

The Present State of the Business Environment in the Slovak Regions

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Abstract—The article analyzes and compare the selected indicators that characterize the business environment in individual regions within the Slovak Republic. The results show that there are significant disparities between regions and point out that specific measures can contribute to improving the business environment.

Keywords—small and medium-sized enterprises, regions, gross added value, foreign direct investment, unemployment rate, average gross wage

I. INTRODUCTION

Small and medium-sized enterprises (SMEs) in Europe represent the most important group of enterprises, in particular in terms of their number and their share in employment as well as regional development [1], [2]. A key factor in their prospective development is the quality of the business environment, which is constantly changing, but the changes in this environment do not produce the desired and expected benefits. This situation is associated with significant differences in regional development, particularly in the development of regions over the last decades. These differences in the performance of the regions are clearly manifested in a number of business opportunities, in the interest of foreign investors in the region, which ultimately affects the income of the population and their investment activities. The favorable macroeconomic development of Slovakia has definitely contributed to the development of the regions of Central and Eastern Slovakia, but these effects did not eliminate the long-term problems, which as the contribution in question shows, it is necessary to solve with systemic and targeted measures, which will accept this situation and benefit comparative advantages of individual regions.

II. DEVELOPMENT OF SLOVAK SMEs

In 2017, 567,131 active business entities were registered in Slovakia, of which up to 567,131 were classified as SMEs, which represents 99.9% of the total number of active business entities. In the year-on-year comparison, the number of SMEs increased by 1.8% (10 009 business entities). In terms of enterprise size, the largest number of micro-enterprises (0-9 employees) with a total of 550 016 business entities, representing 96.9% of all business entities. The second largest category was small enterprises (10-49 employees), which accounted for 2.5% of the total number of business entities (12,662 business entities). In 2017, there were also 2 956 business entities in the category of medium-

sized enterprises (50-249 employees), which accounted for 0.5% of the total number of active business entities.

TABLE I. NUMBER OF BUSINESSES BY ENTERPRISE SIZE AND LEGAL FORMS IN 2017

Enterprise size/Legal forms	Enterprises	Self-employed persons	Liberal professions	Self-employed farmers	Total	
					abs.	%
Micro	203 092	322 580	19 098	5 246	550 016	96,9
Small	12 813	1 312	25	9	14 159	2,5
Medium	2 900	55	1	0	2 956	0,5
SMEs TOTAL	218 805	323 947	19 124	5 255	567 131	99,9
Large	661	1	0	0	662	0,1
TOTAL	219 466	323 948	19 124	5 255	567 793	100

Source: [3]

From the point of view of individual legal forms, the largest number of self-employed persons were represented, who continue to be the most popular form of business in Slovakia. In the 2017, 323,948 self-employed persons were employed in Slovakia - of which 323,947 met the criteria for inclusion in the SME enterprise size. The share of self-employed persons in the total number of active SMEs amounted to 57.1% in 2017. After self-employed persons, the number of registered businesses was 219,466 – 218,805 of which belonged to the SME category. Enterprises represented 38.6% of all active SMEs. Liberal professions and self-employed farmers were less involved in the total number of SMEs - 3.4% (19 124) of liberal professions, respectively 0.9% (5 255) of self-employed farmers.

In 2017, the number of new SMEs increased in all regions. Most new SMEs were registered in the Bratislava Region with 13,112 business entities. The second most numerous region in terms of SME setting up is the Prešov Region, which recorded an increase of 9 304 new business entities. Trio of regions with the highest number of SMEs closes the Žilina Region, which registered an increase of 8,447 business entities.

In the long run, the development of the number of new SME registrations in individual regions was similar in the course of the year - however, it varied with the dynamics of growth / decline. In 2009, the number of new registrations in all regions declined as a result of the global financial and economic crisis. The number of new SMEs has grown steadily since 2009 and peaked in 2013. The interest in entrepreneurship in individual regions declined in 2014 and 2015. In 2016 there was a re-growth, which continued in 2017. Fig. 1 shows the development of the number of new SMEs in the last 10 years by individual regions in Slovakia.

