

[DOI: 10.20472/IAC.2018.040.006](https://doi.org/10.20472/IAC.2018.040.006)

JAROSLAV BELAS

Tomas Bata University in Zlín, Czech Republic

MARTIN CEPEL

Paneuropean University in Bratislava

, Slovak Republic

ANNA KOTASKOVA

Paneuropean University in Bratislava

, Slovak Republic

QUALITY OF BUSINESS ENVIRONMENT IN THE SME SEGMENT

Abstract:

The aim of this paper was to evaluate the quality of the business environment in the segment of small and medium-sized enterprises (SMEs) in the Czech and the Slovak Republic. In regards to the defined aim a survey-based research was conducted with enterprises operating in the SME segment. Responses from 312 enterprises in the Czech Republic and 329 enterprises in Slovak Republic were obtained via an online questionnaire during this research. The research brought some interesting findings. The evaluation of the business environment in both countries is relatively negative. The current risk rate of the business environment received a more positive rating in both countries. Significant differences in entrepreneurs' notions were discovered when evaluating the development of business environment in the recent past. Entrepreneurs of both countries were rather skeptical in evaluating the current quality of business environment in regards to starting a business.

Keywords:

business environment, quality of business environment, Czech Republic, Slovak Republic

JEL Classification: L26

1 Introduction

Entrepreneurship is a significant part of the economic system of every country, having important effects on the growth of the entire society. Therefore, many authors put emphasis on the role of small and medium-sized enterprises (SMEs) in the effective functioning of an economic system (Dobeš et al., 2017; Kozubíková et al., 2017; Czarniewski, 2016; Dubravská et al., 2015).

Small and medium-sized enterprises face strong competition, but have many new opportunities for growth at the same time (Chládková, 2015). Among SMEs' main advantages are: the ability to quickly adapt to the changing conditions on the market, simple organizational structure, the ability to generate work opportunities at low capital cost, closer relationship with customers, minimal administrative work, low operating costs in handling raw materials and energy (Srpková and Řehoř, 2010). Barriers for SMEs are the following: negative attitude of the society towards entrepreneurs, bad access to capital, insufficient education in the area of entrepreneurship, limited innovation capacity and low spending on science and research, administrative burden (Srpková and Řehoř, 2010), low level of diversification of the offered products and services, low capital power, limited access to credit, method of collateralization, lower managerial qualification (Fetisovová a kol., 2012)

A high quality business environment creating conditions for a sustainable economic growth is a basic precondition for the development of entrepreneurship and the growth of a country's competitiveness on a global scale (Vetráková et al., 2013).

According to Bunoa et al. (2015), the quality of business environment creates basic conditions for the growth of small and medium-sized enterprises (SMEs), and its gradual improvement is the best way to support SMEs and motivate people to start a business.

This paper examines the quality of business environment and quantifies the notions of Czech and Slovak entrepreneurs in evaluating the quality of business environment in their respective countries. The structure of the research is the following: The theoretical part briefly presents the research results on the quality of the business environment. The second part defines the aim of the research, the methodology, and the descriptions of the data used. The third part presents the results of the research and the discussion about the issue. The conclusion offers a final summary of the research.

2 Theoretical part

The quality of the business environment is a key factor in countries' economic growth. According to Bunoa et al. (2015), the business environment within an enterprise

comprises economic, political, institutional, legal, technological, and cultural conditions that enable and shape the enterprises' business activities. Chládková (2015) states that the business environment is influenced by a wide spectrum of conditions in the area of legislature, institutional infrastructure, and market operations.

Macroeconomic factors play an important role in the context of shaping the business environment (Bekeris, 2012; Dragnic, 2014). The state regulating entrepreneurship also plays an important role (Artistovnik and Obadic, 2015; Kitching et al., 2015; Marinescu and Jora, 2013; Banno et al., 2014).

In this context, Thai and Turkina (2014) state that economic opportunities (which include GDP growth, share of the service sector in the economy, innovation and financial development) and the quality of governance (governance index, democracy index, and ease of doing business) are found to encourage formal entrepreneurship and discourage informal entrepreneurship.

