

Ease of Doing Business, Trade across Borders and Profitability of Small and Medium-Size Enterprises in Port Harcourt

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Abstract: This paper discussed the ease of doing business - trading across borders - and the profitability of small and medium-size enterprises in Port Harcourt. The objective was to assess whether the cost/time aspect of the trading across border indicator had an impact on SMEs profitability. Primary data was collected through semi-structured questionnaires and interviews from 114 respondents (90 SMEs and 24 Institutional representatives). The study used descriptive statistics to analyse the data with the aid of SPSS software. The findings of the study indicated that the cost/time impact of the trading across border index has a negative impact on the profits of SMEs in Port Harcourt. The study identified some problems such as numerous/ambiguous levies and the non-functionality of the Port Harcourt seaport. The study recommended the streamlining of levies and the revamping of the Port Harcourt seaport as some measures to improve the trading across borders aspect of EODB in Port Harcourt to encourage more SME participation and enhancement of profitability.

Key Words: SMEs, Profitability, Trading across borders, Business environment and Ease of doing business (EODB).

I. INTRODUCTION

Trade is as old as mankind itself, whereby; people exchanged goods with their neighbours (Gbosi, 2014). However, trade has evolved to the point where goods and services are now exchanged or traded beyond borders or across nations. Akpuru-Aja (2001) posits that the main focus of trade is to understand the export-import behaviours of nations across frontiers. Therefore, it can be said that trade is a very important part of any economy because it provides the means by which nations are able to profit from what they produce by selling it to others. It is common knowledge that when the proceeds of a business transaction exceed the costs, a gain or profit is achieved. In addition, the wider the profit margin, the more funds are likely made available to be reinvested in the business to achieve expansion or growth. Also, through trade, nations are able to obtain what they need from other economies. This buttresses the fact that indeed no one or no nation can be totally self-reliant because others may have what it doesn't have and vice versa. Though there is a controversy between trade openness and economic growth (Zahonogo, 2016), however, opening a nations border to encourage trade, helps to boost economic growth due to

factors such as transfer of technologies and the gains of foreign direct investments (FDIs).

Ease of Doing Business (EODB) is the World Bank's initiative geared towards motivating economies around the globe to create reforms that could improve various aspects of their business regulations (World Bank, 2019). The "trading across borders" indicator of EODB evaluates a country's performance in the area of international trade by focusing on its practices with regards to the number of documents needed for exports and imports, the time or number of days it takes for exports and imports to be completed in addition to the associated costs (Hoyland, Moene & Willumsen, 2012). According to the World Bank EODB report (2019), for any economy to thrive, it requires a healthy private sector. The World Bank also believes that the prosperity of small and medium-size enterprises (SMEs) is key to job creation and income generation. That is why it is important for government to pay special attention to the business regulations that affect SMEs to ensure that these firms operate in a conducive business environment.

Meanwhile, through the provision of products and services, SMEs have contributed to boosting employment and reducing poverty within the economy (Chhabra & Pattanayak, 2014). However, despite SMEs contributions to the economy, in terms of trading across borders, they still face challenges that affect their profitability and one of these challenges is associated with the business environment (Abdullah & Mansor, 2018). Some of the challenges faced include; corrupt practices at the seaport which slows down the importation process; losses in terms of damaged or spoilt goods as a result of bad road and delay in importation. Also, the costs associated with trading across borders are seen to be expensive and having a negative effect on SMEs profitability. All these challenges will have a long-run negative effect on SMEs profitability, the growth and development of the economy at large.

II. LITERATURE REVIEW

2.1 Ease of Doing Business (EODB)

For more than fifteen years, the World Bank has been actively involved in gathering information on various areas of business

regulations to help governments identify and correct problematic areas in their administrative procedures. The Ease of Doing Business (EODB) is the World Bank's initiative geared towards motivating economies around the globe to create reforms that could improve various aspects of their business regulations. Since its inception in 2003, EODB has motivated over 3,500 global reforms and also encouraged the publication of various journals and articles. The World Bank initiative of EODB has also created awareness and provided a platform for discussions on what should constitute the best business regulatory environment (World Bank, 2019). EODB is necessary for the growth and development of any economy. For example, research shows that one of the factors that attract American companies to invest in a region is if it has good trade regulations (Corcoran & Gillanders, 2015). EODB provides internationally comparable indicators of the business environment that are perceived necessary to support businesses to thrive (Besley, 2015). The EODB score is based on ten indices namely; starting a business, getting electricity, getting credit, registering property, paying taxes, enforcing contracts, trading across borders, dealing with construction permits, protecting investors and resolving insolvency.

