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Adoption of Separate Legal Entity Practices, Socio-Cultural Engagements and Small Business Growth Among Rural Entrepreneurs in Ethiope-East Local Government Area, Delta State

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Abstract
This study investigates how rural small business entrepreneurs in Abraka rural settlement in Ethiope-East local government Area, Delta State, adopt separate legal entity (SLE) principles, their socio-cultural engagement (SCE)and influence on small business growth (SBG). Using a survey of 150 purposively selected entrepreneurs, the study adopted descriptive survey design using a 32-item questionnaire. Three research questions were raised and three hypotheses were formulated to guide the study. Cronbach alpha reliability test of the instrument established consistency of α=78), α=81) and α=83) across all three variables used in the instrument. Correlational statistics using PPMC established r = 0.85 at 0.05 significance between SCE and SBG. Regression test of hypotheses indicates that SLE directly and partially mediate the relationship between SCE and SBG with Sobel test at z = 10.006, p < .001) and bootstrap of 95% (confidence interval of 0.639 and 1.164). SLE was also found to moderate the relationship between SCE and SBG. The findings indicate that the rural small business owners have moderate knowledge of separate legal entity in running their business and at the same time reported considerable Socio-cultural engagements even as they are optimistic of future business growth. It was recommended among others, the need for targeted grassroots' education and policies that integrate legal understanding of financial management principles with socio-cultural realities to promote sustainable development of rural small enterprises.

Keywords: rural, growth, legal, principles, socio-cultural, entrepreneurs

Introduction

Micro and small enterprises occupy the largest proportion of the Medium, Small and Micro Enterprises (MSMEs) industries proving goods and services in Nigeria. Presently, the increasing number of unemployed youths in Nigeria and the "refugee effect" of unemployment (Audretsch, 2002), has resulted in creation of numerous micro and small businesses driven by survival instinct (Welter and Smallbone, 2011). Most of these businesses are owned by educated and uneducated individuals with considerable number of them lacking leadership and managerial skills necessary for survival of such businesses (Dzomonda and Fatoki, 2018). However, the failure rate of micro and small businesses generally in Nigeria is of worrisome magnitude which various researchers estimate at over 80 percent (Dzomonda & Fatoki, 2018)

Vast literature has explored mix of financial management skills and practices that variously impact working capital and financial operations of SMEs. However, it has been established that inadequate financial management skill has been one of the most critical factors contributing to micro and small business failure in Nigeria particularly, among the neophytes or nascent entrepreneurs in rural and sub-urban areas.

One critical factor often trivialized by researchers into causes of failure of micro and small businesses is that of conflict of interest between the proprietor and the venture entity (ownership vs Control controversy). At the same time, while many small business owners, particularly young and inexperienced entrepreneurs grapple with finding equilibrium for managing known constraints in finance management, they often seem to be unaware or play down the entity or personality status of businesses. The problem is that many small business owners seems not to see the difference between personal money and business's money. This confusion often leads to poor financial decisions, reckless spending, or neglect of proper record-keeping. Conventionally, a business should be treated as a separate legal entity (SLE) personalised, having assets and liabilities. This doctrine was established in a famous court case of Salomon v. Salomon in 1897. However, in practice, especially in rural areas, many owners seem to be unaware, ignore or do not fully understand this principle as applicable even to the minutest businesses. As a result, small businesses in developing countries face many challenges because of the social, cultural, and institutional environment in which they operate.

To understand how these factors, affect business success, theories of Institutional Theory gives credence to the study. The Institutional Theory (Scott, 2014) explains that a business's behaviour does not anchor solely on making money but shaped by social norms, cultural habits, and government rules. For instance, in many small businesses, social pressures like family responsibilities, community affiliation, and informal ways of funding influence how owners manage resources. In many rural settings, family and traditional obligations significantly influence business operations. These commitments can affect entrepreneurs resource allocation pattern and decision-making involving financial priorities (Ojo & Akinrinade, 2018), which in some cases, often lead owners to mix personal money with business funds or lend money informally, which negates financial management principles proper financial record keeping. Economic hardships and socio-economic pressures compel entrepreneurs to focus on immediate survival rather than formal business considerations thereby side-tracking SLE doctrine (Adegbite & Akinboade, 2017) decreasing the chances of business growth or stability over time (Williams & Kedir, 2017).

