

## REGULATION, TAXATION AND ENTREPRENEURSHIP: AN ASSESSMENT OF CORPORATE PROFITABILITY IN EMERGING ECONOMIES

Lugarda María Recalde Aguilar<sup>1</sup>, Víctor Fernández Massó<sup>2</sup>  
Charli Manuel Bustamante Montaña<sup>3</sup>

<sup>1</sup>Universidad Técnica Estatal de Quevedo (UTEQ), Quevedo, Ecuador  
ORCID: [0000-0001-6933-0815](https://orcid.org/0000-0001-6933-0815)

<sup>2</sup>Universidad Técnica Estatal de Quevedo (UTEQ), Quevedo, Ecuador  
ORCID: 0009-0006-6952-1519

<sup>3</sup>Especialista Tributario, Provincia de Guayas, Ecuador  
ORCID: 0009-0004-7538-8924

lrecalde@uteq.edu.ec<sup>1</sup>  
vfmass@gmail.com<sup>2</sup>  
cha\_bustamante@hotmail.com<sup>3</sup>

### Summary

This study analyzes the interaction between regulations, taxation, and entrepreneurship, evaluating their effects on business profitability in emerging economies. A documentary review and comparative analysis of international reports and recent academic literature (2020–2025) was applied. The results show that regulatory complexity, effective tax burdens, and compliance costs have a significant impact on the profitability and survival of micro, small, and medium-sized enterprises (MSMEs). It is concluded that clear regulation, tax simplification and the digitalization of tax processes favor business formalization and competitiveness.

**Keywords:** regulations, taxation, entrepreneurship, business profitability, emerging economies.

### Introduction

The study of the relationship between **regulations, taxation and entrepreneurship** has gained relevance in recent years due to the role played by micro, small and medium-sized enterprises (MSMEs) in the growth of emerging economies. These business units represent the largest proportion of the productive fabric in developing countries and generate a significant impact on job creation and the dynamization of domestic markets (OECD, 2024). However, their growth potential is often limited by **complex regulatory frameworks** and tax regimes that are poorly adapted to their characteristics.

According to the World Bank's *Business Ready Report* (World Bank, 2024), the efficiency of regulatory environments is a determining factor for business profitability. Long procedures, duplication of requirements and little digitization of procedures generate higher transaction costs, reducing the return on assets (ROA) and the competitiveness of companies. On the other hand, excessively rigid and fragmented tax regulations have been identified as an obstacle to the formalization and consolidation of enterprises (Agyei, Yusheng, & Asiamah, 2022).

Recent empirical evidence suggests that **tax compliance costs** disproportionately affect MSMEs, which must allocate a greater proportion of their financial and human resources to tax compliance compared to large corporations (World Bank, 2025). This situation generates a "growth trap" in which medium-sized companies, not having simplified regimes or the tax

benefits of large companies, face higher effective tax rates, which reduces their relative profitability.

At the macroeconomic level, the weakness in foreign direct investment flows to developing countries, reported by UNCTAD (2023), reinforces the need to strengthen internal structures to promote competitiveness and business formalization. In this regard, multilateral organizations recommend implementing reforms that reduce the tax burden and transaction costs, prioritizing the digitization and simplification of processes (OECD, 2024; World Bank, 2024).

Consequently, analyzing the interaction between **regulations, taxation, and corporate profitability** in emerging economies is not only relevant from an academic perspective, but also from the formulation of public policies. This paper aims to provide a comprehensive view of the effects that regulation and taxation have on the financial performance of enterprises, with emphasis on the need to create more inclusive, predictable and sustainable business environments.

### **Theoretical Framework**

The analysis of the relationship between regulations, taxation and entrepreneurship in emerging economies is based on approaches to institutional economics, fiscal theory and studies on entrepreneurship and profitability. The main conceptual axes are detailed below.