According Galindo and Méndez (2014), Central bank activity plays an important role in the process because Central bank's policies have the potential to provide more financial resources for entrepreneurs to expand their businesses or to create new ones (its coefficient has negative sign).

Ahmedova (2015) states that access to finance is the most important factor for SMEs to be competitive in the market. Enterprises with sufficient external resources are able to innovate and invest and hence be more successful in the competitive environment. Tonoyan et al. (2010) found that when banks and other money lenders do not provide finance with less paperwork involved, entrepreneurs usually engage in corrupted activities to get the financial support in transition countries. On the other hand, Banno et al. (2014) state that government financial support can help the SMEs to expand their activities outside of their domestic market, which helps to improve the economic conditions of the firms.

According to Marinescu (2013), institutions protecting ownership rights and decreasing transaction costs are crucial for the country's economic performance. High quality institutions create an environment in which firms can organize their activities more efficiently and invest more confidently (Yasar, et al., 2011). According to Duvanova (2012), heavy regulatory burden leads to more corruption. In this context, Grosanu and Bota-Avram (2015) state that the most influencing governance characteristics on business environment measured as the ease of doing business are the ones related to the capacity of government to formulate and implement sound policies and also the perception of the extent to which various petty and grand forms of corruption are well controlled by the authorized institutions.

Conorto et al. (2014) present a complex characteristic of factors determining the quality of the business environment. The authors define three significant areas of the business environment: *a broader business environment, a competitive environment, and a narrower business environment*. *The broader business environment* comprises factors on the macroeconomic level that exist regardless of the existence or the rank of individual entrepreneurial subjects. These are economic factors, technological factors, and social factors. *The competitive environment* comprises barriers to entry, buyer power, supplier power, threat of substitution, and competitive rivalry (the concept of Porter's five forces). *The narrower business environment* includes direct competitors, customers, suppliers, and employees.

The results of a study by Castaño et al. (2015) show that a suitable social structure consisting of a solid rule of law and economic freedom positively affects entrepreneurship. Regarding cultural factors, they correlate positively with entrepreneurship in both groups. This correlation is higher in European countries than in Latin-American and Caribbean countries. Economic factors positively affect entrepreneurship in Europe, Latin America, and the Caribbean, although more in Latin-American and Caribbean countries. Empirical analyses support the positive correlation between entrepreneurial activity and economic performance. The correlation is higher in Latin-American and Caribbean countries (efficiency-driven according to GEM) than in European countries (innovation-driven according to GEM).

3 Research aim, methodology, and data

The aim of this paper was to evaluate the quality of business environment in the SME segment in the Czech Republic and Slovakia. A part of this aim was a comparison of Czech and Slovak entrepreneurs' notions of the researched field.

In regards to the defined aim, a survey-based research was conducted with enterprises operating in the SME segment. 312 enterprises in CR and 329 enterprises in SR were approached during this research. Data collection took place in 2018. The method of random choice using the "Randbetween" mathematical function was used to select enterprises from the "Albertína" database comprising enterprises in the Czech Republic. Slovak enterprises were randomly selected from the "Cribis" database containing the list of enterprises, organizations, and entrepreneurs. The enterprises were approached via email asking them to fill out the online questionnaire. The questionnaire was intended for business owners or top management (hereinafter entrepreneurs).

The response rate in the Czech Republic was approximately 4 % (out of over 7800 enterprises). The number of approached enterprises in the Slovak Republic was more

than 9400, and the response rate was approximately 3.5 %. The questionnaire was evenly distributed in all regions of both countries.

The number of questionnaires in the Czech Republic was 312. Business areas in ČR: services 109 enterprises, retail 73 enterprises, manufacturing 53 enterprises, construction 29 enterprises, agriculture 9 enterprises, transportation 19 enterprises, other business area 23 enterprises. Time period of operating a business: 56 enterprises 1 – 5 years, 48 enterprises 5 – 10 years, 208 enterprises more than 10 years. Size of business: 258 micro-enterprises (up to 10 employees), 43 small enterprises (up to 50 employees), and 11 medium-sized enterprises (up to 250 employees). Highest attained education level of the entrepreneur: 50 high school without diploma, 135 high school with diploma, and 127 college education. Gender of entrepreneurs: 236 men, 76 women.

