

GOOD GOVERNANCE AND DOING BUSINESS: EVIDENCE FROM A CROSS-COUNTRY SURVEY*

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Abstract

The aim of this cross-country empirical analysis is to investigate the relationship between good governance, measured through six clusters of governance developed by the World Bank, and the quality of business environment, captured through the ranking on the ease of doing business, also assessed by the World Bank. This paper analyzes the influence of governance indicators on the ease of doing business using a classification of economies of all countries with population of more than 30,000 citizens, divided on income groups such as low income, lower middle income, upper middle income, high income non-OECD and high income OECD. The findings show the significant influence of some governance indicators such as 'government effectiveness' or 'regulatory quality' on the ease of doing business, for all countries, while 'the rule of law' and 'control of corruption' are very determining factors for the business environment especially for countries classified in high income categories. Moreover, this paper could represent an argument for the relevance of governance quality for the ease of doing business, highlighting the necessity to pay enough attention to ensuring good governance in order to provide effective development outcomes.

Keywords: governance, ease of doing business, government effectiveness, regulatory quality, rule of law, control of corruption.

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1. Introduction

During the last decades good governance has become a topic of great interest for both scholars and public policy organizations, especially starting from the premise that good governance influences economic prosperity (Knack and Keefer, 1995 *apud* Ngobo and Fouda, 2012; Mauro, 1995), leads to a transparent environment for conducting public affairs, being a promoter of free market policies, justice, and the rule of law (Ngobo and Fouda, 2012). The effects of good governance are, no doubt, felt on the business and economic environment. Good governance implies fair regulatory frameworks, accountability, and transparent policy making, all these factors having direct influences on economic activity. Good governance must necessarily ensure a framework of good rules that clearly establish and clarify property rights, rules that are meant to enhance the predictability of economic interactions between various contractual partners.

The effectiveness of government activity is meant to serve the interest of the general population and the cooperation between public and private sectors is crucial for ensuring the good of the society. Weintraub and Kumar (1997) remarked the 'public and private sector' dichotomy that influences the field of public administration, being defined as 'a binary distinction between the realm of the state and the realm of the market'. There is no doubt that the public and private sectors are depending on each other to activate efficiently and to achieve their objectives, therefore the public sector should facilitate, through an appropriate regulatory framework and control of corruption, the effectiveness of the business sector. Private sector outputs could provide a basis for the public sector to serve the economic health of a country and its population. In this context, the ease of doing business must represent an issue of major concern for government and the public sector, and one of the major interests of government should be more accessible business regulations and regulatory processes, given the relevance of business environment outputs for the public sector.

Previous scholarship theoretical and empirical literature highlighted the idea that effective governance matters and, even more, it is a determinant factor for the effectiveness of the business environment. But, as Andrews (2008) remarked, the major challenge is defining what effective governance is. In this vein, governance indicators are designed to measure the main characteristics of good governance, reflecting aspects which many would consider as being relevant for effective government. A lot of academic papers have consequently used these indicators as quantitative dimensions of governance effectiveness and empirically tested how these characteristics influence the various development outcomes.

Among these development outcomes, the business environment seems to be positively affected. According to Çule and Fulton (2013) the influence of governance over the business environment is given by the supposition that an economy with a moderate level of bureaucracy, a high concern for legislative compliance, and good instruments for controlling corruption is expected to create and maintain a business environment that stimulates economic performance. The same opinion is also shared

by Price, Román and Rountree (2011), who state that many governance studies have truly proved the positive relationship between the quality of governance systems and more effective allocations of economic resources, which finally influence the stimulation of economic growth and the competitiveness of business environment.

Starting from the previous theoretical and empirical literature that stressed the idea of the relationship between governance indicators and different development outcomes, this paper intends to empirically investigate whether governance quality, captured through six governance indicators, also influences the ease of doing business, aiming to develop this empirical analysis by using the classification of economies of all countries divided on income groups. The premise of this empirical study is that governance indicators positively influence the business environment, even if this impact is felt differently by countries with lower incomes compared to countries classified in high income categories.

The remainder of the paper is organized as follows. Section 2 briefly establishes the main coordinates in defining good governance; Section 3 describes the process of development of governance indicators, highlighting the main advantages and disadvantages in using them; Section 4 presents the research methodology and research questions; Section 5 deals with empirical analysis of results and, finally, Section 6 closes this article with conclusions. The findings in this study provide context for initiating constructive debates concerning the real influence of governance indicators on the business environment and the ease of doing business.

2. Defining good governance

As it was mentioned above, one significant challenge for researchers is to find a definition of good governance which could be widely accepted. According to Ngobo and Fouda (2012) the concept of public good governance became rather significant in the early 1990s 'when international aid agencies realized that poor governance across many developing countries was a major obstacle to their economic development'. Landell-Mills and Serageldin (1991) define the concept of 'governance' as 'the use of political authority and exercise of control over a society and the management of resources for social and economic development'.

The World Bank in its working paper 'Governance and Economy: a Review', citing from Random House College Dictionary (1984, p. 571) defines governance as a neutral concept, meaning 'the political direction and control exercised over the actions of the members, citizens or inhabitants of communities, societies and states' (Brautigam, 1991, p. 3).

