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The Role of Governance in the Ease of Doing Business: International Perspectives

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Abstract

The country's operational business environment is summarized by the ease of doing business index. The study aims to examine the role of governance indicators in the ease of doing business among certain countries in the world. Regulatory quality, voice and accountability, political stability, rule of law, government effectiveness, and corruption control are all taken into account as global governance indicators. Also, Ease of doing business was taken as a dependent variable. Five-year World Bank data (2016–2020) of 40 countries from all economic development levels were used. To measure the ease of doing business, the World Bank's ease of doing business index score was used. The pooled Ordinary Least Squares model, the Fixed Effects model, and the Random Effects models were used. The result of each independent variable is corruption control, regulatory quality, and voice and accountability which had significant and positive effects on the ease of doing business. Additionally, the model results show that high-income countries have stronger business-friendly environments than low-income countries. Governments should take steps to improve the overall position about the best regulatory performance in terms of ease of doing business. Finally, this study will be significant for policymakers, government leaders, program developers, entrepreneurs, and analysts.

Keywords: Ease of doing business, Corruption control, Governance, Political stability, Regulatory quality, Voice and accountability, government effectiveness, Rule of law.

1. Introduction

Good governance infers fair governing frameworks, transparent policymaking, and accountability, all these factors have straightforward influences on commercial activity (Bota-Avram, 2014). During the last decades, governance has become a topic of great interest for both scholars and public policy organizations, especially starting from the premise that good governance influences economic prosperity (Knack and Keefer, 1995; Ngobo and Fouda, 2012). Good governance has a direct effect on a country's ability to grow economically. Government activities include generating jobs, boosting labor productivity, balancing energy and material consumption, advancing technology, boosting exports of goods and services, and enticing investors (Mir and Hammadache, 2017). Designing public service delivery systems should start with administrative responsiveness. As observed by Friedman (2009) responsiveness is the effort made by a government entity to offer the public a helpful, prompt service.

Good public governance practices encourage an atmosphere conducive to investment, eventually resulting in economic growth (Re Globerman & Shapiro, 2003). Due to the growing interest of academics and policymakers in issues related to governance, there have been developed various cross-country indices through which different aspects of governance were dimensioned (Kaufmann, D. and Kraay, 1999a, 1999b; Bovaird, T. and Löffler, E., 2003; Van de Walle, 2006). According to Çule and Fulton (2003), the influence of governance over the business environment is given by the supposition that an economy with a moderate level of bureaucracy, a high concern for legislative compliance, and good instruments for controlling corruption is expected to create and maintain a business environment that stimulates economic performance.

The term "ease of doing business"(EDB) refers to the established procedures and other elements that influence the market economic operations of businesses and other market entities, including social, legal, economic, and political elements that have an impact on business activities (Cullen. et al., 2014). The amount of investment attracted and the number of active businesses in a region is directly correlated, and as a result, the ease of doing business in that area has a substantial impact on economic growth, fiscal and tax revenue, and social employment (Al. Rogge et al., 2021).

Ease of Doing Business offers quantitative indicators of institutional and governmental rules. It should be mentioned that the World Bank has rated the business climate in nearly 200 nations for more than a decade with its annual EDB Report. It assesses the business climate in each of these nations using ten benchmarks, including starting a business, obtaining electricity, registering property, obtaining credit, protecting minority investors, paying taxes, transacting internationally, enforcing contracts, and resolving insolvency (Tristan Canare, 2018).

High foreign direct investments are attracted by Ease of doing business classifications (Jayasuriya, 2011). The World Bank Organization created the EDB phenomenon as a metric to assess how straightforward commercial activities are in a setting conducive to economic growth. It offers data for efficient governance, which will promote business expansion. The World Bank (2020a) claims that the Ease of doing business index (EDBI) is a measure of the vital effort that nations around the world have done to enhance the operative commercial environment for a fair playing field for a firm to prosper. Doing Business encourages nations to contribute to more effective regulation, provides quantifiable benchmarks for reform, and serves as a resource for academics, journalists, private sector researchers, and others interested in each country's business climate by collecting and evaluating corporate regulation settings across economies and across time, huge amounts of quantitative data are compared (Doing business, 2014). Managers should evaluate the EDB since it serves as a benchmark for measuring risks and setup costs (Mongay and Filipescu, 2012).

When the business situation is favorable, private businesses can expand more and contribute more to the economy. There are more employment chances the more successful the private sector is and the more enterprises are founded. Many nations implemented reforms aimed at streamlining and reducing the cost of operating and starting a business to encourage the growth of the sector (Klapper and Amit, 2010). An economy's attractiveness to investments is a key driver of economic growth and development and increases with how friendly it is to business operations. There is a claim that more investors would be motivated to invest and more jobs would be created if starting and operating a business is easier. Adepoju (2017) Moreover, it was said that when developing growth plans, nations should give priority to improving their business regulations. Previous studies indicated that company regulations are a key factor in determining wealth and long-term growth and that nations with stronger laws have faster economic growth (Djankov, S., T. Ganser, C. McLeish, R. Ramalho, 2017) (Acemoglu, D., Johnson, S., & Robinson, 2001); (Hall & Jones, 1999). A favorable business climate also encourages competition, innovation, and growth (world Business, 2013).

In a small number of studies, the relationship between good governance and EDB was demonstrated using governance indicators as quantitative measures of good governance. However, earlier related research failed in determining which income categories are generally better for EDB. But this study aimed to determine how different income categories of countries were affected by governance. This type of research can provide valuable insights for policymakers and practitioners seeking evidence-based guidance on governance reforms. Therefore, this study sought to close the aforementioned gap by taking into account the economics of all incomes as the aim, using information from the Global World Bank governance metrics and taking into account the EDB.

The study explores the relationship between governance and the ease of doing business. By examining this connection, the study provides valuable insights into how good governance practices can contribute to a favorable business climate. The findings of the study can have important policy implications for governments and policymakers. By improving governance practices, countries can enhance their attractiveness to investors and promote economic development. The study contributes to the existing body of academic and research literature on governance and the ease of doing business. It adds empirical evidence and analysis to the field, expanding our understanding of the complex relationship between governance and business environment. This research contributes to the advancement of knowledge and provides a foundation for further studies and investigations in the field of governance and business.