EODB encourages that business laws should be geared towards ensuring SMEs survival and prosperity without subjecting them to a series of tedious, time-consuming and expensive regulatory procedures. The EODB is based on law and administrative burdens (Corcoran & Gillanders, 2015) because the indices seem to majorly address legal issues, cost, time and number of procedures involved in a process. Therefore, if these laws, procedures and costs become favourable to the SMEs, there is the likelihood that cost and time could be saved and this, if properly managed, could help to improve profits.

Various studies have been done regarding the influence of EODB on SMEs. In Nigeria, a recent study by Effiom and Edet (2018) examined how external factors such as regulation and internal factors such as human resource management have an effect on the success of SMEs in Nigeria. Another recent study by Igwe, Amaugo, Ogundana, Egere and Anigbo (2018) was also on some factors of the Nigerian business environment that effect SME productivity. However, this study differs from previous studies because it examines the time/cost effect of the trading across border indicator of EODB on SMEs profits from information provided by SMEs and relevant institutional representatives.

Dhliwayo (2016) did an empirical study on the "export experience and financial performance of SMEs". The findings revealed that the more experienced SMEs are in international trade, the more they are able to boost profits. Dhliwayo (2016) recommends that barriers to international trade such as taxes and duties should be reduced or eliminated to further promote profitability. Since, profitability, to a large extent, is dependent on sales volume and effective cost management. "Trading across borders" is one of the measures of EODB (World Bank, 2019). However, research shows that

developing nations do not have precise information about the international trading activities of SMEs (Dhliwayo, 2016). Some of the reasons could be due to the small trading values involved and the inability to decipher whether the trading activities are personal or commercial. Nevertheless, since SME business activities help in areas such as employment generation and poverty alleviation, their activities are significant to the well being of any nation. Therefore, it is important to ensure that regulatory requirements in the area of international trade are properly addressed.

Corcoran and Gillanders (2015) examined EODB in terms of how it attracts foreign direct investments (FDI). With the use of statistical measures, results show that FDIs are more concerned about the trading across borders aspect of EODB. The results also reveal that for more developed nations, the trading across borders measure is important in attracting more FDIs. On the other hand, this measure does not affect the number of FDIs that less developed nations are able to attract. This is because the results suggest that foreign investors are influenced by their homeland investment practices. For instance, American firms would rather invest in areas that have good trade regulations, while investors from other countries may be motivated by other reasons. Trading across borders deals with issues such as time, cost and the amount of documentation required in processing the importation or exportation of goods. Corcoran and Gillanders (2015) posit that foreign firms are usually larger and more export oriented than domestic firms, hence the reason why the regulations for trading across borders is of importance to FDIs. The Lagos Chamber of Commerce and Industry (2019) also notes that institutional issues, poor ports infrastructure, excessive documentation and volatile trade policies are some of the issues that make trading across borders in Nigeria to be quite challenging and thereby impacting business profitability.

Jovanovic and Jovanovic (2018) researched on the EODB and FDI in the ex-socialist countries". By adopting the generalized Method of Moments, the study showed that only the "trading across borders may be considered as a robust determinant of FDI". Jovanovic and Jovanovic (2018) cite the example that a country such as Lithuania had 15 payments per year, while Montenegro had 66. Results indicate that Lithuania would likely have 30% more FDIs than Montenegro. In the same vein, Jovanovic and Jovanovic (2018) posit that countries with less paperwork for their exports and imports would naturally attract more FDIs. This further buttresses the point that a reduction in administrative requirements within the regulatory framework would boost EODB measures and this could go a long way to encourage more business investments and improve profits.

