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State-business relations for entrepreneurial takeoff in Africa: institutional analysis

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Abstract

Purpose – Reports and experiences suggest that several developing African economies are faced with entrepreneurial-impeding forces such as lengthy bureaucratic processes and poor regulatory space. The study examines a general trend in "doing business performance" among selected African countries and uses the case of Ghana to explore how particular indicators or forces affect the development and deployment of small and medium-sized enterprise (SME) policies.

Design/methodology/approach – Comparative analysis of six African economies on their ease of doing business score. This is followed by a critical review of the literature to develop a six-point explanatory framework to explore the relative position of the six countries on the ease of doing business scores. Using Ghana as a critical case study, the authors deploy an in-depth case study analysis via in-depth interviews of relevant stakeholders to validate the information from secondary sources.

Findings – The study observes that the nature of leadership, socio-cultural imperatives, economic structure and policy and the role of domestic institutional players and international players have implications for the extent to which the state creates an enabling environment for SMEs and entrepreneurial activities. The role of supportive cultural software that will help drive SME and entrepreneurial growth has been established. The study contends that different aspects of national culture do have implications for the tendency for people to be business-minded or to have the ability to take risks. The demand and supply sides are crucial in promoting SME growth.

Originality/value – The study develops a framework that helps explore elements to help explain ease of doing business scores and the viability of SMEs in Africa. These elements were validated through qualitative interviews as well.

Keywords Entrepreneurship, Political economy, Institutions, Regulation, Business environment, State-business interaction

Paper type Research paper

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FH conceptualized the paper, key objectives and methodology and reviews, and
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1. Introduction

The interaction between the state and business is regarded as crucial to the expansion of small and medium-sized businesses (SMEs) and entrepreneurial activities of every economy (Ncube *et al.*, 2021; May *et al.*, 2019; Asongu *et al.*, 2018; Lemma and te Velde, 2015). The role of the state in providing the enabling environment supportive of private economic initiatives to catalyze overall entrepreneurial spirit and economic growth remains paramount in liberal economies (Ncube *et al.*, 2021; Lemma and te Velde, 2015). In other words, the state is expected to identify all bottlenecks that obstruct business activities with a view to providing tailor-made policy interventions to address them. Through systematic activities by the state which may roll out in the form of policy directives, the state has the leverage to attract and nurture businesses in every economy (Lee, 2018; Bosma *et al.*, 2018; Autio and Rannikko, 2016). According to Hall and Sobel (2006), high-quality institutions encourage entrepreneurship, which in turn promotes economic growth. The authors also assert that because they encourage entrepreneurship and innovation, good economic institutions enable regions to consistently have advantage over weaker ones (pp. 78–79). The intensity of market failures in developing African countries makes a stronger case for robust public regulation through institutional frameworks (Adu-Gyamfi *et al.*, 2022). By setting the "rules of the game", public institutions would greatly have a significant impact on economic development (Yeboah-Assiamah *et al.*, 2023). Many African states are noted for bad governance, institutional laxities and instability that do not only promote investment and but also tend to crowd out the private sector. That regard clear institutional framework that clearly promotes minority rights and other indicators of "ease of doing business" will go a long way to encourage private sector investment and entrepreneurship among people.

The role of SMEs and entrepreneurship in socio-economic development cannot be overemphasized. SMEs form over 90% of enterprises and more than 50% of all employment worldwide (Faye and Goldblum, 2022). Despite the structural challenges, their contribution to gross domestic product (GDP) can reach 40% in developing countries (ibid). In Sub-Saharan Africa, more than 90% of businesses are frequently SMEs, which greatly contributes to inclusive economic growth (African Business, 2022). Especially in Sub-Saharan Africa, there are at least 44 million micro, small and medium-sized companies. SMEs give employment and the possibility of a living because they are considered to be the source of 80% of all jobs on the continent (ibid).

Consequently, SMEs have become useful ventures for job-creation and poverty reduction (see Lukeš *et al.*, 2019; Endris and Kassegn, 2022). That regard, the provision of enabling conditions for these ventures to thrive effectively remains crucial to job-creation and poverty reduction. Although countries in Africa have liberalized their economies and opened up for private sector investment, the continent still lags behind along many SME and entrepreneurship indicators compared to other regions of the world system which has affected the continent's economic fortunes (Asongu and Nwachukwu, 2018; Tchamyou, 2017). The relationship between entrepreneurial growth and macroeconomic stability has been recognized since the 1940s with Schumpeter's notion of "creative destruction" (Schumpeter, 1965). It is instructive to point out that collaborative state-business interaction remains crucial in the drive to entrepreneurial growth and transformation in developing countries (Yeboah-Assiamah *et al.*, 2023). Therefore, if developing countries seek structural transformation, it is essential to adopt a more effective state-business relation which is underpinned by robust institutions that are supportive of SMEs.

