

Exploring Regulatory Constraints to the Growth of Small and Medium-Scale Enterprises in Delta State

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ABSTRACT: *This study investigated the intricate landscape of regulatory constraints and their impact on SME growth in Delta State. Through a comprehensive review of existing literature, empirical data analysis, and qualitative insights, this study seeks to identify, analyze, and understand the key regulatory challenges faced by SMEs operating in Delta State. The study explored a range of regulatory factors including bureaucratic procedures, taxation policies, access to finance, compliance burdens, and the interplay between formal regulations and informal practices. Furthermore, this study accessed the implications of regulatory constraints on SME performance, competitiveness, innovation, and overall economic contribution within the region. It also examined the effectiveness of existing government policies, regulatory frameworks, and institutional mechanisms in addressing these constraints and fostering an enabling environment for SME growth. The theoretical frameworks of this study hinged on the institutional theory which provides valuable insights into the regulatory dynamics shaping the SME sector in Delta State. The findings of this study show that while regulatory constraints are a key challenge, they are not lethal. Despite the divergence in ratings, SMEs face significant challenges and should be given special consideration for development through targeted interventions and constraint removal. It was therefore recommended that streamline regulatory processes for small and medium-sized enterprises (SMEs) to streamline registration, licensing, and financing. Government departments should introduce digital enablers to simplify compliance and expedite the start-up process*

KEYWORDS: SMEs, challenges, constraints, policy, regulatory, bureaucratic

INTRODUCTION

Small and medium-sized enterprises (SMEs) are the spurring wheel for economic progress as they are responsible for the provision of jobs, and equal distribution of wealth, and are great contributors to overall economic growth (Gherghina, Botezatu, Hosszu & Simionescu 2020). Nonetheless, their vast capabilities are also vulnerable to the impediments that SMEs face that are hindering their growth prospect. With this problem, regulatory factors turn out to be one of the major obstacles in the growth and development of renewable energy. Regulations in the world of SMEs play roles that make them lose opportunities (Koghuashvili & Koridze 2022). Bureaucratic red tape, overly complex tax systems, limited access to credits, and compliance difficulties present major stumbling blocks for SMEs to grow. In addition, the practice of considering laws and regulations to be informal makes the implementation of these laws even more difficult, causing insecurity in the environment and the non-stop occurrence of uncertainties (Pedraza 2021). The range of regulatory measures affecting micro, small and medium-sized businesses (MSMEs) in Delta State has aspects that are at the same time deep and diversified (Venter & Clercq 2013). High compliance costs, stacked regulatory uncertainty, and wasted administrative burdens all take resources away from productive activities, leaving science and technology to be left behind. This phenomenon also accounted for the inability of the SMEs to achieve their best performance, limited job creation, poor anti-poverty action, and inadequate support for the process of economic growth in the region (Baldock & Harrison 2015).

The importance of this study is that it possesses the ability to drive relevant measures and policy recommendations that are rooted in empiricism and will direct to evidence-based development of SMEs and enhance economic inclusivity in Delta State and other regions (Lakuma, Marty & Muhumuza 2019). The study aims to bring out the constitutional dynamics touching on the operations of the SME sector; thus, the research contributes to knowledge and the formulation of solutions to enhance the competitiveness and resilience of SMEs in the region. The breadth of the study focuses mainly on factors regulating SMEs' activities within Delta State, Nigeria. It covers all the bureaucratic procedures, taxation policies, finance access, compliance problems, and informal practices which play a role concerning formal regulations (Salami, Ekakitie & Ebinim 2023). Against this backdrop, there is a pressing need to comprehensively understand the nature, extent, and implications of regulatory constraints on SMEs and cover any knowledge gap from other studies such as that of Olaleye, Olufemi and Akinde (2012), Rufai, Nuhu and Yakubu (2023) and that of Abdullahi, Jakada and Kabir (2016) who are of the conclusion that globalization has altered how businesses and industries compete, and any nation that wants to remain relevant in the twenty-first century must undergo a paradigm change in the way that businesses and government

are carried out. The study found that the issues affecting SMEs in the study region included a lack of funding, marketing issues, resource shortages, issues with location and business environment, a shortage of competent labour, multiple taxations, technology issues, a lack of contemporary, unfavourable government fiscal and policy decisions, unreasonably priced technology, and a lack of basic infrastructure. Such understanding is crucial for policymakers, regulators, business associations, and other stakeholders vested in promoting entrepreneurship and fostering economic prosperity (Gherghina, Botezatu, Hosszu & Simionescu 2020).