The rest of this paper is organized as follows: the second section discusses the literature review on the subject matter where the associated theoretical and empirical reviews are analyzed; the third section presents the research design and methods; the fourth section looks at the result and discussion; the fifth section presents the conclusions, while the sixth section presents recommendations and policy implication and final section presents the limitations and prospects for future research

2. Literature Review

2.1 Ease of Doing Business

The concept of EDB is an index created by Simeon Djankov at the Group of World Bank. The academic analysis and research for the report were done collectively by professors Oliver Hart (economist) and Andrei Shleifer (Doing Business, 2011). Organization of the World Bank created the EDB phenomenon to assess how straightforward commercial activities are in an environment where economic development is taking place. It offers data for efficient governance, which will promote business expansion. Through sound regulatory regulations, EDB explores ways to decrease small and medium enterprise (SME) failure rates. It expedites policy evaluations based on recognized best practices (World Bank, 2020a).

The evidence suggests that the phrase "EDB" originally surfaced in 2001 when the World Bank suggested a new plan to quicken the growth of the private zone in each nation. With a mission to comprehend and assess the ease-of doing- business faced by enterprises at various stages of their lives from various perspectives, the World Bank established the Doing Business team to better implement its strategy of promoting private sector development in various countries. The World Doing Business Report was first released by the World Bank in 2004 (Cull. et al., 2015).

There has been World Bank publishing the annual EDB Report since the 2004 edition. The Report ranks almost 200 countries in terms of how easy it is to do business in several criteria. These criteria have changed slightly through the years; but the last few years consist of ten EDB areas: (a) starting a business, (b) getting electricity, (c) dealing with construction permits, (d) registering property, (e) getting credit, (f) protecting minority investors, (g) paying taxes, (h) enforcing contracts, (i) resolving insolvency and (j) trading across borders.

Table 1 Doing business indicators

Topic	Doing Business Indicators
Starting a business	How to form a limited liability corporation, including the steps, costs, and required minimum capital.
Dealing with construction permits	How to form a storeroom legally, how long it will take, how much it will cost, and how the quality assurance and permit safety procedures work inside the construction permit system.
Getting electricity	procedures, cost and time to connect to the electrical grid, the consistency of the delivery of power, and the openness of tariffs
Registering property	How to transfer property, how much it will cost, how long it will take, and how well the land management system works
Getting credit	Portable guarantee laws and credit evidence systems
Protecting minority investors	Rights of minority shareholders in deals involving connected parties and corporate governance
Paying taxes	Costs, duration, and overall tax rate for a business to abide by all tax laws as well as post-filing procedures

Trading across borders	Time and expenses involved in importing car parts and exporting the product of competitive advantage
Enforcing contracts	The length of a commercial dispute's adjudication procedure, its cost, and how well it is conducted
Resolving insolvency	Time, expense, outcome, and recovery rate for commercial insolvency, as well as the efficiency of the insolvency legal framework

Starting a Business: This topic analyses the number of steps, amount of time, money, and minimum capital needed for a medium-sized to small limited liability business to formally launch in the greatest commercial hub in each economy (Monteiro & Assunca, 2012). A program by the Brazilian government to streamline business registration processes was examined, and it was discovered that this increased formality, which is most prominent among medium-sized businesses and home-based organizations, was the result. The majority of the included papers conclude that higher business development is indeed correlated with less entrance regulation. However, some studies have found that some of the businesses produced by lowering entry requirements are not of high quality.

Dealing with Construction Permits

This indicator is concerned with documenting the steps necessary for a company in the construction sector to create a warehouse, as well as the time and expense required to accomplish each step. It is also concerned with studying quality control indices, evaluating the quality of building evaluation, insurance regimes, safety mechanisms, and certified professional requirements. Because they increase access to credit, improve trade, and shrink the informal sector, effective and efficient contract enforcement mechanisms and good institutions are crucial for business growth and development (World Bank, 2014).

A study by Quintin (2008) demonstrates how ineffective contract enforcement makes businesses run less efficiently, which lowers national incomes and inhibits the growth of large-scale industries. In empirical data from African countries, Anyanwu (2012) concluded that higher FDI inflows are associated with rule of law prevalence. According to other studies, efficient contract enforcement can promote business entry, promote trade, and shrink the size of the informal economy.

Getting Credit

This indicator is concerned with measuring the Legal obligations of borrowers and lenders concerned with secured transactions and credit information reporting. Capasso (2013) showed how reduced credit costs reduce tax avoidance and the amount of unregistered businesses. This is similar to the results of Dabla-Norris, and M. Gradstein (2008) who put forth a theory wherein a lack of access to financing expands the informal sector. Using data from the World Business Environment Survey, which included 4000 enterprises from 40 countries, the majority of which are developing, the model was empirically evaluated. Related to this, Aghion & Scarpetta (2007) access to finance is the most significant factor of entry for small businesses and businesses in credit-dependent industries, according to an analysis of firm data from 16 industrialized and developing nations. If they succeed, it also aids in the expansion of businesses.

Trading Across Borders

This indicator tracks the duration and expense of the exporting and importing of commodities, as well as related activities including border compliance, document compliance, and domestic transportation (Hoekman et al.,2008). According to an empirical study that analyzed data from 104 importing and 115 exporting nations for 2006, improving logistical performance—that is, making it simpler to move goods through better institutions and infrastructure—will have the biggest impact on boosting trade for developing nations. Martincus Carballo & Graziano (2013) found in their study that customs delays indeed reduce exports and that this is especially noticeable in time-sensitive products and locations with fierce competition. In a similar study by Moise and Oise (2013) The World Trade Organization's sixteen trade facilitation indicators were negotiated using data from 107 non-OECD countries, and it was found that the accessibility of trade-related information, the simplification and

The most significant influences on trade performance are document harmonization, process simplification, and automation. Related to this, Djankov, S., T. Ganser, C. McLeish, R. Ramalho, 2010) 126 countries' worth of data were used to analyze the effect of time intervals on trade. They discovered data showing that, on average, a one-day delay before a product is dispatched results in a one percent decrease in trade.