Extant empirical literature is replete with reports suggesting that several developing African economies are faced with SME and entrepreneurial-impeding forces such as lengthy bureaucratic processes and poor regulatory space (Muzurura, 2019; Amankwah-Amoah *et al.*, 2018) which are not healthy for innovation, growth and business creation. Such conditions, especially, regarding unsupportive institutional environment [legal and regulatory] is an issue that has far reaching consequences on entrepreneurial ventures and business growth potential (Nyarku and Oduro, 2018).

There have been countless discussions on the business and SME space in Africa which have been analyzed from diverse perspectives. Scholars have assessed the phenomenon from cost of doing business perspective (Hussain *et al.*, 2022); regulatory regimes and doing business (see Simba *et al.*, 2023; Takouda *et al.*, 2022); socio-economic issues and doing business (Mensah and Benedict, 2010); Tchamyou (2017) assesses knowledge economy's implications on doing business; and constraints affecting successful business climate (Asongu and Odhiambo, 2019). The above notwithstanding, the literature appears somewhat gray regarding cross-national assessment of "doing business" indicators in Africa and attempts at explaining the observation. For instance, in their recent treatise on constraints affecting business climate in Africa, Asongu and Odhiambo (2019) failed to determine the pockets of successes in doing businesses in some particular African economies and on particular indicators but attempted to present a general bleak picture of poor performance. The current study seeks to contribute to the literature by exploring what could account for the relative positions and performance of African countries on their overall score of ease of doing business and SME supporting policies. The study provides a general trend in "doing business performance" among selected African countries and uses the case of Ghana to explore how particular indicators or forces affect the development and deployment of SME policies. In other words, it examines the narratives behind the average or relatively unsatisfactory performance on particular pointers or indicators of doing business. Knowledge of these forces is crucial to foster proper state-business relations in terms of policy choices and interventions to help sanitize the business environment to become more supportive of SME and entrepreneurial activities.

The study is organized into five main sections. Beyond this introduction, section two presents the theoretical framework underpinning the research. Section three of the paper presents the methodology and procedures for carrying out this critical review paper. The fourth section presents data as well as detailed analysis of the paper which demonstrates the relative strengths of the six selected African countries in *ease of doing business* indicators depicted graphically and in figures. The final chapter presents conclusions and areas for further research.

1.1 Theoretical framework

1.1.1 Institutional theory. Many studies have used the formal institutional theory to underpin copious discussions on business growth which usually conclude that institutional forces influence the nature, form and performance of private business initiatives (Chowdhury *et al.*, 2019; Banalieva *et al.*, 2018; Urbano and Alvarez, 2014). The institutional theory contends that the regulatory regime; government interventions and opportunities as well as processes and rules of engagement remain critical for business growth and development (North, 1990). Determinist school of business failure also points to externalities such policy environment and business ecosystem as key factors (Simba *et al.*, 2023; Takouda *et al.*, 2022). Similarly, scholars on business systems as institutional mechanism for regulating economic actors point the weakness and fragility of this mechanism in sub-Saharan Africa (Simatele *et al.*, 2022). Broadly speaking, the literature explains institutions to entail the rules of the game regulating political, social and economic relationships in a society, providing the structure and order for exchanges to take place which help to reduce risks and provides human interaction (North, 1990). Within business context, institutional influence does not reside with government alone. In fact, certain intuitions outside government can have more influence on economic actors especially when government institutions are weak. This calls for the need for reappraising where to find sources of influences on economic actors when the state is weak or enforcers of institutional guidelines are corrupt or incapable.

The paper views institutions as a set of contextual factors that are relevant to entrepreneurship and business growth. For the purpose of this study, we use a four-phase institutional conceptualization by Gnyawali and Fogel (1994). These are as follows: (1) government policies and procedures, (2) socio-economic conditions, (3) entrepreneurial and business skills and (4) financial and non-financial assistance. The extent to which government intervenes to optimize these forces will determine the kind of business climate that prevails in an economy.

The institutional dimensions involve the legal system, business regulations and government policies that are relevant to entrepreneurship (Busenitz *et al.*, 2000). Doner and Schneider (2000) highlight important ways through which the state could foster effective business environment which includes: a) a stabilization of the macro-economy and making sure the economic fundamentals are favorable; b) horizontal and vertical coordination between relevant state agencies to ensure business people know how to register and get their permits among others with ease; c) lowering costs of information and; d) above all the state needs to set regulatory standards of quality.

The purpose of government policies should be to guarantee mechanisms of the market operate more efficiently by reducing risks and possible administrative bottlenecks with an overall goal of creating a context that allows companies to operate with limited risks in the running of their businesses. It is instructive to note that the market is not always an efficient allocator of resources and opportunities; therefore, the role of institutional machineries through state regulation becomes leverage. Even in the advanced economies, institutional mechanisms are adopted to curb the excesses and imperfections that may be caused by market mechanisms and market failures. How can institutional mechanisms and what policies could help SME development and entrepreneurial growth in Africa?

