
The role of trust in government and institutional environment in future business climate

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Abstract: Though numerous studies have focused on the relationship between institutional environment shape entrepreneurship, yet it is not clear enough the effects of institutional constraints and institutional trust on future business climate. This study aims to investigate these relationships in the context of a transition country. The research combines two perspectives: institution theory and institutional trust. The data are collected using a face-to-face survey. Three ordinal regressions were performed in a dataset of 393 small and medium-sized enterprises from Albania. The results contribute into understanding the nature of entrepreneurship in a transition setting. After controlling for firm characteristics, analyses revealed that future business climate is negatively

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influenced by legal environment-related constraints, and positively by trust in government. Thus, favourable business climate can be achieved by applying not heavily business legislation and regulation framework, and by building trust in institution. This paper offers insights for scholars studying entrepreneurship and institutional environments.

Keywords: entrepreneurship; institutional constraints; institutional trust; future business climate; ordinal regression; Albania.

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1 Introduction

Doing business in a favourable business environment is important for entrepreneurship, as it gives signals to individuals to get involved in start-up activity, and entrepreneurs to enhance their activity. Both later activities lead to unemployment reduction and economic growth, which are crucial for an economy. Therefore, it is needed to study factors which influence business climate in order to design policies or to adjust the actual ones with the aim to foster entrepreneurship. The current paper contributes in this regard in the context of a developing country.

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Business activity is influenced by the institutional framework where the activity takes place (Bazo, Cukanova, Markovicova, & Steinhauser, 2019; Douhan & Henrekson, 2010; Urbano, Audretsch, Aparicio, & Noguera, 2019). This leads to the linkage between institutional environment and entrepreneurship which is demonstrated by scholars (Chowdhury, Audretsch, & Belitski, 2019; Manolova, Eunni, & Gyoshev, 2007; Stenholm, Acs, & Wuebker, 2013). Based on this relationship and influenced by prior research (Dethier, Hirn, & Straub, 2011; Dvorský, Petráková, Ajaz Khan, Formánek, & Mikoláš, 2020; Ghura, Li, & Harraf, 2017), the effect of institutional environment on future business climate is assumed. The term “future business climate” is used to refer to the future perceived hospitality offered by a country or locality to the needs and desires of firms operating there, or considering a move to, that jurisdiction. Moreover, being optimist or pessimist for the future business activity can be a function of institutional trust. Trust in governmental agencies is an important factor for entrepreneurship (Welter, 2012). Nevertheless, ways how institutional environments (institutional framework and institutional trust) impact future business climate have not received enough attention (Dorado & Ventresca, 2013). To fill the identified gap, the present study investigates the effects of institutional constraints and institutional trust on future business climate in the context of a post-communist transition country, Albania.

Entrepreneurship is known as vital for the economy, as it contributes directly to employment rate and economic development (Abdesselam, Bonnet, Renou-Maissant, & Aubry, 2018; Acs, Estrin, Mickiewicz, & Szerb, 2018; Bosma, Content, Sanders, & Stam, 2018; Khan, Çera, & Netek, 2019). Indeed, small and medium-sized enterprises (SMEs) are important for European Union economies. They generated 56.8% of the value-added and employed 66.4% of the working force in the European Union (European Commission, 2018). Compared to the EU average, value-added originated from SMEs in Albania is about ten percent higher (68.3%). On the other hand, in terms of SMEs contribution to employment, it is reported about 15 per cent higher in Albania (80.3%) than the EU average. In Albania, SME employment rose by 44.5% and SME value added by 37.7%. In addition, in the period 2016-2017, SME value added grew by 11.9%, almost three times higher than the average EU SME rise of 3.8%.

These figures indicate the importance of SMEs to the economy. Therefore, from the perspective of academicians, and policymakers, it is a permanent interest to better understand factors which can foster entrepreneurship. In addition, improving the business climate may also lead to attracting foreign direct investments and to developing a better functioning market economy, particularly in the Western Balkans (Kittova & Steinhauser, 2018; Osmani, 2016). In this context, it is needed to investigate the effects of institutional constraints and institutional trust on business climate in order to adjust policies aiming at fostering entrepreneurship. From the policymakers' viewpoint, it is vital to investigate which institutions matter the most for business activity and, further, their influence on business climate (Fereidouni & Masron, 2012). Therefore, the aim of the current research is to investigate the effects of institutional environments (legal aspects and stimulation policies) and trust in government collectively on business perception for the future activity operating in Albania.