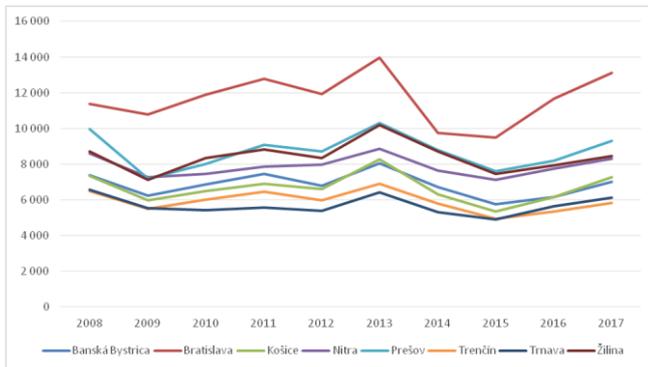


Fig. 1. Development of the number of new SMEs by Slovak regions in 2007 – 2017. (source: [3])

Enterprise 2020 is an action plan to help Europe unlock the full potential for business in the medium term. This plan is based on three basic principles [4]:

- 1) Business education and training to promote growth and setting up businesses,
- 2) Creating an environment supporting to the development and growth of entrepreneurs,
- 3) Creating patterns for doing business and addressing specific groups (women, seniors, unemployed, young people).

The reasons for creating a similar initiative are quite obvious - as the plan outlines to bring economic growth and reduce unemployment, Europe needs more entrepreneurs. The action plan identifies six key areas where measures are needed to create an environment in which entrepreneurs can prosper and grow [4]:

- Improving the conditions for financing SMEs,
- Addressing SMEs in their life cycle phases,
- Stimulating new business opportunities in the digital age,
- Facilitating the transfer of ownership of businesses,
- Second chance for honest entrepreneurs after their bankruptcy,
- Administrative simplification of business.

The business environment basically reflects the quality of economic conditions and assumptions for the economic activity of business entities. The business environment as such is a broad concept and a large number of institutions and actors at national and transnational level participate in its formation in the Slovak Republic. The elements of the business environment are mainly [5]:

- Macroeconomic framework for entrepreneurship,
- Legislative framework for entrepreneurship,
- Administrative burden on business,
- Financial burden on business,
- Interference with the freedom of enterprise,
- Business infrastructure.

The business environment is a complex variable, which is the sum of a large number of areas that affect daily the business entities. The business environment must create the conditions for effective competition for entrepreneurs, which is the driving force of every economy. Public institutions have to promote this competition through their activities, as

well as to facilitate businesses' access to business opportunities in a given market environment as much as possible. Business environment is a phenomenon that substantially influences quantity and quality of entrepreneurial activity in an economy. In order to create favorable conditions where individuals and groups of individuals can flourish their entrepreneurial efforts, policy makers need to know the absolute as well as comparative strengths and weaknesses in the relevant regions [6]–[8].

III. BUSINESS ENVIRONMENT IN THE SLOVAK REGIONS

The Slovak Republic belongs to relatively small economies and has long-standing regional differences. They show up on the overall economic development of individual regions, the creation of added value, the inflow of foreign investments, the number of business opportunities, the availability of vacancies and also the amount of average gross wages.

Within the Slovak Republic, the position of the Bratislava Region has long been dominant in the creation of gross value added. In 2016, the Bratislava Region generated higher added value in absolute figures (20.628 billion euros) as the else two most powerful regions - Košice and Trnava (16.73 billion euros). On the national results of gross value added, the Bratislava Region participated in 28.12 percent in 2016. In the monitored period 2012 - 2016, the Bratislava Region is the fastest growing region of the Slovak Republic in terms of growth of this indicator. The Trnava Region is the second most powerful region in the creation of gross added value. On the Slovakian values in 2016, the Trnava Region contributed 11 percent, but the increase in gross added in the monitored period 2012 - 2016 was below average. The regional gross value added in Košice Region reached the second highest level after the Bratislava Region in absolute terms in 2016. Žilina Region is like the Košice Region among the regions with higher added value. The Nitra Region is one of the regions with a lower gross added value, which grew the lowest among all regions in the period 2012 - 2016. Trenčín Region belongs to the creation of gross added value to the average regions of the Slovak Republic. Banská Bystrica Region also belongs to the less developed and slower regions of the Slovak Republic. In terms of gross added value, it achieved the weakest results in 2016 and accounted for only 8.77% of the total figures for the Slovak Republic. The Prešov Region reached the second lowest value immediately after the Banská Bystrica Region, but in the five-year period it reached its above average increase. The overall results for individual regions are summarized in Table 2.

