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FORMAL INSTITUTIONS AND ENTREPRENEURSHIPS: MODERATING ROLE OF CORRUPTION (SUMMARY)

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≈ SUMMARY ≈

**FORMAL INSTITUTIONS AND ENTREPRENEURSHIPS:
MODERATING ROLE OF CORRUPTION***Farzana Chowdhury, Indiana University, USA**Maksim Belitski, University of Reading, USA**Sameeksha Desai, Indiana University, USA***Principal Topics**

In this paper, using a hierarchy of institutions posited by Oliver Williamson (2000), we analyze how informal institutions, formal institutions, governance, and resource allocation influence the rate and type of entrepreneurship. Governance is important for entrepreneurs because they have to interact with bureaucrats often and as the government size increases. The second level of the Williamson's model is formal/regulatory institutions. Regulatory institutions are critical because they reduce uncertainty and risk associated with entrepreneurial activity. Regulations related to tax policies can influence the type of entrepreneurial activity undertaken by an entrepreneur because tax policies affects the return on investment by the entrepreneur. Informal institutions are at the top of the hierarchy because informal institutions are embedded in the society that gradually can become habitual and can be hindrance for productive activity. We consider corruption an ideal example of this because Corruption is embedded in society in many developing countries. In this article we use corruption as a moderator to determine how informal institutions of a country interact with formal institutions and governance to influence various types of entrepreneurial activities.

Results

Governance has positive relationship with both formal entry density and necessity opportunity and negative relationship with opportunity entrepreneurship. When corruption is included with the government size the relationship with formal entry density remain positive, relationship with opportunity entrepreneurship becomes positive from negative and significant. For necessity entrepreneurship, the relationship becomes negative and significant. Time requirement for tax preparation and entry density changes relationship from negative without corruption to positive when corruption is included as interaction. Similar results are observed in the relationship with both opportunity and necessity entrepreneurship. Corporate tax rate has negative relationship with both formal entry density and necessity entrepreneurship but positive and significant relationship with opportunity entrepreneurship. However, corruption and corporate tax interaction changes the relationship to significant negative relationship with opportunity entrepreneurship, but the impact on formal entry density and necessity becomes positive but not significant. When it comes to complying with regulatory environment corruption seems to be helpful for necessity entrepreneurs. Frequent tax payment requirement has negative relationship with opportunity entrepreneurship if entrepreneurs have to deal with corruption, but for necessity entrepreneurs the relationship becomes positive and significant. However, when there is time requirement for dealing regulatory compliance, corruption adds to the burden, thus relationship with necessity entrepreneurship is negative and significant.

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