛት ለድርጅቱ ሥራ እንቅፋት ሁኖል።						
9.5. ተገቢ ያልሆነ የቁጥጥር ሥራ መደረግ ለድርጅቱ ሥራ እንቅፋት ሁኖል።						

10. ህግና ደንብን በተመለከተ የሚመለከታቸው የመንግስት ክፍሎች በድርጅትዎ ላይ ምን ያህል የቁጥጥር ስራ በዓመት ውስጥ ያካሂዳሉ?

	ተደርጎ አይታወቅም 1	አንድ ጊዜ 2	ሁለት ጊዜ 3	ከሁለት ጊዜ በላይ 4	አላውቅም 5
10.1. የሰራተኞችን ቅጥርና ማስወገድን በተመለከተ					
10.2. የአካባቢ ህግን በተመለከተ ለምሳሌ ፈቃድ ማግኘትን፣ የምርት ጥራት ማረጋገጫ ማግኘትን እንዲሁም መዝገብ አያያዝና ሪፖርት ማድረግን በተመለከተ					
10.3. የታክስ ህግን በተመለከተ ለምሳሌ ተጨማሪ እሴት እና የስራ ግብርን					

11. ድርጅትዎን በሚመለከት የተለያዩ ሪፖርቶች ለምሳሌ የተጨማሪ እሴት ታክስ እና የሰራተኞች የስራ ግብር ለሚመለከተው አከል ምን ያህል ጊዜ እንዲያዘጋጁ ይጠበቅበዎታል?

- በየዓመቱ-----  1
- በዓመት ከሁለት እስከ ሦስት ጊዜ-----  2
- በዓመት ከአራት እስከ ስድስት ጊዜ -----  3
- በዓመት ከስድስት ጊዜ በላይ-----  4

12.ይህ የሪፖርት ድግግሞሽ በድርጅትዎ ላይ የወጭ መጨመርና እና የጊዜ ጫና ይፈጥራል ብለው ያምናሉ;

- አወ-----  1
- አላምንም-----  2
- አላውቅም-----  3

13. የመንግስት አከላት በህግና ደንብ ዙሪያ ከእርስዎ ጋር ሲገናኙ ያላቸው ሁኔታ ምን እንደሚመስል የስምምነት ደረጃዎትን ያስቀምጡ

	በጣም እስማማለሁ 1	እስማማለሁ 2	እርግጠኛ አይደለሁም 3	አልስማማም 4	በጣም አልስማማም 5	አላውቅም 6
13.1. ህግና ደንብን በተመለከተ ለሚያነሱዎቸው ጥያቄዎች የሚያገኙት ምላሽ ግልፅና ቀጥተኛ ነው።						
13.2. ህግና ደንብን በተመለከተ ለሚያነሱዎቸው ጥያቄዎች በተገቢው ጊዜ ምላሽ ያገኛሉ።						
13.3. በህግና ደንብ ዙሪያ ያለዎትን ቅሬታ የማቅረቢያ ዘዴው አጭርና ግልፅ ነው።						
13.4. ህግና ደንብን ለመፈፀም የቢሮክራሲ ማንቆ የለም።						

14. ድርጅትዎ ምን ያህል ከህጉና ደንቡ ጋር ተጣጥሞ እየሰራ ነው ብለው ያምናሉ?

- በከፍተኛ ሁኔታ-----  1  
 በመካከለኛ ሁኔታ-----  2  
 በዝቅተኛ ሁኔታ-----  3  
 አላውቅም-----  4

15. የድርጅትዎን ሥራ ከህግና ደንቡ ጋር ለመጣጣም ከሚወስዷቸው እርምጃዎች ውስጥ

	አዎ 1	አይደለም 2	አላውቅም 3
15.1 ከህግና ደንቡ ጋር ለመጣጣም ከድርጅቱ ውጭ ያለ ባለሙያ ምክርና ድጋፍ መፈለግ			
15.2 ከህግና ደንቡ ጋር ለመጣጣም ለሰራተኞች ተጨማሪ ሥልጠና መስጠት			
15.3 ከህግና ደንቡ ጋር ለመጣጣም አዳዲስ ዕቃዎችን መግዛት ወይም ያሉትን ደረጃቸውን ማሻሻል ለምሳሌ የተጨማሪ እሴት ታክስ መመዘገቢያ ማሻሻን			

