

BUSINESS ENVIRONMENT in SLOVAK CONDITIONSKatarína KRÁĽOVÁ^{1*}¹Ing. Katarína Kráľová, Ph.D., Faculty of Social and Economic Relations Alexander Dubček University of Trenčín, Študentská 3, Trenčín 916 41

*Corresponding author E-mail address: katarina.kralova@tuni.sk

Abstract

It is indisputable that a quality business environment in the economy is a basic prerequisite for its long-term competitiveness and subsequent economic growth and development. Therefore, we can state that the business environment in its broadest sense reflects the quality of conditions and preconditions for the rational development of business activities. The level of quality of the business environment determines the conditions for long-term sustainable achievement of economic growth and increasing the competitiveness of the economy. A healthy business environment, which motivates people to do business, is one of the key tools of the state to ensure long-term economic growth. The business environment must allow for effective competition between entrepreneurs, which is a key driver of the economy. The aim of the presented paper is to descriptively characterize the business environment, evaluate the quality of the business environment through selected indices and then specify the obstacles and limits that prevent business entities in business activities and their further progress.

Keywords: *business environment, small and medium-sized enterprises, economic growth and development, barriers to business, quality of the business environment*

1 Introduction

Small and medium-sized enterprises are an important part of the Slovak economy. These enterprises are the driving force of the economy, create jobs, respond flexibly to market conditions and stimulate the growth of the living standard of the population. But small and medium-sized enterprises in Slovakia are currently exposed to many problems related to the business environment with its structure and quality. Despite these problems, small and medium-sized enterprises are a means to the growth and development of the Slovak economy. They have the ability to adapt quickly to market requirements. To adapt production to the changing requirements of customers and customers. This means that small and medium-sized enterprises are an essential element of modern economies. They therefore represent the basic business entities in a market economy with their typical features and characteristics. (Majdúchová, 2012) According to the author Felisová et al. (2004) the main prerequisite for the positive development of small and medium-sized enterprises is the creation of a good business environment and suitable conditions for entrepreneurship. Here we should ask ourselves the question: "What is a good or good business environment?" A good business environment is therefore an environment that creates equally favorable conditions for all involved, regardless of where they come from, what their legal form, size, etc. A good business environment must therefore enable effective competition between businesses, which is the basic engine of the economy. It should be noted that the individual elements of the business environment are significantly shaped by the state through economic policy. Therefore, the importance of the state in shaping the business environment is not negligible. This means that the state should create stable conditions for the implementation of business activities in the long term, i.e. gradually build a favorable, high-quality business environment. Public institutions should therefore serve to increase and simplify business conditions for these business activities and not to complicate the whole process. Therefore, the state should create such conditions for business in the whole territory of the Slovak Republic, which will support new investments, increasing productivity, innovation and the creation of new jobs, and at the same time remove all barriers to effective business. In order to be able to evaluate the conditions for doing business in small and medium-sized enterprises in the Slovak Republic and then point out the limits limiting their business activities, we must first focus on evaluating the quality of the business environment. indexes. Through selected indices, we can then evaluate the quality of the business environment. Indices have different constructions, use different data, different data sources and different variables. Several criteria are used to divide them, such as by species, objectivity of evaluators and the like. The index that we choose to evaluate the quality of the business environment can be, for example:

- a) unique - the data are obtained by an unusual survey and follow only a pre-selected purpose,
- b) composite - is derived from several existing surveys and indicators

Objective indices are those that are calculated from objectively measurable data. Subjective are those that are based on the subjective judgments of the respondents of the selected group. The construction of the index, the nature of

the data and the sources of the data are considered to be the three basic criteria for measuring the quality of the business environment. The individual indices also differ from each other in the subject of their measurement. The subject of measuring each index is to measure the quality of the business environment through the selected variable. The following indices can be used to measure the quality of the business environment:

- Corruption Perception Index (CPI)
- Global Competitiveness Index, assessed by the World Economic Forum
- Business Environment Index (IPP)
- Doing Business report, carried out by the World Bank
- Aggregate Governance Indicators (AGI)
- Opacity Index (OI)
- Capture Index (CI)
- Economic Freedom Index (EFI)
- Corporate Governance Risk Index (CGR)

When processing the paper, we worked with information obtained from basic information sources such as the database of the Statistical Office of the Slovak Republic, Eurostat and the Slovak Business Agency. An important source of information was also information and reports of important Slovak and European institutions, such as the Business Alliance of Slovakia, Slovak Business Agency, European Commission reports. Standard scientific research methods were used to process the paper. We have been monitoring the development of individual indicators over the last ten years. To evaluate the quality of business conditions for small and medium-sized enterprises in the Slovak Republic, we have selected the following indices: Corruption Perceptions Index, Global Competitiveness Index, Doing Business Report and Economic Freedom Index.

