



THE MEDIATOR ROLE OF PROCEDURES IN THE RELATIONSHIP BETWEEN BUSINESS SETUP TIME AND STARTING NEW BUSINESS

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Abstract:

Starting a new business can sometimes be quite simple and sometimes very challenging. Data from various countries show that this situation varies from region to region. In particular, the setup time and procedures involved in starting a business are important factors that can hinder the business setup process and demotivate entrepreneurs from making a new investment. This study therefore examines the extent to which entrepreneurs are affected by these factors. The research sample includes 10-year data of 87 different countries. It consists of 3 different variables and contains 2610 data in total. The findings demonstrated a positive and significant relationship between business setup time and procedures, a negative and significant relationship between procedures and starting a new business, a negative and significant relationship between business set up time and starting a new business. It was also revealed that procedures have a mediator role on the relationship between business setup time and starting a new business. The results of the study indicate that there should be a global reduction in the time-consuming aspects of business start-up procedures. Addressing these impediments to entrepreneurship and implementing policies that encourage the creation new investment in the economy are important tasks of governments. The research provides quantitative insights to researchers who aim to conduct future studies on this subject.

Keywords:

Starting New Business, Business Setup Time, Procedures

1. Introduction

The origins of entrepreneurship can be found in prehistoric societies where people participated in trade. The emergence of industrialization brought about a profound change in entrepreneurship. Since the recognition of the economy's significance dates back several centuries, entrepreneurship has been integral to the national economy, particularly with the advent of capitalism. Following World Wars, I and II, and the Cold War, there was a boom in economic reconstruction and entrepreneurship. Today, the internet and digital technologies are completely shaping entrepreneurship. However, in the global world, entrepreneurship is confronted with obstacles like regional and global crisis, unstable markets, bureaucratic issues, prohibitive barriers in some industries, geographical wars, political tensions between nations and shifting global economic conditions.

Entrepreneurship has been studied in various disciplines, including management, economics, sociology, and economic history. It's a topic that has historically attracted the attention of numerous noteworthy researchers, including Cantillon (1755), Smith (1776), Ricardo (1817), Say (1821) and Schumpeter (1942). Entrepreneurship is one of the factors of production put forward and is the phenomenon that mobilizes classical factors such as land, labor, and capital. An entrepreneur is a person who starts or invests in a business, takes on the risk, and makes a profit in return (Wee, Lim & Lee, 1994; Altınışık & Külen, 2020). The entrepreneurial activity aims to generate economic

value. Entrepreneurs contribute to economic growth by introducing new ideas to the market (Hougaard, 2005). Entrepreneurship can take many different forms, including startups, small businesses, or large corporations. Regardless of business size, every entrepreneur faces certain challenges when setting up a new business. In this regard, the research focuses on business setup time and procedures as among the challenges that entrepreneurs face when starting new businesses. The findings of this study are expected to provide some insights into the subjects' that countries should focus to encourage entrepreneurship to reap the benefits of it.

2. Conceptual Background

This section explains the conceptual structures of the research. Initially, the theoretical background of entrepreneurship is discussed. Then the constructs of the study, starting new business, business setup time and procedures are reviewed separately.

2.1. Entrepreneurship

Many important scholars and intellectuals have contributed to the concept of entrepreneurship throughout history. In this study, a few of these are mentioned. The notion of entrepreneurship as an economic force was advanced by Cantillon (1755). Thus, resource allocation, risk-taking, and uncertainty undertaken by entrepreneur people are the driving forces behind economic growth. Smith (1776) did not use the term entrepreneurship in the contemporary sense in his seminal work. He emphasized the importance of self-interest and created the foundation for understanding the principles of free-market capitalism. Ricardo (1817)'s theories have influenced debates about trade, labor, value, and income distribution, shaping economic thought and policy. His studies provided a theoretical framework for understanding the economic environment in which entrepreneurship occurs. Say (1821)'s creation of the "supply creates its own demand" law is a primary contribution to entrepreneurship. This law emphasizes the value of production and the role of entrepreneurs to value creation. Schumpeter (1942) considered the entrepreneur an innovator. Entrepreneurs are viewed as critical to economic growth because they introduce new products, services, production methods, or organizational structures to the market.