In the opinion of World Bank researchers, the influence of political factors in the process of governance should not be ignored. Even if we refer firstly to economic performance, the power and authority of governments in establishing the necessary framework that regulates the social and economic functioning of institutions are decisive. In the same working paper, the World Bank experts highlight the idea that there are some dimensions of governance that appear to affect economic performance such

as accountability, openness and transparency, and the rule of law. All these aspects of governance affect economic development, including quality of the business environment through their influence on fiscal integrity, on predictability, and on the creation and maintaining of a business environment focused on economic performance.

Same dimensions of good governance, such as transparency, accountability, and the rule of law, are also emphasized in other World Bank papers such as 'Governance and Development' (World Bank, 1992) and 'Governance and the World Bank's Experience' (World Bank, 1994). Due to its serious implications for this problematic area of ensuring good governance, the researchers from the World Bank provide a significant contribution for the evolution of this concept's meaning. By the end of the 20th century, based on a methodology developed by Kaufmann, Kraay and Zoido-Lobato (1999a), six new aggregate indicators of governance were defined, such as 'voice and accountability', 'political stability and lack of violence', 'government effectiveness', 'regulatory burden' (changed later in following reports in 'regulatory quality'), 'rule of law' and 'corruption'. In the vision of World Bank researchers, all six measures should represent the main characteristics that good governance must have. They suggest that effective governments should properly answer to citizen needs, promote politically neutral managers, and develop a framework of pro-business policies (Andrews, 2008).

Countless articles and papers have provided various definitions for the controversial concept of governance, in the scholarship literature all these definitions range from political and social perspectives to those of a more economic approach. Table 1 presents a synthesis of the main definitions assigned to the concept of governance. But, despite the fact that there is a large number of definitions, there is still consensus about what good governance should be, because most of the definitions stressed the idea of 'the importance of a capable state operating under the rule of law' (Kaufmann and Kraay, 2008). However, there is a major issue that still remains a subject of controversial debates and this issue deals with the most adequate indicators that should be used to capture correctly the quality of corporate governance.

Even if everyone agrees that there is no single indicator or combination of indicators that could provide an exhaustive assessment of all various dimensions of governance, still the efforts of researchers should be focused on finding those relevant indicators of good governance that take into account as completely as possible the main characteristics of good governance, which could be reliably measured. As Kooiman (1999) remarks, one major challenge for researchers in governance is given by the necessity to develop a conceptual approach of governance able to incorporate the main characteristics of the social-political system, considering their diversity, dynamics and complexity, while being focused on solving problems and creating opportunities for society (which includes both public and private sectors). Despite the differences in defining the concept of governance, one central common element in all these conceptual approaches is referring to the ability of the political and social system to coordinate conflicts and issues between dependent actors in order to solve societal problems (opinion also shared by Klijn, 2008).

Table 1: A synthesis of the main definitions of good governance

Source	Definition	Key dimensions of governance
World Bank (1992)	Governance is 'the manner in which power is exercised in the management of a country's economic and social resources for development'.	<ul style="list-style-type: none"> - Government effectiveness; - Rule of law.
Osborne and Gaebler (1992)	Governance is approached as a new public management that should make the difference between government and governance ('less government and more governance')	<ul style="list-style-type: none"> - New public management effectiveness.
Gray, 1994; Rhodes 1994 <i>apud</i> Kooiman, 1999	The concept of governance is seen as the 'minimal state' where governance is used as a key reference for 'redefining the extent and form of public intervention'.	<ul style="list-style-type: none"> - Government effectiveness in its various forms of public intervention.
Commission on Global Governance (1995)	According to the Commission on Global Governance, governance is seen as a 'continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken'.	<ul style="list-style-type: none"> - The ability of the political-social system to manage the solving of various conflicts and interests.
Rhodes (1997)	The system of governance is defined as 'self-organizing, inter-organizational networks characterized by interdependence, resource exchange, rules of the game and significant autonomy from the state'.	<ul style="list-style-type: none"> - Quality of state to manage the resources and the rules of the game for the general interest.
Kaufmann Kraay and Zoido-Lobaton (1999a)	The concept of governance is approached as incorporating 'the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them'.	<ul style="list-style-type: none"> - Political stability; - Voice and accountability; - Government effectiveness; - Rule of law; - Regulatory quality.
Kooiman (1999)	He adopts a social-political approach of governance considering that 'governance is given by all those interactive arrangements in which public as well as private actors participate, aimed at solving societal problems, or creating societal opportunities, and attending to the institutions within which these governing activities take place'.	<ul style="list-style-type: none"> - The ability of public management to cooperate with private actors for solving problems and creating opportunities.
Polidano (2000)	Good governance should express 'the capacity of the permanent machinery of government' that has to 'contribute much to the quality and integrity even of high-level policy-making'.	<ul style="list-style-type: none"> - Government effectiveness; - Rule of law;
Neumayer (2002)	From many dimensions of governance 'only the extent to which governments are accountable, respect democratic rights as well as refrain from imposing burdens on business have a statistically significant influence'.	<ul style="list-style-type: none"> - Voice and accountability; - Government effectiveness; - Regulatory quality; - Rule of law.
Kooiman (2003)	Governance is defined as 'the totality of interactions, in which public as well as private actors participate, aimed at solving societal problems or creating societal opportunities; attending to the institutions as contexts for these governing interactions; and establishing a normative foundation for all these activities'.	<ul style="list-style-type: none"> - Role of government in solving societal issues; - Base for ensuring a normative function of social and economic institutions.
World Bank (2006)	Governance is defined as the 'manner in which public officials and institutions acquire and exercise the authority to shape public policy and provide public goods and services' while corruption is considered as a characteristic of poor governance that 'involves the abuse of public office for private gain'.	<ul style="list-style-type: none"> - Voice and accountability; - Government effectiveness; - Rule of law; - Control of corruption.
Klijn (2008)	Governance is 'the process that takes place within governance networks (...); the term governance network describes public policy making and implementation through a web of relationships between government, business and civil society actors. One can then consider phenomena like public-private partnership or interactive policy making as specific forms of governance networks'.	<ul style="list-style-type: none"> - A process that implies various actors like government, business and civil society for the general interests of solving societal problems.

