

# BUSINESS ENVIRONMENT IN THE SLOVAK REPUBLIC

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## Abstract

The impact of the external environment on the business is very strong. The business environment covers the economic, political, institutional, legal, technological, ethical, cultural conditions in which the business process takes place. The business environment may affect business activities positively or negatively. A high-quality business environment is a prerequisite for business development and increasing competition for the country's international economy. At the same time, it creates the conditions for maintaining long-term economic growth. The quality of the business environment in Slovakia is influenced by two levels. The first is the legislative framework, the second is the specific social and economic conditions in specific regions, such as the development of transport infrastructure, the composition of local industry, or availability of labor. A good business environment is an environment that creates the same favorable conditions for all involved, regardless of where they come from, such as their legal form, size. Despite the overall improvement of the business environment in recent years, Slovakia is starting to lag within the region. The aim of the paper is to evaluate the quality of the business environment in the SR through relevant indexes.

**Keywords:** business environment, index of the business environment, Global Competitiveness Index, Doing Business

## 1 Introduction

The business environment is the environment in which every business exists. It is an important determinant of the existence and functioning of the business. The business is connected with its environment, influenced by it and dependent on it. The business environment is influenced by a number of factors from the economic and political environment to the issues of infrastructure, technology, or specific needs in the industry or the subject. The business environment reflects the quality of economic conditions and economic assumptions of business entities in the country. A high-quality business environment is currently the basis for the long-term development of entrepreneurial activity, the prosperity of the state, but also the quality of life in the state. It is a prerequisite for the long-term competitiveness and growth of every market economy. As a result of globalization trends, the business environment has changed significantly.

In the analysis of influence of business environment the following structure of business environment is divided into three levels [2]:

- a) Macro environment (global environment)
- b) Microenvironment (companies and individuals who the company is interacting and which have direct influence on the activity of the company)
- c) Internal environment (processes inside the company).

A high-quality business environment is therefore an environment that creates equally favorable conditions for all involved, regardless of where they come from, such as their legal form, size. A high-quality business environment with the ability to achieve long-lasting economic growth is a prerequisite for business prosperity and increasing the competitiveness of all market players. Quality of the business environment can be evaluated through several indexes. The indices have a different construction, they use different data sources and different variables. They differ in the objectivity of the evaluators. To evaluate the quality of the business environment in Slovakia, we chose:

- Business Environment Index,
- Corruption Perceptions Index,
- Doing Business Report,
- Global Competitiveness Index.