Protecting Minority Investors

This indicator is concerned with measuring the protection of minority interests from conflict of interest and shareholders' rights in corporate governance. The indicator is concerned with recording all the procedures required by the business in acquiring permanent electricity connection and supply for a standardized warehouse. The degree of proprietorship concentration in listed companies, the extent of the capital markets, the availability of financing for businesses, and corporate governance are all factors that must be taken into concern. Property rights, contrasted, are comparable to good institutions and contract enforcement in that they guarantee investors that they will profit from their investments. It is widely believed that protecting investors fosters economic expansion. Hence, Sevcik (2012) developed a model that illustrates how a lack of adequate investor protection can bar smaller investors from firm ownership. There is research suggesting that investor protection can also impact growth through the financial markets, much like contract enforcement and good institutions. The theoretical work of Sevcik (2012) demonstrates how poorer investor protection might result in greater external financing costs. Similarly, Ogunro (2014) despite having access to funding, inadequate property rights deter investment, according to a survey of businesses in post-Communist countries.

Enforcing Contracts

This indicator assesses whether each economy has enacted policies that support high standards and effectiveness in the legal system, in addition the length of time and expense required to resolve a business dispute through a local first-instance court. Because they increase access to credit, improve trade, and shrink the informal sector, effective and efficient contract enforcement mechanisms and good institutions are crucial for business growth and development (World Bank, 2013). The existing literature includes empirical and theoretical studies on the effect of contract enforcement on growth and business accessibility. According to Quintin (2008), firms run less efficiently as an outcome of inefficient contract enforcement, which decreases national earnings and prevents the expansion of more expansive industries. In a similar study by Djankov Ganser, and R. Ramalho (2007) Using data from 129 countries, it was discovered that a higher private credit to GDP ratio is associated with effective legal protection for creditors.

Paying Taxes

The indicator registers the taxes and obligatory contribution which has to be made by firms in a specified year. It is also concerned with the firm's administrative burden of payment of taxes, contributions and complying with post-filling procedures. A survey of World Bank Enterprise found that tax administration is amongst the top 11 constraints to business while the tax rate is amongst the top five (World Bank 2013).

Lawless (2012) discovered evidence that FDI presence for a pair of nations is inversely correlated with tax system complexity indicators, though not always with FDI flow. A related study by Fisman & Svensson (2007), discovered evidence of an opposite relationship between tax rates and firm growth using data from Ugandan businesses.

Getting Electricity

The indicator is focused on documenting every step that the company must take to obtain an enduring power linking and supply for a standardized warehouse. The availability of infrastructure services, notably power, is a problem for companies worldwide. World Bank Enterprise Surveys claim that managers in 109 economies—71 of which have low or lower-middle incomes—perceive electricity as one of the key barriers to their company's success. Additionally, managers calculate that power disruptions cost an average of 5.1% of yearly sales in losses.

Resolving Insolvency

This indicator is concerned with the cost, time, and rescue rate under the bankruptcy proceeding. It also takes into consideration the consequence of insolvency proceedings which involves domestic entities and the strong point of the legal context which applies to judicial liquidation and reorganization proceedings. Other than dealing with building permit indices in Africa and cross-border trade. Messaoud and Tehen (2014) Results indicated a significant correlation between regulatory indicators and economic growth. Ageeva and Lang (2019) discovered that declaring borrower's insolvent, finding issues with procedural norms, and developing ideas for their eradication were ineffective law enforcement practices. The bankruptcy process most urgently needed to be simplified.

Registering Property

This indicator measures the processes, cost and time which is needed to register business real estate. According to the World Bank (2017), business registration procedures should be made simpler, a single interface should be established (such as a one-stop shop), technology should be used to increase efficiency, capital requirements should be reduced or eliminated, fixed registration fees should be implemented, and business registration should not need to be renewed on an annual or periodic basis. Combining steps and processes, speeding up approval timelines, and streamlining required forms are all part of streamlining business registration processes.

2.2 Conceptual Description of Governance and Indicators

Good governance was originally articulated in a 1989 World Bank publication. The Bank released an article in 1992 titled Governance and Development that examined the idea and its use. Good governance was described by the Bank in 1997 as a requirement for development. The advancement and maintenance of universal human development is the aim of good administration. Regardless of their class, religion, nationality, political ideology, or socioeconomic origin, the fundamental goal is to ascertain how the government empowers its individuals to think for themselves, make decisions that are in their best interests, and live a clean, decent, happy, and independent life. Governance effectiveness may also play a significant role in facilitating business (Martins, J., & Veiga, 2022).

Good governance is characterized by the following: the rule of law, public opinion, transparency, a zero-tolerance approach to corruption, institutional accountability to those who will be impacted by their decisions or actions, equity and inclusion, responsiveness, the capacity to prevent or manage social conflicts, committed and purposeful leadership, and ensuring the well-being of the populace through socio-economic empowerment. Institutions of sound public governance can encourage the growth of private industry. Effective public governance can lead to the kinds of tax breaks, just legal systems, and protections for having property rights that can help commercial organizations (Johansson, 2001).

The first of the six governance indicators are:

Voice and Accountability: measure the capacity of government to ensure proper responsiveness to society and include different aspects of the political process, civil liberties, and political rights, measuring the degree to which citizens can take part in the choice of their governments. Public accountability refers to the government's capacity to respond to society in relation to the political procedure, civil liberties, and political rights (Bota-Avram, 2014). It covers the participation of the citizens in terms of selecting the government (2013). Alemu, 2013). The findings are not statistically significant for the regulatory quality and the voice and accountability indicators (Abille & Mumuni, 2023).

Political Stability and Absence of Violence: refer to the possibility of violent changes in the government's structure and combine several indicators which express the potential probability that the government in power could be overthrown through unconstitutional or violent changes. Stasavage (2002) found that there is a strong correlation between the existence of political stability and foreign investment inflows. The political stability of the country is a fundamental factor consideration among foreign investors (Fazio andTalamo, 2008)

Government Effectiveness: evaluates the perception of the inputs necessary for effective governance, such as the quality of public service provision, the capability of civil servants, the level of bureaucracy, the independence of the civil services from political influences, and the credibility of the government. Societal issues emerge when the normative function of government and economic institutions is not properly working (Kooiman, 1999). An effective government provides a high quality of public service, simple bureaucracy, and credibility (Alemu, 2013).

Regulatory Quality: is designed to provide estimates of the impact of the rules perceived as market-unfriendly, such as price controls, inadequate bank supervision, or excessive regulation which might affect the business development. High regulatory quality prevents the matters that are identified as a barrier to growth such as government control toward price, lack of financial access, and complex regulation (Bota-Avram, 2014) Regulatory quality is determined by government efforts in eliminating market policies that are not in favor of business organizations such as market controls, limitation on capital movement and government intervention (Fazio, G., Talamo, 2008).

