An Investigative Framework of the Importance of Economic Freedom for Organizational Survival

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Abstract

This paper seeks to establish a framework of economic freedom and company survival. Economic freedom is shown to have an effect on a wide range of factors, including economic growth, standard of living, and entrepreneurial activity. With institutions regulating and governing business activities, economic freedom is also likely to have an impact on company survival. By reviewing the literature on economic freedom, the paper establishes the importance of economic freedom for organizational survival. The study has implications for both policymakers and business professionals. Since businesses play a vital role in the growth and development of an economy, policymakers should increase the economic freedom for businesses to have more incentive to engage in entrepreneurial activities.

Keywords: Economic Freedom, economic growth, standard of living, entrepreneurial activity, company survival

Introduction

Berggren (2003) writes

"Economic Freedom is the composite that attempts to characterize the degree to which an economy is a market economy, that is the degree to which it entails possibility of entering into voluntary contracts within the framework of a stable and predictable rule of law that upholds contracts and protects private property, with a limited degree of interventionism in the form of government ownership, regulations and taxes" (p.194). Berggren (2003) continues to say that economic freedom is different from political and civil freedom. Economic freedom is widely believed to cause economic growth. Various studies show a significant positive relationship between economic freedom and growth with some of the most important ones being (Dawson, 1998; Gwartney, Lawson, & Holcombe, 1999; De Haan & Sturm, 2000; Scully, 2002; and Carlsson & Lundstrom, 2001). The 2012 index of economic freedom yet again confirmed the positive relationship between economic freedom and prosperity. It is not simply the existence of quality formal institutions though, which is the underlying factor of economic freedom that causes the growth but what effect those institutions is having on society. Entrepreneurs, innovators, financiers, industrialists, investors, etc. face greater incentives to engage in economic activities that promote growth when institutions are efficient (Berggren, 2003).

Important economic activities that promote growth are entrepreneurship (Miller & Holmes, 2011; McMuller, Bagby, & Palich, 2008) productivity (Miller & Holmes, 2011; Nissan & Niroomand, 2008) and investment (Miller & Holmes, 2011; Seyoum, 2009; Gwartney, Lawson, & Clark, 2005). Companies in turn engage in economic activities to create profit. According to Friedman (1988) the creation of profit is the sole purpose of businesses. In actuality though companies create much more than profit; they engage in and provide the economic activities that create growth. This idea is supported by Ahlstrom (2010), who argues that firms create economic growth through innovation.

It is not simply economic freedom that creates economic growth, but the activities undertaken by businesses. Economic freedom only provides the environment, which gives businesses the incentive to engage in growth promoting activities. Therefore the question is not whether economic freedom causes economic growth but whether economic freedom affects company survival. Only companies that perform well are able to increase the economic activities that promote growth. If companies struggle to survive they will reduce their economic activities and economic growth might slow or decline.

The institutional environment provides companies with the framework to engage in profit creating activities. While institutions play an important role for the performance of companies, they are not the only relevant factors. The survival of companies is determined by a combination of factors such as management and know-how, product and services, company characteristics, and external environment (Philip, 2011; Ayala Calvo & Manzano Garcia, 2010). Institutions present the external environment which cannot be changed by companies. Businesses could change their management, product offering, or company characteristics, but they cannot change their external environment. In short, managers cannot control the external environment. That is why the environment with the right institutions is important for company survival. The external environment is a critical aspect when expanding to a new location, especially internationally. Economic freedom provides insight into a country's institutional environment and should be considered before entering new markets as it might affect the survival of the new venture. According to Li (2007), the Index of Economic Freedom presents a great source for businesses to analyze a country's macro-environment and the risk of doing business. The paper will attempt to answer the following research question. What is economic freedom? What measures company survival? Is there a relationship between economic freedom and company survival? Are companies more likely to survive in countries with high economic freedom?

The purpose of this paper is to investigate the relationship between economic freedom and company survival. Since increased economic freedom causes increased economic growth, greater economic freedom should have a positive effect on company survival. The paper will also provide an understanding of the effect of economic factors on company performance and evaluate the importance of a country's economy on the performance of companies.

