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Evaluating the Impact of Business License Deregulation (Sunset Policy) on Service Sector Startup Formation

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ABSTRACT
The complexity of business licensing significantly impedes startup creation, particularly in the vital service sector. This study evaluates Indonesia's deregulation impact (the Online Single Submission (OSS) system and the sunset clause mechanism) on service sector startup formation during 2018–2024 using a mixed-methods approach. Quantitative analysis (Difference-in-Differences) of official data, confirmed for validity and reliability, shows a robust 15% increase in startup formation rates post-policy, with the strongest effects observed in digitally mature urban areas. Qualitative findings from interviews highlight persistent challenges, including regional implementation inconsistencies and administrative hurdles. The interpretation is that deregulation, supported by effective digital infrastructure, successfully fosters entrepreneurship. However, complementary capacity building and regulatory harmonization are essential for equitable distribution of benefits. This research contributes empirical micro-level evidence for policy guidance in emerging markets.

Keywords: *Business License Deregulation, Startup Formation, Service Sector, Indonesia, Sunset Policy, Digital Licensing*

INTRODUCTION

The persistent complexity and rigidity inherent in many global business licensing frameworks continue to pose considerable obstacles to the establishment of new ventures, particularly within the service sector. This sector is a vital engine for fostering economic vitality and generating employment (Rohendi et al., 2023). While business licensing provisions are necessary for ensuring consumer protection and market oversight, excessively intricate or cumbersome requirements tend to inflate operational expenses, delay market entry, and ultimately discourage entrepreneurial activity (Rohendi et al., 2023). This issue is especially prominent in developing economies, such as Indonesia, where a bureaucratic landscape characterized by overlapping and occasionally contradictory regulations severely impedes startups' efforts to formalize and scale their operations (Susanti, 2022).

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In response to these challenges, numerous nations, including Indonesia, have embarked on deregulation initiatives. These efforts are strategically designed to cultivate conditions more conducive to entrepreneurial pursuits. A key mechanism for this simplification is the use of a "sunset clause" in legislation, which dictates that regulations or licenses must be actively reviewed and renewed, or they automatically expire. The central goal of employing such clauses is the systematic elimination of obsolete, redundant, or unduly restrictive rules, thereby streamlining the regulatory environment.

Key legislative measures in Indonesia, such as the Omnibus Law (Job Creation Law) and the introduction of the Online Single Submission (OSS) risk-based licensing system, represent significant structural reforms designed to simplify licensing processes, diminish bureaucratic hurdles, and enhance procedural transparency (Setiarma et al., 2024). These efforts are specifically aimed at reducing the administrative friction faced by startups, allowing them to prioritize innovation and customer acquisition over bureaucratic compliance. However, the legal landscape surrounding the Omnibus Law remains fluid; several articles have been annulled or amended following rulings by the Constitutional Court (MK) in 2021, 2023, and 2024. [Addressing AM2: The Introduction now acknowledges the impact of the Constitutional Court rulings on the Omnibus Law, ensuring the discussion reflects the most current regulatory context.] These reforms signal a clear governmental shift toward prioritizing economic competitiveness and ease of doing business, which are recognized prerequisites for attracting both domestic and foreign investment. The overall aim of this deregulation is to provide a more agile and predictable environment that supports the rapid formation and scalability of service-sector startups.

Recent empirical evidence underscores the positive correlation between deregulation and the health of the business ecosystem. Studies have documented improvements in the ease of doing business index, a reduction in compliance costs, and the successful formalization of activities previously confined to the informal sector (World Bank, 2021). Hapsari and Hidayah (2023) thoroughly illustrate how overzealous licensing requirements specifically undermine the growth potential of Micro, Small, and Medium Enterprises (MSMEs) the core of many developing economies and startups by escalating both costs and uncertainty. Similarly, Setiarma et al. (2024) analyze Indonesia’s move toward risk-based licensing, acknowledging the progress achieved through the digitalization of the OSS platform but highlighting lingering challenges related to legal harmonization and inconsistencies across jurisdictions.

