

Legal Issues in Entrepreneurship: Between Regulation, Innovation, And Business Sustainability

*Legal Issues in
Sustainability
Entrepreneurship*

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ABSTRACT

Entrepreneurship plays a pivotal role in fostering economic growth, job creation, and social innovation. However, its development remains inseparable from complex legal challenges. Regulations often serve an ambivalent role: they provide legitimacy and protection, yet at the same time may hinder entrepreneurship through excessive bureaucracy and high compliance costs. This article seeks to examine the key legal issues in entrepreneurship, explore the nexus between regulation, innovation, and sustainability, and propose conceptual recommendations for developing an adaptive and inclusive entrepreneurial ecosystem. Employing a normative–conceptual approach, the study draws upon secondary sources including national regulations, recent international scholarly publications, and institutional reports from the OECD, UNCTAD, and the World Bank. Comparative and thematic analyses were undertaken to map legal issues, assess their implications for innovation, and evaluate their impact on business sustainability. The findings highlight six major legal domains: licensing and bureaucracy, intellectual property rights, business contracts, taxation, labor regulations, and digital and e-commerce law. Regulations are shown to act dually as both enablers and barriers to entrepreneurial innovation. Cross-country evidence further illustrates that developed economies tend to design more adaptive legal frameworks, while developing countries continue to face significant regulatory implementation challenges. In Indonesia, reforms such as the Online Single Submission system, the Omnibus Law on Job Creation, and the Personal Data Protection Law represent important steps forward, yet remain in a transitional stage. The article contributes theoretically by integrating Institutional Theory, Innovation Theory, and the Triple Bottom Line, and provides practical recommendations emphasizing regulatory simplification, stronger intellectual property protection, adaptive digital and green regulations, and greater international policy harmonization

Keywords: Entrepreneurship; Legal Framework; Innovation; Sustainability; Regulatory Reform.

ABSTRAK

Kewirausahaan memegang peran penting dalam mendorong pertumbuhan ekonomi, penciptaan lapangan kerja, dan inovasi sosial. Namun, pengembangannya tidak dapat dipisahkan dari tantangan hukum yang kompleks. Regulasi sering kali berperan secara ambivalen: di satu sisi memberikan legitimasi dan perlindungan, tetapi di sisi lain dapat menghambat kewirausahaan melalui birokrasi yang berlebihan dan tingginya biaya kepatuhan. Artikel ini bertujuan untuk mengkaji isu-isu hukum utama dalam kewirausahaan, menelusuri keterkaitan antara regulasi, inovasi, dan keberlanjutan, serta mengajukan rekomendasi konseptual bagi pengembangan ekosistem kewirausahaan yang adaptif dan inklusif. Dengan menggunakan pendekatan normatif–konseptual, penelitian ini memanfaatkan sumber sekunder, termasuk peraturan nasional, publikasi ilmiah internasional terkini, serta laporan kelembagaan dari OECD, UNCTAD, dan Bank Dunia.

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Analisis komparatif dan tematik dilakukan untuk memetakan isu-isu hukum, menilai implikasinya terhadap inovasi, dan mengevaluasi dampaknya terhadap keberlanjutan bisnis. Hasil penelitian menunjukkan adanya enam bidang hukum utama: perizinan dan birokrasi, hak kekayaan intelektual, kontrak bisnis, perpajakan, ketenagakerjaan, serta hukum digital dan e-commerce. Regulasi terbukti berperan ganda sebagai fasilitator sekaligus penghambat inovasi kewirausahaan. Bukti lintas negara menunjukkan bahwa negara maju cenderung memiliki kerangka hukum yang lebih adaptif, sedangkan negara berkembang masih menghadapi tantangan signifikan dalam implementasi regulasi. Di Indonesia, reformasi seperti sistem Online Single Submission (OSS), Undang-Undang Cipta Kerja, dan Undang-Undang Perlindungan Data Pribadi merupakan langkah maju yang penting, meskipun masih berada pada tahap transisi. Secara teoretis, artikel ini berkontribusi dengan mengintegrasikan Teori Kelembagaan, Teori Inovasi, dan konsep Triple Bottom Line, serta memberikan rekomendasi praktis yang menekankan penyederhanaan regulasi, penguatan perlindungan kekayaan intelektual, pengembangan regulasi digital dan hijau yang adaptif, serta harmonisasi kebijakan internasional.

Kata Kunci Kewirausahaan; Kerangka Hukum; Inovasi; Keberlanjutan; Reformasi Regulasi;

INTRODUCTION

Entrepreneurship has long been recognized as a key driver of economic growth, job creation, and social development. It fosters innovation, enhances competitiveness, and contributes significantly to national and global economic resilience. In both developed and developing countries, entrepreneurship not only generates income and employment opportunities but also catalyzes technological advancement and social transformation. Despite its central role, the growth of entrepreneurship is inherently shaped and, at times, constrained by legal and regulatory frameworks that define the boundaries of business activities.

Legal regulation serves a dual role in shaping the entrepreneurial ecosystem. On the one hand, it provides legitimacy, consumer protection, and market stability, thereby creating an enabling environment for business ventures. On the other hand, regulatory burdens—such as complex licensing procedures, high compliance costs, and inflexible labor laws—can hinder entrepreneurial dynamism and discourage the establishment of new businesses. This ambivalence becomes particularly salient in the context of digital entrepreneurship, where rapid technological innovation often outpaces the ability of legal frameworks to adapt.