Source: Author's compilation based on literature review

3. Governance indicators

3.1. *Development of governance indicators*

Due to the growing interest of academics and policymakers in issues related to governance, there have been developed various cross-country indices through which different aspects of governance were dimensioned (Kaufmann, 1999a, 1999b; Bovaird and Löffler, 2003; Van de Walle, 2006; Hood, Dixon and Beeston, 2008). The major role of various governance indicators is their utilization in academic literature as quantitative measurements of key features that should characterize an effective government.

Due to the fact that the Worldwide Governance indicators developed by Kaufmann, Kraay and Zoido-Lobato (1999a, 1999b) are among the most widely used cross-country governance indicators, in the next section a particular attention will be paid to the process of developing these governance indicators.

Using a methodology based on an unobserved components model, Kaufmann, Kraay and Zoido-Lobato (1999a) have combined the information from various sources developing six aggregate governance indicators. Starting from a database including more than 300 governance indicators compiled from various sources, for a sample of more than 150 countries, Kaufmann, Kraay and Zoido-Lobato (1999b) have found empirical evidence of a strong relationship between the quality of governance and development outcomes. Starting from the definition they attached to the concept of governance, seen as 'the traditions and institutions by which authority in a country is exercised', Kaufmann, Kraay and Zoido-Lobato (1999b) have organized a subset of the governance indicators through which the quality of good governance could be measured within the six 'clusters'.

In Figure 1 the essence of the process of developing those six aggregated governance indicators is captured, starting from the three main elements that Kaufmann, Kraay and Zoido-Lobato (1999b) have included in their own definition of good governance.

The first of the six governance indicators is 'voice and accountability', which measures the capacity of government to ensure proper responsiveness to society and includes different aspects of the political process, civil liberties and political rights, measuring the extent to which citizens are able to take part in the selection of their governments. 'Political stability and absence of violence' refers to the possibility of violent changes in government's structure and combines several indicators which express the potential likelihood that the government in power could be overthrown through unconstitutional or violent changes. The third governance indicator, 'government effectiveness', evaluates the perception over the inputs necessary for effective governance, such as the quality of public service provision, the competence of civil servants, the level of bureaucracy, the independence of the civil services from political influences and the credibility of government. The fourth indicator, entitled 'regulatory burden' (changed later in further reports in 'regulatory quality'), is designed to provide estimates over the effects of the policies which are perceived as market-unfriendly, such as price controls or inadequate bank supervisions, or excessive regulation which might

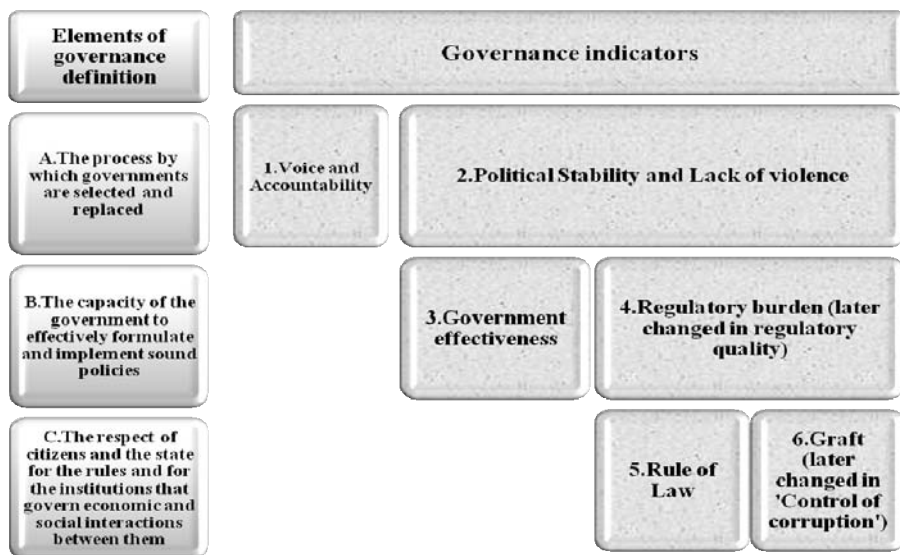


Figure 1: The process of developing the six aggregated governance indicators

Source: Adapted after Kaufmann, Kraay and Zoido-Lobato (1999b)