2.2 Small and Medium-size Enterprises (SMEs)

There is no generally accepted definition of SMEs (Chhabra & Pattanayak, 2014) because each nation has their varied criteria for SME classification. For instance, in qualifying a firm as an SME, countries have different values placed on factors such

as production capacity, level of technology and the number of employees. Since these classifications are varied around the world, it becomes difficult to find a common ground in defining or comparing SMEs (Eniola & Entebang, 2015). For example, in terms of employment, Egypt defines SMEs as businesses having between 5 to 50 employees, while America classifies their SMEs as firms having less than 500 employees (Itemeh, 2015). In Nigeria, there are sub-divisions in grading the firms, for example, a “small-scale industry” has 11-100 employees, while a “small enterprise” has 10-49 employees (Itemeh, 2015).

Regardless of the various classifications, SMEs play an important role in any economy because they assist in areas such as, poverty alleviation and providing employment opportunities (Chhabra & Pattanayak, 2014). The regulatory climate influence SMEs, since it is the country’s institutions that set the rules, which direct or control the business environment (Pinho, 2017). In addition, studies indicate that a strong rule of law, an efficient regulatory system and good financial institutions all contribute positively to business growth (Roxas, Chadee & Pacoy, 2013). Moreover, institutions that provide “quality business regulations” can help reduce certain costs such as direct financial costs and the time spent in completing the processes required to comply with the rules and regulations (Roxas et al., 2013). Therefore, any government that cares about its nation should ensure that rules and regulations affecting their SMEs should be given special attention (World Bank, 2019).

2.3 Uncertainty Bearing Theory of Profit

Frank Knight was of the opinion that since profit is the difference between revenue and cost, then, understanding cost is the key to the profit phenomenon. Knight posits that costs such as insurance, management wages and interest should be excluded from profit because they are imputed or associated with costs (Obrinsky, 1981). Knight drew a distinction between risk and uncertainty. According to Knight, risk is measurable because its likelihood of occurrence can be estimated, however, uncertainty refers to risks that can’t be measured. Therefore, Knight defines profit as the reward for bearing uncertainty (Leroy & Singell, 1987). Uncertainty is a situation beyond the reach of the firm; for example, changes in tax policies affect profits (Major, 2008).

Knight’s theory was criticized for not recognizing that entrepreneurs still had opportunities to make profit regardless of uncertainty. Also, entrepreneurs are not the only ones that bear risks.

2.4 Institutional Theory

Institutions are generally considered as formal or informal rules of conduct which guide or control individual actions based on the collective consent (implicit or explicit) of the individuals that belong to the group. In other words, institutions provide the mechanisms by which individual actions are controlled by collective actions (Tajima, 2007).

Some examples of institutions include traditions, laws, ethical codes and customs.

The World Bank believes that countries need to encourage reforms in the business regulations to promote the EODB (World Bank, 2019). The idea is to adjust existing regulations that do not support the goal of creating a friendly business environment.

According to Igwe, Amaugo, Ogundana, Egere and Anigbo (2018), government regulation is one of the various factors that affect SME profitability. For example, fewer regulatory controls have helped to reduce costs and boost profitability in banks. However, opportunities for cost efficiencies do not necessarily translate to improved profits especially if other activities of the firm are not properly managed (Pasiouras, Tanna & Zopounidis, 2009). Therefore, it may be safe to say that excessive regulations could waste time that could be used for other productive activities. Also, except SMEs manage their affairs properly, they may not benefit from the reduced costs associated with regulatory burdens.

III. METHODOLOGY

Primary data was collected through semi-structured questionnaires and interviews from 114 respondents (90 SMEs and 24 Institutional representatives). With the aid of SPSS software, descriptive statistics (Fisher & Marshall, 2009) was used to present, organize and analyze the data.

