Ease of Doing Business and Its Impact on Inward FDI

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Abstract

This study investigates the impact of Ease of Doing Business on Inward FDI over the period from 2011 to 2015 across the globe. This study measures ease of doing business using starting a business, getting credit, registering property, paying taxes and enforcing contracts. The research used a sample of 177 countries from 190 countries listed in World Bank. Least square regression model via Eviews software used to examine causal relationship. The study found that ease of doing business indicators ‘Enforcing Contracts’ was found to have a positive significant impact on Inward FDI. Nevertheless, ‘Getting Credit’ and ‘Registering Property’ were found to have a negative significant impact on Inward FDI. However, ‘Starting a Business’ and ‘Paying Taxes’ have no significant impact on Inward FDI in the studied timeframe of this research. The findings of the study suggested the ease of doing business enables inward FDI through better contract enforcements, getting credit and registering property. The findings of the research will assist international managers and companies to know the importance of ease of doing business when investing in foreign countries through FDI.

Keywords

ease of doing business
inward FDI

1. Introduction

The shifting direction of Foreign Direct Investment in this era has been attracting more attention in recent literature. Hence, this research purposes to investigate the impact that the ease of doing business has in determining inward FDI. This research focuses on 177 countries throughout the world and analyses the data from 2011 to 2015.

The World Bank provides comparable measures of several elements of business regulation: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. One could analyse how these indicators affect FDI by comparing the change in the level of FDI inflow of a country to its DBI score of that year (Shahadan et al., 2014). The indicators are available for 190 countries and are updated on an annual basis and addresses the concerns any organisation might have prior to making an investment decision in a foreign nation.

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As a result, these factors assess to resolve the success or failure of an international venture (Morris & Aziz, 2011).

Ease of doing business facilitates the domestic producers as well as foreign. The benefits of domestic businesses seem obvious keeping in mind that the foreign businesses will not only provide jobs, but also bring new technology with them into a country. Besides that, access to economic opportunities, decrease in corruption and implications of lower transactional costs are also understood as contributing factors of the ease of doing business (The Friedrich Naumann Foundation, 2017; European Commission, 2017). Žylius & Basheka (2014) also informs that it provides a clearer attribution of the reforms that would serve the political cycle better and limit competition through ranking of indicators which could encourage engagement in less visible but more important reforms. There is a demand for knowledge about the characteristics and policies of the country that will attract FDI as FDI is the positive gauge to the development of a country by most political leaders. Governments are struggling to improve regulations, policies and building an easy and safe environment for conducting of businesses. Additionally, they are also struggling to bring amendments in law for their own benefits and attracting FDI. Hence, the World Bank’s Doing Business Indexes (DBI) is evaluating data to ease these concerns. The World Bank’s (DBI) indicators are all regulations or processes that related to the operation of a foreign business entity which the government can directly control (Shahadan et al., 2014).

| Author and Year | Title                                                                 | Total Countries |
|-----------------|----------------------------------------------------------------------|-----------------|
| Morris & Aziz (2011) | Ease of Doing Business and FDI Inflow to Sub - Saharan Africa and Asian Countries | 57              |
| Olival (2012) | The Influence of Doing Business’ Institutional Variables in Foreign Direct Investment | 177             |
| Corcoran & Gillanders (2012) | Foreign Direct Investment and the Ease of Doing Business | 53              |
| Shahadan et al. (2014) | Relationships between Doing Business Indexes and FDI Net Inflows: Empirical Evidence from Six Asian Countries (Afghanistan, Bangladesh, India, Iran, Pakistan and Sri Lanka) | 6               |
| Ani (2015) | Effect of Ease of Doing Business to Economic Growth among Selected Countries in Asia | 29              |
| Singh (2015) | Relationship between Doing Business Index and Foreign Direct Investment | 171             |
| Vogiatzoglou (2016) | Ease of Doing Business and FDI Inflows in ASEAN | 9               |
| MogesEbero & Begum (2016) | The Desirability of Doing Business and Flow of Foreign Direct Investment Nexus: The Case of Ethiopia | 1               |
| Akame et al. (2016) | The Impact of Business Climate on Foreign Direct Investment in the CEMAC Region | 6               |
| Mahuni & Bongu (2017) | Nexus Between Doing Business Indicators and Foreign Direct Investment for Zimbabwe: A Time Series Analysis | 1               |