affect business development. 'Rule of law' includes some indicators that estimate the extent to which public and citizens have confidence in and abide by the rules of society, including the effectiveness of the judiciary system and the security of property rights. Finally, the last governance indicator, initially called 'Graft' but later exchanged in 'Control of corruption', estimates the public's perception over the control of corruption, including various forms of public power exercises for illegally private gains such as 'additional payments to get things done', but also its negative influences on the business environment.

3.2. Governance indicators – pros and cons

Even if the authors of the six governance indicators admit the fact that these aggregate governance measures are more informative about the quality of governance, they still recognize the existence of some standard errors associated with the estimates of various dimensions of governance, which are still large relative to the units in which governance is evaluated (Kaufmann, Kraay and Zoido-Lobato, 1999a). But even so, one major advantage of using such governance indicators is given by the chance to develop complex cross-country surveys, where countries could be sorted into broad groups considering their level of governance indicators, allowing the study of potential correlations that might exist between governance and various development outcomes, allowing statistical testing of research hypotheses concerning cross-country differences in governance among these dimensions.

Another argument favorable to these governance indicators is also highlighted by Kaufmann and Kraay (2008) who stressed the idea of their clarity, which allows measuring progress on such indicators for a large sample of countries.

On the other side, some critics (Andrews, 2008, p. 380) consider it is quite difficult to get to 'a one-best-way' model for good governance, mainly due to the differences that characterize models of effective governments such as the German model, which is different from the Swedish model, or the British and American models. Andrews (2008) also appreciates that all governance dimensions captured through the model of Kaufmann, Kraay and Zoido-Lobaton (1999a, 1999b) cannot always be truly effective in different contexts and different environments particularized by various challenges. In Figure 2, a synthesis for some of the main critiques to the governance indicators is disclosed, as developed by Kaufmann, Kraay and Zoido-Lobaton (1999a, 1999b).

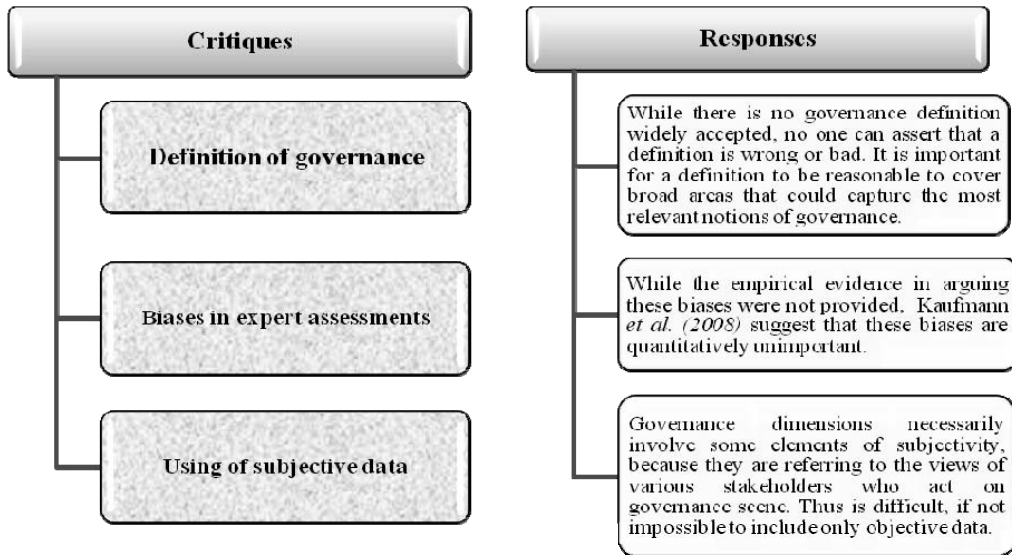


Figure 2: Governance indicators, critiques and responses

Source: Adapted after Kaufmann and Kraay (2008)

In spite of the fact that even Kaufmann, Kraay and Zoido-Lobaton (1999b) recognize the imprecision of these aggregate indicators, however their utility cannot be denied, at least for some reasons. Firstly, using this set of governance 'clusters' allows making comparisons for a much larger sample of countries. Secondly, all these six governance indicators are designed to incorporate the major key coordinates good governance systems should have, despite the possibility that other indicators including other relevant governance characteristics could also be found. Thirdly, but not lastly, a major advantage is the possibility to use these indicators in realizing statistical tests based on empirical cross-country surveys.

3.3. Governance and development outcomes

A sound regulatory environment for public and for the business sector economic activity, sound institutions, and government authority accountable to citizens are considered to be crucial to successful economic development, opinion also shared

by Kray and Tawara (2010). The main findings of research studies dedicated to the link between various governance proxies and different development outcomes are reported in Table 2.

