

Burden of Regulation on the performance and growth of SMEs: Empirical analysis in Silte Zone, Southern, Ethiopia

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Abstract

The main purpose of this study was to investigate the perception towards the burden of regulation on the performance and growth of SMEs in Silate Zone, SNNPRS, Ethiopia. To attain the intended objective the study used quantitative research of descriptive statistics and multiple regression for pooled least squares estimations method used. 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 Silte Zone, SNNRS from 2016 to 2021. The result of this mixed approach explores that SMEs face challenges from different factors but, they perceived challenges from regulatory burden outweigh other factors. Pooled multiple regression for all independent and control variables simultaneous indicated that, except for inappropriate enforcement of regulatory framework (0.157) and compatibility in the global market of SMEs rate (0.213) all variables had negative coefficient. At the same time, apart from debt ratio p-value (0.258) all variables are significant at 1 percent degree of freedom. The value of adjusted R² is 75.2 percent; while Durbin-Watson and F-statistic are, 1.47 and 25.81 respectively. 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.

Keywords: perception, regulation, performance, growth

1. Introduction

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 which 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 20013). Perhaps, department for business enterprise and regulatory reform research center (BERR, 20018:3), 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.

Currently, the major development challenge is the promotion of economic growth and the reduction of 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. 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).

With respect to this area, the Ethiopian government now struggles against poverty through adopting a better development strategy and 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 2015; Kamesam 2013; Nepal et al. 2012; Shrestha 2015, cited in Syed et al. 2018). The burden of regulations on the 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 the SMEs performance and growth.

1.1 Statement of the Problem

SMEs play an important role in the development of national economy of any country, as stated in World Business Council for Sustainable Development (WBCSD, 2004 :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. 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, 2016).

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.

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. 2012 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, 2016).

In the case of Ethiopia, the industrial sector, which mainly comprises SMEs accounts for about 13 percent of GDP in the fiscal year 2018/19 (Ethiopia investment agency, 2020). 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 2016).

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 call for research in the area of assessing SMEs' managers, owners and employees perception towards regulatory burden on enterprises performance and growth.

1.2 Research Questions

In order to achieve the broad objective, the following specific research questions has been developed:

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

RQ 2. Which areas of regulations create major burden on SMEs performance and growth?

RQ 3. How does SMEs mitigate problems arising from the burden of regulations?

RQ 4. Does the government consult SMEs prior to regulating to lessen problems related with regulation?

2. Literature Review

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 (2010) 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.

2.2 Regulations and SMEs

Regulations are a 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 (Kitching, 2016:5).

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. 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 2010).

- **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, 2017)

- **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; that 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, 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 and enhanced support or 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 effective; 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.

2.3 Features of regulations for Business performance and Growth

- **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.
- 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.

Business performance can be defined both in terms of processes (start-up, resource acquisition, development and deployment 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. 2018)

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 2016).

2.4 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, 2011 cited in ILO, 2010). 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., 2012, cited in Anyadike-Danes et al. 2018).

The better regulations movement has produced a large number of initiatives in developed countries, in which main focus area of the tax and financial system is simplicity the complexity of the system may pose distortions of economic decision, Improving 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 2015).

Regulations are widely argued by business lobby groups, policymakers and academics to be a key barrier to business performance and growth are viewed as tax regulation one of 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 (SBRC, 2015).

That is why; regulations have become an important topic of public debate among politicians, media commentators, academics, lobby groups and practitioners pressures the 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.

2.5 Empirical Reviews : 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 importantly showed that there is high contribution for the economy from SME sector 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 Demircuc-kunt 2013). 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.

According to Ahmad et al. (2011), SMEs play an important role in the development of national economy of any country with respect to this 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 (Yang, 2010).

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).

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, 2010).

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, 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, 2019). 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 2014)

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 in Ethiopia.

3. Research Method

In order to achieve over all purposes of research a quantitative method of descriptive statistics, Pearson correlation coefficient and regression analysis used. The purpose of using such approach is to gather data that help the researcher to investigate variables cause-effect relationships presented to 228 SMEs for the period of last five years (2016-2021).

