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## **The Indirect Influence of Business Regulations on Corruption**

Both entrepreneurship and corruption are important factors in the way to establishing a competitive economic strategy of the country. Therefore all over the world steadily policy and regulatory reforms are being implemented in order to develop the Entrepreneurial Environment. Nevertheless the above carried out analysis shows that at the same time for developing countries i.e. like the Republic of Armenia the halfway battle could be managing the level and diffusion of corruption and bureaucracy as well as promoting genuine competition in the economy.

Key words: Entrepreneurship, Shadow economy, Corruption, Business Regulations, Competition

During the recent years there has been undeniable growing interest among the entrepreneurial scholars in the effects of business regulations on economic welfare (Nicoletti & Scarpetta, 2003) and particularly on entrepreneurship (Stel et al, 2007). This becomes especially vital why the other major impact factors on entrepreneurship such as socio-psychological (cultural) in spite of huge importance (Hayton et al., 2002) are more resistant and less change addicted per se during the same timeframe.

Hence without neglecting the other impact factors such as developed infrastructure that is availability of financial resources, attractiveness of taxation system, political stability, geographical position and

etc., adopting the “best” configuration of monetary (i.e. start-up costs and start-up minimum capital) and non-monetary (i.e. time and procedures) business regulations is a basis for forming a favourable entrepreneurial environment. Afterwards this combination outlines the success of country’s entrepreneurial environment and the competitiveness level of its participants’ in the world economy.

The administrative framework is indeed important for market entrants and their further performance. That is why worldwide, 114 economies implemented 238 regulatory reforms in 2012/13 making it easier to do business (The World Bank 2012, 2013). For example, Doing Business ranks countries business indices according to the regulatory environment’s conduciveness to the starting and operation of a local firm. Interestingly, some countries listed in the top ten of Starting a Business (e.g. Armenia 6, Rwanda 9, and Azerbaijan 10) are far beyond in Ease of Doing business (e.g. Armenia 37, Rwanda 32, and Azerbaijan 70). Thus attractive Business Regulations for start-ups seems not to guarantee per se an overall wealthy Entrepreneurial System.

Since De Soto (1989) one set of studies advocates free market entry in line with political and economic institutions as key determinant for economic growth. While analysing the role of policy and institutions for productivity and firm dynamics

Scarpetta et al. (2002) find significantly lower entry rates because of more rigid administrative and sector specific product market regulations. Furthermore they argue that the rate of entry of small and medium enterprises is negatively related to the number of regulations. Taking into consideration the aforementioned simplifying the entry and exit regulation seems way-out for entrepreneurship development.

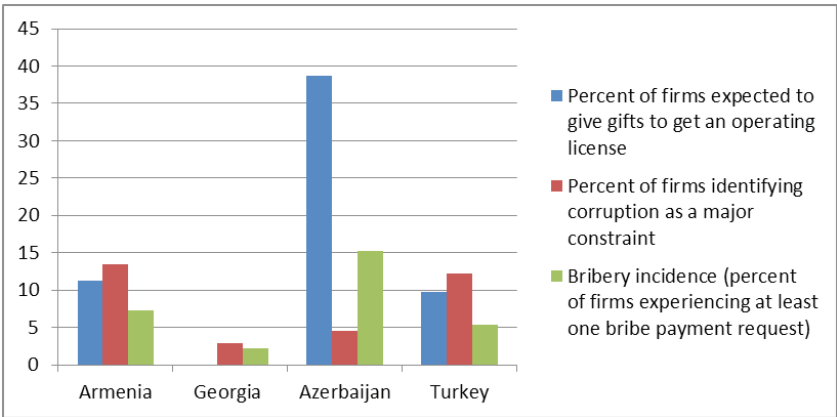
However the whole picture isn't so trivial, one model cannot ideally fit to all the countries and industries whatever good it were. Reality turns out to be more nuanced—there can be no a priori assumption that an industry in a particular region of a country will benefit from or be harmed by liberalization (Aghion et al., 2005). Van Stel et al (2005) suggest paying more attention to difference in countries' economic development rate as clue for policy efficiency. They find that the effect on economic growth of entrepreneurial activity by nascent entrepreneurs and owner/managers of young businesses mostly varies according to the economic development stage of the countries'.

Gann et al (1998) suggest looking at the question from different angles. They conclude when “performance-based” building regulations are treated as static sets of technical requirements, their effect is

similar to more traditional prescriptive forms of regulation. A more progressive approach is possible in which regulations can be used as part of a portfolio of policies aimed at improving firm performance. In this respect the economic literature suggests that one of the main deterrents for Entrepreneurship could be considered bureaucracy (Block et al., 2008) and corruption (Anokhin & Schulze, 2009).

In fact, in order to evade the red tape of regulations in highly regulated markets entrepreneurs look for other, sometimes illegal possibilities to accelerate the firm registration. Dreher & Gassebner, 2011 state that the existence of a larger number of procedures required to start a business, as well as larger minimum capital requirements may generate corruption in highly regulated economies. In addition to higher corruption and larger unofficial economies, countries with heavier regulations of entry do not have better quality of public or private goods. Vice versa countries with more democratic and limited governments have lighter regulation of entry (Simeon Djankov et al., 2002). Thus existence of the red tape of regulations required to start a business may generate great corruption and a larger unofficial economy.

