

ATTRACTIVENESS OF POLITICAL-LEGAL BUSINESS ENVIRONMENT SECTOR IN SEE AND CEE COUNTRIES

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SUMMARY

Economic and social outcomes in each national economy are largely influenced by the conditions which form the business environment within which companies operate. Political-legal business environment sector concerns shifts and changes in regulation and institutions that governments set as a framework for a business activity. Today entrepreneurial economy is regarded as means of solving both, growth and unemployment issues in modern societies. Therefore an attractive political-legal business environment sector is the one which enhances and not constrains entrepreneurial activity.

Goal of this paper is to investigate how SEE and CEE countries compare in level of attractiveness of their political-legal business environment sector, and in reform efforts to improve it.

Methodology is developed based on 14 indicators originally developed by World Bank in their Doing Business project. Scores are assigned according to the intensity of change of the researched parameters in order to obtain the rankings among SEE and CEE countries.

Results show great diversity of reform efforts. Slovakia as leading reformer scored 32 and Czech Republic is second with a score of 17. Average CEE score is 16, which is 2,5 times better than SEE average - 6. Croatia is at the bottom of the list with the reform effort score of 0.

1 INTRODUCTION

Economic growth and employment creation within changing conditions of 21st century represent the basic preoccupation of all actors in economic processes: from company managers to the prime ministers of national economies. Economic development, especially within European context is relatively slow and stagnant, and unemployment is the persistent number one problem of the contemporary societies. The concept of “entrepreneurial economy” emerges as a model that holds better developmental possibilities than to-date prevalent model of “managed economy”. Changes in business environment and adjustments of microeconomic structure of the society to those changes become determinants of economic

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success of both: companies and national economies. All sectors of business environment are affected with rapid changes: political-legal, economic, socio-cultural and technological.

This paper focuses on the comparative analysis of the characteristics of the political-legal business environment sector in SEE and CEE countries. The goal of the paper is to investigate whether the conditions in political-legal business environment sector in researched economies evolve from regulating to stimulating conditions. Namely, the entrepreneurial economy is characterized by such political-legal business environment sector that represents an incentive, and not a constraint to the growth of entrepreneurship. This means that the focus of interest of the political-legal processes in a country shifts from antitrust legislation, regulation, public ownership to mobility and flexibility of labor market, flexibility of new market entries and exits, availability of entrepreneurial financing, protection and ease of property rights transfers, efficiency of contract enforcement.

Methodology used in paper is based on comparative analysis and interpretation of secondary data collected by World Bank in their project Doing business in 2005 and 2004. In this paper the results of the SEE and CEE countries are gathered, reinterpreted and presented.

2 BACKGROUND

Growing body of research is today devoted to the theme of entrepreneurship. Its role in every modern economy is being constantly reevaluated. Many researchers imply (Audretsch, Thurik, 2001; Zahra, 1999; McMillan, Woodruff, 2002) that economic growth and employment creation can be best spurred by entrepreneurs. Therefore it is a necessity that they gain more prominent role in every economy. Entrepreneurs are not only perceived as individuals but also as leaders in corporations who promote risk-taking and innovation (Dess, Picken, 2000). The underlying processes are globalization and ICT revolution. In order to maintain their competitiveness globally firms had to become more flexible and knowledge intensive. Labor-intensive industries shifted to the parts of the world where wages are considerably lower. Contributing factor was trade liberalization and lower transportation costs. The growing interest in subject matter resulted in better understanding of entrepreneurial success – its process, context and outcomes (Aldrich, Martinez, 2001). Following the topic of this paper, special interest is devoted to the study of context, i.e. development of more sophisticated “taxonomy of environmental forces at different levels of analysis that affect entrepreneurship” (Aldrich, Martinez, 2001, p. 41). Evolutionary approach states that the process and context relate and influence each other in perpetuity. Therefore it is important to better understand that relationship. From the standpoint of only one

environmental sector which is discussed in this paper – political-legal, understanding the role of this specific context allows the decision makers to constantly keep reforming the political-legal arena in order to not only accommodate but to give incentives to the changing features of entrepreneurial activity. This issue is even more important in the economies that are undergoing the profound economic transformations such as both CEE and SEE countries are. It also does not imply that leave-it-to-the-market view is more efficient in that sense. On the contrary. It has been proven that markets arose faster in economies where government did not completely withdraw, but rather where it had set a stable platform for microeconomic reform, macroeconomic stability and institution building (McMillan, Woodruff, 2002).