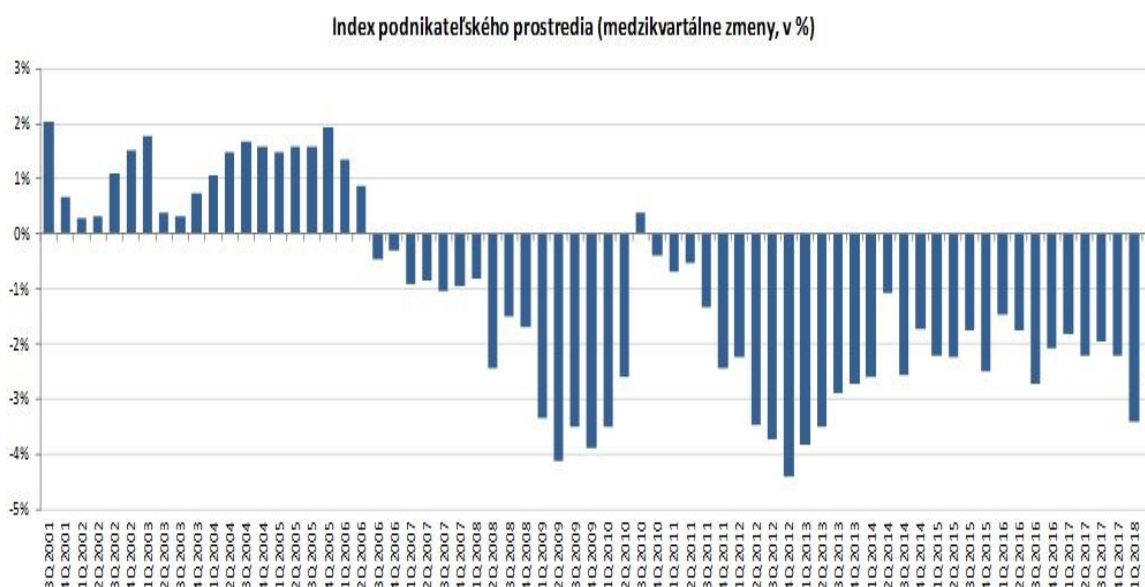
## 2 Business environment index

The Business Environment Index created by the Business Alliance of Slovakia (PAS) is the result of regular monitoring and evaluation of the quality of the business environment in the Slovak Republic. In terms of methodology, it is the most relevant tool for measuring the quality of the business environment at national level. This index is the quality of the business environment of Slovakia monitored at quarterly intervals since 2001. The index started at a reference value of 100. The business environment index serves to monitor the development of the Slovak business environment and to change the quality of its individual components, such as in the economic

policy of the government or in the infrastructure. The index is the result of regular surveys among managers, evaluating the current development of the surveyed areas of the business environment based on their own experience.

The index has three rating categories. The first category has 13 items and follows the development of the legislative and regulatory environment in Slovakia. Examples include business legislation, tax legislation, levies and investments, law enforcement, market regulation. The second category has 11 items and summarizes the impacts of other external macroeconomic factors on businesses. It monitors for example price stability, currency exchange movements, fiscal policy, infrastructure level. The third category of the index has 10 items and takes into account the business's own contribution to the development of the business environment. Each of the 34 items has its own weight in the index, so the index represents the weighted arithmetic mean of the changes of individual items.

Fig. 1 Business Environment Index in Slovakia (Intermediate Change, %) [8]



The development of the business environment in Slovakia, according to its own assessment of entrepreneurs, takes a long time in the negative direction. In the second quarter of 2018, businessmen moderated the negative view of the state of the business environment. The business environment index reached 47.73 points and fell by 2.55% compared to the previous quarter. Entrepreneurs for the top barrier in business for the second quarter have re-enforced law enforcement, the functioning of the judiciary (-8.92%) and the application of the principle of equality before the law (-7.45%). Other in order are the efficiency of state management, access to state aid (-7.70%) and the quality and availability of production inputs, the workforce (-5.69%). In the second quarter, entrepreneurs rated the quality and availability of production inputs, the workforce was 2.67% better than in the first quarter. They also rated significantly better (by 5.75%) the functionality of the political system in the state. The incidence of economic crime, organized crime was rated better by 4.94%. [8]

### 3 Corruption perceptions index

The Corruption Perceptions Index (CPI) is very important in the world. It can be said that it is even one of the most popular and regularly points to the quality of the business environment. Corruption affects the development and growth of the landscape through two basic channels. Firstly, it leads to inefficient spending of public funds, which reduces the economic growth of the country. Second, it creates an unfair redistribution of pensions, contributing to an increase in income and social inequalities. Every year, Transparency International publishes and quantifies the level of corruption in the public sector. The corruption perceptions index is calculated annually at the Transparency in Berlin. Fundamentals are data sources and surveys between domestic and foreign analysts and managers. Slovakia is stagnating in the fight against corruption. According to the world ranking of corruption perceptions, ended in 54th place last year, as in the previous year. Slovakia has reached 50 points out of 100 (the fewer the points this is, the higher the corruption), one less than in 2015 and 2016 and the same as in 2014.

The problem of high corruption in Slovakia does not lie in the lack of legislation. From a formal point of view, Slovakia has anti-corruption laws and control mechanisms at the level of European standards. But unlike other countries, they are lagging behind in their practical application.

