

# The Effect of Governance On Entrepreneurship: From All Income Economies Perspective

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## Research

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# Abstract

The purpose of this study is to analyze the effect of governance indicators on Entrepreneurship. Explanatory research design with Pearson correlation and multiple linear regression models were applied. Five-year World Bank data (2014–2018) of 126 countries from all economic development levels were used. Worldwide governance indicators considered are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and corruption control. Gross net income was taken as a control variable. To measure entrepreneurship, the number of formally registered limited liability businesses as a percentage of the working-age population, was used. To make highly skewed time series data of dependent variable (entrepreneurship) closer to normal, logarithmic transformation was made and heteroscedasticity of residuals was checked. The finding of Pearson correlation shows that there are strong and significant correlations ( $r > 0.466$ ,  $p < 0.01$ ) between predictors and the outcome variable and among predictor variables. Regression analysis was computed after two highly collinear variables were dropped from the model using the VIF test. The study found that the remaining four independent variables and the control variable predict 71.5% of the variance in the outcome variable. Except for voice and accountability, all predictors have their own statistically significant influence on entrepreneurship. Thus, working on each predictor up to the standard application can bring incremental changes in new business formation and entry. The researchers believe that this study is of significant interest to policymakers, program developers, entrepreneurs, analysis, and supporters since it provides useful insight on how governance indicators influence entrepreneurship.

## 1. Introduction

Entrepreneurship has long been the concern of all countries regardless of their economic development level. It has been highly concerned to minimize their overstraining challenges of unemployment, poverty, and social unrest for all low-income and some medium-income countries. It is also the focus of attention in high-income level countries to make their development consistent. Politicians, policymakers, and individuals feel concerned not only about supplying potential entrepreneurs into their economy but also assuring sustainable growth of the existing one. This progressively growing interest in entrepreneurship as a means of problem solving and development has also had an influence on the research world (Audretch, 2012). A Large number of entrepreneurship studies on different entrepreneurship issues have been conducted at different times. The issues are largely characterized as the essence of entrepreneurship (Cieslik, 2017; Stevenson & Jarillo, 1990; Baumol & Schilling, 2008), its economic and social contribution (DemirUslu & Kedikli, 2019; Meyer & de Jongh, 2018; Parker, 2009; Valliere & Peterson, 2009), and entrepreneurial environment (Mason and Brown, 2014; Zamberi Ahamad & Xavier, 2012). Thus, updating the stated research dimensions paves the way for a more understanding and explanation of the study.

Many studies have been conducted to create a communal understanding of the elusive concept of entrepreneurship. It has been a subject of much debate and is defined differently by different researchers of different disciplines over time. To mention a few from the modern times of Schumpeterian, it is the act

of innovation and implementation of change through carrying out of a new combination of resources (Bygrave & Zacharakis, 2011). It is an examination of how goods and services are discovered, by whom, and with what opportunities (Shane & Venkataraman, 2000). It is a dynamic process of vision, change, and creation (Kratko & Hodgett, 2004). Bosma(2013) defined entrepreneurship as any attempt at new business or new venture creation, such as self-employment, new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business. Drucker(1985), Barot (2015), Chang and Wyszomirski(2015), and many more stated entrepreneurship as a process of creation of new businesses or creating new ways of managing the existing one through scanning and exploiting opportunities(Cieslik, 2017; Stevenson & Jarillo, 1990; Baumol & Schilling, 2008). From these, this study has conceptualized entrepreneurship as the process of creating new business and entering a formal market.

The economic and social contribution of entrepreneurship is the other studies' dimension and reached the conclusion that it considerably contributes to sustainable economic development. This fact is massively supported by both theoretical and empirical studies. It contributes to the economic growth by channeling new innovation into the market (Audretsch, 2002; Valliere & Peterson, 2009). Relative to the existing firms, new entrants come up with new ideas and supply variety that can have more value to the market (Koster, Van Stel, & Folkeringa, 2012). Creating jobs, increasing GDP, reducing poverty, and enhancing whole society welfare is associated contribution (Burke, 2011; Ivanovi – Djuki,, Lepojevi, & Stevanovic, 2018) although, at the same time, economic growth has a significant influence on the development of entrepreneurship (Sabella, Farraj, Burbar, & Qaimary. 2014; Casares & Khan, 2016). It also contributes to the enhancement of productivity through innovative use of the existing resources or by creating new ways of exiting modalities (Fritsch, 2008). Though common interests and motives towards the development of entrepreneurship may be almost equally there in all economic levels of nations in the world, there is a great difference in what was actually registered new business entry rate per 1000 working-age population on the ground. To show few, as examples, from countries of different economic levels from the World Bank (2020) database, in 2018, Afganistan(0.21), Burkina Faso(0.33), Ethiopia(0.51), Iceland(9.88), Kosovo(4.00), Malta(17.8), Peru(3.75), and Hong Kong(28.59).

