

THE IMPACT OF BUSINESS ENVIRONMENT ON REGIONAL DISPARITIES

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Abstract: The structure of the business environment, as part of the socio-economic situation, indirectly affects a citizen's quality of life. A "friendly" business environment has a positive effect on job formation, thus helping with employment. A country encourages formation and development of large enterprises through various incentives that reduce regional disparities, especially in less-developed regions. Nevertheless, a huge majority of enterprises in the European Union are small- and medium-sized. Self-employed persons are considered a specific form of business. Their activity is strongly influenced by state policy. This paper analyzes the business environment in regions of the Slovak Republic. Its principal aim is to examine the development of regional disparities and the related quality of citizens' lives. An evaluation of statistical data of the structure of the business environment in the Slovak Republic indicated a change in legal units in relation to business. Although the number of legal units are stable, the number of legal persons has increased and that of natural persons-entrepreneurs decreased. Deepening of regional disparities was not observed across regions of the Slovak Republic.

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Introduction

As Maier (1996) wrote, 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 regional resources. Regional policy in the Slovak Republic is the responsibility of the Ministry of Transport, Construction, and Regional Development. The regional development policy is based on Act no. 539/2008 Coll. (2008) for Regional Development Support. According to this Act, the regional development is a set of social, economic, cultural, and environmental processes and relationships that take place in the region and contribute to improve the region's competitiveness and sustainable economic, social, and territorial development as well as to reduce economic and social disparities among the regions (National Council of the Slovak Republic, 2008).

Basic Documents of Regional Development

The basic documents of regional development include four papers: National Strategy of Regional Development of the Slovak Republic, the Program for the development of Self-Governing Region, the Municipal Development Program, and the Joint Program of Community Development.

The National Strategy of Regional Development of the Slovak Republic is considered the source for all other documents. 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 (Gašpírik, 2011).

The Program for the Development of Self-Governing Region is a document created from the National Strategy of Regional Development of the Slovak Republic. It is a medium-term document for development, compiled by regional governments in accordance with the binding part of the documentation for territorial planning of self-governed region.

Business Environment as an Indicator of Regional Disparities

Regional development in the Slovak Republic is influenced by several economic and non-economic factors. These include various amenity factors of regional production; differences in economic structure and social capital; low labor mobility; different consumer habits; different geographical, historical, and natural conditions; demographic characteristics; educational level of the population; and

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infrastructural amenities, which are factors causing uneven development of Slovak regions (Armstrong, 2000).

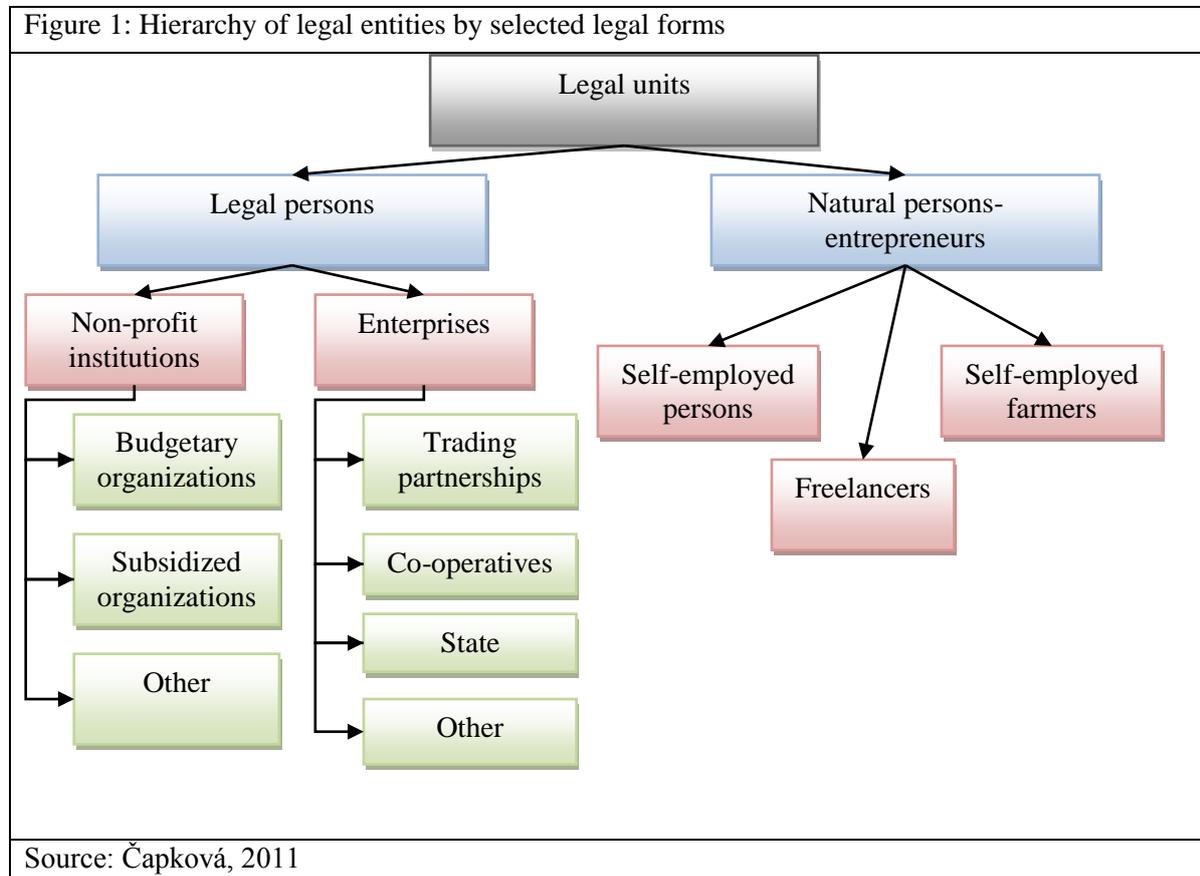
This uneven development of regions gives rise to regional disparities, which can be defined as the consequences of regional development because of specific historical conditions that lead to a series of inequalities in social, economic, cultural, infrastructure, and other areas (Bugarová, 2014). Depending on the area, it is possible to distinguish three types of disparities: economic, social, and territorial.