Literature Review

To form an understanding of economic freedom and determine its importance, it is critical to first define what economic freedom actually is. Li (2007) provides a clarifying example by defining the two components of economic freedom, economic and freedom. She uses definitions from the Oxford Dictionary for the Business World by which economic is "connected with trade and industry" and freedom is the "condition of being free and unrestricted". Giving these two definitions, Li (2007) defines economic freedom as "the freedom or the right of an individual to pursue voluntary economic activities in a country" (p. 41). As hundreds of journal articles have used data regarding economic freedom, various definitions of economic freedom have been displayed. One of the most quoted definitions is by Gwartney and Lawson (2002,) by which economic freedom is "the degree to which a market economy is in place, where the central components are voluntary exchange, free competition, and protection of persons and property" (p.5). The heritage foundation also defines economic freedom as "a condition or state of being in which individuals can act with autonomy while in the pursuit of livelihood" (2012 index of Economic Freedom, p. 13). . The 2011 Index of Economic Freedom provides a fairly broad definition of economic freedom: "encompass all liberties and rights of production, distribution, or consumption of goods and services. The highest form of economic freedom should provide an absolute right of property ownership; fully realized freedoms of movement for labor, capital, and goods; and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself" (Miller & Holmes, 2011, p.20).

These two definitions are taken from the two largest reports on economic freedom, Economic Freedom of the World and the Index of Economic Freedom. The former one is published by the Fraser Institute and the later one by the Heritage Foundation and Wall Street Journal. Both reports provide data on economic freedom and despite minor differences, the country rankings are similar (Pelaez, 2009). The data for the Economic Freedom of the World report goes back till 1970 and is primarily used in academic research (Berggren, 2003). The Index of Economic Freedom was first published in 1995 and is hence much younger.

Data for the Economic Freedom of the World report is divided into five groups: (1) size of government: expenditures, taxes, and enterprises, (2) legal structure and security of property rights, (3) access to sound money, (4) freedom to trade internationally, and (5) regulations of credit, labor, and business (Gwartney, Lawson, & Clark, 2005). The Index of Economic Freedom in contrast has a total of ten variables. The index reports some variables separately, which are combined into one category in the Economic Freedom of the World report. The ten variables are: (1) business freedom, (2) trade freedom, (3) monetary freedom, (4) government spending, (5) fiscal freedom, (6) property rights, (7) investment freedom, (8) financial freedom, (9) freedom from corruption, and (10) labor freedom (Miller & Holmes, 2011). Even though the Economic Freedom of the World report has been used more frequently in academic research and the data is dating back much further, this study is focusing on the Index of Economic Freedom. This reasoning is mainly based on the smaller categorization of the variables as it is more beneficial for the study. It allows a clearer identification of the factors responsible for company survival. Also for the purpose of the study it is not necessary to have data from preceding years. Therefore the larger number of years provided by the Economic Freedom of the World report is irrelevant. The data of the Index of Economic Freedom is only based on the prevailing institutions and policies in place and not on economic outcomes, making the index much cleaner (Heckelman & Stroup, 2000). While the Economic Freedom of the World report and the Index of Economic Freedom are the most widely known measures of economic freedom, other institutions and reports also attempt to measure the quality of institutions. An example is the World Survey of Economic Freedom developed and published by the Freedom House (Heckelman & Stroup, 2000).

The Index of Economic Freedom measures the degree to which individuals and organizations can make economic decisions and pursue economic activities without constrains from the government (Miller & Holmes, 2011). The Index of Economic Freedom is based on the three key principles of economic freedom: empowerment of the individual, non-discrimination, and open competition. The more those principles are enforced and hold true, the higher a country's economic freedom will be. The purpose of measuring economic freedom is to determine a country's degree of economic freedom (Lawson, 2006). The goal is not to determine whether there is an optimal level. This purpose is also clearly displayed in the mission of the Heritage Foundation as the goal of the publication is "to track the march of economic freedom around the world" (Miller & Holmes, 2011). The idea of economic freedom is a complex framework. In some cases more laws and regulations increase economic freedom, as found in property rights, as the rights of the individuals are better protected. In other cases fewer laws and regulations enhance economic freedom, as with the topic of investment freedom, where fewer laws restricting domestic and international investment enhance the freedom of individuals to pursue their economic activities. Economic freedom involves a fine balance between the individual and the state (Miller & Holmes, 2011).