This study is expected to:

1. identify key regulatory constraints of SMEs.
2. evaluate the implications of regulatory constraints on SME performance, competitiveness, and innovation.
3. examine the effectiveness of existing government policies, regulatory reforms, and institutional mechanisms in addressing regulatory challenges facing SMEs.

To assist in the search for the right answers to this study, the following research questions will serve as a guide:

1. What are the key regulatory constraints of SMEs in Delta State?
2. How do regulatory constraints in Delta State impact the performance, competitiveness, and innovation of Small and Medium Scale Enterprises (SMEs) in Delta State?
3. What is the effectiveness of existing government policies, regulatory reforms, and institutional mechanisms in addressing regulatory challenges faced by SMEs in Delta State?

LITERATURE REVIEW

Small and Medium Enterprises (SMEs) are subject to the regulatory system created to govern businesses as set forth by the law, regulations, and other necessary procedures, which are geared towards compliance and promote high-functioning business practices, requiring SMEs to adhere to a certain level of regulation (Fadeev 2020). Although efforts have been made to make the regulations more consistent and assist small businesses, the problem continues that holds SMEs to perform at their full capacity (Pedraza 2021). It is a regulatory requirement for SMEs to register businesses with relevant government authorities such as the Corporate Affairs Commission (CAC) and the Delta State Ministry of Commerce and Industry (Lyutova 2022). Getting the licenses and permits needed which label different business activities, such as manufacturing, trading or service provision, can be quite tedious too and requires dealing with very small administrative procedures

and fulfilling very high requirements. Small and medium enterprise (SME) owners are required to perform several functions of tax and custom levies, which are enforced by federal, state and local governments that could be corporate income tax, VAT and business premises levy (Sephapo, Cant & Wiid 2016). Tax compliance for SMEs becomes necessary when they are required to keep their records correctly, file income tax returns from time to time, and have to submit returns on due dates. These additional administrative matters become a burden on the person who is already running a business (Venter & Clercq 2013).

Financing remains the most crucial problem for SME owners as bank lending is not widely available as unsecured credit comes at high interest rates (Gherghina, Botezatu, Hosszu & Simionescu 2020). The authorities take actions like Delta State Micro, Small and Medium Enterprises Development Fund (DSMSMEDF) to offer financial inputs and facilitate easy access to credit for SMEs, but government interventions may be hampered by red tape, and inadequate funding (Onowu, Okeke, Ngige & Ozigbo 2020). Micro, small and medium enterprise operators will be required to follow and conform to a lot of regulations such as labour laws, environmental regulations, health and safety standards as well product quality controls. Following regulatory standards may necessitate the small and medium enterprises to utilize their infrastructure, training, and certification processes, which may be very case in industries with stringent regulations such as manufacturing and food processing (Lyutova 2022). The government of Delta State has constituted institutions and agencies to provide the necessary support and capacity-building initiatives including the DELSMEDA for small and medium scale enterprises as well as the DIDA for the development of investment in the state. These bodies run training programs, advisory services, and networking opportunities for SMEs to support them to overcome regulatory hurdles, enter markets and improve their competitiveness. Besides these challenges, the regulatory impeding factor is still one of the top constraints holding down the expansion and stability of SMEs in Delta State (Ndife 2013).

Regulatory Constraints on SMEs

In addition to the various barriers ranging from regulatory to systemic bottlenecks, SMEs operate in a distinct environment characterized by dysfunctional capabilities, modest expansion opportunities, and limited longevity (Cho & Lee, 2018). This situation implies the following obstacles: creating an unfavourable business environment, difficulty in taxation, low financial access, bureaucracies, and administration inefficiencies. Highly leveraged bureaucratic procedures that relate to the start-up, licensing and permits are among major obstacles to business activities, so important costs, inefficiency in time and delays in starting or changing a company's status of regulation (GOEDHUYS, Mohnen & Taha 2016). The complex tax class in Delta State compels a

tax rate that is high on SMEs which in turn lowers their profitability. The situation thus favours those businesses with high-profit margins. SMEs which are experiencing means to fulfil tax compliance issues are mainly resulting in non-compliance issues and receiving penalties. Shortages in cheap formal commercial credit facilities such as operating financing loans, long-term projects credit, and financing for innovations hinder SMEs from flourishing. High-security requirements, rigid criteria for credit allocation and investment risk also influence small and medium enterprises' ability to secure funding (Sephapo, Cant, and Wiid 2016).

