

ASSESSMENT OF THE BUSINESS ENVIRONMENT QUALITY IN A SLOVAKIA

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Abstract: *Business competitiveness and competitiveness determinants are subject of study for many experts. At present it is a current and often discussed topic. Slovakia's membership in the European Union has brought advantages and opportunities to companies, but also increased competition. The competitive environment is currently characterised by an environment where our entrepreneurs have no comparable access to financial resources for their development compared to other countries. As there is a risk of pushing out domestic products by foreign production, the importance of competitive struggle is still rising. Experience across Europe shows that small and medium-sized enterprises are several times more successful than large businesses because they are more flexible. In a changing environment, it is important to focus your attention on specialised products with the gradual possibility of diversifying production. Competitiveness is currently a commonly used term, the precise definition of which still does not exist.*

Keywords: Business competitiveness, quality, business environment, Slovakia, European Union

1 INTRODUCTION

However, the issue of competitiveness is a very complex issue influenced by a number of determinants, also called factors of competitiveness. Competitiveness determinants serve to evaluation of improving competitiveness in measurable units. It is therefore necessary to determine the strength of their impact on the resulting competitiveness of the company. Similarly to competitiveness, it is also possible to look at determinants from several points of view. These are, for example, the determinants of the competitiveness of the enterprise, the sector, the region, but also the whole country. Within current competition on the world markets, can succeed only an enterprise that can offer its customers, through their products, an exceptional value, that can be considered as an indicator of the competitiveness of the company on the market. Customer focus, the effort to satisfy the best and fastest of its needs, wishes and requirements is a major goal that leads to the commercial success of the business. Existence, progress and continuous growth of business competitiveness are largely predetermined by the business unit and the nature of the enterprise's production. Other important internal factors are the employee training rate, the source of competitive advantage, the willingness to delegate powers and the innovative capacity of the enterprise.

The external relations of enterprises in the SR influence the membership of the country in the EU and in the European Monetary Union (EMU). Small and medium-sized enterprise(s) (SMEs)

often do business in neighboring countries - Poland, Austria, Hungary, Ukraine and, mostly in the Czech Republic. For this reason, SMEs may be affected by the neighboring conflict of Ukraine and Russia, in the future. Economic factors affect the purchasing power of the population. Among the economic factors it is necessary to include the volume of pensions, the level of prices, the development of inflation, the unemployment rate and many others indicators. The state and development trends assessment amongst small and medium enterprises is the basis for the analysis of current state of business environment in the Slovak Republic, which is presented to the Government annually as a part of the Report on the State of the business environment in the Slovak Republic in accordance with filling the Government Resolution No. 792 from 17 July 2002. The document is also used as a database for informing the European Union institutions, OECD, and other entities and for processing analyses and studies of the business environment in the Slovak Republic.

2 INDEX OF BUSINESS ENVIRONMENT (IBE)

Based on the responses in the questionnaire BAS publishes quarterly Slovak Index of Business Environment that includes 33 indicators in the following categories – influence of the legal and regulatory framework for business, the Effects of other critical external conditions for business and impact of enterprises on the quality of business environment. Fig. 1 shows an analysis of the main pillars of index according to the defined criteria.