Data collected for the World Bank EODB scores are compiled and analyzed based on information sourced from professionals from various fields such as lawyers, accountants, architects and engineers. These professionals are chosen based on their active participation in the standard procedures of the activities measured by the EODB. The World Bank states that there are two main reasons why they do not engage firms directly as participants in their surveys. The first reason is that firms do not frequently engage in the activities measured. For instance, a firm would only go through the starting a business process once, however, an incorporation lawyer would go through this process multiple times because of the access to more clients that would require their services of registering their companies. Secondly, the EODB questionnaires usually elicit legal information, which they presume would best be provided by professionals rather than firms that may not have adequate knowledge in the field. For instance, only few firms may know about the legal proceedings involved in resolving disputes through the court but it is expected that a litigation lawyer would be more knowledgeable in this area. The World Bank has pointed out that professionals would be in a better position to provide credible information on the EODB indicators, based on their frequency of application, experience and wealth of knowledge (World Bank, 2019). However, there are some aspects that SMEs actually face frequently and also have the experience that could be of use to understanding more about the EODB in their country. For example, SMEs involved in trading across borders would also have useful information about their experiences.

The measurement of EODB is based on results compiled either from one or two major cities of the countries evaluated. For Nigeria, only results from Lagos State and Kano State were considered (World Bank, 2019). Port Harcourt city is the administrative capital of Rivers State, Nigeria. Port Harcourt is currently the fourth largest city in the country after Lagos, Kano and Ibadan, with a population of more than two million people. Previously, Port Harcourt city comprised of three local government areas, Port Harcourt, Okrika and Obio-Akpor. However, with the establishment of the greater Port Harcourt law, the city also includes Etche, Oyigbo, Eleme, Ogu-Bolo and Ikwerre local government areas, this is as a result of the recent master plan aimed at urban development (Dan-Jumbo & Metzger, 2019). For instance, the indicator of trading across borders revealed that Nigeria, based on survey results in Kano and Lagos, has made improvements by reducing the time it takes to import and export due to electronic system upgrades and the launching of the e-payment of fees (World Bank, 2020). The question is; would SMEs in Port Harcourt agree with the World Bank, that, Nigeria has indeed made it easier for them to do business in imports and exports?

IV. RESULTS AND DISCUSSION

4.1 Analysis of Results

Table 4.1: SME Sector Category

SME Sector Category					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	17	18.9	18.9	18.9
	Primary	19	21.1	21.1	40.0
	Services	54	60.0	60.0	100.0
	Total	90	100.0	100.0	

Source: Author's Field Survey (2020)

The SMEs represented various sectors of the economy, which were grouped into three broad categories. The manufacturing sector (18.9%) represents SMEs in the field of construction, manufacturing and engineering. The primary sector (21.1%) represents SMEs in the area of agriculture and oil and gas. The service sector (60%) represents SMEs in other fields such as education, entertainment, financial services, real estate, health care and retail.

Table 4.2: SMEs response – Timing/Cost impact of EODB’s trading across borders indicator on revenue/sales, cost and profit

S/n	EODB’s trading across borders indicator	Percentage Response (%)					Total response out of 90
		Very High	High	Neutral	Low	Very Low	
1	Time and number of procedures involved in imports and exports -	31.1	40.5	21.6	5.4	1.4	74

	impact on revenue/sales						
2	Time and number of procedures involved in imports and exports - impact on expenses	30.6	36.1	27.8	4.2	1.4	72
3	Cost associated with importing and exporting - impact on revenue/sales	43.1	34.7	18.1	1.4	2.8	72
4	Cost associated with importing and exporting - impact on expenses	43.5	29	23.2	2.9	1.4	69
5	Trading across borders - impact on profit	41.8	37.3	14.9	4.5	1.5	67

Source: Author’s Field Survey (2020) - SPSS version 25 outputs

Regarding the time and number of procedures involved in imports and exports, 31.1% of SMEs said it had a very high impact on their revenue/sales. 40.5% of SMEs believe the impact is high, 21.6% are neutral, 5.4% say the timing impact is low and 1.4% say it is very low. Concerning the time and number of procedures involved in imports and exports, 30.6% of SMEs said it had a very high impact on their expenses. 36.1% of SMEs believe the impact is high, 27.8% are neutral, 4.2% say the impact is low and 1.4% say it is very low. With reference to the cost associated with importing and exporting, 43.1% of SMEs said it had a very high impact on their revenue/sales. 34.7% of SMEs believe the impact is high, 18.1% are neutral, 1.4% say the impact is low and 2.8% say it is very low. Based on the cost associated with importing and exporting, 43.5% of SMEs said it had a very high impact on their expenses. 29% of SMEs believe the impact is high, 23.2% are neutral, 2.9% say the impact is low and 1.4% say it is very low. Regarding the indicator, trading across borders, 41.8% of SMEs said it had a very high impact on their profit. 37.3% of SMEs believe the impact is high, 14.9% said it was neutral, 4.5% say the impact is low and 1.5% say it is very low.