*Table 1 Ranking of Slovakia according to the Corruption perceptions index[2]*

Rank 2017	Score 2017	Score 2016	Score 2015	Score 2014	Score 2013	Score 2012
54	50	51	51	50	47	47

In Central Europe, Hungary dropped nine places to a total of 66th. Poland finished 36th, the Czech Republic 6 points lower. The cleanest countries were New Zealand and Denmark last year

*Table 2 Ranking of countries according to the Corruption perceptions index[2]*

Country	Ranking 2017	Score 2017	Score 2016
New Zealand	1	89	90
Denmark	2	88	90
Switzerland	3	85	86
Norway	3	85	85
Finland	3	85	89
Sweden	6	84	88
Singapore	6	84	84
United Kingdom	8	82	81
Netherlands	8	82	83
Luxembourg	8	82	81
Canada	8	82	82
Poland	36	60	62
Czech Republic	42	57	55
Slovak Republic	54	50	51
Hungary	66	45	48

#### 4 Doing business report

Doing Business is created by the World Bank, with higher scores meaning a better, easier and more transparent regulatory environment for business entities and protection of property rights. The assessment of individual indicators in countries is based on the review of legislation and regulatory measures. Findings are provided by thousands of country experts, including government officials, lawyers, and consultants. The World Bank index consists of 10 sub-indices: starting a business, building permits, connection to the mains, registration of real estate, availability of credit resources, investor protection, tax obligations, cross-border trade, enforceability of contracts and termination of business.

*Table 3 Ranking of countries according to World Bank Doing Business in 2018 [7]*

	DTF score	ranking	change
New Zealand	86,55	1	-0,18
Singapore	84,57	2	0,04
Denmark	84,06	3	-0,01
Korea, Rep.	83,92	4	0,00
Hong Kong, China	83,44	5	+0,29
USA	82,54	6	-0,01
United Kingdom	82,22	7	-0,12
Norway	82,16	8	-0,25
Georgia	82,04	9	+2,12
Sweden	81,27	10	+0,03
Poland	77,30	27	+0,18
Czech Republic	76,27	30	+0,03
Slovak Republic	74,90	39	-0,25
Hungary	72,39	48	+0,26

It deals with trade policy measures currently in 190 world economies. Although this ranking tries to be the most optimal and most objective, there are several limitations that distort the measurement result. One of the most

serious, as far as Slovakia is concerned, is that the indicator only evaluates the most poorest place in the country. In World Ranking Doing Business 2016, Slovakia finished 29th out of 189 countries in the world, where Slovakia recorded the best ever position in this country. They were in the first thirty countries with the best business environment. In the following year, Slovakia deteriorated and dropped to 39th.

