

Effects of governance on entrepreneurship: European Union vs non-European Union

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Abstract:

Purpose

The purpose of this paper is to analyse the effect of six governance indicators on the rate of creation of new companies between countries that are members of the European Union (EU) and those that are not. *H1* states that the various dimensions of governance help to explain the immediate creation of new businesses in European and non-European countries. *H2* states that the various dimensions of governance help to explain the deferred creation of new businesses in European and non-European countries.

Design/methodology/approach

The paper uses two types of analyses: firstly, univariate analysis, which is a descriptive statistics of the dependent, independent and control variables, and the results of a *t*-test; and secondly, multivariate analysis, which estimates using the fixed-effects estimator under the specifications previously raised for the subsample of 28 EU countries and for the subsample of 103 non-EU countries during the period 2004-2014.

Findings

The results show that the variables of governance are not significantly higher in the EU, although the density of the enterprises is. Within the governance indicators, government effectiveness is significant in the EU. The results obtained for the EU confirmed *H1* and *H2*, with a significant positive effect of government effectiveness on entrepreneurship, while the other governance variables were not significant in the EU subsample. The results obtained for non-EU countries suggest no significant immediate effects (*H1*) and a slightly significant delayed effect of rule of law on the entrepreneurship (*H2*) concerned.

Research limitations/implications

Future research in this area could consider introducing another regional division or other types of methodology as variables affect models.

Practical implications

Governance can be defined as the ability of a government and its public institutions to provide services and design, and implement rules, which is a factor that affects the creation of new companies. However, the effect of governance could differ depending on the country and its economic environment. This paper analyses the effect of six governance indicators on the rate of creation of new companies considering two different geographic regions as countries are presumably heterogeneous. Therefore, these results indicate that the effect of governance variables on entrepreneurship differs according to the region.

Social implications

The effect of governance variables on entrepreneurship according to the region is also known.

Originality/value

This study applied panel data analysis to two samples of countries during the period 2004-2014, one formed by 28 countries of the EU and the other by 103 non-EU countries. No other paper considers this number of countries for this period. To assess the impact of governance on the creation of new companies, this paper considered the existence of immediate and deferred effects of governance on entrepreneurship.

Keywords:

[Governance](#), [European Union](#), [Entrepreneurship](#), [Panel data](#), [non-European Union](#)

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