Past literature have advanced the understanding on the impact of ease of doing business on inward FDI. Piwonski (2010) studied how FDI is influenced by ease of doing business indicators in countries. Using a multivariate regression model, the study used the rankings of countries as a measure of doing business. The researcher found out that there is a strong link between the variables and FDI. Shahadan et al. (2014) exposed that starting a business, dealing with construction permits, registering property, getting credit, protecting investors, trade across borders and enforcing contracts indexes have been directly and significantly associated with FDI inflow in Asian economies. It should be noted, though, that the majority of empirical studies use the comprehensive Ease of Doing Business indicators to investigate the relationship a country’s business regulatory system has with the attraction of foreign investment. A few studies which specifically examine the various themes or dimensions of the Ease of Doing Business indicate that the positive association with FDI is mostly due to certain themes or sub-indicators (Morris & Aziz, 2011; Olival, 2012).
One important question is what type of country specific features can attract more FDI and what determines FDI given the obvious benefits of FDI. As specified by the (The World Bank, 2005), “investment climate helps governments implement business reform, encourage private sector development and generate investment”. Hence, a country’s indicators of investment climate levels are important for FDI decisions of foreign investors (Bayraktar, 2015). Extensive literature on these capital flows have been derived due to the existence of such positive expected effects of FDI inflows (De Gregorio, 1992; Oliva & Rivera-Batiz, 2002; Kemme et al., 2014). Even more attention has been attracting given the changing direction of FDI towards developing countries from developed ones (Bayraktar, 2015). With the growing number of small-and-medium enterprises in the region, ease of doing business plays a crucial role in the region’s economic growth. While ease of doing business has implications for foreign direct investments, local businesses too are impacted by the processes, rules, and regulations set up by governments that can help promote a business-friendly environment or hold local businesses back from their entrepreneurial ambitions (The Friedrich Naumann Foundation, 2017).

According to past researches, there were very few studies discussed the impact of ease of doing business on inward FDI throughout the world. In addition, those researches were using small number of sample countries. Therefore, this research fulfills the gap by using almost all the countries listed by World Bank Ease of Doing Business index. However, due to unavailability of data this research worked with 177 countries throughout the world from the current listed 190 countries by World Bank. Similarly, Singh (2015), has worked with 171 countries but however his research only found the relationship between ease of doing business index and FDI. The research however, did not conduct any regression analysis to find the impact between Ease of Doing Business and Inward FDI. In another research conducted by Olival (2012), it worked with a sample of 177 countries but however, the analysis was conducted for advanced economies and developing economies separately. In addition, when this research was conducted, the countries listed in World Bank were less than the 190 countries listed now (The World Bank, 2017d). Lastly, most of the past researches with a did not use E-views software to conduct regression with a large sample as of this research.

Since the doing business indicators came in place, more than a decade ago, and more research is coming up trying to find a link between FDI and doing business indicators. Several studies preach that higher Distance to frontier scores are associated with high FDI inflows. This research looks forward to providing essential information for future researchers as it is offering updated information on the foundations of the concept surrounding the research. FDI is ever-appreciated in order to sustain the development of a country, and with the help of the ease of doing business, this research looks forward to help further understand the dynamics aligned to the link between doing business indicators and inward FDI for the regulations development of a country.

The paid-in minimum capital requirement, time and cost and the number of procedures required for a small to medium-sized limited liability company to formally operate and start up in an economy is what is measured by the Starting a business indicator (The World Bank, 2018). The previous studies indicate that when all indicators of starting a business decreases, at the same time, it attracts more FDI inflow (Bayraktar, 2015; Nnadozie & Njuguna, 2011; Singh, 2015; Zhang, 2007). As a result, the easier it gets to start a business, higher amounts of FDI occurs in an economy. However, since not all countries are homogenous, this result varies from country to country but can be applicable to majority of the economy. In Ethiopia, it was found that the cost, time and procedure involved in starting a business were strongly confirming that decrease in these factors definitely improve inflow of FDI (MogesEbero & Begum, 2016). Similarly, this result was also found in the economies of Bangladesh, Pakistan, India, Iran, Sri Lanka and Afghanistan (Shahadan et al., 2014).