The tension between regulatory compliance, the need for innovation, and the pursuit of business sustainability has emerged as one of the most critical debates in contemporary entrepreneurship studies. Entrepreneurs are increasingly required to navigate not only traditional legal concerns such as taxation, contracts, and intellectual property protection, but also new challenges linked to digitalization, data protection, and sustainability-driven regulation. Consequently, the ability of regulatory systems to balance protection and flexibility will determine whether entrepreneurship thrives as a driver of innovation and sustainability, or stagnates under the weight of legal and bureaucratic barriers. This study addresses two central research questions: (1) What are the primary legal issues faced by modern entrepreneurs? and (2) How do regulatory frameworks influence both innovation and business sustainability? By engaging with these questions, the article aims to provide a comprehensive conceptual analysis of legal issues in entrepreneurship, highlighting their implications for the future of business ecosystems in both developed and emerging economies. The objectives of this article are threefold. First, to analyze the major legal issues that directly affect entrepreneurial activities. Second, to examine the interrelationships between regulation, innovation, and sustainability within the entrepreneurial domain. Third, to propose conceptual recommendations that can guide policymakers, regulators, and practitioners in fostering a more adaptive and inclusive

entrepreneurial environment. The theoretical contribution lies in integrating Institutional Theory, Schumpeterian Innovation Theory, and the Triple Bottom Line perspective, thereby offering a holistic framework for understanding the interplay between law, entrepreneurship, and sustainability. Practically, the article seeks to provide insights that can inform legal reforms and managerial strategies to strengthen entrepreneurial ecosystems, particularly in contexts where regulatory systems are still evolving.

1.1 Concept of Entrepreneurship: Traditional vs. Digital

Entrepreneurship has traditionally been associated with the creation and management of new ventures in manufacturing, trade, and services, where success largely depends on physical capital, market access, and social networks. Traditional entrepreneurs operate primarily in localized markets, with incremental innovation and gradual business growth. By contrast, the digital era has transformed the nature of entrepreneurship. Digital entrepreneurship leverages digital technologies, online platforms, and virtual ecosystems to create products, services, and business models that transcend geographical boundaries. Unlike traditional ventures, digital startups can scale rapidly and compete globally, but they also face unique legal challenges such as data protection, cybersecurity, cross-border taxation, and platform regulation. This duality illustrates the evolving complexity of entrepreneurship and underscores the need for legal frameworks that address both traditional and digital contexts.

1.2 Legal and Regulatory Frameworks

Legal frameworks play a decisive role in shaping the entrepreneurial environment. Several key domains are particularly relevant:

1. **Business Licensing** – Business legitimacy requires legal registration and licensing. Simplified licensing procedures, such as digitalized registration systems, have been shown to reduce barriers to entry and encourage new venture creation.
2. **Taxation** – Tax systems significantly influence entrepreneurial incentives. Complex tax structures discourage compliance, whereas simplified regimes and fiscal incentives foster innovation and business growth.
3. **Business Contracts** – Contract law provides legal certainty and strengthens trust in business relationships. Weak enforcement, however, increases transaction costs and deters partnerships.
4. **Labor Regulations** – Employment law ensures worker protection but can limit flexibility for startups and SMEs. Striking a balance between protection and flexibility remains a persistent challenge.
5. **Intellectual Property Rights (IPR)** – Strong IPR protection is essential for fostering innovation and attracting investment. Weak enforcement, especially in developing economies, increases risks of imitation and discourages technological entrepreneurship.

1.3 Theoretical Perspectives

Understanding the relationship between law, innovation, and sustainability in entrepreneurship requires a strong theoretical foundation that integrates insights from multiple perspectives. Prior research has often analyzed these domains in isolation, focusing either on the institutional conditions that shape business legitimacy, the dynamics of innovation, or the sustainability imperatives facing modern enterprises. However, the complexity of contemporary entrepreneurship demands an integrative approach that considers how these dimensions interact. Institutional Theory highlights the role of regulatory environments in shaping entrepreneurial legitimacy and survival. Innovation Theory emphasizes the disruptive potential of entrepreneurs and the ways in which regulation can both stimulate and constrain creativity. Meanwhile, the Triple Bottom Line (TBL) framework underscores the growing importance of aligning entrepreneurial practices with economic, social, and environmental sustainability. Together, these perspectives provide a multidimensional lens through which legal issues in entrepreneurship can be more comprehensively analyzed, offering both explanatory

power and practical relevance for understanding how regulation mediates innovation and sustainability outcomes.

1. Institutional Theory

Institutional Theory posits that organizations operate within formal and informal institutional environments that influence their legitimacy and survival. For entrepreneurship, transparent and adaptive regulations enhance legitimacy, while rigid or inconsistent rules act as barriers to venture creation.

2. Innovation Theory

Schumpeter (1934) conceptualized entrepreneurs as agents of “creative destruction,” disrupting markets through new combinations of resources, products, or processes. Modern extensions of innovation theory emphasize that regulation can either stimulate innovation by offering protection and incentives, or suppress it through restrictive compliance requirements.

3. Sustainability and the Triple Bottom Line (TBL)

Elkington’s (1997) Triple Bottom Line framework integrates economic, social, and environmental dimensions of business performance. For entrepreneurship, sustainability is increasingly linked to regulatory standards such as ESG reporting, green innovation incentives, and environmental compliance. Regulatory frameworks thus play a critical role in aligning entrepreneurship with sustainability goals.

1.4 Empirical Studies on Legal Issues in Entrepreneurship

Recent empirical studies highlight significant cross-country variation in how regulation shapes entrepreneurship. Aidis et al. (2008) found that transparent regulatory frameworks in Eastern Europe enhanced entrepreneurial activity compared to contexts with bureaucratic rigidity. Belitski et al. (2022) demonstrated that regulatory quality positively correlates with innovative entrepreneurship across Europe, while Nguyen et al. (2021) showed that complex administrative procedures remain a major obstacle to business formalization in developing countries.

In the digital domain, Sahut et al. (2021) identified data protection and cybersecurity as critical determinants of startup sustainability. Similarly, Audretsch et al. (2023) emphasized the importance of IPR protection for attracting investment and supporting startup growth. On sustainability, Lüdeke-Freund et al. (2022) revealed that regulatory frameworks encouraging sustainability standards significantly increase the adoption of eco-innovation by SMEs.

Collectively, these studies illustrate that regulation is not a neutral backdrop but an active determinant of entrepreneurial performance. The evidence also highlights the dual role of regulation as both an enabler and a barrier, depending on its design and implementation across different institutional contexts.

Table 1 Literatures Summary

Author – Year	Focus of Study	Key Findings
Nambisan et al. (2019)	Digital entrepreneurship and transformation	Digitalization creates new opportunities but requires adaptive legal frameworks.
Kraus et al. (2019)	Digital entrepreneurship research agenda	Identifies challenges of e-business models and calls for stronger IP protection and data regulation.
Nguyen et al. (2021)	Bureaucracy and entrepreneurship in developing countries	Complex licensing and bureaucratic hurdles reduce formalization and entrepreneurial activity.