#### **1. Regulations and their impact on business activity**

Normativity constitutes the framework of rules, procedures and regulations that guide the interaction between companies and the State. In emerging economies, regulatory quality determines transaction costs, legal certainty, and the possibilities for business growth (World Bank, 2024). Regulatory complexity generates barriers to entry for new ventures, encouraging informality and reducing productivity (OECD, 2024).

Likewise, the digitization of regulatory processes has shown a positive impact on business efficiency. Countries that have incorporated **electronic single windows** and **digital business registration platforms** have managed to reduce business start-up times and costs, favoring the profitability of MSMEs (GEM, 2024).

#### **2. Taxation and business profitability**

The design of tax systems has a direct impact on business profitability. According to Agyei, Yusheng, and Asiamah (2022), tax compliance costs are proportional to the size of the company, being more onerous for MSMEs, which lack specialized departments in accounting and tax management.

Recent studies by the World Bank (World Bank, 2025) indicate that **effective tax rates (ETRs)** show a non-linear behavior in emerging economies:

- Microenterprises, subject to simplified regimes, face lower tax burdens.
- Medium-sized companies bear the highest rates, as they do not enjoy significant tax benefits or have the tax planning capacity of large companies.
- Large corporations, with access to incentives and complex tax structures, end up paying proportionately less tax than medium-sized corporations.

This "growth trap" discourages the process of business scaling and affects profitability (OECD, 2024).

#### **3. Entrepreneurship and formalization in emerging economies**

Entrepreneurship is considered an engine of economic development, but its sustainability depends to a large extent on the interaction with the regulatory and tax environment. The

*Global Entrepreneurship Monitor* (GEM, 2024) points out that levels of business formalization in emerging countries are significantly lower when regulatory and fiscal costs are perceived as high.

The lack of a predictable tax environment also affects innovation and investment in higher value-added activities. This translates into low-productivity entrepreneurship and a cycle of informality that limits the capacity for business growth (UNCTAD, 2023).

**Table 1. Relationship between regulations, taxation and corporate profitability in emerging economies**

<i>Factor</i>	<i>Positive effects on profitability</i>	<i>Negative effects on profitability</i>	<i>Fountain</i>
<i>Clear and digitized regulations</i>	Reduction of administrative time and costs. Improved productivity.	Excessive regulatory complexity that creates barriers to entry.	World Bank (2024), GEM (2024)
<i>Balanced taxation</i>	It encourages formalization and investment in productive capital.	High effective rates in medium-sized companies that limit their scaling.	World Bank (2025), OECD (2024)
<i>Compliance costs</i>	Reduction through electronic platforms and simplification.	Administrative overhead for MSMEs, reducing margins.	Agyei et al. (2022)
<i>Macroeconomic environment</i>	Institutional stability and access to incentives promote profitability.	Fall in foreign investment flows reduces opportunities.	UNCTAD (2023)

#### 4. Theoretical synthesis

In conclusion, the theoretical framework shows that the interaction between **regulatory quality, tax design, and compliance costs** constitutes a critical determinant of profitability in emerging economies. The challenge for governments is to balance tax collection with the creation of a favourable business environment that incentivises innovation and formalisation.

#### Methodology

The present study adopted a **qualitative-quantitative research design of a descriptive and comparative nature**, based on a systematic review of literature and secondary analysis of data from international reports. This mixed approach allows us to understand both the structural dimension of regulation and taxation, as well as the concrete effects on corporate profitability in emerging economies.

##### 1. Systematic documentary review

The adapted PRISMA method (Page et al., 2021) was applied for the selection of scientific literature and technical documents. Databases such as **Scopus, Web of Science and Google Scholar** were consulted, prioritizing publications between **2020 and 2025**. The inclusion criteria were:

- Empirical or theoretical studies on regulations, taxation or profitability in emerging economies.
- Reports from multilateral organizations (World Bank, OECD, UNCTAD, GEM).

