

The Impact of Ease of Doing Business and Regulatory Reforms on Entrepreneurship

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Abstract:

Institutional determinants, including the social, political, and cultural framework of a society, shape peoples' perceptions of the desirability and feasibility to engage in creating new business ventures. As entrepreneurship is essential for the continuing dynamism of the private sector, many countries have focused on intensifying regulatory, political, and macroeconomic institutional changes in order to improve the ease of doing business. The quality of the business environment, as measured by the World Bank's annual Doing Business report, is collectively accepted as a critical determinant of entrepreneurial activity. Earlier research on understanding business and regulatory environment showed that an uninviting business climate is a challenge for stimulating entrepreneurship. This paper uses panel data on total early-stage entrepreneurial activity (TEA) from Global Entrepreneurship Monitor (GEM) across economies to study how the ease of doing business and the magnitude of reforms affect the entrepreneurial activity. The sample for the analysis is a pooled, cross sectional, longitudinal unbalanced panel of observations across 32 countries with non-missing explanatory variables in both the GEM and World Bank Group Doing Business databases over the eleven-year period 2006 to 2016. Our findings suggest that overall ease of doing business has a positive effect on entrepreneurial activity. This relationship is most strongly driven by the Starting a Business component, but Getting Credit is also important. Finally, results change when the analysis is applied to female TEA rates suggesting that the reforms may create a more inclusive environment for aspiring entrepreneurs.

Keywords: Entrepreneurship, Business Environment, Institutions

JEL Codes: G18, G38, L51, M13