2 Evaluation of the quality of the business environment through selected indices

The quality of the business environment significantly affects the performance of the business sector. Therefore, the creation of a healthy business environment is an important prerequisite for the development of the business sector. Small and medium-sized enterprises, which play an important role in the Slovak economy, are more sensitive to the shortcomings of the business environment, but at the same time they have limited resources to overcome them. Small and medium-sized enterprises (the definition is given in Table 1) represent an important part of the economies in developed countries. In the conditions of the Slovak Republic, small and medium-sized enterprises represent more than 99% of the total number of all enterprises, while their share in value added is about 50% and the share of employment is on average around 60-70%.

Table 1 Definition SME

SME Definition				
Enterprise category	Ceilings			
	Staff Headcount (number of persons expressed in annual work units)	Turnover	Or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Source: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

For this reason, it is necessary to systematically monitor and evaluate the state and development of the small and medium-sized enterprise sector and to take measures for its further development. Table no. 2 shows us a change in the total number of small and medium-sized enterprises in the last ten years, where we can see how the ratio of the number of small and medium-sized enterprises - legal entities has changed to the detriment of small and medium-sized enterprises - natural persons. During the observed ten-year period, the number of small and medium-sized enterprises in the Slovak Republic increased by 7.7%.

Table 2 The state of small and medium enterprises in the Slovak Republic

	2010	2019	absolute increase	Index 2019/1996	in %
Total number of SMEs	552 725	595 371	42 646	1,077	7,7%
SMEs legal entities	142 417	246 353	103 936	1,729	72,9%
FO entrepreneurs	410 308	349 018	-61 290	0,850	-15%

Source: SBA, based on data from the Statistical Office of the Slovak Republic

Corruption Perceptions Index

The Corruption Perceptions Index serves as a reminder that abuse of power or bribery continues to be a problem in many countries around the world. The level of perception of corruption classifies countries and territories according to how corrupt its public sector is. Transparency International rates public sector corruption on a scale from 0 (high levels of corruption) to 100 (the so-called "clean country"), where 0 means that the country is perceived as very corrupt and 100 means that it is perceived as very clean. From the following table no. In the world rankings, countries such as Denmark appeared at the top of the list, finishing in first place, followed immediately by New Zealand, Singapore and Sweden. These countries are considered to have the lowest levels of corruption. The placement of the Slovak Republic on the tail either of the V4 countries or its placement among the last EU countries creates pressure on the government not to take the problem of corruption lightly and considers it an important factor in creating a successful and high-quality business environment. Entrepreneurs in the Slovak Republic perceive the problem of corruption as very serious. Corruption is the third most serious barrier to business in Slovakia. The problem of the high level of corruption in the Slovak Republic does not lie in insufficient legislation, because from a formal point of view, Slovakia has anti-corruption laws and control mechanisms at the level of European standards, but lags far behind in their practical application.

Table 3 Corruption Perceptions Index

year	2010	2011	2012*	2013	2014	2015	2016	2017	2018	2019
rank	62	66	62	61	54	50	54	54	57	59
score CPI	4,3	4.0	46	47	50	51	51	50	50	50

Source: own processing based on <http://www.transparency.org> (*Transparency International has revised the methodology used to compile the index in order to compare scores from one year to the next.)

Global Competitiveness Index

The Global Competitiveness Index is the most comprehensive assessment of national competitiveness and is analyzed and evaluated annually by the World Economic Forum. The World Economic Forum assesses competitiveness on the basis of available statistics and a global survey of managers' views. Table 4 shows the development of the value of the index over the last ten years as well as the ranking of the Slovak Republic in the ranking of the World Economic Forum. The global competition index takes values from 0 - very low competitiveness to 100 - maximum competitiveness. During the period under review, the Slovak Republic ranked worst in 78th among the evaluated countries in the world in 2013. This meant the worst historical placement for Slovakia since its accession to the European Union as well as since its inclusion in this prestigious international comparison (see Table 4).