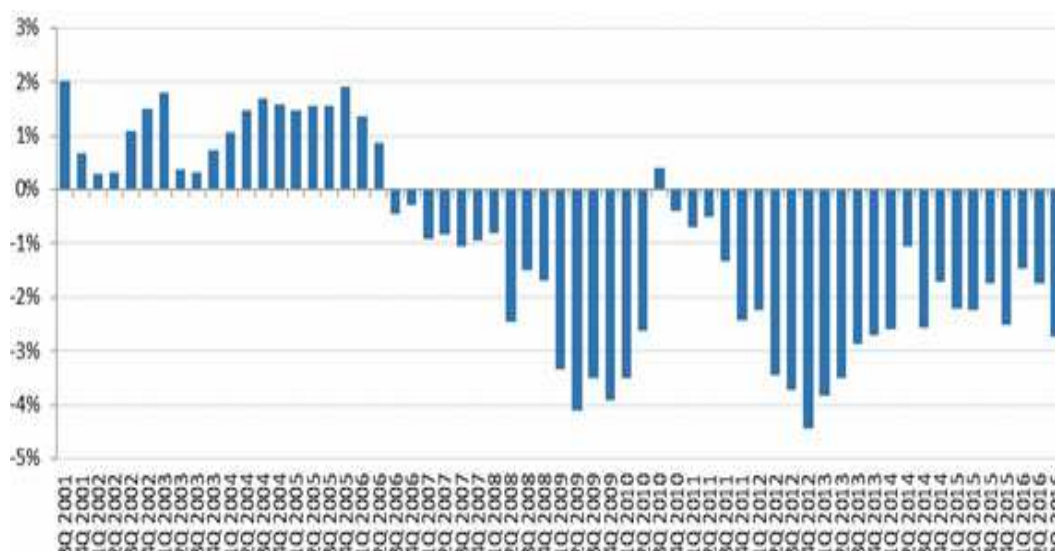


Figure 1 Quarterly changes of Slovak index of business environment [1]

Data are collected via questionnaire survey in which 500 greatest businessmen are answering questions relating to the legal and regulatory framework, external and internal business conditions in terms of national economy. In contrast to the evaluation of the financial authorities in global indexes of the quality of business environment, there was negative development in Slovak index of business environment for almost past 10 years continuously. The level of the business environment in Slovakia is falling constantly, except of single quarter in 2010.

Entrepreneurs thus a decrease in business conditions accusing the government authorities, and their own effect on the conditions of Slovak market consider highly positive. They complain low efficiency of state institutions, changes in the labour market and business legislation, high tax burden, low level of law enforcement and equality before the law to the government. Among other external conditions the most problematic are long bureaucracy processes in offices, delays in judicial proceedings, the effectiveness of state management and high level of corruption in the Slovak Republic. Negatively is also valued a weak approach to state aid in business.

A closer look at the pillars of Slovak index of business environment and their benchmarks shows that the decrease of the business environment is mainly due to the influence of the main elements of the legal and regulatory framework and other critical environmental conditions (Tab. 1).

Table 1 Slovak economy business environment according to Slovak index of business environment until 3Q/2016 [1, 5]

IPP 3Q/2016	Score	Change
1. Influence of the legal and regulatory framework	22,7	-4,77%
The functionality of the political system in the country	14,2	-5,08%
Legislation on trade relations	55,3	-3,48%
Labour legislation	26,0	-5,39%
Legislation regulating taxes, fees and investments	30,4	-7,97%
Legislation governing contributions	27,8	-8,67%
Market regulations, competition legislation	38,0	-2,77%
Bankruptcy and enforcement legislation	47,3	-1,25%
Clarity, usability, stability of legal norms	10,9	-6,64%
Application of the principles of equality	8,0	-7,38%
Law enforcement, judicial effectiveness	4,0	-6,88%
The functionality of the institutions (cadastres, tax offices, etc.)	73,7	-1,21%
Regulation of cross-border trade (tariffs, licenses, permits)	160,1	-0,39%
2. Effect of other critical external conditions on business	50,8	-2,60%
State economy policy, availability of information	47,5	-2,46%
Bureaucracy, delays in proceedings, reporting	8,9	-6,37%
The level of corruption in offices	11,1	-4,88%
The incidence of economic crime, organized crime	29,8	-4,65%
Efficiency of state economy, access to state aid	8,3	-6,09%
Prices stability	60,0	-0,98%
Stability and predictability of the EUR value	119,3	-0,12%
Access to finance (credit, capital market, and so on.)	225,0	1,17%
Level of infrastructure (transport,	151,3	-0,66%

telecommunications, etc.)		
The quality and availability of production inputs, labour	85,0	-3,98%
Reliability, financial discipline of business partners	37,3	-2,62%
3. Influence of enterprises on the quality of business environment	292,0	1,10%
Filling the vision	274,5	1,21%
Performance, productivity, profitability of the enterprise	213,1	0,98%
Management system, human resource management	251,6	0,39%
Investments in technology development, quality of production	352,4	1,41%
Liquidity, cash flow, undertaking obligations	270,0	1,05%
Acting towards its business partners, dispute resolution	291,4	1,05%
Employment and remuneration system, social program	216,7	0,55%
Relationship with the environment	483,6	1,99%
Information openness, public appearance, image	534,3	1,48%
Support of local region, charity	311,3	1,68%
Total	52,7	-2,73%