2. Methodology

The study adopts a cross-national comparative approach to assess the institutional climate for entrepreneurship and business support of six African countries. These countries are selected: Nigeria, South Africa, Rwanda, Botswana, Ghana and Cote d'Ivoire. *Nigeria* and *South Africa* are the largest economies on the continent. *Rwanda*, although a post-genocide country since 1994, has been phenomenal in providing an enabling environment for steady economic growth. *Botswana* has been a classical African country with good governance which has depicted in all intents and purposes the tenets of an effective state which always ranks first in many good governance indicators in Africa.

The study uses the 2019 World Bank's *Ease-of-Doing-Business Report* to assess the relative performance of all six selected countries. The World Bank in its "Doing Business Reports" assesses the extent to which the state facilitates a congenial atmosphere for businesses to operate without much structural challenges. The creation of such conducive business atmosphere drives the climate to attract new businesses as well as the growth of existing firms. This report scores and ranks countries based on their performance on key indicators which foster business climate. For example, it measures administrative procedures and the extent to which the administrative processes for *business registration, macro-economic stability, inter-agency coordination*, which have potential to foster business growth and investor interest, are harmonized. As illustrated in Table 1, the Report uses the listed 10 indicators for assessment:

For the purpose of this study, the overall score together with five (5) other indicators of the Ease-of-Doing-Business Report are selected. Ghana being a typical case, the study adopts a case design by engaging in in-depth interviews to assess to triangulate the observations from secondary sources. With the purposive sampling technique, the study selected key informants from the Ministry of Trade and Industry, Association of Ghana Industries, Ghana Entrepreneurial Agency and selected SMEs. Data was analyzed using Microsoft Excel to derive trends in doing business performance among the selected countries. Bar charts were used to illustrate the strength or performance of countries along particular indicators. The qualitative interviews were transcribed and categorized into relevant groupings using thematic analysis. All points and narratives related to particular trends or direction were classified under respective themes. In the course of the presentation, some of these narratives have been used to provide emphasis on the points under discussion.

3. Data analysis

This section presents analysis of data which is presented in tables and charts to give a quick visual impression. The section begins with a comparative analysis of six African economies along six World Bank "ease of doing business" indicators for the 2019 period. This is followed by a longitudinal analysis of Ghana's ease of doing business using data from 2010 to 2019 to critically evaluate the trend.

3.1 Trend in "doing business performance" in Africa

From Figure 1 above, the study sought to assess the business climate of six African economies along six main "ease of doing business" indicators. Across all but 1 indicator, Rwanda demonstrated outstanding performance. Prima facie, the data suggests that Rwanda holds a credible position as the country which is most favorable for doing business with a score of 77.88 followed by South Africa and Botswana with a score of 66.03 and 65.4 respectively. Whilst it is important to use figures to give a quick visual impression and performance of countries along these indicators, more importantly should be what accounts for the variations and performances of these countries. A conscious effort to assess the drivers of the respective position should engage attention of management and comparative political researchers. In this study, we attempt to flag out key issues which be useful in assessing performances of the countries in question.

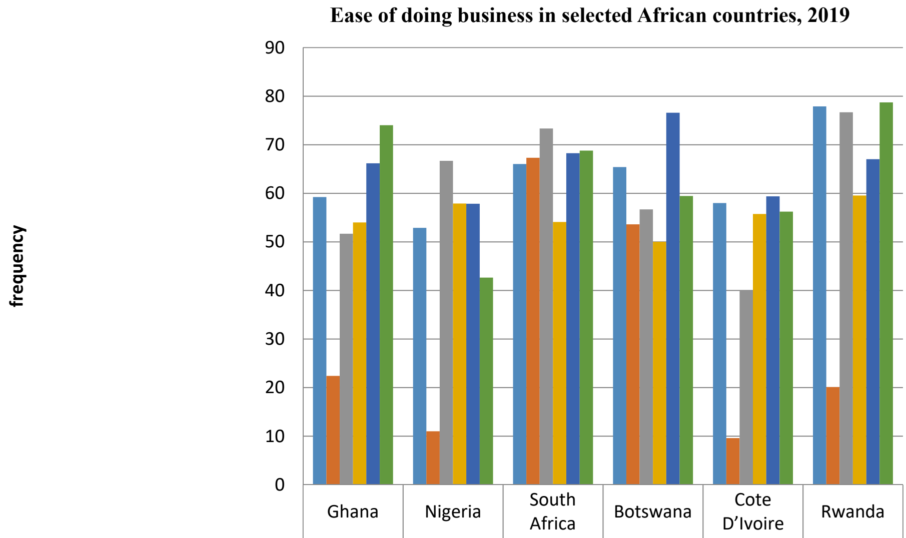
3.2 Accounting for the respective scores on "doing business" in Africa