Table 4 Global Competitiveness Index

year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
ranking	60	69	71	78	75	67	65	59	41	42
score										(66,8)
change	-13	-9	-2	-7	+3	+8	+2	+6	+18	-1

Source: own processing <http://www3.weforum.org>

In its last report for 2019, the World Economic Forum also identified what, based on the analysis, it considers to be the biggest competitive disadvantages of the Slovak economy and barriers to the development of economic activities. Detailed data can be found in the following table 5.

Table 5 The biggest competitive disadvantages of Slovakia 2019

<i>The biggest competitive disadvantages of Slovakia</i>	ranking
Labour tax rate	138
Distortive effect of taxes and subsidies on competition	137
Burden of government regulation	135
Ease of hiring foreign labour	133
Efficiency of legal framework in challenging regulations	132
Efficiency of legal framework in settling disputes	130
Ease of finding skilled employees	127
Government long-term vision	125
Diversity of workforce	120

Source: own processing http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

The improvement of the position of the Slovak economy in the ranking of the World Economic Forum is constantly hindered by the persistent problems of the business environment in the Slovak Republic. This is the case, for example, with low innovation capacity, where we lag behind other countries mainly in terms of workforce diversity, cooperation between research entities, building business clusters and the maturity of shopping behavior of consumers who continue to prefer price to quality in their purchases. products and services. We also lag behind in the efficiency of the goods market, where the problem is mainly the complicated tax and customs system, special tax regimes and subsidies that harm the competitive environment. Another problem of the business environment based on the report of the World Economic Forum is the labor market with its insufficient flexibility of employment relations, low mobility of workers and high barriers to the employment of foreigners. The most lagging area is the quality of public institutions, where high regulatory burdens, low law enforcement, insufficient independence of the judiciary and police, but also the unclear long-term economic vision of the government are most damaging to competitiveness and the deterioration of the business environment. Among the most significant competitive advantages of the Slovak Republic, the World Economic Forum cites macroeconomic stability, high openness of the Slovak Republic to the entry of foreign capital, low risk of terrorism, the spread of the Internet, the Slovak banking system and energy infrastructure.

The Doing Business report

The Doing Business report published by the World Bank is another well-known and respected indicator monitoring the state of the business environment. The advantage of Doing Business over other indices measuring the quality of the business environment is that Doing Business measures regulation that affects the business activities of ordinary companies as well as the conditions for starting and closing a business, but does not examine broader factors affecting business such as human capital, infrastructure, economic policy. In terms of the methodology used, Doing Business is based on the opinions of experts. Doing Business obtains data on items related to specific components of the business environment. The closer the country is to a lower number, i.e. to the first place, the better the business environment.

Table 6 Areas of the business environment of the Slovak Republic that are part of the DB Report and their ranking in the overall ranking

	Areas of business environment in the Slovak Republic	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
1	Starting a business	118	127	83	68	68	77	108	80	76	74
2	Obtaining a building permit	146	143	91	103	84	110	53	50	50	50
3	Access to electricity	54	47	57	53	48	100	65	66	102	94
4	Ownership registration	8	9	7	7	5	11	11	9	10	8
5	Availability of credit resources	48	44	55	44	42	36	42	40	24	21
6	Investor protection	88	95	89	87	88	100	115	113	111	108
7	Tax obligations of companies	55	48	49	56	73	100	102	100	130	126
8	Cross - border trade	1	4	1	1	1	71	108	111	95	91
9	Enforceability of contracts	46	47	84	82	63	55	65	65	71	74
10	Termination of business	46	42	42	35	33	31	38	38	35	33
	The quality of the business environment - ranking	45	42	39	33	29	37	49	46	48	43

Source: own processing based on <http://www.doingbusiness.org/reports>

Economic Freedom Index

The International Heritage Foundation's index on the quality of the business environment is the Economic Freedom Index (EFI). The EFI rating scale is on a scale from 0 to 100. If a country scores 80-100, it is considered economically free, if 70-79.9 is considered predominantly free, the range 60-69.9 expresses a slight freedom, the score 50-59.9 indicates a mostly non-free country and below 50 points the country is considered repressed. The 10 freedoms trade policy, tax and levy burden, government intervention in the economy, monetary policy, monetary stability, capital flow and foreign investment, banking and financial sector, wages and prices, property rights, trade regulations, black economy are evaluated.