Table 4.3: Institution Professional Area

Institution Professional Area

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Business Development and Growth	1	4.2	4.2	4.2
	Construction	1	4.2	4.2	8.3
	Electric Power	3	12.5	12.5	20.8
	Engineering	2	8.3	8.3	29.2
	Financial Services	4	16.7	16.7	45.8
	Legal	4	16.7	16.7	62.5
	Pension	1	4.2	4.2	66.7
	Road Safety	2	8.3	8.3	75
	Security	3	12.5	12.5	87.5

Surveying	1	4.2	4.2	91.7
Taxation	2	8.3	8.3	100
Total	24	100	100	

Source: Author's Field Survey (2020) - SPSS version 25 output

4.2% each represent the institutional professional areas of business development and growth, construction, pension and surveying. Engineering, road safety and taxation all have an 8.3% each. Financial and legal professional areas both have 16.7% each, while the areas of security and electric power both have 12.5% each.

Table 4.4: Institution Response – Timing/Cost Impact of EODB's Trading Across Borders Indicator on SME's Revenue/Sales, Cost and Profit

S / n	EODB's trading across borders indicator	Percentage Response (%)					Total response out of 90
		Very High	High	Neutral	Low	Very Low	
1	Time and number of procedures involved in imports and exports - impact on SME's revenue/sales	30	30	30	10		10
2	Time and number of procedures involved in imports and exports - impact on SME's expenses	44.4	33.3	11.1	11.1		9
3	Cost associated with importing and exporting - impact on SME's revenue/sales	20.0	50.0	30.0			10
4	Cost associated with importing and exporting - impact on SME's expenses	20.0	60.0	20.0			10
5	Trading across borders - impact on SME's profit	30.0	50.0	20.0			10

Source: Author's Field Survey (2020) - SPSS version 25 output

Regarding the time and number of procedures involved in imports and exports, 30% of the institutional representatives said it has a very high impact on SMEs revenue/sales. Another 30% of institutional representatives believe the impact is high, 30% are neutral and 10% say the timing impact is low. With regards to the time and number of procedures involved in imports and exports, 44.4% of institutional representatives said it had a very high impact on SMEs expenses. 33.3% of institutional representatives believe the impact is high, 11.1% are neutral and another 11.1% say the impact is low.

Concerning the cost associated with importing and exporting, 20% of institutional representatives said it had a very high impact on SMEs revenue/sales. 50% of institutional representatives believe the impact is high and 30% are neutral. Referring to the cost associated with importing and exporting, 20% of institutional representatives said it had a very high impact on SMEs expenses, 60% believe the impact is high and 20% are neutral.

Regarding the indicator, trading across borders, 30% of institutional representatives said it had a very high impact on SMEs profit, 50% believe the impact is high and 20% said it was neutral.

4.2. Discussion of Findings

Most of the SMEs believe that the EODB factor of trading across borders has a higher effect on their revenues, costs and profits. The timing and number of procedures involved in trading across borders is viewed by most SMEs to be too long, frustrating, cumbersome and discouraging. For example, a respondent who is a car dealer said that it takes about 3-4 weeks for the cars to arrive the Lagos seaport. In addition, ships that bring in cars mostly berth in the Lagos Port and are not directed to any other seaports in other locations like Calabar and Port Harcourt. Thereby, making it more expensive and taking more time for them to transport the cars from Lagos to Port Harcourt.

The costs associated with trading across borders are seen to be expensive and having a negative effect on SMEs profitability. For example, one of the respondents said that when importing frozen foods, they are required to pay multiple charges, such as, importation rate, custom duties, withholding taxes and so on. Another SME noted that sometimes, fees are computed arbitrarily at the port and that this process introduces bottlenecks that cause time delays in getting approval for their goods to be cleared. The time wasted also has a cost impact of paying demurrage fees for delays caused by the custom officials.