Table 2: Synthesis of main findings related to the link between governance and various development outcomes

Source	Findings
Mauro (1995)	The effects of corruption are significant on economic growth and investment.
Keefer and Knack (1997)	Their findings stressed the idea of the importance of institutions for economic growth.
Rodrik (1997)	Emphasizes the role of the institutions for the economic success and growth in East Asia.
Tanzi and Davoodi (1997)	The effects of corruption on public investment cannot be ignored while they are quite significant.
Wei (1997)	Corruption influences negatively the attractiveness for international investors.
Johnson, Kaufmann and Zoido-Lobaton (1998)	Their findings show that the unofficial economy is positively influenced by the existence of more corruption and when the rule of law is weaker.
Hall and Jones (1999)	Their findings highlight the link between levels of per capita income and a measure of social infrastructure.
La Porta <i>et al.</i> (1999)	They have investigated through an empirical analysis the quality of governments in a large cross-section of countries, providing an examination of the quality of government using proxies for security of property rights, regulatory quality, law taxation, a reasonable level of bureaucracy, successful output of public goods and services and political freedom.
Friedman <i>et al.</i> (2000)	They concluded that more regulation, a higher fiscal burden and a high level of corruption are strongly associated with larger unofficial economies.
May, Pyle and Sommers (2002)	They analyzed the link between the six governance indicators and the unofficial economy, showing that most aspects of governance influence the economy, but this impact affects transition and non-transition economies differently.
Kaufmann, Aart and Mastruzzi (2005)	They compare the statutory ease of establishing a business with a survey-based measure of firms' perceptions of the ease of starting a business across a large sample of countries.
Helliwell and Huang (2008)	They analyzed the relationship between World Value Survey measures of life satisfaction and the quality of governance. Their findings showed that government quality is connecting with the efficiency of democratic aspects for rich countries, while the ability of government to provide services honestly and efficiently matters more for poor countries with worse governance.
Price, Román and Rountree (2011)	Their findings show the relationship between stronger governance systems and more effective allocations of economic resources, which finally determines the stimulation of economic growth.
Çule and Fulton (2013)	The quality of governance influences the business environment positively, because an economy with a high concern for compliance with law and a good control of corruption level is expected to provide a pro-business environment and to stimulate the economic performance.

Source: Author's compilation based on literature review

4. Research design and data used

The main research question of this study refers to whether the governance indicators captured through the six 'clusters' discussed above have a positive influence on the ease of doing business, followed by the development of this empirical analysis by using the classification of economies of all countries divided on income groups. As it was mentioned in Section 3, there is an extensive literature investigating the link between governance indicators and various development outcomes, but few authors

were investigating the direct link that might be observed between governance indicators and the ease of doing business measured through a certain ranking.

The study starts from the premise that governance indicators positively influence the business environment, even if this impact is felt differently for countries with lower incomes compared to countries classified in high income categories. This link between governance indicators and the ease of doing business was documented in more detail by Kaufmann, Aart and Mastruzzi (2005). Their study compares the statutory ease of developing a business with a survey-based measure of firms' perceptions of the ease of starting a business, using a large sample of countries.

Thus, this paper intends to develop an empirical study based on regression analysis starting from the dataset of indicators of governance quality and the rankings over the ease of doing business in 181 countries. Data referring to the indicators of governance refer to the year 2011 and were available from the report developed by the World Bank within the project 'The Worldwide Governance Indicators 1996-2011'. Having as a starting point the methodology developed by Kaufmann, Kraay and Zoido-Lobaton (1999a, 1999b), the World Bank developed a long-term research project through all the six clusters of good governance (Voice and Accountability; Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption), which were measured for more than 200 economies over the period 1996-2011. The World Bank project entitled 'The Worldwide Governance Indicators' was based on information provided by more than 40 data sources produced by over 30 various organizations worldwide, being updated on an annual basis since 2002.

The second dataset used within this study were the 'Doing Business' indicators of the business environment also developed by the World Bank. The World Bank report 'Doing Business in a More Transparent World 2012' is the ninth in a series of annual reports that evaluate the regulatory framework that ensures business activity and that restricts it.

If the first 'Doing Business' report was published in 2003, covering five indicators and analyzing data from 133 economies, the last one includes eleven dimensions of business regulatory framework and data for 183 economies, the initial objective remaining the same 'to provide an objective basis for understanding and improving the regulatory environment for business'. In 'Doing Business 2012' the data covers the assessments of regulations affecting domestic firms in 183 economies, measured from June 2010 through May 2011.

The third dataset used was given by the classification of the economies of all countries with population of more than 30,000 citizens, divided into income groups such as: low income, lower middle income, upper middle income, high income non OECD, high income OECD, reported in the World Bank report 'Country and Lending Groups' issued in July 2012.

Within this report, the World Bank experts classified the economies using as main criterion the gross national income (GNI) per capita. These income classifications are set each year on July 1, starting from the premise of establishing the validity of this official classification during the World Bank's fiscal year (which ends on June 30).

