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Effect of regulatory framework on sustainability of SMEs in central Uganda

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Abstract
This study intended to establish the effect of regulatory framework on sustainability of SMEs in central Uganda. We employed a survey design with a sample of 259 respondents who were involved in the day to day running of the affairs of SMEs considered in this study. Mixed methods were employed and referential statistics were used in data analysis. Results informed that regulatory framework has a significant effect on sustainability of SMEs. Findings further revealed a moderate relationship between regulatory framework and sustainability of SMEs. We concluded that sustainability of SMEs is partly associated with regulatory framework put in place. A good regulatory framework helps businesses to survive and thrive and vice versa. Therefore, it is prudent for government to formulate a regulatory framework that is able to support sustainability of businesses. There should be involvement of key stakeholders from the business sector during formulation of laws and policies related to regulating SMEs.

Keywords: regulatory framework, sustainability, SMEs

1. Introduction

In developing entrepreneurship, government policy has a big influence, in order to establish environment and create infrastructure that support entrepreneurship (Minniti, 2008) [9]. Entrepreneurship has emerged as a focus of public policy, in this situation government should be alert, observant, and precise to the issue of conducive and productive policy. It is also clear that, when it comes to entrepreneurship policy, one size does not fit all, and in the long run, governments can only provide an underlying conducive environment to the emergence of productive entrepreneurship rather than unproductive entrepreneurship (Minniti, 2008) [9].

Some of existing policies related to entrepreneurship are mostly in the stage of start-ups business intervention and aiming to increase the number of entrepreneurs for examples, the easiness process for business administration, business competition, entrepreneurship education (creating entrepreneurship motivation, skill, and mindset), and financial funding for business; for instance, youth livelihood fund (Ahaibwe, *et al*, 2014) [1]. Government policy is the part of environmental factors that should support the development of entrepreneurship has been the main priority in several countries in the last decade. Wilson (2006) observes policy as the action, objectives, and pronouncement of government on particular matters, the steps they take to implement, and the explanation, Whereas Anderson (2003) narrows his view of policy as purposive course of action followed by an actor or set of actors in dealing with a problem or matter of concern.

Audretsch and Thurik, (2001) [16] maintain that the time, the industrial competitive advantage shifted toward knowledge-based economic activity. The smaller and more flexible entrepreneurial firms gained new importance in an increasingly knowledge-based economy also known as entrepreneurial economy. In their study they found out that the rise in entrepreneurship policy formulation as a necessary response to fundamental industrial and economic restructuring - a shift from the “managed economy” to the “entrepreneurial economy”.

As for Lundström and Stevenson (2005) [8], stated that if entrepreneurship is a system that includes entrepreneurs (and potential entrepreneurs), institutions and government actions, and the desired policy outcome increase level of entrepreneurial activity, then the role of institutions and governments is to foster environments that will produce a continuous supply of new entrepreneurs as well as the conditions that will enable them to be successful in their efforts to start and grow enterprises.

2. Review of related literature

Dutz, Ordover, and Willig, (2000) [4] explored the relationships between entrepreneurship and economic development in low-income countries. In this context, they suggest that two policies are critical for promoting growth. First is protecting commercial freedom, property rights, and contracts, and second is fostering opportunities for grassroots entrepreneurship is paramount through an active supply-side competition policy that emphasizing access to essential business services and other required local inputs.

Research conducted by Verheul, Wennekers, Audretsch, and Thurik, (2001) [16] was successful in describing how and in what stage that government can make interventions. They generally concluded that policy measures can influence the level of entrepreneurship (Storey, 1994) [14]. The government can exert influence on entrepreneurship in different ways; directly through specific measures and indirectly through generic measures. Government policy has a big influence, there are to establish environment and create infrastructure that support entrepreneurship. However, when it comes to entrepreneurship policy, one size does not fit all, governments can only provide an underlying conducive environment to the emergence of productive entrepreneurship rather than unproductive entrepreneurship (Isti, Togar & Dwi, 2014) [5]. Some of existing policies related to entrepreneurship are mostly in the stage of start-ups business intervention and aiming to increase the number of entrepreneurs for examples, the easiness process for business administration, business competition, entrepreneurship education (creating entrepreneurship motivation, skill, and mindset), and financial funding for business. Though the government has been providing supporting programs and incentives for the start-ups, persistent problem often occur after start-ups process, so that the government interventions at this stage are also required. This stage is very crucial to determine whether the business grow or eventually fail (Isti et. al., 2014). At macro level, entrepreneurship policies should focus on creating entrepreneurship culture, entrepreneurship infrastructure and regulation itself.