The underlying factors of economic freedom are formal institutions. Government institutions create the rules, laws, and regulations that determine whether a country's economy is free or constrained. Seyoum (2009) uses a definition by the World Bank by which institutions are defined as "sets of formal and informal rules governing the actions of individuals and organizations, as well as the interactions of participants in the development process" (p. 166). The Index of Economic Freedom only measures the formal institutions. Informal rules and regulations though also have an effect on economic freedom but they are much harder to measure. While many studies deal with economic freedom, just as many studies involve formal institutions, the concepts and ideas are the same. Formal institutions describe the laws and regulations of property rights, investment, and trade, whereas economic freedom measures the quality of those formal institutions. Especially market-based institutions are the key for providing economic freedom. This idea goes back to Adam Smith with the factors of economic freedom being the ingredients for economic progress (De Haan, Lundstrom, & Sturm, 2006). Economic performance and entrepreneurial activity is increased when market-based institutions foster a free but secure environment. Mainstream economists have largely focused on capital, labor, and technology as the key factors for economic development and progress (Pelaez, 2009). Institutions though have increasingly been recognized as relevant determinants of growth.

Importance of Economic Freedom

Economic freedom is found to have an impact on multiple factors, including entrepreneurship, productivity, economic growth, income, prosperity, etc. Various studies have been conducted on economic freedom, such as economic freedom and the motivation to engage in entrepreneurial action (McMullen, Bagby & Palich, 2008), economic freedom and net business formation (Campbel & Roger, 2007), economic freedom and economic growth (Gwartney, 2009), linking labor productivity to economic freedom (Nissan & Niroomand, 2008), and equity returns and economic freedom (Stocker, 2005). Since institutions create the rules, laws, and regulations that govern the behavior and action in the society, they have an impact on many aspects of the economy and society. To understand why economic freedom could have an impact on company survival, it is important to see how other factors of economic freedom play an important role.

The topic most widely discussed and studied is the importance of economic freedom for economic growth. Several studies used the Index of Economic Freedom and the Freedom of the World report to investigate the relationship between economic freedom and growth. While the results are mixed, the overall opinion is that economic freedom does matter for economic growth (De Haan & Sturm, 2002; Gwartney et. al, 1996). This theory is supported by institutional economists, who argue that institutional policies are a major determinant for economic growth (North, 1999), not only capital, labor, and technology as argued by neoclassical economists (Pelaez, 2009; Gwartney, 2009). The reasoning for the belief that economic freedom contributes to growth is the fact that efficient institutions encourage actions that contribute to the production of more valuable output (Berggren, 2003). Availability and productivity of resources are increased with more efficient institutions (Gwartney, 2009). Also investment is greater in countries with more economic freedom (Gwartney, 2009; Miller & Holmes, 2011). Evidence shows that countries with more economic freedom have a greater rate of economic growth. Research also shows that there is a relationship between economic freedom and standard of living. Since economic freedom enhances investment, productivity, and economic growth, it will also affect a nation's prosperity (Gwartney, 2009). According to Berggren (2003) "sustained high growth rates imply ultimately great wealth, and so in the long term the economic freedom that increases growth can also be expected to increase accumulated wealth" (p. 197). Not only does the GDP per capita grow faster in countries with great economic freedom, but it is also higher. Economically free countries experience higher income levels (Gwartney, 2009; Miller & Holmes, 2011).

Economic freedom also has a proven effect on entrepreneurial activity. The economy evolves in a cycle of innovation, job creation, productivity, growth, and higher living standards (Miller & Holmes, 2011). As one factor causes another, economic freedom has an effect on all factors of the economy. Innovation is at the beginning of the cycle, caused by entrepreneurial activity. Entrepreneurial activity is encouraged by efficient institutions (Miller & Holmes, 2011; Gwartney, 2009; McMullen, Bagby, & Palich, 2008). Therefore entrepreneurial activity is greater in countries with higher economic freedom.