Regulations such as labour laws, environmental regulations, health and safety standards, and product quality controls (Bennett & Estrin, 2006) are a functional part of the regulatory setup. For SMEs, these business issues arise where the size of the business involves expenditures on capital, employee training, process certification, and continuous monitoring which might come out as a serious contention between the financial and human resources. The rate of effectiveness in institutional weakness, lack of enforcement and regulatory inconsistency among the regulations (García-Ramos, González-Álvarez & Nieto 2017). SMEs meanwhile deal with the slow and inefficient provision of government services required for exploration and production of oil and gas, lack of accurate and reliable data, and shortage in mechanisms for dispute resolutions, hence are put at risk of the volatilities in the local and global economy (Drab-Kurowska,2017).

Implications of regulatory constraints on SMEs performance, competitiveness, and innovation.

Small- and medium enterprises (SMEs) cope with different problems coupled with regulations, such as their success in the market competition and ability to innovate (Zhu, Wittmann & Peng, 2012). However, the advanced regulatory approaches have truly proven to be a problem, because they lower operational efficiency through the creation of documentation, processing and compliance costs, and delays. Long and burdensome procedures in business registration, licensing and hiring could therefore be attributed to delays in commencing or growing operations; the resultant missed market and lost revenue is a possibility. The incorporation of these complex tax regimes comes with the additional cost of compliance procedures, the proportion of financial posts almost all SMEs carry. This not only narrows down SBT chances but also may adversely affect businesses' overall profitability and cash flow, making it more difficult for them to use the funds to expand their operations and addition of market creativity.

Regulation is a barrier to small businesses from getting to the level of large businesses with the capacity to absorb legal, administrative, impact fees and diverse requirements in the state. Availability of finance has room for improvement; SMEs are usually met with rigorous lending

criteria and unrealistic collateral requirements. This makes it difficult to improve technology and services with new machines, which affects the market and denies SMEs access to other value chains that may assist them in competing with large companies. The rise in costs and liabilities linked to compliance makes it difficult for new entrepreneurs to enter the market and present challenges to SMEs in terms of expanding their production; this leads to market concentration and contraction of competition (Strobel & Kratzer 2015). There occurs a regulatory overload that businesses should comply with; this saps creativity from them. Moreover, this is because they provide an option that primarily uses up money that could have been used for research and development to pay regulatory fines (Kim, Park & Paik, 2018). The high compliance costs and administrative obligations that SMEs probably have could kill their enthusiasm to try something new like novel business structures or goods and services and therefore, they will be very rigid with a changing environment and technological advancement. The regulatory hurdles that are erected in front of the fledgling new ventures and disruptors whilst attempting to break into and expand in the major industries are one of the major barriers to the beginning of the new ventures and the disruption in these industries. Therefore, identify the overall speed of technological innovation and economic diversity constrain (Acuña-Opazo & Castillo-Vergara 2018).

Effectiveness of Existing Government Policies, Regulatory Reforms, and Institutional Mechanisms in Addressing Regulatory Challenges Facing SMEs

The extent to which the mechanisms and structures of the governing bodies (i.e., policies, regulations, etc.) can overcome the obstacles in the path of the SMEs is the determinant in the complexity and nature of their operations, compliance, finance, and business environment in general. Although existing interventions have managed to make breakthroughs in terms of digital business registration and licensing processes, among other complexities, the bureaucracy remains far too inert reforms are applied sporadically, and citizens are scarcely believing in the simplified provisions. Tax reforms targeted at tax framework simplification, cut-off of costs associated with tax compliance and production of incentives for SMEs have resulted in diverse results (Lytova, 2022). Policy measures such as tax amnesty programmes and tax reductions are short-term remedies that create momentary relief, but the frequent fluctuations in the tax laws along with the complex ramifications result in massive confusion as well as difficulties like tax compliance for SMEs. The provision of SME credit through ministerial credit plans and credit guarantee systems has brought the desired impacts but this impact has been stunted through hurdles such as high collateral requirements, difficult lending conditions, and low number of circulated micro-finance.

Compliant rules become ineffective because of the lack of a control mechanism, ineffective implementation of the rule, and corruption, which in the long run has non-compliance and regulatory risks. Provision of institutional support instruments like the Delta Small and Medium

Enterprises Development Agency (DELSMEDA) and the Delta Investment Development Agency (DIDA); could be necessary to avail entrepreneurs with advisory services, coaching and development programs and also network enhancement for SMEs (Onowu et al, 2020). On the other hand, though these organizations were faced with institutional inadequacies, resource constraints and the limited collaboration among stakeholders continue to be a blockade in the effectiveness of their performance. Government measures, regulatory changes and institutional control have been appropriate to a greater extent for SME owners, however, improvement in this area is possible (Rudenko & Rudenko, 2019). Consistent initiatives to make regulations simpler, low compliance costs, greater business access to finance, enhanced institutional capacity, as well a well-designed business environment will enhance the potential impact by SMEs and contribute to economic development and progress (Xiao et al. 2021).

