

COMPETITION POLICY VS. ENTREPRENEURSHIP

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Abstract:

What impact does competition policy have on entrepreneurship? An effective competition regime should theoretically facilitate an open, competitive environment in which new market entrants can flourish and give rise to high levels of entrepreneurial activity. But is this really the case? In this paper, we test this argument by investigating whether the presence of a large suite of competition laws, and/or a highly ranked national competition policy, is significantly correlated to high levels of entrepreneurship. Twenty-one countries were examined, using three existing indices - the Global Entrepreneurship Monitor, the Global Competition Review, and the Antitrust Index. Surprisingly, the results indicate that there is no discernible correlation between the level of entrepreneurship and highly ranked competition policy.

Key words: *competition, small business, entrepreneurship*

JEL classification: *L26, D41*

INTRODUCTION

Competition is an essential ingredient in the entrepreneurial process. When firms come into existence for the purpose of offering a product or service, and attempt to make a profit in the process, then they have effectively entered into a contest with each other. Some elements of this struggle are obvious, such as the need to win over customers, to sell more products, or to expand into new markets. Other aspects of the competitive process may not be as evident, but are still important, because almost every aspect of the entrepreneurial process is open to challenge. This can include a contest for the best staff and external professional advisers, access to raw materials and suppliers, support from financiers and investors, or even just the ability to obtain the best-placed advertisement in tomorrow's newspaper.

Competition need not be confined simply to a contest between two firms operating in the same arena - it can also exist between firms competing in seemingly unrelated areas (such as a local movie cinema, who may try to win customers not only from other nearby movie houses, but also from restaurants or theatres), or between whole industries (think of the automobile versus public transportation).

Competition is, however, a relatively poorly understood and analysed phenomenon in entrepreneurship research. Whilst the activities of new venture creation, new product development, firm growth and innovation have been examined comprehensively, little is understood about the impact of the overall competitive environment and framework in which a firm must operate.

What impact does a pro-competitive environment have on entrepreneurship? Does it lead to more entrepreneurial activity, or not? Whilst the answer to such a question may seem a priori to be "yes," it is important to test such assumptions and determine if such is actually the case.

In this paper, we examine this argument by investigating whether the presence of a large suite of competition laws, and/or a highly effective national competition policy, is significantly correlated to high levels of entrepreneurship. These issues are

examined by correlating three existing indices - the Global Entrepreneurship Monitor, the Global Competition Review, and the Antitrust Index.

BACKGROUND

The link between competition (or antitrust) policy and small entrepreneurial firms is one that has received only a small amount of attention in the research literature to date. More often than not, the linkage is implied rather than explicitly addressed.

It is often suggested that competition policy regimes can affect entrepreneurial small firms in a number of different ways (Audretsch, Baumol & Burke 2001; Golodner 2001; Kemp & Lutz 2006). This can occur through measures intended to:

- Prevent existing firms with established offerings from stifling new product or service innovations;
- Making it illegal for existing operators to collude to fix prices, customer access and/or market share;
- Ensuring that existing firms do not construct artificial barriers to entry which might exclude new market entrants;
- Preventing anticompetitive mergers that reduce the number of firms and/or products available to consumers; and
- Ensuring that supplier firms do not discriminate against small-scale enterprises in regards to such matters as the price of goods or equitable access to the same.

Golodner (2001) also argues that there is an additional, but somewhat more intangible way in which competition policy interacts with entrepreneurship. He argues that nations which have effective, strong competition policy and laws send a very clear signal to their citizens that they value and encourage individual initiative, enterprise and risk-taking. Conversely, countries who do not vigorously police anticompetitive behaviour promote a culture that can discourage change, competition and contestability in the marketplace.

Competition policy is also assumed to have an impact on national economic performance and the collective level of enterprise undertaken amongst a community. As Porter (1990) has suggested, a strong antitrust policy and the existence of strongly contested domestic markets are an important element in the growth of any national economy.

Not all nations implement competition policy in the same way. Some jurisdictions have passed extensive suites of laws and regulations, and have relied on the existence of "black-letter law" to provide a suitable competitive framework. For many of these countries, it is the breadth of regulations - that is to say, the number of "laws on the books" - which is taken to be the most important factor in promoting competition.

