

Regulatory framework for innovative entrepreneurship

How does the regulatory framework affect innovative entrepreneurship?

As for innovative businesses in general, administrative framework, government regulations and public policies that impact the operation of firms can influence the growth of innovative companies. **Innovative new ventures are specifically affected by the administrative framework for entry and growth:**

- A simplified administrative framework can encourage business entrepreneurship by reducing barriers. In contrast, substantial costs and complex registration processes can **discourage entrepreneurial activity**.
- Lengthy and costly company registration procedures **divert human and financial resources away from business activity, just when the company is the most fragile**
- Burdensome entry regulations may also encourage entrepreneurs to conduct their business activities in the **informal sector**, particularly in environments where the legal context is weak, as is often the case in less developed economies. The consequence is that entrepreneurs are deprived of access to opportunities and protections that the law provides, which might be detrimental for their business expansion.

What are the key policy dimensions regarding regulatory framework and innovative entrepreneurship?

As for innovative businesses in general, common challenges across three policy dimensions are particularly relevant and include:

- How can bankruptcy legislation meet the objectives of i) protecting creditor rights; ii) discouraging premature liquidation of sustainable businesses; iii) avoiding the permanence on the market of unproductive companies, while at the same time not discouraging innovative businesses? (see [Bankruptcy regulation](#) [1])

→ Bankruptcy regulation (see [Bankruptcy regulation](#) [1]) is defined as the set of norms and regulations that govern, for individuals and companies, financial distress, administration, insolvency and liquidation.

- How can governments reduce administrative burdens for innovative businesses without compromising the social objectives of particular regulations and the need for consistent regulation of the market? (see [Administrative framework for entry and growth](#) [2])

→ Administrative framework for entry and growth (see [Administrative framework for entry and growth](#) [2]) refers to the monetary requirements and the level of “red tape”, or the collection of rules and formalities for starting a new company and for firms at early-stage growth.

- What are the key aspects of product market regulation needed to support competitive

markets for innovative businesses? (see [Product market regulation](#) [3])

→ Product market regulation (see [Product market regulation](#) [3]) includes regulations that promote or inhibit competition in areas of the product market where competition is viable.

- How can intellectual property systems be strengthened to foster knowledge diffusion for innovative entrepreneurship? (see [Intellectual property rights for innovative entrepreneurship](#) [4])

→ Intellectual property rights (see [Intellectual property rights for innovative entrepreneurship](#) [4]) includes the regulations and enforcement of intellectual property rights.

What are the main rationales for policy interventions in support of regulatory framework?

As in the context of innovative businesses in general, several market and systemic failures imply a need for policy attention to administrative framework. These notably include the following (see [Policy rationales and objectives for innovative entrepreneurship](#) [5] , and [Public Policy and Governance](#) [6]):

- Burdensome administrative framework for entry and growth, and inappropriate bankruptcy legislation may block innovation, hinder the flow of knowledge and technology, and, as a result, reduce the overall efficiency of system-wide R&D and innovation efforts.
- Demand-side innovation policies based on product standards and regulations can be used to stimulate innovation in areas where societal needs are pressing (e.g. health, environment).
- Government action in the area of technical standards is somewhat different, corresponding to the “public good” characteristics of such standards. The development of standards is likely to create some degree of market failure. By itself, the market may provide too few standards. Creating standards entails fixed costs, while the gains may not be attainable by individual firms.

What are the main policies that influence regulatory framework in the context of innovative entrepreneurship?

As for innovative businesses in general, public policy can influence:

Administrative framework for entry and growth (see [Administrative framework for entry and growth](#) [2]) by:

- Achieving administrative simplification by re-engineering and streamlining processes (e.g. reviewing and optimizing information transactions required by government formalities, or creating one-stop shops that supply a high variety of services).
- Using information and communication technologies to further reduce administrative burdens (e.g. web-portals, on-line one-stop shops, and web-based experts systems that enterprises can consult in order to better understand and comply with regulations).

