Emerging Markets Queries in Finance and Business

Issues of Slovak Business Environment

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Abstract

Slovak economy looks like a forlorn young lady with complicated history and uncertain future. Slovakia, as a small part of big European community, contributes to solving European problems – both politically and financially. This attitude is not a problem. The problem is that we forget that all past major problems of Europe have begun as problems of individual countries in the European Union. The economy of the Slovak Republic is based on small and medium-sized enterprises SME. The role played by SME is irreplaceable, especially in the areas of job creation, balancing regional development and the introduction of innovations into standard business practice. However, long-term problems of small and medium enterprises are not addressed (corruption, lack of law enforcement, bureaucracy, large regional disparities, lack of support for emerging businesses. We often create partial solutions just in case of an acute problem, but we do not prepare conceptual solutions to real problems. According to our view, there arises a problem that could have wide-ranging implications. The aim of our paper is to point out the global effects of some unsolved problems. These consequences are presented as two issues - the issue of the business aging and death and issue of the international evaluation of our business environment. Our analysis was focused only on business environment in Slovakia.

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1. The business environment

The support of SME represents the priority in the EU, Soltes, V., Raisova, M., Fabianova, K., 2009. The oil shock at the end of 60's, and recession in the first half of the 70's showed that SME's flexibility enables faster to overcome the effects of crises throughout the industry and to start the necessary structural changes. Soltes, V., Soltes, M., 2007. The quality of the business environment is a defining element for the development of the business sector. Changes in the business environment with a delay are also reflected in the quantitative characteristics of the SME sector, which provides in the non-financial economy provide jobs for 72.2 % of the active labour force and contribute 56.1 % of the creation of value added. SSMSP 10, 2010.

SME in Slovakia are an important part of the economy, both as a stabilizing element in the economic system and as the sector with the greatest potential for growth. Over the past decade, the business environment of the Slovak Republic became part of the structures of the European Union and the European Economic and Monetary Union. It was expected that the transition to the common currency - EURO - will cause a lot of problems. Bartokova, L., Durcova, J., 2011. Much larger problems than dealing with the introduction of the common European currency were caused for enterprises by the global economic crisis, which arrived with full intensity right from the beginning of 2009. Although the Slovak economy was hit by problems in the financial sector, its high dependence on the development of major export markets was reflected in a sharp drop in demand.

1.1. The issue of the business aging and death

As the table 1 shows, the number of natural persons - entrepreneurs in the pre-crisis period increased, but the economic crisis - particularly the second wave of the crisis period 2010 - 2011, resulted in a significant decrease in the number of natural persons - entrepreneurs. A little different situation we can see in the statistics of the number of legal entities - enterprises. As we can see, since 2004 the number of legal entities - businesses, despite the crisis period has retained a growing trend. The growth was recorded not only in the number of businesses with up to 10 employees, but the number of medium enterprises has grown as well.

Table 1 The number of natural and legal persons in Slovakia during the period 2004 – 2011. Source: SSMSP 09, 10, 11, 12.

| Entities                        | Year 2004 | Year 2008 | Year 2009 | Year 2011 |
|--------------------------------|-----------|-----------|-----------|-----------|
| Total of natural persons       | 360 378   | 418 221   | 413 867   | 402 325   |
| small trade licensees          | 336 640   | 392 841   | 387 876   | 375 722   |
| operating in free occupations  | 13 683    | 17 189    | 17 974    | 19 069    |
| independent farmers            | 10 055    | 8 191     | 8 017     | 7 534     |
| Total of legal persons         | 74 207    | 119 933   | 127 409   | 153 881   |
| 0 - 9 employees                | 56 691    | 92 042    | 102 947   | 136 672   |
| 10 - 49 employees              | 13 732    | 24 173    | 11 329    | 13 850    |

However, maintaining an upward trend is possible only if the created companies will be able to stay on the market during a long period of time. Simčáková M. et. al., 2011. If we look at the statistics of entities births and deaths legal and natural persons - entrepreneurs, we can see that more businesses were created as disappeared in only 2 years of pre-crisis period 2004 – 2008. These were the years 2004, + 12 575 entities, and 2008,+ 1521
entities. SUSR 1, 1a, 2, 2a, 2012. These years were associated with the consolidation of the economy and especially with intensive measures implemented into the economy in order to improve the overall performance of the economy. In the remaining years were more businesses closed than were created.

However, in the last 4 years there was a new problem that was connected not only with the crisis. The proportion of entrepreneurs under 30 in the total number of entrepreneurs is decreasing.

Table 2 The proportion of each age group in the total numbers of entrepreneurs, the period 2004 – 2008. Source: SSMSP 09, 10, 11,12

| Age          | 2008  | 2009  | 2010  | 2011  |
|--------------|-------|-------|-------|-------|
| under the 30 | 16,9% | 16,1% | 15,2% | 14,7% |
| 30-39        | 28,6% | 28,8% | 28,6% | 28,6% |
| 40-49        | 27,6% | 27,3% | 27,1% | 27,0% |

On the other hand, the proportion of entrepreneurs in the higher age categories does not change, so there is a presumption that these businesses do not pass into the higher group in terms of age, but leave the market.

