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BUSINESS ENVIRONMENT ANALYSIS BASED ON THE GLOBAL COMPETITIVENESS INDEX (GCI) AND DOING BUSINESS (DB): CASE STUDY SLOVAKIA¹

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Abstract. Since the quality of the business environment is decisive for the inflow of investments in the country, this paper is focused on a brief analysis of the Slovak business environment based on international indicators. Assessing the quality of the business environment is the assessment of the level of the individual components of the business environment. A high-quality business environment that creates the conditions for long-term economic growth is a basic precondition for business development and increasing the competitiveness of the country. Elements of the business environment in the country constitute a legislative framework for business and law enforcement, administrative and financial (tax and fee) burdens, interference with business freedom and business infrastructure (conditions, quality and availability of key factors of production and business services). It is clear from this that the business environment is a complex variable, including many areas. Therefore, this paper will point to some selected areas of business environment in Slovakia. A sustainable business environment constantly innovates and simplifies individual indicators affecting businesses on the market. The paper provides results of the analysis of business environments of Slovakia over 2012 - 2018 (GCI) on the basis of data provided by organisations dealing with business environment surveys such as the World Bank and World Economic Forum.

Keywords: business environment, doing business, global competitiveness report, Slovak republic

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1. Introduction

Assessing the quality of the business environment is the assessment of the level of the individual components of the business environment. It is important to select appropriate indicators and select appropriate resources. Each country has its own specific business environment affected by wide spectrum of factors, and there is ongoing discussion how this environment has to be evaluated (e.g. Pavlova, Šenfelde 2017; Komarova et al. 2018; Lietuvnikė et al. 2018; Veselovsky et al. 2018; Tvaronavičienė et al. 2018; Pietrzak et al. 2018).

This paper is based on rather conventional approach. Doing business also involves so called business risk, which can be characterised as likelihood of taking a negative direction from reaching identified goals. In their business activities, entrepreneurs are also exposed to influences preventing them from achieving anticipated success. A set of influences affecting the existence and development of all business activities is generally de-

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noted as business environment. The results of business activities are considerably dependent on the business environment a company operates in. Conditions under which companies operate, or develop their activities, have a significant impact on their performance, competitiveness and growth potential, as well as they determine the attractiveness of a particular state for foreign investors.

Within interstate comparison, the term business environment can also be defined on the basis of definitions used by international organisations. English term business environment is used by e.g. UNCTAD and World Bank's Department for Small and Medium Enterprises, while the term business climate is used by e.g. Danish and Dutch governments. The term investment climate can be found in the documents of the World Bank and UNIDO, and the term enabling environment is used by the OECD.

Canadian International Development Agency characterises business environment as the existence of a competitive domestic market linked with the global economy, managed by a well-defined legal and regulatory environment and equipped with a strong and growing human capital base and sufficiently developed infrastructure. The issue of determinants of business environment is up-to-date and dealt with in a number of publications by both Slovak and foreign authors. The significance of factors affecting business environment is dealt with by e.g. Guay (2014), Hallberg (2006), Hamilton and Webster (2015), Harrison (2014) and Wetherly, and Otter (2014), Wagner (2016). Hallberg explains that business rules are laid down by governments through adopted decisions. Positive principles such as transparency, responsibility, encouragement of competition, enforceability of rights and safeguarding of assets should be applied upon the formation, respectively improvement of conditions for business (Hallberg, 2006).

Wetherly opines that mutual interaction occurs between business entities and business environment. Businesses are influenced by the environment they operate in as well as they have an influence on their environment. It is in the interest of businesses to participate in the formation of business environment in order to enforce their own measures with resulting benefits for them (Wetherly, Otter, 2014). According to Harrison, a particular business environment can be characterised on the basis of identifying and detailing its key factors and perspectives. In some cases, individual perspectives are denoted as environments themselves with regard to the fact that they frame business environment as a whole (Harrison, 2014). New trends in business and startup communities' among young people are focusing on creativity, new ideas and innovations (Hudáková, Papula, 2016).