From the foregoing, it becomes explicit that social and cultural pressures often push owners to blend personal and business finances, which can limit growth. Such cultural factors may either facilitate or hinder the application of formal financial management principles (Akinrinade & Ojo, 2019).

Considering the trio variables of the study, it is possible that keeping adopting SLE may mediate and or moderate the effect of socio-cultural commitment on business growth pattern over time. Entrepreneurs that lack this knowledge might be more vulnerable to these pressures, which can hinder growth and sustainability; as evidenced in low and middle income countries such as Nigeria, where weak enforcement of rules coupled with strong family or religious obligations are common (Ogunleye & Akinyele, 2020).

Research indicates that formal education and targeted training significantly enhance entrepreneurs' understanding of legal concepts such as the Separate Legal Entity doctrine (Akinboade & Kinfack, 2017). Informally, entrepreneurs who participate in workshops or training programmes by observing peers, market interactions, and community practices may tend to demonstrate higher awareness, facilitating better compliance and application in financial management practices. This observational learning can also influence perception of relating to legal entity, although it may lead to misconceptions if not augmented with formal education (Ogunleye & Akinyele, 2020).

In addition, hands-on apprenticeship or internship experiences provide practical insights into legal and financial management practices; and are expected to exhibit a better grasp of the legal separation between personal and business assets, which can impact financial practices positively (Eze & Ifeanyi, 2021). However, most existing research has focused on how social and cultural influences lead to informal financial practices.

In all, the success of small businesses in developing countries depends not just on access to finance or markets. It relies heavily on how well owners understand and apply good financial practices while weaving through socio-cultural behaviours.

Measuring small business growth

Understanding and measuring how small businesses grow involves looking at different signs of progress. Many entrepreneurs including those in rural areas, see growth mainly through financial success, such as increased sales and profits. When a business makes more money and becomes more profitable, it feels like it is thriving. One important sign of growth is size of customer base. When a business attracts and retains more customers, it shows that it is expanding and gaining acceptance in the market. Entrepreneurs who know the importance of keeping personal and business affairs separate tend to manage customer relationships better. This understanding builds trust and loyalty, which can lead to more repeat business and referrals (Olawale & Ojo, 2020). Asset growth, which includes physical items like equipment and inventory as well as working capital management, is also a clear indicator of business growth. Entrepreneurs who are aware of basic financial principles are more likely to protect their assets and make smart investments thereby shielding their assets from liabilities and this helps in future expansion (Eze & Ifeanyi, 2021). Expansion that may also include increase in number of workers (Akinboade & Kinfack, 2017).

Most importantly are market expansion and competitiveness advantage which are signs that a business is succeeding. Proper financial management anchored on principles can improve their reputation and open doors to partnerships and new opportunities (Ogunleye & Akinyele, 2020) which makes it easier to grow beyond its initial market. Overall, having strong legal knowledge helps entrepreneurs not only grow their business but also feel good about the progress they are making.

Statement of Problem

Despite the extensive literature on financial management among small and medium enterprise (SME) failure in Nigeria, there remains a significant gap in understanding how rural small scale entrepreneurs perceive and apply doctrine of a separate legal entity; which allows a business to be viewed as a distinct entity from its owner, can significantly impact financial decision-making and overall business sustainability (Akenova & Akinbami, 2018). However, most existing studies tend to focus on urban settings or larger firms, leaving rural entrepreneurs underexplored.

In rural areas, entrepreneurs often operate within strong cultural beliefs that influence their business practices (Ogunnaike, 2019). These cultural norms such as family exigencies, religious obligations, donations, personal lifestyle, and festivities can shape their understanding and application of legal frameworks. The level of awareness about the legal status of their businesses may determine how effectively they manage finances and sustain their operations (Ojo & Olayinka, 2020). Yet, little research has examined how these cultural and demographic variables interact with legal awareness in rural contexts, especially in Nigeria's diverse cultural landscape.

