International Journal of Commerce and Finance Vol. 10., Issue 2, 2024, 76-87

The Business Start-up Procedures and Costs for Entrepreneurs

M. Çağrı Pehlivanoğlu[*]
Selim Aykaç[**]
Mustafa Emre Civelek[***]

Submitted: *19.09.2024* ***Accepted:*** *25.10.2024* ***Published: 08.11.2024***

Abstract

Entrepreneurs may encounter various difficulties when launching a new business. A business setup process can be quite straightforward in some nations and be challenging in others, particularly with regard to the amount of procedures to register a business and procedural costs. This study uses data from multiple nations to evaluate and the number of the required procedures and their costs associated with launching a business over time. 10 years of data from 171 different nations are included in the research sample. The study has two main variables. The findings show that there is a positive and significant relationship between the amount of business start-up procedures and procedural costs. The analysis of the data history also reveals that the time-consuming aspects of business start-up procedures and procedural costs for starting a business have shown a global downward trend over the years. Through a quantitative analysis, this study has demonstrated in the literature that countries consider the importance of making remedial arrangements to encourage entrepreneurship. Facilitating the entrepreneurship process and paving the way for new investments worldwide is essential for the development of national economies. Countries are expected to further improve current policies for entrepreneurial activity.

Key words: Business start-up procedures, procedural costs, entrepreneurship
JEL Classification: G00, G17, G21, G24

[*] *İstanbul Kent University, Faculty of Economics, Administrative and Social Sciences, Business Administration Department, cagri.pehlivanoglu@kent.edu.tr ORCID: 0000-0002-7519-3068*
[**] *İstanbul Gelişim University, Vocational School, Air Logistics Department, saykac@gelisim.edu.tr ORCID: 0000-0003-1156-5907*
[***] *Antalya Bilim University, Faculty of Economics, Administrative and Social Sciences, mustafa.civelek@antalya.edu.tr ORCID: 0000-0002-2847-5126*

1. Introduction

The study of entrepreneurship is central to the understanding of the market dynamics of a geography and its associated economies (Müller, 2016; Sternberg, 2022). As described by numerous researchers in the literature, entrepreneurship is the creation of new businesses (Rumelt, 2005; Cuervo et al., 2007). In this progress, the entrepreneur is the main element for innovation and economic growth (Schumpeter, 1942). Entrepreneurship is a production factor, and entrepreneurs combine production factors to create goods or services (Kumar et al., 2003). National economic conditions, as well as legal and regulatory frameworks, have a significant impact on entrepreneurial activity (Roper, 2013). Globally, medium-sized enterprises (SME) founded by entrepreneurs play a significant role in creating jobs and adding value. SMEs account for 99% of all enterprises in OECD countries, providing employment and contributing on average 50% to 60% of total value created (OECD, 2024).

The investment environment is changing due to variety of factors, including rising energy costs, evolving health conditions brought on by new diseases, technological advances, data security issues for individuals and organizations, regional tensions and wars, increased migration and demographic shifts in countries etc. While this change poses many challenges for countries, it also brings many opportunities. Considering the views that entrepreneurship is so important for business and economy, there must be favorable economic conditions that allow entrepreneurs the opportunity to earn and grow. As entrepreneurship is one of the fundamental drivers of global output, strengthening the quantity and quality of entrepreneurs in a country is beneficial for economic activity. It is necessary that government regulations encourage investors in addition to the individual's ability to succeed as an entrepreneur. Many countries employ a variety of strategies to stimulate investment. A quantitative examination of these facilitative methods made to boost entrepreneurship over the years could yield diverse outcomes. Within this approach, this study aims to provide a comprehensive picture by evaluating data from 171 countries. Our past research on a wide range of countries has found that procedures have a negative impact on the business start-ups (Pehlivanoğlu, Civelek, & Aykaç, 2024). This implied that as the procedural burden increases, entrepreneurs avoid starting a new business. The current research is expected to identify the

relationship between business start-up procedures and procedural costs across countries and to show how these variables have trended over the years. It is expected that the quantitative research data will provide an opportunity to assess how much focus has been given to the subject globally so far.

2. Conceptual Background

The main research constructs—business start-up procedures and procedural costs—are explored separately in this section.