TABLE II. GROSS ADDED VALUE IN SLOVAK REGIONS IN 2012 – 2016 (MILLIONS OF €)

Regions/Gross added value	2012	2013	2014	2015	2016	Change 2015-2016 (%)	Change 2012-2016 (v%)
Bratislava	18 150	18 940	19 121	20 079	20 628	+2,74	+13,65
Trnava	7 637	7 643	7 958	7 841	8 257	+5,31	+8,11
Nitra	7 573	7 518	7 607	7 616	7 964	+4,57	+5,15
Trenčín	6 433	6 422	6 536	6 707	6 821	+1,70	+6,03
Žilina	7 300	7 334	7 581	7 868	8 047	+2,27	+10,22
Banská Bystrica	5 750	5 942	5 958	6 251	6 437	+2,97	+11,96
Košice	7 618	7 733	7 962	8 404	8 473	+0,82	+11,21
Prešov	5 948	5 989	6 183	6 438	6 735	+4,62	+13,24

Source: [9]

The Bratislava Region also has a dominant position in terms of foreign direct investment (FDI). In 2015 there were almost 69% of their total volume within the Slovak Republic. The total volume of FDI in the Žilina Region reached the second highest value in 2015 and the third highest increase in the five-year survey period. Košický Region belongs to attractive regions, but the volume of FDI does not have a clear growth trend and recorded a slight decrease of 4.66% over the five-year period. Trenčín and Nitra Region are also among the attractive regions with higher FDI, while the Nitra Region recorded the second highest growth in the monitored five-year period after the Prešov Region. Trnava Region belongs from the point of view FDI to lagging regions. In 2015, it recorded only 4.12 percent of the total volume of FDI that was placed in Slovakia in that year. In addition, during the period under review, it achieved the second most significant fall within the SR. Prešov Region is one of the economically least developed regions. In 2015, it achieved the second lowest share of the total volume of FDI earned within the Slovak Republic, but in the five-year period it achieved the most significant increase in FDI by 95.54 percent among all regions. In 2015, the Banská Bystrica Region recorded the lowest volume of FDI among all regions, and in the monitored period 2011 - 2015 recorded the most significant fall among all regions. The overall results for individual regions are summarized in Table 3.

TABLE III. FOREIGN DIRECT INVESTMENT IN SLOVAK REGIONS IN 2011 – 2015 (V MIL. EUR)

Regions/FDI	2011	2012	2013	2014	2015	Change 2014-2015 (%)	Change 2011-2015 (%)
Bratislava	27 319	28 946	29 808	28 351	29 042	+2,44	+6,31
Trnava	2 277	2 364	1 963	1 815	1 743	-4,01	-23,48
Nitra	1 628	1 724	1 596	1 641	1 992	+21,36	+22,38
Trenčín	2 082	1 990	2 143	2 299	2 261	-1,68	+8,57
Žilina	2 702	2 688	2 722	2 723	3 051	+12,06	+12,94
Banská Bystrica	1,106	1,075	734	761	785	+3,19	-29,04
Košice	2 586	2 476	2 554	2 723	2 456	-9,47	-4,66
Prešov	474	517	552	656	928	+41,42	+95,64

Source: [9]

Bratislava Region is one of the most attractive regions in the long run, offering plenty of job opportunities. At the end of December 2017, it reached the second lowest registered unemployment rate after Trnava Region. In the monitored period, the registered unemployment rate in the Bratislava Region declined in the least of all regions. Trnava Region reached the lowest registered unemployment rate in 2017. The registered unemployment rate in the Trenčín Region has long been below the average values for the whole Slovak Republic. Nitra and Žilina Region recorded one of the most significant unemployment breaks in the monitored period and today they are among regions with low unemployment. The Banská Bystrica, Prešov and Košice Region are among the three regions with the longest highest registered unemployment rate. Banská Bystrica and Prešov Region reached the most marked decline in registered unemployment rates among all regions of the Slovak Republic in the monitored period. The overall results for individual regions are summarized in Table 4.

TABLE IV. RATE OF REGISTERED UNEMPLOYMENT IN SLOVAK REGIONS IN 2013 – 2017 (%)

Regions/Unemployment rate	2013	2014	2015	2016	2017	Change 2016-2017 (%)	Change 2013-2017 (%)
Bratislava	6,17	6,13	5,34	4,51	3,05	-1,46	-3,12
Trnava	9,16	8,03	6,71	4,41	2,60	-1,81	-6,56
Nitra	12,52	11,21	9,71	6,96	4,05	-2,91	-8,47
Trenčín	10,74	9,56	7,71	5,85	3,53	-2,32	-7,21
Žilina	12,51	10,91	8,86	6,92	4,70	-2,22	-7,81
Banská Bystrica	18,26	17,22	14,94	12,80	8,67	-4,13	-9,59
Košice	17,23	15,92	14,39	12,76	9,94	-2,82	-7,29
Prešov	19,35	17,45	15,50	13,91	9,68	-4,23	-9,67

