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The Influence of the Legal Environment on Performance of Small and Large Enterprises in Venezuela

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Abstract

The study investigated the influence of the legal environment on the performance of small and medium enterprises in Venezuela. A descriptive research design was utilized in the study. The survey covered 34 small and large enterprises in Venezuela. A census was conducted in the investigation since the focus population was small and manageable. The unit of observation included the managers, supervisors and support staff. Questionnaires with closed-ended questions were administered directly to the respondents. The data were analyzed using descriptive and inferential statistics. The descriptive statistics entailed the frequencies, mean and standard deviation, while inferential statistics comprised of the correlation and the regression analysis. Analysis of variance was utilized to determine whether the overall model was statistically significant. The findings of the study reported that legal factors that influenced the performance of the small and large enterprises in Venezuela were liberation in management, levels of consumer protection, economic regulation on price ceiling, licensing requirements, competition regulation, export subsidies, trade tariffs, import quotas and level of taxes. The study concluded that the legal environment was positively and significantly related to performance. The study recommended that small and large Enterprises in Venezuela be granted democracy in their leadership style and not dictated on who be involved in the management.

Keyword: *Legal environment, performance, small and large enterprises, Venezuela*

1.1 Background of the study

The legal environment is the core factor that the companies are concerned with when looking to invest as it determines the returns after some time (Ades, 2019). For instance, Bardhan (2017) established that the success of the companies, whether local or international depends on how those companies abide by the established laws. The companies that do not abide by the regulations to not take long before liquidating up since the government will be on their toes and to a greater extent, their operation license will be revoked and become illegal to continue

operating (Brahm, 2015). The legal environment constitutes the government policy that is regulating the functioning of the business entities within a particular jurisdiction (Cyert, 2014). Some of the crucial legal environments that the business, whether internationally or locally, should adhere to include competition regulation, tax policy and government policy (Dawson, 2013).

Further, the legal environment can be divided into three aspects, namely home, host and global contexts (Gratchev, 2011). The home environment specifies international companies should fully adhere to the internal laws and regulations, no matter the influence of the company. Some of the home environment affecting the business includes the administrative requirements relating to the legislative branches of the government (Gómez & Spencer, 2012). Moreover, the host environment restraints the company to abide by the laws governing business in the host country, such as adhering to employment practices, taxation, and measures to protect the environment (Habib, Mohsin & Leon Zurawicki, 2017). Tweed, Cameron and Massey (2013) showed that internal firm factors, external factors such as government policy and trade policy had a positive and noteworthy effect on the outside market extension procedures used by companies. The study concluded that firms to train and retrain their leaders to understand the external environment factors like the socio-culture, legal and technological to prepare adequately for a smoother process. Likewise, Gupta, Davoodi and Alonso (2016) uncovered that business banks went into perform better when the environment is conducive for the business activities.

1.2 Statement of the Problem

The sustainability of the businesses is dependent on environmental factors such as taxation, regulations, subsidies and price ceilings (Habib, Mohsin & Leon Zurawicki, 2017). The government involvement in the businesses is very essential since it formulates the policies that affect the operations of the business. The nature of the political and legal systems, for example, political vulnerability, legitimate procedural difficulties, depravations and inadequate lawful reinforcements, becomes a significant determinant in selecting a suitable market for the operations (Gratchev, 2011). However, the legal environment in Venezuela has not been very friendly to business operations (Guillén, 2014). There have been cases of high corruption cases, embezzlement of the funds, tribalism, political instability and unfavorable laws. The country has witnessed the extinction of some of the well-established organizations and moving to neighboring states such as Grenada and Guyana to do business (Habib, Mohsin & Leon, 2017). Thus, the legal environment is believed to affect the performance of a business to a great extent and thus form the foundations for conducting the study to establish the influence of the Legal environment on the performance of small and large enterprises in Venezuela.

1.3 Research objective

The objective of the study is to examine the influence of the legal environment on performance of small and large enterprises in Venezuela.

2.0 Literature Review

2.1 Theoretical Formulation of the Study

2.1.1 Environmental Dependency Theory

The theory was initiated by Hans Singer and Raúl Prebisch (Pfeffer & Salancik, 1978). The theory shows that external factors affect the performance of an organization and most of the companies in the world must engage in transactions with other actors and organizations in its environment to acquire resources. Moreover, the resources needed may be scarce, thus forcing companies to adapt to the nature of the environment, therefore, develop strategies such as merging, absorption, joint ventures, taking political actions and developing direct links with other organizations for survival (Bryant & Davis, 2012). Depending on the strategies adopted, firms will lessen their dependence on other businesses for survival. The theory illustrates that as the environment changes, such as the decrease in demand, the need for links with other organizations also increases (Pfeffer & Salancik, 1978).

Furthermore, the theory is relevant and establishes firms can minimize environmental dependence and uncertainty through mergers, joint ventures, and political action. The theory further shows that merging and absorption are very fundamental in controlling the competition, inputs and the diversification of its operations to reduce the dependency. Likewise, the theory showed that joint ventures are critical to spreading out risks and political actions change the condition of the external economic condition by attempting to shape the administration guidelines and set up a progressively ideal situation that will support the business (Sherer and Lee, 2002). The theory gets pertinent to the present investigation and the substance of the approach will guide the study in establishing the influence of the political and legal environment on foreign market entry strategies.

