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SIZE OF THE GOVERNMENT, PROPERTY RIGHTS AND TYPES OF ENTREPRENEURSHIP: A CROSS COUNTRY - INDIVIDUAL PANEL STUDY (SUMMARY)

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SUMMARY

SIZE OF THE GOVERNMENT, PROPERTY RIGHTS AND TYPES OF ENTREPRENEURSHIP: A CROSS COUNTRY - INDIVIDUAL PANEL STUDY

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Principal Topic

The existing entrepreneurship literature is largely silent on the question of how entrepreneur’s job growth aspirations might be determined across institutional contexts. The two relevant recent contributions in the literature are Bowen and De Clercq (2008), who analyse the impact of the institutional environment on the allocation of entrepreneurial effort toward high-growth activities using aggregate data, and Autio and Acs (2010), who focus on a single institutional dimension, namely intellectual property rights, and its effect on entrepreneurs’ growth aspirations. In this study we provide a more general theoretical and empirical framework and focus on planned employment growth rates rather than the number of jobs which entrepreneurs aspire to create, given some superiority of the former to more accurately measure employment growth aspirations. Our framework generates hypotheses on the institutional factors influencing the expected size of new entrepreneurial firms at time of the start-up, in terms of the aspirations to generate employment five years hence.

Method

We test these hypotheses using a large scale cross-country cross-individual dataset containing 13,336 observations comprising 55 countries (Global Entrepreneurship Monitor 2001-2006) combined with a number of institutional datasets. Taking into account the hierarchical structure of the data, we employ multilevel modelling. We also address the problem of potential selection bias which might arise from the interdependence between individual’s choice of whether to become an entrepreneur and his/her growth aspirations, by utilizing a Heckman selection framework.

Results and Implications

We find that less corruption and better protection of property rights enhance the growth plans of entrepreneurs. In turn, governance and allocative disincentives indicated by the size of the government are shown to have a negative and significant effect on entrepreneurial employment aspirations. However, though the literature has suggested that intellectual property rights may also be important for entrepreneurship, we find no evidence that they count for employment growth. These findings have important policy-making implications. To stimulate innovation, employment and growth in the economy policy-makers should focus above all else on containing the levels of corruption and improving the quality of the basic property rights systems and on contract enforcement, rather than a narrower focus on intellectual property rights.

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