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## APPROACH IN REVIEWS OF BUSINESS ENVIRONMENT EMPHASISING SELECTED INDICES OF ITS EVALUATION

*Recent years in Slovakia have been marked by significant changes in the political, economic and social aspects of global and regional environments. The business environment is a condition for economic development of businesses and the economic development of the country, while it is also associated with risks and crises. The paper defines the theoretical approaches to examine the business environment via the conceptual model Global monitor of enterprising and describes business processes affecting the business environment. Based on the selected indices, business environment in the Slovak Republic is evaluated and compared with the Czech Republic and Poland. The aim of the paper is to present the results of business environment index with emphasis on the specification of the results obtained by the Slovak Republic, the Czech Republic and Poland.*

**Keywords:** Business Environment. Global Enterprising Monitor. Business Environment Index. Index of Economic Freedom. Global Competitiveness Index.

### Introduction

Countries that have built the basic mechanisms of effective functioning of the business environment have created a prerequisite for the growth of their economies based on innovation and competitiveness. Their economic growth contributes to the development and building a knowledge-based economy. The growth of the knowledge economy is reflected in expenditure on research and development, which affects the development of entrepreneurial activity and growth of business opportunities. The development of these business activities is conditioned by adequate government policies, programmes on business development, support in tax system and social contribution policy, namely the development of legal infrastructure. Status of the business environment and its dynamics is influenced by a set of external and internal factors and its definition depends on the view that the approach is based on macro-view, therefore, is directed to an external business environment and/or is focused on an internal view of the business environment based on resources. All these areas are essential to monitor, evaluate and create optimal conditions for the development of a sound business environment in Slovakia.

### 1 Conceptual Model of General Enterprising Monitor

Business environment plays a key role, since it is a key factor affecting the rate and allocation of business activities. Its status and dynamics are influenced by a set of external and internal factors and its definition depends on the perspective of the examination. The current perception of the business environment is based on the knowledge from the theory created by institutions [1] (Bruton et al., 2010). This theory deals with the ways how different individuals, groups and organizations provide their status

and position adjusting to the rules and standards of the institutional environment [6] (Scott, 2007 in Bruton et al., 2010). It introduces the wide concept of the so-called institutions which according to North [4] (1990) represent a sort of "rules of the game in society", restrict and shape human interaction. The relatively broad term of institutions requires their classification. The basic division according to North (1990) is the formal and informal institutions. Formal institutions represent formalized rules such as economic, political, legal, property rights, and so on. They, thus, constitute the entire legal framework of the economy, which formulates the economic behaviour of members of society. The author considers informal institutions as constraints resulting from socio-cultural environment, and are part of it, and are rooted in social patterns such as codes of conduct, attitudes, values, conventions and so on. One type of organizational and human interaction is influencing institutions and business. Baumol's concept of rules of the game is in relation to business activity, where the rules of action in this area are determined by the institutions.

We can therefore conclude that this approach is based on macro-view, therefore, on the external environment of the enterprise, organization, entrepreneurial entity and is the counterpart to the approach focused on internal view, the approach to exploring business environment based on resources.

Examination of the business environment, its state, dynamics and formation based on the perspective of the theory of institutions were during the last decades the subject of several scientific studies. Their summary was processed by Bruton et al., where they identified and categorized three primary research streams [3]: **The institutional environment and business; legitimacy and enterprising; institutional entrepreneurs.**

• **Examination of the institutional environment and business** – is based on the fact that institutions support and restrict entrepreneurs, define and limit opportunities, and thus influence the formation of new companies, the development of well estab-

lished businesses at different stages of the business process as well as the line of their development.

• **Investigation of the relationship between legitimacy and business** – is based on the fact that industry and businesses must focus not only on the development of new products, but also find ways to operate and manage their business. They must behave desirably within the system that these institutions have set. Otherwise, in diverting the standards they, thus, face sanctions. Under the examination it

will be focused on how to build legitimacy in the sector as well as a way of building legitimacy of the enterprise - building organizational structures, processes, using human resources and so on.

• **Examination of institutional businessmen** – is based on an examination of environment with low levels of institutional development, therefore, particularly in developing countries, where some entrepreneurs assume the role of institutions.