**H1: Starting a Business has a positive significant impact on Inward FDI**
This indicator examines the number of time, cost and procedures aligned with registering property, with the assumption of a standardized case of an entrepreneur who wants to purchase a building and land that is already registered and free of dispute concerning titles (The World Bank, 2017g). In developing countries, Bayraktar (2015) found that when fewer the number of procedures, shorter time taken and lower costs of registering property occurs, there is evident increase in FDI inflows. This was also supported by Morris & Aziz (2011); Kofarbai & Bambale (2016) as their research also found that registering property was related to increase inward FDI in an economy. Olival (2012) suggested that a focus is constituted in countries with high quality institutions that guarantees the protection of property rights. In individual estimations, it was found that registering property indicators impact inward FDI and is most relevant to it (Olival, 2012). In another research by Akame et al. (2016), registering property was found to significantly increase FDI inflows. They also claim that inward FDI increases by 1.1% when the index for registering property improves by one unit (Akame et al., 2016).

**H2: Registering Property has a positive significant impact on Inward FDI**

Getting Credits is the measurement of the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending (The World Bank, 2017e). Bayraktar (2015) suggests getting credit indicators are highly significant determinants of FDI inflows and that countries that have better qualities of getting credit indicators can receive a larger amount of FDI inflows. Consistently, Getting credit evidently impacts increase in FDI flows and this result was also supported in the extensive researches conducted by Piwonski (2010); Morris & Aziz, (2011); Singh (2015); Bayraktar (2015); MogesEbero & Begum (2016), which also found that improving doing of business help to attract more FDI. Shahadan and colleagues also expose in their research that getting credit indexes have been directly and significantly associated with FDI inflow in Asian economies (Shahadan et al., 2014). However, Akame and colleagues research suggests that positive coefficients of getting credit does not significantly impact FDI (Akame et al., 2016).

**H3: Getting Credit has a positive significant impact on Inward FDI**

Tax is one crucial factor for investors in determining the decision to invest in a country (Moosa, 2002; Fahmi, 2012). Paying taxes indicator records the measures the administrative burden in contributions and paying taxes and also records the mandatory contributions and taxes that a medium-size company must withhold or pay in a given year (The World Bank, 2017f). Domestics and foreign tax policies affect the incentive to engage in FDI (Fahmi, 2012). Paying taxes indicators in Afghanistan, Bangladesh, India, Iran, Pakistan and Sri Lanka have shown evidence of high FDI inflow (Shahadan et al., 2014). According to Moosa (2002), one of the approaches in which tax policies affect multinational company's decision making is the impact tax has on income earned from abroad operations on net return of foreign investment. The fact that compared to countries with lower income tax rate, countries that have high income tax rate would attract companies to invest abroad, hence, taxes play a small role in the preliminary decision to invest abroad (Fahmi, 2012). However, since international market is inherent with its high level of competitiveness, export oriented FDI is relatively more sensitive to cost factor. Therefore, tax rate differences will significantly impact investment decisions (Fahmi, 2012). In multiple researches, this statement was found true for most of the countries (Singh, 2015; Bayraktar, 2015; Akame et al., 2016; MogesEbero & Begum, 2016).

**H4: Paying Taxes has a positive significant impact on Inward FDI**

The time and cost involved to resolve a commercial dispute is what is measured by the enforcing contracts indicator through the quality of judicial processes index, a local first-instance
court and evaluating whether economies have adopted a series of good practices that promote efficiency and quality in the court system (The World Bank, 2017c). In Bayraktar’s research, indicators of enforcing contracts (the number of procedures and required days) have a relatively strong effect on FDI inflows. However, the cost of enforcing contracts was found to be not significant (Bayraktar, 2015). In Zimbabwe, Mahuni & Bonga (2017) found similar results as Bayraktar (2015) in respect to inflow of FDI. Subsequently, countries like South Africa, Namibia and Zambia were found to provide relatively strong legal environment in enforcing contract (Nnadozie & Njuguna, 2011). It was found that improving the time consumed to enforce contracts penetrates growth in FDI (Eifert, 2009; Singh, 2015). In a nutshell, indicators of Enforcing Contracts were found to positively impact inward FDI in numerous researches (Zhang, 2007; Morris & Aziz, 2011; Singh, 2015; Mahuni & Bonga, 2017). Contradicting this finding, Olival (2012); MogesEbero & Begum (2016) found that enforcing contracts is no longer significant in attracting FDI.