The difference in the mentioned contribution of entrepreneurship is not created in a vacuum. It is the result of the environment where entrepreneurs are developed and enterprises are created. Many studies elsewhere in different countries try to answer the question of why do certain environments produce more entrepreneurs and what are the elements of those environments make the difference? Qualities of governance experience in a given nation are claimed to take a wider notion which is explained in proxy factors like politics, economic and labor market, entry and leaving regulations, education system, and infrastructure (Reynolds, 2004). A study conducted by Ha, Chau, and Hieu (2016) based on the World Bank database, revealed that entrepreneurship is determined by factors related to qualities of governance. Though many studies revealed the relationship between governance and entrepreneurship, there are inconsistencies among their results. Some considered only part of the factors in their studies (Friedmana, 2011). Only one study conducted by Groşanu, Boţa-Avram, Rachişan, Vesselinov, and Tiron-Tudor( 2015) considered all the worldwide governance indicators as factors. Some concluded their

finding based on data only from the same economic countries, particularly from high-income countries. These and other limitations of the previous studies limit our understanding of how entrepreneurship development has long been registered differently in different degrees across the world. Therefore, this study intended to fill the mentioned gap by investigating the causal relationships between entrepreneurship and governance based on data obtained from World Bank's worldwide governance indicators (WGI) and entrepreneurship database by taking economic development difference into consideration as the controlling variable.

The finding of this study will contribute more to the existing body of knowledge. To mention specifically, from the policymakers and entrepreneurship program developers' side, there is a tremendous increase in demand for new business entry to their economy. This demand pressurizes them to know facts on how governance affects their entrepreneurship. Therefore, this study can help them gain a better understanding of the existing phenomenon and, eventually, make a policy framework that paves future directions. A certain number of basic ideas of this study are expected to be shared by other researchers. In this regard, the study can partly help them access information regarding how governance affects entrepreneurship, particularly in the formal sector, and carry out more effective empirical studies using quantitative modeling. The study will help both actual and potential entrepreneurs enhance their intention to engage and expand in activities of entrepreneurship by showing multifaceted factors related to entrepreneurship governance. These factors may affect their firm negatively or positively. That is depending on how the actors in charge are proactive towards them. Thus, the study will benefit these entrepreneurs as an information source.

## **2. Background Literature**

### **2.1. Measure of entrepreneurship**

The first question in entrepreneurship research is how to define entrepreneurship for the purpose of comparative benchmarking. At present, there are broadly two approaches. The first tries to look at entrepreneurship from the process aspect while the second is from the contribution aspect. That means both the process and contributions of entrepreneurship can be used to measure the development of entrepreneurship in a given economic society. The process measure represents how entrepreneurship occurs and what activities are performed. The contribution measure represents the extent to which new firms enter the market, why, and what outcomes are yielded. In a logical sense, these two measures are highly correlated.

Self-employment and new firm formation are commonly used measures (Faggio & Silva, 2014) of entrepreneurship growth. This finding also has a theoretical view that vibrant entrepreneurship lies at the root of economic development through employment creation, productivity growth, and innovation (Praag Van & Versloot, 2007). Many empirical studies used self-employment as the proxy for entrepreneurship studies. Self-employed workers, according to ILO (2014), are those working on their own account across four sub-categories (employers, own-account workers, member of producer cooperatives, and contributing

family workers). However, self-employment shows a different manner of economic partaking than entrepreneurship in the form of new business formation.

The new firm formation is also called new venture creation or entry. Data on new business entry, which is often collected by country sources, has become increasingly more accessible and provides accounts of new business entities. New business is frequently considered as an appropriate measure for entrepreneurship (Henriksen & Sanandaji, 2014). Though countries are collecting and organized the data for new firms' formation at their own level, largely standardized and comparable data are provided by World Bank Group Entrepreneurship Snapshot (WBGES). This database provides comparative data on new firm entry at the country level. It is noteworthy that due to differences in definitions and legal treatments of different private organizational forms, the World Bank Group provides information on new Limited Liability Company (LLC) registrations only. New business formation, as a measure of entrepreneurship growth, is appropriately named entry density. New business entry density is the ratio between the number of limited liability companies newly registered per 1000 people to the population of working ages (15 to 64) (Klapper & Love, 2010; Munemo, 2012). This study used this measurement to measure entrepreneurship.