Measures of Company Survival

Company survival is determined by the success or failure of businesses. Only successful businesses will be able to survive in the competitive and ever changing environment. A combination of factors is responsible for the survival of companies, such as management and know-how, product and services, company characteristics, and external environment (Philip, 2011; Ayala Calvo & Manzano Garcia, 2010). The question therefore is how do you measure company survival? Companies have often been solely evaluated based on their financial performance but there are other factors that determine a company's performance and therefore their survival (Ndlovu, 2010; Anghel, Bucur, & Radu, 2008). Ndlovu (2010) mentions important non-financial performance measures to be customer satisfaction, productivity, and product process quality. Kuster and Vila (2011) determined three dimensions of success: Business results, external performance measures, and internal performance measures. Business results include sales margin, net profit, profitability, global results, growth in sales, and achievement of objectives. External performance measures are customer satisfaction and customer loyalty. Finally internal performance measures include image/reputation, quality, management training, innovations success, and company efficiency. Focusing on those three measures would give a comprehensive overview of the success of a company. For the purpose of this study though, not all measures are appropriate. Only measures, which can be directly related to the countries' institutions, will be used. Customer satisfaction, customer loyalty, management training, and image/reputation can be great in countries with poor institutions and low economic freedom.

Other factors such as profit and innovations can be traced back to formal institutions. Profits are the chief purpose of business (Ahlstrom, 2010) and should therefore always be considered when evaluating a company's success. Profits are the ultimate factor keeping companies alive. A lack of profit in the long-run will mean the eventual failure of the business (Ahlstrom, 2010). Profit is also directly linked to economic freedom as it is created through entrepreneurial activity. Another important factor for company survival is innovation.

While it is a determinant for company success, it is also a measure of company survival. Innovation allows firms to achieve growth and provide new products to consumers (Ahlstrom, 2010). Innovation is the results of entrepreneurial activity, which is encouraged through economic freedom (Gohmann, Hobbs, & McCrickard, 2008). Looking at the amount of innovation within a company, this might signal whether the company is performing well or not. Kuster and Vila (2011) believe that highly innovative companies achieve better profits, better market share, and higher levels of performance. As a final measure of company survival the study will consider productivity. According to Ndlovu (2010) it is an important non-financial performance measure. Productivity can also be directly linked to economic freedom. Productivity is increased through investment in technology and capital (Nissan & Niroomand, 2008) and investment is increased through economic freedom (Miller & Holmes, 2011). Productivity should therefore be higher in economically free countries and companies with higher productivity should be more successful. To review, the three factors considered as a measurement of company survival are profit, innovation, and productivity.

Factors of Economic Freedom

The Index of Economic Freedom measures economic freedom for ten variables. The degree of freedom is ranked on a scale from 0 to 100 (Miller & Holmes, 2011). A higher score is indicative of more economic freedom while a low score shows that a country's economic freedom is restricted. The 2011 Index of Economic Freedom reports on the degree of economic freedom for 179 countries. Data is not available for Afghanistan, Iraq, Liechtenstein, and Sudan. In 2011 as well 2012, the country with the highest overall degree of economic freedom was Hong Kong with a score of 89.7 and 89.9 respectively. North Korea was the country with the lowest degree of economic freedom and only received a score of 1. A country's overall score consists of the sub-scores for the ten variables.

Business Freedom

"Business freedom is about an individual's right to establish and run an enterprise without interference from the state" (Miller & Holmes, 2011, p.21). Companies and individuals should be able to open and close a business and obtain licenses without burdensome procedures. Imposing strict regulations hinders entrepreneurial activity and makes it difficult for companies to succeed in the marketplace. For a country to obtain a high rating, the government must refrain from regulatory activities that hinder business entry and increase the cost of doing business (Gwartney, Lawson, & Clark, 2005). The business freedom score is calculated from ten factors relating to opening, closing, and licensing a business (Miller & Holmes, 2011). The factors measure the costs, time, and number of procedures it takes to open a business, close a business, and obtain the necessary business licenses. To provide a free business environment, it is also necessary for governments to refrain from interfering with a business's normal decision-making and price-setting process (Miller & Holmes, 2011). Regulations should be even and transparent. The government must avoid favoring one business at the expense of others (Gwartney, Lawson, & Clark, 2005). The degree of business freedom varies greatly. While some countries only require a single form to start a business, other countries request multiple forms and several trips to the government offices. New Zealand is leading in terms of business freedom with a score of 99.9, while Cuba is almost last with a score of 10 (Miller & Holmes, 2011). Start-ups in New Zealand enjoy great flexibility compared to Cuba where entrepreneurial activity is constrained by the government with inconsistent and non-transparent regulations. This example shows nicely how market economies provide greater economic freedom.