Within this paper was used the World Bank’s classification, set on July 1, 2012, which remains in effect until July 1, 2013. Within this classification, economies are divided according to 2011 GNI per capita, determined using the World Bank Atlas method. All data sources and variables used within this study are disclosed in Table 3.

Table 3: Description of the variables

Variable Name	Source	Description	No. of countries
1. Voice and accountability	Worldwide Governance Indicators (WGI) project 1996-2011	It ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.	215 countries
2. Political stability and absence of violence			
3. Government effectiveness			
4. Regulatory quality			
5. Rule of law			
6. Control of corruption			
Ranking on ease of doing business	Doing Business Report 2012, World Bank	The ease of doing business index ranks economies from 1 to 183. For each country included in the sample, the ranking is calculated as the average of the percentile rankings on each of the topics covered by the index calculated in Doing Business 2012.	183 countries
Income classifications	World Bank report ‘Country and Lending Groups’ issued in July 2012	Economies are divided according to 2011 GNI per capita, using the World Bank Atlas Method, resulting the following groups: * low income, \$1,025 or less; * lower middle income, \$1,026 - \$4,035; * upper middle income, \$4,036 - \$12,475; * high income, \$12,476 or more, classified also in non-OECD and OECD members.	181 countries

5. Results and discussions

Considering all these three sets of data included in this study and their availability, the final sample in realizing the cross-country survey included 181 countries, for which all three datasets were available. In Table 4 a geographical classification of all 181 surveyed economies by income groups is reported. It can be observed the overwhelming proportion of economies classified in low and lower middle incomes categories within Asia (23 countries) and Africa (40 countries), while the biggest proportion of high income countries is concentrated in Europe (from the total of 47 countries included in high income categories, 26 countries are from Europe).

Table 4: Geographical classification by income groups

Income group	Europe	Central and North America	South America	Africa	Asia	Oceania	Total
Low income	0	1	0	26	6	0	33
Lower middle income	4	5	3	14	17	9	52
Upper middle income	10	10	8	9	11	1	49
High income non OECD	2	4	0	1	9	0	16
High income: OECD	24	2	0	0	3	2	31
Total	40	22	11	50	46	12	181

Source: Author’s own calculations

Proceeding to a graphic representation of this geographical classification of world's economies by income group disclosed in Figure 3, four areas of interest can be noticed such as: Europe, with countries classified in high income categories, members of OECD; Africa, with low income countries; Asia, with lower middle income countries; and, finally, North and Central America, South America, and Asia with upper middle income and high income non-OECD countries.

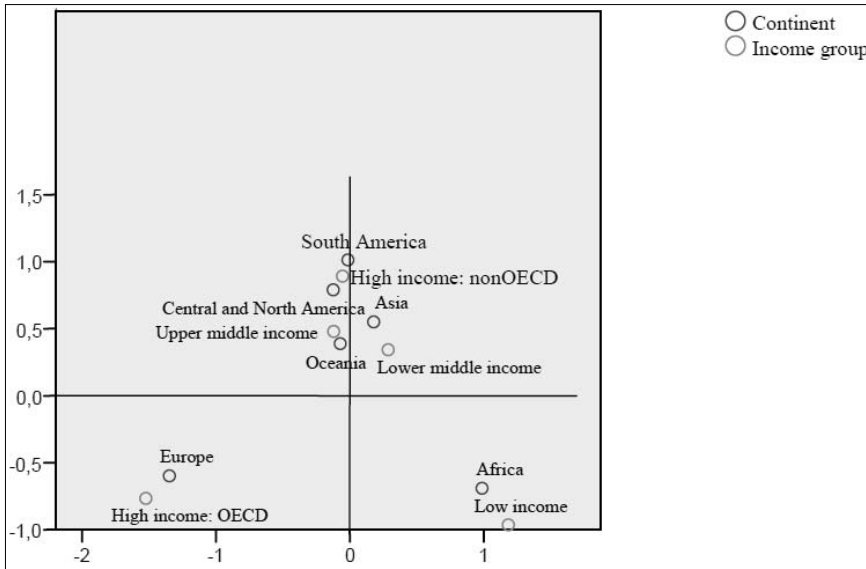


Figure 3: Areas of interest according to geographical classification by income groups

Source: Author's projection

The next step in developing this regression analysis was to empirically test the intensity of the link between governance indicators and the ease of doing business, taking into consideration their classifications on income groups. All governance indicators are measured from approximately -2.5 (weak) to 2.5 (strong) governance performance.

Thus, considering the quality of business environment captured through the ranking on the ease of doing business measured by the World Bank, it is expected for the economies classified in more 'performing' categories (high income categories) to have a better capacity to promote a pro-business environment and thus the place in the ranking of the ease of doing business to be the lowest possible, because first places in this ranking correspond to the most effective countries from the perspective of the ease of doing business. The correlations' results, reported in Table 5, confirm the existence of an inverse relationship between the governance indicators and the place held in the ranking of doing business, even if this relationship is felt somewhat differently for all these six clusters of good governance. Thus, even if 'political stability and the lack of violence' is considered as being important, from a statistical point of view it seems that it is not able to significantly influence by itself the ease of doing business.