Given this, political-legal business environment sector must be continuously molded and reshaped in every aspect that affects the ease of doing business in a modern economy which then in turn enhances economic growth and employment creation as major goals of every national economy.

3 METHODOLOGY

In the study of business environment two different methodological approaches should be mentioned. First is based on the surveys of key respondents and their opinions on the conditions in different sectors of business environment. Such are for example ICS (Investment Climate Survey) and BEEPS I and II (Business Environment and Enterprise Performance Survey) by EBRD and World Bank. Second is the study of objective data such as regulatory and administrative transaction costs. The Doing Business project of World Bank collects such data on different topics of political-legal business environment sector across 145 countries and aims at measuring its attractiveness. This paper uses the World Bank Doing Business original data from two consecutive years 2003 and 2004.

It should be mentioned that the above stated studies mainly address mainly political-legal business environment sector, somewhat economic environment sector and do not explore technological and socio-cultural business environment sector. Other institutions and other projects deal with those topics. The reason is that the studies are designed mainly for two distinct users: policy makers and foreign private investors – who both are interested mainly in political-legal framework of the concerned economy.

The Doing Business database (World Bank, 2004; World Bank, 2005) provides 7 sets and total of 24 indicators in its issue of 2005, and 5 sets and total of 24 indicators in its issue of 2004. Of all indicators in both years there are 13 that were repeated and one was significantly enriched, and that one has been adapted in this paper to provide comparability with the

previous year. The rest are either not followed any more, or incorporated in newly constructed indicators. Therefore, for the purpose of this paper, which is to study the dynamics of the reforms of political-legal business environment sector in CEE and SEE countries, only the mentioned 14 indicators will be taken into consideration.

Scoring methodology is developed which evaluates the rate and direction of change in the studied indicators. Relative change is scored from 0-5, 0 meaning no change in indicator in comparison to the previous year's results. Scores from 1-5 are assigned as follows: 1 - change in range from +0-20%; 2 – 21-40%; 3 – 41-60%; 4 – 61-80% and score 5 – for change in range from 81-100% and more. Positive or negative score denotes the direction of change which can be either in sense of more stimulating or more constraining political-legal business environment sector. Indicators are grouped as in the database, and final reform score is obtained by adding up single indicator group scores.

There are four main limitations of this approach. First, the scoring scale is discrete and therefore does not allow for fine-tune differences, for example between results such as 20% change which has score 1 and 21% which has score 2. Second, all single indicators are given the same importance which also limits the in-depth understanding of the researched topics. Third, there are only two sets of data (for year 2003 when the project started, and for year 2004), which severely blurs the results. The fact is that changes in legislation can be passed abruptly and can strongly influence the indicators, and actually not have an immediate effect on entrepreneurial activity. Longitudinal data is needed to improve the validity of results. Still, it gives an objective relative measure of the reform efforts directed in increasing the attractiveness of the political-legal business environment sector in SEE and CEE countries. Fourth, the contents of several indicators (employment indices and minimum capital) have been somewhat altered in effort to improve the methodology. In spite of that, in our opinion the examined indicators are still comparable for the purpose of our analysis.

4 RESULTS

Covered topics of analysis include five important areas of interest which measure different aspects of political-legal business environment sector. They concern the ease of industry entry and exit, flexibility of labor market, ease of getting credit and enforcing contracts. They all represent the way governments are involved in providing more or less stimulating framework for the development of entrepreneurial activity. The results of the analysis are presented in the following data tables. First two tables present data on start-ups. Results are homogenous in first three aspects (procedures, time and cost), and very diverse in last (minimum capital).