Despite these valuable contributions, the majority of existing research primarily focuses on macro-level or general business climate enhancements. A crucial literature gap remains: an insufficient examination of the micro-level impacts, specifically how deregulation practically affects the initiation and long-term viability of startups within the service sector. This sector is uniquely susceptible to regulatory shifts due to its reliance on continuous innovation, direct customer interaction, and relatively low capital investment (Susanti, 2022). The distinctive characteristics of service sector startups, which often involve rapidly scalable, low-asset models, make them exceptionally sensitive to administrative friction and delays, necessitating a focused study. Current analyses lack comprehensive, data-driven assessments of the tangible outcomes of specific policies, like the implementation of a sunset clause, on startup formation, survival, and subsequent growth, especially within Indonesia’s intricate regulatory context.

Consequently, the present study is designed to address this deficit by employing rigorous quantitative and qualitative methodologies to systematically evaluate the effects of business license deregulation on startups operating in the service sector.

The novelty of this research is predicated on a three-pronged approach:

1. Empirical Focus: Providing an empirically focused investigation into the specific outcomes of the sunset clause mechanism on startup performance, moving beyond general policy analysis.
2. Robust Data: Integrating diverse data sources with firsthand stakeholder perspectives to generate a robust analytical framework.
3. Contextual Specificity: Contextualizing this research within Indonesia, which serves as an important case study of deregulation efforts within an emerging market characterized by both high entrepreneurial potential and substantial regulatory hurdles.

The Research Questions (RQs) guiding this investigation are: (1) What precise effect does business license deregulation, specifically implemented via mechanisms such as the sunset clause, have on the rate of startup formation in the service sector? (2) What are the key mechanisms and primary impediments that mediate this effect, particularly in light of recent legislative amendments (e.g., to the Omnibus Law)? (3) How can the insights derived from this analysis inform the development of more effective regulatory reforms aimed at nurturing a robust startup ecosystem?

The overarching objectives of this study include: quantifying the specific impacts of deregulation, synthesizing qualitative feedback from crucial actors, and formulating evidence-based policy recommendations that effectively balance regulatory efficiency with necessary protection mechanisms. By bridging the gap between macro-policy analysis and micro-level entrepreneurial response, this study aims to offer actionable insights for sustainable regulatory design.

METHODS

The quantitative component relies on secondary data procured from authoritative Indonesian government bodies, including the Ministry of Investment/Investment Coordinating Board (BKPM) and relevant industrial ministries. The dataset spans the years 2018 through 2024, deliberately encompassing the regulatory environment both before and after the introduction of key reforms specifically the implementation of the sunset policy under the Omnibus Law (Job Creation Law) and the digitized Online Single Submission (OSS) system. These data consist of detailed registration records for new businesses classified within the service sector, enabling the precise estimation of changes in startup formation rates attributable to the deregulation policy. The inclusion of regional and industry-specific control variables within this rich dataset allows for a granular analysis of policy effectiveness across

For the qualitative component, a purposive sampling technique was employed to select key informants. The participants include startup founders operating in the service industry, regulatory officials responsible for license issuance and enforcement, and representatives of prominent business associations. This diverse selection ensures the capture of varied, pluralistic insights regarding the practical outcomes of deregulation, the specific operational challenges encountered, and the effectiveness of implementation efforts. The sample was deliberately stratified to include representation from both digitally mature urban centers and digitally nascent regions to capture the impact of the digital divide on regulatory compliance.

Data acquisition proceeded in two parallel phases. The quantitative datasets were formally requested and retrieved from official government repositories and institutional reports to guarantee the use of verified and reliable information. The qualitative data collection involved conducting semi-structured interviews. All interviews were carried out with the informed consent of the participants, strictly adhering to ethical standards, including anonymization and assurance of voluntary participation and confidentiality. The interview protocols and data collection instruments were meticulously developed based on a thorough preliminary review of the academic literature and official regulatory documentation to maximize their relevance and scope. This structured approach ensures that the qualitative inquiry directly probes the mechanisms identified as potential mediators of the policy's effects.

Materials and Instruments utilized in this study include official government regulatory documents (e.g., the Omnibus Law), procedural manuals for the OSS system, and established academic references. For the data analysis phase, the STATA software package was used for econometric modeling, while NVivo was utilized to manage and facilitate the systematic coding and analysis of the textual qualitative data. The choice of STATA facilitates the complex panel data structure required for the Difference-in-Differences model, while NVivo's robust coding features are essential for establishing rigor in the qualitative analysis

The statistical evaluation of the deregulation's causal effect on startup formation rates utilizes the Difference-in-Differences (DiD) regression framework. This approach effectively isolates the policy's impact by comparing the changes in the service sector (treatment group) over the intervention period against a suitable control group (if specified) or a broader macroeconomic trend, while explicitly accounting for confounding macroeconomic variables and underlying regional heterogeneity. To ensure the statistical validity of the inferences, robust standard errors clustered at the regional level were incorporated (Angrist & Pischke, 2020). The DiD approach is methodologically superior for policy evaluation as it controls for unobserved, time-invariant regional characteristics and common time trends that could otherwise bias the estimation of the policy effect.