But, the situation is different for governance indicators such as ‘government effectiveness’, ‘regulatory quality’, ‘rule of law’ and ‘control of corruption’, when especially for high incomes countries, their influence is obvious, while a strong inverse relationship between the level of governance indicators and the ranking on the ease of doing business was statistically proved.

Table 5: Pearson correlations between governance indicators and economies classified by income groups

Governance indicators	Low income n=33	Lower middle income n=52	Upper middle income n=49	High income non OECD n=16	High income OECD n=31
‘Voice and accountability’	-0.188	-0.302(*)	-0.256	-0.070	-0.517(**)
‘Political Stability’	-0.176	-0.267	-0.178	-0.081	-0.249
‘Government Effectiveness’	-0.652(**)	-0.444(**)	-0.597(**)	-0.635(**)	-0.766(**)
‘Regulatory Quality’	-0.551(**)	-0.526(**)	-0.699(**)	-0.672(**)	-0.629(**)
‘Rule Of Law’	-0.391(*)	-0.490(**)	-0.437(**)	-0.700(**)	-0.753(**)
‘Control of Corruption’	-0.355(*)	-0.382(**)	-0.365(**)	-0.612(*)	-0.728(**)

Notes: * Statistically significant at 5% level; ** statistically significant at 1% level.

Source: Own calculations based on the datasets presented above

The regression results are displayed in Table 6 and 7, where the dependent variable is the ease of doing business, measured through the ranking of doing business assessed by the World Bank, and the independent variables are represented by all the six governance indicators. Proceeding to an analysis from the perspective of income groups’ classification of all 181 sampled economies, the regression results emphasized the importance of some governance indicators as determinants for the business environment.

Table 6: Regression of the ranking on the ease of doing business on governance indicators – low, lower middle and upper middle income

Governance indicator	Low income			Lower middle income			Upper Middle Income		
	Constant	Slope	R2	Constant	Slope	R2	Constant	Slope	R2
Voice and accountability	135,806	-11,612	0.035	110,409	-15,055	0.091	81,918	-13,288	0.065
	(13,169)	(-1,066)		(19,458)	(-2,241)		(14,044)	(-1,813)	
Political stability	137,329	-8,406	0.031	111,525	-10,550	0.071	81,244	-9,792	0.032
	(14,325)*	(-0,993)		(19,783)*	(-1,956)		(13,652)*	(-1,238)	
Government effectiveness	97,443	-50,809	0.425	94,853	-37,169	0.197	81,982	-44,516	0.356
	(8,933)*	(-4,782)		(12,330)*	(-3,502)		(16,935)*	(-5,099)	
Regulatory quality	115,494	-36,256	0.304	94,320	-41,474	0.277	82,098	-43,115	0.489
	(12,260)*	(-3,678)		(14,045)*	(-4,379)		(19,035)*	(-6,705)	
Rule of law	115,686	-30,510	0.153	93,749	-38,741	0.240	79,133	-27,400	0.191
	(8,565)*	(-2,365)		(12,896)*	(-3,978)		(14,433)*	(-3,331)	
Control of corruption	120,505	-30,185	0.126	99,050	-30,148	0.146	79,126	-21,582	0.133
	(9,423)*	(-2,117)		(13,028)*	(-2,921)		(13,880)*	(-2,688)	

Note: Number in parentheses are *t*-statistics; *statistically significant at 1% level.

Source: Own calculations based on the datasets presented above

Table 7: Regression of the ranking on the ease of doing business on governance indicators – high income non OECD and high income OECD

Governance indicator	High Income Non OECD			High income OECD		
	Constant	Slope	R2	Constant	Slope	R2
Voice and accountability	59,798	-2,978	0.0005	83,995	-44,208	0.267
	(5,201)	(-0,263)		(4,874)*	(-3,250)	
Political stability	64,115	-6,101	0.006	38,723	-11,360	0.062
	(3,917)*	(-0,302)		(4,833)*	(-1,387)	
Government effectiveness	80,069	-31,373	0.403	84,929	-39,650	0.586
	(7,450)*	(-3,075)		(9,300)*	(-6,412)	
Regulatory quality	83,544	-38,568	0.452	79,239	-37,441	0.396
	(7,796)*	(-3,399)		(6,622)*	(-4,356)	
Rule of law	85,191	-44,791	0.490	85,105	-39,666	0.566
	(8,144)*	(-3,667)		(8,933)*	(-6,154)	
Control of corruption	77,245	-29,410	0.374	61,509	-23,573	0.529
	(7,296)*	(-2,895)		(9,584)*	(-5,711)	

Note: Number in parentheses are *t*-statistics; *statistically significant at 1% level.

Source: Own calculations based on the datasets presented above

Analyzing the results of the regression analysis, it can be observed that ‘voice and accountability’ explains only 26.7% of the variance of the ease of doing business for the countries included in high income OECD category, while ‘political stability and the lack of violence’ seems to explain too little the variance of the ease of doing business, regardless of the income group category.