The structure of respondents within the Slovak Republic (329 enterprises) was the following: Business area: services 122 enterprises, retail 69 enterprises, manufacturing 51 enterprises, construction 39 enterprises, agriculture 20 enterprises, transportation 11 enterprises, other business area 17 enterprises. Time period of operating a business: 104 enterprises 1 – 5 years, 78 enterprises 5 – 10 years, and 147 enterprises more than 10 years. Size of business: 234 micro-enterprises (up to 10 employees), 71 small enterprises (up to 50 employees), and 24 medium-sized enterprises (up to 250 employees). Highest attained education level of the entrepreneur: 10 high school without diploma, 95 high school with diploma, and 224 college education. Gender of entrepreneurs: 251 men, 78 women.

The quality of business environment (QBE) was evaluated using the following statements:

QBE1: The business environment in my country is of good quality and convenient for starting a business.

QBE2: The business environment in my country bears adequate risk and enables to start a business.

QBE3: Conditions for doing business have improved in my country in the last five years.

QBE4: The business environment in my country is suitable for starting a business.

The entrepreneurs had the option to express their agreement using the Likert scale: strongly agree, agree, neutral, disagree, and strongly disagree.

In developing this paper, three scientific hypotheses were established using the method of scientific assessment:

H1: The maximum of 40 % of entrepreneurs in the Czech Republic and Slovakia agree with the statement QBE1. There are no statistically significant differences in the structure of positive and negative answers.

H2: The maximum of 40 % of entrepreneurs in the Czech Republic and Slovakia agree with the statement QBE2. There are no statistically significant differences in the structure of positive and negative answers.

H3: The maximum of 40 % of entrepreneurs in the Czech Republic and Slovakia agree with the statement QBE3. There are no statistically significant differences in the structure of positive and negative answers.

H4: The maximum of 40 % of entrepreneurs in the Czech Republic and Slovakia agree with the statement QBE4. There are no statistically significant differences in the structure of positive and negative answers.

To evaluate H1, H2, H3, and H4, the method of descriptive statistics, chi-square, and Z-score were used. Statistically significant differences in the overall structure of answers were determined using the chi-square at the significance level of 5 %. Statistically significant differences between positive answers of the designated social groups were compared through Pearson statistics at the significance level of 5 %. If the calculated p-value was lower than 5 %, the null hypothesis was rejected, and the alternative hypothesis was adopted. The calculations were made using free software available at <http://www.socscistatistics.com/test>.

4 Results and discussion

The research results are listed in the tables below.

Table 1: Evaluation of the business environment in CR and SR

QBE1: The business environment in my country is of good quality and convenient for starting a business.	ČR 312	SR 329	Z-score p-value
1. strongly agree	3	4	
2. agree	76	60	
Total 1 + 2	79	64	0.075
Total 1 + 2 in %	25	19	

3. neutral	52	49	
4. disagree	148	165	
5. strongly disagree	33	51	
Total 4 + 5	181	216	
Total 4 + 5 in %	58	66	
Chi square: p-value: 6.449/0.168			

Table 1 offers the evaluation of the quality of business environment in the Czech Republic and Slovakia. 25 % of entrepreneurs in the Czech Republic and only 19 % of entrepreneurs in Slovakia agreed with the statement: "The business environment in my country is of good quality and convenient for starting a business". 58 % of respondents in the Czech Republic and 66 % of respondents in Slovakia disagreed with the above statement.