## **2.2. Governance Indicators**

New firm creation does not happen in a vacuum. It is the result of the environment where entrepreneurs and enterprises exist. Most studies elsewhere in different countries try to answer the question of why do certain environments produce more entrepreneurs and what are the elements of those environments for the difference? Although many factors and their proxies have long been studied, literature related to this study is limited to the association between governance and entrepreneurship. Governance, according to Kaufmann, Kraay, and Mastruzzi (2009) is the system by which countries ensure their organizations' responsibilities. This means it is an overarching framework by which organizations are operated, guided, and made accountable. Effective governance leads to economic growth by enabling the business environment (Huynh & Jacho-Chavez, 2009).

Data regarding government effectiveness in their governance system and practice has been collected since 2006 from the views of a large number of enterprises, citizens, and experts in all nations by the World Bank. In addition, the Bank has also organized the aggregate data from a variety of survey institutions, non-governmental organizations, and international organizations. The governance indicators emphasized by the World Bank Project are voice and accountability, government effectiveness, regulatory quality, rule of law, political stability, and corruption control (Kaufmann et al., 2009). Governance in this study context is about how countries perceive indicators like voice and accountability, government effectiveness, regulatory quality, rule of law, political stability, and corruption control and act accordingly.

## **2.3. Governance and Entrepreneurship**

There are previous studies regarding the relationship between governance and relationship with inconsistent results. Studies conducted by Cule and Fulton (2013) indicates that new business entry in new or existing market demands a moderate level of bureaucracy and proper regulatory quality as well as

corruption control. This finding is also supported by the studies conducted by Nistotskaya and Cingolani(2015) by stating bureaucratic structure has an indirect effect on entrepreneurship rates through better regulatory quality. As suggested by Jalilian, Kirkpatrick, and Parker (2006) working on the improvement of regulatory quality improves business performance in particular and economy in general.

The relationship between business environment and entrepreneurship activity by Klapper, Amit, Guillen, and Quesada(2007) condescending governance as the main pillar in the business environment and dedicated that higher percentage of firm registration and entry were experienced in countries with better governance. This argument was also supported by studies conducted by Amoros, Bosma, and Levie(2013); Dau and Cuervo-Cazurra(2014); and Dabija, Dinu, and Tachiciu(2014). Their common argument was that fostering entrepreneurial activity can be stimulated by an effective regulatory framework, clearly defined property rights, transparent and easy procedure of business registration and entry. They also added political stability into consideration. The relative influence of governance proxy factors on entrepreneurship can be mediating by the existing economic development difference of countries. The governance framework of countries with high economies stimulates more of formal entrepreneurship entry than informal one (Thai and Turkina,2014). This has an implication that the majority of entrepreneurs enter the market of low-income countries are informal categories. This idea is also shared by the study conducted by Dau and Cuervo-Cazurra(2014). Many more studies found out that new entrant entrepreneurs are relatively large where countries with less costly procedures in their business establishment. They also noted that good institutional arrangements positively influence entrepreneurship. With respect to the level of economic development, interference for entrepreneurship development because of better governance is not always related. The study conducted by Nyarku and Oduro(2017) in Ghana supports this fact by stating that bureaucracy, inconsistent policy climate, unsupportive customs, and regulations, constricted monetary and credit policies, corruption, and excessive tax practice, workforce, and labor regulations were found to negatively affect business entrants

Political instability and weak control of corruption are also claimed to be critical governance dimensions in influencing business establishment. A study conducted by Abu, Abd-Karim, and Azman (2015) in West Africa shows that rising corruption and political instability contribute to business under development by affecting government revenue, production, investment, and income distribution. With the same token, Alonso and Garcimartin(2013) identified that the extent to which countries control corruption determines enterprise establishment and innovativeness. On the contrary, studies basing low-income countries like Goedhuys, Pierre, and Tamer (2016) mentioned that corruption would rather have lubricated and accelerated enterprise establishment and innovativeness. A study conducted by DiRienzo and Das (2015) based on the global innovation index found that the extent of political stability and the quality of corruption control determine the extent to which entrepreneurs enter the market. Johan and Johanson N (2015) conducted on the same topic in Nigeria found out political instability has a high negative influence on the number of new businesses coming to the market. The negative effect of corruption stated by Avnimelech, Zelekeha, Sharabi(2020) in Keniya reveals that countries with a high level of corruption usually face a low level of productive entrepreneurship.