The preceding assessment of the findings of these valuable studies in the history of economics demonstrates the importance of entrepreneurship as an economic activity. Entrepreneurs' role in promoting economic prosperity has been debated for centuries. Furthermore, the percentage of businesses founded by entrepreneurs around the world can provide us with useful up-to-date information. Small and medium-sized enterprises (SMEs) account for over 50% of employment globally and roughly 90% of all businesses (World Bank, 2024). SMEs account for 99.8% of all businesses in Türkiye and generate 76.7% of the total employment in year 2019 (TÜİK, 2019). SMEs are gaining importance around the world due to their numerical size, employment and production volume, and influence on the spread of entrepreneurial culture (Erdoğan, 2019). The position and significance of SMEs in the national and global economy are remarkably illustrated by these ratios. Many countries acknowledge the crucial role that entrepreneurship plays and are enhancing their policies to encourage this process. The subsequent sections on starting a new business, business setup time, and procedures provide some international findings on this matter.

2.1.1. Starting New Business

In this study, "starting a new business" refers to the total number of enterprises established in a calendar year. The number of new businesses established is based on limited liability companies or their equivalents (World Bank, 2023). Establishing a business involves deliberate decision-making on the part of the entrepreneur. In this context, launching a business is closely associated with a concept of entrepreneurship and is regarded as the last phase of cognitive processes involved in the decision-making process (Tokatlıoğlu, 2019).

When starting a new business, the entrepreneur will consider some factors such as market research, developing a business plan, determining the necessary resources to do the business, selecting a location, determining the company structure, choosing the name of the business to be established, completing the registration with the relevant government offices, obtaining a tax number, and so on. Some of these factors will be depending on the information that the entrepreneur has control over, so the time to completion is determined by the entrepreneur, while others are set by other factors. Specifically, some of these factors and their duration vary by country and are also monitored by the World Bank. In this regard, the World Bank's "Doing Business Index" illustrates the different resources and challenges associated with launching a business. The country's business-friendly environment and potential are

determined by the quantity of businesses that have been established. Twelve distinct factors explain the Doing Business Index in Table 1. The components of the Doing Business Index were obtained by the World Bank through surveys applied to 136,880 enterprises (World Bank, 2023).

Table 1. Doing Business Index Components

| Indicator | Content |
|-----------------------------------|---|
| Starting a Business | It is based on the time it takes to complete the procedures required for business set-up and the time taken for the procedures. |
| Dealing With Construction Permits | It refers to the permitting system and the control mechanism to realize the construction of the enterprise. |
| Getting Electricity | Electricity connection time refers to the security of electricity supply and the elapsed time. |
| Registering Property | Refers to the time and procedures for the acquisition or transfer of property. |
| Getting Credit | Credit information system refers to mortgage and collateral laws. |
| Protecting Minority Investors | It refers to the protection of investors who own a minority of the company's shares. |
| Paying Taxes | Total tax rates refer to filing and process. |
| Trading Across Borders | It refers to the time and costs for exports or imports. |
| Enforcing Contracts | It refers to the time, cost, and quality of judgment to resolve the dispute. |
| Resolving Insolvency | It refers to the strength of the legal framework for insolvency in terms of time, cost, outcome, and recovery. |
| Employing Workers | Refers to quality of work and flexibility in employment. |
| Contracting With The Government | Procedures and winning time of public tenders |

Source: World Bank (2023)

2.1.2. Business Setup Time

The total number of calendar days needed to finish the steps necessary to launch a business is referred to as “business setup time” (World Bank, 2021). Investment is directly impacted by the start-up procedures needed for businesses. License approvals, tax laws, and employment rates are some of the primary factors influencing how quickly a business can start up (Koç, Kaya, & Şenel, 2017). When it comes to business start-up times, certain nations are incredibly successful while others are not. According to the available data, Table 2 lists the fastest and slowest countries according to the speed at which businesses can be started.

Table 2. Fastest and Slowest Countries in the Business Start-up Process

| Fastest Countries | Days | Slowest Countries | Days |
|--------------------------|-------------|--------------------------|-------------|
| New Zealand | 0,5 | Lao PDR | 174 |
| Georgia | 1 | Cambodia | 99 |

| | | | |
|-----------|-----|----------|----|
| Hong Kong | 1,5 | Suriname | 66 |
| Singapore | 1,5 | Namibia | 54 |
| Australia | 2 | Botswana | 48 |

Source: World Bank (2021)

2.1.3. Procedures

The legal requirements that a business must follow during the establishment phase are referred to as start-up “procedures”. Notifications, obtaining licenses, obtaining permits, and finishing all paperwork are all considered as procedures. These initial steps differ between nations. While entrepreneurs in some nations can launch a company with fewer formalities, those in other nations must overcome a variety of challenges (World Bank, 2021). Based on available data, Table 3 displays the countries with the highest and lowest number of business setup procedures.