2.1. Start-up Procedures to Register a Business

The start-up procedures are the number of procedures required for verification, necessary licenses and completing the records to set up and start a new business. This is based on data compiled annually by Doing Business and covers limited liability companies or equivalent company types (Saltane & Pan, 2013; World Bank Group, 2021). Like costs, the number of procedures is monitored by governments and businesses. Reducing the number of procedures creates an attractive structure for entrepreneurs (Jansson & Sedaca, 2000). In countries where the number of procedures is high, it is typically seen that informality is also relatively high. The growth rate of informal enterprises is generally slower than that of formal enterprises. At the same time, in informality, employees cannot benefit from social rights, and therefore social security taxes are paid less. Therefore, the high number of procedures for starting a business may indirectly lead to lower government revenues (Ho & Wong, 2007; Block, 2021).

Accordingly, countries take initiatives to optimize these procedures. For example, to reduce the number of business start-up procedures, systems such as one-stop-shop have been developed (World Bank Group, 2009). Thus, business start-up processes can be initiated from a single point and the necessary documents can be obtained via a website or e-mail. With this system, there has been a decrease in the number of procedures and a parallel acceleration in business start-up durations in many countries. More than 50 percent of the countries monitored by Doing Business have established online application platforms. Entrepreneurs can quickly register for social security services, get a company name, etc. In some countries, business setup processes can be completed

entirely through these platforms (Bruce & Mohsin, 2006; Saltane & Pan, 2013). The high number of business establishment procedures causes some of the enterprises to skip these procedures consciously or unconsciously (Bozkurt & Akçacı, 2023).

The number of procedures required for business start-ups has decreased significantly worldwide. While the average number of procedures required to start a business was 8.5 in 2010, this number decreased to 6.6 in 2019. As with business start-up costs, the number of procedures has not decreased at the same rate for each country. Table 1 shows the countries with the highest number of business start-up procedures worldwide. When the number of business establishment procedures is analyzed, Venezuela ranks first with 20 procedures. Moreover, it is observed that there has been no decrease in the number of business start-up procedures in Venezuela over a 10-year period. Venezuela is followed by Equatorial Guinea with 16 procedures, Bosnia and Herzegovina, Eritrea, Philippines and Uganda with 13 procedures each (World Bank Group, 2021). Its important to note that countries with a high number of business start-up procedures generally have high start-up costs. Hence, governments encourage more investment by reducing the number of procedures. Although the number of business start-up procedures is on a downward trend, there are still many countries with more than 10 procedures, resulting in longer start-up times and higher costs.

Table 1. Countries with the Highest Number of Business Establishment Procedures

Country	**2010**	**2019**	**Change**
Venezuela	19	20	+1
Equatorial Guinea	18	16	-2
Bosnia and Herzegovina	14	13	-1
Eritrea	13	13	0
Philippines	18	13	-5
Uganda	16	13	-3
Algeria	13	12	-1
Argentina	14	12	-2
Bolivia	14	12	-2

Eswatini	12	12	0

Source: World Bank (2021)

2.2. Cost of Business Start-up Procedures

The cost of business start-up procedures cover the costs of establishing a limited liability company or an equivalent in different economies. Here, the ratio of expenses incurred to per capita income should be taken into account in order to more precisely estimate the business start-up costs. Data are processed proportionally because effects such as exchange rate fluctuations can lead to misleading results across. Doing Business is the source of the data used, and it provides guidance to governments (World Bank, 2021). This data is monitored to take steps to minimize the cost of starting a business, enable more people to contribute to the economy, and attract foreign investors. Multinational investments in particular carefully consider the procedures and costs associated with establishing a business in a country (Ruiz et al., 2018). Reducing the procedures and costs of starting a business is necessary to prevent informal economy transactions. Online processes have been introduced in many countries to lower costs. Entrepreneurs are able to complete part of the process electronically. Improvements have simplified and eliminated non-essential procedures (Rogge & Archer, 2021). It has been observed that more businesses are created as a result of streamlined processes. For instance, comparable adjustments in Greece, Croatia, and Lithuania during 2012 and 2013 led to a decline in informality and an increase in the number of businesses (Saltane & Pan, 2013).