Rule of Law: includes some indicators that estimate the degree to which the public and citizens have self-confidence in and accept the rules of humanity, including the effectiveness of the judiciary system and the security of property rights. The rule of law of the country will be a fundamental factor considered by foreign investors regarding long-term orientation investment (Stiglitz, Joseph E, 2005). A country with rules of law that is more favorable to business entities will get more priority from venture capital to invest their money (Bota-Avram, 2014).

Control of Corruption: estimates the public's perception of the control of corruption, including various forms of public power exercises for illegal private gains such as 'additional payments to get things done', but also its negative influences on the business environment. By reducing red tape and corruption behavior in government institutions it can enhance FDI (Vittal, 2001). Corruption in governmental institutions can reduce national competitiveness as well as business organizations in that country (OECD, 2011). Corruption operates as a major hindrance to the flow of FDI in developing countries, rendering this conclusion inescapable (Saha et al., 2022).

2.3 Governance and Ease of Doing Business

According to Kraay and Tawar (2010), Successful economic development is thought to need a good regulatory environment for both public and private sector economic activity, sound institutions, and political authority responsible to citizens. Among these development outcomes, the business environment seems to be positively affected. Good governance has gained significant attention from academics and public sector management over the past ten years, particularly when considering how it affects economic development (Knack and Keefer, 1995; Mauro, 1995) EDB accuracy and required policy tradeoffs. We show that the EDB has a dominating market share among business climate indicators (Doshi & Simmons, 2019).

According to Çule and Fulton (2013), It is clear how governance affects the business environment when it is assumed that an economy with a adequate level of administration, a high concern for legal compliance, and effective tools for controlling corruption will establish and maintain a business environment that stimulates economic performance. An effective government provides a high quality of public service, simple bureaucracy, and credibility (Alemu, 2013). An outcome of efficient government is the ability to enact policies that are advantageous to society, including corporate organizations (Rammal & Zurbruegg, 2006) and its important determinants of foreign investment inflow (OECD, 2011).

Economic independence can be stately by the presence of strong institutions; geographic factors, market size, and labor costs also affect the amount of foreign direct investment coming in. Andrews (2008) believes that efficient governments should provide a framework of pro-business legislation, correctly respond to public wants, and encourage politically neutral managers. The studies by Aisen, and Veiga (2013) empirically prove the impact of political inconsistency on commercial development, showing that political uncertainty is associated with adverse influences on investments. Also, Ardagna, S., and Lusardi(2010) According to an analysis of research data collected from more than 470 thousand aspiring business owners in developed and developing countries, entry regulation reduces the benefits of business expertise in the management of a business and decreases the likelihood that people with business expertise will start a business.

Bonga, and Mahuni (2018) By utilizing panel data analysis to examine the effects of the EDB and fraud on the economic development of Africa Free Trade Zones, it was discovered that these factors had a substantial impact on the growth of the group, despite the predominate national disparities. An effective government makes it easier to attract foreign investors by streamlining the bureaucracy, procedures, and amount of time needed to accomplish all investment-related tasks (IADB, 2001).

Combating corruption, reducing complex bureaucracy, and providing efficient government is a fundamental aspect that determines FDI inflows (Meon, 2005). For a company conducting business in a particular nation, the regulation of law is crucial. They would be subject to any uncertainty or risk related to their business in the absence of any law enforcement rule. Product theft is one of the frequent hazards that the company organization faces. They require some reassurance that the regulation of law will safeguard their product inventions. If the rule of law that controls the protection of intellectual property rights is upheld, the growth of inventions can be expedited (Alemu, 2013).

2.4 Theoretical Review

Political Economy Theory

Political economy theory examines the interaction between politics and economics, and how this interaction affects governance and business environments. It suggests that the interests and actions of various political and economic actors shape the governance structures and policies that influence the ease of doing business. Factors such as political stability, government effectiveness, and the presence of rent-seeking behaviors can impact the business environment. The model predicts that trade liberalization is deeper when capital is more mobile across sectors, and when governments are more politically motivated (provided domestic-commitment motives are strong enough). The model also provides a new rationale for the use of tariff ceilings. In a fully dynamic specification of the model, tariffs are reduced in two stages: an immediate cut and a subsequent gradual reduction, with the speed of liberalization increasing in the degree of capital mobility (Maggi, Giovanni, 2007).

Resource Based Theory

The resource-based view of the firm (RBV) and the resultant resource-based theory (RBT) provide an important framework for explaining and predicting the basis of a firm's competitive advantage and performance (Barney, J. Kitchen, D. & Wright, 2015). Even though prior works have identified organization resources as important to a firm's success (Pensrose, 1959). it was not until the 1980s that the resource-based view of the firm began to take shape. The prevalent paradigm at the time claimed that each firm's capacity for profit was governed by factors at the industry level (Porter, 1979). Later academics began to make the case that internal company variables, specifically, its (Wernerfelt, 1984) resources and capabilities, really determine its profits (Worku, 2020). According to Pete Raf, M. & Barney (2003) When a form is able to produce more economic value than the marginal (break-even) rival in its target market, it has a competitive advantage. The main reason for using RBT in many marketing contexts, according to an evaluation of its use across various market domains, is that it provides a convincing framework for integrating multiple, dissimilar resources to explain their synthetic, varied effects on performance and their associated contingencies (Kozlenkorg, I.V Samaha, R.W. & Patmatier, 2014).

Institutional theory

The institutional theory talks about the deeper and more resilient aspects of social structure and is a widely accepted theoretical posture that emphasizes rational myths, isomorphism, and legitimacy. It accounts the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior into consideration (Scott, 2005).

As DiMaggio & Powell (1983) investigated the cause of homogeneity (not variation) among the organizations and identified three processes through which isomorphic change occur: coercive process, mimetic process and normative process. Coercive isomorphism results from both formal and informal pressures exerted by other organizations upon which organization are dependent (eg. government and parent organization). Mimetic isomorphism is explained as a response to uncertainty where the organization imitates similar successful organizations in their field. According to the authors, normative isomorphism originates from professionalization which creates a pool of similar individuals (in terms of status, orientation, behavior and knowledge) that shape organizational behavior.