Table 3. Number of Procedures Required for Business Setup

| Minimum Procedures | Days | Maximum Procedures | Days |
|--------------------|------|--------------------------|------|
| New Zealand | 1 | Philippines | 14 |
| Georgia | 1 | Eswatini | 12 |
| Hong Kong | 2 | Namibia | 10 |
| Singapore | 2 | Central African Republic | 10 |
| Jamaica | 2 | Lao PDR | 10 |

Source: World Bank (2021)

3. Hypotheses Development

3.1. The Effect of Business Setup Time on Procedures

Business setup procedures and business setup time are concepts that are directly related to one another. The amount of time needed to start a business grows along with the number of procedures needed (World Bank, 2021). Figure 1 illustrates the length of time and number of steps needed for business startup globally.

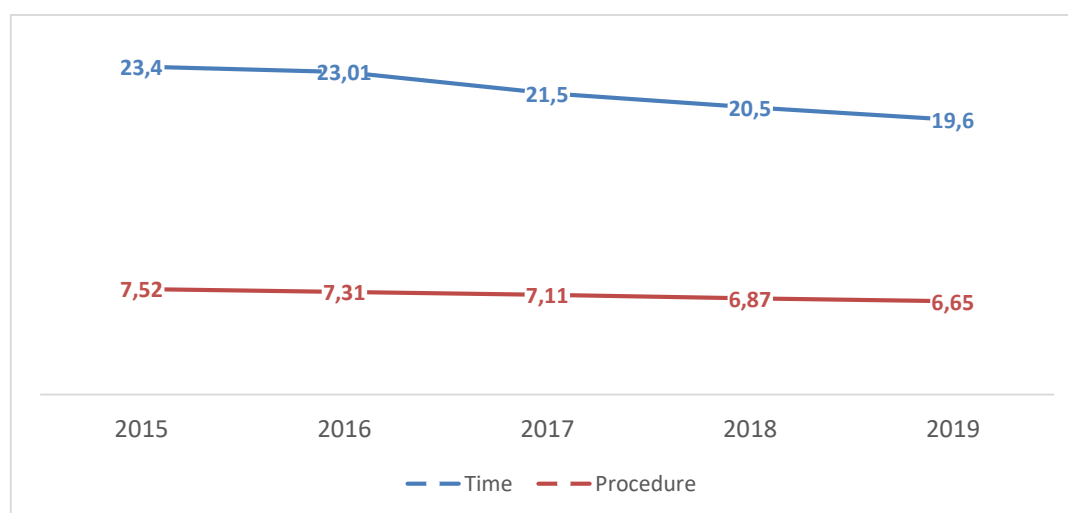


Figure 1. Time Required to Start a Business and the Number of Procedures

Source: World Bank (2021)

Figure 1 depicts how the time required to start a business and the number of procedures demanded to start a business decrease concurrently. In 2015, the average number of steps needed to launch a business worldwide was 7.52, and the average startup period was 23.4 days. In 2019, the average number of steps needed to launch a business globally was 6.65, and the average startup period was 19.6 days (World Bank, 2021).

Based on the extant literature, the following hypothesis is constructed:

H1: Business Setup Time has a positive effect on Procedures

3.2. The Effect of Procedures on Starting New Business

The minimum number of formalities in the startup process encourages entrepreneurs to launch new companies. In other words, when conducting business involves fewer formalities, people are more willing to invest (Rogge & Archer, 2021). In this regard, nations with high Ease of Doing Business Index scores present risk-free and vibrant business opportunities for entrepreneurs, whereas nations with low scores adversely affect them (World Bank, 2021). In conclusion, the number of businesses established increases as the process of starting a business decrease (Bozkurt & Akçacı, 2023).