Next part of the current study is dedicated to the literature review and developing of the hypotheses. Further part deals with applied methods and procedures. Then, the analyzed results are presented along with their discussion. The concluding remarks are the end of the paper.

2 Literature review

The existing literature which deals with the institutional theory (Baumol, 1990; North, 1990; Williamson, 2000), offers the linkages between institutional constraints and entrepreneurs' behaviour, including perception in future business climate. An institution can influence entrepreneurship, as it enables or impedes business activity (North, 1990).

The literature on institutions (Baumol, 1990; North, 1990; Sobel, 2008) and entrepreneurship (Stenholm et al., 2013) assert that social norms, regulatory and legislation frameworks create the suitable conditions for individual to make decisions, which is essential in entrepreneurial cognition (Dai & Si, 2018; Pinho, 2017; Raza, Muffatto, & Saeed, 2019; Sobel, 2008). Scholars assert that institutional environment (e.g. regulatory and legislation frameworks) possess the capacity to determine the state of an activity (productive, unproductive, and destructive) (Douhan & Henrekson, 2010; Sobel, 2008). This creates the logical linkages between institutional environment and entrepreneurship, as the changes in institutions affect entrepreneurs' behaviour, including their perception for the business climate in the future.

An extension of the institutional theory is institutional voids, which influences on the productivity of business activities within society (Webb, Khoury, & Hitt, 2020). Institutional voids is known as "the absence or underdevelopment of specialised intermediaries such as database vendors, and quality certification firms, regulatory corporations, and control-enforcing mechanisms" (T. Khanna & Palepu, 2010). The institutional voids is introduced back in 1997 by Khanna and Palepu (1997). The opportunities for enterprises enhancing their activity from developed market to the developing one are not hard to be noted. Scholars have argued that the success of enterprises' competitive strategies in emerging countries may face with low level of developed institutions (T. Khanna & Palepu, 2010). The level of institutions in these countries is underdeveloped, which is linked with the fact that institutional rules are poorly enforced, ambiguous, or absent (Giachetti, 2016; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; North, 1990; Webb et al., 2020). These kind of institutional voids lead to an increase of search, transaction, and production costs. Such extra costs are needed in order that firms protect their assets. Researchers measured institutional voids by focusing at the efficient intermediary institutions (Chakrabarty, 2009), institutional reforms (Manikandan & Ramachandran, 2015), a set of obstacles (Castellacci, 2015), or at composing a factor with several indicators (Adomako, Amankwah-Amoah, & Chu, 2020; Adomako, Amankwah-Amoah, Dankwah, Danso, & Donbesuur, 2019; Giachetti, 2016).

Although the linkage between institutional environment and entrepreneurship is two-directional (Bylund & McCaffrey, 2017; Elert & Henrekson, 2017), in the present study it is consider the effect of institutional environment on entrepreneurship. Researchers established that business growth and quality can be increased, in cases when environment where they operate reflect higher (Autio & Fu, 2015; Belas, Dvorský, Strnad, Valaskova, & Čera, 2019; Dilli, Elert, & Herrmann, 2018; Lim, Morse, Mitchell, & Seawright, 2010; Lim, Oh, & De Clercq, 2016; Peck, Jackson, & Mulvey, 2018; Thai & Turkina, 2014). Studies covering European countries found that the economic performance is negatively influenced by the "excessive" legislation (Belas, Belas, Cepel, & Rozsa, 2019; Economidou, Grilli, Henrekson, & Sanders, 2018; Marinescu, 2013). Thus, policy formation including business legislation and regulation frameworks is concern for

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policymakers. In this context, the economy progresses by the improvements in the institutional environment (Aristovnik & Obadic, 2015).