Government effectiveness and rule of law are other factors claimed to be determinate of entrepreneurship activities of countries. Countries with effective government and considerable rule of law registered high entry of new business and economic growth. A study conducted by Samaz and Sagdic (2020) in countries of transition economies found that only government effectiveness influences the business entry level. Zhou and Muhammad (2020) revealed that both movement effectiveness and rule of law contribute a lot in influencing the development of business through accelerating economic growth. They also consider the influence of voice and accountability in their study. The relationship between government effectiveness and entrepreneurship is negatively related (Fridman, 2011).

The aforementioned theoretical and practical literature and many several studies demonstrate different results for the relationship between governance and entrepreneurship. Some indicate all indicators have an influence with different magnitude whereas, others show the significant influence of some of the factors. Few of them show negative relationships of some of the factors or no relationship at all. The difference may be because of the sources of data or their methodology difference or the combination of these and other reasons. Some of the studies used nationally registered formal business while others take both formal and informal business from their country's dataset. Few studies have used data formally registered business data from the World Bank dataset while others used the general level of entrepreneurship data provided by the Global Entrepreneurship Monitor (GEM) of both formal and informal entrepreneurship.

The analysis of the previous studies supports this study to formulate the following research questions and hypothesis on which the study empirically tested the relationship based on the data obtained from the World Bank entrepreneurship index represented by formally registered new business and worldwide governance indicators.

Q: Which characteristics of governance indicators most strongly influence entrepreneurship?

H<sub>0</sub>: Voice and accountability, government effectiveness, regulatory quality, rule of law, corruption control, political stability, and gross net income have no statistically significant positive effect on entrepreneurship.

## **3. Research Design And Methods**

### **3.1. Research Design**

This study used explanatory research design which is best fit to test the association between or among variables based on the underlying hypothesis (Sekaran & Bougie, 2010; Kumar & Ranjit, 2005; Singh, 2006). It is more likely to use quantitative data (Nagundkar, 2008) and helped the researchers to draw objective conclusion from the finding (Malhotra & Birik (2000)).

### **3.2. Sources of Data**

A total of 266 countries is revealed under the heading of new business entry density dataset of the World Bank Group (2020) of which 132 countries have more than three to five year's recent data (2014–2018). Six countries were excluded because their last two years' observations were not registered. As a result, 126 countries were taken as case countries. Based on their income level, 19 countries are from low income, 27 are lower-middle, 34 are upper-middle, and 46 are high-income countries. The five years data for worldwide governance indicators of the case countries were sourced from World Bank (2020). Though data regarding governance has been collected and organized since 2006 by the World Bank, its usability for this study was determined based on the available data of the dependent variable (entrepreneurship). This works for the control variable (GNI-per capita).

### **3.3. Variables Description**

In order to respond to the objectives of the study, variables pertaining to entrepreneurship and governance were taken with acknowledgment and used. Entrepreneurship was measured using the data sourced from the World Bank Group survey. This report measures entrepreneurial activity performance around the world. This database provides annual data from 2006 to 2018 and includes cross-country time-series data on the number of newly registered businesses around the world (World Bank, 2021). Formal entrepreneurship in this study context is any economic unit of the formal sector incorporated as a legal entity and registered in the country's registry. This performance indicator has long been widely used in literature to study entrepreneurship determinant factors (Dau & Cuervo-Cazurra, 2014). Entrepreneurship is considered in this study as the dependent variable.

In order to measure governance, the study used worldwide governance indicators developed by World Bank (2020). The main objective of this report is to measure the quality of governance using six governance indicators. They are considered by this study as independent variables. The study assumed the difference in the level of economic development among the countries as the possible predictor that affect the relationship between governance indicators and entrepreneurship and took it as a control variable. The variable is represented by GNI (gross net income) per capita that can be the potential source of creating and operating business undertakings. This data is also sourced from World development indicators (World Bank, 2020).

The variables, their descriptions, measures and sources of data are depicted in the following table (1)

Table 1  
variable descriptions

Variables	Description	Type
Entrepreneurship	Natural log of the number of new registered entrepreneurial businesses (density) per 1000 working-age populations(15–64 age) (world Bank, 2020)	Dependent variable(DV)
Voice and accountability	The perception on how citizens are able to involve in the selection of their government, freedom of expression and association, and free media (-2.5 weak performance + 2.5 strong performance (World Bank, 2021)	Independent variable(IV)
Political stability and Absence of violence	Perceptions on how the government is destabilized by violence and terrorism (-2.5 weak governance performance + 2.5 strong governance performance (World Bank, 2021)	IV
Government effectiveness	The perception towards the quality of public services, the degree of its independence from political pressures, the quality of policy formulations and practicability, and the integrity of the governments' commitment to such policies (-2.5 weak governance + 2.5 strong governance) (World Bank,2021)	IV
Regulatory quality	The perceptions towards government's ability to formulate and implement workable policies and regulations that promote private sector development (-2.5 weak governance + 2.5 Strong governance) (World Bank,2021)	IV
Rule of law	The perception towards agents' confidence in the rules of society, and in particular the quality of contracts enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (-2.5 weak governance, + 2.5 strong governance (World Bank, 2021)	IV
Corruption Control	The perceptions towards how public power is exercised for private benefit, including both petty and grand forms of corruption, as well as, the capture of the state by elites and private interests (-2.5 weak, + 2.5 strong) (World Bank, 2021)	IV
Gross Net Income(GNI) per capita	The level of economic development is measured in terms of the natural logarithm of Gross net Income per capita in terms of USD( World Bank, 2021)	Control variable