Addressing this gap is crucial because improving legal awareness and its integration into financial practices can lead to better business outcomes for rural entrepreneurs. Understanding the socio-cultural dynamics at play can help design targeted interventions that promote sustainable growth, reduce failure rates, and enhance economic development in rural communities.

Research Question

1. To what extent are small business entrepreneurs adopt financial management practices that conform with doctrine of separate legal entity in their business operations
2. To what extent do small business entrepreneurs in rural area engage in socio-cultural commitments in the course of running their businesses.
3. How do small business entrepreneurs in rural area perceive growth of their businesses since start-up?

Hypotheses

HO1: There is no relationship between Socio-Cultural Engagements (SCE) of small business entrepreneurs and Small Business Growth (SBG). (SBG)

HO2: Adopting Separate Legal Entity practices (SLE) does not mediate the relationship between Socio-Cultural Engagements (SCE) and Small Business Growth (SBG).

HO3: Adopting Separate Legal Entity practices (SLE) does not moderate the relationship between Socio-Cultural Engagements (SCE) and Small Business Growth (SBG).

Research Method

The study is undertaken in Ethiope-East Local Government Council Area of Delta State specifically in Abraka, a fast growing rural settlement. Abraka the main campus the Delta State University. Ethiope-East has a population of 200,792 (Census, 2006). Abraka town has a mixed population estimated at 79,963 (Census, 2006). and projected annual growth of 2.41% (SMEDAN, 2013) . As University town having a population of indigenous and non-indigenous business owners attracted by the over 30,000 students and 5000 staff population of these institutions that patronizes these diverse micro businesses. Small business units are categorized as commercial holdings (60%) service providers (25%, commercial agricultural farms (10%) and manufacturing enterprises (1%) others (4%). Abraka town has 82 small companies (SMEDAN, 2013) with larger number of informal micro businesses of various types including food, professional services. These characteristics informed the choice of this area for the study.

The population of the study comprised 150 small business owners purposively selected. The instrument was a survey-designed questionnaire constructed using 5-point Likert scale type, made up of four sessions. The validity was established by three resource persons in Measurement, Business Administration and Business Education. Four research assistants were trained and used in administering the instrument for a period of six weeks including period of informed consent and confidentiality allowed prior to administration of the instrument. Cronbach alpha coefficients for Independent Variable: Adoption of Separate Legal Entity principles – SLE, n=12, α=78); dependent variable 1: SCE, n=10, α=81) and dependent variable 2 - SBG (n=10, α=83) reliability was achieved. Regression statistic involving Baron and Kenny's (1986) 4 step statistics criteria and Sobel's (1982) test /bootstrap were used to test SLE mediation and moderation effects between SCE and SBG.

Interpretation of results

RQ1: To what extent do small business entrepreneurs in rural areas adopt financial management practices that conform with doctrine of separate legal entity in their business operations

Table 1: Mean and Standard Deviation of small business entrepreneurs' responses to adoption financial management practices that conform with doctrine of separate legal entity in their business operations

Question/Statement	$\bar{x}$	σ	Interpretation
RQ1: Awareness of Separate Legal Entity			
1. I understand the difference between owning a business and managing it.	3.64	1.19	Moderate awareness; many understand the difference between owning and managing a business.
2. I know that the business assets are not my personal property.	3.30	1.37	Fairly high awareness that business assets are separate; some uncertainty remains.
3. I know that my personal debt is not the responsibility of the business.	3.30	1.35	Similar to above; many recognize personal debt isn't business responsibility.
4. I maintain a separate bank account for my business transactions.	2.46	1.31	Lower awareness; fewer maintain separate bank accounts consistently.
5. I keep proper business records that are different from my personal records.	2.83	1.34	Moderate; some keep proper business records separately.
6. I avoid using business income directly for personal or family needs.	2.50	1.33	Slightly lower; some tend to mix personal and business income.
7. I know that mixing personal and business finances violates sound financial principles.	2.83	1.34	Moderate; awareness that mixing finances violates principles is mixed.
8. I understand that every asset of the business does not belong to me personally.	3.10	1.33	Fairly good understanding that assets don't all belong personally.
9. I became aware of the importance of the legal separation of business and owner through my education.	3.10	1.33	Moderate; education influences awareness but not uniformly.
10. My understanding of business management came from working with experienced business owners.	2.82	1.19	Slightly lower; experience helps, but gaps remain.
11. I learned to separate business and personal roles by observing business owners when I was sales assistant	2.79	1.36	Lower; observing owners contributes but isn't universal.