A study demonstrates that government policies (support and priorities, bureaucracy and taxes, government programmes) are important for entrepreneurship (Martínez-Fierro, Biedma-Ferrer, & Ruiz-Navarro, 2016). In this context, regulation framework is perceived as major impediment to involved in the business activity (Lutz, Kemp, & Dijkstra, 2010). However, the role of regulations on entrepreneurship are somehow unclear (Mallett, Wapshott, & Vorley, 2018). Levie and Autio (2011) claim that the stronger the regulatory framework, less chances for the relative prevalence of non- and strategic start-up, which is consistent with Bosma *et al.* (2018). However, Sambharya and Musteen (2014) found that between entrepreneurship and regulatory framework there is negatively association. Taking into consideration all the above discussion can be said that unfriendly business policies can discourage individuals to take action towards start-up (Çera & Çera, 2020; Chowdhury *et al.*, 2019). Thus,

Hypothesis 1: Future business climate is positively affected by the legal environment where activity take place.

Stimulation policies applied by the governments focusing at entrepreneurship are instruments that can be used to foster entrepreneurial activity (Brixiova & Égert, 2017; Fereidouni & Masron, 2012). The government policies can design stimulation policies to do business easily (Cepel, Stasiukynas, Kotaskova, & Dvorsky, 2018; Cumming, Grilli, & Murtinu, 2017; Xheneti & Smallbone, 2008). Evidence shows that governmental programs for entrepreneurship positively affects entrepreneurship quality (Chowdhury *et al.*, 2019). Moreover, Blume (2006) argues that there is an association between government policies and business climate. Nonetheless, Kolko, Neumark and Mejia (2013) assets that business profile cannot be changed in the short-run, so it needs longer time to do that. This can be achieved by government investments in education and/or infrastructure. Based on the above evidence, a hypothesis can be:

Hypothesis 2: Future business climate is positively influenced by the policy stimulation.

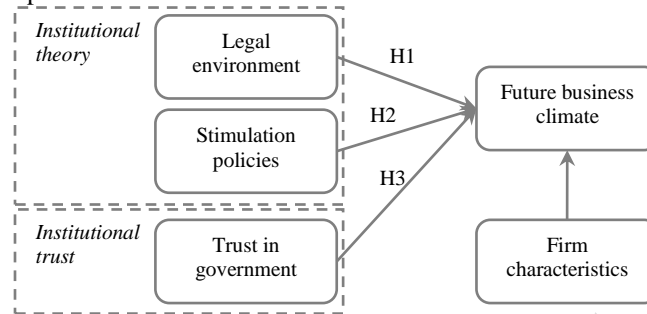
There are scholars who suggest that studies of institutional trust should be considered as an issue for further research, including the relationship between trust in governmental agencies and entrepreneurship (Ardielli, 2020; Bachmann, 2011; Welter, 2012). Trust in institutions is something that individuals and organizations need to have in order to operate efficiently (Habibov, Afandi, & Cheung, 2017).

Entrepreneurial cognition is influenced by institutional environment including legislation, and institutional trust. According to Lim *et al.* (2010), among the institutional factors, institutional trust was significant factor for venture arrangements and willingness. Moreover, another study found a positive impact of trust in government on the decision to become self-employed (Price, 2012). Consequently, perception for the business climate is associated with the trust in governmental agencies. Trusting in institutions can increase the perception that in the future it will be a favourable business climate, so they are more optimistic.

Hypothesis 3: Future business climate is positively affected by the institutional trust.

Figure 1 illustrates the framed hypotheses into a conceptual framework.

Figure 1 Conceptual model



3 Methods and procedures

3.1 Aim and data

As mentioned in the introduction section, the aim of this paper is to investigate the effect of legal environment, stimulation policies and institutional trust on future business climate in the context of a transition economy. Therefore, the unit of analysis for this research are firms operating in Albania. A questionnaire was design, delivered and filled face-to-face by the owner, co-owner, financial manager, director, deputy director or manager. As with prior research (Çera, Belás, & Strnad, 2019; Jolley, Lancaster, & Gao, 2015), the above individuals were considered to be the suitable representative of the firm’s viewpoints. The questionnaire was based on similar surveys conducted by the International Labour Organization.

The data collection phase was covered by IDRA Research and Consulting, a market research company based in Albania. To select the respondents (firms), the General Directorate of Taxation business database was used, and the quotas in terms of county (12 counties), business size (number of employees) and business sector (manufacturing, service and trade) were followed. Data collection and quality control were completed by January 2017. After removing the missing data, 393 records (firms) were suitable to be used in the analysis. Table 1 illustrates the final sample profile of the dataset.