-
- Integrating and coordinating administrative simplification with other activities in the area of regulatory reform (e.g. including a focus on administrative burdens in ex ante impact assessments of new regulations).
 - Quantifying administrative burdens for innovative entrepreneurs and setting quantitative targets for their reduction. Qualitative methods, especially those assessing the burdens of regulation, should complement quantitative methods, to better target these efforts.
 - Introducing special procedural measures to assess the impact of new regulation on early stage firms and small businesses. This includes, for example, requiring agencies to prepare special impact statements for proposed regulations that affect small businesses. These small business impact statements can contain a description of any significant alternatives that accomplish the stated objectives, while minimizing any significant economic impacts on small businesses by the proposed rule.
 - Considering implementation approaches that limit the burden for smaller businesses. This includes: exemptions to some regulations for the smallest businesses, combining regulations to minimize the number of inspections and forms, instituting a system of “presumed consent” (i.e. that a business is assumed to have registered/complied with a regulation if the relevant authority does not object in a certain time, and that lack of response can be interpreted as assent), and seeking to have consistent approaches and times for processing particular procedures (since uncertainty can be more damaging than the actual length of a procedure).

Bankruptcy regulation (see [Bankruptcy regulation](#) [1]) by:

- Striking a fair balance between the sometimes divergent objectives of bankruptcy legislation.
- Ensuring an efficient judicial system that provides timely and predictable sentences in fraudulent bankruptcy cases and adequately protects investors’ rights.

Product market regulation (see [Product market regulation](#) [3]) by:

- Integrating regulatory impact analysis within the process of creating new laws and regulations, thus allowing regulators and legislators to understand the effects of new regulations on smaller enterprises and innovative entrepreneurs.
- Creating one-stop shops for regulatory advice and registration, so that entrepreneurs can pass through administrative regulations with a minimum expenditure of time and resources.
- Organising public information campaigns for necessary regulations, in order to ensure that firms have time to plan for regulatory changes.

References

- OECD (2012), "Regulatory framework: Starting a business", in OECD, Entrepreneurship at a Glance 2012, OECD Publishing. http://dx.doi.org/10.1787/entrepreneur_aag-2012-24-en [7]

-
- OECD (2011), "Tax incentives for business R&D", in OECD, OECD Science, Technology and Industry Scoreboard 2011, OECD Publishing. http://dx.doi.org/10.1787/sti_scoreboard-2011-48-en [8]
 - OECD (2011), "Public support for business R&D", in OECD, Business Innovation Policies: Selected Country Comparisons, OECD Publishing. <http://dx.doi.org/10.1787/9789264115668-4-en> [9]
 - OECD (2010), Why Is Administrative Simplification So Complicated? Looking Beyond 2010, Cutting Red Tape, OECD Publishing. <http://dx.doi.org/10.1787/9789264089754-en> [10]
 - OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing. <http://dx.doi.org/10.1787/9789264080355-en> [11]
 - World Bank (2013), Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises, The World Bank Group, Washington, DC.

Related Link: Public Policy and Governance

Policy instruments

Regulatory framework for innovation in firms

Policy-making contexts for innovative entrepreneurship

Source URL: <https://www.innovationpolicyplatform.org/content/regulatory-framework-innovative-entrepreneurship?topic-filters=12029>

Links

- [1] <https://www.innovationpolicyplatform.org/content/bankruptcy-regulation?topic-filters=12027>
- [2] <https://www.innovationpolicyplatform.org/content/administrative-framework-entry-and-growth?topic-filters=12021>
- [3] <https://www.innovationpolicyplatform.org/content/product-market-regulation?topic-filters=12148>
- [4] <https://www.innovationpolicyplatform.org/content/intellectual-property-rights-and-innovative-entrepreneurship?topic-filters=12127>
- [5] <https://www.innovationpolicyplatform.org/content/policy-rationales-and-objectives-innovative-entrepreneurship?topic-filters=12132>
- [6] <https://www.innovationpolicyplatform.org/content/public-policy-and-governance?topic-filters=11378>
- [7] http://dx.doi.org/10.1787/entrepreneur_aag-2012-24-en
- [8] http://dx.doi.org/10.1787/sti_scoreboard-2011-48-en
- [9] <http://dx.doi.org/10.1787/9789264115668-4-en>
- [10] <http://dx.doi.org/10.1787/9789264089754-en>
- [11] <http://dx.doi.org/10.1787/9789264080355-en>