Source: [9]

The average gross wage in the Bratislava Region is the highest in the long run. The Košice Region reached the second highest average gross wage of 986 euros in 2016. In the period under review it grew by 15.59%, which is the slowest pace compared to the other regions of the Slovak Republic. Trnava Region is the third among the regions with the highest average gross wage (982 euros), which is still competitive compared to the neighboring Bratislava Region. Žilina and Trenčín Region reached the same average gross wage (960 euros) in 2016. Within the monitored period, the average gross wage in Trenčín Region reached the highest a twenty percent increase among all Slovak regions. The average gross wage in Nitra Region was around the level of the Slovak average and in the monitored period 2012 - 2016 it recorded the second fastest increase. The average gross wage in the Banská Bystrica Region reached an approximate level of the Slovak average in 2016. Banská Bystrica Region is among the regions with faster growth in the monitored period. The average gross wage for 2016 in the Prešov Region was the lowest among all regions of the SR. In the period under review, it registered positive growth, but it is far from near the level of economically developed regions in the west of Slovakia. The overall results for each region are summarized in Table 5.

TABLE V. AVERAGE GROSS NOMINAL WAGE IN SLOVAK REGIONS IN 2012 – 2016 (€)

Regions/Average gross wage	2012	2013	2014	2015	2016	Change 2015-2016 (%)	Change 2012-2016 (%)
Bratislava	1 184	1 205	1 294	1 322	1 377	+4,16	+16,30
Trnava	848	860	900	938	982	+4,69	+15,80
Nitra	776	789	835	860	915	+6,40	+17,91
Trenčín	798	821	872	909	960	+5,61	+20,30
Žilina	816	839	877	920	960	+4,35	+17,65
Banská Bystrica	772	798	845	866	908	+4,85	+17,62
Košice	853	883	925	947	986	+4,12	+15,59
Prešov	718	736	771	800	833	+4,13	+16,02

Source: [9]

IV. CONCLUSION

Nowadays dynamic technological and global changes are increasing the pressure on competitiveness of economies across countries and regions [10]. Conditions under which enterprises 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 [11].

In 2017, interest in entrepreneurship increased in individual regions of Slovakia, which is also confirmed by

the number of newly established SMEs in individual regions. These regions, however, are characterized by significant regional disparities, which are manifested in the different development of selected indicators characterizing their performance.

Bratislava Region is the most competitive region of the Slovak Republic. It is characterized by a high level of business activity coupled with high attractiveness for foreign investment.

Tnava Region is also one of the most developed regions with a relatively high attractiveness of foreign investment. Lack of labour is the most acute problem of the Tnava Region among all regions of the Slovak Republic. One of the opportunities for the region is convergence towards the dynamically developing region of the capital.

Nitra Region belongs among regions with a significant increase in business activity and high attractiveness for foreign investment. The Nitra Region should use employment growth in sectors with higher added value and create the precondition for faster economic development of the region.

Trenčín Region is also one of the most developed regions of the Slovak Republic and with a high attractiveness for foreign investments. However, it lags behind the intensity of business activity.

Žilina Region is one of the regions with good labour availability and increased attractiveness for foreign investment. The region can increase its economic performance by increasing business activity and building a stronger infrastructure to support SMEs.

Košice as a regional city and its surroundings is economically efficient, productive and attractive for foreign investment.

Banská Bystrica and Prešov Region are among the regions with long-term low economic performance and long-term very high unemployment rate. One of the opportunities is to support entrepreneurial activity in order to strengthen the creation of new jobs and increase the attractiveness of the region for foreign investment.

In the Slovak business environment, chronic weaknesses remain, such as administrative and bureaucratic burdens, high tax and levy burdens, business legislation, law enforcement, and corruption [12].

In order to increase entrepreneurial activity in individual regions and attraction for foreign investors, it is necessary to take concrete measures or to adopt examples of best practices from abroad. Examples of successful measures that improve business conditions include [13]–[15]:

- Reducing the administrative burden, time and financial cost of setting up the enterprise,
- Stability of the legislative environment, consistency and transparency of laws,

- Ensuring better law enforcement and shorten the length of court proceedings,
- Reducing the tax wedge and simplification of tax payment,
- Shortening the length of the building permits,
- Stimulating innovation potential and technological readiness of SMEs,
- Ensuring access to finance for micro enterprises.

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