Table 1 Final sample profile

Category	Sub-category	Frequency	Percent
Sector	Manufacturing	79	20.1
	Services	154	39.2
	Trade	160	40.7
Region	South	92	22.8
	North	32	7.9
	Central	46	11.4
	Capital city (Tirana)	234	57.9
Firm age	Less than 5 year	127	32.3
	More than 5 years	266	67.7
Future business climate	Unfavorable	187	47.6
	Normal	139	35.4
	Favorable	67	17.0

3.2 Variables

The dependent variable in this paper is “future business climate” is measured by a single-item, which is: ‘While taking in consideration the coming second half of the year, how would you evaluate the situation of your firm?’ It has three possible answers: 1 = unfavourable, 2 = normal, and 3 = favourable, making it an ordinal variable, which limits the applied method.

The independent variables are: legal environment, stimulation policies and trust in government. The mean of six statements were used to compose legal environment (see Table 2). Stimulation policies and trust in government were measured by one single item each. Regarding the first two independent variables, entrepreneurs were asked to hold a position per each item: “Please, evaluate to what extent each of the listed statements poses a problem for your business.” Subjects had to choose between: [1] = Is not a problem, [2] = Minor problem, [3] = Moderate problem, [4] = Major problem, and [5] = Severe problem. The means of stimulation policies and trust in government were reported 3.03, and 2.48, respectively.

Table 2 Descriptive statistics and reliability test

Item	Mean	SD	CA	CA if item deleted
Legal environment	2.02	0.845	0.761	-
<i>Business licensing and permits</i>	1.65	1.118		0.761
<i>Customs and trade regulations</i>	2.43	1.407		0.715
<i>Labour regulations</i>	1.62	0.984		0.731
<i>Environmental control authorities</i>	1.92	1.162		0.724
<i>Legislation & procedures for closing up a business</i>	2.34	1.462		0.728
<i>Public procurement process</i>	2.20	1.448		0.690
Investment stimulation policies	3.03	1.485	-	-
Trust in government	2.48	1.165	-	-

Note: SD, Standard deviation; CA, Cronbach’s alpha.

According to DeVellis’s (2017) criteria, legal environment scale was respectable, since the Cronbach’s alpha value is between 0.70 and 0.80. Furthermore, the deletion of any item from this scale did not give a better internal consistence (see Table 2). Therefore, the usage of the composite variable of legal environment in further analysis and its obtained results does not mislead. The question which measured institutional trust was “To what extent would you say you trust the government? Please answer on a scale from 1 = ‘Do not trust at all’ to 5 = ‘Completely trust’”. This scale was used in prior paper (Çera, Meço, Çera, & Maloku, 2019).

3.3 Method

To investigate the influence of legal environment, stimulation policies, and trust in government on future business climate, ordinal regression was employed. There are five types of ordinal regression (Harrell, 2015, p. 362). Since the lower category is more probable (see Table 1, last three rows), then the negative log-log link function was used in the current research. It predicts the probability of a certain category of the dependent variable (ξ) occurring based on the independent variables (X_i), and can be written:

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Function form

$$P(\xi) = e^{-e^{-(\gamma_0 + \gamma_{1i} X_{1i})}}$$

Inverse form

$$-\ln(-\ln \xi) = \gamma_0 + \gamma_{1i} X_{1i}$$

All the data analysis are executed in SPSS version 23.

4 Results

4.1 Descriptive statistics

The mean, standard deviation of used constrains (*Legal environment, Investment stimulation policies*) by future business climate categories are shown in Table 3. The mean of legal environment had a negative trend across the future business climate categories (from 2.16 for unfavourable category to 1.68 for favourable category), whereas investment stimulation policies had a moderate negative trend. As a result, based on these trends across the business climate categories, it was expected that ordinal regression would reveal a negative association between business climate and both covariates.

