Business Environment as an Indicator of Regional Disparities

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***Abstract*—In the current process of globalization, the merging of countries in the social, cultural, political as well as economic matters is taking place. Economic area is mainly represented by the legal units that generate profit. These units bring along creation of jobs, reduction in unemployment, increase of the living standards of the population and thus also increase of the purchasing power of population and related development. EU cohesion policy is aimed to support the least developed regions in the European Union in order to ensure their growth, competitiveness and elimination of regional disparities. One of the tasks is to promote a business environment, which is one of the most important indicators of regional development. The paper deals with the analysis of statistical data of the business environment in the context of regional disparities. The aim of this paper is to analyze the structure of the business environment in Slovakia and examine trends in the number of legal units of individual forms. Through findings it is possible to identify changes among socio-economic situation in regions.**

***Index Terms*—Business environment, regional disparities, legal unit, self-employed persons**

I. INTRODUCTION

In present time the issue of the regional development is increasingly getting the attention of experts but also general public. After the entry of Slovakia into international organizations, especially the European Union, the interest in regional policy in relation to the reduction of regional disparities has increased. Regional development is complex dynamic process that is influenced by many factors. Diversity of these factors, in many cases causes further deepening of regional disparities rather than reducing them. One of the factors which significantly influence the development of the region is the structure of the business environment. This includes particularly the organizations that give people work and thus boost the economy. Innovations in the form of new products and services, marketing activities, organizational procedures etc. strongly support the dynamics and flexibility of the region and thus regional development.

New elements to business bring especially small and medium-sized enterprises, which are the dominant form of business organizations in all countries [1]. In the enlarged European Union, there are about 23 million micro, small and medium-sized enterprises, providing 75 million jobs and thus represent 99 percent of all European businesses. The situation is similar in Slovakia, where about 99 percent are micro, small and medium-sized enterprises, of which almost 81% have up to 10 employees [2].

II. REGION AND REGIONAL DEVELOPMENT

The basis of any definition of the region is its geographic determination. It is an enclosed area that is determined depending on the purpose for which the region is defined. From the geographical region can be then derived other types of regions:

- Urban region - hierarchical system of settlements.
- Social region - the territorial community of people having an emotional attachment to the territory in which they live.
- Economic region - bounded territory intrinsically linked by social, urban and economic ties [3].

As a region can be considered as a complex dynamic spatial system that was created on the Earth's surface based on the interaction of natural and socio-economic phenomena. From this perspective, most important factor to consider is the socio-economic characteristics of the regions [4].

Regional development can be defined as a systematic process of positive change. This process depends on the individual capabilities of regions to produce comparative advantages and use the resources the region own [5]. Regional policy in the Slovak Republic is responsibility of the Ministry of Transport, Construction and Regional Development of the Slovak Republic. The regional development policy is based on Act no. 539/2008 Coll. of regional development support [6]. Among the basic documents of regional development it is possible to include four documents [7]:

- National Strategy of Regional Development of the Slovak Republic (National strategy) - a reference for all others. This is a strategic document, which prepares and updates the Ministry of Transport, Construction and Regional Development of the Slovak Republic, using statistical data and strategic and program documents approved by the Government.
- Economic and Social Development Programme of a Self-governing region - medium-term development document, drawn up in accordance with the objectives and priorities set out in the National Strategy and is drawn up as part of binding documentation for

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territorial planning. Elaboration of the program ensures a self-governing region.

- Program of Development of the Municipality - medium-term development document, drawn up in accordance with the objectives and priorities set out in the National Strategy and reflects the goals and priorities set out by the Economic and Social Development Programme of a Self-governing region in whose territory of the municipality is located, and shall have the binding part of spatial planning documentation of the municipality. Elaboration of the program ensures a municipality.
- Joint Programme of Development of the Municipality - If the municipality has not developed its own program of development of the municipality, it is possible to develop a joint program of development of the municipality with territorial neighboring municipalities. The municipal councils of municipalities who created a joint program of development of the municipality have to accept and updated it.

III. BUSINESS ENVIRONMENT AS AN INDICATOR OF REGIONAL DISPARITIES

Regional development is influenced by several economic and non-economic factors. This uneven development of these factors gives rise to regional disparities. Regional disparities can be defined as a consequence of a situation where the regional development in the specific historical conditions, leads to a series of inequalities in social, economic, cultural, infrastructure and other areas [3]. Depending on which area, it is possible to distinguish three types of disparities - economic, social and territorial.