H5: Enforcing Contracts has a positive significant impact on Inward FDI

Figure 1 Conceptual Framework

2. Methods

This research has collected quantitative data for analysing the phenomena, hence, the chosen research paradigm is positivism. Positivism is the most applicable agenda of research paradigm as it leads to a statistical analysis which depends on measurable observations (Scotland, 2012). As this research is based on a causal research design as it analysed the cause and effect between the variables (Hair Jr. et al., 2016), it will be beneficial for this study as it assesses the impact of changes on the existing norms and also identifies the reasons behind a wide range of processes (Zainal, 2007). Also, using positivism research paradigm is most applicable since the research explored the impact between independent (Ease of Doing Business) and dependent variable (inward FDI) rather than describing the situation or phenomena. Furthermore, causal research design is highly structured than descriptive or exploratory research design (Smith & Albaum, 2012). As this research worked with
a set of observations collected at usually discrete and equally spaced time intervals, that is the ease of doing business indicator data and also the world bank’s FDI inflow data, it can be concluded that the of secondary data of this research is a time-series based data. The data collected is not a cross sectional data as the data collected explores the trend between the variables at different time spans and not at the same time to justify an on-going situation. Therefore, to quantify the impact between the dependent variables and independent variables, secondary data collection was implied as the data required has been extracted from the World Bank’s published reports of Ease of Doing Business and percentage GDP inflow of FDI between the years 2011-2015. This methodology was adapted for this research since use of secondary data is time efficient given that the era of internet has made accessibility much for easier to attain (Daas & Arends-Tóth, 2012). Moreover, with the help of the statistics this research could test its hypothesis and research questions with a more precise, accurate and appropriate manner (Patel, 2009; Atieno, 2009). Hence, quantitative research is a more suitable methodology for this research. Also, the quantitative method being less time consuming fits properly to conduct the research within the given timeframe (Barreiro & Albandoz, 2001).

However, World Bank’s comprehensive publications of their statistics of data contain information which rely on official sources. However, adjustments are made in the balance of payments to account for fiscal/calendar-year differences. They also attempt to contend data which is consistent in definition, methods and timing within these publications. However, revisions and updates over time have chances to present inconsistencies between editions. Also, differences in reporting practices and timing may cause discrepancies among data from different sources (The World Bank, 2017a). Another doubt in the validity of data may be that the data provided is only a “face value”, given that most of the data is derived from the statistical systems of member countries. Therefore, the global data quality depends on the performance of their national systems (The World Bank, 2017b). Even though it is hard to identify the exact source of the error, inconsistencies can imply a lack of accuracy within the data (Koch-Weser, 2013).

In this research, the total population was limited to the countries included in the Ease of doing business (190) (The World Bank, 2017a). Due to the limited availability of data and the time constraint, the sampling size was narrowed down to 177 countries. Thirteen countries have been excluded from this research as they were missing the required data within the timeframe of the years 2011-2015. Illustration of Eliminated Countries are provided below:

### Table 2 Illustration of Eliminated Countries

| Country                  | Year of Data Missing | Name of Variable Missing |
|--------------------------|----------------------|--------------------------|
| Eritrea                  | 2012-2015            | Inward FDI               |
| Papua New Guinea         | 2015                 | Inward FDI               |
| Puerto Rico              | 2011-2015            | Inward FDI               |
| Taiwan, China            | 2011-2015            | Inward FDI               |
| Syrian Arab Republic     | 2011-2015            | Inward FDI               |
| Venezuela RB             | 2015                 | Inward FDI               |
| Barbados                 | 2011                 | Ease of Doing Business   |
| Libya                    | 2011-2012            | Ease of Doing Business   |
| Myanmar                  | 2011-2012            | Ease of Doing Business   |
| Malta                    | 2011                 | Ease of Doing Business   |
| San Marino               | 2011-2012            | Ease of Doing Business   |
| Somalia                  | 2011-2015            | Ease of Doing Business   |
| South Sudan              | 2011-2012            | Ease of Doing Business   |

Source: (The World Bank, 2017a)