### 3.4. Method of Analysis

Because of the objective to be addressed and the nature of the data, the study used inferential analysis including Pearson correlation and multiple linear regression models. In order to make the data fit for the mentioned models and aligned to the scale of measurement of the independent variables, the indexed data of dependent variable which varies from 0.01 to 28.54 and the control variable were transformed using natural logarithmic transformation. Correlation analysis was used to find out the degree of relationships among variables. Multiple linear regressions model (OLS) was applied to explain the effect of governance indicators and GNI on entrepreneurship. Assumption tests for regression were made before

applying the regression. The analysis was done using SPSS version 25. The model for multiple linear regressions is specified as follows.

$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \beta_6x_6 + \beta_7x_7 + \varepsilon, \text{ where}$$

- Y: Entrepreneurship (DV)
- $x_1$ : Voice and accountability(IV)
- $x_2$ : Political stability and absence of Voice( IV)
- $x_3$ : Government effectiveness(IV)
- $x_4$ : Regulatory Quality(IV)
- $x_5$ : Rule of Law (IV)
- $X_6$ : corruption control (IV)
- $x_7$ : GNI-per capita income( control)
- $\beta_0, \beta_1 \text{ — } \beta_7$ : are coefficients of determination
- $\varepsilon$ : Error term

## 4. Results

This part discusses aspects of the study findings. The logical sequence of analysis and presentation here under are tests for normality, correlation analysis, tests for multicollinearity, test for heteroscedasticity, and regression analysis and results.

### 4.1. Normality test

In this part we discussed whether the continuous data for dependent variable is normally distributed and fit for linear regression analysis. To assure this test-retest were made using Kolmogorov-Smirnov and Shapiro-Wilk test model. The two rows in the following table (2) shows the results.

Table 2  
Normality test Tests of Normality

	Kolmogorov-Smimov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	statistic	Df	Sig.
Entrep. Raw data	.231	126	.000	.695	126	.000
LnEntrepreneurship	.061	126	.200*	.983	126	.106

\*. *This is a lower bound of the true significance; a. Lilliefors Significance Correction*

As indicated in the first row of Table 2p- values of normality test of both Kolmogorov-Smirnov and Shapiro-Wilk are less than 0.05 and concluded that the data are departed from the normal distribution and are not fit for linear regression model. Thus, in order to make the data approach to normal distribution, natural logarithmic transformation was applied. As indicated in second row of the table, the probabilities (sig values) of both tests are greater than 0.05. Thus, the null hypothesis is accepted and concluded that the data are not different from normal.

### 4.3. Pearson Correlation analysis

Pearson correlation analysis was done among eight variables with continuous data including the dependent variable to check the magnitude and direction of relationship among variables.

<b>Table 3: Pearson correlation analyses</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
1	LnEntrepreneurship	1							
2	Voice & accountability	.466**	1						
3	Political stability	.690**	.511**	1					
4	Government effectiveness	.693**	.571**	.663**	1				
5	Regulatory quality	.806**	.595**	.691**	.902**	1			
6	Corruption control	.787**	.561**	.734**	.850**	.851**	1		
7	Rule of law	.678**	.659**	.701**	.952**	.878**	.866**	1	
8	LnGNI per capita	.780**	.506**	.680**	.876**	.867**	.794**	.819**	1
<i>Level (2-tailed), N = 126. *p &lt; 0.05, **p &lt; 0.01</i>									