The literature has reiterated the role of context in the determination of SME and entrepreneurial orientations of people. In their study, Mamman *et al.* (2019) discussed a comprehensive framework whose main pillars hinged on SME policy and Context. The main elements that form Context were *Business and institutional environment*, *Industry characteristics, Socio-cultural factors*. These were deemed crucial determinants of SME or entrepreneurial outlook/orientation of people in African countries. An in-depth analysis of literature sought to disaggregate these broader elements in attempt to discusses some pointers to explain who or what influences SME business policy and what impact it might have had on the ranking of countries on the 'ease of doing business score'. A cursory assessment of the literature provides key indicators which have been placed in Table 2 and illustrated in Figure 2. These indicators have adequately been discussed using empirical evidence from the Ghanaian case.

Resolving insolvency	Payment of taxes
Credit bureau coverage	Total tax rate (% of profit)
Protection of minority investors interest	Dealing with construction permits
Enforcement of contracts	Access to electricity
Cost of doing business	Registration of property

Source(s): Created by authors

Table 1. Indicators of "ease of doing business"



	Ghana	Nigeria	South Africa	Botswana	Cote D'Ivoire	Rwanda
Ease of doing business score	59.22	52.89	66.03	65.4	58	77.88
Credit bureau coverage	22.4	11	67.3	53.6	9.6	20.1
Protecting minority investors interest	51.67	66.67	73.33	56.67	40	76.67
Enforcing contracts	54	57.9	54.1	49.99	55.74	59.54
Dealing with construction permit	66.16	57.84	68.25	76.58	59.37	67.01
Getting electricity	74.02	42.63	68.79	59.43	56.23	78.72

Source(s): Created by authors, from 2019 World Bank 'ease of doing business' Report

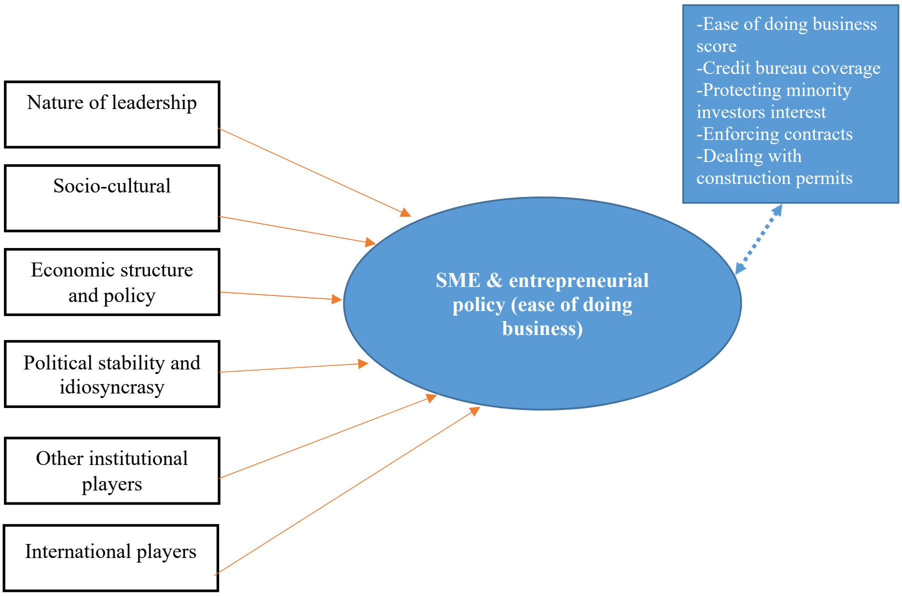
Figure 1.
Cross country assessment: Six African economies

Element/indicator	Sources
Nature of leadership	Ake (1996), Olanrewaju (2017), Kalu and Soyinka-Arewele (2009), Booth and Golooba-Mutebi (2012), Kelsall (2013), Harrison (2010), Taylor (2012)
Socio-cultural	Hubner (2000), Takyi-Asiedu (1993), Wildeman *et al.* (1999), Steensma *et al.* (2000), Transparency International (2019)
Economic structure and policy	Carden (2008), Acemoglu *et al.* (2003)
Political stability and idiosyncratic nature of the political system	Jones (2002), Easterly (2001), Barro and Lee (1993), Alesina and Perotti (1996), Ratten and Jones (2018)
Other institutional players, e.g. trade unions, business associations	Maxfield and Schneider (1997), Lucas (1997), Doner (1992), Laothamatas (1992), Thorpe (1997), Heilman and Lucas (1997), Handley (2008)
International players	Ayee *et al.* (1999), Ackah *et al.* (2009), Todaro and Smith (2003)

Source(s): Created by authors

Table 2.
Elements to explain ease of doing business scores of African countries

3.2.1 Nature of leadership that constrained or enables institutions to functions. The nature of political leadership and effectiveness of the administrative system do have implications on the general business outlook and entrepreneurial space within a country. Ake (1996) argues that