Table 4 Ranking of Slovakia according to the World Bank's Doing business rating

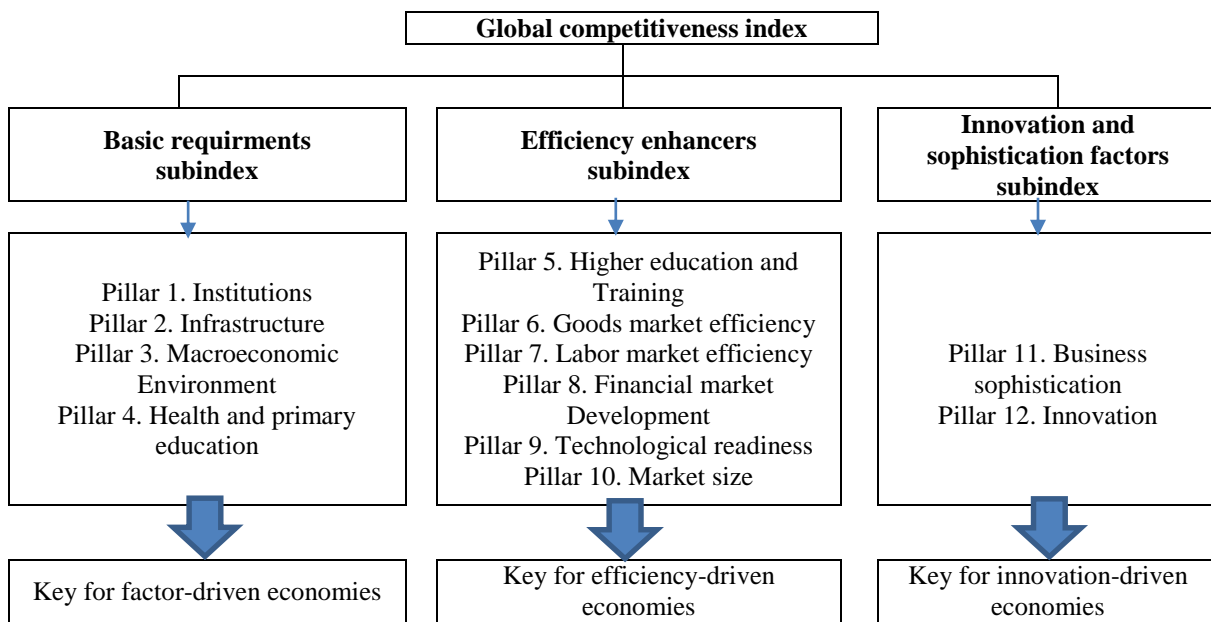
Year	2013	2014	2015	2016	2017	2018
Ranking	46	49	29	30	33	39

Compared with the V4 countries, Slovakia ranks third, behind Poland and the Czech Republic. Only Hungary is in a worse position than Slovakia, and in 2018 even worse its position than Slovakia. In the past year, all V4 countries have worsened their position in the World Bank Doing Business. Slovakia has worsened its position by 6 points.

### 5 Global competitiveness index

The World Economic Forum (WEF) annually evaluates the Global Competitiveness Index (GCI) of countries in the world to identify the level of competitiveness of individual countries. The Global Competitiveness Index is based on a 12-pillar score, which is divided into three sub-indices – Basic Requirements, Increased Efficiency, Innovation and Sophistication.

Fig. 2 Business Environment Index in Slovakia (Intermediate Change, %) [6]



The first sub-index covers the essential requirements, which are particularly important for industrially managed economies. Slovakia as a developed country should be at a high level. It includes four pillars, namely institutions, infrastructure, the macroeconomic environment and health and basic education.

The second sub-index contains pillars influencing country efficiency. It is key to effectively managed economies. Slovakia was just before recently in the range of an effectively managed and innovated landscape. Since last year, it has been in the hands of innovative economies. This includes six pillars: higher education and training, product market efficiency, labor market efficiency, financial market development, technological readiness and market size. As the third and most important subindex, it is key to innovative economies. It is the most advanced economy in the world and is the key to sustainable land development. It has two pillars: the maturity of business processes and innovation.

Table 5 GCI index in Slovakia

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Ranking	46	47	60	69	71	78	75	67	65	59
Change	- 5	-1	-13	-9	-2	-7	+3	+8	+2	+6

Since 2008 Slovakia's position has deteriorated until 2013. The most significant decline occurred in 2010, when Slovakia fell by 13 points in the GCI Index. One year later, it dropped to its worst-ever position. Since 2014, Slovakia's position has improved year on year. In 2017, Slovakia moved 6 points up, moved to 59th place. The highest in history was 37th, in times of economic reforms in 2006.

In the first five places in recent years, Switzerland, USA, Singapore, Netherlands and Germany. From the V4 countries, Slovakia ranks third in terms of the quality of the business environment.