Following careful examination of all independent factors and the dependent variable, the following research questions and hypotheses are developed and tested using multiple linear regression models.

Q: What is the role of governance in the ease of doing business?

Ho: Voice and accountability, regulatory quality, rule of law, government effectiveness, corruption control, and political stability have no statistically significant effect on ease of doing business.

3. Research Design and Methods

3.1 Research Design

Research design is the overall plan for connecting conceptual research problems to pertinent and achievable empirical research (Creswell, 2014). This study used an explanatory research design. Explanatory research aims to answer the "why" and "how" of a problem. It serves as the foundation for more conclusive research and establishes the first research design, sample strategy, and data-gathering technique (Singh, 2007). Therefore, this study is attempting to determine the causes and effects relation between the independent variable governance and dependent variable EDB.

Additionally, a quantitative approach was adopted. The quantitative approach entails the gathering of data to quantify the information and subject it to statistical analysis to confirm or refute competing knowledge claims (Leedy & Ormrod, 2001; Creswell, 2003; Williams, 2011; Kothari, 2007). Quantitative approaches emphasize precise measurements and numerical study of data gathered through the manipulation of pre-existing statistical data through computing methods. For this study quantitative value of the EDBI score was employed to assess the dependent variable, EDB, and the governance index score was used to calculate the dependent variables.

3.2 Sources of Data

This study's foundation is based on panel data from countries for which information on each variable is available for the period 2016 to 2020. The data used for all the variables are sourced from the Doing Business annual reports and (WGI) reports. To gather the essential information countries were stratified based on their income category which was classified according to (*WGI*, 2020) such as low-income, lower-middle-income, upper-middle-income, and high-income countries. In this study, a sample of 40 nations from different income levels was selected using purposive sampling. Ten of those countries have low income, ten have lower middle income, ten have upper middle income, and ten have high income. The 5-year data for worldwide governance indicators and EDB of the case countries were sourced from worldwide bank and world governance indicator reports.

3.3 Variables Description

Governance-related variables and EDB were selected and utilized to achieve the study's objective. The ratings from the global EDB performance index were used to calculate the EDB as a dependent variable. The Worldwide Bank Group survey served as the data's primary source. The study employed the global governance index created by the World Bank to measure governance. The Six variables, including political stability, government effectiveness, quality control, the rule of law, and corruption control, were used in World Bank research to assess the level of governance. The database provides cross-country international time-series data as well as annual data for the years 2016 through 2020.

Table 2: Description of variables

Variable	Description	Type
Ease of doing business	World Bank developed an EDBI from the interval scale from 0 worst to 100 best (*WB*, 2020).	Dependent variable
Voice and accountability	reflects opinions about how much a nation's residents can participate in choosing their administration, as well as opinions on freedom of speech, liberty of connotation, and free press −2.5 weak governance +2.5 Strong governance (*WGI*, 2020).	Independent variable (INV)
Political stability	Measures of the perceived possibility of political instability Political Stability and Absence of Violence/Terrorism, and/or politically motivated violence, including terrorism −2.5 weak governance +2.5 Strong governance (*WGI*, 2020)	(INV)
Government effectiveness	Reflects opinions about how well public services are provided, how well the civil service is run and how free it is from political influence, how well policies are developed and implemented, and how credible the government's adherence to such policies is. 2.5 Poor government +2.5 Effective leadership (*WGI*, 2020).	(INV)
Regulatory quality	Reflects opinions about the government's capacity to create and put into effect sensible laws and regulations that support and encourage the growth of the private segment −2.5 weak governance +2.5 Strong governance (*WGI*, 2020).	(INV)
Rule of law	Reflects how much agents believe in and follow the laws of society, especially how well contracts are enforced, how well property rights are protected, how well the police and the courts operate, and how likely it is that crimes and violent acts will occur −2.5 weak governance +2.5 Strong governance (*WGI*, 2020).	(INV)
Control of corruption.	Replicates opinions about how much public power is used for personal benefit, including perceptions of both small-scale and large-scale corruption in addition the "capture" of the government by elites and business interests −2.5 weak governance +2.5 Strong governance (*WGI*, 2020).	(INV)

3.4 Method of Analysis

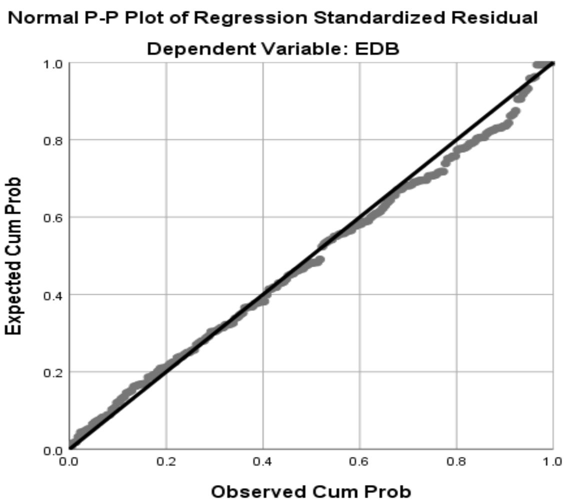
In order to achieve the study's objective inferential statistics allowed us to infer data through analysis of the association between two or more variables and how several independent variables might explain the variance in a dependent variable. To determine the strength of the correlations between the variables, correlation analysis was utilized. To analyze the relationship between governance indicators and EDB, a multiple linear regression model (pooled OLS), random effects model, and fixed effect model were used. Prior to running the regression, assumption tests were made. Analysis was conducted utilizing STATA version 16 and SPSS version 25. World Governance Indicator released by World Bank is stated in an interval range, it scales from the minimum value of -2.5 (Worst) to +2.5 (best) and the ease of doing business score was calculated by using a scale of 0 (worst regulatory performance) to 100 (highest regulatory performance), The value of a dependent variable is defined as a linear combination of the independent variables plus an error term, x_1(voice and accountability), x_2(government effectiveness), x_3(regulatory quality), x_4(rule of law) x_5(control of corruption), and x_6(political stability) are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables. The regression coefficients are also interpreted as the change in the expected value of Y associated with a one-unit increase in an independent variable with the other independent variables held constant. β_0, $\beta_1 \cdots \beta_6$ are coefficients of determination; E= is a vector of errors of prediction. The study chose the panel data analysis technique due to its ability over a short period of time to ensure adequate degrees of freedom for efficient results. Pooled Ordinary Least Squares, Fixed Effects, and Random Effects models are three panel data estimate models that can be utilized equally depending on efficient statistical tests. The degree of homogeneity of the intercept and slope coefficients, as well as the amount to which any individual cross-section effects are connected with the explanatory variables, all influence the choice of a suitable model (Song H., 2000), and this is testable. The economic model for the research was specified as follows to show the functional relationship of the variables under study; EDB = f (coc, reg and voa, psav, rl, and goe). Panel data models cater to a higher level of heterogeneity that characterizes individuals, regions, organizations, or research units throughout time (Hsiao, 2003). Furthermore, panel data can considerably enhance the number of observations by integrating time series of cross-section observations. Panel data enables the researcher to discern between within-group and between-group correlations (Moyo, 2013). Even if variables in the regression equation are left out of the panel data analysis, the results will be efficient. Dummy variables are used to divide the various treatment groups in this study to discover which income level category countries are most conducive to doing business. When all other included X variables are maintained constant, the coefficient on a dummy variable is understood as the percentage change in Y associated with having the dummy variable's characteristic in relation to the omitted category. $Y = \beta_0 + \beta_{1+}\ \beta_1 D_1 + \beta_2 D_2 + \beta_3 D_3 + E$, D_1= Dummy variable for upper income, D_2= Dummy variable for upper middle income, D_3= Dummy variable for lower-middle-income countries was used to represent the categorical variables in the model.