Author – Year	Focus of Study	Key Findings
Belitski et al. (2022)	Regulatory quality and entrepreneurship (cross-country)	Regulatory quality positively influences innovative entrepreneurship.
Audretsch et al. (2023)	Startups, innovation, and intellectual property	Strong IP protection enhances startup success and investor trust.
Sahut et al. (2021)	Digital entrepreneurship and legal issues	Data protection and e-commerce laws are central for startup sustainability.
Bruton et al. (2021)	Institutions and entrepreneurship during crises	Institutional flexibility crucial for resilience and innovation during uncertainty.
Lüdeke-Freund et al. (2022)	Sustainable business model innovation	Regulatory sustainability standards encourage adoption of green innovation.
Aguinis & Glavas (2019)	Corporate social responsibility (CSR) and regulation	ESG-oriented policies enhance firm legitimacy and long-term competitiveness.

Figure 1 is a concept map depicting the relationship between Regulation, Innovation, and Business Sustainability within the framework of Legal Issues in Entrepreneurship. Regulation interacts with innovation and business sustainability, while all three ultimately lead to the legal issues of entrepreneurship.

**Conceptual Map: Legal Issues in Entrepreneurship
Between Regulation, Innovation, and Business Sustainability**

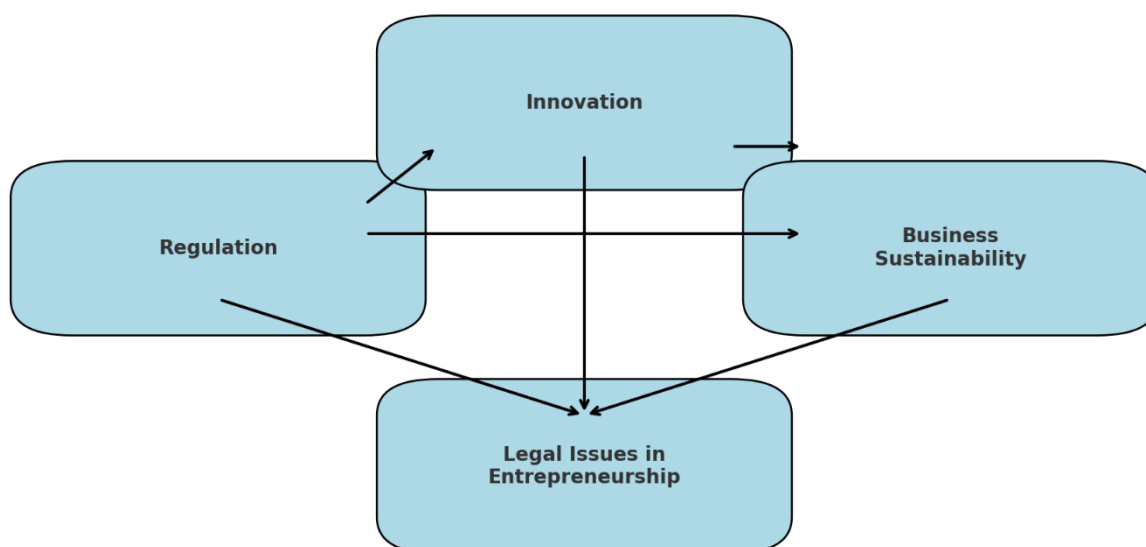


Figure 1: Conceptual Map

a. Regulation → Innovation

Regulation plays an ambivalent role in entrepreneurship. On the one hand, clear, simple, and supportive regulations can be an enabler of innovation. For example, tax incentives for technology startups or strong Intellectual Property Rights (IPR) protection encourage entrepreneurs to innovate without fear of their work being copied. However, complicated regulations and overregulation can actually become barriers. Lengthy licensing

procedures, high compliance costs, and rigid labor regulations often delay or hinder the emergence of new innovations.

b. Innovation → Business Sustainability

Innovation is the driving force of business sustainability. Startups and MSMEs that innovate in products, services, and business models are better able to survive amidst competition. For example, environmentally friendly innovations (eco-innovation) not only increase efficiency but also strengthen the image of sustainability (sustainability branding). However, innovation without regulatory support is often prone to failure. For example, innovation in the fintech sector can pose risks if consumer protection regulations are weak.

c. Regulation → Business Sustainability

Regulation also directly impacts business sustainability. Environmental regulations, for example, force companies to adopt green entrepreneurship practices to meet standards. Strict financial governance regulations increase transparency and accountability, thus bolstering public trust. Conversely, non-adaptive regulations can make business sustainability difficult, especially for MSMEs, which are burdened with high compliance costs without adequate incentives.

d. Regulation + Innovation + Sustainability → Legal Issues in Entrepreneurship

These three aspects—regulation, innovation, and sustainability—converge in the realm of entrepreneurial legal issues. These issues include:

- Business licensing and bureaucracy.
- Intellectual Property Rights (IPR) protection for innovators.
- Business contracts and legal certainty.
- Taxes and incentives.
- Labor regulations.
- Data protection and e-commerce (for digital entrepreneurs).

When regulations are not aligned with innovation and sustainability principles, conflicts and legal barriers arise that can reduce entrepreneurial competitiveness. Therefore, legal issues in entrepreneurship must be understood as a meeting point that determines the direction of development of the entrepreneurial ecosystem.

RESEARCH METHOD

This study adopts a normative–conceptual research design, which is particularly suitable for examining legal issues in entrepreneurship that cannot be fully captured through empirical or quantitative approaches. The normative–conceptual approach emphasizes the interpretation and synthesis of legal frameworks, theoretical perspectives, and scholarly debates in order to construct a comprehensive understanding of how regulation interacts with innovation and business sustainability.