Theoretical Framework

Institutional Theory

Thorstein Veblen's Institutional Theory, which dates back to the late 19th century, argues that besides formal and informal institutions, there are a set of rules and practices that shape individuals' behaviour, decision-making process and ultimately organizational results (Brette 2014). Formal institutions like legislative systems administration practices, and business contracts offer the substantive basis for small and medium-sized enterprises which establish how they conduct business, their compliance behaviour, and all the interactions related to commerce. Formal organizations both local and national can change what SME owners do to invest, innovate and stay competitive through government policies, and programmes. (Tauheed, 2013) While formal institutions inform the organizational process, the shaping of these institutions also plays a key role. Informal ethics, social networks and cultural values from different viewpoints form patterns of behaviour of SME operators who direct their businesses, accordingly, relate to the stakeholders and approach regulatory constraints. The theory highlights that interactive formal and informal activities and the process of changing and adapting oneself over time are very important. Changes in formal institutions, like regulations, for instance, that are shifted to accommodate different societal policies will, in turn, trigger an array of secondary reactions from the informal institutions, which will then lead to the transformation of the practices and norms of SME communities. Instead, the informal institutions act as a driving force that steers the work of formal institutions utilizing socialization, advocacy, and the power of collective action, thus, shaping regulatory frameworks and various policy endeavours which have a direct impact on the small and medium-sized business community. Lastly, as the authors of this article state, the institutional theory is an important factor that could be used by the researcher who wishes to explore the inner dynamics of the small and medium enterprises world, the nature of the decisions that are made by the entrepreneurs and the outcome for the organization that is being studied (Wang et al. 2018).

RESEARCH METHOD

This quantitative study used a structured survey questionnaire to gather data from 150 participants who are SME owners within Delta State, but only 146 were analyzed. The survey focused on key regulatory constraints on SMEs in Delta State, regulatory constraints in Delta State impact the performance, competitiveness, and innovation of Small and medium-scale enterprises (SMEs) and the effectiveness of existing government policies, regulatory reforms, and institutional mechanisms in addressing regulatory challenges faced by SMEs in Delta State. The survey was administered manually, with clear instructions and informed consent. A purposive selective sampling technique was applied to recruit participants who provided detailed information about the phenomenon under investigation. Using the Linkert scaling method, the structured questionnaire was built on a five-point scale from the highest to the lowest representing; Strongly Agree (5) Agree (4) Strongly Disagree (3) Disagree (2) Undecided (1). A mean output of 3 and above was used to decide on a positive. The software app STATA 15.0 was used to analyze the data gathered.

Data Presentation/ Discussion

Demographic Data

Table 1: Respondent Gender, Age and Education Level

<i>GENDER</i>	Male	Female			
	76 (52%)	70 (48%)			
<i>AGE</i>	18-24	25-34	35-44	45-54	55+
	14 (9.5%)	43(29.4%)	52 (32.4%)	24 (16.4%)	13 (8.9%)
<i>EDUCATION LEVEL</i>	High School or Below	College/University	Postgraduate		
	34 (23.2%)	74 (51%)	38 (26%)		

Table 1: The data provides demographic information on the sample, including gender, age, education level, and gender. Most respondents are male (52%), with a slight preponderance of males. Most respondents are aged 35-44, with a mature demographic profile. Most respondents have completed high school (23.2%), with 51% attending college or university and 26% having a

postgraduate degree. This data helps in understanding the demographic makeup of the population and potential influencing factors concerning the study's goals or research questions.

