

ARTICLE 4

Capelleras, J.-L., Mole, K., Greene, F., and Storey, D. (2008)
Do more heavily regulated economies have poorer performing new ventures? Evidence from Britain and Spain

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<http://www.palgrave-journals.com/jibs/journal/v39/n4/abs/8400340a.html>

Explanatory note

This is an empirical study, seeking to find out whether the burden of regulation deters and hampers entrepreneurs. The researchers drew on data from two countries, Britain, which is lightly regulated, and Spain, which is more heavily regulated. In reviewing prior research, they found two conflicting views of the impact of regulation on start-ups and their subsequent growth. From the Djankov perspective, in the heavily regulated economy, there are fewer start-ups, and these are larger and grow more slowly than in the lightly regulated economy. By contrast, the Baumol perspective held that when research takes into account both registered and unregistered firms, there are fewer differences between heavily and lightly regulated economies. Hence, regulation would seem to influence the distribution rather than the volume of entrepreneurship. The present authors set out their aims clearly in the context of the prior research. Their methodology includes studying small firms not registered for VAT in both countries. In contrast to earlier research, they use microeconomic data, obtained through questionnaires. Their results show that the amount of regulation *per se* cannot be said to indicate weaker entrepreneurship. This research has potentially important political implications, as policymakers everywhere seek to encourage entrepreneurs.

Chapter link

The material in this article is of relevance to Chapters 1 and 5. Note that although in the World Bank's ease of doing business rankings (shown on the wall map), the UK and Spain are in the top group, the UK is ranked at No. 6 and Spain at No. 38.

Questions**Part A: Grasping key points**

1. What points emerge from existing research on the relationship between heavy regulation and entrepreneurial activity?
2. In what ways do the authors' aims and methodology research differ from previous research in the area?
3. In what ways do the results of this research differ from those of previous research?

Part B: Building skills in critical thinking

1. What methodological challenges were faced by the researchers, and how were they overcome?
2. Assess the selected pre-start variables and at-start variables in terms of the researchers' aims.

3. What are the political implications for governments and legislators which emerge from this research?