

## RESEARCH SUMMARY

# The Impact of Regulations and Institutional Quality on Entrepreneurship

---

New business creation is a prominent feature of the entrepreneurial process. Many studies have demonstrated the positive effects of new business creation on economic growth and development. Newly established businesses tend to be more efficient than older businesses, and the competitive pressure that they exert on other businesses enhances overall productivity and economic growth. New businesses also play much more of a role in job creation than older, more established businesses. Therefore, regulations that inhibit the creation of new businesses can be harmful.

In “[The Impact of Regulations and Institutional Quality on Entrepreneurship](#),” Dustin Chambers and Jonathan Munemo look at the effect of business entry regulations and the quality of a nation’s governmental institutions on entrepreneurship. They find that new business creation is significantly lower in countries with excessive barriers to entry, a lack of high-quality governmental institutions, or both. If a nation wants to promote entrepreneurship, it should prioritize reducing the red tape required to start a new business and improving regulatory quality.

### STUDY DESIGN

This study examines the impact of start-up regulations and institutional quality on the level of new business activity in 119 countries between 2001 and 2012. Entrepreneurship is measured using a World Bank standard called new business entry density, which is the number of new limited liability companies registered per 1,000 working-age people. The study uses indices for six dimensions of institutional quality from the World Bank’s Worldwide Governance Indicators database: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Each dimension is measured on a five-point scale from -2.5 to 2.5, with higher values corresponding to better outcomes. The results are estimated in terms of the effect of a one-standard-deviation change in institutional quality. The standard deviation measures how widely data are dispersed from the average, or mean, of the data. Data that are clustered closer to the mean will have a smaller standard deviation; a larger standard deviation signifies more widely dispersed data.

### KEY FINDINGS

A nation’s regulatory and institutional environment plays a crucial role in determining the level of entrepreneurship.

- Increasing start-up procedures by one step is associated with an approximate 9.7 percent decline in new business density.
- Increasing the quality of regulations by one standard deviation is associated with a 52 percent increase in new business density.
- Increasing voice and accountability by one standard deviation is associated with a 45 percent increase in new business density.

- Increasing political stability by one standard deviation is associated with a 30 percent increase in new business density.

## **CONCLUSION**

Removal of entry-related regulations is generally associated with superior economic outcomes such as higher per capita income, reduction in the size of the unofficial economy, less corruption, and improved productivity. If a nation wishes to promote higher levels of domestic entrepreneurship in both the short and long term, top policy priority should be given to reducing barriers to entry for new firms and improving overall institutional quality.