Business Freedom has been selected as an important factor for company survival. A company cannot exist in the first place if government regulations discourage the start of a business and the obtaining of business licenses. A study by Campbell and Rogers (2007) shows that net business formation is directly related to economic freedom. Campbell and Roger (2007) stated that "greater economic freedom in a state leads to more new business formation as entrepreneurs take advantage of opportunities" (p.31). Restrictive governments reduce economic freedom and make entrepreneurial activity unattractive. Businesses in free economies have a lower cost of starting and maintaining a business than companies in less free economies (Gwartney, Lawson, & Clark, 2005).

Predictable and clear business regulations create a certain business environment that makes it easier for companies to engage in long-term planning (Miller & Holmes, 2011). Low costs of maintaining a business and confidence to engage in long-term planning are essential elements of company survival. This is supported by the assumption that high levels of uncertainty are harmful to performance (Bourgeois, 1985).

Trade Freedom

"Trade freedom reflects an economy's openness to the import of goods and services from around the world and the citizen's ability to interact freely as buyer or seller in the international marketplace" (Miller & Holmes, 2011, p.21). The trade environment is restricted if the government imposes trade barriers, such as tariffs, export taxes, trade quotas, or trade bans. Restrictions can also be less direct in the form of non-tariff measures. Those include quantitative restrictions, price restrictions, regulatory restrictions, investment restrictions, customs restrictions, and direct government intervention. Governments often restrict the trade environment in favor of protectionist pleaders and special-interest politics (Gwartney, Lawson, & Clark, 2005). The trade freedom score is calculated on the basis of two inputs, the trade-weighted average tariff rate and non-tariff barriers (Miller & Holmes, 2011). For a country to receive a high rating it must have low tariffs, efficient administration of customs, and few controls of capital (Gwartney, Lawson, & Clark, 2005). Both tariffs and non-tariff barriers should be low. Hong Kong is leading in terms of trade freedom with a score of 90 while the Seychelles is almost last with a score of 33.4 (Miller & Holmes, 2011). Hong Kong's weighted average tariff rate was 0% compared to the Seychelles with 28.3%.

Trade freedom is important for company survival as companies increasingly expand internationally to pursue their economic goals and increase their productivity. When the potential of the domestic market is reached, businesses can only continue to grow if they venture abroad. According to Moore, Fernie, and Burt (2000) firms that internationalized could be more successful than the ones that decide to stay at home. The success might be hindered though if governments restrict the free flow of foreign business (Miller & Holmes, 2011). Companies are affected by trade restrictions as they alter production incentives. Organizations might pursue business in which they lack a comparative advantage. Productive development can also be hindered as advanced-technology is beyond the reach of businesses. Technology advancement though is important for increased productivity, which in turn increases profits (Ahlstrom, 2010).

Property Rights

Miller & Holmes, (2011) stated "the ability to accumulate private property and wealth is understood to be a central motivating force for workers and investors in a market economy" (p.24). According to Gwartney, Lawson, and Clark (2005) the protection of property rights is the most important function of the government. The variable of property rights measures the degree to which private property is protected by law and the degree to which those laws are enforced (Miller & Holmes, 2011). Private property includes income, savings, and both real and intellectual property. Property rights are protected best in countries with a set rule of law, security of property rights, independent judiciary, and independent court system (Gwartney, Lawson, & Clark, 2005). The component of property rights also includes the enforcement of contracts and the settlement of disputes. Property rights are measured on a scale ranging from no protection of property rights to guaranteed protection. In the worst scenario private property is outlawed and all property belongs to the state with corruption being common. The best protection of property rights is provided if the protection is guaranteed by the government and court systems efficiently and quickly enforce contracts without any corruption. New Zealand has the highest score for the category of property rights with a 95 score while several countries have the lowest score of 10 including Bolivia, Cuba, Eritrea, and Libya (Miller & Holmes, 2011). In New Zealand property rights are well protected and contracts are notably secure compared to the countries with the lowest protection of property rights where the judiciary system is weak and contracts are not enforced.