This research worked on data available for the years 2011-2015, utilising the data of the FDI inflows and ease of doing business’s distance to frontier scores each fiscal year. However, this research worked for only 5 topics of the ease of doing business as they have been related closely with inward FDI in past researches providing more relevant results. Moreover, within the given time
span for this research, 177 countries happened to be adequate enough to establish a thorough recent assessment of data collected to portray the objective of this research. This research utilised Descriptive, Correlation and Regression statistics for this analysis. To examine the data for this research, least square regression has been used to find out the cause and impact of Ease of doing business and inward FDI. In addition, this research is employing E-views software because this software helps to do statistical analysis and prefers to analyse the time series econometrics (Wooldridge, 2010). However, Statistical Package for Social Science (SPSS) software could have been used, but since this research is using time series secondary data, to evaluate the causal impact between the dependent and independent variables, using EViews would help to achieve more precise results with respect to least square regression.

The statistical data for this research was collected from freely available World Bank data, therefore the researcher is using in-text citation in order to acknowledge the ownership of the data that is used in this study, avoiding plagiarism and show the reader that the research is done in academic way. As this research is a considering a non-experimental approach given that it is a secondary quantitative research, therefore, the ethical issues aligned to this study are less harmful and complex.

3. Results and Discussion

Referring to the Table 3, the average mean for the independent variable (Starting a Business) is found to be 77.399 with a standard deviation of 15.835. This indicates that 77% of the selected countries from the World Bank Index of Ease of Doing Business experience an easy business start-up within the studied time span 2011-15. Moving on to the next independent variable (getting credit), the average mean was found to be 52.930 with a standard deviation of 22.531 indicating that about 53% from the selected countries make it easier to attain credit for potentials investors in the span of time studied. On the other hand, the independent variables Paying Taxes and Registering Property capture an average mean of 67.845 and 64.810 with a standard deviation of 18.281 and 18.186 respectively. The latter indicate that about 68% and 65% of the selected countries respectively offered convenient procedures and time frame with respect to the independent variables within the time-period studied. However, the independent variable enforcing contracts indicates that 56% of the selected countries offer efficient and favourable circumstances in respect to judicial procedures, costs and time frame for interested organisations to implement relevant contracts in the studied period. As an independent variable it has an average mean of 56.364 with a standard deviation of 14.264 as per this research.

| Table 3 Descriptive Statistics |
|--------------------------------|
|                                | Mean | Median | Maximum | Minimum | Std. Deviation |
| Starting A Business            | 77.399 | 82.103 | 99.960 | 4.292 | 15.835 |
| Getting Credit                 | 52.930 | 55.000 | 100.000 | 0.000 | 22.531 |
| Paying Taxes                   | 67.845 | 71.854 | 100.000 | 3.314 | 18.281 |
| Registering Property           | 64.810 | 66.432 | 99.876 | 0.000 | 18.186 |
| Enforcing Contracts            | 56.364 | 57.403 | 89.544 | 3.586 | 14.264 |
| Inward FDI                     | 5.656 | 3.132 | 252.308 | -43.463 | 13.390 |

For this research, the correlation between the variables are checked at 5% level of significance. According to (Hair Jr. et al., 2010), the value that is considered as the rule of thumb has to be within the range of -1 to +1. While -1 is stated as the negative correlated, +1 is stated as the positive correlated and 0 is stated as no correlation at all. However, it was found that all the independent variables have a weak relationship with the dependent variable in the studied group of countries within the studied span of 2011-15. Referring to Table 4, the independent variable ‘Starting a
Business’ scores a Pearson Correlation value of 0.064 with an insignificant value of 0.053. Also, ‘Getting Credit’ has a Pearson Correlation score of -0.034 with an insignificant value of 0.302. The next independent variable Paying Taxes was found to have a Pearson Correlation value of 0.067 with a significant value of 0.043. On the other hand, Registering Property obtains an insignificant value of -0.026 with a Pearson Correlation score of 0.067. Lastly, Enforcing Contracts scores a Pearson Correlation value of 0.066 with a significant value of 0.048. Hence, in order to test for multicollinearity, the correlation values were considered for this research. The results (Table 4) indicate that none of the squared correlations were close to 0.85 to suggesting multicollinearity among the variables. Therefore, there is no evidence of significant multicollinearity among the research variables.