Indicators of social disparities, including in particular labor market indicators, are closely linked to indicators of economic disparities. The number of organizations indicates the economic but also the social situation in the region. In the Slovak Republic the legal units can be divided into [8]:

- Legal Persons
  - Enterprises
    - Trading partnerships
    - Co-operatives
    - State enterprises
    - Other enterprises
  - Non-profit institutions
    - Budgetary organizations
    - Subsidized organizations
    - Other institutions
- Natural persons-entrepreneurs
  - Self-employed persons
  - Freelancers
  - Self-employed farmers

Legal persons are legal entities. The law adjusts their existence independently of individuals or institutions that are their owners or their members. Natural persons-entrepreneurs non-incorporated in commercial register are persons, who undertake on their own liability according to special rules.

These are self-employed persons (persons running business on the basis of the Self-employed persons law), persons with freelance professions (persons running business on the basis of a law other than Self-employed persons law e.g. lawyers, physicians, auditors and others) and self-employed farmers [9]. Enterprises are legal persons performing systematic activity to make profit. Non-profit oriented institutions are legal persons serving to financial and non-financial corporations, government and households e.g. associations, political parties, churches and others [10].

IV. ANALYSIS OF THE STRUCTURE OF THE BUSINESS ENVIRONMENT IN SLOVAKIA

The total number of legal units in the Slovak Republic in 2010 exceeded 600,000 and is now stabilized. Changes occur only within the structure of enterprises, where the number of legal persons is increasing and the number of natural persons-entrepreneurs decreases. Number of different forms of legal units is strongly affected by changes in the law and policy. Figure 2 shows the evolution of the structure of legal units in Slovak republic.

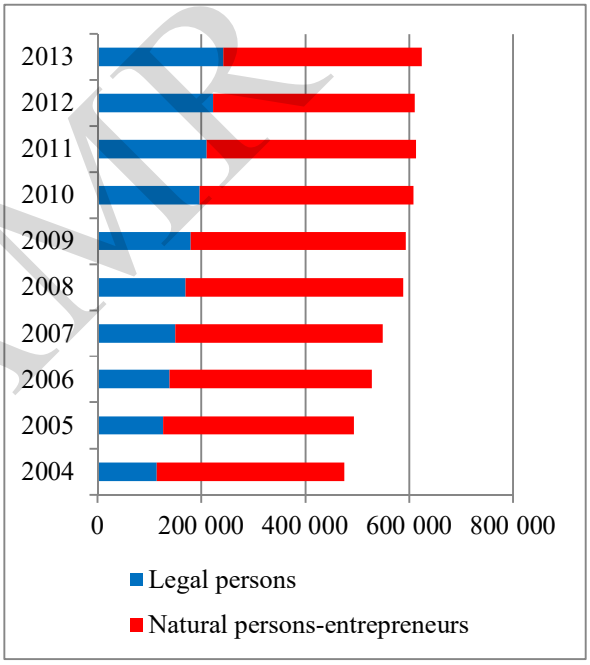


Fig. 1. Development of structure of legal units in Slovak republic according to [9,11]

The number of enterprises in all regions of the Slovak Republic since 2001 continues to grow. For ten years, the number of enterprises in Slovakia increased by more than 100,000. The number of self-employed persons since 2008, when it reached its peak, fell by more than 36,000. The negative trend in the number of self-employed persons is influenced by government intervention in the Labour Code, as well as worsening market conditions, reducing the number of orders, reduced demand for products and services etc.

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The changes to the Labour Code, which most negatively affected the number of self-employed persons in Slovakia, include increase of the assessment base for contributions of self-employed persons and the abolition of combining the early retirement and possession of open trade license. Figure 2 shows the evolution of the structure of enterprises in the Slovak Republic.