Another important criterion affecting the costs of business start-up procedures is the minimum capital. This is defined as the amount that must be invested by the shareholders in order to complete the establishment of a company (World Bank, 2021). Worldwide, these amounts are deposited through notaries or banks and in some cases can be withdrawn later. Some costs are also incurred at this stage and creates a negative impression for investors. For this reason, it has been observed that in many countries, minimum capital amounts for company formation have been reduced or abolished (Pegg, 1999). Although there has been a significant reduction in the costs of business start-up procedures worldwide in recent years, the extensive procedures and costs of the business start-up process remain for many countries (World Bank Group, 2009). Globally, the cost of

business start-up procedures decreased from 45.5 percent in 2010 to 19.6 percent in 2019 (World Bank, 2021). While the share of some countries in the decline of this ratio is much higher, the rate of cost reduction in some countries is quite slow. Significant steps have been taken particularly in African countries to reduce these costs (Darnihamedani et al., 2018).

Table 2. The 10 Countries with the Biggest Reduction in the Cost of Business Setup Procedures

Country	**2010**	**2019**	**Change (%)**
Cote d'Ivoire	133	2,7	97,97
Benin	154,3	3,4	97,80
Congo, Dem. Rep.	735,1	16,3	97,78
South Africa	6	0,2	96,67
Togo	178,1	8,1	95,45
Kosovo	28,7	1,4	95,12
Angola	226,6	11,1	95,10
Niger	118,6	7,9	93,34
Sierra Leone	110,7	7,6	93,13
Ukraine	7,1	0,5	92,96

Source: World Bank (2021)

As shown in Table 2, in countries such as Côte d'Ivoire, Benin, Congo, South Africa, Togo and Nigeria, business start-up costs have been reduced by over 90 percent. While the ratio of business start-up costs to per capita income in Côte d'Ivoire was 133 percent in 2010, this ratio decreased to 2.7 percent in 2019. One of the most striking countries in terms of the amount of decrease was Congo. The ratio of business start-up costs to per capita income in Congo was 735 percent in 2010, and this ratio decreased to 16.3 percent in 2019. Another noteworthy country is Angola. The ratio of the cost of starting a business to per capita income was 226.6 percent in 2010, this ratio decreased to 11.1 percent in 2019, and the rate of decrease was 95.1 percent (World Bank, 2021).

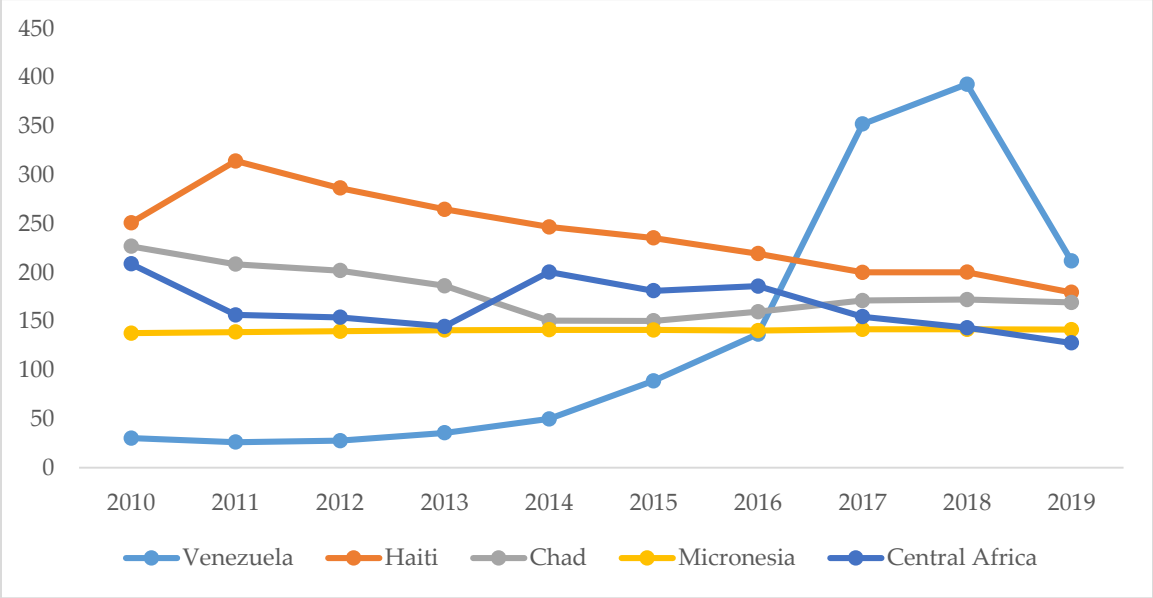


Figure 1. 10-Year Trend in the 5 Countries with the Highest Business Setup Costs

Source: World Bank (2021)