Some SMEs noted that corrupt practices at the seaport also slows down the importation process and increases costs. Other SMEs posit that there are multiple charges and that the import duties are quite high, stating that these factors have a negative impact on their profits

Other issues experienced by SMEs involved in imports and exports are the risks of their goods spoiling, especially if dealing with perishable items that are kept unnecessarily too long at the ports before being cleared. Some say that due to bad roads, they have made some losses in terms of damaged goods as a result of accidents while commuting from Lagos to Port Harcourt. Citing that some of these losses could be avoided if the Port Harcourt seaport was accessible to them.

Most of the institutional representatives agree with the SMEs view that the time and cost aspects of trading across borders has a high and negative impact on SMEs profitability. Some institutional representatives were of the opinion that multiple levies result in high costs for import/export activities.

About 80% of international trade is seaborne and this is why the seaports provide a crucial link for countries to participate in the global markets (Becker, Acciaro, Asariotis, Carera, Cretegnny, Crist, Esteban, Mather, Messner, Naruse, Ng, Rahmstorf, Savonis, Song, Stenek & Velegrakis, 2013). Therefore, due to the significance of seaports in international trade, it provides opportunities for small and medium

enterprises (SMEs) to do business and enhance profits. Moreover, the proximity of seaports to SMEs, where possible, would further reduce time spent on commuting and this in turn will help boost profits (Onifade, 2020), since goods would arrive faster and encourage sales.

In Nigeria, there are seaports strategically located in Lagos, Port Harcourt, Warri, Calabar and Akwa Ibom, therefore, SMEs in Port Harcourt should have access to the port facilities in Port Harcourt. However, due to issues such as narrow river channels and the withdrawal of some grants to vessel owners by the government, most of the seaports in the Southeast and South-South region of Nigeria are idle (Oritse, 2019). Some SMEs noted that they are not involved in imports and exports, perhaps if most of the challenges are addressed, more SMEs could be engaged in the business opportunity provided by trading across borders.

V. CONCLUDING REMARKS

Profits are deemed to accrue when costs are reduced and that is why understanding costs is important to improving profits (Obrinsky, 1981). Institutions are responsible for formulating policies, providing for the legitimacy/survival of organizations, aiding organizations to access resources and so on (Meyer & Rowan, 1977). The business environment is external to SMEs and therefore beyond their control because the decisions affecting the business environment are controlled by the institutions (Major, 2008). That is why the actions of institutions not only give rise to uncertainty in the business environment but also important to providing a friendly environment for SMEs to prosper. The findings of this study also indicated that the time and cost impact of the EODB's trading across borders indicator does have an effect on the profitability of SMEs in Port Harcourt.

Based on the findings, government should look into the issue of levies, ensuring they are clear and transparent. One of the issues associated with numerous levies is that SMEs would be forced to add this extra cost to the price of their goods, thereby, making it more expensive for the final consumer and also making it difficult for them to compete favourably. Therefore, the appropriate authorities should streamline these levies to ease the burden on SMEs. Also, relevant institutions in Nigeria should look into the reasons why other seaports across the country are not functioning properly. As one of the SME respondents pointed out, only the Lagos seaport is operational and that the seaport in Port Harcourt is currently not functional. The more seaports in operation could reduce time and other costs associated with trading across borders because the goods could be delivered closer to the business area of the SME.

Government should not rely on accolades from the World Bank to tell the country how well they are doing on the ease of doing business scale. Rather, government needs to look inwards and access the reality of the situation and improve. For instance, the World Bank says Nigeria has improved in

the area of trading across borders, whereas the reality is that the country is still struggling in this area.

Since the EODB score is based on the results of one or two cities within a country, they should consider the ranking based on cities rather than countries. This is because one or two cities may not be representative enough in giving a full picture of a country's performance. Moreover, a city-based ranking of EODB may encourage other cities in the country to aspire to improve on their business environment.

The World Bank should consider a project that elicits information directly from SMEs and not only from professionals, which, they presume to be more knowledgeable due to their frequent engagement in activities measured. This insight from the actual firms will give another perspective that would be useful in their evaluations of EODB.

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