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. The sampling frame were all registered SMEs (1718 SMEs in number) in Silte Zone, particularly private limited companies and sole proprietorship form of businesses because a large number of entrepreneurs are involved in such type of legal status.

The sample frame for this study included all businesses engaged in different business activities, those formally registered as SMEs in trade and industry ministry of Ethiopia. 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 Silte Zone, SNNRS from 2016 to 2021, 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 Woreda and towns 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 2011).

SMEs stratification based on their activity and proportionally through applying simple random sampling method 141 sample participants were drawn (13 from manufacturing, 6 from construction, 62 from trading activity, 40 from hotel and restaurant service ,6 from professional service providing activities and 14 from other activities not specified under this study) from each strata.

General forms of the models are:

$$ARRBit = \beta_0 + \sum \beta X_{it} + \varepsilon \dots\dots\dots(Eq. 3.1)$$

Where:

ARRBit: Average Rate of Regulatory Burden on SME i at time t; i = 1, 2, ... 141

SMEs. β_0 : The intercept of equation β_i : Coefficients of X_{it} variables

X_{it} : The different independent variables for performance and growth of SME i at time t (Time) = 1, 2,.....,5 years. ε : The error term

Specifically, the above general least squares model is converted into specified variables it becomes:

$$ARRB it = \beta_0 + \beta_1 (CRE it) + \beta_2 (RRC it) + \beta_3 (VNR it) + \beta_4 (IIit) + \beta_5 (IEit) + \beta_6 (CGMit) + \varepsilon \dots\dots\dots(Eq. 3.2)$$

Where:

ARRB: Average Rate of Regulation Burden

CRE: Complex Regulation Environment

RRC: Rate of Regulation Change

VNR: Volume or Number Regulation

II : Inappropriate Inspection

IE : Inappropriate Enforcement

CGM: Compatible to Global Market

ε : The error term.

4. Results and Discussions

4.1. Survey Results

The survey results from descriptive statistics presented for dependent and independent variables, value of minimum, maximum, mean and standard deviation on table 4.1.

Table 4.1 Results of Descriptive Statistics of Regulations Obstacles on SMEs

Rank	Burdens	Mean	St. Devn
High	Government bureaucracatic inefficiency	4.11	0.5705

High	Delaying for licensing and work permit	4.28	0.5560
High	Process to appeal and complaints	4.22	0.5803
High	Poor record keeping and reporting	4.16	0.6411
High	Weak system documentation and networking	4.25	0.7104
High	Tax administration barriers	4.09	0.6854
Medium	Hiring and firings of employees	3.92	0.7624
High	Absence digital act and quality standards	4.29	0.7712
n=141, Mean Rating, 5= Extremely significant, 1= Extremely insignificant			

Source: survey results and own computation

In an ascending order of the mean values, the eight factors were rated by respondents in table 1,. Due to marginal difference in the mean values they were ranked as high (mean ratings of 4.00 and above), middle (mean ratings under 4.00 and over 3.5) and low (mean ratings of 3.5 and below). As result in indicates, complex enviroment have an adver imact for the regulatory applications (mean 4.1 1), inappropriate information quality enforcement (mean 4.29) and rate in which change happen not in reasonable time (4.22) were as rated high barriers of regulation in SMEs activities.

Additionally, high mean values given to volume or numbers in which regulation designed (4.16), in appropriate and unauthorized inspections (4.25), poor licensing and permit for decision making (4.40), record keeping and errors during reporting of data's (4.20). process for appeal and complaints (4.24), weak system documentation and networking pp(4.16), tax administration & System quality (4.09) hiring and firing of employees(3.92) were rated as high barriers of regulation for SMEs performance and growth. While, hiring and firing of employees (3.89) was rated as not high burden to SMEs. As per current finding, absence of digital act and qulity standards is high burden for performance and growth of SMEs.

4.2 Pearson's Correlations

Table 4.2 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
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*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

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. 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. The result is presented in table 4.3

Table 4.3 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

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. This 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.