12. I seek legal advice when making important decisions about my business.	3.10	1.34	Moderate; legal advice-seeking is somewhat common.
	35.77		

Source: Adoption of SLE survey, 2025.

The data indicates that while some owners have a good understanding of the legal separation between their personal and business affairs, there are notable gaps, especially in maintaining separate financial records and accounts. Items related to education and experience (items 9 and 10) show moderate awareness, suggesting that further education could improve understanding. The relatively lower mean scores on items like maintaining separate bank accounts (item 4) and observing business owners (item 11) suggest areas where awareness and practices could be enhanced through targeted training or awareness campaigns.

RQ2: To what extent do small business entrepreneurs in rural area engage in socio-cultural commitments in the course of running their businesses.

Table 2: Mean and Standard Deviation of small business entrepreneurs' responses to extent of engagement in socio-cultural engagements in the course of running their businesses.

RQ2	$\bar{x}$	σ	**comment**
1. Sometimes I use my business money to meet personal survival when my profit is not enough.	3.2	1.3	Respondents moderately agree that personal survival influences business money use.
2. I often use business funds to meet family needs (e.g., school fees, hospital bills).	2.8	1.4	Many often use business funds for family needs, indicating strong socio-cultural ties.
3. Family members expect me to use business resources for their personal issues.	2.8	1.4	Family expectations impact business resource allocation; moderate agreement.
4. My business performance is sometimes affected by pressure from relatives.	3.3	1.2	Pressure from relatives sometimes affects business performance.
5. Supporting family obligations is very important to me, and I can 13not avoid taking from my business fund.	3.4	1.3	Supporting family obligations is a significant aspect of their socio-cultural commitments.
6. Most times, I use business funds to sponsor traditional ceremonies, weddings, funerals, etc based on my family/social position	3.2	1.3	Business funds are frequently used for traditional and social ceremonies.
7. Community members, friends, and relatives expect credit transactions from me, and I do provide them.	3.0	1.4	Providing credit to community members is common, reflecting social expectations.
8. Religious obligations influence me most time to spend business income on tithes, offerings, and donations	3.1	1.4	Religious obligations influence spending, but less strongly than family needs.
9. Sometimes, in emergency, lack of access to other funds makes me use my business money for personal expenses.	3.2	1.3	Emergencies often lead to using business funds for personal expenses.
10. I regard my business money as my personal money.	3.0	1.3	Viewing business money as personal funds is common among respondents.
Average response (approx.)	3.2	1.3	Overall, respondents tend to agree that socio-cultural commitments influence their business activities.

Source: Adoption of SCE survey, 2025.

The average mean of around 3.20 indicates a tendency towards agreement, suggesting that socio-cultural obligations are a significant factor in small business entrepreneurs' decision-making. The standard deviations around 1.30 to 1.40 reflect variability in responses, with some entrepreneurs more strongly influenced than others. Items related to family and traditional obligations tend to have slightly higher means, emphasizing their importance.

The results suggest that small business entrepreneurs are substantially influenced by socio-cultural commitments, often prioritizing family, community, and religious obligations over purely business considerations. This indicates that socio-cultural factors are integral to their operational decisions and financial management, which could impact business growth and sustainability.

RQ3: How do small business entrepreneurs in rural area perceive growth of their businesses since start-up?