The protection of property rights is essential for company survival. The aspect of protected property rights is so important because it determines entrepreneurial activity and investment. Individuals and companies are more likely to engage in entrepreneurial activity if they know their property rights are well protected (Miller & Holmes, 2011). Countries are more likely to attract investment if the investors know that their money is secure. Unfair expropriation and theft reduce many economic activities as the factor of uncertainty is increased.

Without guaranteed protection companies would operate in a constant state of uncertainty as they would not know whether their physical and intellectual property is secured, whether their contracts are being enforced, and whether they have a chance for a fair and quick settlement of possible disputes. The need for proper protection of property rights is found in any aspect of a company's operation. A company's survival is questionable if contracts with suppliers, for example, are not enforced properly and the company runs out of supplies to produce the profit generating products.

The importance of property rights is supported by the World Bank (2002) as investments are generated through the possibility of transferable and secure rights of assets and contracts. It provides certainty to the owners that they will receive the benefits of their investment.

Investment Freedom

Miller & Holmes (2011) stated “a free and open investment environment provides maximum entrepreneurial opportunities and incentives for expanded economic activity, productivity increases, and job creation” (p. 23). Investment freedom evaluates the constraints on the flow of investment capital. Optimally, companies and individuals should be able to invest equally and unrestricted wherever and however they want. Governments though often restrict the flow of investments. They might favor large and strategically important companies over small and medium enterprises and restrict the movement of capital domestically and internationally. These restrictions have serious effects on companies and the economy. Restrictions will discourage innovation and competition as the capital to produce new products might be lacking. They can also shrink markets and reduce opportunities for growth. A free economy should have an effective investment framework that allows the free flow of capital. Investment freedom is measured by looking at a country’s investment restrictions. Points are deducted from the highest possible score, 100, for the various restrictions. The investment restrictions being evaluated include national treatment of foreign investment, foreign investment code, and restrictions on land ownership, sectoral investment restrictions, expropriation of investments without fair compensation, foreign exchange controls, and capital controls. Luxembourg has the greatest degree of investment freedom with a score of 95 while several countries have a score of 0 including Burma, Iran, and Zimbabwe. Luxembourg allows the free flow of both domestic and foreign investment while the countries with the lowest scores heavily restrict and monitor the flow of domestic and international investment (Miller & Holmes, 2011).

Investment freedom is important for company survival as access to investment capital is the basis for company growth and development. Capital is needed for the establishment of a new business and the financing of new projects. It is the lifeblood of any company. Companies attract investment if it promises great returns. Gwartney, Holcombe, and Lawson (2006) find that countries with high quality institutions, reflected in greater economic freedom, have a larger amount of private investment. This is also supported by Seyoum (2009), who found that foreign direct investment is greater in countries with effective institutions. Companies better their chance of survival if they have both domestic and foreign investment to draw from and do not encounter any restrictions.

Labor Freedom

“The ability of individuals to work as much as they want and wherever they want is a key component of economic freedom” (Miller & Holmes, 2011, p.24). A country’s labor market is restricted by various legal and regulatory aspects. Labor freedom measures the degree of those restrictions. According to Gwartney, Lawson, and Clark (2005) restrictions of the labor market include dismissal regulations, minimum wages, centralized wage setting, unemployment benefits that undermine the incentive to accept employment, extensions of union contracts to nonparticipating parties, and conscription. The core principle of ‘voluntary exchange’ counts as much for the labor market as it does for the market of goods (Miller & Holmes, 2011). The Index of Economic Freedom measures labor freedom by evaluating six quantitative factors, including ratio of minimum wage to the average value added per worker, hindrance to hiring additional workers, rigidity of hours, difficulty of firing redundant employees, legally mandated notice period, and mandatory severance pay (Miller & Holmes, 2011). A country achieves the highest degree of labor freedom if the government refrains from regulating the labor market but instead lets market forces determine wages and establish conditions of dismissal (Gwartney, Lawson, Clark, 2005). The degree of labor freedom varies greatly. Singapore has the highest level of labor freedom with a score of 98 while Burma’s labor market is most restricted with a score of 20 (Miller & Holmes, 2011). The labor market in Singapore is highly flexible with burden free dismissal and working hour regulations. Burma’s labor market in comparison is distorted by state controls with wages and forced labor set by the government.

