

Culture, Institutions and Government Attitudes towards New Firm Entry

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Abstract: This paper examines the relationship between cultural values, political institutions and government regulation of entry. For this, it couples data for 53 countries from a variety of sources in comparative political economy and cross-cultural psychology. A society's general attitude towards risk and uncertainty and power inequality are embedded in its institutions; hence, such values should mediate the intensity with which economic incentives affect regulatory procedures and outcomes. Results suggest that entry regulation levels are correlated with the way people in different countries deal with risk and uncertainty and accept inequality of power in their dealings with government institutions. Moreover, these intrinsic cultural values act as moderators for the correlation between economic and political variables, and regulatory intensity. Regulation thus emerges a response from government institutions to societies' needs deriving from cultural values.

Keywords: Entry Regulation; Cultural Values; Political Institutions.

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Paper Proposal

The purpose of this paper is to examine the relationship between social attitudes towards risk/uncertainty and power inequality and public policy in regard to new firm creation. Countries differ significantly in the way in which they regulate the entry of new businesses through various administrative and screening processes. Such differences are not exclusively associated with different levels of wealth and economic development. While economic regulation theories provide a solid foundation sustaining the explanation of the economic incentives to regulate the emergence of new ventures, the intensity with which different governments regulate entry may also reflect and be mediated by different attitudes from legislators, public administration officials and the general public in different societies or countries towards public governance, private initiative and uncertainty associated with industrial re-structuring brought about by new entry.

This paper proposes that government regulation general and, more particularly, the intensity of entry regulation, is correlated with a society's general attitude towards risk and uncertainty, as well as with the degree of power inequality that is inherent in its institutions. Hence, such cultural values should mediate the intensity with which economic incentives affect regulatory outcomes. In order to test the correlation between different attitudes towards risk and power inequality, and public administration regulatory practices towards new ventures, this study couples data for a collection of 53 countries from a variety of sources. The assembled data set includes:

- i. data regarding administrative procedures towards new firm creation in different countries;
- ii. data on political institutions and legal origins and traditions for different countries;
- iii. economic indicators such as per capita Gross Domestic Product (GDPpc)
- iv. indicators of people's perceptions of the quality of governance;
- v. measures of different society's attitudes towards risk and uncertainty and the degree of acceptance of power inequality.

The data set was constructed in order to formulate and test a series of hypotheses regarding the correlation between the regulation of entry and political, legal and economic variables, as well as the way such correlations may be moderated by variables that measure a society's intrinsic cultural attitudes towards uncertainty and power inequality. Such hypotheses are tested using regression analysis including interaction, or contingency, effects.

The results of the analysis conducted suggest that variations in administrative and screening procedures towards new entry reflect different levels of wealth, different legal traditions and different standards of public governance among countries, lending general support to public choice theories of regulation. However, entry regulation also reflects significant heterogeneity in the way people in different countries deal with risk and uncertainty and accept inequality of power in their

dealings with government institutions. Moreover, these intrinsic values act as moderators for the correlation between economic and institutional variables, and regulatory intensity, suggesting that economic regulation theories have different impacts on regulatory practices depending on culture and the type of political institutions. Evidence is found in support of the following hypotheses:

- i. *there should be a significantly negative correlation between measures of entry regulation and countries' wealth;*
- ii. *countries with a common law tradition should display significantly less entry regulation than other countries;*
- iv. *there should be a significantly negative correlation between measures of entry regulation and perceptions of government effectiveness, regulatory quality and control of corruption;*
- v. *there should be a significantly positive correlation between measures of entry regulation and estimates of the weight of the unofficial economy on countries' GDP;*
- vi. *there should be a significantly positive correlation between measures of entry regulation and a society's acceptance of power inequality, or power distance;*
- vii. *there should be a positive correlation between measures of entry regulation and a society's tendency to risk aversion, or uncertainty avoidance; and*
- viii. *the correlation between measures of entry regulation and economic, legal and political variables should depend significantly on the values assumed by the measures of risk aversion/uncertainty avoidance and power inequality/distance.*

Higher levels of entry regulation thus appear to emerge as a response from government institutions (whether the power is exerted mostly by politicians or bureaucrats) to societies' needs deriving from basic cultural values.