### Table 4 Pearson Correlation

|                              | Pearson Correlation Value | Probability |
|------------------------------|---------------------------|-------------|
| Starting a Business ↔ Inward FDI | 0.064                     | 0.053       |
| Getting Credit ↔ Inward FDI   | -0.034                    | 0.302       |
| Paying Taxes ↔ Inward FDI    | 0.067                     | 0.043       |
| Registering Property ↔ Inward FDI | -0.026                   | 0.430       |
| Enforcing Contracts ↔ Inward FDI | 0.066                     | 0.048       |

According to Table 5, the R squared value is 0.031 which decodes that 3.1% of the dependent variable (Inward FDI) is explained by the independent variables (Starting a Business, Getting Credit, Paying Taxes, Registering Property and Enforcing Contracts). The adjusted R squared value is 0.021 reflecting that the model is not a good fit model to determine inward FDI for this research (Faraway, 2002). The probability value is 0.001 which shows that the overall model is significant (Blackwell, 2008). Lastly, the Durbin-Watson value for this research is 1.938 and shows that the data collected for this research has no auto-correlation among the countries data collected for this study (Dufour & Dagenais, 1985).

### Table 5 Regression Analysis

| Variable          | R. Squared | Adjusted R. Squared | F-Statistics | Probability (F-Statistics) | Durbin-Watson Statistics |
|-------------------|------------|---------------------|--------------|----------------------------|--------------------------|
| Starting a Business | 0.065      | 0.037               | 1.767        | 0.078                      | 1.938                    |
| Getting Credit    | -0.061     | 0.024               | -2.536       | 0.011                      |                          |
| Paying Taxes      | 0.048      | 0.028               | 1.724        | 0.085                      |                          |
| Registering Property | -0.067     | 0.030               | -2.217       | 0.027                      |                          |
| Enforcing Contracts | 0.095      | 0.040               | 2.356        | 0.019                      |                          |

Dependent Variable: Inward Foreign Direct Investment (FDI)

The beta coefficient value of Starting a Business (0.065) shows a positive impact on Inward FDI. However, the insignificant value of 0.078 of starting a business indicates that it has a positive insignificant impact on Inward FDI. In addition, Paying Taxes has a beta coefficient value of 0.048 showing the positive impact it has on Inward FDI. It also has an insignificant value of 0.085 indicating that paying taxes has a positive insignificant impact on Inward FDI. On the other hand, Getting Credit has a beta coefficient value of -0.061 which shows it has a negative impact on Inward FDI. Consequently, it has a significant value 0.011 indicating the negative significant impact getting credit has on Inward FDI. Further in the findings, -0.067 is the beta coefficient value of Registering Property showing the negative impact it has on Inward FDI. It also has a significant value of 0.027 which further indicates that registering property has a negative significant impact on Inward FDI. Lastly, Enforcing Contracts has beta coefficient value of 0.095 which shows it has a positive impact on Inward FDI. Its significant value is 0.019 indicating the positive significant impact enforcing contracts has on Inward FDI.
Ease of Doing Business and Its Impact on Inward FDI

The independent variable Starting a business has reflected an insignificant positive impact on the dependent variable inward FDI. This shows that even if the Distance to frontier value of the selected countries is increasing, it has no significant impact on the inflow of FDI to those countries. This finding opposes the results of Nnadozie & Njuguna (2011); Olival (2012); Shahadan et al. (2014); Bayraktar (2015); Akame et al. (2016) which stated that starting a business significantly attracts inward FDI. However, the finding is similar to Corcoran & Gillanders (2012) who further elaborate that greater levels of FDI is not associated with better business environments. In the recent report by independent panel, it was stated that it may be important for an economy to have attractive regulations and procedures but it may not guarantee economic success in respect to inward FDI (Independent Panel, 2013). According to Zhang (2007) a fall in the costs of starting a business may directly penetrate FDI inflows in heavily regulated countries whereas, in countries like China and Brazil, it might have a negative or little to no effect. Hence, the hypothesis is rejected.

The independent variable Registering Property has reflected a negative but significant impact on the dependent variable inward FDI. This interprets that when the Distance to frontier score of this variable for the selected countries is decreasing, it has significant impact on the inflow of FDI to those countries. Noting the fact of inflation, if a country’s inflation rate is favourable to the potential investor, it would result to high worth of the profits generated to the parent country (Jayasuriya, 2011). As a result, inflation may also be the cause of influencing inward FDI despite of the difficulties for registering property. Different variables are proposed when investigating the determinants of FDI which further states that the results of the analysis could be materially influenced with the exclusion or inclusion of certain variables (Jayasuriya, 2011). However, this disagrees to the initial expectation implying that FDI inflows in an economy increases when it is easier to register property. Similar results were found in the research conducted by Bayraktar (2015); Nnadozie & Njuguna (2011) which however is opposite to the findings of Shahadan et al. (2014); Ani (2015); Olival (2012); Akame et al. (2016) as they found this factor to have a positive significant impact on inward FDI. Therefore, the hypothesis is rejected.