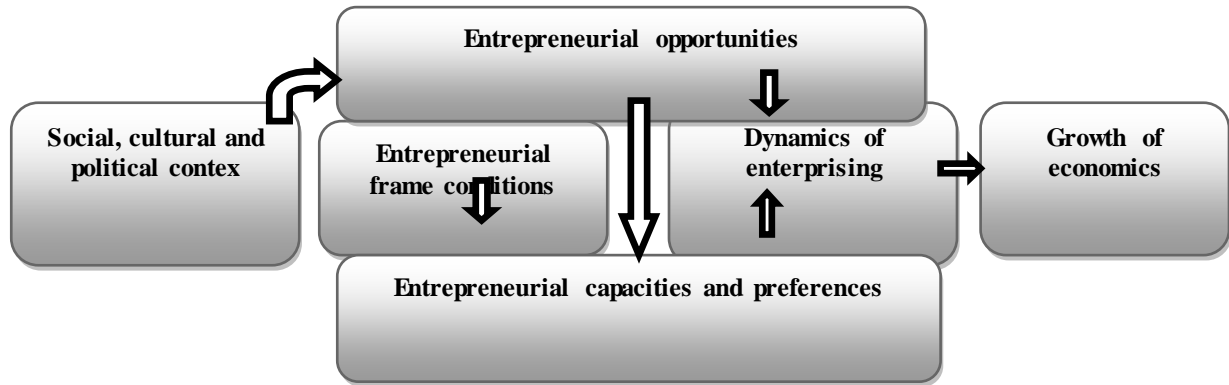


Fig. 1: Model of entrepreneurial processes influencing entrepreneurial environment

Source: Reynolds, Hay and Camp (1999) In: Pilková, 2012

The concept, which includes an institutional approach to the assessment of the business environment, is a conceptual model of the General Enterprising Monitor (GEM). The first conceptual model was created by Paul Reynolds in 1997, which was theoretically justified and described in more detail by Levie and Erkki (2008). The original model GEM was gradually changed and perfected in order to reflect the complexity of causal relationships between business and global economic development (Bosma et al., 2009, Bosma and Levie 2010), to its current form. It is based on the realization that the proportion of entrepreneurs in the growth of the economy varies according to the phase of economic develop-

ment, in which the country is (Gries and Naude, 2008), according to the categorization of the national framework conditions for enterprising as well as the integration of the three elements expressing the versatility of the business process: attitude to entrepreneurship, entrepreneurial activity and entrepreneurial aspirations. It is also based on the above model of business processes by Reynolds, Hay and Camp (1999) and the general and entrepreneurial framework conditions that correspond to the institutional approach assessing the business environment and has three main macro, micro and specific components shown in Figure 2.