2 INDEX OF REGIONAL BUSINESS ENVIRONMENT (IRBE)

Regional disparities in Slovakia are viewed as one of its biggest challenges by EU, the World Bank, OECD and other institutions. Meanwhile, expert discussions are often confined to the comparison of gross domestic product, investments and unemployment rate in the regions. Yet these factors are not sufficient to account for competitive shortcomings of districts and regions. Renowned foreign institutions use different methodologies to investigate competitiveness. The world economic forum takes into account 200 different indicators while the institute for management development considers as many as 350 indicators. Most of these assessment indicators referring to countries can also be applied to regional (micro) levels and used to determine the strengths and weaknesses of the observed territorial units.

Large regional disparities may give rise to tension within countries and often lead to conflicts. Reducing these disparities cannot be achieved solely by means of deployment of government instruments to backward regions. This equally holds for the Slovak Republic. At a time when over 95 per cent of gross domestic product is generated by the private sector, i.e., by entrepreneurs, understanding the quality of local business environment and barriers to it is crucial as this affects business conduct and investors' decisions. Although there is no doubt about the awareness of the existence of regional disparities on the part of the public officials and also on the part of entrepreneurs themselves.

The index of regional business environment (IRBE), was developed by the business alliance of Slovakia (BAS), is a central tool for the evaluation

of the regions in Slovakia (Tab. 2). The Index of regional business environment reflects the overall quality of business conditions in the districts (Tab. 3). Its creation was motivated by a lack of tools that would enable effective comparisons between individual districts. It presents an output of a complex model and is calculated for each district separately based on available statistical data and data obtained from the affective survey among managers of firms (Fig. 2)

Table 2 Index of regional business environment composition [1, 5]

Partial Indexes	Pillars
Subindex I: Economic activity	1st pillar Economic environment
	2nd pillar Economic output
Subindex II: Public administration and legislation	3rd pillar Legislation
	4th pillar Public administration
Subindex III: Technology and infrastructure	5th pillar Infrastructure
	6th pillar Technology
Subindex IV: Education and human resources	7th pillar Human resources
	8th pillar Education

Table 3 Index of regional business environment Slovak Republic (general overview) [1, 5]

RBEI	Score (1-6)
	3.43
Subindex I: Economic activity	3.51
1 st pillar: Economic environment	3.48
2 nd pillar: Economic output	3.53
Subindex II: Public administration and legislation	3.32
3 rd pillar: Legislation	4.19
4 th pillar: Public administration	2.63
Subindex III: Technology and infrastructure	3.30
5 th pillar: Infrastructure	3.26
6 th pillar: Technology	3.34
Subindex IV: Education and human resources	3.50
7 th pillar: Human resources	3.68
8 th pillar: Education	3.16

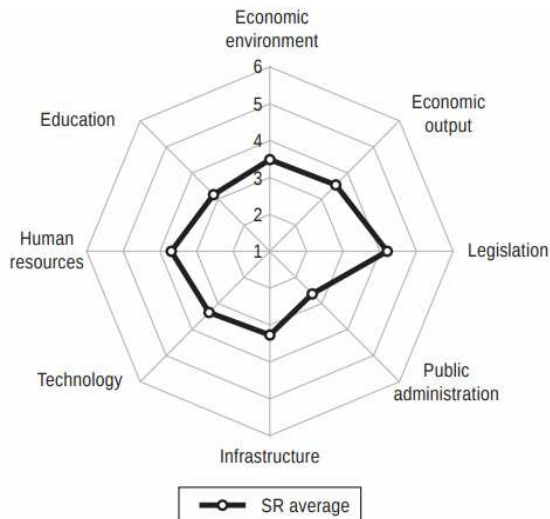


Figure 2 Index of regional business environment Slovak Republic [1, 9]

In addition to most serious barriers, there are also problems with the labour market. Poor interconnection between vocational schools and labor market placed as high as fifth. The responsibility is both with the self-governments and the central government. Individual regions make decisions about which secondary schools will be given priority in the structure of education and what the prospects of graduates of these schools are in the labour market.