1.2. The issue of the international evaluation of our business environment

The Slovak government has set a priority to improve the business environment, to create optimal conditions for doing business in Slovakia and return to the original leading position in the assessment of international institutions. Programové vyhlásenie, 2012 This statement was in response to the deteriorating position of the Slovak Republic in international indexes aimed at assessing the quality of the business environment in Slovakia. So, let’s consider the merits of concern.

We selected three indexes.
- Corruption Perceptions Index, in all the surveys focused on the business environment, corruption was listed as one of the three most serious problems in the business.
- Index of Economic Freedom
- World Competitiveness

2. Corruption Perceptions Index - CPI

The CPI ranks countries/territories based on how corrupt their public sector is perceived to be. It is a composite index, a combination of polls, drawing on corruption-related data collected by a variety of reputable institutions. The CPI reflects the views of observers from around the world, including experts living and working in the countries/territories evaluated. For a country/territory to be included in the ranking it must be included in a minimum of three of the CPI’s data sources. Thus, inclusion in the index is not an indication of the existence of corruption but rather dependent solely on the availability of sufficient information. The CPI includes only sources that provide a score for a set of countries/territories and which measure perceptions of corruption in the public sector. TI ensures that the sources used are of the highest quality. To qualify, the data collection method must be well-documented and the methodology published to enable an assessment of its reliability. Transparency 2004 - 2011, 2012 The latest report was published in the year 2011. According to this report, Slovakia has achieved a value of 4 out of 10, a scale of 0 - 10, where 0 means that a country is perceived as highly corrupt and 10 means that a country is perceived as very clean. So, in the group of EU countries we occupied the fifth worst position. Behind us were just: Italy value 3.9, Romania value 3.6, Greece value 3.4 and
Bulgaria value 3.3. In comparison with other V4 countries we are the worst – Czech Republic 4.4, Hungary 4.6, Poland 5.5. We can say that there is no big difference. Let's compare the evolution of the values of this index. We use values of V4 countries in period 2004 – 2011.

![Graph showing ICP values for V4 countries in period 2004-2011](image)

During the reporting period Poland has been the most successful. Poland has improved by two points since 2004. By contrast, over 7 years Slovakia has returned to the starting value of 2004. From this perspective, we can say that the economy in this area did not record any change.

3. Index of Economic Freedom - IEF

The Index of Economic Freedom takes a broad and comprehensive view, measuring country performance in 10 separate areas of economic freedom. Some of the measured aspects of economic freedom are concerned with a country’s interactions with the rest of the world—for example, the extent of an economy’s openness to global investment or trade. Most, however, focus on policies within a country, assessing the liberty of individuals to use their labor or finances without undue restraint and government interference.

For the latest report the 10 economic freedoms have been grouped into four broad categories or pillars of economic freedom:

- Rule of law, property rights, freedom from corruption;
- Limited government, fiscal freedom, government spending;
- Regulatory efficiency, business freedom, labor freedom, monetary freedom; and
- Open markets, trade freedom, investment freedom, financial freedom.

Each of the freedoms within these four broad categories is individually scored on a scale of 0 to 100. A country’s overall economic freedom score is a simple average of its scores on the 10 individual freedoms.

The latest report was published in the year 2011. The all V4 countries are included in the group of "moderately free" which means that the index of these countries reached the value in the interval from 69.9 to 60. It means something between these statements:

- **70**—Private property is guaranteed by the government. The court system is subject to delays and is lax in enforcing contracts. Corruption is possible but rare, and expropriation is unlikely.
- **60**—Enforcement of property rights is lax and subject to delays. Corruption is possible but rare, and the judiciary may be influenced by other branches of government. Expropriation is unlikely. Heritage, 2012.
The evaluation of Slovakia deteriorated most in the last year. These results are contrary to the perception of Slovak entrepreneurs who see unenforceable in law and corruption as a major problem doing business in Slovakia. Havlat, J., 2011 The worst position in this indicator has Poland, which appeared in the category of "mostly unfree" in the years 2006 – 2008. Currently, the evaluation of all countries is gradually converged.

4. Global Competitive Index - GCI

The International Institute for Management Development IMD defines national economic competitiveness as “the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people.” According to IMD, “some nations support competitiveness more than others by creating an environment that facilitates the competitiveness of enterprises and encourages long-term sustainability.” The IMD ranks and analyses these environments. The 20 sub-factors comprise a total of more than 300 criteria that are used to calculate the overall competitiveness ranking. These emphasize the market’s support for entrepreneurship and ability to attract investment. The IMD has published its reports since 1989. Countries are scored in the scale of 0 – 100. GCIR I, 2012

According to the latest reports 2012, Slovakia is in a similar situation as in the case of CPI. Only four European countries are behind us in order – Slovenia position 51, Romania position 53, Bulgaria position 54 and Greece position 58.

Poland made the biggest progress. In the case of Poland, the difference between 2004 and 2012 is more than 22 points.
5. Conclusions

We all know the truth - the position of the Slovak business environment is getting worse. At the beginning we were talking about two issues, or problems. But the problems are much more. Our goal was not to find solutions of issues, only to point out their significance. We are just asking: how to deal with a situation where we can’t stop wrong getting fast train, put it on the sidelines and there really fix it and then return it to full operation?

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