Indicators of social disparities, including particular labor market indicators, are closely linked to indicators of economic disparities. Not only the economic situation in the region, but also the social situation is indicated by the number of organizations focused on creating profit. This particularly includes organizations that employ people and thus, boost the economy (Štofková, 2013). From this point of view, the decisive factor remains the structure of the business environment including the number of enterprises and self-employed persons.

According to Statistical Office of the Slovak Republic, legal persons are legal entities whose existence is regulated by law. Natural persons-entrepreneurs, which are non-incorporated in the commercial register, are persons who undertake their liability according to special rules. These are self-employed persons, individuals with freelance professions (e.g., physicians and lawyers), and self-employed farmers. Enterprises are legal persons performing systematic activity to create profit. Included here are the corporations and quasi-corporations (Donauregionen, 2013). Figure 1 shows the hierarchy of legal entities by selected legal forms.

Enterprise size is determined by an assessment of three criteria, namely, the number of employees, annual turnover, and annual balance-sheet total. The number of employees is a key criterion for determining the size category of the enterprise, with enterprises divided, according to Brezániová (2012), as follows:

- Micro (< 10 employees);
- Small (< 50 employees);
- Medium (< 250 employees); and
- Large (\geq 250 employees).

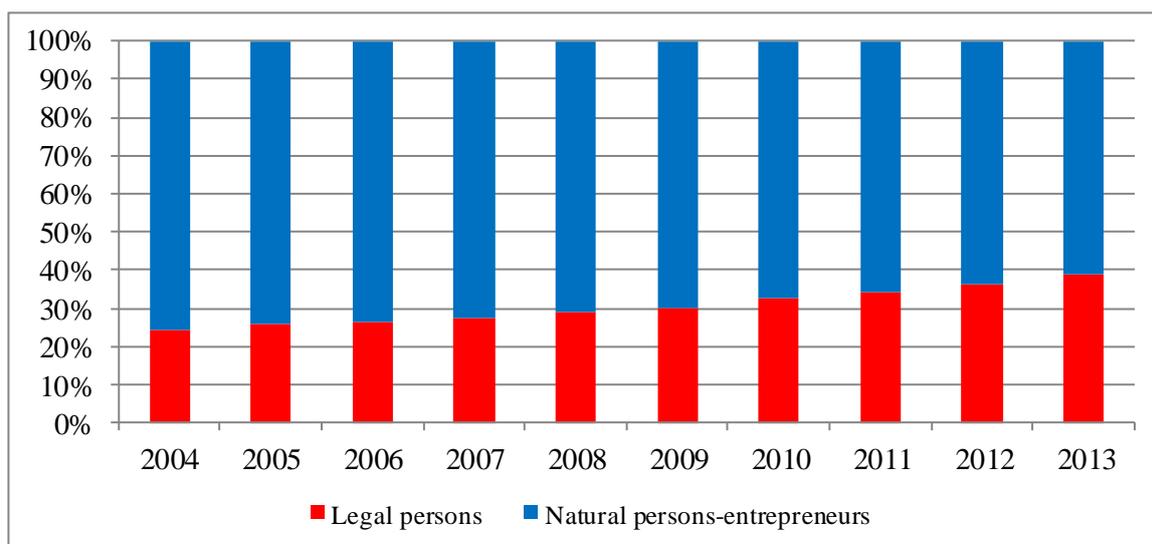


Innovations in the form of new products and services, marketing activities, and organizational procedures strongly support the dynamics and flexibility of the region and thus, regional development. New elements to business are especially sourced by small- and medium-sized enterprises, which are the dominant form of business organizations in all countries (Čapková, 2011). In the enlarged European Union, there are about 23 million micro-, small-, and medium-sized enterprises, providing 75 million jobs and thus, representing 99 percent of all European businesses (Pavlenko, 2016). 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.