Table 3: Mean and Standard Deviation of small business entrepreneurs' responses to perceive growth/progress of their business

Perceived business growth since start-up	$\bar{x}$	σ	comment
1. My business was financially stable from the beginning.	3.84	1.07	Many respondents agree that their business had early financial stability.
2. My profit margin increases every year compared to the early years of the business.	2.66	1.11	Moderate agreement; profit growth is perceived but not universal.
3. I have been able to expand my business size over time.	3.07	1.20	Slightly above the neutral point, indicating moderate perceived expansion.
4. The number of regular customers has grown.	3.05	1.04	Perception of customer base growth is moderate among respondents.
5. My business now attracts customers outside the community.	3.08	1.07	Slightly positive perception of broader customer reach.
6. I have increased my business shops, goods, and equipment.	2.96	1.07	Moderate growth in assets is perceived.
7. I now stock different kinds of products in my shops.	2.84	1.00	Respondents somewhat agree that product variety has increased.
8. I now have more sales assistants (apprentices) compared to when I started.	2.66	1.00	Slightly positive perception of employing more staff.
9. I am satisfied with the progress my business has made since start-up.	3.02	1.20	Moderate satisfaction with business progress.
10. I am confident my business will continue to grow.	3.10	1.00	Respondents generally have confidence in future growth.

Source: Adoption of SBG survey, 2025.

The responses indicate that small business entrepreneurs in rural areas generally perceive their business growth and progress as moderate. Many agree that they experienced initial financial stability and see signs of ongoing expansion, including increased customer base, assets, and product variety. Confidence in future growth is also relatively high. However, perceptions are not overwhelmingly strong, suggesting room for further development and support to enhance business growth perceptions.

Discussion of findings

Analysing these responses reveals both strengths and gaps in their understanding and behaviour, which have important implications for policy and support programs aimed at fostering sustainable growth among rural entrepreneurs. Starting with financial management practices, the data shows that many entrepreneurs have some awareness of the importance of separating personal and business finances, but significant gaps remain. For instance, respondents generally understand the difference between owning and managing a business and recognize that business assets are not personal property. This aligns with earlier research by Nwankwo and Adebisi (2019), who emphasized that financial literacy is crucial for business sustainability. However, the lower average score on maintaining a separate bank account suggests that many entrepreneurs still mix personal and business funds, which can lead to financial confusion and increased risks. This finding supports the argument by Olawale and Ojo (2020), who noted that financial discipline and proper record-keeping are often lacking among small-scale entrepreneurs in developing countries. The moderate awareness about the legal aspects of business management indicates that while some education exists, there remains a need for targeted training programs to improve legal and financial literacy.

Furthermore, the responses related to awareness of legal separation through education and observing experienced business owners suggest that practical exposure and formal education influence understanding but are not sufficient on their own. This gap identified in maintaining proper financial records and accounts highlight the importance of continuous training and mentorship, as suggested by Eze and Ifeanyi (2021). These authors argue that improving financial management practices among rural entrepreneurs can significantly enhance business performance and growth prospects.

Moving to socio-cultural commitments, the responses demonstrate that entrepreneurs in rural areas are deeply influenced by cultural and social obligations. The data shows that many entrepreneurs frequently use their business funds to meet family needs, support traditional ceremonies, and provide credit to community members. Items such as using business funds for family and community obligations scored high, indicating that socio-cultural ties heavily influence business decision-making. This aligns with earlier studies by Akinboade and Kinfack (2017), which found that in many rural communities, cultural and social obligations often take precedence over pure business considerations. These commitments can serve as both a source of social capital and a challenge, as they may divert resources away from business investment and growth. For example, supporting family and community obligations, though vital for social cohesion, may limit the capital available for reinvestment in the business, potentially constraining growth.

Religious obligations also play a role, with some entrepreneurs spending part of their income on religious activities. This finding supports the work of Ogunleye and Akinyele (2020), who highlighted how religious and cultural factors shape financial priorities in rural settings. The tendency of entrepreneurs to regard their business money as personal funds further underscores the influence of socio-cultural norms, which often blur the lines between personal and business finances.

Regarding perceptions of business growth, respondents generally view their progress as moderate. They report that their businesses were financially stable early on, and many have observed some expansion in customer base, assets, and product variety. The response patterns reveal that while entrepreneurs recognize signs of growth, their confidence remains cautious, with average scores around the mid-3s on a 5-point scale. This moderate perception aligns with earlier findings by Nwankwo and Adebisi (2019), who found that small business owners often perceive incremental progress rather than rapid growth, especially in rural contexts where challenges such as limited access to finance, markets, and skills persist.