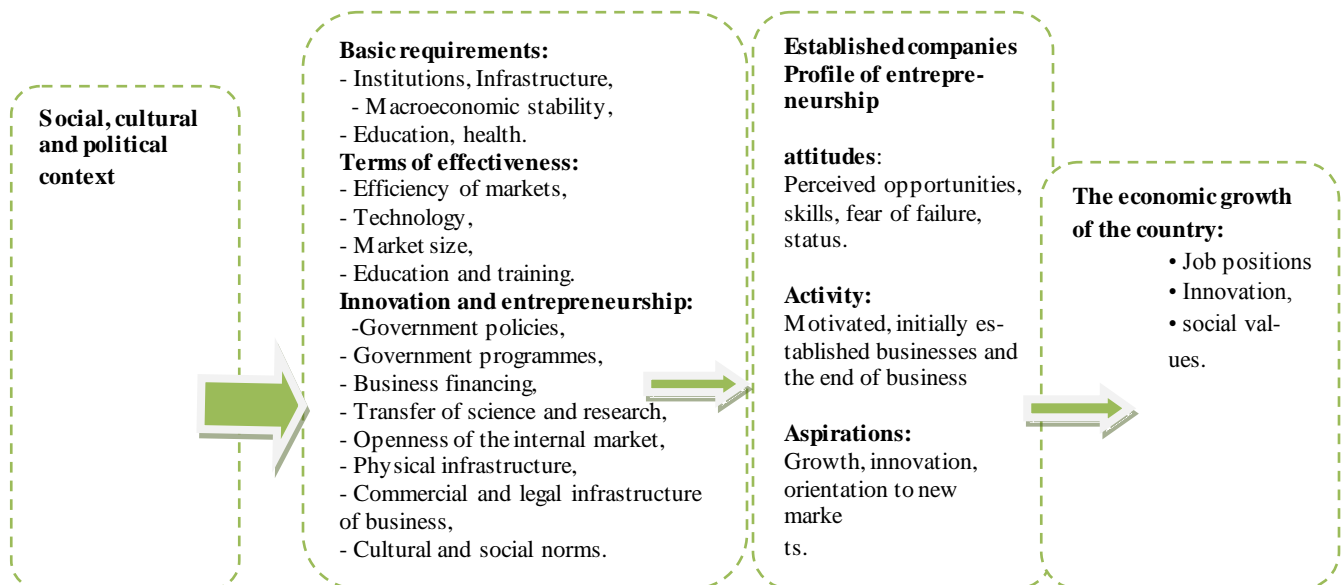


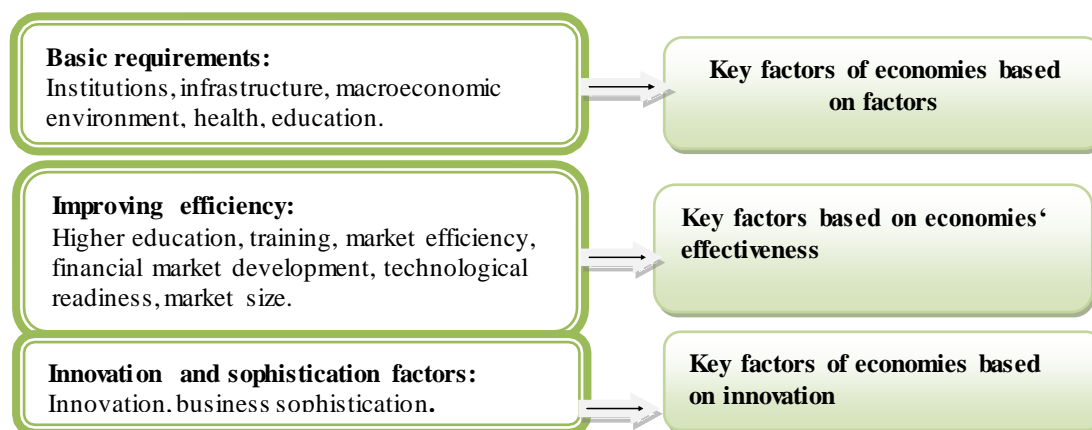
Fig. 2: The current model of the Global entrepreneurship monitor

Source: Reynolds, Hay and Camp (1999), In: Pilková, (2012)

## 2 Other indices for evaluation of the business environment

The assessment of the business environment is devoted to a number of institutions that use their own evaluation methodology. Indices, on which the rankings are compiled, have different structures, use different data, different data sources and different variables. While it is evident that the country's location depends on the composition and weighting of indicators of that evaluation, the synthesis of knowledge from detailed analysis of individual indicators provides some insight into the strengths and weaknesses in the business environment of the country.

At first we present international institutions like the World Economic Forum via Global Competitiveness Index (Global Competitiveness Index - GCI) or the World Bank, which evaluates the business environment in its annual report "Doing Business". Global Competitiveness Index GCI identifies 12 pillars of competitiveness. Each of these pillars is represented within the national economy, but has a different weight in different countries, depending on the stage of their economic development, in which they are located. GCI pillars are the basis for the formulation of national framework conditions for enterprising.



**Fig. 3: Pillars of Competitiveness in GCI**

*Source: Global Competitiveness Report*

Countries that have built the basic requirements, thus building the institutional framework, infrastructure, and macroeconomic environment, are entering a phase focused on efficiency. Within it they are focused on the efficient functioning of markets, the development of higher education, and these changes affect the development of the institutional framework. Institutional framework creates conditions for the emergence of new companies, support of incumbents and opportunities for the creation of small and medium-sized enterprising oriented from the beginning of the manufacturing sector and subsequently to the penetration into other sectors of the economy (Pilková et al., 2013).

Countries, that have built the basic mechanisms and mechanisms for effective functioning, have created a prerequisite for the growth of their economies based on innovation. Their economic growth contributes to the development of the service sector and building a knowledge-based economy. The growth of the knowledge economy is reflected in expenditure on research and development, which affects the development of entrepreneurial activity and growth of opportunities. The development of these business activities is conditioned by adequate government policies, programmes, business development, support of tax system and social contribution policy, therefore, to develop the legal infrastructure.