The data for this study were drawn exclusively from secondary sources. These included:

1. National and international regulatory frameworks, particularly laws and policies on business licensing, taxation, labor regulation, intellectual property rights (IPR), and digital entrepreneurship.
2. Scholarly literature published in reputable international journals indexed in Scopus and Web of Science, with a focus on articles published between 2018 and 2023 to ensure conceptual novelty and timeliness.
3. Institutional reports produced by global organizations such as the OECD, UNCTAD, and the World Bank, which provide comparative data on entrepreneurship regulation, business climate indicators, and investment environments across countries.

The data were analyzed using a combination of comparative and thematic analysis. Comparative analysis was applied to assess how different countries design and implement regulatory frameworks, thereby highlighting contrasts between developed and developing contexts. Thematic analysis was used to categorize legal issues into major themes, such as licensing, taxation, contracts, labor law, intellectual property, and digital regulation.

Within each theme, the study mapped the legal issue → its practical impact → potential solution, enabling a structured understanding of how legal frameworks either enable or constrain entrepreneurial activity.

This methodological approach ensures that the discussion is not limited to descriptive legal commentary but extends to an analytical synthesis that links regulation with innovation outcomes and sustainability imperatives. As such, the methodology provides a strong foundation for drawing conceptual insights and offering practical recommendations to policymakers, regulators, and entrepreneurs.

RESULT AND DISCUSSION

3.1 Core Legal Issues in Entrepreneurship

The findings reveal six primary legal domains that significantly shape entrepreneurial dynamics:

1. **Licensing and Bureaucracy** – Administrative procedures remain a central barrier for entrepreneurs, particularly in developing economies. Lengthy and opaque licensing processes discourage formalization and increase transaction costs. For instance, despite Indonesia's Online Single Submission (OSS) system aimed at simplifying licensing, technical issues and low digital literacy among SMEs have limited its effectiveness. By contrast, countries such as Singapore and Estonia have implemented streamlined digital licensing platforms that significantly reduce entry barriers and encourage new venture creation.
2. **Intellectual Property Rights (IPR)** – IPR protection is essential for safeguarding innovation and attracting investment. Weak enforcement exposes entrepreneurs to risks of imitation, reducing incentives for technological development. Audretsch et al. (2023) demonstrate that startups operating in jurisdictions with robust IPR systems have higher survival rates and greater access to venture capital. In Indonesia, however, many SMEs remain reluctant to register intellectual property due to the costs and complexity of the process.
3. **Contracts and Institutional Certainty** – Reliable contract enforcement is crucial for entrepreneurial partnerships. In contexts where legal systems are slow or unpredictable, transaction costs rise, and trust diminishes. Developed countries typically provide stronger institutional support for dispute resolution, whereas in many developing economies—including Indonesia—weak contract enforcement continues to undermine entrepreneurial confidence.
4. **Taxation and Financial Obligations** – Tax systems exert a dual influence. Simplified tax schemes, such as Indonesia's 0.5% final tax on SME turnover, lower compliance costs and encourage formalization. However, complex tax administration and low tax literacy hinder broader compliance. In contrast, the United States fosters innovation through R&D tax credits, while Scandinavian countries leverage digitalized tax systems to increase transparency and compliance. The long-term implication is clear: tax policy must strike a balance between revenue collection and entrepreneurial support.
5. **Labor Law** – Employment regulation ensures worker protection but may reduce flexibility for startups. In Indonesia, the Omnibus Law on Job Creation (2020) sought to increase flexibility in contracting and wage arrangements, yet debates persist regarding worker welfare. The case of Gojek illustrates this tension: its drivers are classified as independent partners rather than employees, raising questions about access to labor protections. By contrast, the European Union has moved toward recognizing gig workers as employees, thereby strengthening protections at the cost of reduced business flexibility.
6. **Digital and E-Commerce Law** – The rapid growth of digital entrepreneurship introduces new legal challenges, particularly in data protection, cross-border transactions, and platform regulation. In Indonesia, the enactment of the Personal Data Protection Law (2022) represents a critical step toward aligning with global

standards. Similarly, India’s Information Technology Act has enhanced trust in digital platforms, enabling the rapid growth of companies such as Flipkart. Conversely, the absence of clear rules in several Southeast Asian economies has increased consumer risk and constrained the digital ecosystem.

Collectively, these findings highlight the ambivalence of regulation: it can serve as both an enabler and a barrier depending on its design, implementation, and enforcement.

3.2 Labor Law and Taxation

3.2.1 Labor Law

Labor regulation is fundamentally designed to protect workers’ rights, including minimum wage standards, social security, and workplace safety. However, in the context of entrepreneurship—particularly for SMEs and startups—excessively rigid regulation may reduce operational flexibility. In Indonesia, the enactment of the Omnibus Law on Job Creation No. 11/2020 introduced greater flexibility in employment contracts and wage arrangements, aiming to enhance labor market adaptability. A notable case is Gojek, which employs its drivers as independent partners rather than permanent employees. This employment model has sparked legal debates over whether such partners should receive the same labor protections as formal employees.

By contrast, Western European countries such as Germany and the Netherlands maintain stricter labor regulations, including the recognition of *gig workers* as employees. The European Union has even promoted new regulations to extend stronger protections to digital platform workers. This divergence illustrates Indonesia’s emphasis on flexibility to stimulate startup growth, while Europe prioritizes the social legitimacy of entrepreneurship by safeguarding workers’ rights. In the long term, balancing these approaches is crucial: overly lenient regulation risks exploitation, whereas excessively rigid rules may hinder the flexibility required by digital business models.

3.2.2 Taxation and Financial Obligations

The tax system plays a dual role in shaping the entrepreneurial climate: as a source of state revenue and as a policy instrument to support business growth. In Indonesia, the SME tax policy—imposing a final tax of 0.5% on turnover—provides relief for small businesses. Yet, implementation remains challenging, particularly due to low tax literacy among entrepreneurs. The case of Tokopedia is illustrative: as one of Indonesia’s unicorn e-commerce companies, it has had to adapt to digital tax regulations, including the obligation to collect Value Added Tax (VAT) on online transactions. This policy highlights the shift from traditional taxation regimes toward digital taxation frameworks better aligned with new business models.