Table 3 Mean and standard deviation of the variables among business climate categories

Business climate category	Legal environment		Investment stimulation policies	
	Mean	St. deviation	Mean	St. deviation
Unfavourable	2.16	0.85	3.28	1.49
Normal	1.99	0.84	2.93	1.44
Favorable	1.68	0.77	2.64	1.48

4.2 Empirical results

An ordinal regression was executed to assess the prediction the outcome level (future business climate). The dependent variable had three ordered categories (1 = 'unfavourable', 2 = 'normal', 3 = 'favourable') and the predictor variables were trust in government, legal environment, investment stimulation policies, control variables such as industry, firm age and firm size. To investigate whether our covariates were moderated or not by control variables, three regressions were run. After checking for missing values, data of 393 firms were suitable for analysis. The negative log-log link function of ordinal regression was executed as the distribution of future business climate reflect a negative trend (see Table 2).

Table 4 summarizes the results for three models. The first model, besides control variables (sector, firm age, firm size), trust in government, legal environment and stimulation policies, three interactions were included (sector, firm age, firm size and trust). The data showed that as the trust in government increased, the future business climate increased ($W = 5.43, p < .05$). So, there is a positive association between trust in government and business climate. Regarding the effect of legal environment-related constraints on business climate, it was revealed a negative relationship ($W = 12.15, p < .01$). Hence, as the legal environment gets harder, entrepreneurs perceived business climate less favourable.

The effect of stimulation policies on business climate was insignificant ($W = 0.01, p > .10$). In addition, control variables significantly predicted future business climate. Hence, results showed that firms operating in services perceived lower future business climate, as compared to their counterparts in trade sector ($W = 3.79, p < .10$). Compared to firms

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with more than five years in operating, all younger firms reflected higher business climate (see Model 1 in Table 4). Opposite results were noticed in case of firm size. Thus, excluding firms with 20 – 49 employees, in comparison to big firms (> 50 employees), smaller ones manifested lower future business climate (see Model 1 in Table 4). The interactive effect of firm age (> 5 years) with trust in government on business climate was negative and significant ($W = 3.52, p < .10$). Hence, older firms with high trust in government reflected lower perception on future business climate. Referring to the interaction between firm age and firm size, it was found that older firms with less than 5 employees showed higher perception on future business climate ($W = 38.75, p < .01$). Similar results were found even in case of older firms with 5 – 9 employees ($W = 26.42, p < .01$). The interaction effect of sector where firms operate with trust in government was insignificant (see Model 1 in Table 4).

Table 4 Parameter estimation

	Model 1		Model 2		Model 3	
	Coef.	Wald	Coef.	Wald	Coef.	Wald
future business climate = 1	-1.47	10.17 ***	-1.23	6.62 **	-1.90	6.25 **
future business climate = 2	0.09	0.04	0.31	0.42	-0.34	0.20
manufacturing	0.23	0.21	-0.97	2.46	-0.39	3.38 *
services	-0.83	3.79 *	-0.16	0.12	-0.26	2.43
firm age < 1 year	4.24	20.46 ***	4.01	18.23 ***	3.60	13.78 ***
firm age < 2 year	4.29	21.48 ***	4.11	19.37 ***	3.66	14.64 ***
firm age < 3 year	4.52	22.78 ***	4.26	20.43 ***	3.89	15.60 ***
firm age < 4 year	3.67	12.44 ***	3.50	11.24 ***	3.22	9.20 ***
firm age < 5 year	4.35	18.42 ***	4.18	16.89 ***	3.72	12.81 ***
firm size < 5 employees	-11.69	50.05 ***	-11.39	47.01 ***	-11.42	38.13 ***
firm size 5 – 9 employees	-10.17	31.70 ***	-9.77	29.29 ***	-10.85	29.33 ***
firm size 10 – 19 employees	-11.19	1085 ***	-10.81	1030 ***	-9.85	67.61 ***
firm size 20 – 49 employees	-0.38	1.62	-0.24	0.65	-0.98	1.01
trust	0.63	5.43 **	0.79	9.53 ***	0.86	11.05 ***
legal_prob	-0.38	12.15 ***	-0.47	7.55 ***	-0.64	5.35 **
stim_pol	0.01	0.01	0.07	0.34	-0.01	0.01
firm size < 5 employees * firm age>5 years	5.17	38.75 ***	5.08	37.06 ***	4.81	31.28 ***
firm size 5–9 employees * firm age>5 years	4.68	26.42 ***	4.55	24.95 ***	4.45	22.54 ***
firm size 10–19 employees * firm age>5 years	☒	ns	☒	ns	☒	ns
firm age > 5 years * trust	-0.27	3.52 *	-0.33	5.16 **	-0.37	6.66 **
sector * trust	☒	ns				
sector * legal_prob			☒	ns		
sector * stim_pol			☒	ns		
firm size * legal_prob					☒	ns
firm size * stim_pol					☒	ns