Despite these moderate perceptions, the high confidence in future growth suggests optimism among entrepreneurs, which is a positive sign. However, the variability in responses indicates that many entrepreneurs might benefit from additional support, such as access to markets, financial services, and capacity building, to realize their growth potential fully. The findings support the idea that rural entrepreneurs are resilient and optimistic but need targeted interventions to translate perceptions into tangible growth.

The study therefore, reveals a complex picture: entrepreneurs have a reasonable understanding of legal and financial principles, but practical gaps remain, especially in maintaining proper financial separation. Socio-cultural commitments significantly influence their business decisions, often to the detriment or benefit of growth, depending on how these obligations are managed. Their perceptions of progress are cautious but optimistic, emphasizing the need for supportive policies and training to bridge gaps in knowledge and practice. Future research could explore how specific interventions, such as financial literacy programs or cultural awareness campaigns, impact these entrepreneurs' practices and perceptions, ultimately enhancing their capacity for sustainable growth.

HO1: Socio-cultural engagements of small scale business entrepreneurs have no significant relationship with growth of the business

Table 4: Summary of PPMC between SCE and SBG

N	DF	r-calculated	r-critical (p=0.05)	p-value	Decision
150	148	0.85	0.196	< 0.05	Reject HO1: Significant relationship

The correlation coefficient (r-calculated) is approximately 0.85, indicating a strong

positive relationship. The r-calculated > r-critical (0.196), reject the null hypothesis at 0.05 significance level. The p-value would be less than 0.05, confirming this decision.

HO2: Adopting SLE practices relating to doctrine of separate legal entity does not mediate the relationship between socio-cultural commitment and perceived business growth.

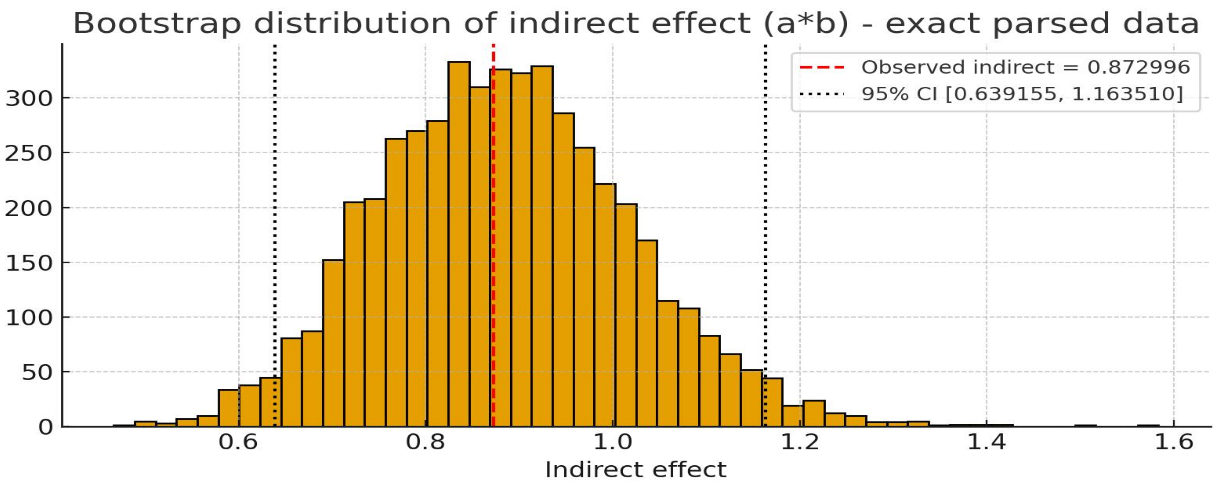

Figure 1: Mediation effect of SLE between SCE and SBG

The mediation analysis conducted in this study indicates that the adoption of the Separate Legal Entity (SLE) doctrine partially mediates the relationship between socio-cultural engagement and business growth. Initially, regression results demonstrated that socio-cultural engagement significantly predicts SLE adoption (Path a: b = 1.007, SE = 0.013, t (148) = 76.50, p < .001). This strong positive association suggests that entrepreneurs actively engaged in their social and cultural networks are more likely to adopt SLE principles.