16. ድርጅትዎን ከህግና ደንቡ ጋር ከማጣጣም ሥራ ጋር በተያያዘ የህሊና ጭንቀት ወይም ፍራቻ አጋጥሞት ያውቃል

- አዎ-----  1  
 የለም-----  2  
 አላውቅም-----  3

17. በሚከተሉት የመንግስት የምክርአገልግሎትና ግኑኝነት ላይ ያለዎትን የስምምነት ደረጃ ያስቀምጡ

	በጣም እስማማለሁ 1	እስማማሁ 2	አልስማማም 3	በጣም አልስማማም 4	እርግጠኛ አይደለሁም 5	አላውቅም 6
17.1 መንግስት አዳዲስ ህግና ደንቦችን ተግባራዊ ሲደርግ አነስተኛና መካከለኛ የንግድ ድርጅቶችን ታሳቢ ያደረገ ነው						
17.2 አዳዲስ ህግና ደንቦች ሲወጡ ስለአስፈላጊነታቸው ገለጻና ማብራሪያ ይሰጣል						
17.3 የህግና ደንቦች ለውጥ በወቅቱ ተነግሮ ድርጅትዎ ከለውጡ ጋር ራሱን እንዲያጣጥም በጊዜው እንዲያውቁት ይደረጋል						

18. ህግና ደንቡን ከድርጅትዎ ጋር አጣጥመው በመስራተዎት የድርጅቱ የሰራተኛ ቁጥር ያለበት ደረጃ ምን ያህል ነው ብለው ያስባሉ?

- ጨምሯል -----  1
- ቀንሶል -----  2
- ለውጥ የለውም -----  3
- አላውቅም -----  4

19. ህግና ደንብ ተመርኩዘው በመስራተዎት የድርጅትዎት ደንበኞች እርከታ ምን ያህል ደረጃ ደርሷል ብለው ያስባሉ?

- ጨምሯል-----  1
- ቀንሶል-----  2
- ለውጥ የለውም-----  3
- አላውቅም-----  4

20. መክፈያ ጊዜውና አጠቃላይ ሁኔታው በአብዛኛው ታክስን በተመለከተ በገንዘብ አንቅስቃሴዎት ላይ ችግር ፍጥሯል ብለው ያስባሉ?

- አዎ-----  1
- አላስብም-----  2
- አላውቅም-----  3

21. ሕገና ደንብ ጥሩ የገብያ እድሎችን ከፍቶልኛል ብለው ያስባሉ?

- አዎ-----  1
- አላስብም-----  2
- አላውቅም-----  3

**ስለ መልካም ትብብርዎ አመሰግናለሁ !!**

## **Appendix- 3 Qualitative survey instrument (English version)**

### **Unstructured Interview Questions**

**The main topics covered in the qualitative semi-structured interviews are:**

- 1) What regulation(s) affected your business performance?
- 2) How did that/those regulations affect your business performance?
- 3) How have you tried to cope with, or adapt to, these problems of regulation?
- 4) What your businesses understand by the flexibility, volume, consistency, enforcement, inspection across regulation?
- 5) How well your businesses create job opportunity?
- 6) How your customer satisfied with product and services?

**Appendix -4 Main business activity Vs ranking challenges faced businesses:  
Burden of regulations**

			ranking challenges faced businesses: impact of regulation				Total
			first	second	third	fourth	
main business activity	manufacturing	Count	5	4	2	1	12
		Percent	41.7	33.3	16.7	8.3	100
	construction, real estate mining and quarrying	Count	3	1	1	0	5
		Percent	60	20	20	0	100
	trade(whole seller and retailer)	Count	36	20	10	1	67
		Percent	53.7	29.9	14.9	1.5	100
hotel and restaurant service	Count	20	14	10	0	44	
	Percent	45.5	31.8	22.7	0	100	
professional service	Count	3	1	1	0	5	
	Percent	60	20	20	0	100	
others	Count	5	3	0	0	8	
	Percent	62.5	37.5	0	0	100	
Total		Count	72	43	24	2	141
		Percent	51.1	30.5	17	1.4	100