TABLE 1



Source: Enterprise Surveys 2013; Word Bank

Transparency International reminds that the abuse of power, secret dealings and bribery continue to ravage societies around the world (Transparency International). Indeed as we can see in the Table 1 Bribery and Corruption are still essential problems for the Entrepreneurs in the Republic of Armenia, as well as in the whole region with some proviso to Georgia. Therefore in line with the Entrepreneurial efficiency by the government appropriate attention should be paid to the diminution of illegality in the sector.

Bardhan (1997) mentions while corruption in one form or another has always been with us, it has had variegated incidence in different times at different places and with varying degrees. The theory and evidence suggest that efforts to foster entrepreneurship and innovations within an economy will be more productive if accompanied by policy reforms aimed at controlling corruption. Inasmuch as entrepreneurial and innovative activity may contribute to the accumulation of economic welfare, such efforts may serve a greater goal of contributing to economic development (Anokhin & Schulze, 2009). According to Schleifer and Vishny (1993), corruption may be costly for the economic development and they argue that economic and political competition can reduce the level of corruption and its adverse effects. Moreover the negative association between corruption and growth, is significant in both a statistical and an economic sense (Mauro, 2008) and better control of corruption will also be associated with rising levels of innovation and entrepreneurship (Anokhin & Schulze, 2009).

Moreover Greve & Salaff, 2003 explain while establishing a firm an important role plays social relations. Entrepreneurs use their social capital to access resources in each phase of the establishment process and there is a high proportion of family members in their networks. And those with

the highest proportion rely less on outsiders elevating trust. And some manifestations of trust in these networks can have not only positive but also negative implications for corruption. Namely a positive influence of a high trust in friendship and kinship influence on the probability of becoming engaged in corrupt dealings (Tonoyan, 2005). Also, where social networks are narrowly defined, obligations are unlikely to interfere with the performance of public duty. Social networks and personal relationships are strong ties which prevent people from transferring to the official economy (Schneider 2005) and forming network corruption (Granovetter, 2007). Finally, viewing illegal business activities as a widespread business practice provides the rationale for entrepreneurs to justify their own corrupt activities (Tonoyan et al. 2010).

Taking into consideration the above mentioned we come to a conclusion that it is crucial not only to promote Entrepreneurship but prevent its possible consequences such as corruption and illegality as well. In regard to the Republic of Armenia a possible solution could be cutting back the red tape of regulations simultaneously encouraging the genuine competition in the sector. Another important point for developing countries could be the establishment of good governance and the consistency of implementation of continuous policy reforms in Entrepreneurial environment.

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## КОСВЕННОЕ ВЛИЯНИЕ РЕГУЛИРОВАНИЯ СФЕРЫ БИЗНЕС НА КОРРУПЦИЮ

**АРАМ СИМОНЯН**

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Как предпринимательство, так и коррупция являются важными факторами на пути основания конкурентоспособной экономической политики страны. Поэтому во всем мире постоянно осуществляются программные и нормативно-правовые реформы в целях развития предпринимательской среды. Однако же, как показывает проведенный анализ, параллельно реформам в развивающихся странах, например таких, как Республика Армения залог успеха лежит в управлении уровнем и распространением коррупции и бюрократии, а также в стимулировании реальной конкуренции в экономике.

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### ԳՈՐԾԱՐԱՐՈՒԹՅԱՆ ՈԼՈՐՏԻ ԿԱՐԳԱՎՈՐՈՒՄՆԵՐԻ ԱՆՈՒՂՆԱԿԻ ԱԶԴԵՑՈՒԹՅՈՒՆԸ ԿՈՌՈՒՊՑԻԱՅԻ ՎՐԱ

#### **ԱՐԱՄ ՍԻՄՈՆՅԱՆ**

*ՀՀ ԳԱԱ Գիտակրթական միջազգային կենտրոն, դասախոս, տնտեսագիտության թեկնածու*

Եվ ձեռնարկատիրությունը, և՛ կոռուպցիան կարևոր գործոններ են երկրի մրցունակ տնտեսական ռազմավարության ձևավորման ճանապարհին: Ուստի ողջ աշխարհում ձեռնարկատիրական միջավայրի բարելավման նպատակով պարբերաբար իրականացվում են ինչպես նախագծային, այնպես էլ նորմատիվաիրավական կարգավորումների բարեփոխումներ: Այնուամենայնիվ, ինչպես ցույց է տալիս իրականացված վերլուծությունը, մինևույն ժամանակ զարգացող երկրների համար, ինչպիսին օրինակ՝ Հայաստանի Հանրապետությունն է, հաջողության գրավական կարող է հանդիսանալ բյուրոկրատիայի և կոռուպցիայի սփռվածության աստիճանի կառավարումը, ինչպես նաև՝ ողջ տնտեսության մասշտաբով իրական մրցակցության խթանումը:

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