Broader structural reforms should accompany policies to promote private sector and SME development. In this regard, improving the general business environment would help maximize the effectiveness and sustainability of reforms in the areas described in this note, through broader liberalization efforts, improved governance of state-owned enterprises, and a strengthened institutional framework for policy delivery. Such reforms would help create a level playing field for all firms, regardless of size and ownership status, thus fostering the competitiveness (OECD, 2017). The government can help the entrepreneurs to establish the business by supportive public policies, structural support and financial initiatives to support the entrepreneurial activities.

Syed, Haroon and Aasim (2012) [15] contends that policies of government are important for entrepreneurs, but only development of policies is not sufficient, their implementation is also mandatory to attract investor to invest in business, small and medium enterprises some time not going well due to lack of knowledge and infrastructure. (Rukuižienė, 2016) [13] observe that some of existing policies related to entrepreneurship are mostly in the stage of start-ups business intervention and aiming to increase the number of entrepreneurs for examples, the easiness process for business administration, business competition, entrepreneurship education (creating entrepreneurship motivation, skill, and mindset), and financial funding for business Government policy is the part of environmental factors that should support the development of entrepreneurship that was main priority in several countries in the last decade. Many governments paid attention to entrepreneurship policy and they implemented policies to boost entrepreneurship (Minniti, 2008) [9].

Since 1980s, regulatory control on the industry began to decline due to the inability to sustain competitive production and the growing of service sector (Minniti, 2008) [9]. At that time, the industrial competitive advantage shifted toward knowledge-based economic activity. The smaller and more flexible entrepreneurial firms gained new importance in an increasingly knowledge-based economy also known as entrepreneurial economy (Audretsch and Thurik, 2001) [16]. The study explained the rise in entrepreneurship policy formulation as a necessary response to fundamental industrial and economic restructuring - a shift from the “managed economy” to the “entrepreneurial economy”.

While the disproportionate effects of these failures on SMEs are well documented, perspectives differ on how they should be tackled and on the policy instruments which are effective in leveling the playing field or addressing specific barriers to SME development, while promoting healthy market dynamics. Furthermore, while many governments increasingly recognize the need for a crosscutting perspective when developing SMEs policies and have taken steps in this direction, the synergies, trade-offs and complementarities within and across policy areas, as well as the implications for different types of SMEs, are often not well considered, due also to limited evidence and insufficient understanding of the interdependency of policies. Effort should consider the potential synergies and trade-offs across diverse policy areas, including distortionary effects that may be introduced by some policy actions; recognize the heterogeneity of the SME population; and acknowledge the multidimensional contributions SMEs make to the economy and society (OECD, 2017) [10].

There needed to craft policies across different domains and levels of government in a coherent and mutually reinforcing way. A holistic approach is critical because the broad umbrella of “SME policy” includes areas that cut across the boundaries of different ministries and government agencies, and that require close consultation with other stakeholders, such as the business sector, trade unions, and financial institutions, among others. Attention also needs to be paid to how policies developed at national level can be tailored to local conditions, as well as to framework conditions and policies that are shaped at the regional or territorial level (OECD, 2016) [11].

3. Methodology

The study employed a cross sectional survey design with mixed approach. The survey was considered because it allows collection of data from a sample of respondents at a particular time, using a questionnaire and interview guide. Pinsonneault, and Kraemer, (1993) [12] survey research is used to quantitatively describe specific aspects of a given population. These aspects often involve examining the relationships among variables. Also, the data required for survey research are collected from people who have knowledge about the subject variables. A survey research is used when a selected portion of the population from which the findings can later be generalized back to the population. In survey research, independent and dependent variables are used to define the content scope of study. Thus its application is based on these foundations to make it suitable for this study.