In contrast, the United States offers a range of tax incentives to promote the growth of technology startups, such as the R&D tax credit, which reduces the tax burden for companies investing in research and development. Meanwhile, Scandinavian countries emphasize the digitalization of tax administration, making compliance simpler and more transparent. This comparison underscores that adaptive tax systems not only enhance compliance but also strengthen entrepreneurial competitiveness. In the long run, Indonesia must advance toward a more integrated, simplified, and innovation-friendly digital taxation system.

Table 2. Comparative Labor and Taxation Regulations

Aspect	Indonesia	Europe/US	Implications for Entrepreneurship
Labor Law	Omnibus Law on Job Creation (2020) increases flexibility in contracts and non-formal arrangements (e.g., Gojek drivers	EU strengthens protection for gig workers; Germany & the Netherlands recognize platform	Indonesia favors flexibility to stimulate startup growth but risks worker exploitation. Europe emphasizes social legitimacy and worker

Aspect	Indonesia	Europe/US	Implications for Entrepreneurship
Taxation	classified as partners rather than employees). SME tax of 0.5% on turnover; digital tax enforced (e.g., Tokopedia required to collect VAT on online transactions).	workers as employees. US: R&D tax credit incentivizes startup innovation; Scandinavia: digitalized taxation enhances compliance.	welfare, albeit at the cost of reduced startup flexibility. Indonesia faces challenges with tax literacy and bureaucracy. Advanced economies use taxation as an innovation incentive and strengthen compliance through digitalization.

3.3 Digital and E-Commerce Law

The rapid expansion of digital entrepreneurship has generated a wide spectrum of legal challenges that go beyond the scope of traditional commercial law. Core issues include the protection of personal data, regulation of fintech innovations, and the governance of cross-border digital transactions. In particular, the exponential growth of e-commerce platforms, online marketplaces, and financial technology firms has raised pressing questions about privacy, cybersecurity, taxation, and consumer rights. Sahut et al. (2021) highlight that adaptive regulation attuned to the pace of technological development is a key determinant of sustainability for both e-commerce and fintech startups.

Data protection has emerged as one of the most critical concerns. The European Union's General Data Protection Regulation (GDPR) has set a global benchmark for safeguarding personal data, compelling digital enterprises worldwide to adopt higher standards of compliance. Indonesia has taken significant steps with the enactment of the Personal Data Protection Law (2022), aiming to strengthen consumer trust in digital platforms. However, challenges remain regarding enforcement capacity, regulatory awareness among SMEs, and the integration of domestic laws with global data governance frameworks. Without effective enforcement, risks such as data breaches, misuse of consumer information, and cybercrime will continue to undermine the legitimacy of digital entrepreneurship.

Fintech regulation represents another emerging domain. Startups operating in mobile payments, peer-to-peer lending, and digital banking face highly dynamic legal environments. In Indonesia, the Financial Services Authority (OJK) has issued specific regulations for fintech companies, while also experimenting with regulatory sandboxes that allow startups to test innovations within a controlled environment. Singapore has pioneered this approach, successfully balancing innovation with risk management, thereby positioning itself as a global fintech hub. Such models demonstrate that flexible yet robust regulatory frameworks can foster innovation while safeguarding financial stability and consumer protection.

Cross-border e-commerce transactions further complicate the legal landscape. Issues of jurisdiction, taxation, and electronic contract enforcement pose significant challenges for startups seeking to operate internationally. While developed economies are advancing towards harmonized frameworks for digital trade, many developing countries remain constrained by fragmented laws and limited institutional capacity. The lack of harmonization creates uncertainty for entrepreneurs and may deter international expansion. Regional initiatives within ASEAN, such as the ASEAN Agreement on E-Commerce, represent promising steps toward regional regulatory convergence, yet practical implementation has been uneven.

In the absence of coherent and adaptive regulation, digital entrepreneurs face heightened risks of online fraud, contract disputes, and intellectual property infringement, all of which erode consumer trust. Conversely, well-designed regulation can transform

compliance obligations into strategic advantages. For example, strong data protection standards can differentiate firms in the marketplace by signaling reliability, while fintech regulations can encourage innovation in secure financial services. Thus, digital and e-commerce law is not merely a constraint but can serve as a catalyst for building more resilient, trustworthy, and globally competitive entrepreneurial ecosystems.

3.4 Regulation and Innovation

Regulation exerts a paradoxical influence on innovation. When designed adaptively, regulation enables entrepreneurship by offering legal certainty, protecting intellectual property, and incentivizing innovation. For instance, regulatory sandboxes in Singapore allow fintech startups to experiment under limited supervision, balancing risk management with entrepreneurial flexibility. Similarly, green innovation policies in the European Union have stimulated eco-entrepreneurship and accelerated the transition toward sustainable business models.

Conversely, overregulation and high compliance costs discourage experimentation, particularly among SMEs. In Indonesia, excessive bureaucracy continues to limit the ability of SMEs to scale despite reforms. Comparative evidence suggests that while developed economies tend to design adaptive frameworks, developing economies often struggle with inconsistent enforcement and institutional capacity gaps. This reinforces the notion that regulatory frameworks must not only protect but also nurture innovation.

3.5 Legal Issues and Business Sustainability

Sustainability has become a defining dimension of contemporary entrepreneurship. Regulations related to environmental standards, ESG reporting, and carbon pricing increasingly shape entrepreneurial strategies. In the European Union, the Green Deal policy provides financial incentives for SMEs that adopt renewable energy and eco-friendly technologies, demonstrating how regulation can transform compliance obligations into innovation opportunities.

In Indonesia, the issuance of Presidential Regulation No. 98/2021 on the Economic Value of Carbon reflects a growing policy emphasis on sustainability. However, implementation challenges persist due to limited awareness among entrepreneurs and the absence of integrated institutional support. This regulatory gap illustrates the difficulty of translating sustainability mandates into entrepreneurial practice in developing contexts.

Thus, the relationship between legal frameworks and sustainability is twofold: while regulation can accelerate the adoption of sustainable practices, inconsistent enforcement and fragmented policies may hinder long-term impact. Effective regulatory alignment with sustainability goals requires coherent policy design, adequate institutional capacity, and strong incentives for compliance.