Table 7 Evaluation of the Slovak Republic according to the EFI index in the years 2010 - 2019

year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total evaluation of the SR	69.7	69,5	67	68,7	66,4	67,2	66,6	65,7	65,3	65,0
Verbal evaluation of the SR	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom	mild economic freedom

Source: own processing based on <http://www.heritage.org/index/explore?view=by-region-county-year>

The Slovak Republic achieved the highest rating according to the EFI index in 2008, when it was assessed as a predominantly free country. This was the best rating in the entire history of measuring this indicator. In recent years, the Slovak Republic is assessed as a slightly free country, with the worst result in the period under review in 2014, while the worst rate in 2014 was the level of corruption, law enforcement and freedom of work).

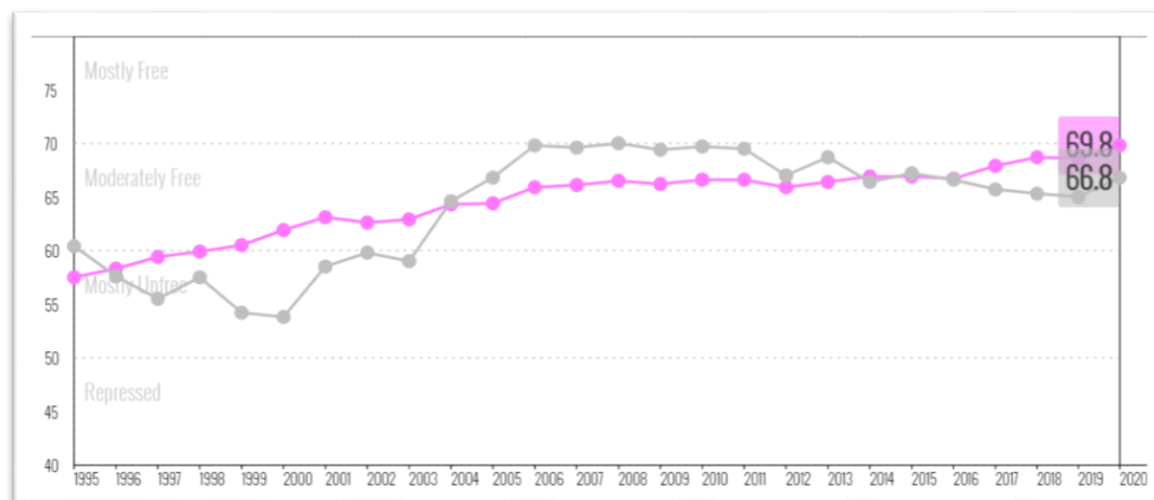


Fig. 1 OVERALL SCORE - Evaluation of the Slovak Republic according to the EFI index in the years 1995 - 2020 Source: Index of Economic Freedom (heritage.org)

3. Conclusion

Due to the processes of globalization, the development of the business environment of the Slovak Republic is largely influenced by the development of the world economy, therefore great emphasis must be placed on the quality of the business environment, which affects the competitiveness and performance of the economy and also motivates entities to perform business activities. However, it can be said that the Slovak Republic is still a relatively inefficient economy and that is why it is even more important for our entrepreneurs to do business in a favorable business environment. Support and development of business is therefore defined as one of the priorities of economic development of the Slovak Republic. However, the main prerequisite in the process of developing business activities is the creation of a suitable or in other words quality business environment.

Table 8 Weaknesses and strengths of the business environment in the Slovak Republic

Weaknesses of the business environment of the Slovak Republic	Strengths of the business environment in the Slovak Republic
corruption, bureaucracy, high level of clientele law enforcement and the functioning of the judiciary clarity, applicability and consistency of legislation skilled workforce, insufficient support for innovation	the position of the Slovak Republic in the middle of the European area openness of the economy, banking system, relatively cheap labor,

Source: own processing

Based on the synthesis of knowledge from a more detailed analysis of individual indicators selected by us (Corruption Perception Index, Global Competitiveness Index, Doing Business Report), we gained some insight into the strengths and weaknesses of the Slovak business environment, see. Table 7. From the above analyzes we can conclude that the quality of the business environment in the Slovak Republic has not significantly improved in recent years and the business environment has long faced problems that negatively affect the economic activities of small and medium enterprises and therefore more systematic solutions are needed by the state. Improving business conditions in the Slovak Republic. The main priorities in the business environment should be the following:

- law enforcement,
- support for innovation activities and cooperation between the business sector and research,
- legislation, its quality, clarity, stability,
- public institutions as a partner and not a burden,
- availability of skilled labor,
- quality physical infrastructure and services in network industries.