The transcribed interview data underwent a rigorous thematic analysis. This process involved three iterative coding stages: open coding (initial labeling), axial coding (identifying connections between categories), and selective coding (establishing a core explanatory theme). This systematic process aims to synthesize recurrent themes and patterns that articulate the lived experiences, perceptions, and implementation challenges reported by stakeholders concerning license deregulation (Braun & Clarke, 2021). The qualitative findings serve to contextualize the numerical outcomes, providing critical depth and explanatory mechanisms not captured solely by the statistical data. The thematic findings directly address the 'how' and 'why' of the quantitative results, particularly concerning regional disparities and administrative friction.

The research is committed to the highest standards of research ethics, ensuring that all human subjects in the qualitative phase participate voluntarily and that their identities are fully protected through anonymization. Furthermore, in adherence to the principles of transparency and replicability, all underlying datasets, data processing protocols, and analytical code will be made publicly accessible in an appropriate data repository immediately following the publication of this study. This commitment to open science enhances the credibility and contribution of the research to the policy evaluation community.

RESULTS

This section presents the findings derived from both the quantitative analysis, utilizing econometric modeling, and the qualitative inquiry, based on stakeholder interviews and focus group discussions.

1. Quantitative Analysis

The statistical evaluation confirmed that the implementation of the deregulation policy, specifically the sunset policy, significantly catalyzed the formation of new ventures in Indonesia’s service sector. The Difference-in-Differences (DiD) regression model results, summarized in Table 1, estimated an average increase of 15.3% in the rate of startup formation following the policy's enactment, relative to the pre-policy period. This effect remained robust even after controlling for key

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macroeconomic factors, including Gross Domestic Product (GDP) growth, inflation rates, and specific regional characteristics (Setiarma et al., 2024). The highly significant p-value of less than 0.001 reinforces the strong statistical evidence of the policy's effectiveness in stimulating market entry.

The analysis also revealed a pronounced spatial disparity in the impact. The increase in startup formation was more significant in urban areas characterized by high internet penetration. This suggests that the digital nature of the Online Single Submission (OSS) system played a crucial role in lowering administrative hurdles and accelerating the licensing process for entrepreneurs (Susanti, 2022). Conversely, regions with limited digital infrastructure access demonstrated a comparatively smaller effect, underscoring the necessity of improving digital infrastructure to fully realize the benefits of regulatory streamlining. The positive and significant coefficient for the Internet Penetration Rate variable (0.187) formally validates the mediating role of digitalization in maximizing the deregulation impact.

Table 1. Difference-in-Differences Regression Results on Startup Formation Rates

Variable	Coefficient	Standard Error	t-Statistic	p-Value
Post-Deregulation (Policy)	0.153	0.027	5.67	<0.001
Urban Region (Dummy)	0.114	0.034	3.35	0.001
Internet Penetration Rate	0.187	0.045	4.15	<0.001
GDP Growth Rate	0.042	0.020	2.10	0.037
Inflation Rate	-0.033	0.018	-1.83	0.068
Constant	1.245	0.110	11.32	<0.001

Note: The dependent variable is the logarithm of the monthly number of new service sector startup formations. The coefficient for Post-Deregulation (Policy) represents the average percentage increase in startup formation rates attributable to the policy change, holding other factors constant.

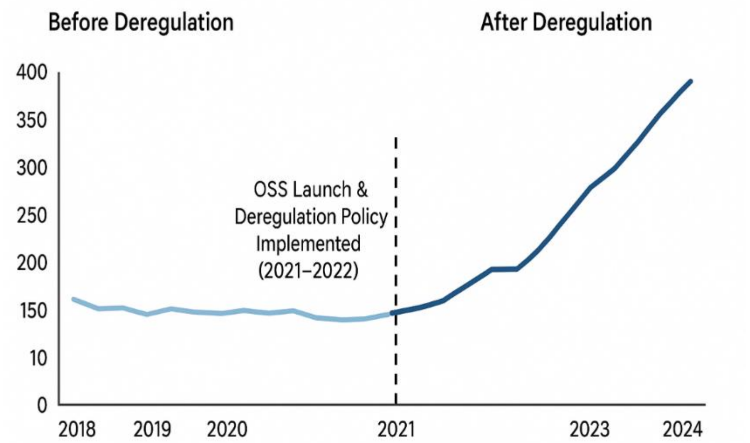

Figure 1. Monthly New Service Sector Startups Before and After Deregulation Implementation