Table 2: Regulatory Constraints of SMEs in Delta State

S/N	QUESTIONS	SUMMARISED RESPONSES
1	What are the key regulatory constraints of SMEs in Delta State?	SMEs in Delta State perceive regulatory interferences as hindrances to their operational performance, with a rating of 3.54 to 3.76 mean outputs. While regulatory constraints are a key challenge, they are not lethal. Despite the divergence in ratings, SMEs face significant challenges and should be given special consideration for development through targeted interventions and constraint removal.
2	How do regulatory constraints in Delta State impact the performance, competitiveness, and innovation of Small and Medium Scale Enterprises (SMEs)?	Delta State's SMEs face significant operational challenges due to regulatory constraints, hindering strategic goal achievement and product innovation, highlighting the need for targeted interventions for growth and development.
3	What is the effectiveness of existing government policies, regulatory reforms, and institutional mechanisms in addressing regulatory challenges faced by SMEs in Delta State?	Delta SME respondents have mixed opinions on government policies and regulatory reforms, with 50% confidence in reducing administrative and environmental issues but expressing the need for improved regulator suitability and favourable conditions for SME innovation.

Analysis

Descriptive Statistics: summarize of *irmdq*, *irmrf* and *clrm*

Variable	Obs	Mean	Std. Dev	Min	Max
<i>IRMDQ</i>	146	3.543379	.8875587	1	5
<i>IRMRF</i>	146	3.940639	.8457103	1.333333	5
<i>CLRM</i>	146	4.315068	.530272	2.333333	5

The findings on the descriptive statistics in the table above composed an encoded outline summarizing the major issues of all the theme variables. OBS (Observed) shows that there were 146 respondents across the board. To operationalize the variable, Influence of Research Methodologies on Data Quality (irmdq) found an observed mean of approximately 3.54, with a scale, ranging from 1 as the lowest answer to 5 as the highest and a standard deviation of less than 1. This implies that respondents moderately rated this specific aspect on the medium level of the scale with not a very large variation in the respondents' opinions. The unobserved value of variable Influence of Research Methodology on Research Findings (irmrf) showed an estimated mean of 3.940639. The mean and a standard deviation of less than 1 are slightly less than the range This implies that the sample overall averaged a fair-to-good rating for the item, with some potential variability among their responses. Finally, the Challenges and Limitations of Research Methodologies (clrm) stands as the highest mean at roughly 4.13 and the standard deviation is about 0.54. The personal answers for such a variable may start at a minimum of about 2. Such indicates that people, generally, gave it a good to very good rating, given the fact that they gave quite close scores in one big group. Thus, the results give an idea of what areas the respondents, in general, believe are of concern, and challenges and limitations of research methodologies have the greatest average rating, and it is demonstrated by the least range of respondents. According to Mcleod, (2023), if the difference from the mean or median value or range is smaller than the standard deviation, it is similar within natural population variability. The respondents are probably on the same wavelength, and their opinions are reliable if the standard deviation number is less or equal to one (1). As is seen in the table, not one standard deviation value is as high as 1, leading to the conclusion.

The results corroborate with the studies of Olufemi and Akinde (2012), and Rufai, Nuhu and Yakubu (2023) The studies show that globalization has changed the competitive landscape for businesses and sectors, and any country hoping to be relevant in the twenty-first century needs to completely rethink how it does business and governs itself. It also agrees with that of Abdullahi, Jakada and Kabir (2016) on the problems facing SMEs in the study region which included the lack of capital, problems with marketing, lack of resources, problems with the location and business environment, a lack of skilled labour, problems with multiple taxes, problems with technology, a lack of modern, unfavourable government fiscal and policy decisions, excessively expensive technology, and a lack of basic infrastructure.

CONCLUSION

This paper examines the impact of regulatory restrictions on Small-Medium Enterprises (SMEs) in Delta State, Nigeria. The study reveals that these restrictions are the main factors contributing to SMEs' struggles, low competitiveness, and operational stagnation. Although some progress has been made in resolving regulatory hurdles, there are still areas that need improvement. The study

suggests that SMEs need to be supported by improving the regulatory framework to contribute to growth and employment. The governing bodies should prioritize optimizing policies, simplifying compliance environments, increasing access to finance, and improving governance structures. Delta State can be a catalyst for SME development, promoting sustainability, poverty reduction, and development inclusion.

Recommendations

Based on the findings presented, the following recommendations are proposed to address the regulatory constraints faced by Small and Medium Enterprises (SMEs) in Delta State:

1. Government departments should introduce digital enablers to simplify compliance and expedite the start-up process. This will streamline regulatory processes for small and medium-sized enterprises (SMEs) in the context of registration, licensing, and financing.
2. Specialized lending schemes and financial literacy programmes should be promoted to help SMEs manage their finances effectively. Policy reforms should prioritize enhancing regulatory bodies' entitlements and infrastructural facilities to facilitate SMEs' development.
3. Training programmes and capacity-building projects should be funded to make these programmes more competitive and friendly, creating a favourable environment for SME growth and innovation in Delta State.

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