Depending on the existing literature, the following hypothesis is constructed:

H2: Procedures has a negative effect on Starting New Business

3.3. The Effect of Business Setup Time on Starting New Business

The establishment period is one of the key variables influencing the quantity of new business establishments. The term "business start-up time" describes the amount of time needed for the completion of all legal procedures and the launch of the company (Ruiz, Cabello, & Pérez-Gladish, 2018). The number of enterprises and the time it takes to set up a business are significantly correlated globally. So, as the time required to establish a business increase, the rate of increase in the number of businesses decreases (Malik, 2018).

The following hypothesis is constructed based on the existing literature:

H3: Business Setup Time has a negative effect on Starting New Business

3.4. The Mediator Role of Procedures in the Relationship between Business Setup Time and Starting New Business

The multitude of procedures involved in starting a business is the main deterrent for entrepreneurs. Procedures are thus considered to function as a mediator role. Consequently, the process of launching business will be easier when procedures are streamlined.

Depending upon the extant literature the following hypothesis is constructed:

H4: Procedures has a mediator role on the relationship between Business Setup Time and Starting New Business

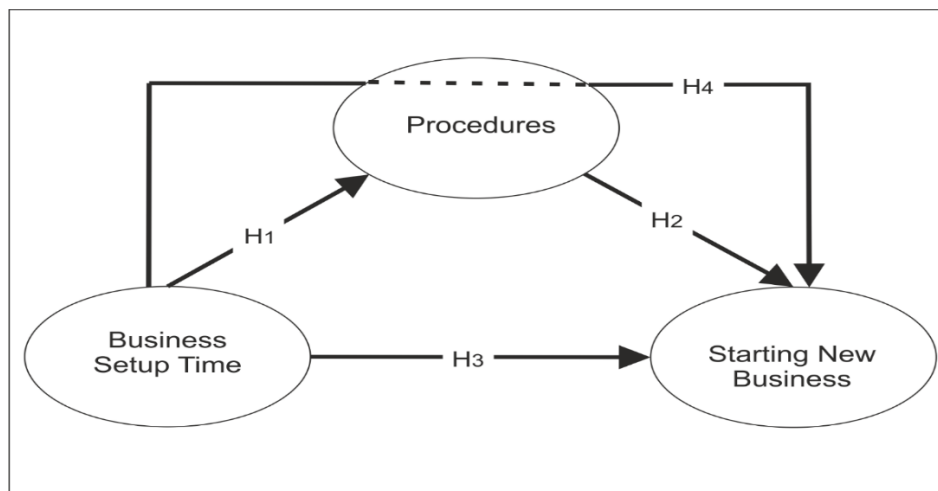


Figure 2. Conceptual Model

4. Research Method

The Baron and Kenny approach was used to conduct the mediator analysis. When the below mentioned circumstances are true, a variable, in the opinion of Baron and Kenny, acts as a mediator (Baron & Kenny, 1986): The mediator variable changes as the independent variable changes. When the mediator and independent variables are analyzed simultaneously, the effect of the independent variable on the dependent variable is reduced or eliminated. Changes in the mediator variable lead to changes in the dependent variable. The conceptual model for the study is displayed in Figure 1. The hypotheses are tested using hierarchical regression. Regression models are as follows among dimensions which are Business Setup Time (BST), Procedures (PRC) and Starting New Business (SNB):

$$\text{Model 1: SNB} = \beta_0 + \beta_1.\text{BST} + \epsilon \text{ (H3)}$$

$$\text{Model 2: PRC} = \beta_0 + \beta_1.\text{BST} + \epsilon \text{ (H1)}$$

$$\text{Model 3: SNB} = \beta_0 + \beta_1.\text{BST} + \beta_2.\text{PRC} + \epsilon \text{ (H2 and H4)}$$

5. Measures and Sampling

In the study, direct or indirect relationships between 3 variables are analysed. The data sets used consist of World Bank data, most of which are referenced in academic studies and tested for reliability. In the study, the data on the Procedures for Starting a Business, the Time Required for Starting a Business and the Number of Registered New Business were used. World Bank obtains data through the research method named "Doing Business". Doing Business Index has limitations that should be considered when interpreting. The data are drawn from the major cities of the country concerned and are considered to be representative of the whole. Sub-national standards are recognised to ensure that the reliability of the data is accurate. In addition, the data are usually obtained from limited liability companies.