3.6 Theoretical Linkages between Law and Entrepreneurship

From a theoretical perspective, the findings strongly reaffirm the relevance of Institutional Theory in explaining how formal and informal regulatory structures shape entrepreneurial legitimacy, opportunities, and long-term performance. According to Scott (2019), institutions function as “rules of the game” that create stability, predictability, and fairness in the market. They provide entrepreneurs with the legal legitimacy required to access resources, attract investors, and secure consumer trust. However, empirical evidence from both developed and developing economies suggests that regulations often deviate from their intended role. Instead of facilitating entrepreneurship, they can become sources of rigidity, excessive costs, and bureaucratic hurdles that discourage new venture creation.

This paradox is particularly evident in the domain of intellectual property rights (IPR). While the normative goal of IPR law is to safeguard innovation and reward creativity, the practical reality in emerging economies often paints a different picture. Many Indonesian SMEs, for instance, refrain from registering patents, copyrights, or trademarks because of lengthy administrative procedures, limited awareness, and prohibitive costs. As a result, entrepreneurs remain vulnerable to imitation and face difficulties in securing external

funding, since investors often view strong IPR portfolios as a prerequisite for financial support. This mismatch between normative legal functions and entrepreneurial realities highlights the importance of designing regulatory systems that are not only protective but also enabling and accessible.

Institutional Theory also emphasizes the role of informal institutions, such as cultural norms, social trust, and industry practices, which often interact with formal law in complex ways. In contexts where formal legal enforcement is weak, entrepreneurs may rely on social networks, reputational mechanisms, or community-based arbitration to resolve disputes. While such informal mechanisms can compensate for institutional gaps, they also risk perpetuating inequality and uncertainty. For example, entrepreneurs without strong social capital or connections may find themselves disproportionately disadvantaged, reinforcing the argument that effective formal institutions remain essential for equitable access to entrepreneurial opportunities.

The findings also resonate with the concept of institutional voids, where gaps in regulatory enforcement or policy coherence create uncertainty that entrepreneurs must navigate. In Indonesia, overlapping jurisdictions between government agencies often create regulatory inconsistencies, particularly in sectors such as fintech and e-commerce. Entrepreneurs are thus forced to engage in “institutional bricolage”—adapting creatively to fragmented rules while pushing for regulatory clarity. This illustrates how entrepreneurs are not passive recipients of institutional constraints but active agents who negotiate, reinterpret, and sometimes even challenge existing legal structures.

Furthermore, linking Institutional Theory with Innovation Theory suggests that regulatory systems should not merely constrain or discipline entrepreneurs but also stimulate innovative activity. Regulations that are overly rigid may suppress risk-taking, whereas adaptive and incentive-based regulations can legitimize experimentation. For example, regulatory sandboxes in Singapore and the United Kingdom demonstrate how legal frameworks can be designed as enablers of innovation, aligning with Schumpeter’s notion of entrepreneurship as “creative destruction.”

In sum, the theoretical linkages between law and entrepreneurship underscore that legal frameworks are both constitutive and constraining: they define the boundaries of entrepreneurial action while simultaneously shaping its trajectory. The challenge for policymakers, particularly in emerging economies, is to align institutional design with entrepreneurial realities, ensuring that law functions as a catalyst for innovation, legitimacy, and sustainability rather than as a barrier to entry and growth.

3.7 Tensions between Strict Regulation and Innovation

One of the most persistent dilemmas in entrepreneurship policy lies in balancing strict regulation—which serves to protect consumers, workers, and the stability of markets—with the flexibility and freedom that entrepreneurs require to innovate. Regulation is essential for safeguarding public interests: consumer protection laws prevent fraudulent practices, labor regulations secure fair wages and safe working conditions, and financial regulations maintain systemic stability. However, when applied too rigidly, these same regulations can suppress experimentation, delay the commercialization of new ideas, and ultimately discourage entrepreneurial risk-taking.

This tension becomes particularly acute in digital entrepreneurship, where technological innovation often outpaces the ability of regulators to adapt. For example, peer-to-peer (P2P) lending platforms in Indonesia initially struggled under a fragmented and restrictive regulatory environment. Unclear licensing requirements, coupled with heavy compliance burdens, slowed the adoption of these platforms and limited access to alternative financing for SMEs. By contrast, Singapore’s regulatory sandbox model offered fintech startups an environment to test innovative financial products under regulatory oversight but without the immediate burden of full compliance. This approach not only enabled innovation but also provided regulators with insights into emerging risks, demonstrating

that regulation can be designed as an adaptive learning process rather than a rigid set of constraints.

The fintech case illustrates a broader principle: regulation is not simply a mechanism of control but also a tool for ecosystem design. Countries that employ flexible, principle-based regulation tend to foster more vibrant entrepreneurial ecosystems than those with rule-heavy, prescriptive frameworks. In the United States, for instance, regulatory leniency in the early years of platform-based business models (e.g., ride-hailing or home-sharing) enabled rapid scaling and global expansion. Yet the absence of early safeguards also led to social and legal conflicts around labor rights, taxation, and competition policy. This shows that while flexibility promotes innovation, it can also generate externalities that eventually demand corrective regulation.

The tension between short-term flexibility and long-term protection thus creates a paradox for policymakers. Striking the right balance requires not only legal sophistication but also continuous dialogue between regulators and entrepreneurs. Institutionalized mechanisms such as public consultations, industry roundtables, and co-regulatory approaches can help align regulatory objectives with entrepreneurial realities. Moreover, international experiences suggest that adaptive regulation should be iterative: frameworks should evolve in response to technological developments and market feedback rather than remaining static.

In emerging economies like Indonesia, this tension is further amplified by capacity gaps within regulatory institutions. Limited expertise in emerging fields such as blockchain, digital finance, and artificial intelligence often results in either overregulation, born from precaution, or underregulation, caused by lack of oversight. Both extremes undermine innovation. Therefore, strengthening institutional capacity—through training, cross-border collaboration, and knowledge-sharing with advanced economies—is a prerequisite for creating a truly innovation-friendly regulatory environment.

Ultimately, the tension between strict regulation and innovation underscores that law must operate not as a blunt instrument of control but as a strategic enabler of entrepreneurial dynamism. An innovation-friendly ecosystem is achieved not by deregulation per se, but by regulation that is flexible, anticipatory, and inclusive, ensuring that entrepreneurial creativity can flourish while still protecting broader societal interests.