Figure 4 Positioning of Slovakia in superindex, according to country ranking and score [1, 5]

Slovakia still lags far behind from countries with the most favourable business environments in the world. In 2016, however, the score rose by 0.46 points to 78.3, mainly contributed to the evaluation of Doing Business 2015 published by world bank. Slovakia has thus moved to 37th place in the world ahead of Hungary and Bulgaria, which in the previous ranking were located just in front of him. Business environment in Slovakia, thus based on

3 SUPERINDEX OF BUSINESS ENVIRONMENT (SuperIBE)

Business alliance of Slovakia also annually publishes the superindex of business environment that is based on the data of most prestigious international rankings issued by world economic forum, World Bank, F. A. Hayek Heritage foundation and transparency international. The composition of superindex is shown in the following Figure 3.

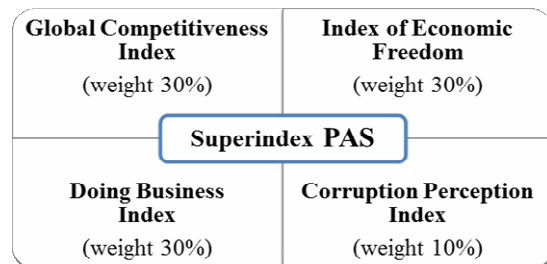
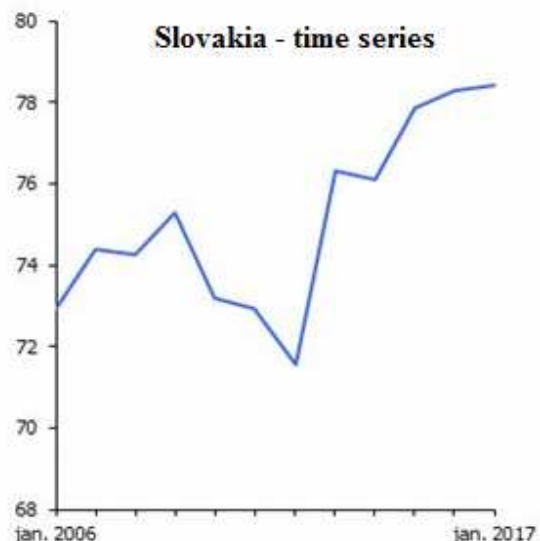


Figure 3 Composition of superindex BAS with weights of basic indexes [5]

Superindex PAS assesses the improvement of business environment in Slovakia during the previous year (Fig. 4), according to getting closer or away from the top 5 countries with the best business environment in the world.



the results of four renowned institutions, slightly improved a quality and business conditions of country economy. Slovak Republic moved closer to the most successful countries in the world during last term thanks to entering European Union and years of economic growth.

4 COMPARISON OF BUSINESS ENVIRONMENT ASSESSMENT APPROACHES

in four major global indexes used for describing the quality of business environment (Tab. 4)

The following table summarizing Slovak business environment rankings and obtained score

Table 4 Slovak economy ranking and score development in global indexes of the quality of business environment [5, 9, 10]

Index/Year		2009	2010	2011	2012	2013	2014	2015	2016	2017
GCI	Rank/Total	46	47	60	69	71/144	78/148	75/144	67/140	65/138
	Score	4.4	4.3	4.24	4.18	4.14	4.1	4.14	4.22	4.28
DB	Rank/Total	35/181	40/183	43/183	48/183	46/185	49/189	37/189	29/189	33/190
	Score	-	-	-	-	71.03	71.03	71.83	75.62	75.61
CPI	Rank/Total	56/180	59/178	66/183	62/176	61/177	54/175	50/168	54/176	N/A
	Score	45	43	40	46	47	50	51	51	N/A
IEF	Rank/Total	36/179	35/179	37/179	51/179	42/177	57/178	50/178	56/178	N/A
	Score	69.4	69.7	69.5	67.0	68.7	66.4	67.2	66.6	N/A

Considered period was chosen with a view to possible slumps of the quality of business environment due to the global economic crisis at the beginning of the 21st century. It is a medium term of Slovak business environment development, expressed in the global competitiveness index, the

index of doing business, the corruption perception index and the index of economic freedom. The following chart shows (Fig. 5) the position of Slovakia in the global rankings of the business environment assessment during period 2009-2017.