Table 1 Starting a Business – Number of procedures and Time

| | Number of procedures 2004 | 2003 | % change | Score | Time (days) 2004 | 2003 | % change | Score |
|---------------------------|---------------------------|------|----------|------------|------------------|------|----------|-------------|
| Albania (AL) | 11 | 11 | 0 | 0 | 47 | 47 | 0 | 0 |
| Bosnia & Herzegovina (BH) | 12 | 12 | 0 | 0 | 54 | 59 | -8 | 1 |
| Bulgaria (BG) | 11 | 10 | 10 | -1 | 32 | 30 | 7 | -1 |
| Croatia (HR) | 12 | 13 | -8 | 1 | 49 | 50 | -2 | 1 |
| Macedonia (FYRM) | 13 | 13 | 0 | 0 | 48 | 48 | 0 | 0 |
| Romania (RO) | 5 | 6 | -17 | 1 | 28 | 27 | 4 | -1 |
| Serbia & Montenegro (SM) | 11 | 10 | 10 | -1 | 51 | 44 | 16 | -1 |
| Average SEE | 10,7 | 10,7 | 0,0 | 0,0 | 44,1 | 43,6 | 1,3 | -0,1 |
| Standard deviation (SD) | 2,6 | 2,4 | 9,4 | | 10,0 | 11,3 | 7,7 | |
| Total SEE (Σ SEE) | | | | 0 | | | | -1 |
| Czech Republic (CZ) | 10 | 10 | 0 | 0 | 40 | 88 | -55 | 3 |
| Hungary (HU) | 6 | 5 | 20 | -1 | 52 | 65 | -20 | 1 |
| Poland (PL) | 10 | 12 | -17 | 1 | 31 | 31 | 0 | 0 |
| Slovakia (SK) | 9 | 10 | -10 | 1 | 52 | 98 | -47 | 3 |
| Slovenia (SL) | 10 | 10 | 0 | 0 | 61 | 61 | 0 | 0 |
| Average CEE | 9,0 | 9,4 | -4 | 0,2 | 47,2 | 68,6 | -31,2 | 1,4 |
| Standard deviation (SD) | 1,7 | 2,6 | 13,9 | | 11,7 | 26,1 | 25,6 | |
| Total CEE (Σ CEE) | | | | 1 | | | | 7 |

Source: Doing Business database and authors' calculations

Data shows no significant changes in number of procedures and minor changes in time consumption for starting a business. Exceptions are Czech Republic and Slovakia which have halved the time necessary to start a business.

Table 2 Starting a Business continued – Cost and Minimum Capital

| | Cost* 2004 | 2003 | % change | Score | Minimum capital* 2004 | 2003 | % change | Score | Total Score (1) |
|--------------|------------|------|----------|------------|-----------------------|-------|----------|------------|-----------------|
| AL | 32,3 | 65,0 | -50 | 3 | 41,3 | 51,7 | -20 | 1 | 4 |
| BH | 46,2 | 51,8 | -11 | 1 | 65,0 | 379,1 | -83 | 5 | 7 |
| BG | 10,3 | 8,3 | 24 | -2 | 116,6 | 134,4 | -13 | 1 | -3 |
| HR | 14,4 | 18,2 | -21 | 2 | 24,4 | 50,7 | -52 | 3 | 7 |
| FYRM | 11,6 | 13,1 | -11 | 1 | 89,5 | 138,4 | -35 | 2 | 3 |
| RO | 7,4 | 11,7 | -37 | 2 | 0,0 | 3,3 | -100 | 5 | 7 |
| SM | 9,5 | 13,3 | -29 | 2 | 120,3 | 5,5 | 2087 | -5 | -5 |
| Av SEE | 18,8 | 25,9 | -27 | 1,3 | 65,3 | 109,0 | -40 | 1,7 | 2,9 |
| SD | 14,7 | 22,7 | 23,7 | | 46,1 | 131,0 | 808,7 | | |
| Σ SEE | | | | 9 | | | | 12 | 20 |
| CZ | 10,8 | 11,7 | -8 | 1 | 44,5 | 110,0 | -60 | 3 | 7 |
| HU | 22,9 | 64,3 | -64 | 4 | 86,4 | 220,3 | -61 | 4 | 8 |
| PL | 20,6 | 20,3 | 1 | -1 | 237,9 | 21,4 | 1012 | 5 | 5 |
| SK | 5,7 | 10,2 | -44 | 3 | 46,1 | 111,8 | -59 | 3 | 10 |
| SL | 12,3 | 15,5 | -21 | 2 | 19,0 | 89,1 | -79 | 4 | 6 |
| Av CEE | 14,5 | 24,4 | -41 | 1,8 | 86,8 | 110,5 | -21 | 3,8 | 7,2 |
| SD | 7,1 | 22,6 | 27,0 | | 80,3 | 71,5 | 481,3 | | |
| Σ CEE | | | | 9 | | | | 19 | 36 |