Labor freedom is important for company survival because regulation of the labor market determines productivity. According to Miller and Holmes (2011) a central aspect for enhancing productivity is the ability of companies to freely dismiss redundant workers and hire new employees. A company’s productivity will suffer if it is not able to sort out underproductive employees and promote the highly productive ones.

A free labor market matches the right company with the right employees which advances a company's profit and the employees' well-being. In general, unemployment is lower in countries with more labor freedom (Miller & Holmes, 2011). Unemployment benefits might undermine the incentive for worker to accept employment therefore increasing unemployment (Gwartney, Lawson, & Clark, 2005).

Recommendations and Conclusions

The literature review established an understanding of economic freedom by looking at the definition, the importance, and the components of economic freedom. The collected information shows that a country's institutional framework affects businesses. Institutions regulate and govern business activities. Business activities in turn are the factors determining the success or failure of businesses. Businesses, which are free to make decisions regarding trade, investment, and labor, while being protected through property rights, are likely to be at an advantage since they can make decisions best for the company. The literature review clearly showed that economic freedom encourages activities essential to the success of companies, those being entrepreneurial activity and investment. Economic freedom gives businesses the incentive to engage in entrepreneurial activities that will lead to new products/services, more employees, increased profit, and finally business success. Successful businesses are more likely to survive than businesses that struggle. Economic freedom also encourages investment as the investment is better protected and the environment more certain. Investment in turn is shown to increase productivity through new technology. The factors are all interrelated in the business cycle with economic freedom impacting one aspect which in turn impacts another. Economic growth for example is simply a result of well-performing companies. Companies cannot perform well though if they are restricted by institutions in any aspect of their business, whether in regards to trade partners, labor decisions, or international investment. The evidence shows the economies that are more free have a higher degree of entrepreneurial activity, economic growth, and standard of living.

While the literature review makes it very clear that economic freedom definitely has an impact on company survival, it is more difficult to test. Company survival is not only determined by the institutions in the external environment. While the external environment plays an important role, other factors are relevant as well including company characteristics, product/service offering, and human capital. Even companies operating in economies considered to be most free will fail, if they lack the management know-how to operate the business successfully or produce unsuccessful products.

It is likely that after data collection and analyses, the results may not be significant enough to establish a direct relationship between economic freedom and company survival. Therefore to overcome this limitation, other factors such as company characteristics, product/service offering, and human capital should be measured as well. By accounting for the different determinants of company survival it is possible to get more accurate results. This study only focused on five specific aspects of economic freedom considered most important for company survival. Further studies could measure the relationship between company survival and all ten factors of economic freedom. This approach might give an idea of which factors of economic freedom might be most important for company survival. Furthermore other measures of company survival could be evaluated as well, such as market share, profitability, and return on equity. It might be possible to show which measure of company survival, and economic freedom has the most impact.

The study has implications for both policymakers and business professionals. Since businesses play a vital role in the growth and development of an economy, policymakers should increase the economic freedom for businesses to have more incentive to engage in entrepreneurial activities. If the analysis of the data shows that certain economic freedoms have a greater impact on company survival than others, policymakers can directly target specific economic freedoms to help businesses increase their economic performance. While many countries already provide a great amount of economic freedom, other countries require various policy changes to make the environment encouraging for investment and entrepreneurial activity. Business professionals should notice the importance of economic freedom for company performance. Evaluating the external environment before entering a new market is critical for the success of the new venture.

When considering various locations the degree of economic freedom should be an important element in the decision making process. The Index of Economic Freedom provides a great overview of a country's institutional environment.

It also provides sources for further and more detailed research. By ignoring the level of economic freedom in a country, a company cannot only risk the international venture but also the existence at home. Without proper protection of property rights a company's intellectual property might be compromised.

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