4. Result and Discussion

The study presented the status of the indicators of EDB and governance. EDB can use aggregate measures of the EBD score and worldwide governance performance score was used as an independent variable. The study used multiple regressions to show the role of governance in the ease of doing business. The normality test, multicollinearity and heteroskedasticity tests are also used in the study to check the model's validity.

4.1 Normality Test

This assumption is used to determine whether the residuals are normally distributed. To say the normality assumption of this study is achieved, P-P Plot dots should be closer to the diagonal line; Normal P-P plot–points should lie in a reasonably straight diagonal line from the bottom left to the top right Nitsuh Kassaye (2018). As shown in figure 1 below the P-P plot dots are almost drawn closer to the diagonal line. Hence the assumption of normality is achieved.



4.2 Heteroskedasticity Test

Heteroskedasticity refers to a violation of the postulation of homoscedasticity in regression analysis. Homoscedasticity assumes that the discrepancy of the error term is constant crosswise at all levels of the independent variable(s). In contrast, heteroskedasticity occurs when the variance of the error term is not persistent across all levels of the independent variables (Goldfeld, and Quandt, 1965).

Table 3 Test for heteroskedasticity

chi2(1)	0.0226
Prob > chi2	0.000

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of edb

Source: Research Data (2023)

The output includes the results of the Breusch-Pagan test. If the p-value is less than the significance level (0.05), then the null hypothesis of homoskedasticity is rejected, indicating the occurrence of heteroskedasticity. If the errors do not have a continuous variance, we say they are heteroskedastic. To detect this problem Breusch- Pagan/ Cook-Weisberg test of heteroskedasticity was done by running the hettest command in Stata 16. The null hypothesis which states that the error term has constant variance (homoskedastic) was accepted since the Chi-square calculated was less than the table value. So, in this study, Chi-square calculated (0.0226) was less than the table value (0.05) which shows there is no heteroskedasticity problem in this study.

4.3 Multicollinearity Test

The term "multicollinearity" in multiple regression analysis refers to links between the independent variables that are linear. Collinearity is the connection between two variables that is nearly perfect. When a regression model has multiple variables that are highly associated with both the dependent variable and each other as well as the independent variable, it is said to be multicollinear (Young, 2017).

Field (2005) suggests that 'multi-collinearity would be suspected if tolerance figures are below 0.10 or if VIF statistics are 10.0 or higher', there is a signal that a multi-collinearity problem exists. Alternatively put, the value of VIF should be < 10 and the value of tolerance should be >0.10. Based on the coefficient output (Collinearity statics), Governmental effectiveness (14.84), and rule of law (17.24) obtained VIF values were removed from the model due to collinearity issues. According to table 3 below, the tolerance for all independent variables is greater than (0.10) and VIF for independent variables is less than the limited value (10.0), so there is no multi-collinearity between the independent variables of the model.

Table 4 Multicollinearity test

Variables	**Collinearity Statistics**	
	Tolerance	**VIF**
Corruption control	0.16	6.22
Voice and accountability	0.17	5.74
Political stability	0.38	2.59

	Regulatory quality	0.10	9.8

Source: Research Data (2023)

4.4 Correlation Analyses

The Pearson product-moment correlation coefficient is a statistic that indicates the degree to which two variables are related to one another. The sign of the correlation coefficient (+ or -) indicates the direction of the relationship between -1 and +1. The correlation coefficient can range from -1 to +1 (Duncan and Dennis, 2004). The results in table 4 below show that the dependent variable EDB is strongly and positively correlated with corruption control ($r=0.608$, $p < 0.01$), government effectiveness ($r=0.666$, $p < 0.01$), $p < 0.01$), and voice and accountability ($r=0.736$, $p < 0.01$). The dependent variable has a moderate and positive correlation with political stability ($r=0.650$, $p < 0.01$). Pairwise correlations among independent variables might be high (in absolute value). Rule of thumb: If the correlation > 0.8 then severe multicollinearity may be present. The correlation study shown above reveals this circumstance, to detect this problem we dropped two independent variables with significant correlation.

Table 5 Pearson correlation analyses

	1	2	3	4	5
Ease of doing business	1.000				
Corruption control	0.607	1.000			
Government effectiveness	0.666	0.630	1.000		
Political stability	0.650	0.763	0.668	1.000	
Voice and accountability	0.701	0.625	0.624	0.700	1.000

Source: Research Data (2023)

4.5 Model Summary

The model summary shows the strong point of the association between the model's dependent variable (ease of doing business) and the model's independent variables (governance indicators). This part compromises R and R2 to assess how well the model of regression fits the data and adjusted R2 and the estimate's standard error.