As indicated in table (3) the results show that all independent variables have strong and statistically significant correlation with the dependent variable ( $r \geq .466$ ,  $p < 0.01$ ). Specifically, the correlation coefficient of entrepreneurship entry density with the variable regulatory quality has high correlation ( $r = .806$ ,  $p < 0.01$ ), followed by corruption control ( $r = 0.787$ ,  $p < 0.001$ ), LnGNI per capita ( $r = 0.780$ ,  $P < 0.01$ ), government effectiveness ( $r = 0.693$ ,  $p < 0.01$ ), political stability ( $r = 0.690$ ,  $p < 0.01$ ), rule of low ( $r = 0.678$ ,  $p < 0.01$ ), and voice and accountability ( $r = 0.466$ ,  $p < .01$ ). There is also high positive correlation among independent variables. This indicates that changes in each of the variable are linearly associated with shift in another variable. The stronger the correlation the more difficult it is to change one variable without changing another variable. As a rule of thumb if the Absolut values of correlation among or between independent variables exceed 0.8, the problem of multicollinearity is suspected and this creates difficulty for the regression model to estimate the casual relationship between independent and dependent

variables. This condition is revealed in the above correlation analysis Table 2. Thus, further collinearity diagnosis was detected as depicted in table (4) using VIF to drop highly correlated independent variables.

## 4.4. Multicollinearity Test using VIF

	Table 4: Multicollinearity Test Coefficients A		Coefficients B	
	Collinearity Statistics		Collinearity Statistics	
	Tolerance	VIF	Tolerance	VIF
Voice & Accountability	.511	1.958	.620	1.614
Political stability	.408	2.454	.425	2.350
Regulatory quality	.138	7.247	.165	6.045
Corruption control	.193	5.170	.229	4.361
LnGNI per capita	.181	5.521	.229	4.372
Govn't effectiveness	.055	18.285		
Rule of Law	.062	16.257		
a. Dependent Variable: LnEntrepreneurship				

Table 4 shows whether there are similarities among independent variables that could affect the result of regression outcome. The table is depicted as Coefficient A and coefficient B. The first indicates how all six independent variables and one control (LnGNI) variable are correlated. Based on the coefficient output (Collinearity statistics), obtained VIF value of government effectiveness (18.285) and rule of law (16.26) have Collinearity problems and were dropped from the model. The second (B) indicates how Collinearity among variables is avoided after two highly correlated variables were dropped from the model since the result falls between 0 and 10 (Dhakal, 2018) and can be concluded that there is no multicollinearity symptoms.

## 4.5. Heteroscedasticity test

Under here difference in residual variation of the observed data was examined. According to the study conducted by Khaled, Lin, Han, Zaho, and Hao (2019) if the significant value is greater than 0.05, then there is no problem of heteroscedasticity. The idea is that the residual value doesn't increase with increasing values of independent variable.

Table 5  
Heteroscedasticity test

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.377	5	.075	.171	.973 <sup>b</sup>
Residual	52.813	120	.440		
Total	53.190	125			

*a. Dependent Variable: RESED; b. Predictors: (Constant), LnGNI per capita, Voice and accountability, Political stability, corruption control, Regulatory quality*

The F ratio in the heteroscedasticity (Table 7) tests shows whether the data has heteroscedasticity problem or not. The results in the table shows the value obtained is  $F(5, 120) = 60.21$ ,  $p(0.973) > 0.05$ . This leads to conclude that there is no heteroscedasticity problem and the data is fit for linear regression.

## 4.6. Regression Results

### 4.6.1. Model Fitness Determination

The model summary table (6) reports the strength of the relationship between the model (governance indicators) and the dependent variable (entrepreneurship). The table provides R, R<sup>2</sup>, and adjusted R<sup>2</sup> and standard error of the estimate, which can be used to determine how well the regression model fit the data.

Table 6  
Model summary table Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846 <sup>a</sup>	.715	.703	1.07504

*a. Predictors: (Constant), LnGNI per capita, Voice and accountability, Political stability, corruption control, Regulatory quality, b. Dependent Variable: LnEntrepreneurship*

As revealed in the Table 6, Multiple Correlation coefficient(R) of 0.846 indicates a good level of relationship predication between independent and dependent variables. The “R<sup>2</sup>”-coefficient of determination- is the proportion of variance in the dependent variable that can be explained by the predictors. The results of coefficient of determination indicated that the five predictors including the control variable (LnGNI per capita) which are kept in the model explained 71.5% of the variance in the dependent variable. And 28.5% of the variation was caused by factors other than th predictors included in the model.

### 4.6.2. Statistical significance of the model

Table 7  
ANOVA Table

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	347.916	5	69.583	60.208	.000 <sup>b</sup>
	Residual	138.685	120	1.156		
	Total	486.601	125			
a. Dependent Variable: LnEntrepreneurship						
b. Predictors: (Constant), LnGNI2, Voice and accountability, Political stability, corruption control, Regulatory quality						

The F ratio in the ANOVA (Table 7) tests whether the overall regression model is a good fit the data. The results in the table shows that the predictor variables and the control variable statistically and significantly predict the dependent variable,  $F(5, 120) = 60.21, p(0.000) < 0.05$ . That means the regression model is a good fit of the data.