The independent variable Getting Credit has revealed a negative significant impact on the dependent variable inward FDI. This concludes that when the Distance to frontier score for the selected countries is decreasing, it has significant impact on the inflow of FDI to those countries. This implies that when there are more constraints in order to get credit, investors yet prefer to conduct FDI into those countries. This result opposed with the previous empirical researches conducted by Ani (2015); Olival (2012); Nnadozie & Njuguna (2011). Nevertheless, it was also mentioned previously that countries with better qualities and ease of getting credit regulations tend to receive a larger amount of FDI inflows (Bayraktar, 2015). However, Akame and colleagues research suggests that positive coefficients of getting credit have no significant impact on FDI (Akame et al., 2016; Shahadan et al., 2014). Elaborating this, one can consider the marginal effect of business taxes on FDI (Jayasuriya, 2011). This implies that tax incentives and other indicators which obtain a better score in respect to DTF causes the rise of inward FDI even if there are obstacles on terms of getting credit. As a result, the hypothesis is rejected.

Paying Taxes, has been found to have a negative insignificant impact on inward FDI. As a result, when the Distance to frontier score is decreasing even by a unit, it has no significant impact on the inflow of FDI to the selected countries. Similar findings were accounted by Bayraktar (2015). An understanding of this could be further implied by keeping in mind the influence of corruption in an economy. The global average score of corruption is a contemptable 43, which falls below the midpoint of the corruption scale of 0 (highly corrupt) to 100 (very clean) which shows that in over two-thirds of the world, widespread corruption takes place in a country’s public sector where, on a daily basis, citizens are confronting the tangible consequences of corruption (Transparency International, 2017). Also, corruption discourages investors from investing in a country, slows down economic growth and thus makes the country unattractive from foreign investor’s point of view. In addition, decisions for investing abroad is slightly influenced by tax criterions especially in countries...
with high income tax rate as investors would be evidently interested to invest abroad when compared to countries with lower income tax rate (Fahmi, 2012). However, the results are contradicting previous findings of Nnadozie & Njuguna (2011); Olival (2012); Akame et al. (2016); Vogiatzoglou (2016); Mahuni & Bonga (2017). Therefore, the hypothesis is rejected.

Enforcing Contracts, as an independent variable is found to have a positive significant impact on inflow of FDI. This emphasises that an increase in the Distance to frontier score increases, it also increases Inward FDI. As a result, when enforcing of contracts to be done with ease, it induces FDI in a country. Eifert (2009); Singh (2015) found that improvements in the time taken to enforce contracts stimulates growth in FDI. This result is also similar to the results of Nnadozie & Njuguna (2011); Olival (2012); Akame et al. (2016); Mahuni & Bonga (2017); Vogiatzoglou (2016). With respect to enforcing contracts, it may be individually important in the uptake of the FDI, however, it is not crucial when compared to other indicators in the choice of location of investment (Olival, 2012; Jayasuriya, 2011). Without effective law sustained growth, economic development is hard to obtain. The more efficient, cost cutting and less time consuming judicial systems are, the better business climate and higher attraction of foreign direct investment is achieved (The World Bank, 2017g). Hence, the hypothesis is accepted.

4. Conclusion

The main objective of this research was to explore the impact of independent variables of Ease of Doing Business on Inward FDI in 177 countries from the World Bank index during the time span 2011-2015. Regression Analysis was on the focus to scrutinise the hypothesis of the research. Five independent variables, namely, ‘Starting a business’, ‘Getting Credit’, ‘Registering Property’, ‘Paying Taxes’ and ‘Enforcing Contracts’ were chosen while ‘Inward FDI’ was considered as the dependent variable. The results are rather controversial showing a partial support for the hypothesized impact between the ease of doing index and inward FDI.