Source(s): Created by authors

Figure 2.
Elements to explain ease of doing business scores and viability of SMEs in Africa

colonial legacy, social pluralism and high levels of corruption tend to limit receipts of foreign capital, causes low level of savings and investment account for low level of economic development in many African economies. This point has forcefully been brought home by scholars (Olanrewaju, 2017; Kalu and Kim, 2009) who contend that the prosperity of a nation is an indication of the kind of decisions that their political leaders make. To what extent has the political leadership and administrative system demonstrated efficiency and sound administration over time? (see Herrington and Kelley, 2012). The phenomenal performance of Rwanda in ease of doing business reflects nature of the political system and leadership approach. The case of Rwanda portrays how changing geopolitical conditions could propel political elites to embark upon political transformations that involve a re-prioritization of growth. Rwanda adopts an enterprise model with a particular emphasis on the strong role of the state in the development process through industrial policy-making and policies that support companies (Booth and Golooba-Mutebi, 2012; Kelsall, 2013). The government adopts technocratic strategies to promote small and medium enterprise (SME) development, encourage private sector associations, promote property rights and extend access to formal credit (Harrison, 2010; Taylor, 2012). In South Africa, the quest for the political leadership to garner capital from private sector has influenced some forms of policies that foster private sector activities. Experiences from Africa regarding countries that perform well in their "ease of doing business" cannot rule out the nature of leadership and its relationship with the private sector. In an interview with a key informant from Ghana's Ministry of Trade and Industry, he explained:

> Let me tell you, it is the level of commitment. In Rwanda, the man [the president] came as a military man and he makes sure whatever he says they [citizens] will do. If you are assigned to do something and fails to do it you will be sanctioned and that commitment is not in Ghana. Governments do not enforce the laws effectively, people do what they want. That is why we have adopted the PPP [public-private partnership plan] so private individuals and corporations can implement and enforce the policies of the . . .

On the question of how corruption or its perception affects SMEs activities and drive, a key informant contends:

> . . . the corruption is happening within the SMEs sector whereby we all qualify for a facility to set up our business and it is given to someone who you are more qualified than such individual, [it will eventually] bring your morale down . . . This is very common issue or problem, corrupt government officials because they are the first to gain access to these loans they give it out to their friends and family. In 2015, some group of people were giving loans to traders but the only way you can get is that you must have a particular party membership card. So these loans went to some undeserving people. This corrupt act will surely demoralize people from venturing into SMEs.

3.2.2 Informal institutions: socio-cultural issues. The social and cultural practices of a people generally have wider ramification on their orientation towards SME and entrepreneurial activities. The reality is that aspects of Africa's socio-cultural outlook inhibit entrepreneurial spirit which also affect the institutions and SME regulatory policies at the macro level. For example, Takyi-Asiedu (1993) observed that in Africa, if one decides to start a small business, people regard such ventures to be a career suited only to those who cannot find appropriate employment, especially in the public sector. Findings from the current study bring to the fore that some people even quit from the public sector into SME activities but the sub-cultural aspect of "corruption", "favoritism" and patronage politics tends to crowd out genuine business people who do not have political "godfathers". In other words, to access government facility in most African states, the institutions or rules are not so institutionalized that they are purely impersonal systems operating on calculable rules except one needs to "know powerful politicians". In the course of interview, it was mentioned:

> GEA is linked to the government .., so let's say the minister can take a phone call the management "I have someone from . . . grant him this favours". . . ., there was a guy under the 1D1F [1 District 1 Factory] he does pineapple juice very sweet, he was a teacher he quitted the teaching job. He started the production with few employee. When they were giving grants to SMEs, he came to me on several occasions, I was trying to talk to them, and they always tell me to put in application. It took very long time at some point the guy wanted to give up that he won't say chase anymore, this is because he did not have anybody in government to say some on his behalf, and it was recently that I heard he has had something small.

Those African countries that observe sharper divisions among different ethnic groups, those minority groups which are usually denied equal access to formal sector jobs tend to be entrepreneurial in nature. Steensma *et al.* (2000) put it, "if a society does not provide sufficient jobs for certain ethnic groups, for example new immigrants, those ethnic groups that are higher in individualistic values will be more prone to found their own venture" (p. 592). It is therefore not surprising why Rwanda (history of ethnic clashes between Hutus and Tutsi ethnic groups) and South Africa (history of apartheid, ie white vs black race) have opened up the SME space to encourage enterprising individuals to become self-sufficient. On the other hand, those groups within a state that tend to be in a disadvantaged position of any form or shape tend to be assertive and resort to SMEs to become successful. In the course of the interview, a key respondent narrated the situation in Ghana:

> The entrepreneurs are the Kwahu people, followed by the Ashanti people, but the Kwahu people are more into buy- and- sell but the real SMEs are the Ashantis . . .