3.8 Global Comparison: Developed vs. Developing Contexts

Comparative analysis between developed and developing economies highlights sharp structural and institutional differences in how regulation shapes entrepreneurship. In developed economies, regulatory frameworks are often more harmonized, transparent, and consistently enforced, providing entrepreneurs with a high degree of certainty. For instance, the European Union's General Data Protection Regulation (GDPR) has not only strengthened consumer data protection but has also enhanced global trust in digital entrepreneurship by establishing clear and uniform standards across member states. Similarly, the European Green Deal represents a comprehensive policy approach that links regulation with financial incentives to stimulate green innovation, supporting startups that align with sustainability objectives. These frameworks illustrate how regulation in developed contexts is designed not only to mitigate risks but also to actively promote innovation and sustainability.

By contrast, many developing economies face persistent challenges such as fragmented regulations, overlapping jurisdictions, weak enforcement, and limited institutional capacity. Indonesia, for example, has enacted significant reforms—including the Personal Data Protection Law (2022) and the Omnibus Law on Job Creation (2020)—yet implementation remains inconsistent. Enforcement agencies often lack the resources, expertise, and coordination necessary to ensure compliance. As a result, startups reliant on digital trust or seeking to leverage labor flexibility encounter uncertainty that undermines confidence and discourages investment. Similar patterns can be observed

across ASEAN countries, where regulatory fragmentation hampers cross-border e-commerce despite the ASEAN Agreement on E-Commerce (2019).

The contrast extends beyond Europe and Southeast Asia. In the United States, regulatory approaches have traditionally been more market-driven and flexible, fostering rapid innovation in sectors such as fintech, ride-hailing, and platform-based entrepreneurship. However, the lack of early regulatory safeguards also led to significant challenges around labor rights, antitrust issues, and consumer data misuse, which later demanded corrective interventions. This trajectory underscores that while regulatory leniency can accelerate entrepreneurial growth in the short term, it may generate long-term social and economic costs if not balanced by robust oversight.

Meanwhile, in African economies, entrepreneurs face particularly acute institutional voids. Weak contract enforcement, corruption, and lack of infrastructure often force reliance on informal institutions such as trust-based networks or customary law. While these mechanisms allow entrepreneurship to persist in the absence of strong formal regulation, they also exacerbate inequality, limit scalability, and deter foreign investment. Comparatively, Latin American countries like Brazil and Mexico illustrate a hybrid scenario, where modern digital entrepreneurship thrives alongside bureaucratic inertia and policy inconsistency, creating uneven outcomes across sectors.

These cross-regional comparisons reveal that regulatory effectiveness is not merely a function of law-making but of institutional quality and enforcement capacity. Well-designed laws, such as Indonesia's PDP Law or ASEAN's regional agreements, may remain symbolic unless supported by strong institutions, clear enforcement mechanisms, and regulatory awareness among entrepreneurs. Conversely, overly lenient frameworks in developed economies highlight that deregulation without sufficient safeguards can also undermine long-term sustainability.

In sum, the global comparison underscores a dual lesson: developing economies must strengthen institutional capacity to make regulations effective, while developed economies must continuously refine regulations to balance innovation with social legitimacy. Both trajectories point to the same conclusion: entrepreneurial ecosystems thrive not simply on the existence of laws but on their adaptive, consistent, and credible implementation.

3.9 Implications for Digital and Sustainable Entrepreneurship

The findings generate several significant implications for the advancement of both digital and sustainability-oriented entrepreneurship. In the digital domain, adaptive regulation functions as a cornerstone for building consumer trust and reducing uncertainty, thereby creating the conditions necessary for market expansion. Trust is particularly critical in online transactions, where asymmetries of information and the absence of physical interaction heighten risks for consumers. Effective legal frameworks that address data protection, cybersecurity, and cross-border e-commerce are thus not only safeguards but also enablers of entrepreneurial growth. For instance, the enforcement of the GDPR in Europe has compelled firms to strengthen their data management practices, which in turn has enhanced consumer confidence in digital platforms across the EU. By contrast, weak or inconsistent regulation in many developing countries fosters an environment where fraud, data breaches, and contractual disputes erode the legitimacy of digital platforms and limit their scalability.

Equally important are the implications for sustainability-driven entrepreneurship. Regulation in this area serves as both a constraint and a catalyst. On one hand, environmental standards and compliance requirements may increase operational costs, especially for SMEs with limited resources. On the other hand, when paired with incentives such as carbon pricing, renewable energy subsidies, or ESG reporting frameworks, regulation can stimulate investment in sustainable innovation. The European Green Deal, for example, has created new markets for eco-friendly technologies by aligning regulatory requirements with financial incentives. This has enabled SMEs to

reframe sustainability not as a burden but as a strategic opportunity for differentiation and long-term competitiveness.

In Indonesia, Presidential Regulation No. 98/2021 on Carbon Pricing marks an important policy step toward embedding sustainability into economic governance. However, its impact has so far been constrained by limited integration with broader entrepreneurial and industrial policies, as well as low awareness among SMEs regarding its practical relevance. Without complementary measures—such as training programs, simplified compliance mechanisms, and fiscal incentives—the regulation risks remaining symbolic rather than transformative. This underscores the need for systemic alignment between sustainability regulation and the wider entrepreneurial ecosystem.

At a broader level, these implications suggest that regulatory frameworks must evolve from being reactive—merely responding to risks and external pressures—to being proactive, deliberately shaping markets to foster innovation and sustainability. In the digital economy, this could include expanding regulatory sandboxes for startups experimenting with blockchain, artificial intelligence, and fintech solutions. For sustainability-oriented ventures, proactive regulation might involve green procurement policies, where governments serve as anchor customers for environmentally friendly products, or tax incentives that reward companies for reducing their carbon footprint.