The "Mediating Variable Analysis" method was used in the study. This is because it provides the opportunity to measure direct or indirect relationships between variables with a single model. The study is based on the data of 87 countries between 2010 and 2019, i.e. a total of 10 years. The data used in the study corresponds to 870 data for one variable in 10 years. Since the research has 3 different variables, direct and indirect relationships of 2610 different data were analysed. Especially, the pre-COVID era was considered to ensure the research data were reliable to draw conclusions. The entrepreneurial climate following the pandemic requires more investigation. Many jobs worldwide have been impacted by the pandemic, so entrepreneurship has also been limited.

6. Analysis Results

Initially, Baron and Kenny's method require significant relationship among the variables in the research model (Civelek, 2018). For this reason, Pearson correlation coefficients were obtained. As indicated in the Table 4, the relationships among variables are found as statistically significant. R and R2 values of the three models are shown in Table 5. In Table 6, ANOVA test results for the models are shown. ANOVA results proved that the models are statistically significant. Additionally, hypotheses test results are given in Table 7.

Table 4. Correlation Coefficients

| | LPI | SSB | GDP |
|-----|--------|--------|-----|
| BST | 1 | | |
| PRC | ,375* | 1 | |
| SNB | -,089* | -,172* | 1 |

* Correlation is significant at the 0.01 level

Table 5. Model Summaries

| Models | R | R ² | Adjusted R ² | Standard Error of the Estimate |
|---------|-------|----------------|-------------------------|--------------------------------|
| Model 1 | 0,089 | 0,008 | 0,007 | 69519,05796 |
| Model 2 | 0,375 | 0,141 | 0,140 | 2,61138 |
| Model 3 | 0,174 | 0,030 | 0,028 | 68775,66339 |

Table 6. ANOVA Tables

| Models | F | Sig. |
|--------------|---------|------|
| 1 Regression | 6,964 | ,008 |
| 2 Regression | 142,201 | ,001 |
| 3 Regression | 13,491 | ,001 |

Table 7. Hypotheses Results

| Relationship | Model 1 | Model 2 | Model 3 |
|--------------|---------|---------|---------|
| BST → SNB | -0.089* | | -0.029 |
| BST → PRC | | 0.375* | |
| PRC → SNB | | | -0.161* |

Note: Regression coefficients are standardized.

*p<0.01

7. Conclusion

Findings in Table 7 demonstrates positive and significant relationship between BST and PRC ($\beta_{\text{model2}}= 0.375$, $p < 0.01$). Therefore, H1 (Business Setup Time has a positive effect on Procedures) was supported. H2 (Procedures has a negative effect on Starting New Business) was also supported ($\beta_{\text{model3}}= -0.161$, $p < 0.01$). H3 (Business Setup Time has a negative effect on Starting New Business) was supported ($\beta_{\text{model1}}= -0.089$, $p < 0.01$) and H4 (Procedures has a mediator role on the relationship between Business Setup Time and Starting New Business) was supported ($\beta_{\text{model3}}= -0.029$, $p > 0.05$). The reason is that after the inclusion of the mediator variable into the model the effect of BST on SNB disappeared and the value of the β coefficient decrease. It was therefore concluded that PRC plays mediator role between BST and SNB. This result shows that the process of launching business will be easier when procedures are streamlined.

The importance of entrepreneurship for national economies has been discussed since the importance of the concept of economy emerged. Countries are working to encourage entrepreneurship and increase the number of new entrepreneurs. Notably in the digital age we live in, new ideas can be quickly brought to life. Startups can exhibit upward or downward performance very quickly. Internet and social media-based initiatives can turn into giant businesses in a short time. As such, every nation would naturally want to capitalize on the present situation. However, the disruptions and delays that can arise in this process, especially during the start-up phase, sometimes prevent entrepreneurs from taking action to realize their ideas. At this point, governments all over the world must speed up business setup procedures and streamline the process. According to The World Bank (2024) projections, additional 600 million jobs will be required by 2030 to accommodate the expanding global workforce. This prediction inherently elevates SME development to a priority level in economy for numerous governments globally. Based on available figures, this study emphasizes the current situation and highlights the need for further improvements. Governments can speed up starting a business process by utilizing artificial intelligence more, developing distinctive entrepreneurship incentive programs, fortifying the online infrastructure, establishing laws that support entrepreneurship, and quickly adapting to digitalization in public services.

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