However, the environment dependency theory has been criticized by scholars. For instance, according to Binder (2007), the theory did not establish the importance of free trade. It ignored to examine how lack of competition within an economy makes the local industries reluctant to improve on the products and services, making the consumers lack a variety of goods and services. Moreover, Ho, Liao and Rosenthal (2015) highlighted the theory did not establish those industries that influence political decisions and rely mostly on government support that may not be sustainable in the long term. Also, according to Hessels and Terjesen (2010), the theory does not elaborate on the consequences of the political action of the businesses in the economy. The severe cost of production stimulated by the taxes and restrictions on the imports constrains individuals to do without those products.

3.1 Research Methodology

The study utilized the descriptive research design. The primary purpose of the descriptive research design is to describe the state of affairs as it is at the time of the study (Creswell & Poth, 2017). According to Patten and Newhart (2017), the descriptive study design is used when gathering data about individuals' attitudes, opinions and habits. The researcher focused on 34 small and large enterprises in Venezuela. The units of observation were managers, supervisors and support staffs. The study conducted a census to all the 34 enterprises.

4.0 Research Findings and Discussions

4.1 Descriptive Statistics of Legal Environment

Table 1 presents the descriptive statistics for legal environment

Table 1: Descriptive Statistics for Legal Environment

Statement	Mean	SD
Liberation in management	4.09	1.02
Levels of consumer protection	3.92	1.10
Economic regulation on price ceiling	3.99	0.95
Licensing requirements	4.01	0.99
Competition regulation	3.73	1.19
export subsidies	3.48	1.28
Trade tariffs	4.31	1.01
import quotas	4.03	1.24
Level of taxes	4.11	0.92
Average	3.96	1.08

The descriptive statistics from table 1 depicts the mean and standard deviation of the statements of the legal environment. Liberation in management had a mean of 4.09 and SD 1.02. Levels of consumer protection scored mean of 3.92 and SD 1.10, Economic regulation on price ceiling had a mean of 3.99 and SD 0.9, Licensing requirement 4.01 and SD 0.99. Also, the competition regulation had a mean of 3.73 and SD of 1.19. Export subsidies had a mean 3.48 and SD of 1.28. Trade tariffs portrayed a mean of 4.31 and SD of 1.01. Import quotas 4.03 and SD of 1.24. The level of taxes had a mean of 4.11 and SD of 0.92. The average mean of 3.96 implied the legal environment factors affected the foreign market entry strategies to a large extent. The average standard deviation of 1.08 established that influence of legal environment factors on performance varied from one company to another.

4.2 Correlations Analysis

The correlation results are presented in table 2

Table 2: Correlation Analysis

		Performance	Legal Environment
Performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Legal Environment	Pearson Correlation	.323**	1.000
	Sig. (2-tailed)	0.000	

The results in table 2 show the the legal environment and performance are positively and significantly associated ($r=0.323$, $p=0.000$).

Table 3: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.625a	0.5310	0.5030	0.2196

a Dependent Variable: Performance

b Predictor: (Constant)Legal Environment

As presented in table 3, the model summary shows that the R square value was 0.5310, indicating that the legal environment explained 53.10% of performance of small and large enterprises

Table 4: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.139	2	4.0695	145.34	.000b
	Residual	2.773	99	0.0280		
	Total	10.912	101			

The results in Table 4 show that the general model was statistically significant thus; legal environment was a good indicator of performance. This was supported by calculated F of 145.34 that is greater than the convention F statistics of 1.96.

Table 5: Multiple Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.549	0.203		4.684	0.000
	Legal Environment	0.226	0.014	0.507	16.143	0.000

The regression model is presented as

$$Y = 0.549 + 0.226X_1$$

Where: -

Y= Performance

X₁= Legal Environment

Results in Table 5 show that legal environment and performance were positively and significantly related ($\beta = 0.226$, $p = 0.000$) supported by calculated t statistics of 16.143, which is more than t critical of 1.96. The results indicated that when the legal environment improves by one unit, the level of performance will increase by 0.226 units, holding other factors constant.

5.1 Conclusions of the Study

The study concluded that the legal environment was positively and significantly related to the performance of small and large enterprises in Venezuela. With the references to the findings of the study, the legal environment constituted of liberation in management, levels of consumer protection, economic regulation on price ceiling, licensing requirements, competition regulation,

export subsidies, trade tariffs, import quotas and level of taxes. The study concluded that the high performance of the business is highly dependent on the legal environment. The study further concluded that companies were much involved in the process of researching before deciding the market, so to have confidence in their investment and to make sure the legal environment is friendly to their operations. The study concluded that it is very vital for the business entities to consider knowing the conditions that they will be operating in to avoid making the wrong choices regarding the market.

6.1 Recommendations

The study recommended that small and large enterprises in Venezuela to be granted democracy in their leadership style and should not be dictated on who be involved in the management. The research also suggested those officials notorious in misappropriating the assets entrusted to them to be convicted and forced to return all the assets they have stolen and to be replaced immediately with administrators of integrity. Additionally, the study recommended politicians should distance themselves from interfering with the operations of the business and government to establish policies and regulations to protect companies from the interference from the influential people in the country mostly the politicians. The study further recommended that the small and enterprises in Venezuela to be conducting comprehensive research to know the conditions of the markets to avoid spurious choices that will affect their sustainability and end up liquidating the enterprise after a short period of operations.

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