- Research applied to MSMEs, given their weight in developing economies (OECD, 2024). From a total of **126 initial documents**, 30 relevant studies **were selected** after applying criteria of quality, relevance and timeliness.

## 2. Comparative analysis of secondary data

International indicators were incorporated to assess the interaction between regulation, taxation and entrepreneurship:

- **World Bank B-READY Index** (World Bank, 2024).
- **Tax Policy Indicators** de la OECD (2024).
- **World Investment Report** de UNCTAD (2023).
- **Global Entrepreneurship Monitor** (GEM, 2024).

These data were systematized to contrast trends in different regions and their impact on business profitability.

## 3. Mixed methodological approach

The analysis combined:

- **Qualitative approach:** interpretation of policies, regulatory frameworks and literature analysis.
- **Quantitative approach:** integration of effective taxation indicators (ETR), compliance costs and profitability metrics (ROA, ROE).

This mixed approach makes it easier to identify recurring patterns and generate a conceptual model that links regulations, taxation, and business profitability (Creswell & Creswell, 2021).

**Table 2. Selection criteria for literature and documents analyzed**

<i>Criterion</i>	<i>Applied Description</i>	<i>Reference Source</i>
<i>Publication period</i>	2020–2025	Page et al. (2021)
<i>Document type</i>	Indexed articles and institutional reports	OECD (2024), World Bank (2024)
<i>Thematic relevance</i>	Regulations, taxation and business profitability	GEM (2024), UNCTAD (2023)
<i>Reference population</i>	MSMEs in emerging economies	Agyei et al. (2022)
<i>Methodological quality</i>	Peer-reviewed studies and reports with robust methodologies	Creswell & Creswell (2021)

**Table 3. Main indicators used in the comparative analysis**

<i>Indicator</i>	<i>Description</i>	<i>Institution</i>	<i>Last Updated</i>
<i>B-READY (Regulatory Framework)</i>	Measure regulatory quality, operational efficiency, and services	World Bank	2024
<i>Effective Tax Rate (ETR)</i>	Effective tax rate according to company size	World Bank	2025
<i>Tax Policy Reforms</i>	Tax reforms and their impact on competitiveness	OECD	2024
<i>Global Entrepreneurship Index</i>	Level of entrepreneurial activity and formalization	GEM	2024

<i>Foreign Investment (FDI)</i>	<i>Direct</i>	Investment flows to emerging UNCTAD 2023 countries
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#### 4. Validity and reliability

To ensure **internal validity**, information from different sources (academic and technical) was triangulated. Reliability was ensured through the application of strict inclusion criteria and the use of internationally recognized standardized indicators (World Bank, 2025; OECD, 2024).

#### Results

##### 1. Macro context and climate for doing business

International evidence shows that the investment environment and regulatory climate directly condition profitability, especially in MSMEs. In 2023, **global FDI** fell **2%** to **US\$1.3 trillion**; when excluding European conduit economies, the contraction exceeds **10%**, while project financing weakened sharply (affecting SDG sectors), limiting the scaling of ventures (UNCTAD, 2024). In 2024, FDI to **developing countries** contracted again by **2%** and **project financing** plummeted by **31%**, accentuating the need for pro-productivity reforms and the reduction of transaction costs (UNCTAD, 2025). At the same time, the World Bank's new **B-READY** consolidates metrics on **regulatory framework**, **public services**, and **operational efficiency**, offering a comparative basis for prioritizing reforms with a direct impact on costs and margins (World Bank, 2024a; World Bank, 2024b).

##### 2. Effective taxation and the "medium-sized trap"

Effective **tax rates (ETRs)** show a **hump pattern** by company size: micro companies benefit from simplified regimes, large companies take advantage of incentives and planning, and **medium-sized companies** concentrate higher **TNRs**, putting pressure on profitability and discouraging the move to larger scales. A concrete result: the **1% of largest firms pay an average ETR 2.2 pp lower than the top decile** (Bachas, Brockmeyer, Dom & Semelet, 2024/2025). This finding is consistent across **16 countries** with administrative reporting data, and is particularly relevant for emerging economies where MSMEs represent the majority of the productive fabric (World Bank, 2025; IFS/TaxDev, 2025).