*% of income p/c

Source: Doing Business database and authors' calculations

The results in table 2 indicate that all countries but Poland have lowered the cost of new entry, most of them considerably, but CEE countries at almost double the pace compared to SEE countries. Minimum capital requirements show similar pattern, most countries have considerably lowered it, allowing entries into entrepreneurship to wider circle of people. Exceptions are Poland and Serbia and Montenegro, countries that have highest absolute and relative level of this indicator.

How flexible the labour legislation is or is becoming can be observed through three aspects that concern an entrepreneur when making decisions on labour factor of production: ease of hiring, firing and flexibility of working hours.

Table 3 Rigidity of Employment

| | Difficulty of hiring index* 2004 | 2003 | % change | Score | Rigidity of hours index* 2004 | 2003 | % change | Score | Difficulty of firing index* 2004 | 2003 | % change | Score | Total Score (2) |
|--------|----------------------------------|------|----------|------------|-------------------------------|------|----------|------------|----------------------------------|------|----------|-------------|-----------------|
| AL | 11 | 33 | -67 | 4 | 60 | 76 | -21 | 2 | 20 | 15 | 33 | -2 | 4 |
| BH | 78 | 53 | 47 | -3 | 40 | 63 | -37 | 2 | 30 | 31 | -3 | 1 | 0 |
| BG | 33 | 43 | -23 | 2 | 40 | 90 | -56 | 3 | 10 | 26 | -62 | 4 | 9 |
| HR | 61 | 76 | -20 | 1 | 60 | 89 | -33 | 2 | 50 | 31 | 61 | -4 | -1 |
| FYRM | 33 | 65 | -49 | 3 | 40 | 53 | -25 | 2 | 40 | 32 | 25 | -2 | 3 |
| RO | 78 | 48 | 63 | -4 | 60 | 85 | -29 | 2 | 50 | 29 | 72 | -4 | -6 |
| SM | 28 | 51 | -45 | 3 | 0 | 88 | -100 | 5 | 40 | 29 | 38 | -2 | 6 |
| Av SEE | 46,0 | 52,7 | -13 | 0,9 | 42,9 | 77,7 | -45 | 2,6 | 34,3 | 27,6 | 24 | -1,3 | 2,1 |
| SD | 26,3 | 14,2 | 49,5 | | 21,4 | 14,5 | 27,6 | | 15,1 | 5,9 | 44,9 | | |
| Σ SEE | | | | 6 | | | | 18 | | | | -9 | 15 |
| CZ | 44 | 17 | 159 | -5 | 20 | 63 | -68 | 4 | 20 | 27 | -26 | 2 | 1 |
| HU | 11 | 46 | -76 | 4 | 80 | 92 | -13 | 1 | 30 | 23 | 30 | -2 | 3 |
| PL | 11 | 33 | -67 | 4 | 60 | 92 | -35 | 2 | 30 | 39 | -23 | 2 | 8 |
| SK | 0 | 34 | -100 | 5 | 20 | 89 | -78 | 4 | 10 | 60 | -83 | 5 | 14 |
| SL | 28 | 53 | -47 | 3 | 80 | 84 | -5 | 1 | 50 | 41 | 22 | -2 | 2 |
| Av CEE | 18,8 | 36,6 | -49 | 2,8 | 52,0 | 84,0 | -38 | 2,4 | 28,0 | 38,0 | -26 | 1,0 | 5,6 |
| SD | 17,3 | 13,8 | 105,2 | | 30,3 | 12,2 | 32,4 | | 14,8 | 14,5 | 45,5 | | |
| Σ CEE | | | | 11 | | | | 12 | | | | 5 | 28 |

*0-100

Source: Doing Business database and authors' calculations

The analysis of the labour market entry and exit reveals that SEE countries lag behind CEE countries which have especially successfully improved the ease of entry of new workers. Slovakia has transformed its legislation in a dramatic way, whereas Romania has made changes which make it a country with most rigid employment conditions in both absolute and relative terms. But once the worker has entered the market, employer faces slightly less rigid rules concerning hours in SEE compared to CEE countries. All countries improved their rigidity of hours index in an average amount of about 40%. Hiring rigidity worsened most in Czech Republic. Besides Romania, Croatia is the only other country with total negative score.