A functioning market and a healthy business environment are key prerequisites for economic freedom and voluntary economic activities, and thus for a free and prosperous society. The business environment must allow for effective competition between entrepreneurs, because economic operators work best and create value in an environment with clear, transparent and predictable rules that apply equally to everyone. Therefore, the government should create such a business environment throughout the Slovak Republic, which would create suitable conditions for new investments, increasing productivity, innovation and the creation of new jobs. In terms of macroeconomic instruments that have an impact on public finances, the government should especially prefer instruments that will have a positive effect on business activities such as. reducing the tax and levy burden on all business entities (not selectively, but systematically), but at the same time will not endanger the stability of public finances.

References

- [1] FELISOVOVÁ, E. et al. 2004, *Financie malých a stredných podnikov*. Bratislava: Iura edition, 2004. 260 s. ISBN 8089047-87-4.
- [2] HABÁNIK, J. a kol., 2014 *Regional Economy and Regional Development*. Trenčín, TnUAD, 248 s.,
- [3] HABÁNIK, J., HOŠTÁK, P., KORDOŠ, M., 2016 *Competitiveness of Slovak economy and regional development policies*. Spôsob prístupu: http://www.jojs.eu/files/JIS_Vo19_No1_Habanik_Kordos_Hostak.pdf. In: *Journal of International Studies*. - ISSN 2071-8330. - Vol.9, No.1(2016), p.144-155.
- [4] HABÁNIK, J. A KOIŠOVÁ, E. 2011, *Regionálna ekonomika a politika*. Sprint dva s.r.o., Bratislava, ISBN 978-80-893-55-8
- [5] Hudec, O. a kol. 2009 *Views of regional and local development*, EF TU Košice, ISBN 978-80-553-0117-4
- [6] HUDÁK, J., 14.07.2009. Dostupné na: <https://euractiv.sk/section/podnikanie-a-praca/interview/jozef-hudak-k-ozdraveniu-slovenskeho-hospodarstva-aj-napriek-rizikam-najvyznamnejsie-prispeju-male-podniky-013245/>
- [7] JECK, T., 2017 *Slovenská ekonomika a štvrtá priemyselná revolúcia : faktory a predpoklady = Slovak Economy and the Fourth Industrial Revolution: Drivers and Determinants*. Recenzenti Karol Frank, Jaroslav Vokoun. In *Working papers*, 2017, č. 99, s. 1-26. ISSN 1337-5598
- [8] JEŽKOVÁ, R., JEŽEK, J., 2011 *Podnikanie a jeho komunálna a regionálna podpora*. Bratislava: Eurokódex. 248 s. ISBN 9788089447473
- [9] JURÍČKOVÁ, V. et al. 2006. *Podnikateľské prostredie a firemné stratégie*. Bratislava : Ekonomický ústav SAV, 2006, 172 s. ISBN 80-7144-154-6.
- [10] KRÁĽOVÁ, K. ,2016 , *Ekonomika malých a stredných podnikov*, TnUAD v Trenčíne

- [11] KUBÁTOVÁ, K. et al. 2012. Podnikateľské prostredie v EU z hľadiska verejných financií. Bratislava: EUKÓDEX, s.r.o. a Panoeuropska vysoká škola, 120 s. ISBN 978-80-89447-91-6.
- [12] Malé a stredné podnikanie v číslach v roku 2017, Bratislava 2018, vydalo SBA 2018
- [13] MAJDÚCHOVÁ, H., NEUMANNOVÁ, A., 2012 Podnik a podnikanie, Bratislava Sprint dav s.r.o., ISBN 978-80-89393-83-1
- [14] MARKOVÁ, V., 2003, Malé a stredné podnikanie v Slovenskej republike. Zvolen: Univerzita Mateja Bela Ekonomická fakulta,
- [15] STRÁŽOVSKÁ, E., STRÁŽOVSKÁ, E., PAVLÍK, A. 2007. Malé a stredné podniky. Bratislava: Sprint, 2007, 328 s. ISBN 978-80-89085-64-4.
- [16] VEBER, J., SRPOVÁ, J. a kol., 2005 Podnikání malé a střední firmy. Praha: Grada Publishing, 2005. 304 s. ISBN 80-247-1069-2.
- [17] http://europa.eu/rapid/press-release_IP-17-333_sk.htm
- [18] http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en<http://www.statistics.sk>
- [19] <http://www.sbagency.sk/sba-0>
- [20] <http://www.doingbusiness.org>
- [21] <http://www.transparency.org>
- [22] <http://www3.weforum.org>
- [23] <http://www.heritage.org/index/explore?view=by-region-county-year>