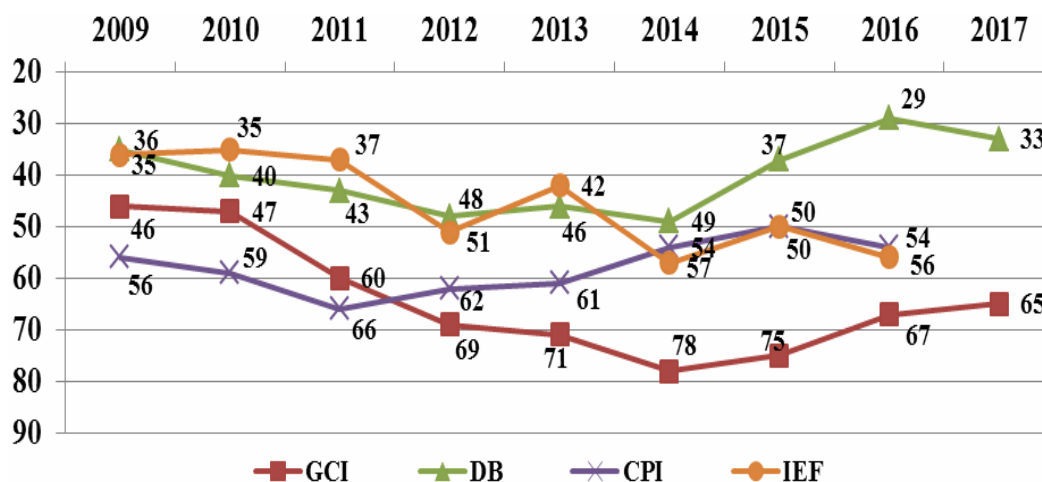


Figure 5 Slovak economy positioning in global business environment rankings in 2009-2017 [5, 9, 10]

In the previous chart, there can be observed the Slovak economy development according to obtained scores in the four considered global rankings designed to assess development of the business environment. It can be stated, there wasn't recorded any significant changes in the quality of

business environment in Slovak Republic. Based on the shown data it can be stated that the quality of the business environment in Slovakia improved in only partial indicators and were stagnating continuously in reviewed period.

5 CONCLUSION

Stagnating development of the Slovak economy quality of business environment in the global indexes does not correspond with the of the quality of business environment development in the Slovak index of business environment published by business alliance of Slovakia, in which Slovak economy continuously decreasing. As is clear from the evaluation of entrepreneurs in the Slovak index of business environment, as key obstacles for doing business they consider lack access to the needs of entrepreneurs and the incidence of corruption and indexes in a business. This finding should be subjected to a statistical investigation in order to determine if an identified obstacles influence the quality of business environment in Slovakia.

Ranking of Slovak economy quality of the business environment within global indexes in reviewed period stagnated and has not experienced significant fluctuations in the value of score achieved as well as in the global ranking of country's national economies. Based on the results it can be established the following recommendations to improve the measurement of the quality of business environment in Slovakia provided by Business Alliance of Slovakia:

- a. The structure of the Slovak Business Environment Index should be redesigned basically, so it complied with all levels of the business environment and ensure a balance in terms of the assessment of external and internal business conditions. If we want to evaluate complex business environment, the model should consist of a combination of quantitative (objective) economic indicators and qualitative (subjective) data collected from entrepreneurs through questionnaire.
- b. It is necessary to eliminate a time lag in annual global measuring of the business environment and Slovak Index of Business Environment, which is published quarterly. Calendar year is a reasonable period during which there may be significant changes in the business environment only exceptionally.
- c. Weights of Corruption Perceptions Index in Superindex published by Business Alliance of Slovakia should be amended to take into account of the results of statistical investigation of dependence corruption and clientism occurrence in business perceived by entrepreneurs on the quality of business environment in the Slovak Republic. Therefore, it is recommended to raise a weight Corruption Perception Index within the model of SuperIndex BAS.

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