

RESEARCH SUMMARY

How Regulations Stymie Young Technology Startups and Slow Innovation and Economic Activity

Many of the high-growth businesses that account for almost 50 percent of US job creation are young, technology-enabled firms (e.g., those in information technology services, software, advertising and marketing, financial services, and business services). However, their potential for even greater success is stifled by government policies and regulations. In “[Exploring How Regulations Shape Technology Startups](#),” Liya Palagashvili uses new survey and fieldwork data to show which policies matter most for technology startup growth and success and how regulation deters startup innovation and activity.

IMPACT ON DECISION-MAKING BY TECHNOLOGY ENTREPRENEURS

- About 40 percent of startup executives said that regulations directly influence their business models and products, and the majority of these executives believe that federal government regulations have the most influence on them.
- Regulation deters startup innovation and activity in areas where entrepreneurs can provide, arguably, the greatest benefits. For example, it can result in startups pivoting away from the medical technology field and into other industries or subindustries.
- Some 92 percent of startups have used outside legal counsel for purposes beyond incorporation, and a majority of them (64 percent) began using legal counsel within six months of incorporation. The main purposes executives report for choosing to work with legal counsel are regulations on venture capital and on investor fundraising deals and intellectual property concerns.

REGULATION'S IMPACT ON STARTUP SOURCES OF FINANCE AND SOURCES OF LABOR

Finance: One of the biggest challenges for startups is acquiring funding from investors. Technology startups face an even greater regulation-induced barrier to success if they operate in more heavily regulated industries, because venture capital firms tend to steer clear of startups in such industries.

Labor: Independent contractor labor regulations and worker immigration policies are of the utmost importance for the growth and success of early-stage technology startups. Such firms need flexible contract labor and access to foreign talent in order to grow and succeed:

- Some 57 percent of startups indicate that the use of contractor labor is an essential part of their business models.
- About one-third of technology startups hire employees or contractors who are foreign workers.

KEY TAKEAWAY

Small technology startups are unlike mom-and-pop businesses, except in their limited cash flow and constrained resources. Many of these startups are attempting to transform industries, some of which are heavily regulated, but are being impeded by specific regulations and policies. A more conducive regulatory environment for technology entrepreneurs could unleash innovation and, with it, sustained job creation.