In terms of the cost of starting a business as measured by Doing Business, among the 171 countries analyzed in this study, 156 countries have a positive graph, meaning that they have reduced the cost of starting a business, while 3 countries have no change. However, contrary to the general trend in the world, business start-up costs have increased in 12 countries, but in some of these countries, business start-up costs are still quite low. The country with the highest increase in the ratio of business start-up costs to per capita income was Venezuela with 601 percent, followed by Mozambique with 87.9 percent (World Bank, 2021). Figure 1 shows that the graph moves in a downward trend in countries with the highest business start-up costs. In general, it is observed that business start-up costs have been decreasing at a slower pace than the world average, which is why business start-up costs are still quite high in these countries.

3. Research Model and Hypothesis

The literature was reviewed for scholarly research and hypotheses pertaining to the subject matter of this article. Based on this, the following hypothesis is formulated for the current research

H_1: Procedures to Register a Business has positive effect on Cost of Business Start-up Procedures

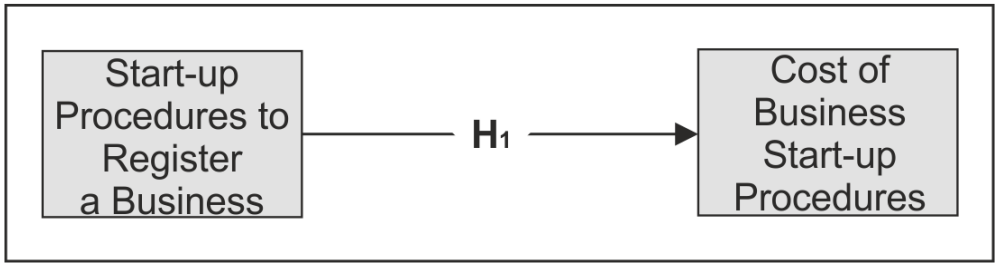


Figure 2. Research Model

4. Research Methodology

The data set comes from World Bank open data source. Since secondary data was used, validity and reliability of the scale were not tested (Civelek, 2018). The theoretical model hypothesis has been tested by means of simple regression. The statistical programs SPSS has been used to carry out the analyses.

5. Measures And Sampling

The data used in the study were obtained from the Doing Business reports prepared under the supervision of the World Bank. The data of 171 countries between 2010-2019 were used in the study, and the number of business setup procedures and the costs of business setup procedures were compared. Since two different variables were analyzed over a ten-year period, totally 1710 different values were included in the analysis and the study outputs were created.

6. Analyses Results

The theoretical model hypothesis has been tested by means of simple regression. Table 1 and Table 2 indicate model summary and ANOVA results respectively.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,369	,136	,136	46,09016

Table 4. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	571627,632	1	571627,632	269,090	,000
	Residual	3628308,849	1708	2124,030		
	Total	4199936,481	1709			

Table 5. Results of Tests

Relationships	Standardized Coefficients	Hypotheses	Results
Procedure → Cost	0.369*	H_1	Supported

*p < 0.05

As seen in Table 3, H1 hypothesis is confirmed. This means Procedures to Register a Business has positive effect on Cost of Business Start-up Procedures.

7. Conclusion

As technology advances, the world is poised for significant transformation. Developments such as artificial intelligence has made it possible for humans to access vast amounts of information, impacting day-to-day business operations. It is inevitable that new advancements will have a significant impact on entrepreneur's life soon. In an environment of such intense change, the implementation of policies that pave the way for entrepreneurship is one of the issues to which governments should attach importance. Approaches that promote entrepreneurship will benefit countries both in terms of economic growth and in keeping pace with, or even leading, technological change. People have great ideas, but few can put them into reality because of a lack of resources. Government policies should make it easier for people to make their dreams come true. In addition to financial and procedural resources, entrepreneurs need be prepared with expertise. Many countries provide entrepreneurship training programs. It is important that these trainings correlate with technological advancements, given the present trend of digital entrepreneurs. Furthermore, people should be emotionally motivated to establish new businesses. This study revealed the 10 years trend in the number of procedures and procedural cost challenges that entrepreneurs in various countries experience while starting their businesses. According to the study's findings, both procedural amount and procedural monetary conditions have exhibited a positive trend of improvement across countries over time. These entrepreneur-friendly enhancements are expected to grow beyond their current level, combining with technological breakthroughs in the future years to make the process even easier. The present data set demonstrates that countries have been acting in this supportive manner. It’s worth to note that providing maximum assistance for entrepreneurs is essential for growth, particularly in nations that lag in terms of economic welfare. Later research may focus on what level of priority should be allocated to the evaluated variables in the short, medium and long term. This research has some limitations and the results should be evaluated accordingly. The study was conducted with data covering a ten-year period before pre-COVID. Future studies can also cover the post-pandemic period when reliable data can be found.