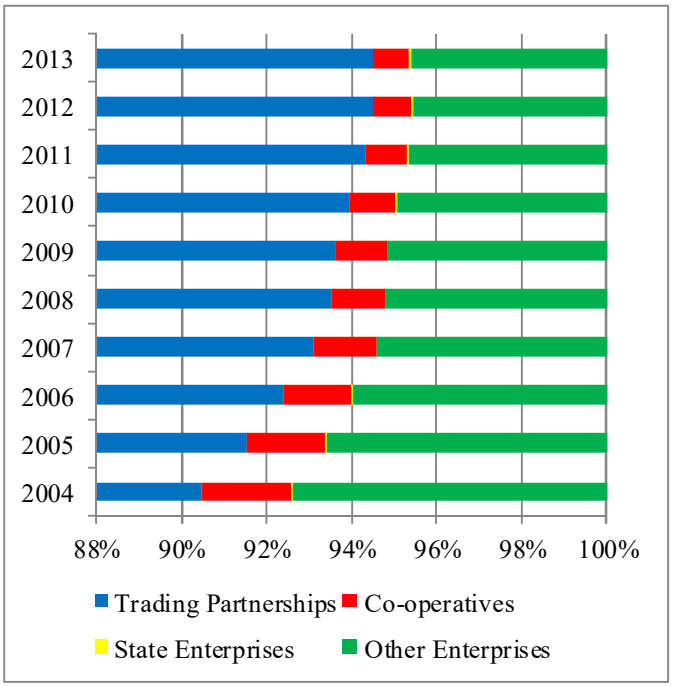


Fig. 2. Development of structure of enterprises in Slovak republic according to [9,11]

Dominant position on the market have a long trading company. Their market share now exceeds 94 percent. The number of co-operatives until 2004 decreased by half and now is stabilized. As well as number of other companies in the past four years is stabilized. Operation of state enterprises in Slovakia is negligible. Among the non-profit institutions have the least share subsidized organizations. Their share of non-profit institutions represents about 2 percent. The number of budgetary organizations is gradually increasing and now stands at 10 per cent stake. The share of other non-profit institutions, among which may be included churches, political parties and movements, associations and clubs is gradually decreasing. It is now at a level just above 80 percent.

Figure 3 shows the evolution of the structure of non-profit institutions in the Slovak Republic.



Fig. 3. Development of structure of natural persons-entrepreneurs in the Slovak republic according to [9,11]

Figure 4 shows the evolution of the structure of natural persons-entrepreneurs in the Slovak Republic.

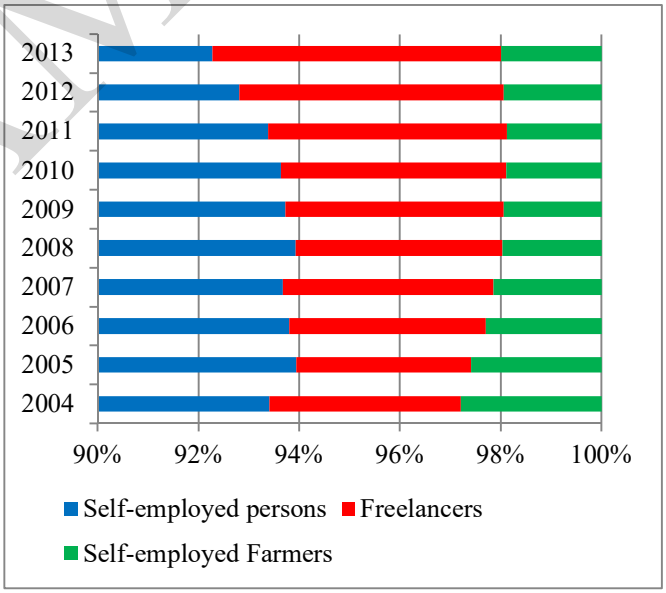


Fig. 4. Development of structure of natural persons-entrepreneurs in the Slovak republic according to [9,11]

As well as for legal persons as for natural persons-entrepreneurs one component is dominant – i.e. self-employed persons. Their number has fallen since 2008, but still moving above the 92 percent. In the recent years there has been a slight increase in the portion of Freelancers. The number of self-employed farmers are holding steady at around 2 percent.

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V. CONCLUSION

The business environment is a crucial indicator of development of the region and reflects the socio-economic situation. The emergence of new businesses also entails creating new jobs and reducing the unemployment. The introduction of small and medium enterprises to the region have resulted in increased competitiveness of regions and higher purchasing power of the population. It is essential to examine the structure, size and the number of different types of legal units in order to explore the regional disparities, which can occur during uneven development of regions.

Fundamental changes have occurred in the recent years regarding the number of individual legal units. The number of legal persons, when compared to natural persons-entrepreneurs, has increasing tendency. Part of natural persons-entrepreneurs closed their businesses due to objective reasons (changes in the business environment, i.e. lack of orders), part of them transformed business (i.e. being a legal person). The transformation occurs mainly due to subjective reasons related to the increased taxes for natural persons-entrepreneurs and the obligation to put capital into the banks. Stated objective and subjective factors are the cause of changes in the business environment. The number of enterprises is increasing at the expense of self-employed persons and thus the number of legal persons is growing as the number of natural persons-entrepreneurs is decreasing.

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