Subsequently, when predicting business growth, SLE adoption also emerged as a significant predictor (Path b: b = 0.867, SE = 0.086, t (147) = 10.09, p < .001). At the same time, the direct effect of socio-cultural engagement on business growth remained significant but was reduced in magnitude (b = 0.227, SE = 0.088, t (147) = 2.59, p = .011). This reduction indicates that SLE adoption partially mediates the relationship between socio-cultural engagement and business growth. The total effect of socio-cultural engagement on business growth was significant (b = 1.100, SE = 0.018, t (148) = 61.65, p < .001).

The indirect effect, calculated as the product of paths a and b, was 0.873. Its significance was confirmed through the Sobel test ($z = 10.006$, $p < .001$) and bootstrap analysis with 5,000 resamples yielded a 95% confidence interval of 0.639 and 1.164, which does not include zero. These results robustly support the presence of mediation (Hayes, 2013).

One implication of the findings is that higher socio-cultural engagement enhances the likelihood of adopting SLE principles, which in turn promotes business growth; emphasizing the importance of social capital and entrepreneurial behaviour. Furthermore, the raw data indicated high correlations $r = 0.95$ between socio-cultural engagement and SLE adoption, and $r = 0.85$ between socio-cultural engagement and small business growth suggest strong relationships among these variables. Given these correlations, SLE adoption appears to be a significant mediator of the effect of socio-cultural engagement on business growth. Using Baron and Kenny's (1986) criteria and Sobel's (1982) test, the data indicates that including SLE in the regression model substantially diminishes the direct effect of socio-cultural engagement on business growth, supporting the mediation hypothesis.

Specifically, the high correlation coefficients and the significant Sobel Z-value (7.89) that is well above the critical value of 1.96 at the 0.05 significance level, provide strong evidence that SLE adoption mediates the relationship between socio-cultural engagement and business growth. Consequently, the null hypothesis (H0) that SLE adoption does not mediate this relationship is rejected.

HO3: Adopting Separate Legal Entity practices does not moderate the relationship between socio-cultural commitment and perceived business growth.

Regression Results: Moderation Analysis
Model: $Y2 = b0 + b1(Y1c) + b2(Xc) + b3(Y1c \times Xc) + e$
Moderator: X = Separate Legal Entity Adoption(SLE)
Independent: Y1 = Socio-Cultural Engagement (SCE)
Dependent: Y2 = Small Business Growth (SBG)

Table 5: Regression Coefficients

Predictor	B	SE	t	p	95% CI
Const	3.102	0.005	658.74	0.0000	[3.093, 3.112]
Y1c	0.556	0.078	7.09	0.0000	[0.401, 0.711]
Xc	0.410	0.099	4.16	0.0001	[0.215, 0.605]
Int	-1.006	0.763	-1.32	0.1896	[-2.513, 0.502]