Changes in the Structure of the Business Environment in Slovakia

The development in the number of individual legal units is strongly affected by changes in the law and state policy. The number of enterprises in all regions of the Slovak Republic, since 2001, has continued to grow. For ten years, the number of enterprises in Slovakia increased by more than 100 000. The number of self-employed persons reached its peak in 2008, and since then, 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 and demand for products and services. The changes to the Labour Code that affected the number of self-employed persons in Slovakia most negatively, include the increase in the assessment base for contributions of self-employed persons and the abolition of combining early retirement and possession of an open trade license. Figure 2 shows the trend in the structure of legal units in Slovakia.

Figure 2: Development of structure of legal units in Slovak republic

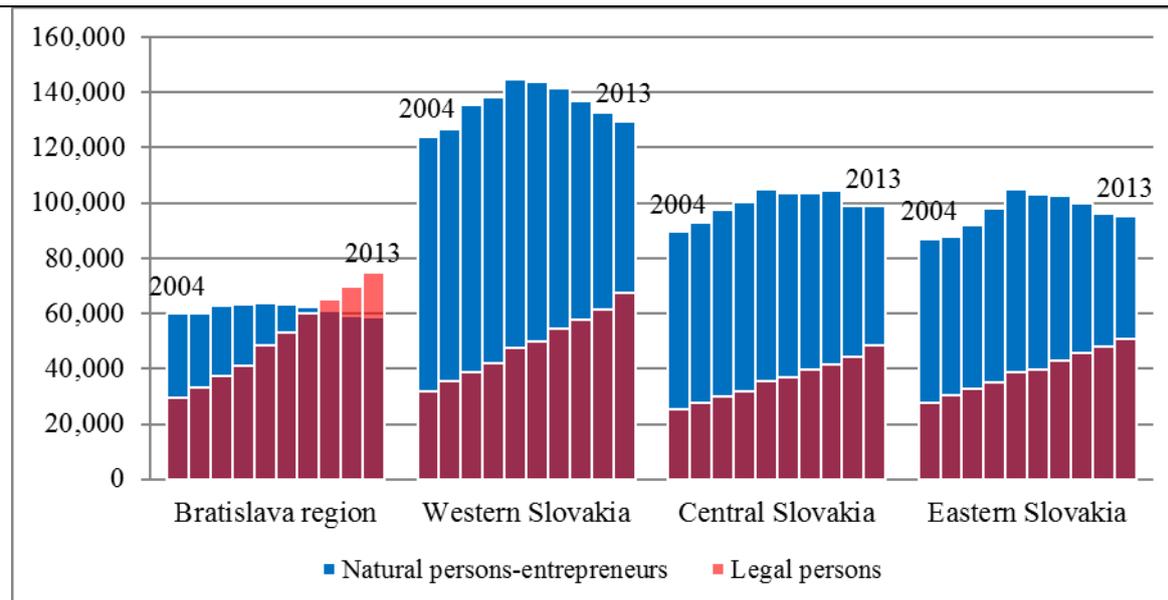


Source: Statistical Office of the Slovak Republic (2010, 2015)

Exploring the development and structure of the business environments in different regions, as one of the indicators of socio-economic development of regions, is a prerequisite for finding the level of regional disparity and tracking its development. Figure 3 shows the trend in the numbers of legal persons and natural persons-entrepreneurs in the NUTS 2 regions of the Slovak Republic.

The number of legal persons had a positive effect in all regions, with the fastest growth rate in the Bratislava region (Figure 3). A significant turning point occurred in 2011 when the Bratislava region, as the first ever, comprised more legal persons than natural persons-entrepreneurs. On the other hand, the Bratislava region incorporated, over the long-term, the smallest number of natural persons-entrepreneurs (less than half that of Western Slovakia). The number of natural persons-entrepreneurs in all regions of the Slovak Republic is in decline, as confirmed by Figures 2 and 3.

Figure 3: Development of structure of legal units in the NUTS 2 regions of the Slovak Republic



Source: Statistical Office of the Slovak Republic (2010, 2015)

Conclusion

The socio-economic situation of the region is largely influenced by the business environment. The number, size, and structure of legal units in the region greatly influences the regional development. Researching the development of legal units is important for the study of regional disparities that associate with uneven development of regions.

The research indicates a decline in the number of differences between the two major legal units, i.e., legal persons and natural persons-entrepreneurs. Currently, the portion of legal persons in the business environment is close to 40 per cent, whereas in 2005, it accounted for only one quarter of the business environment. Change in the number of entrepreneurs in various forms of business may be due to several reasons. Some natural persons-entrepreneurs ended their business due to changes in the business environment and lack of customers. Others transformed their business and operated as a legal person. The transformation of businesses was mainly related to increase in the tax burden for natural persons-entrepreneurs and an obligation to deposit capital with banks. A balance between the two legal units may be reached, providing the substantive legislative changes are not deployed in the near future. The positive outlook is the stabilization of the regional disparities that exist among the regions.

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