Explaining the tendency of the Ashanti people to venture into SMEs, the respondent further explained:

> For example, they say the [. . ..] people are lazy and mainly because of how [we] are brought up or the sense of entitlement but with the Ashantis there is no much special activities such as numerous government offices we have in Accra here, so it's either one ventures into buy - and – sell or force him

or herself into SMEs. So the zeal and how they thrive to survive informs their decision to venture into the businesses. So their background motivates them to go into SMEs.

Another dimension of the "socio-culture" is the extent to which society is ethical as well as how the macro-economy is perceived to be corrupt-free. Using data from the Transparency International, a cursory assessment observed that the extent to which a country performs well on the corruption perception index clearly has a positive implication on its SME and entrepreneurial policies.

Reconciling Figure 1 with Table 3, the study observes that an African country that does well on the Corruption Perception Index (CPI) score also performs better in creating right policies and measures for SMEs and entrepreneurship. In other words, the extent to which the socio-culture at the micro and macro level tolerates good governance or corruption would affect entrepreneurial policies and general outlook.

3.2.3 Role of international players. If the state is weak or its bureaucracy becomes compromised via state capture [corruption] to sustain sound policies for good governance, it will become difficult for the state to guard against the power of strong multi-national corporations (MNCs). In some cases, the weakness in state capacity may make MNCs too powerful to the extent that they could even covertly undermine political processes of their host countries. This, they do directly by paying off corrupt public officials or meanderingly by contributing to "crook" political parties (Todaro and Smith, 2003, p. 641). Through these machinations, MNCs are able to influence domestic entrepreneurial policies which only become supportive of large established MNCs without any significant concessions to budding local SMEs. This also explains why those countries with poor governance regimes and high corruption index also perform poorly on the "ease of doing business. Weak and corrupt African governments are more likely to trade the destiny of the SMEs and budding entrepreneurs to well-established MNCs in return for some tokenistic tendencies which only benefits the leader (s) and their section at the expense of the citizenry. There are also some aid conditions and bilateralism which may crowd out local SMEs in favor of well-established advanced companies abroad. For example, scholars and researchers have begun to bemoan the influx of Chinese businesses" competition in many African states and the implication for teething local firms (van Boekel *et al.*, 2022; Kayizzi-Mugerwa, 2022).

3.2.4 Economic structure and policy. The extent to which a country is transformed from just being resource based economy into a more manufacturing and service based comes with a corresponding congenial SME and entrepreneurial policy to support such transformation. Consequently, those African countries whose economies are more diversified with growing emphasis on manufacturing or services tend to do well on the "ease of doing business" score which suggests that the nature of the economic structure remains a useful tool to explaining its SME and entrepreneurial policies. For example, Rwanda in recent times has embarked on massive economic advancement which has transformed the economy into a manufacturing hub and growing emphasis on services. Similarly, South Africa does not only depend on its

	2019	2018	2017	2016
Botswana	61	61	61	60
Rwanda	53	56	55	55
South Africa	44	43	43	54
Ghana	41	41	40	43
Ivory Coast	35	35	36	34
Nigeria	26	27	27	28

Source(s): Authors' own creation from Transparency International

Table 3. Corruption perception index from 2016–2019 (100% is the optimal score)

vast natural resources but has positioned itself as a manufacturing and service-based economy which also accounts for its performance on the "ease of doing business score". Countries such as Ghana, Nigeria and Ivory Coast have essentially not adequately developed their industrial and services sectors. In recent times however, upon sound management of their SME policies, the service provision sector is beginning to see some phenomenal growth because the economy usually begins to attract private investment if the institutional and policy environment becomes enabling for businesses. Corroborating the hectic nature of the manufacturing sector, a key informant in the interview process explained:

> Currently, I would say Ghana's economic policies are manufacturing oriented but the real conditions in the system support just production of the raw materials. If you are going into the manufacturing, just imagine the cost of electricity, the source of labour and the source of even market or getting market for your products coupled with competition these foreign companies. . . . And even when you go to the financial sector to borrow to invest into manufacturing industry is difficult to get, . . . there are high risk in manufacturing industries in Ghana. Personally, if you ask to go into manufacturing I wouldn't go . . .. For instance, I learnt the man that imports the "Ena pa mackerel" is that rich. Initially, he was bring it down and then sell and he was making it but he decided to set up the factory here under the 1D1F at some point he went down flat because he went for loans to buy equipment and the means of production.