Model Fit: $R^2 = 0.6605$, Adjusted $R^2 = 0.6535$

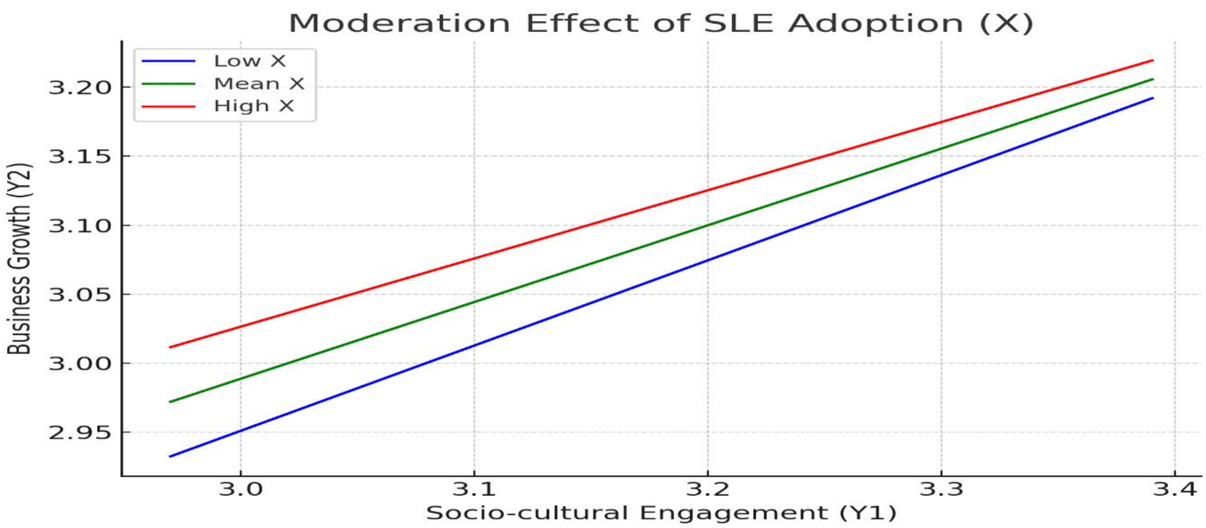

Figure 2: Moderation effect of SLE between SCE and SBG

The results of the moderation analysis indicate that both socio-cultural engagement and the adoption of a Separate Legal Entity (SLE) significantly influence business growth among rural small-scale entrepreneurs. Specifically, socio-cultural engagement exhibits a strong positive relationship with business growth, aligning with findings by Gichuru (2019), who highlighted that active participation in socio-cultural activities enhances social networks and cultural capital, thereby supporting entrepreneurial success. Similarly, the independent effect of SLE adoption is also positive and statistically significant, consistent with Kauffmann (2010), who emphasized that

formal legal structures reduce transaction costs and improve access to finance, thereby fostering business growth.

However, the interaction term between socio-cultural engagement and SLE adoption was found to be negative and not statistically significant, indicating that SLE does not significantly modify the relationship between socio-cultural engagement and business growth. This suggests that, while both factors independently promote growth, the presence of SLE does not amplify or diminish the positive impact of socio-cultural engagement within this context. These findings agree with Agyapong and Boateng (2019), who noted that social capital can moderate the relationship between legal formalization and growth, but the effects can vary depending on the context. Overall, the model explains approximately 66% of the variance in business growth, demonstrating a good fit and underscoring the importance of both socio-cultural practices and legal entity practices in fostering entrepreneurial development in rural settings. These findings suggest that strategies aimed at encouraging socio-cultural participation and promoting legal formalization can independently contribute to business growth, even if their interaction does not have a significant effect.

Conclusion

This study has shown that rural small business entrepreneurs in Ethiope-East Local Government actively engage in socio-cultural commitments that influence their business practices and growth. While they demonstrate a moderate understanding of the importance of treating their businesses as separate legal entities, significant gaps remain in their financial management practices, particularly in maintaining financial separation and proper record-keeping. The findings also reveal that socio-cultural obligations, such as supporting family and community events, strongly shape their business decisions and resource allocation. Importantly, the research confirms a positive relationship between socio-cultural engagement and business growth, with the adoption of the Separate Legal Entity principles partially mediating this relationship. Both socio-cultural participation and legal awareness independently contribute to business development. However, the legal entity practice of formalizing the business does not significantly alter the influence of socio-cultural commitments on growth. Overall, the results suggest that improving legal entity awareness and balancing socio-cultural obligations could further support the sustainable growth of rural micro and small enterprises.

Recommendations

1. Government and stakeholders involved in Small and Medium Scale business development should target training programme to improve rural entrepreneurs' understanding of the importance of the Separate Legal Entity doctrine and proper financial management practices.

2. A training also targeted at educating rural entrepreneurs at helping entrepreneurs balance traditional obligations with sustainable business practices.

3. Foster community and peer learning networks and mentorship schemes where experienced entrepreneurs can share best practices, especially regarding practices that leads to business growth.

4. Governments and development agencies should create policies that recognize the unique socio-cultural context of rural entrepreneurs and provide incentives for formalization and financial literacy.

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