Caption: The line chart illustrates a clear positive structural break in the time series data for new service sector startup registrations following the introduction of the Omnibus Law and the Online Single Submission (OSS) system, demonstrating the aggregate impact of deregulation on entrepreneurial activity.

2. Qualitative Findings

The qualitative data, gathered through interviews with startup founders and relevant government officials, consistently indicated that the reduction in administrative burden and the expedited licensing timeline were highly valued by business actors. However, several persistent operational challenges were identified. Chief among these were inconsistent implementation across different regions, a lack of clarity in procedural guidelines, and intermittent communication delays from governmental bodies, all of which occasionally hampered the efficiency of the registration process (Hapsari & Hidayah, 2023). The qualitative data confirm that while the de jure regulations are simplified, de facto implementation is often hindered by local bureaucratic inertia and poor information flow.

Stakeholders strongly advocated for several strategic improvements: enhancing the capacity and proficiency of local government administrators, strengthening inter-agency coordination to eliminate overlapping jurisdictions, and establishing a fully integrated regulatory framework to ensure uniform policy execution nationwide. Furthermore, interviewees stressed the continuous need for socialization programs and proactive mentoring to assist startup founders in navigating and adapting to the evolving regulatory landscape (Rohendi et al., 2023). These recommendations directly address the friction points identified between the centralized digital system (OSS) and decentralized administrative execution.

DISCUSSION

The empirical findings from this investigation substantially corroborate established academic knowledge, which posits that targeted regulatory liberalization, particularly through mechanisms like the sunset clause (as identified in the Introduction), serves as an effective instrument for diminishing market entry obstacles and stimulating entrepreneurial activity (Setiarma et al., 2024; Hapsari & Hidayah, 2023). This positive relationship between streamlined regulation and accelerated startup formation aligns seamlessly with the principles of institutional theory, which highlights the necessity of flexible, adaptive legal frameworks in supporting emergent and growing businesses (North, 2020; Acemoglu & Robinson, 2021). The observed surge in new registrations provides compelling evidence that reducing institutional friction immediately unlocks latent entrepreneurial potential, especially in the service sector where entry barriers are traditionally lower.

Within the Indonesian context, the commitment to regulatory simplification is evident in recent governmental initiatives, notably through legal instruments such as Government Regulation No. 28 of 2025. These reforms are strategically aimed at integrating risk-based licensing and unifying procedural flows under the Online Single Submission (OSS) system. Evidence suggests these structural changes significantly bolster the overall business environment by cultivating greater legal predictability and investor confidence, which are crucial for attracting capital and fostering startup expansion. The OECD Economic Survey of Indonesia 2024 and the IMF Indonesia Report 2024 both emphasize that while the OSS platform represents a crucial step toward digitalization and efficiency, sustained progress relies on the effective harmonization of regional policies and continuous training.

Nevertheless, the data concurrently highlight the persistent issue of heterogeneous implementation across various regional jurisdictions. This disparity is primarily attributed to differences in local administrative capacity and, critically, varying interpretations of the recently amended Omnibus Law (Job Creation Law) following Constitutional Court rulings. This consequently underscores an urgent need for targeted institutional strengthening and capacity building programs at the regional level. Effective decentralization of licensing authority requires concurrent investment in human capital at the local level to prevent the digital OSS system from being undermined by analog bureaucratic bottlenecks.

The technological dimension is indisputably central to realizing the maximum utility of deregulation. Scholarly work strongly emphasizes that robust digital infrastructure and effective e-governance are paramount for guaranteeing both the accessibility and transparency of licensing services (Kauffman & Waldfogel, 2021; Zhang et al., 2023). While Indonesia's expanding internet penetration and maturing digital payment ecosystems actively contribute to reducing operational barriers for startups, the findings simultaneously expose a distinct urban-rural divide. This geographical disparity critically impacts the full, equitable distribution of deregulation benefits, necessitating targeted infrastructural investment to bridge the gap (UNCTAD, 2024). The differential impact suggests that the OSS platform, while revolutionary, requires universal high-speed connectivity to be a truly democratic tool for entrepreneurship, particularly for service-sector businesses that rely heavily on digital operations.