2. Methodology

Defining the business environment is not a simple task due to the fact that it is influenced by a number of factors ranging from the economic and political environment to the issues of infrastructure, technology or specific needs in a particular sector or entity. Under business environment, the following areas are monitored:

- state of the business environment of the country - investment climate, legal conditions, key sectors, education, science and research;
- legislative environment - suitability, inadequacy of legislation, law enforcement, transparency of business regulation, administrative burden, investor protection;
- tax and finance area - tax burden, availability of business credit, secondary insolvency;
- the level of cooperation between suppliers and customers - geographically, commodity, orientation to the internal market, export, integration rate and cooperation;
- business characteristics and market conditions - diversification of business disciplines, specifications and trends of individual sectors, size of enterprises, ownership structure, competition, demand, crime, corruption environment;
- labor market - flexibility, market rigidity, employment costs, labor force qualifications, territorial and age structure;
- innovation and technological level;
- services for entrepreneurs - ICT services, transport infrastructure, rental rates, business premises;
- business support - consultancy services, support programs.

Analysis and comparison of business environments are applied in order to find out identical and differing qualities of the monitored entities, comparing data obtained by organisations specialising in business environment surveys. Data related to business environments obtained by internationally respected organisations specialising in the analysis of conditions for business in the majority of countries are compared. Such organisations most frequently publish the results of their analyses as evaluations in the form of numerical indices, rankings and summary reports.

Comparison between states is *inter alia* provided by indices and annuals of international organizations that try to make the most objective consideration of the conditions of the environment. The evaluation is based on available statistical data, but also on questionnaire surveys, where entrepreneurs can express themselves subjectively. Each factor is assigned a certain weight so that the influence of the factors is the same and that international comparisons can be made.

In terms of the Slovak Republic, entrepreneurship has an irreplaceable role, especially in the area of job creation and regional development. The business environment, in its broadest sense, reflects the quality of economic conditions and assumptions for the economic activity of business entities. A high-quality business environment that creates the conditions for long-term economic growth is a basic precondition for business development and increased competitiveness of the Slovak Republic.

Business environment in Slovakia is compared on the basis of evaluations of the World Bank and World Economic Forum, which are regularly provided in the following publications:

- Doing Business (The World Bank) – is focused on difficulties in business, it evaluates a group of particular processes taking place in business, and is especially grounded on case studies, i.e. actual situations;
- Global Competitiveness Report (The World Economic Forum) – evaluates so called pillars of competitiveness in a country, respectively specific areas affecting business activities and national economic growth.

3. Results and Discussion

Perhaps the best-known and most used assessment is the ranking of the World Economic Forum, which has been compiling the Global Competitiveness Report every year since 2004. This Yearbook presents indicators and categories that are components of the Global Competitiveness Index (GCI). The index distinguishes between 12 key pillars, listed in three categories. The index is the result of a combination of publicly available statistical data and survey results among more than 13,000 executives, as some of the factors presented in this index are not statistically measurable. This is one of the most comprehensive comparisons of countries in the world.

The index demonstrates competitiveness as a complex phenomenon, which can be improved through reforms in certain areas that improve countries efficiency in the long run. It is made up of 113 variables, of which about two-thirds are based on questionnaire answer questions - soft data and one third represent statistics from publicly available sources - hard data.

Piles of GCI are divided into three basic groups to take into account their importance for individual countries at different stages of their development. Essential requirements are crucial for countries whose economy is based on resources used. Factors that represent efficiency improvements are key to economies that are based on efficiency. The last set of factors, innovative and sophistication factors, are typical of knowledge-based economies that are based on innovation and production of new and different products using the most advanced manufacturing processes.

The report for 2017/2018 includes 137 economies. In the 2017/2018 report, Slovakia is ranked 59th out of 137, which represents improvement over the previous year. A rating has also improved, which has been on the rise since 2015 (Table 1).

Table 1. Placement of Slovakia in GCI

| Year | Placement/total | Ranking points (out of 7 pt..) |
|-----------|-----------------|--------------------------------|
| 2012/2013 | 71/144 | 4,14 |
| 2013/2014 | 78/148 | 4,10 |
| 2014/2015 | 75/144 | 4,15 |
| 2015/2016 | 67/140 | 4,20 |
| 2016/2017 | 65/138 | 4,28 |
| 2017/2018 | 59/137 | 4,33 |