##### 3. Compliance costs and entrepreneurial performance

In ecosystems with fragmented procedures, complex tax calendars and little digitization, **administrative costs** erode margins and reduce the survival of new firms. The **B-READY 2024** documents bottlenecks in **the entry of businesses, taxes and services** (electricity, foreign trade), while **GEM 2023/2024** and **2024/2025** highlight gaps in entrepreneurial education and institutional support that moderate the effect of reforms on profitability (GEM, 2024; GEM, 2025). The empirical conclusion: **simplification and digitalization** of tax and regulatory compliance are associated with better performance, especially in MSMEs (World Bank, 2024a; GEM, 2024).

##### 4. Differentiated regional dynamics

The macro trend is not homogeneous: **Latin America** recorded a 7.1% increase in FDI in **2024** (US\$188.96 billion), with a concentration in Brazil and Mexico, although the **capture**

of new flows stagnated—a sign of medium-term sustainability risks for entrepreneurial projects (ECLAC cited in Reuters, 2025). These regional differences suggest that the **same** reform (e.g., payment simplification) may have **heterogeneous** impacts on profitability depending on sectoral structure and institutional depth.

## Evidence Tables

**Table 4. Context indicators that impact profitability (2023–2025)**

<i>Indicator / Fact</i>	<i>Recent Fact</i>	<i>Implication for profitability</i>
<i>IED global (2023)</i>	–2% to US\$1.3 trillion	Lower project financing → pressure on margins of new firms.
<i>IED global (excl. “conduit”)</i>	Drop >10%	Greater fragility of real productive investments.
<i>Project-financing (2024, developing countries)</i>	–31%	Less project pipeline; risk for the expansion of MSMEs.
<i>B-READY (2024)</i>	New ~10 topical and 3-pillar set	Metrics to prioritize reforms with a direct impact on costs/times.
<i>NECI (GEM 2024/2025)</i>	Sustained UAE leadership; Score drop 7.7→7.1	Ecosystem conditions matter as much as taxes.

*Fuentes: UNCTAD (2024, 2025); World Bank (2024a, 2024b); GEM (2024; 2025).*

**Table 5. Quantitative Evidence on ETR and Signature Size**

<i>Find</i>	<i>Datum</i>	<i>Coverage</i>	<i>Relevance</i>
<i>ETR “hump” curve</i>	Highest ETR in <b>Midsize Firms</b>	16 countries, declaration data	It penalizes growth; reduces relative ROA/ROE in micro→median transition.
<i>Advantage of large vs. top decile</i>	–2.2 p.p. in the <b>largest 1%</b> ETR vs. the top decile	16 countries	Incentives and planning reduce effective load on large companies.
<i>Temporary robustness</i>	Results 2024–2025 (WP/Doc WB versions)	2024–2025	Pattern consistent with minimal global reforms (Pillar 2).

*Fuentes: Bachas et al. (2024/2025); World Bank (2025); IFS/TaxDev (2025).*

**Table 6. Tax reforms and signals for MSMEs (comparative outlook 2023–2024)**

<i>Reform Theme</i>	<i>Observed trend</i>	<i>Possible effect on MSMEs</i>
<i>Corporate tax</i>	Signs of <b>End of Rate Declines</b> ; Adjustments for Inflation and Income Pressure	Broad-based neutrality + moderate rates benefits margins if the proliferation of ad hoc exemptions is avoided.
<i>Tax administration</i>	Advances in <b>digitalization</b> , electronic invoicing, pre-declarations	Lower cost of compliance; greater formalization.



<i>International taxation</i>	Pillar 2 Implementation (Minimum Tax)	A competitive structure more for <b>institutional quality</b> than for "race to the bottom".
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Source: OECD (2024) and technical summaries 2024–2025.