The results of the testing criterion p-value = 0.168 confirmed that there are no statistically significant differences in the overall structure of respondents' answers between the two countries. P-value = 0.075 confirmed that there are no statistically significant differences in the structure of positive answers. It can therefore be concluded that entrepreneurs' notions of the quality of business environment are similar in both countries. *H1 was confirmed.*

Table 2: Evaluation of the business environment's risk rate in CR and SR

QBE2: The business environment in my country bears adequate risk and enables to start a business.	ČR	SR	Z-score p-value
1. strongly agree	6	8	
2. agree	169	165	
Total 1 + 2	175	173	0.373
Total 1 + 2 in %	56	53	
3. neutral	48	52	
4. disagree	78	84	
5. strongly disagree	11	20	
Chi square: p-value: 2.880/0.578			

Table 2 offers the evaluation of the business environment's risk rate in the Czech Republic and Slovakia. 56 % of entrepreneurs in the Czech Republic and 53 % of

entrepreneurs in Slovakia agreed with the statement: “The business environment in my country bears adequate risk and enables to start a business”.

The results of the testing criterion $p\text{-value} = 0.578$ confirmed that there are no statistically significant differences in the overall structure of respondents' answers between the two countries. $P\text{-value} = 0.373$ confirmed that there are no statistically significant differences in the structure of positive answers. It can therefore be concluded that entrepreneurs' notions of the business environment's risk rate are similar in both countries. *H2 was not confirmed.*

Table 3: Evaluation of the quality of business environment's development in CR and SR

QBE3: Conditions for doing business have improved in my country in the last five years.	ČR 312	SR 329	Z-score p-value
1. strongly agree	3	13	
2. agree	63	85	
Total 1 + 2	66	98	0.012
Total 1 + 2 in %	21	30	
3. neutral	57	68	
4. disagree	120	118	
5. strongly disagree	69	45	
Total 4 + 5	189	163	
Total 4 + 5 in %	61	50	
Chi square: p-value: 15.117/0.004			

Table 3 offers the evaluation of the quality of business environment in the Czech Republic and Slovakia. 21 % of entrepreneurs in the Czech Republic and 30 % of entrepreneurs in Slovakia agreed with the statement: “Conditions for doing business have improved in my country in the last five years”. 61 % of respondents in the Czech Republic and only 50 % of respondents in Slovakia disagreed with the above statement.

The results of the testing criterion $p\text{-value} = 0.004$ confirmed that there are statistically significant differences in the overall structure of respondents' answers between the two countries. $P\text{-value} = 0.012$ confirmed that there are no statistically significant differences in the structure of positive answers. It can therefore be concluded that entrepreneurs' notions of the changes in the development of business environment are not similar in both countries. Slovak entrepreneurs view the changes in the business environment in the past 5 years more positively than their Czech counterparts.

H3 was partially confirmed.

Table 4: Evaluation of the quality of business environment in CR and SR in the context of starting a business

QBE4: The business environment in my country is suitable for starting a business.	ČR 312	SR 329	Z-score p-value
1. strongly agree	2	9	
2. agree	102	108	
Total 1 + 2	104	117	0.555
Total 1 + in %	33	36	
3. neutral	68	66	
4. disagree	112	111	
5. strongly disagree	28	35	
Total 4 + 5	140	146	
Total 4 + 5 in %	45	44	
Chi square: p-value: 4.991/0.288			

Table 4 offers the evaluation of the quality of business environment in the Czech Republic and Slovakia in regards to starting a business. 33 % of entrepreneurs in the Czech Republic and 36 % of entrepreneurs in Slovakia agreed with the statement: “The business environment in my country is suitable for starting a business“. 45 % of respondents in the Czech Republic and 44 % of respondents in Slovakia disagreed with the above statement.

The results of the testing criterion $p\text{-value} = 0.288$ confirmed that there are no statistically significant differences in the overall structure of respondents' answers between the two countries. $P\text{-value} = 0.555$ confirmed that there are no statistically significant differences in the structure of positive answers. It can therefore be concluded that entrepreneurs' notions of the quality of business environment in regards to starting a business are similar in both countries. *H4 was confirmed.*

The research results indicate that only a small portion of the entrepreneurs view the quality of the business environment in the Czech and the Slovak Republic good enough for conducting business activities (25 % in CR and only 19 % in SR).