Source: own processing out of data from the World Economic Forum

In terms of individual pillars, Slovakia ranked worst in the pillar of the Institution (93st), Labor Force Efficiency (87th) and Innovation (67th). Within these pillars, it also scored the lowest score (Innovation 3.3p, Institution 3.5p, Labor Market Efficiency 4p from 7p). On the contrary, it was best placed in the pillars Financial Market Development (32nd place), Macroeconomic Environment (35th) and Technological Readiness (42nd). Highest score was reached within the pillar of Health and Basic Education (6.1p), Followed by Macroeconomic Environment (5.4p) and Technological Readiness (5.1p). In the last sections (129-131 of 137), Slovakia has settled on the issue of the efficiency of the settlement of labor disputes through judicial proceedings, the effectiveness of the settlement of the law enforcement attack, the burden of government regulation, the protectionism of government officials, the ability of the landscape to attract talent and the effect of taxation on labor. Judiciary independence (119th place), the quality of the education system (118th place), the ability of the country to maintain talents (125th place), the practices of recruitment and dismissal of employees (118th place), the ethical behavior of companies (105th place), level of taxation (113th place) and unavailability of scientists and engineers (104th place). In most cases, these are areas that may have a significant negative impact on the attraction of foreign investment, particularly taxation, judiciary and company ethics (in the case of subcontracting), the education system and the outflow of talent from the country. These can cause a lack of qualified workforce, which is already a problem. On the contrary, factors such as high export rates (9th place), transfer of technology and FDI (16th place), prevalence of foreign ownership (6th place), foreign trade tariffs (6th place) or easy access to financial capital (23th place) either on the one hand indicate, that Slovakia is becoming an attractive country for foreign investors (in particular the prevalence of foreign ownership) or, on the contrary, may have a positive effect on investors (eg capital availability). Corruption, inefficient government bureaucracy, the level of taxation, tax regulation, and restrictions on the labor market have been identified as the most problematic factors for entrepreneurship. On the contrary, the perceived level of inflation, population health, regulation of foreign currencies, crime and access to finance it's the countries benefit.

Every year, the World Bank prepares a Doing Business report that tracks quality and business environment reform. The goal is to improve business conditions in different areas of the world. This is a valuable and expertly-based comparison that allows identification of the strengths and weaknesses of individual countries. The evaluation focuses on legislative standards in business. It is based on a comparison of the related legislation, length and cost of judicial and administrative procedures. It focuses on the following areas: starting a business, building permit, access to engineering networks, real estate registration, project credit, business protection, tax burden, cross-border trading, enforcement of customer terms and insolvency solutions. Countries ratings are determined based on a numerical index determined by calculation from the obtained quantified data. Quantification of the information obtained is achieved by the application of specialized practices and methods. Highest numerical index, respectively the score that the country can receive in the ranking is 100 points. Doing business, when analyzing business conditions, uses standardized model situations that allow you to evaluate the real status of the surveyed area. For the Doing Business project, the World Bank is particularly keen to analyze those indicators that are substantially affecting both small and medium-sized business entities.

In Doing Business ranking Slovakia took 39th place in 2017, 33rd place in 2016 and 29th place in 2015. The score of Slovakia was also worse then previous years. The most problematic were licensing, small investor protec-

tion, contract recovery, and start-ups. On the contrary, the area of cross-border trading and property registration has been well-ranked. On some selected categories we will present the placement of Slovakia in DB2018. For these categories we selected:

- Starting a business – which represents evaluation of the duration and expenses related to the establishment of a limited liability company, the amount of the minimum due, the basic capital needed to set up the company;
- Getting Building Permits – assessing the duration and costs associated with obtaining the relevant documents necessary for the construction of the property, also considering the quality control of the construction;
- Connection of the company to the electricity grid – evaluation of the duration and expenses necessary for connection to the electricity grid, reliability of electricity supply, transparency and affordability of tariffs and the price of electricity;
- Tax burden – the assessment of the number of tax payments, time related to tax administration and the collection and selection of taxes also considers the tax burden on the business entity.

Starting a business category: By starting a business we need to follow certain procedures. The time is given in days, but it does not count the preparation of the written documentation and the necessary documents. The average time is less than thirteen days from filing the application until the start of the business in a Ltd company. Start of business in the Slovak Republic DB index was given 86.95 points, which is improvement by 0.05 points in comparison with the previous year 2017. The top-rated country in this category is again New Zealand with a score of 99.96. Opening business in New Zealand is possible within one day. Only one process is needed than in the Slovak Republic you need up to seven processes (Table 2).