Note: * < 0.10, ** < 0.05, *** <0.01; sectors are compared to firms operating in trade sector; firm age categories are compared to firm age > 5 years; firm size categories are compared to firm size > 50 employees; trust means trust in government, legal_prob refers to legal environment–related constraints; stim_pol refers to investment stimulation policies–constrain; ☒ means that the respective interactive was taking into account; ‘ns’ means statistically not significant (> 0.10).

Although the two other models included other interactions, the results regarding the core variables were almost similar with those in Model 1. The only substantial difference

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between Model 2 and 1 was the effect of sector on future business climate. As it can be seen in Table 4, in Model 2, sector was insignificant predictor of business climate, as neither manufacturing nor services were different from firms which operate in trade sector. Model 3 revealed a negative effect of the firms operating in manufacture on business climate, as compared to those in trade sector ($W = 6.25, p < .10$).

Table 5 informs about the models' fitness. One of the key assumption of running an ordinal regression deals with the parallel lines, which means that coefficients' slope in the model should be same across the levels of the outcome variables. This assumption can be checked by a statistical test, namely test of parallel lines. The latter assumption was not violated as this test was insignificant for the three models: Model 1, $\chi^2(20, n = 393) = 28.45, p = .099$; Model 2, $\chi^2(22, n = 393) = 30.69, p = .103$; and Model 3, $\chi^2(26, n = 393) = 32.60, p = .174$. The other statistics indicate that the overall models were significant. In addition, both Pearson and Deviance creations showed that there were discrimination among the output variable levels demonstrating a good model fit (see Table 5). In the last three columns of Table 5 are reported three pseudo R-squares. As it can be seen, they did not reflect a substantial difference between across the three models.

5 Discussion

The present paper has useful findings regarding the effects of legal environment, stimulation policies and institutional trust on business climate. The discussion is organized in the following paragraphs with respect to the proposed hypotheses. Firstly, the study confirms that legal environment-related constraints do matters for future business climate. Thus, sufficient evidences have been found supporting H1, which states that future business climate gets worse when constraints related to legal environment become harder. This finding is consistent with prior studies (Bartelsman, Haltiwanger, & Scarpetta, 2010; Brixiová & Égert, 2012; Chowdhury et al., 2019). Therefore, institutional constraints dealing with regulation and legal environment create not a good environment for the business activity leading to unfavourable business climate (Çera, Breckova, Çera, & Rozsa, 2019; Motoyama & Hui, 2015). Evidence showed that the interactives of the above institutional constraints with firm characteristics (sector and firm size) was not significant for predicting business climate. This means that firm characteristics do not moderate the linkage between institutional constraints and business climate. Perceiving an unfavourable business climate reduces start-up rate as it discourages individuals to engage in start-up activity, or can even cause business failure (Çera, Belas, & Zapletalikova, 2019; Khan, Dankiewicz, Kliuchnikava, & Oláh, 2020). There is a study focusing at the interactive effects of institutional reforms and business groups (Manikandan & Ramachandran, 2015). According to this research, the relationship between institutional reforms and growth opportunity is stronger for standalone businesses than group affiliated ones. However, the current research did not investigate such relationships. It would be interesting to investigate these relationships in the context of post-communist transition countries. Considering the consequences, academics and public-policy advocators should put attention to determinants of future business climate.

Secondly, evidence did not support the linkage between stimulation policies and future business climate, rejecting H2. Even the interactive effects of stimulation policies and firm characteristics (sector and firm size) on business climate was insignificant. This