As stated by Abdul et al. (2018) the rule of thumb is that a “good fit” model is predicted by a minimum of 60 percent variance in the dependent variable making the model a good fit for the research by having a value of Adjusted R Square higher than 60 percent. As shown in the model summary table above, ($R=0.876$) is the correlation coefficient value between independent variables and dependent viable. From the model summary table 6, R square (R^2) is 0.767. This indicated that 76.7% variance of dependent variables is explained by independent variables used in the analysis, while 23.3% is explained by other indicators which are not included in this study or model. The adjusted R square is 0.763 which indicates that the model well fits and is greater than 0.60 as shown in Table 6 below.

Table 6 Model summary table

Model	R	R Square	Adjusted R Square	Standard error of the Estimate
	.876	.767	.763	7.04

[a] Predictors: (Constant), Control of corruption, political stability, Voice and accountability, Regulatory quality

[b] dependent variable: Ease of doing business

4.6 ANOVA Table

The ANOVA tells us whether the model, overall results in a significantly good degree of prediction of the outcome variable. The most important part pertaining to the variance analysis table is the F-ratio, which is a measure of how much the model has improved the dependent variable's forecast compared to the level of inaccuracy of the model (Field, 2009). Based on (ANOVA) table above, the p-value is 0.000 which is less than the alpha value of 0.05. Besides that, the F-statistic is significant at the value of (4, 195) = 160.8 Therefore, the model is a good descriptor of the relation between the dependent and predictor variables. As a result, the independent variables are significantly explained the variance of the independent variable.

Table 7 ANOVA table

ANOVA

MODEL	Sum of square	df	Mean square	F	Sig.
REGRESSION	31911.995	4	7977.999	160.832	.000[b]
RESIDUAL	9672.901	195	49.605		
TOTAL	41584.896	199			

a. Dependent Variable: Ease of doing business

4.7 Coefficient of Determination

The table below shows the results of the regression results for the three models. The Pooled OLS model shows that 3 variables significantly explain EDB, while the Fixed Effects model shows that only 2 variables are significant and the Random Effects model has three significant variables, and also a marginally insignificant variable. The Pooled OLS model regression results are related to both the Random Effects and the Fixed Effects Model. The Pooled OLS model shows that coc, reg, and voa are the most significant variables that explain EDB (significant at a 1% level), and psav is not significant at a 5% level of significance. Variables coc, reg and voa, and psav have been found that all have positive significant coefficients.

Table 8 Coefficient of determination

Dep. Variable: EDB	POOLED OLS MODEL			RANDOM EFFECTS MODEL			FIXED EFFECTS MODEL		
Variables	Coef.	t	p-value	Coef.	z	p-value	Coef.	t	p-value
Coc	1.60	1.36	0.017	6.81	3.68	0.000	8.37	2.94	0.004
psav	0.22	0.25	0.800	0.57	0.45	0.652	1.92	1.18	0.241
Reg	13.9	9.15	0.000	6.43	3.06	0.002	2.56	0.90	0.369
Voa	3.91	3.32	0.001	1.53	0.84	0.0401	5.43	1.80	0.043
Cons	62.6	107	0.000	62.93	53.52	0.000	60.68	65.76	0.000
	F (4, 195) = 160.83 (0.030) Adjusted R-squared = 0.7626 Root MSE = 7.0431			Wald chi2(4) = 127.55 (0.000) R-squared (overall) = 0.7348 Sigma (u) = 6.38, sigma (e) = 3.3061798, rho = .788			F(4,156)= 3.14 (0.0162) [ui]: F(39,156) = 18.69 (0.000) R-squared (overall) = 0.0202		
	Significant; 5%,								

4.8 Panel Tests

Although the study assumptions require the pooling of data, there is a greater need to do panel tests to determine the most efficient methodology. Panel tests carried out, include the Chow test (Fixed effects test), the LM test (Breusch and Pagan test) and the Hausman test. The Chow test reported an F-value of 18.69 with a p-value of 0.000, indicating that the Fixed Effects model is preferred to the Pooled OLS model. The Breusch and Pagan LM test reported a chi-square statistic of 127.55 with a p-value of 0.000, indicating that the Random Effects model is preferred to the Pooled OLS model. The two tests are in agreement with each other, causing the study to question its original assumption (though this does not guarantee the assumption to be dropped). The Hausman test is used to choose between the Random Effects and the Fixed Effects. The Hausman test reported a Chi-square statistic of 24.87 with a p-value of 0.001, implying that the Random Effects model is preferred to the Fixed Effects model. From the panel tests carried out, it is then necessary to consider the regression results of the Random Effects model. The variables coc, reg, and voa have been found to significantly explain EDB, with a positive impact.

As shown in the table, the coefficients of the random effect model for corruption control p (0.017, < 0.05). This shows there is a significant and positive relationship between corruption control and governance indicators also it indicates that when the corruption control increase by one, the ease of doing business increases by 6.81. The regression output shows that regulatory quality p (0.002, <0.05), indicates there is a significant and positive relationship between regulatory quality and governance indicators. It indicates that when the regulatory quality increase by one, the EDB increases by 6.43.

The tests show that voice and accountability p (0.001, < 0.04); shows that there is a significant and positive relationship between voice and accountability and governance indicators also it indicates that when the voice and accountability increase by one, the EDB increases by 1.53. But Political stability is insignificant p (0.65> 0.05). Political stability, the independent variable, is thus no longer useful in the model because it makes little or no difference in forecasting changes in the dependent variable.

4.9 Regression with Dummy Variables

In regression analysis, a dummy variable takes the values 0 or 1 to indicate the absence or presence of some categorical effect that may be expected to shift the outcome.

When maintaining other factors in the model constant, the coefficient value of dummy variables indicates how much the dependent variable's mean fluctuates when the independent variable is changed by one unit. In the table below, the coefficient of regression for the dummy variable shows that upper-income economic countries demonstrate that EDB with by 0.45 than lower-income countries. Therefore, the coefficient of 0.45 suggests that, on average, upper-income economic countries tend to have a higher level of ease of doing business compared to lower-income countries. The coefficient quantifies the difference or effect associated with the dummy variable. In this case, it indicates that being an upper-income economic country is associated with a positive effect on the ease of doing business, as the predicted value increases by 0.45 units. Lower-income countries are 8.66 times worse at conducting business than upper-middle-income nations. The factor of 8.66 represents the magnitude of the difference in the ease of doing business between these two groups of countries. Lower-income countries are estimated to be approximately 8.66 times worse in terms of their business environment compared to upper-middle-income nations. EDB is 3.5 times greater in lower-middle-income countries than in lower-income ones. The coefficient of 3.5 indicates a substantial difference in the ease of doing business between lower-middle-income and lower-income countries, highlighting the potential for lower-middle-income countries to offer a more attractive environment for businesses and investment.