The study was descriptive in that the researchers intended to describe the results on the variables under study in both quantitative and qualitative manner. The survey design is considered appropriate as it allows collection of data at once form a large sample of respondents. Kothari (1985) contend that quantitative and qualitative approaches both have a strong position in research using quantitative and qualitative data. Pinsonneault, and Kraemer, (1993) [12] further observed that no single design should be seen as a universal solution.

4. Results

Regression analysis was employed to achieve this objective. Three tables are the output from SPSS (Model Summary, ANOVA and Coefficients) compressed into one table with the statistics necessary to explain the effect between the two variables.

Table 1: Regression results between regulatory framework and business sustainability

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.410[a]	.168	.165	.38798	1.729
a. Predictors: (Constant), Regulatory Framework					
b. Dependent Variable: Sustainability					

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.810	1	7.810	51.887	.000[b]
	Residual	38.685	258	.151		
	Total	46.495	259			
a. Dependent Variable: Sustainability						
b. Predictors: (Constant), Regulatory Framework						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.755	.100		27.572	.000
	Regulatory Framework	.217	.030	.410	7.203	.000

a. Dependent Variable: Sustainability
Source: primary data 2020

From table 4.12, Looking at the Model Summary box given under the heading R Square the value is 0.168. This tells us how much of the variance in the dependent variable (sustainability) is explained by the independent variable (regulatory framework). In this case the value is expressed as a percentage this means that independent variable explains 16.8 per cent of the variance in sustainability.

The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non-autocorrelation; a value toward 0 indicates positive autocorrelation; a value toward 4 indicates negative autocorrelation. The estimates from our regression model would therefore be adequate if the Durbin-Watson coefficient is approximately two (2).

The next thing we want to know is how the independent variable (regulatory framework) predicts of the dependent variable. The beta coefficients of 0.217 means that regulatory framework predicts 21.7% in business sustainability. We find unstandardized coefficient values because we are interested in constructing a regression equation, and also because of the large sample size which was considered for the study.

> Results from an interview respondents indicated that; *starting a business is easy as long as you have the capital, registering a business is also easy. The law is clear on how to resister and can only take a day to have a business registered.*
> *To start business is easy, but the taxes are high and this affects the business, some businesses get registered but taxes make them fail to grow.*
> *How businesses are regulated is not bad, as long as you comply with the law the business will succeed.*

Testing hypothesis

H_o: There is no significant effect of regulatory framework and sustainability of SMEs in central Uganda

To assess the statistical significance of the result it is necessary to look in the table labeled ANOVA. This tests the null hypothesis that R in the population equals 0. The model in this study for objective one reaches statistical significance (Sig = .000, this really means $p<.05$). The null hypothesis rejected. Therefore, the study concludes that regulatory framework has a significant effect on business sustainability in central region in Uganda.

Table 2: Correlation between regulatory framework and business sustainability

Correlations			
		RF	**Sustainability**
RF	Pearson Correlation	1	.410**
	Sig. (2-tailed)		.000
	N	259	259
Sustainability	Pearson Correlation	.410**	1
	Sig. (2-tailed)	.000	
	N	259	259

**. Correlation is significant at the 0.01 level (2-tailed).
RF- Regulation Framework

Pearson correlation is used when you want to explore the strength of the relationship between two continuous variables. Results in table 4.12.1 reveal that there is a positive significant relationship between regulatory framework and business sustainability in central region in Uganda ($r = 0.410$; sig. 0.000). The strength of the relationship is indicated by the correlation coefficient. Cohen (1988) suggests that coefficients of r =.30 to .49 or r = –.30 to –.4.9 the strength of the relationship is medium. Therefore according to the findings of this study, there exists medium relationship between regulatory framework and business sustainability in central region in Uganda.

5. Recommendations

The government of Uganda should design entrepreneurship policy and a law that support entrepreneurs to ensure that SMEs can be started and supported to grow. The focus should be on protecting SME from unfair competition through formal laws. The law should protect SMEs from setup through all stages of growth to attain sustainability. A more efficient and less bureaucratic set of rules and regulations in these areas will also provide a better possibility for obtaining formalized rights and duties for many entrepreneurs should be put in place by government. There should be involvement of key stakeholders from the business sector during formulation of laws and policies related to regulating SMEs.

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