3.2.5 Political stability and idiosyncratic nature of the political system. The nature of the regime underpinning a particular country has implication on its economic infrastructure and indicators of "doing business". In his treatise on *"Social Infrastructure and Long-Run Economic Performance"* Jones (2002) discusses those salient pointers which render politics crucial to economic and business growth. These are: (1) the extent to which the economy favors production instead of diversion and (2) the stability of the economic environment (p. 140). Jones explains that diversionary politics leads to resource wastage which emanate from corruption, theft, confiscatory taxation among others. These serve as "taxes or burdens on businesses" which tend to reduce expected returns on businesses. The government usually stands at the center of this system of resource diversion, either as an active player or a passive one through the structure of incentives it puts in place (see Easterly, 2001). The literature (Barro and Lee, 1993; Alesina and Perotti, 1996) reports negative relationships between political instability (social disturbance) and economic growth of countries. The lack of political stability negatively influences business activity in Africa, with international investors directing their focus towards safer countries (Ratten and Jones, 2018). In the current study, an interesting observation emerged which suggests that even stable democracy where the institutions and sub-culture have made it possible for mostly the politicians to be richer and affluent, the youth and middle class are tempted to become politicians rather than SME operators. Using the Ghanaian case, a key respondent intimated:

> . . . the structure of the political system doesn't allow businesses to grow, why am I saying so? [It] looks as if the leadership or the politicians, everything is for them. The system is made in [a] way that it favours only the politician, they take the bigger share of the national money [cake]. They pay them monthly salary and at the end of their term they take ex gratia. So imagine a politician who has been in the scene from 1993 to this time, the money he or she has made, try and compare to how many people have failed in their business ventures. So the youth like you [points to me] would want to be in politics rather business because that is where the real cash is in Ghana. So the structures do not support anyone to go into entrepreneurship in the country, because political stability Ghana went into democracy in 1992 and have been there for years so I think for that its ok but the conditions and structures are ore tilted to the politician.

Table 4 provides information on political stability and other governance indicators of the African countries in question.

3.2.6 Relevant institutional players. Over the last few decades, new research on business interest associations and trade unions in developing countries contends that the robustness as well as good, growth-enhancing relations between business and government elites are possible and could serve as a springboard for sound contextual policies to foster business growth (Maxfield and Schneider, 1997; Lucas, 1997). In other words, growth coalitions and relevant institutional players such as trade unions and business associations remain crucial in the determination of "who gets what, how and when" in the political system (see Laswell, 1936). The group model of public policy-making argues that the relative strength and organizational prowess of respective groups do shape how public policies are made to favor such groups and this suggests that if business associations are stronger, they could lobby or influence for effective institutional enactments and congenial operating space for businesses. An attempt to assess the ease of doing business indicators across countries cannot discount the role and organizational strength of key institutional players such as trade and business associations in the respective countries (see Doner, 1992; Laothamatas, 1992). Essentially, when state capacity is matched by equal capacity in the private sector, greater mutual confidence and respect, consequently has greater probability of yielding effective outcomes (see Thorpe, 1997). Scholars posit that the more representative an association is, cuttings across a wide range of businesses and sectors, the more likely it is to elicit and influence policies that are generally good for business growth (Maxfield and Schneider, 1997).

Heilman and Lucas (1997) compared the growth of business associations in Kano, Nigeria and in Tanzania, using a framework that examined the strength and role of business associations as part of a social movement towards capitalism. The study observed little evidence of business associations pressing for broad-based macroeconomic stabilization, but documented extensive interest in trade protection, targeted interventions and indigenization laws. Handley (2008) observes that capitalism continues to flourish in the new SA state as used to be under apartheid regime which is so because of the strong business community and business elites. In other words, using the group model of public policy analysis, this school of thought has it that the forces of international capitalism appeared too powerful than the ensuing post-apartheid political elite who also appeared somewhat too diffident. Another perspective has it that the political elites of the SA government succumbed to either pressure or temptation and agreed on an "elite pact" to encourage capitalism and preserved; access to business opportunities broadened, in return for business acquiescence to a democratic political settlement (see Bond, 2000). The stronger role of business associations in South Africa (SA) have somewhat courted the African National Congress (ANC) leadership and invested heavily in persuading them to adopt pro-market policies especially in late 1980s and early 1990s. Consequently, the post-apartheid state kept to the design of pro-market reform and to foster maintain profitability. This point has forcefully been brought home by Fine (2010) that there is an "integral partnership between state and private capital" (p. 174) which appears more symbiotic such that "business

Country	Political stability	Government effectiveness	Regulatory quality	Control of corruption	Average	Doing business score
Rwanda	52.86	62.02	59.13	71.15	61.29	77
South Africa	36.19	66.35	61.54	57.21	55.32	66.03
Botswana	83.33	65.38	68.75	77.88	73.83	65.4
Ghana	47.14	46.15	50.00	52.88	49.04	59.22
Cote d'Ivoire	15.71	31.73	46.15	36.54	32.53	58
Nigeria	4.29	14.90	17.31	13.46	12.49	52.89

Source(s): Authors' creation with data from World Bank's Worldwide Governance Indicators

Table 4. Political stability and governance indicators of countries

needs the support of government to make profits whilst governments and politicians also require to share in these profits to finance government and politics" (Moore and Schmitz, 2008).