The results of the World Bank (2003) similarly conclude that more rule is often related to government inefficiency, corruption, and other undesirable consequences rather than with higher quality private or public products. In reality, the study discovers that the regulatory load in many developing nations drives many businesses into the unofficial economy. The overall trend is that high-income countries tend to have more favorable business environments than low-income countries. Governance indicators are influencing factors for the ease of doing business, even if the impact is felt somewhat differently by high income economies compared to low, lower and upper middle income economies (Cristina, 2014).

Table 9 Coefficient of determination with dummy variables

EDB	Coefficient	Standard error	t- value	P (sig)
Corruption control	4.043	1.176	3.44	0.001
Political stability	-1.044	.820	-1.27	0.205
Regulatory quality	11.003	1.481	-1.27	0.000
Voice and accountability	-1.657	1.054	-1.57	0.017
Dummy for upper income	.440	2.659	0.17	0.869
Dummy for upper middle income	8.662	1.517	5.71	0.000
Dummy for lower middle income	3.502	1.354	2.59	0.010
constant	59.544	1.413	42.13	0.000

Source: Research Data (2023)

5. Conclusions

The study was aiming to investigate the role of governance indicators in ease of doing business. To examine the relationship, a model of multiple linear regression was used. The results of the multicollinearity and heteroscedasticity assumption tests, which were conducted prior to running the model, confirmed that multiple linear regression could be performed. From the model, the determination result is 0.767. This indicated that 76.7% variance of dependent variables is explained by independent variables used. The total regression model's output is F (4, 195) =160.8, the finding suggests that the model correctly and statistically forecasted how easily doing business is. The result of each independent variable is corruption control p (0.017, < 0.05); regulatory quality p (0.000, <0.05); voice and accountability p (0.001, < 0.05); Political stability is insignificant p (0.800 > 0.05).

Predictors among others, to demonstrate the extent of their influence, regulatory quality, corruption control, voice, and accountability were statistically significant contributions to ease of doing business and according to this data analysis political stability has no significant contribution to predicting the differences in the dependent variable, EDB. Varying degrees of model involvement can provide statistically significant predictions. Regulatory quality (13.91), voice and accountability (3.69), corruption control (1.60), and political stability (0.22). In today's competitive world, every country is trying its best to create and improve the environment for doing business and meeting global standards. But yet there is a significant difference in EDB between countries with low, moderate, and high levels of income.

The foundation of EDB is a commitment from government institutions to facilitate private sector organizations with a friendly business environment. Rules and regulations that are in favor of the business organization, low-cost economy, and simple bureaucracy are the real output of practicing good public governance that relates to achievement EDB performance

Controlling corruption has a positive predictive impact on improving the EDB. According to Gani (2007), corruption in the public sector can negatively influence economic activities, including business environments. Additionally, some studies prove empirically the link between corruption and governance, which can affect the business environment (Van Rijckeghem & Weder, 1997). Corruption influences negatively the attractiveness of international investors (Wei, 2000). A research conducted in China by Vittal, (2001), if China manages to reduce red tape and corruption and enhance better rule of law and property protection, it can even double its FDI.

Higher voice and accountability translate into effective coordination, information sharing, and the environment required for the expansion of business associations. This suggestion is also supported by the study conducted by M.I ABRY(2019) A healthy governance framework must provide both accountability and voice. Greater voice and responsibility should mean the availability of the ideal conditions for the development of various organizations and civil society organizations, as well as increase the power of business associations.

Regulatory quality provides a positive expectation for a business organization with regulations that encourage business growth through streamlined bureaucracy, and complicated procedures. Empirical results from this study have confirmed that regulatory quality is found to be a robust determinant to accelerate the EDB in the world. Similarly finds by Xu, (2011) and World Bank (2011) demonstrate that entrance deregulation is often linked to better economic outcomes, including higher per capita income, a reduction in the degree of the unofficial economy, lower levels of corruption, and increased productivity.

According to this study result political stability has no substantial contribution to predicting the ease of doing business when the other predictors are in the model in this particular study.

Generally good governance practices are essential for creating a favorable situation for businesses to operate and thrive. Governments that prioritize governance and invest in infrastructure development, regulate fairly and consistently, promote political stability, reduce corruption, and provide access to finance, are more probable to attract investment and create jobs, leading to economic growth and prosperity.

In the end, governance indices affect how easy it is to do business, even if the impact is felt somewhat differently by upper-income economies compared to low, lower-middle, and upper-middle-income economies.

6. Recommendations and Policy Implication

Based on the findings, the study suggested changes to the policy that might raise local government units' understanding of the need to simplify the rules governing the many metrics used to gauge economic activity.

The major main lesson from this study is that to establish a more stable business climate, policymakers need to pay adequate attention to improving government effectiveness, political stability, regulatory quality, rule of law, voice, and accountability.

Governments should promote transparency and accountability by making information publicly available, ensuring that decision-making processes are transparent, and holding themselves and businesses accountable for their actions. This can create a level playing field for businesses and promote trust in government.

Governments should simplify regulations and reduce bureaucracy to make it easier for businesses to comply with regulations and operate more efficiently.

Political leaders in the government and public sector must recognize the favorable correlation between specific governance measures and the EDB because its score is a very determinant factor in countries especially low-income countries.

Foreign investors should be informed to invite them to travel to and invest in low income and middle-income countries by bringing and dropping barriers to entry for new firms and cultivating overall institutional excellence.

7. Limitations and Prospects for Future Research

Suggestion for next similar research, additional the period of investigations is necessary. The World Bank-recommended governance metrics were the only ones` included in this study. Additional research will be needed to take into account the effect of other environmental elements that determine how easy it is to conduct business. The study's model did not include a controlling variable. So further researchers, better to use limiting factors that support the development of a correlational or causal link between variables of interest and help avoid research bias. This study uses only quantitative data, so it is better to incorporate both quantitative and qualitative data for further research. This helps to get detailed information about EDB matters. Also, there is limitation on this study due to the inability to use a descriptive study design may limit researcher ability to draw definitive conclusions about causality. Additionally, provide recommendations for future research that could address these limitations or provide further insights into the topic.

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