In this research, starting a business reflected an insignificant positive impact on inward FDI. As mentioned earlier, since all countries are not homogenous but the results can be applicable to majority of the economy. Nevertheless, there happens to be no indication which implies large improvements in Doing Business indicators attract significantly greater FDI inflows. The independent variable Registering Property has reflected a negative but significant impact on the dependent variable inward FDI concluding that FDI inflows in an economy increases when registering property has a low DTF score. Despite the initial understanding that ease of registering property gives rise to inflow of FDI, it is also understood that different variables also influence inflow of FDI. Therefore, an economy may still attract FDI if the economy possesses favourable circumstances in terms of other FDI determining variables like inflation, corruption, market size, etc. On the contrary, this research found that Getting Credit has a negative significant impact of FDI, when explained further, states that decrease in DTF score results to inflow of FDI. However, FDI is still retained in economies when they regulate and maintain favourable circumstances in terms of other FDI determining variables without or within the index. The findings of this research also found paying taxes to have a negative insignificant impact on inward FDI. Also, this research concludes the influence of taxes is dependent on the type of tax when considering inflow of FDI. As a result, the influence of tax rates on FDI inflows is not strong enough to determine inflow of FDI on its own. Furthermore, corruption in an economy is influencing it’s FDI inflows, it has been found that widespread corruption takes place in over two-thirds of the world on a daily basis. As these factors discourage potential investors decisions from conducting FDI since the country seems unattractive from foreign investor’s point of view. Lastly, Enforcing Contracts was found to significantly and positively impact on inflow of FDI showing that improvements in the regulations to enforce contracts accesses growth in FDI inflow. Without effective law progress in this sector it is tough to
achieve economic growth in an economy. Efficiency in this criteria is essential to sustain growth and economic development and also, time worthy judicial systems help to feed better business climate, attract foreign direct investment and secure tax revenues. The interest and willingness of investors is influenced as effective courts show evidence of decreased risks faced by firms of an economy.

At this point, the ease of doing business is providing timely data on aspects of the international business environment that is not well understood. As it is causing competitiveness and the governments are not solely concentrating on taking precautions to improve economic, social, and environmental factors but doing it so just for the sake of ‘face value’. Looking into the current trend of the world, about two-thirds of the world is experiencing widespread corruption on a daily basis. In one hand, the Doing Business index may be a useful medium for economic and political reforms. But on the other hand, this research agrees that the Doing Business Index has a limited scope as it only focuses on eleven areas of regulation. However, if they simply focus on these areas and neglect others, their Doing Business Rankings will slip in the long run. The World Bank needs to improvise on the internal end to give better and transparent understanding of the index and its impact of FDI inflow and growth of a country. Lastly, Ease of doing business is indicative of the degree of red tapism established in the bureaucracy of a country. For businesses, the measures are definitely a big favour. Yet, it is recommended for businesses not to solely rely on the numerical values the index presents but also to find out practical information relevant to their industry of business in the potential investment country they wish to do business with for further ease and secure capital investments.

Since not all countries are homogenous, further research can be implemented by concentrating on how the FDI inflows of different economic sizes are influenced by the improvements in the Doing Business Rankings. Similarly, analysis could be assumed across various geographical areas. For instance, does improvements in the Doing Business Rankings lead to efficient FDI inflows in low income economies compared to high income economies? It can also be worth to research the factors which influence an investors decision making after economies have gone through major institutional reforms. With more updated data in the near future, policy makers and research have an opportunity to dig deeper investigating these questions further and provide future researchers with more aspects of research in respect to the Doing Business index. A comparative analysis of two different regions may shed light on some interesting dynamics of the Doing Business Index. Extensive research may also provide governments with better transparent understanding of this index and may encourage or discourage authorities to improve their business regulations.

Due to time constraint, this research limits itself as it only uses five indicators out of the 11 indicators from the Ease of doing business produced by the World Bank. Also, difficulty in collecting data resulted this research to be based on data of a five-year time span. Thus it was difficult to work with all 190 countries enlisted in the World Bank Ease of doing business within the considered timeframe. Hence the conclusions from the study may not be adequate enough compared to future researches with comparatively updated data. Also, lack of sufficient resources and funding along with time were some important limitations of this research. There is a possibility that the data may have been manipulated or misinterpreted if compared to the practical situation of that economy. This may affect the findings to a certain level.

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