4. Conclusions

Structural adjustment programs have propelled an economic liberalization in many African countries which has seen private businesses taking over the commanding heights of many African economies (see Amavilah *et al.*, 2017). Many countries, have sought to provide a congenial environment for private businesses to flourish in a more competitive manner to induce investment and improved product and service delivery. It is the role of governments through public policies to ease up the entry and transaction costs so that SMEs can do business with ease. This point has been mentioned by Ayyagari *et al.* (2007) that lower costs of entry and better credit information sharing are associated with a larger size of the SME sector. To gauge the progress made by countries regarding the business-friendly nature of their policies, the World Bank has come out with an assessment tool which they do by compiling a "ease-of-doing-business" report for various countries. From the data above, the study observes a general rise in performance of the selected African countries on all indicators. This study adopted a multi-dimensional framework in attempt to explain what accounts for the relative performance of African countries on the ease of doing business.

Reconciling the Ease-of-Doing-Business Report with other related dataset and extant empirical literature, the study observes that the nature of leadership, socio-cultural imperatives, economic structure and policy, the role of domestic institutional players and international players have implications on the extent to which the state creates an enabling environment for SMEs and entrepreneurial activities. For example, using all governance indicators (Worldwide governance indicators and corruption perception scores) observes that those three countries (Rwanda, South Africa and Botswana which perform relatively very well on these scores also perform proportionately well on the ease of doing business score. On the other hand, Nigeria, Cote d'Ivoire and Ghana which are either performing poorly or averagely also performs proportionate scores in their ease of doing business. This suggests that attempts at promoting SMEs and entrepreneurial activities also requires efforts at stepping up good governance as the two tend to move together. Velde (2010) avers that the provision of well-functioning structures and effective procedures which are not too bureaucratic help foster SME growth and entrepreneurial activities. If processes are made so much complicated and cumbersome with rigid regulatory regimes beyond the capacities of state regulators, business persons and entities enter into *deals* with public officials (Hallward-Driemeier *et al.*, 2015) and the state ends up losing. For example, if taxes are placed so high such that their monitoring exceeds the containment capacities of public officials, investors are better off entering into deals with public officials so as to get their way around. It is therefore prudent to adopt a relatively congenial regulatory environment which will serve as disincentive for investors and business people to enter into private deals with public officials. Governments need to create an environment that fosters the growth and incorporation of small and medium-scale businesses. In an empirical analysis, Klapper *et al.* (2010) conclude that costly regulations tend to exert a negative impact on the incorporation of firms.

The study also reiterates the role of supportive cultural software that will help drive SME and entrepreneurial growth, different aspects of national culture do have implications on the tendency for people to be business minded or ability to take risks (El Ghoul *et al.*, 2016). It is, therefore, prudent for governments to encourage a holistic "learning" exercise that will reorient the mindset of all citizenry. This requires instrumental and cognitive learning which will provide knowledge and skills on how to do the manage businesses effectively. It also requires affective learning whose outcome seeks to the development of attitudes or feelings of people towards business. Finally, self-reflective learning needs to be encouraged which should be aimed at developing new patterns of understanding, thinking and behaving and therefore creating new knowledge. In a similar context, Berger and Udell (2006) argue that social norms, religion and culture may have an important effect on the production of soft information for SMEs and Past research shows just how crucial it is for a reliable regulatory system to exist in an emerging market to convey a sense of an "even playing field" for business to take place (Hoskisson *et al.*, 2000; Peng, 2003).

Promoting SME and entrepreneurial growth requires both a demand and supply side which suggests a peculiar role for governments on the one hand and organized associations on the other hand. It is observed from the study that where business associations and organized groups tend to put up fierce demand for reforms and supportive business policies, the "ease of doing business" score and its indicators remain encouraging whilst those countries whose "third force" remain weaker also have corresponding weaker score. It is, therefore, prudent for groups to press more demand on their policy-makers to enact and enforce policies supportive of SME growth.

African countries that do well on these indicators also provide more favorable climate for SMEs to thrive and sustain over time whilst those that are lackluster tend to make the space difficult for budding and prospective SMEs to thrive. The study contends that the relative performance of very poorly performing African countries could be understood well by using these indicators as frames of analysis; they combine in more sophisticated ways to either thwart or enhance efforts of business people.

4.1 Limitations of the study and areas for further studies

A limitation of the current study is that it did not deploy any particular statistical tests to check the robustness of the analysis. The work nonetheless triangulated the observations with qualitative data from key informants to validate the findings.

In addition, the Ease-of-Doing-Business Report may not be a sacrosanct way of measuring some of the indicators due to some methodological concerns, yet it gives a general view or picture of the nature of the business environment of countries.

Further studies need to adopt case by case and comparative assessment to examine how these play out in diverse contexts and countries deploying particular statistical techniques to check the robustness of the observations and conclusions.

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