### 4.6.3. Statistical significance of the Predictors

Statistical significance of each of the independent and control variables tests whether the unstandardized coefficients are equal to zero. That means for each of the coefficients,  $H_0: \beta = 0$  versus  $H_a: \beta \neq 0$  was conducted to investigate if each variable need to be in the model

Table 8  
Coefficient Table

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-1.959	1.131		-1.732	.086
Voice & Accountability	-.137	.133	-.064	-1.030	.305
Political stability	.343	.156	.164	2.197	.030
Regulatory quality	.666	.240	.333	2.775	.006
Corruption control	.489	.200	.249	2.449	.016
LnGNI per capita	.192	.091	.214	2.104	.037
a. Dependent Variable: LnEntrepreneurship					

As indicated in the Table 8, the t-value and the corresponding p-value are in their respective column. The tests indicate us that political stability  $p (.030) < 0.05$ ; regulatory quality  $p (.006) < 0.05$ ; corruption control  $p (.016) < 0.05$ , LnGNI per capita (control)  $p(.037)$  are significant, but voice and accountability is insignificant  $p(0.305) > 0.05$ . This means that the independent variable, voice and accountability, is no more useful in the model because it doesn't add a significant contribution in predicting the variations in the dependent variable (entrepreneurship).

#### **4.6.4. Estimated Model Coefficients**

The general form of equation to predict entrepreneurship development from political stability, regulatory quality, corruption control, and LnGNI per capita (control) is

Predicted Entrepreneurship development =  $-1.959 + 0.343$  (political stability) +  $0.666$ (regulatory quality) +  $0.489$ (corruption control) +  $0.192$ (GNI).

The constant  $-1.959$  is the predicted value for the dependent variable if all the predictors including the control are equal to zero: political stability = 0, regulatory quality = 0, corruption control = 0, and LnGNI per capita = 0. That is, we would expect an average entrepreneurship density of  $-1.959$  registered when all predictor variables take the value of zero.

Each unstandardized coefficient in the model indicates how much the dependent variable varies with an independent variable when all other independent variables are held constant. This means for every one unit increase in perception of political stability efficiency, there is  $0.343$  increases in entrepreneurship entry density. For every one-unit increase in perception of regulatory quality efficiency, there are  $0.666$  increases in entrepreneurship entry density. For every one-unit increase in perception of corruption control efficiency, there are  $0.489$  increases in entrepreneurship density. For every one-unit increase in GNI per capita performance, there are  $0.192$  increases in entrepreneurship entry density.

### **5. Summary, Discussion And Implications**

The aim of this study was to investigate the effect of governance indicators on entrepreneurship. Multiple linear regression mode was run to analyze the relationship. Before running the model, the pretest of the data suggested that the distribution of the dependent variable was highly skewed and data transformation was required and made. After the raw data were transformed using natural logarithms, assumption tests for normality, multicollinearity, and heteroscedasticity were made and the results assured the possibility for running multiple linear regression.

The coefficient of determination result of the regression analysis is  $0.715$ . That means all independent variables including the control variable predict  $71.5\%$  of the variation in the outcome. The result of the overall regression model is  $F (5, 120) = 60.21$ ,  $p (0.000) < 0.05$ . This result indicates that the model statistically and significantly predicted entrepreneurship. The result of each predictors are: political

stability  $p (.030) < 0.05$ ; regulatory quality  $p (.006) < 0.05$ ; corruption control  $p (.016) < 0.05$ , GNI (Gross Net Income)  $p (.037) < 0.05$ ; and Voice and accountability  $p (0.305) > 0.05$ .

In conclusion, the results of this research provide empirically supported models for the notion that some governance indicators are significantly influencing entrepreneurship. To make specific and show their magnitude of influence, out of the predictors, political stability, regulatory, corruption control, and GNI added statistically significant prediction capacity to the model with different degrees of contribution. The highest contributing predictor is the regulatory quality (0.666) and followed by corruption control (0.489). Political stability (0.343) and GNI (0.192) are contributing 3rd and 4th. Thus, the study suggests a number of implications for policymakers, program developers, and academics.

The ability of the government to formulate and implement sound entrepreneurship and regulations that permit and promote private sector development can create the difference in inviting and actualizing new entrant entrepreneurs into their market. When we say enabling policy and regulatory framework, they do mean ease of starting and closing the business and ease of registering the property. The strongest predicting effect of this variable is supported by the study conducted by Nyarku and Oduro (2017) & Dau, Cuervo-Cazurra (2014). Government subsidies that keep uncompetitive business alive create the difference. The issues of tax management and accessibility to finance are also very critical issues in motivating and joining entrepreneurs into the market..