The evaluation of the business environment's risk rate yielded better results. 56 % of the Czech entrepreneurs and 53 % of the Slovak entrepreneurs view the business environment's risk rate as adequate.

The development of business environment received a better rating in Slovakia than in the Czech Republic. However, entrepreneurs of both countries declared the current business environment unsuitable for starting a business.

This research evaluated economic, political, technological, and competitive factors.

Within the economic factors, the entrepreneurs negatively evaluated the current macroeconomic environment in regards to starting a business. They do not consider the current macroeconomic environment supportive enough of the business innovation activities, and have reservations about Central Bank's monetary policy in the context of business environment's development. The entrepreneurs positively evaluated the development in consumer consumption. They claim that people make more purchases compared to the past, and that the growing population consumption has a positive impact on the quality of business environment.

Political factors influencing the quality of business environment received a very negative rating. Entrepreneurs of both countries view the state's activities in the field of levy and tax policies as negative. Czech entrepreneurs were very critical of the current level of administrative burden on enterprises and the situation on the job market, and claim that the state is unable to train high quality employees for business. In Slovakia, entrepreneurs negatively evaluated the state bureaucracy in the area of entrepreneurship and the state's support of entrepreneurship.

Technological factors influencing the quality of business environment were also evaluated negatively. Entrepreneurs of both countries view the level of services provided to entrepreneurs by the public sectors as negative. Czech entrepreneurs were very critical of the situation on the job market which lacks qualified workforce able to find employment in the business sector. They also claim a low level of cooperation of the public sector and the private sector. In Slovakia, entrepreneurs negatively evaluated mainly the infrastructure and the state's support in the field of research and development.

On the other hand, the competitive environment received from the entrepreneurs a rather positive rating. Czech entrepreneurs have a positive view of the customers accepting the price of their products and services, a moderate view of the threat of new entrants, and a normal view of the competition intensity. Slovak entrepreneurs positively evaluated the fact of offered prices being accepted on the market, and highlighted the positive role of customers and employees in business activities.

Other authors also examine the quality of the business environment in the analyzed countries, and present interesting inputs in this field.

The results of the survey by Virglerova et al. (2017) “have demonstrated that four groups of key determinants can be identified in the business environment studied among SMEs in the Czech Republic. The first and most global determinant is „State and public perception“ which includes both the country’s legislative background and the general public’s perception of entrepreneurs. The second is „Banks and their approach to business“ which includes the most important external source of finance for SMEs in the Czech Republic. The third area is „Knowledge of rules and principles“ which determines the activities of business owners especially on the financial market. The last determinant is „Financial risks and their increase in post-crisis times“ comprising the awareness of financial risks, risk management, and the changes in risk perception during the crisis and after it.”

Šebestová (2016) offers a very interesting opinion. The author examined the influence of motivation on the perception of the business environment in the Czech Republic. She claims that those entrepreneurs who started a business using the “pull” strategy were among the most satisfied. Among the most dissatisfied were those entrepreneurs who started a business using the “push” strategy. This causal analysis of the influence of motivation on doing business and the evaluation of the business environment yields the fact that negative influence of socioeconomic conditions in respective regions impacts the motivation and the development of the local business community. Regions therefore play a role in operating businesses, but do not play a role in their establishment.

The state plays a very important role within its business environment. Three areas of the state’s influence on the business environment were selected: the state’s help with entrepreneurship, administrative burden related to entrepreneurship, and corruption and clientelism. These areas were moreover examined in terms of the length of business and company size. It was discovered that SMEs perceive the help of the state more than micro businesses. More than 53% of entrepreneurs encountered clientelism. Furthermore, the results confirm that the problem of corruption increases with company size. Encountering corruption and clientelism may be significantly more influenced by the length of entrepreneurship than by company size (Virglerová et al., 2016: APMR).

In this context, Linhartová and Židová (2016) state that “the validity of the hypothesis of corruption’s negative influence on economic growth was confirmed for the OECD member countries. A greater degree of perceived corruption in these countries is accompanied by a lower economic growth. At the same time, the analysis demonstrated that corruption affects economic growth not only directly but also with a delay in time”.