Table 4.4 Correlation between reporting frequency and psychological cost with change in number of employees and level of customer satisfactions

			Level of change of customer satisfaction	Changes in number of employees
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

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. 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 Results for Multiple Regression for Pooled Least Squares Estimation

Table 4.5 Multiple Regression for Pooled Least Squares Estimation

$$\text{ARRB} = -1.060 - 0.002 \text{ CRE} - 0.002 \text{ RRC} - 0.001 \text{ VNR} - 0.005 \text{ II} - 0.058 \text{ IE} - 0.157 \text{ CGM} + 0.213 \text{ Size}$$

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.060	0.296	-3.576	0.0007**
CRE	-0.002	0.001	-2.695	0.0093**
RRC	-0.002	0.001	-3.665	0.0006**
VNR	-0.001	0.0003	-3.877	0.0003**
II	-0.005	0.0002	2.185	0.0330*
IE	-0.058	0.019	-3.037	0.0036**
CGM	0.157	0.054	2.910	0.0052**
SIZE	0.212	0.036	5.841	0.0000**
R-squared	0.783	Durbin-Watson stat.		1.47
Adjusted R2	0.752	F-statistic		25.198
		Prob (F-statistic)		0.0000

The result is rounded,* Regression is significant at the 0.05 level **

Regression is significant at the 0.01 level

Source: E-views output from financial statements of sample companies, 2015-2019

he multiple regressions for pooled OLS result table 4.5 revealed that, there is negative relationship between average rate of regulation burden and complex regulation environment. The coefficient of intercept and the rate that change would be implemented is -1.082 and -0.001 respectively. The coefficient including intercept and the rate change implementation (proxy for regulation policy) is negative and highly significant at $\alpha = 1$ percent, and implies that the increase or decrease in the rate that change implementation significantly affects performance and growth of the SMEs. Hence, the negative relationship between the rate of changes is implemented and performance indicates that the less growth of SMEs wait longer to period of change. Similarly, all other variables are also significantly affect SMEs performances.

All of them are significant at $\alpha = 1$ percent. However, compatibility to global market and size of the SMEs has a positive impact on performance of SME while other control variable like

inappropriate inspection and enforcement has a negative impact on the performance and growth of SMEs as well as strongly significant at $\alpha = 1$ percent.

The regression is estimated using Average rate for regulatory burden as an independent variable. Further, all independent variables are run using in complex regulations environment, rate in which regulations would be changed, the volume of regulation period and inappropriate interpretation of regulatory frameworks including other control variables. Therefore, this section presents two regression outputs one for the whole regression including all variables together and results of each dependent variable regressed by independent variables to see the time impact on the output.

Pooled multiple regression for all independent and control variables simultaneously indicated that, except for inappropriate enforcement of regulatory frameworks (0.157) and compatibility in the global market of SMEs rate (0.213) all variables had negative coefficient. At the same time, apart from debt ratio p-value (0.258) all variables are significant at 1 percent degree of freedom. The value of adjusted R² is 75.2 percent; while Durbin-Watson and F-statistic are, 1.47 and 25.81 respectively. Therefore, perception towards regulation barriers in the SMEs sector in Ethiopia need to maintain a balance or tradeoff between performance appraisal and growth measures.

5. Finding and Conclusion

Finally, the major findings identified 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 SMEs successes. 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.

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.

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 burden some for business enterprises success.

- Both regulators and SMEs should understand how regulations enable and constrain businesses performance.
- 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.
- During contact with enterprises, as much as possible regulators should be clear, flexible, reduce unnecessary bureaucracy and give respect for enterprises.
- The frequency of reporting brought administrative burden and extra compliance cost, policy makers should adopt mechanisms to reduce reporting requirement burden on SMEs.
- Regulatory inspection also plays a crucial role in shaping business owners' understanding on regulations and their responses to minimize regulatory burden on SMEs.
- To avoid regulatory burden enterprises applied different mechanisms in addition to consultation and communication by regulators.
- 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 SMEs business.

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