Table 2. Starting a business category – Slovakia – DB2018

| Indicator | |
|---|------|
| Procedures (number) | 7 |
| Time (days) | 12,5 |
| Costs (% of the economy's income per capita) | 1,1 |
| Minimum capital for establishing Ltd. company (EUR) | 2500 |

Source: own processing out of data from the World Bank Group (DB2018 report)

Getting Building Permits category: In the process of obtaining a building permit, Slovakia finished with 67.82 points at 91st position. Over the last five years, no new reforms have been made in this area. This area has not improved in the business doing business compared to last year, nor did deteriorate. When obtaining a building permit, it is important to prevent unauthorized so-called black buildings. On the other hand, it is important for the overall development of the infrastructure to be efficient and time-consuming when obtaining a building permit (Table 3).

Table 3. Getting Building Permits category – Slovakia – DB2018

| Indicator | |
|--|-----|
| Procedures (number) | 10 |
| Time (days) | 286 |
| Costs (% of the economy's income per capita) | 0,1 |
| Quality Score index (0-15) | 10 |

Source: own processing out of data from the World Bank Group (DB2018 report)

Connection of the company to the electricity grid category: When acquiring an electricity, the Slovak Republic placed it with points of 80.31 at 57th place. In the ranking of supply reliability and the transparent tariff index itself, the full score of eight out of eight was achieved. Acquisition of electricity requires a total of five procedures, namely sending a request together with a technical study and signed contract, which together takes 24 calendar days. This is followed by connecting to the grid for up to thirty calendar days. A further sixty days are

waiting for the contractor to complete external work. The penultimate point is the conclusion of a contract with a retail supplier for three calendar days. The last point is the time slot for the connection of the electrometer in the length of seven calendar days. No new reforms have been approved in the last five years (Table 4).

Table 4. Connection to the electricity grid category – Slovakia – DB2018

| Indicator | |
|--|------|
| Procedures (number) | 5 |
| Time (days) | 121 |
| Costs (% of the economy's income per capita) | 50,8 |
| Quality Score index (0-15) | 8 |

Source: own processing out of data from the World Bank Group (DB2018 report)

Tax burden category: In the Doing Business 2018 ranking, the Slovak Republic was rated in paying taxes category by 79.26 points, which is more than a half percent worse than in the previous year. Slovakia overall rank in this category is 53th place (Table 5).

Table 5. Tax burden category – Slovakia – DB2018

| Indicator | |
|--|-------|
| Payments (per year) | 8 |
| Time (hours per year) | 192 |
| Total rate (% of profit) | 51,6 |
| Evaluation of dossier submission (0-100) | 87,17 |

Source: own processing out of data from the World Bank Group (DB2018 report)

Conclusions

Since the accession of the Slovak Republic to the EU in May 2004, export support, entrepreneurship and investment policy have grown. Following the introduction of the common currency in January 2009, when turbulence took place in the financial markets, one of the stabilizing anchors was created, which significantly reduced the level of business and investment uncertainty. It has also stabilized the inflow of foreign investment. The positive relationship between the business sector and the introduction of the Euro was mainly due to the expected benefits, including the reduction of transaction costs in international trade, price transparency, predictability and higher credibility in relation to foreign partners.

The quality of business environment monitoring in Slovakia points to the fact that the decisive areas determining the business objectives and decisions in practice include the area of financing of companies and capital, employment, unemployment and quality of human resources, social policy in the context of the functioning of the labor market and its legislation, business and tax policy in the context of public finance policy, market regulation, market entry and exit conditions, antitrust policy, subsidy and subsidy policy, licensing policy, certification and property registration system. All of these areas therefore have a significant impact on the business environment in Slovakia and hence on the volume of investments that Slovakia is targeting.

The Slovak market is small, but the great advantage of the Slovak Republic is its geographic location, which allows the supply of nearby markets of European countries. A strong investment incentive in the past was a relatively cheap labor force in Slovakia, which supported the FDI's direction in particular in sectors with a lower added value but labor-intensive. It is possible that in the future some foreign investors will move their activities to countries with cheaper labor. However, many foreign investors are already connected with the Slovak economy (connection to the supply network, extent of investment in tangible fixed assets and human capital, the importance of locating Slovakia in terms of supplying the surrounding markets, etc.) that even with some

growth of wages or temporary changes in business conditions they would move from Slovakia away.

In terms of quality of the business environment, Slovakia is still an attractive investor target, but there are obstacles that investors can perceive very sensitively in the future and may be a competitive disadvantage for Slovakia as an investor target such as: judiciary, high rates of taxation, outflow of educated labor force abroad, and ethics of domestic companies.

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