The World Bank Project annually compares in the survey Doing Business (DB) regulation of the business environment in the global economy. The final assessment of the country is determined on the basis of indicators during the different phases of the life cycle of SMEs: from the founding of the company through the acquisition of a building permit, bank lending to the enforcement of contracts and closing a business. The aim is to provide a basis for understanding and improving the regulatory environment for business. In addition, the DB survey seeks to highlight the specification of legislation or regulatory procedures that may be suitable for reform. The advantage of the DB survey is good comparability among countries as most of the input data are the data obtained by applying specific case studies. The survey does not examine other relevant factors affecting the business (eg. market size, quality of human capital, infrastructure) and is applied to only one legal form of enterprising - a limited liability company, therefore, it may not be representative for other forms of entrepreneurship (eg. freelancers). The first Doing Business report, published in 2003, covered five indicators and 133 economies in the world, and at present it currently has 11 indicators from 185 countries.

Index of Economic Freedom – several institutions are engaged in international comparison of economic freedom. Entitled Index of Economic

Freedom (Index of Economic Freedom, IEF) is produced annually by Heritage Foundation. Very similar ranking of countries in economic freedom is also produced by Canadian Fraser Institute and is entitled the World Index of Economic Freedom. The comparison of the results of the index of economic freedom with other studies shows that prosperity of individual countries largely depends on their degree of economic freedom. Index evaluates 10 broad ranges of economic freedom; countries are in different categories assessed from 0 to 100, where 100 points represent the maximum freedom. Averaging over all ten criteria, the final total points of economy are reached.

In Slovakia, the assessment of business conditions is regularly covered by Business Alliance of Slovakia (PAS), which constructs the business environment index (IPI) and from 2012 for the first time also the Global Enterprising Monitor (GEM), which was addressed in a previous section. Enterprising environment index is the result of quarterly monitoring, has 3 categories of evaluation and each of them has 10 entries.

Terms of evaluation of the enterprising environment index according to the Business Alliance of Slovakia in 2014:

**1 Effects of the main elements of the legal and regulatory framework for a company**

- The performance of the political system in the country.
- Legislation regulating commercial relations.
- Labour legislation.
- Legislation regulating taxes, fees, investments.
- Legislation regulating contributions.
- The market regulation, competition legislation.
- The clarity, usability, stability of legislation.
- The principle of equality before the law.
- Enforcement of laws, judicial effectiveness.
- The performance of state institutions (land and property registrar, tax authorities, etc.).
- Regulation of cross-border trade (tariffs, licenses, permits, etc.).

**2 Effects of other critical external conditions on an enterprise**

- Economic policy of the state, the access to information.
- Bureaucracy, delays in proceedings at the offices, reporting.

- The level of corruption in offices.
- The incidence of economic crime, organized crime.
- Efficiency of state economy, access to state aid.
- Price stability
- Stability and predictability of the value of Euro.
- Access to finance (loans, capital market, etc.).
- The level of infrastructure (transport, telecommunications, etc.).
- The quality and availability of production inputs, labour force.
- Reliability, financial discipline of business partners.

**3 Influence of one's company on quality of business environment**

- Fulfilling the vision and goals of an undertaking.
- Performance, productivity, profitability of the company.
- Governance, Human Resource Management.
- Investment and Development, quality of production / services.
- Liquidity, cash flow, fulfilling commitments of an enterprise.
- Appearance to business partners, dispute resolution.
- Employment, remuneration, social programme.
- Relationship with the environment.
- Information openness, demeanor in public, image.
- Support of a local region, charity.

**3 Analysis of the results of surveys of the business environment by selected methodologies at home and abroad**

Based on the survey results of the business environment in Slovakia and a comparative analysis we have received analytical view on the development and the health of our business environment. The research results were presented by institutions and periodically published. In terms of comparison of Slovakia, we focused on state of tax policy, tax burden and its regulation, taxation, and compared these results with countries such as the Czech Republic and Poland.

**Tab. 1: Comparison of the business environment in 2013 via GEM methodology**

Assessment criteria	Score max. 5	SR	CR	Poland
1 Funding of entrepreneurship	1 - 5	2.2	2.5	2.7
2 Government policies:		x	x	x
2a Supporting enterprising		1.9	2.0	2.6
<b>2b Taxes, regulations, bureaucracy</b>		<b>1.9</b>	<b>2.0</b>	<b>2.1</b>
3 Government programmes		2.2	2.3	2.7
4 Education to enterprising, trainings on:		x	x	x

4a	basic and secondary schools		1.9	1.6	1.8
4b	universities and post-graduate study		2.8	2.4	2.4
5	Transfer of R&D		1.9	2.2	2.1
6	Commercial services and infrastructure		2.8	3.1	3.0
7a	Dynamics of internal market		3.0	2.6	3.8
7b	Market restrictions to its openness		2.5	2.6	2.8
8	Physical infrastructure		3.9	4.0	3.6
9	Cultural and social norms		1.9	2.0	2.8