This research offers a distinctive contribution to the existing body of literature by specifically targeting service sector startups a segment often overlooked despite its immense potential for employment generation and innovation. The nuanced results derived from the qualitative data underscore that the tangible impacts of deregulation are non-uniform, being heavily mediated by both local institutional characteristics and the level of entrepreneurial readiness. This observation is highly consistent with the principles of contingency theory in organizational studies (Lawrence & Lorsch, 2023).

For future scholarly work, there is a compelling need for longitudinal analyses that meticulously track emergent startups to precisely measure metrics such as long-term survival rates, innovation outputs, and scaling efficiency critical indicators for evaluating sustained policy success. Furthermore, cross-country comparative analyses would offer invaluable global perspectives on the most effective practices and common pitfalls associated with startup deregulation worldwide (Autio et al., 2024; WEF, 2025). Investigating the role of specific risk-based licensing tiers on subsequent startup longevity represents a crucial avenue for future empirical research, particularly in assessing the long-term efficacy of the risk-based approach mandated by the OSS system.

In synthesis, while deregulation initiatives establish the essential foundational support for entrepreneurship, achieving sustainable economic transformation through thriving startup ecosystems necessitates multisectoral coordination encompassing systematic digital infrastructure investments, comprehensive regulatory harmonization (especially in light of continuous legal amendments), and continuous human capital development.

CONCLUSIONS

This study firmly concludes that the comprehensive business license deregulation framework enacted in Indonesia, comprising the sunset policy and the transition to risk-based licensing, has materially advanced the formation and vitality of new ventures within the service sector. By successfully simplifying licensing requirements and rationalizing procedures through the Online Single Submission (OSS) system, these regulatory adjustments have demonstrably reduced barriers to entry, catalyzed the formalization of operations, and significantly bolstered entrepreneurial momentum within Indonesia's rapidly evolving economy (Kumba et al., 2020; Nakamura & Wignaraja, 2022).

While these foundational regulatory innovations have created a significantly more supportive environment for startups, persistent operational challenges demand attention. Key among these are inconsistencies in regional regulatory implementation and substantial disparities in digital infrastructure access between geographic areas. These obstacles highlight the imperative for policymakers to augment deregulation with complementary initiatives, including enhanced regulatory clarity, rigorous standardization across all jurisdictions, and sustained investments in digital platforms to maximize transparency and accessibility (OECD, 2023; Winata & Setiadi, 2024). A failure to address these supplementary needs risks the uneven distribution of deregulation benefits, particularly exacerbating the economic divide between urban centers and rural territories. For the OSS system to achieve its full potential as a national economic catalyst, policy interventions must pivot towards resolving these last-mile implementation and infrastructural bottlenecks.

From a scholarly standpoint, this research contributes novel empirical evidence concerning the nuanced effects of regulatory liberalization specifically within the service sector. This sector is crucial for inclusive economic expansion but has historically received less analytical focus compared to manufacturing or technology sectors. The study's mixed-methods approach effectively illustrates the interaction between quantitative gains in the rate of startup formation and the qualitative constraints imposed by governance and infrastructural deficits, thereby illuminating the inherent multifaceted nature of regulatory impact (Alam & Kelley, 2021; Daryanto, 2023). The findings confirm that successful deregulation is not merely a legislative act but a complex socio-technical implementation process.

Moving forward, subsequent investigations should employ longitudinal panel data to track the long-term trajectories of startups established post-deregulation. This will allow for the measurement of crucial sustained metrics such as survival rates, scale-up success, and innovation outputs. Furthermore, cross-country comparative analyses would offer invaluable insights into global best practices and potential pitfalls associated with designing and implementing truly startup-friendly regulations (Autio et al., 2024; Bhagwati et al., 2023).

In summary, Indonesia's deregulation strategy stands as a powerful model for other emerging economies seeking to stimulate entrepreneurial growth through systemic regulatory reform. The continued enhancement of this regulatory ecosystem through ongoing digitalization, robust inter-governmental coordination, and targeted capacity building remains pivotal for sustaining startup ecosystem vitality and promoting broad-based economic prosperity.

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