8. References

Block, J. (2021). *Corporate Income Taxes and Entrepreneurship.* Rotterdam: IZA World of Labor.

Bozkurt, M., & Akçacı, T. (2023). İş yapma kolaylığı: Türkiye ve Avrupa Birliği karşılaştırması. *Econder, 7*(2), 97-120.

Bruce, D., & Mohsin, M. (2006). Tax policy and entrepreneurship: New time series evidence. *Small Business Economics, 26*(5), 409–425.

Civelek, M. (2018). *Essentials of Structural Equation Modeling.* Lincoln: University of Nebraska Lincoln-Zea Books.

Cuervo, Á., Ribeiro, D., & Roig, S. (2007). *Entrepreneurship Concepts, Theory and Perspective.* Heidelberg: Springer.

Darnihamedani, P., Block, J. H., Hessels, J., & Simonyan, A. (2018). Taxes, start-up costs, and innovative entrepreneurship. *Small Bus Econ, 51*, 355–369.

Ho, Y., & Wong, P. (2007). Financing, regulatory costs and entre- preneurial prosperity. *Small Business Economics, 28*(2), 187–204.

Jansson, T., & Sedaca, S. (2000). Formalizing small businesses - The case of Colombia. *Small Enterprise Development, 11*(3), 4-15.

Kumar, S. A., Poornima, S. C., Abraham, M. K., & Jayashree, K. (2003). *Entrepreneurship Development.* New Delhi: New Age International (P) Limited, Publishers.

Müller S. (2016). A progress review of entrepreneurship and regional development: What are the remaining gaps? European Planning Studies, 24(6), 1133-1158.

OECD. (2024, 08 18). SMEs and entrepreneurship. https://www.oecd.org/en/topics/policy-issues/smes-and-entrepreneurship.html adresinden alındı

Pegg, S. (1999). The cost of doing business: Transnational corporations and violence in Nigeria. *Security Dialogue, 30*(4), 473-484.

Pehlivanoğlu, M. Ç., Civelek, M. E., & Aykaç, S. (2024). The mediator role of procedures in the relationship between business setup time and starting new business. *Journal of International Trade, Logistics and Law, 10*(1), 100-107.

Rogge, N., & Archer, G. (2021). Measuring and analyzing country change in establishing ease of doing business using a revised version of World Bank's Ease of Doing Business Index. *European Journal of Operational Research, 290*(1), 373-385.

Roper, S. (2013). *Entrepreneurship A Global Perspective.* New York: Routledge.

Ruiz, F., Cabello, J. M., & Pérez-Gladish, B. (2018). Building ease-of-doingbusiness synthetic indicators using a double reference point approach. *Technological Forecasting and Social Change, 131*(4), 130-140.

Rumelt, R. P. (2005). Theory, Strategy, and Entrepreneurship. S. A. Alvarez, R. Agarwal, & O. Sorenson içinde, *(eds) Handbook of Entrepreneurship Research. International Handbook Series on Entrepreneurship* (Cilt 2). Boston: Springer.

Saltane, V., & Pan, J. (2013). *Getting Down to Business : Strengthening Economies through Business Registration Reforms.* Washington: International Finance Corporation.

Schumpeter, J. A. (1942). *Capitalism, Socialism and Democracy.* New York: Harper & Brothers.

Sternberg, R (2022). Entrepreneurship and geography - some thoughts about a complex relationship. *The Annals of Regional Science*, 69, 559–584.

World Bank. (2021). *Ease of Doing Business.* https://www.worldbank.org/en/news/statement/2021/09/16/world-bank-group-to-discontinue-doing-business-report.

World Bank Group. (2009). *How many stops in a one-stop shop? A review of recent developments in business registration.* Investment Climate Advisory Services of the World Bank Group. Washington DC: World Bank.

World Bank Group. (2021). *Start-up Procedures to Register a Business (number).* World bank.