An alternate approach for many other nations is to focus on the quality of regulation, rather than merely the quantum. In this paradigm, the calibre of laws and enforcement actions is seen as paramount. The way in which competition policy is effectively policed, and the other steps competition

MODEL AND RESULTS

Data from three sources were used to test the two propositions: the 2006 Global Entrepreneurship Monitor, the 2006 Global Competition Review and the 2004 Antitrust Law Index. A total of 21 nations were assessed in all three studies, and thus form the basis of the following results.

The proportion of adults engaged in early-start new business activity was selected as the GEM proxy measure of overall entrepreneurial levels in each nation. Whilst GEM actually measures three different sets of entrepreneurial activities within

the population of each respondent nation (namely, the proportion of adults about to start a venture, the proportion who have just recently begun one, and the proportion established in a long-term venture), it was felt that the middle indicator is perhaps the most appropriate gauge of enterprising behaviour. Many nascent firms fail to launch, and many established firms are part of the established market place; in contrast, recently-begun ventures epitomise risk-taking and an attempt to competitively offer new products or other innovations into the market.

These data sets are ordinal and, as such, only a limited number of valid statistical tools exist to validly measure and test any relationships that may exist between them. For this reason, a Spearman correlation was used to test each hypothesis, as suggested by Collis & Hussey (2003).

H₁: Nations with a more extensive range of competition laws have higher levels of entrepreneurship than other countries.

This was tested by correlating the Antitrust Law Index (AL I) against GEM. The results ($r^2 = 0.023$, adjusted $r^2 = 0$, t-test $t = -0.67$, $p = 0.51$) indicate an extremely low correlation, to the extent that there is almost no detectable relationship between the two variables.

H₂: Nations with a higher level of effective competition policy have higher levels of entrepreneurship than other countries.

This was tested by correlating the Global Competition Review against GEM. Like the preceding test, these results ($r^2 = 0.0019$, adjusted $r^2 = 0.0$, t-test $t = 0.19$, $p = 0.085$) show no detectable relationship between the two variables.

These results can sometimes also be confused by the presence of “outlier” groups, such as (in this case) nations with quite profoundly different economic and political structures to the majority of respondents. Although not detailed here, the results were largely similar and still showed no statistically significant correlation in either case.

DISCUSSION

At first glance, such results seem counter-intuitive. As was suggested at the beginning of this paper, it seems almost a given that countries with strong competition regimes should also foster higher rates of entrepreneurship amongst their adult population.

How can one explain the near-total absence of any correlation between the levels of entrepreneurship (as measured by GEM) and a broad range of antitrust laws (as measured by the Antitrust Index), nor with effective competition regimes (as determined by the Global Competition Review)?

One possible reason is that the data sets are a poor form of measuring the stated variables. Another possibility is that competition policy, per Se, does not figure highly in the decision-making of entrepreneurs. The decision to commence, operate and grow a business is often fuelled by a complex of personal motivating factors, perceived customer demand in the marketplace, and ability to access the necessary resources (such as personnel, funding, and premises). Other external variables moderated by government, such as taxation rates, regulatory regimes and advisory assistance, may in fact only play a very secondary role in the new venture process.

CONCLUSION

There are still many aspects in the entrepreneurial process which are poorly understood. As was pointed out in the beginning of this paper, the relationship of macro-economic and regulatory variables formation and growth is one such area.

The results presented in this study have attempted to shed some initial exploratory light into part this area of enquiry. They seemingly indicate that there is no discernible correlation between the entrepreneurship and highly ranked competition policy.

However, the apparent lack of a clear relationship between competition regimes and entrepreneurship does not mean that competition policy is irrelevant to the entrepreneurial process. Indeed, sound competition laws are highly desirable for many more reasons than simply their impact on entrepreneurs. The findings of this study do suggest, however, is that many other factors may well be more important in the process of new venture creation and firm growth. Our contemporary understanding of entrepreneurial process, and of the dynamics of firm growth, is still limited, as is our ability to the impact of external factors on entrepreneurship. Results such as this indicate that we still re much more to learn.

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