is not a common result in the research community focusing on entrepreneurship. Generally, it is believed a significant association between stimulation policies for entrepreneurship and business climate or business growth (Chowdhury et al., 2019; Hashi & Krasniqi, 2011; Xheneti & Bartlett, 2012). Hence, prior research has identified government as one of the main actors in establishing the necessary institutional arrangements for fostering entrepreneurship in post-communist transition countries (Xheneti & Smallbone, 2008). In the last decades, the support offered by public sector to the SMEs has been one of the important elements of economic policies in advanced economies (Čadil, Mirošník, & Reháč, 2017). Such interest is obviously as SMEs are the engine of economic development, contributing to employment and value added in an economy. Governmental support for SMEs is broad, from direct intervention by offering financial aids to credit guarantees or consulting services. Moreover, the applied schemes and business environments are not same across countries. For this reason, the impact assessment of governmental support of SMEs and its comparison among countries is a challenging task. However, similar results with the present paper are found even by prior research (Čadil et al., 2017; Čera, Breckova, et al., 2019). Thus, it seems that entrepreneurs' perception on business climate is not depended on governmental policies aiming business stimulation in general. From the entrepreneurs' point of view, procedures, regulations and legal aspects are more crucial for their daily business activity, as firms face these aspects especially in the first stages of the activity. Hence, it looks like that firms operating in a post-communist transition country would prefer more direct-kind of governmental supports rather than general policies. This insight is supported by Chakrabarty's (2009) research, where it was found that intuitional voids related to financial aspects are found to be significant for family ownership, while institutional voids in agency contracting is not significant. This result is not a surprise for such countries where institutional voids is present (Adomako et al., 2020; Gao, Zuzul, Jones, & Khanna, 2017; T. Khanna & Palepu, 2010).

Lastly, evidence confirms the positive association between institutional trust and business climate, supporting H3. Hence, the higher trust in government, the more likely entrepreneurs' perceive a favourable future business climate. This result is consistent with previous studies focusing on the relationship between institutional trust and business growth (Bauke, Semrau, & Han, 2016) or institutional trust and political support (Nunkoo & Smith, 2013). In the light of institutional voids, trust is an informal institution which shape behaviour (Webb et al., 2020). In addition, the influences of interactives of trust in government with sector and firm age is significant in predicting business climate. Hence, it can be said that the effect of trust in government on business climate somehow is governed by firm characteristics such as sector where firm operate and firm age. Further research is recommended to focus in this issue to have a better view over the determinants of this interactive effects.

6 Implications

The present study offers important theoretical and practical implications. Firstly, in the light of the institutional theory (North, 1990), the current paper provides additional insights into explaining business climate though institutional constraints. The study demonstrated that entrepreneurs' perception on future business climate can be

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unfavourable when the business constraints related to legal environment become worse (Business licensing and permits, Customs and trade regulations, Labor regulations, Environmental control authorities, Legislation & procedures for closing up a business, Public procurement process). Traditionally, institution theory is used by scholars in explaining business growth (Krasniqi & Desai, 2016; Xheneti & Bartlett, 2012). In this context, our findings complement the existing knowledge and it adds to it the fact that the later theory has the capacity to explain entrepreneurs' perception in future business climate. Additionally, since the interactive effects of legal environment with firm characteristics were not significant, it can be conclude that business constraints related to business legislation and regulation do not differ across the business categories, so they perceive all the same. Thus, firm characteristics do not govern the relationship between legal environment and business climate.

Secondly, this paper show the imperative role of institutional trust (Hudson, 2006) in explaining business climate. Hence, it was found that future business climate have higher chances to be more favourable for firms that reflect higher trust in government. Moreover, it was shown that firm age does matter in the relationship between institutional trust and business climate. Based on the ordinal regression output, as compared to older firms, younger ones manifest stronger effect of trust in government on business climate. Therefore, it can be said that firm age govern the above linkage.

The research findings are useful for adjusting policies focusing at fostering entrepreneurship and improving the business climate. Public-policy advocators should consider institutional constraints and institutional trust when adjusting existing or designing new policies that affect entrepreneurship. Favorable business climate can encourage firms to expand their activity, individual to get engaged in start-up activity, and avoid business failure. That is way is important to focus on business climate. It is linked with unemployment and economic development, as well.

Even though the current study has reached its aims, yet there are limitations. The research findings are limited to one country. Although that country may have similar conditions in several contexts such as regional, economic, institutional and political environments, yet there are limitation in generalization of the findings. Second, self-evaluation was used to measure entrepreneurs' perception of institutional environment including business legislation, regulation and trust in government, which may lead to potential bias. However, the same way was used even in the international reports such as the Business Environment and Enterprise Performance Survey introduced by the World Bank and the European Bank for Reconstruction and Development.

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