*Table 6 Overall ranking of countries in the GCI index [9]*

	GCI 2017		GCI 2016	Change
	Score	Ranking	Ranking	
Switzerland	5,86	1	1	→
USA	5,85	2	3	↑
Singapore	5,71	3	2	↓
Netherlands	5,66	4	4	→
Germany	5,65	5	5	→
Hong Kong	5,53	6	9	↑
Sweden	5,52	7	6	↓
United Kingdom	5,51	8	7	↓
Japan	5,49	9	8	↓
Finland	5,49	10	10	→
Czech Republic	4,77	31	31	→
Poland	4,59	39	36	↓
Slovak Republic	4,33	59	65	↑
Hungary	4,33	60	69	↑

Slovakia lags behind other V4 countries for the longer term. Slovakia has improved in the period under review, but managed to catch up and overtake only Hungary. Although in 2017 only one position. Slovakia had to meet many criteria when it joined the EU. Nevertheless, long years after EU integration, Slovakia still ranks among the less advanced countries in the world. Despite the fact that until 1993 we formed a united country with the Czech Republic, after the split, both countries chose a different path. This also reflected on the quality of the business environment. In all the indexes surveyed, Slovakia is in a worse position than the Czech Republic.

## 6 Conclusion

A high-quality business environment is at present a basic precondition for the long-term competitiveness of the countryside and the growth of every market economy. A favorable business environment creates conditions for long-term sustainable growth, which is a prerequisite for the long-term development of business activities, increasing the economy's performance and hence the living standards of the population. The quality of the business environment is the foundation of a prosperous state. The business environment creates the conditions for a successful business. One of the most important parts of the economy in all developed economies is small and medium-sized enterprises.

The main priorities in the business environment should be as follows:

- Effective enforcement of laws
- Public institutions as a partner rather than a burden
- Efficient access to the capital market for all businesses
- Quality physical infrastructure and services in network industries [3]

Due to the processes of globalization, the development of the business environment of the Slovak Republic is greatly influenced by the development of the world economy. The business environment must enable effective competition for entrepreneurs, which is the basic engine of the economy. Supporting and developing business and improving the quality of the business environment is one of the priorities of the economic development of the Slovak Republic.

Of the total number of businesses in Slovakia up to 99% are small and medium-sized enterprises. This share is comparable to advanced countries. This confirms the necessity of developing small and medium-sized enterprises to improve the economy of the state. Small and medium-sized enterprises in the Slovak Republic are an important

part of the national economy. They are a stabilizing element of the economic system and the sectors with the greatest potential for growth. They play an indispensable role in creating jobs, balancing regional disparities and introducing innovation into economic practice. On the other hand, however, small and medium-sized enterprises are more sensitive to the changes in the business environment, especially to the deteriorating quality of the business environment. If the quality of the business environment deteriorates in the economy, there are barriers to business, which is reflected in the decline of SMEs. One way to solve this problem in the economy is to initiate and support the creation of networking clusters of SMEs by the state and local government, clusters. By clusters we understand localized clusters of homogeneous and related societies form the basis of a local environment that can facilitate the transfer of knowledge and stimulate various forms of adaptation, learning and innovation. Cluster, as a model for increasing and gaining competitive exits, also enables small and medium-sized businesses to become dynamic and competitive businesses, not only in the domestic market.

In the paper we evaluated the quality of the business environment in the Slovak Republic using several indexes. Slovakia has not ranked first in one of the four indices within V4 countries. The worst ranking was scored in the World Economic Forum, the GCI index, where out of the 140 countries surveyed, Slovakia finished at 59th place in 2017. Slovakia is seen by between the V4 countries as the country most affected by corruption. At the penultimate spot, just before Hungary, the Slovak Republic was placed in two evaluations. From the V4 countries, Slovakia ranks third in terms of the quality of the business environment. We can state that the quality of the business environment and the level of competitiveness in the SR slightly improved. However, there are still some barriers and barriers to the effective development of businesses and businesses. The role of the state is not negligible in shaping the business environment. The state should create stable conditions for doing business in the long run. A high-quality business environment creates the conditions for long-term sustainable growth, which will be reflected globally in the development of basic macroeconomic indicators of the economy as well as in increasing the competitiveness of the economy of the Slovak Republic in international comparison.

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