Political stability and absence of violence have strong implication for the business entry because it busts the perception and confidence of both investors, financial institutions, as well as the customers in the business chain. This implication is also supported by the study conducted by Shumetie and Watabaji (2019) & Johan and Johanson N (2015) by stating political instability in a given nation is resulting in decreasing the extent of business innovativeness and new business entry in the market. In due course, it has its own big implication to entrepreneurship policymakers and program developers.

The difference in the extent of corruption control has a positive predicting effect on creating entrepreneurship. That means the more efficient the countries are in controlling corruption, the better in attracting new business entrants and maintaining the existing ones. This has its own implication for actors in the business world. The finding is supported by the studies conducted by Shumetie and Watabaji (2019) & Avnimelech, et al., (2014) by stating that in a society where corruption control is insignificant resulting in an increase in the cost of doing business and number of new entrants to the market.

The issues of voice and accountability have no substantial contribution in predicting entrepreneurship when the other predictors are in the model in this particular study. This result is in line with the proposed null hypothesis. This indicates that participation of citizen's in the selection of the leaders, freedom of expression and association, and availability of free media are less likely to go with the density of new business entry in the market. This doesn't mean that it has no influence at all. It may have an indirect influence that needs to be taken into consideration while crafting or modifying their policy frame. In addition, while conducting such a study, variables beyond the study's conceptual framework may affect

the relationship between predictors, and the outcome variable. Considering this, this study has taken the difference in economic development level represented by gross net income as a control variable. The finding supports the argument. It is also supported by studies conducted by Stoica, Roman, and Rusu(2020). This has its own implication for further study and actors in the business chain. The higher the economic development of nations, the better in inviting business to their market because of the financial and infrastructural support they provide to their startups.

## **6. Limitations And Future Research Indications**

Some limitations are revealed by the fact that some empirical analysis could not be performed due to data unavailability for a large number of countries and the generalizability of the result didn't include these countries. For instance, the study focused only on available formal entrepreneurship data collected and organized by World Bank as limited liability companies. The result would be better if the data for all countries are available and used for the study. Informal entrepreneurship was not incorporated. The study didn't consider the success of the new business over time as a measure of the dependent variable. It would be quite important to investigate entrepreneurship development using the success as an outcome variable. Case countries are different in their legal origin. Because of the lack of data for the mentioned variable, the study didn't use this difference as a controlling variable in the model. Thus, it is quite important to the test rule of law as a factor by considering their legal origin. Pertaining to the predictors, the study was limited to governance indicators stipulated by World Bank. Further studies will be required to explore the influence of other macro-level factors on entrepreneurship. The relationship between variables was computed using multiple linear regressions. Other methods may be equally important or would bring better results. Thus, methodological change is recommendable to see the relationship further from a different perspective. In addition, how to make the governance indicators practical is also beyond the scope of this study. Thus, future research will also be required to investigate how these indicators are practically exercised.

## **7. Declarations**

### **7.1. Availability of Data and Materials**

Secondary data used in this study were obtained from the World Bank databases of different categories based on the types of the data.

Entrepreneurship performance data were sourced from World Bank Group Entrepreneurship Survey (2021) available at: [<https://www.doingbusiness.org/en/data/exploretopics/entrepreneurship>]

Data Regarding Worldwide governance Indicators were sourced from the World Bank database (2020), available at: [<http://info.worldbank.org/governance/wgi/index.asp>].

Data regarding GNI were sources from World Bank 2021) World Development Indicators, available at: [<https://datatopics.worldbank.org/world-development-indicators>]

## 7.2. Competing Interest

The study has been conducted under the permission of the College of Business Economics, Jimma University. The researchers are expected by the College to publish internationally accredited journals. Springer is one of them which are connected to Jimma University. The authors have declared no competing interests in this regard.

## 7.3. Funding

College of Business and Economics Jimma University has provided professional fee for the authors. The college has the mandate to follow up the completion and submission of the result. It always encourages researchers to submit the published article though it is not providing fund for publication.

## 7.4. Authors Contribution

The study is result team contribution. Dr. Kenenisa Lemi has done the introduction and methodology parts of the study. Dr. Reta Megersa has done the literature part of the study. Dr. Mekonnen Bogale has done the data management, analysis, and write-up part of the study. All three authors have done together the overall conceptualization of the study, conclusion and implications. Finally, all authors read and approved the final manuscript.

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