Ključnikov et al. (2016) define and quantify important factors of the quality of the business environment for small and medium-sized firms (SMEs) in the Czech Republic. They found that only 10% of the entrepreneurs positively evaluated the applicable forms of state

financial support. 64% of Czech entrepreneurs feel the support of their surroundings while doing business, 45% think that SMEs have restricted access to external sources of financing, and over half note the intensive influence of market risk. It was also determined that there are statistically significant differences in the pattern of responses between micro-enterprises and small and medium-sized enterprises.

The payment discipline represents a major problem in SMEs in Slovakia. While 83% of them noted the existence of problems with overdue receivables, 30% of the respondents acknowledged problems with their own payment discipline and identified secondary insolvency as the most important reason for it (Ključnikov et al., 2017).

Results by Ključnikov and Popesko (2017) suggest that Slovak entrepreneurs primarily supply their products and services on the domestic market, while their export potential is limited. The assessment of the state support of export activities is rather negative. An alarming finding is that Slovak entrepreneurs in the SME segment do not use even basic tools of financial risk reduction to a higher extent, and that the use of Eximbank state export bank's services is negligible.

Based on the information from Investiční web (2016), the Czech Republic placed 31st in the global evaluation of competitiveness (WEF). The best results in CR were achieved in: macroeconomic environment (ranked 19th globally), basic education (ranked 25th globally), higher education (ranked 27th), and financial markets (ranked 27th). Relatively weakest results were achieved in CR in the following categories institutions (ranked 54th), market size (ranked 46th), and the effectiveness of the job market (ranked 44th). Czech Republic lags behind the EU15 countries average in the key pillars of innovation and the quality of the business environment. At the same time, the Czech Republic placed higher than the EU 15 average in the macroeconomic environment and financial markets pillars.

In 2017, Slovakia has moved up significantly on the competitiveness scale that the World Economic Forum in Switzerland (WEF) creates on basis of key economic data and research among managers (currently ranking 59th globally, which represents a 6-rank shift compared to last year). The overall score changed from 4.28 last year to 4.33 which can also be attributed to some steps made by the state aiming at the simplification of entrepreneurship and decreasing the administrative burden. In reality, this improvement can be attributed to a higher number of mobile lines, higher average Internet speed, or a higher number of airlines. Slovakia's largest problem within entrepreneurship is traditionally corruption and unnecessary bureaucracy on the second place, which bothers managers even more than tax rates. Tax and levy laws, job market, and insufficient education of the workforce were also subject of complaint (Slovak Entrepreneurs' Alliance, 2017).

The results of the research are partially compatible with the data published by the WEF, as they yielded a relatively positive evaluation of the macroeconomic factors in both countries (a positive evaluation of the economic development, development of the financial market, adequate demand for products and services, etc.). However, despite Czech Republic's better ranking on the WEF scale, the Slovak entrepreneurs rated the condition of the business environment better than their Czech counterparts.

5 Conclusion

The aim of this paper was to evaluate the quality of business environment in the SME segment in the Czech and the Slovak Republic. A part of this aim was a comparison of Czech and Slovak entrepreneurs' notions of the researched field.

The evaluation of the business environment in both countries is relatively negative and similar. Only approximately one quarter of Czech entrepreneurs and one fifth of entrepreneurs in Slovakia view the quality of business environment good enough and suitable for starting a business.

The current risk rate of the business environment received a much more positive rating in both countries, as the majority of entrepreneurs in both the Czech and the Slovak Republic provided similar answers.

Significant differences in entrepreneurs' notions were discovered in the evaluation of the development of business environment in recent past. Slovak entrepreneurs view the changes in the business environment in the past 5 years more positively than their Czech counterparts.

Entrepreneurs of both countries were rather skeptical in evaluating the current quality of business environment in regards to starting a business, as only approximately one third of them agreed with the statement that the business environment is suitable for starting a business.

The research has its limitations, but also brought interesting findings and a potential inspiration for further research of the quality of the business environment in the SME segment.

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