The third governance indicator ‘government effectiveness’ has a contribution of 42.5% to the variance of the rank on ease of doing business for low income categories, while for high income OECD economies the variance is better explained (58.6%). For upper middle income economies, ‘regulatory quality’ is the determining factor on the ease of doing business in a proportion of 48.9%, while for the category of high income non-OECD its influence is felt in proportion of 45.2%.

‘Rule of law’ is a factor that explains the variance of the ease of doing business for most of the economies classified in high income categories (49% for high income non-OECD and 56.6% for high income OECD economies), while, interestingly, ‘control of corruption’ seems to be a very determinant governance factor, particularly for the economies classified in high income OECD group.

It is empirically proved by our study that from a global perspective, ‘voice and accountability’ and ‘political stability’ explain only little of the variance of ease of doing business. In spite of the fact that there are some studies that have identified a negative correlation between political instability and business investment (Perroti, 1996; Özler and Rodrik, 1992; Mauro, 1995), there are other studies (Aisen and Veiga, 2010) that empirically prove the effects of political instability on economic growth, showing that political instability is associated with adverse influences on investments. In our opinion, the low influences of political stability on the ease of doing business could be

explained especially if we look at the synthesis of the main conceptual approaches of good governance, where other dimensions such as government effectiveness, rule of law, and regulatory quality are most frequently highlighted as being relevant for the partnership between public and private sectors.

From the perspective of income categories, countries from 'low income' and 'lower middle income' categories seem to be least influenced by governance variables as they are constructed by the World Bank, this result being somewhat explained by the premise that 'developing countries generally have poor statistical records and the area of government accountability is no exception' (Gani and Duncan, 2007). The same opinion is also shared by Bardhan (2002) who remarks that instruments and mechanisms for monitoring the performance of public services are much weaker in low-income countries.

'Government effectiveness', as an indicator that expresses the ability of the state to develop and implement sound policies, effective delivery of public goods and services, is empirically proved by our study as being one of the most influential governance factors on the ease of doing business, which underlines the major role that government plays in most economies, including from the business perspective, regardless of the income category. Regulatory quality is another most influential factor at global level, regardless of the income category, this result being also explained by the major influence that the quality of the regulatory framework might have on the strength of financial institutions, and also on the extent of competition (Gani and Duncan, 2007).

'Control of corruption' is another governance dimension that influences significantly the business environment for countries from high income categories (both members and non-members of OECD). According to Gani and Duncan (2007), the abuse of the public sector for private benefit can negatively influence economic activities, including government effectiveness. On the other hand, some studies (Van Rijckeghem and Weder, 1997) provide empirical evidence about the linkage between corruption and countries with high level of poverty and income inequality. Thinking at the countries from low and lower middle income categories, also characterized by a higher level of poverty and income inequality, but also by a high level of corruption, probably the less significant influence of this indicator (control of corruption) on business environment is explained by some characteristics of countries from these categories. Corruption is perceived as something implicit and natural, or something one expects to find in these low income countries, so potential measures to counteract and the mechanisms for controlling corruption would not be perceived at their real added value that could positively influence the business environment.

6. Conclusions

There is a wide literature investigating the link between governance and different development outcomes, but too few are exploring the direct relationship that might be observed between governance indicators, and the business environment, and the ease of doing business. On the other hand, the ease of doing business represents a relevant

problem not only for the private sector, but also for the public sector, thinking at the partnership and dichotomy that should exist between those two main sectors. Therefore, the ease of doing business should represent a major issue of concern for government, and one of its major objectives should be making business regulation and the regulatory process more accessible for business environment developments.

The cross-country analysis presented in this paper stresses the idea that the most influential governance indicators on the ease of doing business are the ones related to the capacity of government to effectively develop and implement sound policies (government effectiveness and regulatory quality). Surprisingly, the governance indicators that reflect the process by which governments are selected and replaced (voice and accountability and political stability) seem to be less important for the business environment, regardless of the income group classification.

Strong differences emerge between countries included in low and lower middle income categories and countries classified in high income categories when the ranking on the ease of doing business is regressed on each of the six governance clusters, one at a time. The cross-country results presented in this paper emphasized that the most determinant governance factors on the ease of doing business are 'government effectiveness', 'regulatory quality', 'rule of law' and 'control of corruption', especially for the economies of countries classified in high income categories.

An additional research is required to further explore the influence of governance quality, measured through the six indicators, on the business environment materialized in the ranking on the ease of doing business. The final conclusion of this article is that governance indicators are influencing factors for the ease of doing business, even if the impact is felt somewhat differently by high income economies compared to low, lower and upper middle income economies.

The outline of a potential solution for improving the ease of doing business is beyond the scope of this paper, but the author would like to advance some thoughts on a potential way forward, especially if we consider the impact of governance dimensions on the business environment. In the light of the positive link existing between some of the governance indicators and the ease of doing business, it is absolutely urgent for political leaders of government/public sector to understand the necessity to build some mechanisms that are meant to improve the governance dimensions that significantly affect the business environment. Thus, the rules in developing policy-making should be focused on improving the capacity of the permanent machinery of government to govern as effective as possible, while offering real solutions for societal problems and creating opportunities for society to develop, for the country's general interest.

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