Ultimately, the lesson from both domains is that regulation cannot be viewed solely as a compliance burden. Instead, it should be understood as a strategic instrument of ecosystem design. Well-calibrated regulation creates virtuous cycles: it strengthens legitimacy, enhances consumer and investor confidence, and incentivizes entrepreneurial ventures to pursue both innovation and sustainability. For policymakers in emerging economies like Indonesia, the challenge is not simply to introduce new regulations but to ensure their coherence, enforceability, and alignment with entrepreneurial realities. For entrepreneurs, the implication is equally clear: engaging with regulation strategically—rather than passively—is essential for securing long-term growth and competitiveness in the digital and green economy.

3.10 Theoretical Contribution

The discussion offers a significant theoretical contribution by integrating three major perspectives—Institutional Theory, Innovation Theory, and the Triple Bottom Line (TBL)—into a unified framework for analyzing legal issues in entrepreneurship. Each of these perspectives has traditionally been applied in relative isolation: Institutional Theory has largely focused on how regulatory environments shape organizational legitimacy, Innovation Theory has examined the disruptive potential of entrepreneurial activity, and the TBL framework has been employed primarily to assess the social and environmental dimensions of business performance. By bringing these perspectives together, this study advances the literature beyond siloed approaches and demonstrates the interdependence between law, innovation, and sustainability.

This integration provides several distinct contributions. First, it shows that regulations do not merely constrain or facilitate entrepreneurship in a legal sense but also shape its innovative trajectory. For example, intellectual property regimes both define the boundaries of market competition and condition the incentives for firms to innovate. Second, the analysis highlights that the contribution of entrepreneurship to sustainable development is inseparable from its legal and institutional foundations. Sustainability-driven innovation requires not only entrepreneurial motivation but also regulatory frameworks that incentivize compliance, reduce risks, and provide legitimacy. This directly responds to calls in the literature for more multidimensional frameworks that account for the interplay between institutional quality, innovation processes, and sustainability outcomes.

Third, the article contributes conceptually by framing regulation as a dynamic mediator rather than a static backdrop. Institutional Theory traditionally emphasizes compliance and legitimacy, while Innovation Theory highlights creative destruction, and the TBL

stresses triple performance outcomes. By synthesizing these strands, the study argues that regulation actively mediates how innovation contributes to sustainability: adaptive regulation fosters green innovation and digital transformation, whereas rigid or fragmented regulation hinders both. This perspective provides a more holistic theoretical lens for understanding entrepreneurship in the 21st century, where digitalization and sustainability imperatives are reshaping global business environments.

Finally, this integrated framework offers a theoretical foundation for future comparative research. It suggests that variations in institutional quality across countries not only influence entrepreneurial entry rates but also determine the extent to which entrepreneurship contributes to broader innovation systems and sustainable development agendas. In developing economies, institutional voids weaken the translation of entrepreneurial activity into systemic sustainability outcomes, while in developed economies, advanced regulatory regimes create conditions where innovation is systematically aligned with social and environmental objectives.

In sum, the article advances theoretical understanding by positioning law not as a passive boundary-setter but as an active, constitutive element of entrepreneurial ecosystems, simultaneously influencing legitimacy, innovation capacity, and sustainability impact. This multidimensional integration responds to a clear research gap and provides a robust conceptual foundation for scholars seeking to analyze entrepreneurship at the intersection of regulation, innovation, and sustainability.

CONCLUSION

This study examined the intersection of legal issues, innovation, and sustainability in entrepreneurship. The findings highlight six core regulatory domains—licensing, taxation, contracts, labor law, intellectual property rights, and digital regulation—that play a decisive role in shaping entrepreneurial outcomes. These legal frameworks function ambivalently, acting as both enablers and barriers depending on their design and enforcement. Evidence shows that while developed economies have succeeded in crafting adaptive regulations that support innovation and sustainability, developing economies, including Indonesia, continue to struggle with bureaucratic complexity, fragmented policies, and weak institutional capacity.

The analysis underscores the importance of striking a balance between protection and flexibility. Overly lenient regulation risks exploitation and legal uncertainty, while excessively rigid frameworks may stifle entrepreneurial dynamism. The theoretical contribution of this article lies in integrating Institutional Theory, Innovation Theory, and the Triple Bottom Line into a holistic framework for understanding how law, innovation, and sustainability are interwoven in entrepreneurial ecosystems.

From a practical standpoint, this study offers several implications for entrepreneurs and policymakers:

1. **Proactive Compliance Strategies** – Entrepreneurs, particularly in digital sectors, must develop compliance strategies that anticipate regulatory changes rather than respond reactively. This enhances resilience and builds legitimacy.
2. **Risk Management and Legal Literacy** – SMEs and startups should invest in legal literacy and risk management mechanisms, including contractual safeguards, intellectual property protection, and data security systems, to minimize exposure to legal uncertainties.
3. **Innovation through Regulation** – Rather than perceiving regulation solely as a burden, entrepreneurs can treat it as a catalyst for innovation. For example, ESG reporting requirements can be leveraged as a competitive advantage in marketing sustainable business practices.
4. **Collaborative Policy Dialogue** – Entrepreneurs should actively engage with regulators through industry associations or policy forums, contributing to the co-creation of adaptive legal frameworks that balance protection and innovation.

While this article provides important conceptual insights, several limitations must be acknowledged. First, the study relies on a normative–conceptual approach and secondary sources, limiting its ability to capture empirical nuances of how regulations directly affect entrepreneurial behavior. Future research should therefore adopt empirical methods such as surveys, interviews, or case studies of SMEs and startups in diverse sectors to provide more grounded evidence.

Second, the analysis emphasizes macro-level regulatory frameworks, whereas micro-level dynamics—such as entrepreneurs’ individual strategies for navigating regulation—remain underexplored. Subsequent studies could investigate how entrepreneurs adapt differently depending on firm size, sector, or digital maturity.

Third, the rapidly evolving nature of digital and sustainability regulations means that the findings are time-bound. Longitudinal research is needed to examine how regulatory reforms—such as Indonesia’s Personal Data Protection Law or carbon pricing policies—shape entrepreneurial ecosystems over time. Comparative research across ASEAN or other emerging economies would also provide valuable insights into regional variations in regulatory design and enforcement.

By addressing these limitations, future studies can build on the conceptual framework presented here, bridging theory and practice to design legal systems that more effectively support entrepreneurship as a driver of innovation and sustainable development.

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