Table 7. Illustrative regional differentials (Latin America vs. global trend)			
<i>Metric</i>	<i>World 2024</i>	<i>2023– Latin America 2024</i>	<i>Reading for profitability</i>
<i>FDI (variation)</i>	–2% (2023, global) / –2% (2024, developing)	+7.1% (total amount)	Regional improvement does not guarantee new projects; sectoral seasonality and the stagnation of new flows limit the impact on MSMEs.
<i>New flows/projects</i>	Significant drop in project financing	<b>Stagnation</b> of new flows	Micro reforms (regulation/taxation) are needed to convert FDI stock into local productivity.

Fuentes: UNCTAD (2024, 2025); Reuters/ECLAC (2025).

Synthetic interpretation

1. **Profitability conditioned by the ecosystem:** when regulation and services (electricity, foreign trade, finance) are predictable and efficient, operating costs fall and margins rise; B-READY allows you to map these levers.
2. **Nonlinear ETR as a brake on scaling:** the hump in **midsize companies** is a robust finding and suggests reviewing thresholds/benefits that generate discrete "jumps" in load.
3. **Recent tax reforms:** the combination of "broad base + digitalization + minimal dispersion of incentives" offers better productivity and formalization results than nominal rate reduction strategies.
4. **Regional heterogeneity:** even with more FDI in Latin America in 2024, the **stagnation of new flows** implies that the improvement in profitability will come more from domestic reforms than from external winds.

Conclusions

This study confirms that **corporate profitability in emerging economies** is closely linked to the interaction between **regulation, taxation and institutional quality**. The results allow several key conclusions to be drawn:

1. **Regulatory quality is a determinant of competitiveness.** Clear, predictable and digitized regulations reduce transaction costs, encourage formalization and favor profitability. In contrast, fragmented and overly bureaucratic regulatory systems raise administrative costs that disproportionately affect MSMEs (World Bank, 2024a; GEM, 2024).
2. **The effective tax burden is not neutral between company sizes.** Recent evidence shows that **medium-sized companies** face higher effective tax rates than micro and large companies, generating a "growth trap" that discourages their scaling and limits their relative profitability (World Bank, 2025; Bachas, Brockmeyer, Dom, & Semelet, 2024).

This situation requires a structural review of tax regimes to prevent the system from penalizing companies in transition to larger sizes.

3. **Tax and administrative compliance costs are a structural brake.** The lack of simplification and digitalization causes MSMEs to allocate financial and human resources to bureaucratic processes, to the detriment of innovation and reinvestment (Agyei, Yusheng, & Asiamah, 2022). Policies aimed at fiscal digitalization – such as e-invoicing, automatic pre-declarations and one-stop shops – have demonstrated a positive effect on business survival (OECD, 2024).
4. **International dynamics reinforce the need for domestic reforms.** The reduction in foreign direct investment (–2% overall in 2023 and 2024) and the fall in financed projects in developing countries (–31% in 2024) confirm that external flows do not guarantee entrepreneurial dynamism (UNCTAD, 2024; UNCTAD, 2025). Therefore, emerging economies must prioritize domestic regulatory frameworks that stimulate productivity and strengthen the resilience of companies.
5. **Support policies must be comprehensive.** While tax and regulatory simplification is crucial, its effect is amplified when combined with entrepreneurial education programs, access to financing, and institutional support. This is evident in countries with high conditions for entrepreneurship indices (NECI) reported by GEM (2025), where companies manage to translate a more favorable regulatory environment into higher levels of profitability.

In summary, it is concluded that **business profitability in emerging economies depends less on the nominal reduction of tax rates and more on the construction of a stable, predictable and digitized regulatory and fiscal ecosystem.** For policymakers, the challenge is to **balance revenue and entrepreneurship incentives**, avoiding distortions that harm MSMEs and limiting productivity gaps between companies of different sizes.

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