Source: Prepared by GEM Report 2013

**Table 2: Comparison of ratings of business environment via Doing Business methodology by 1 June 2013 (ratings from 185 countries)**

Indicator	SR	CR	Poland
Quality of entrepreneurial environment	49	75	45
Start of enterprising	108	146	116
Licensing	53	86	88
Access to electric energy	65	146	137
Registration of property	11	37	54
Availability of credit sources	42	55	3
Protection of investors	115	98	52
<b>Corporate tax liabilities</b>	<b>102</b>	<b>122</b>	<b>113</b>
Cross-border trading	108	68	49
Enforcement of contracts	65	75	55
Insolvency solution	38	29	37

Source: Doing Business 2014

**Tab. 3: Comparison of ratings of business environment, the methodology of the Index of Economic Freedom for the year 2013**

Indicators of IES	SR	CR	Poland
Property rights	50	70	60
Corruption rate	40	44	55
Entrepreneurial environment	71	65.8	64
Labour market	72	85.5	62.9
Currency stability	79.1	81.7	77.7
Financial sector	70	80	70
State expenditure	58	43.5	43
<b>Tax charges</b>	<b>84.7</b>	<b>82</b>	<b>76</b>
International trading	86.8	86.8	86.8
Investment conditions	75	70	65

Source: Heritage Foundation

The Slovak Republic's position in competitiveness of the World Economic Forum was ranked in 2014 on the 75<sup>th</sup> place. Compared to 2013, its position rose by 3 screens. This results from the Global Competitiveness Report 2014-2015, published by the World Economic Forum (WEF). Nevertheless, Slovakia could not get into the first half of the rankings, where are situated all EU countries except Croatia (the 77<sup>th</sup> place) and Greece (the 81<sup>st</sup> place). The turning point in the development of Slovakia's evaluation is mainly due to an increase in macroeconomic stability, decreasing the deficit and intensive fight of the government with tax evasion. Nevertheless, the position of Slovakia remains extremely unfavourable and it is necessary to take further decisive action to increase our competitiveness, particularly to improve the functioning of public institutions - particularly the judiciary and law enforcement to fight corruption and cronyism that entrepreneurs perceive extremely critical and enhance the attractiveness of the tax system not by adding, but repealing the exceptions and reducing the corporate tax rate to the level of neighbouring countries. Other barriers, according to the World Economic Forum, are administrative burden, low transparency and efficiency of public spending, rigid labour code, lagging education system and low levels of innovation.

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**Tab. 4: The development of Slovakia's position in the competitiveness rating of the World Economic Forum**

Rok	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Pozícia	35	48	45	38	40	49	43	43	41	37	41	46	47	60	69	71	78	75
Zmena		-13	+3	+7	-2	-9	+6	0	+2	+4	-4	-5	-1	-13	-9	-2	-7	+3

rok – Year; pozícia – Position; zmena - Change

Source: Business Alliance of Slovakia in 2014

**Table 5: Comparison of Competitiveness Index of the SR with selected countries**

Country	GCI 2013	GCI 2014
Slovak Republic	78	75
Czech Republic	46	37
Poland	42	42

Source: elaborated according to The Global Competitiveness Report 2014-2015

### Conclusion

Monitoring business environment gives economic policy makers an answer to the question where their efforts are positive and where it is appropriate to take decisive action to improve them. The significant decline is in particular due to dissatisfaction with corporate tax policy, inconsistent application of the principle of equality before the law and unstable legislation. The greatest decline has been seen in indicator assessing the progress in legislation governing taxes, fees and investment. Entrepreneurs negatively evaluated value-added tax of 20% and changes in the law on income tax, as well as increased costs associated with the amendment of the Act on the Protection and Promotion of Public Health. Another problem is the ambiguity of the laws and the resulting legal uncertainty as well as the application of the principle of equality before the law. According to the World Economic Forum other

barriers are administrative burdens, low transparency and efficiency of public spending, rigid labour code, lagging education system and low levels of innovation. The most positively was perceived improving access to finance, in particular caused by the increasing willingness of banks to provide loans to businesses at lower interest rates. Although minimal, but nevertheless were positively evaluated the entries of stability and predictability of the exchange rate and the regulation of cross-border trade. Growth was recorded in the majority of the items from the category of subjective influences of enterprises on the business environment, from which the most was improved support by local region, charity and also information openness of enterprises. Entrepreneurs, however, are very sensitive to the constant increase of their financial burdens not leading to an adequate improvement in business conditions.

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