Following results present data on how strong the legal rights of borrowers and lenders are, and about public and private credit registries - institutions that contribute to the transparency of credit information.

Table 4 Getting Credit

| | Legal rights index* 2004 | 2003 ** | % change | Score | Public registry coverage *** | 2003 | % change | Score | Private bureau coverage *** | 2003 | % change | Score | Total Score (3) |
|--------|--------------------------|---------|----------|-------------|------------------------------|------|----------|------------|-----------------------------|-------|----------|------------|-----------------|
| AL | 9 | 7,5 | 20 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| BH | 5 | 8 | -33 | -2 | 0 | 0 | 0 | 0 | 156 | 67 | 133 | 5 | 3 |
| BG | 6 | 8 | -20 | -1 | 13 | 5 | 160 | 5 | 0 | 0 | 0 | 0 | 4 |
| HR | 4 | 8 | -47 | -3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -3 |
| FYRM | 6 | 8 | -20 | -1 | 6 | 2 | 200 | 5 | 0 | 0 | 0 | 0 | 4 |
| RO | 4 | 0 | 400 | 5 | 4 | 1 | 300 | 5 | 0 | 0 | 0 | 0 | 10 |
| SM | 5 | 5 | 0 | 0 | 1 | <1 | 10 | 1 | 0 | 0 | 0 | 0 | 1 |
| Av SEE | 5,6 | 6,1 | 42,9 | -0,1 | 3,4 | 1,3 | 95,7 | 2,3 | 22,3 | 9,6 | 19,0 | 0,7 | 2,9 |
| SD | 1,7 | 2,8 | 159,0 | | 4,8 | 2,0 | 123,5 | | 59,0 | 25,3 | 50,2 | | |
| Σ SEE | | | | -1 | | | | 16 | | | | 5 | 20 |
| CZ | 6 | 8 | -20 | -1 | 21 | 10 | 110 | 5 | 249 | 136 | 83 | 5 | 9 |
| HU | 5 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 33 | 15 | 120 | 5 | 5 |
| PL | 2 | 5 | -60 | -3 | 0 | 0 | 0 | 0 | 380 | 543 | -30 | -2 | -5 |
| SK | 9 | 5 | 80 | 4 | 6 | 2 | 200 | 5 | 0 | 0 | 0 | 0 | 9 |
| SL | 6 | 8 | -20 | -1 | 25 | 14 | 79 | 4 | 0 | 0 | 0 | 0 | 3 |
| Av CEE | 5,6 | 6,0 | -4,0 | -0,2 | 10,4 | 5,2 | 77,7 | 2,8 | 132,4 | 138,8 | 34,6 | 1,6 | 4,2 |
| SD | 2,5 | 1,4 | 51,8 | | 11,8 | 6,4 | 83,8 | | 173,1 | 233,0 | 63,7 | | |
| Σ CEE | | | | -1 | | | | 14 | | | | 8 | 21 |

* 1-10

** Results are adjusted to scale 1-10 for comparability

*** Borrowers/1000 adults

Source: Doing Business database and authors' calculations

Legal rights index shows very little change that can also be attributed to the adjustment of methodology, and is not significant. In order to expand credit, procedures concerning creditors on collateral and in case of bankruptcy should be modified. Otherwise the entrepreneurs that might expand their business or start a new one will continue to have constrained access to funds. Public and private registries of credit are important institutions that are still either non-existent or just started developing in SEE and CEE countries and therefore have very limited coverage. 0 value of coverage means that there are no registries present. The founding of private bureaus should be promoted since their efficiency has been proven in developed countries.

Results concerning procedures and time necessary to enforce a contract are presented in table 5. It should be noted that all average and total scores are negative. This makes the topic of enforcing contract the main concern of all SEE and CEE countries. There are only 2 positive scores: Bosnia & Herzegovina halved the time, and Serbia and Montenegro cut 4 procedures.

Table 5 Enforcing a Contract

| | Number of procedures 2004 | 2003 | % change | Score | Time (days) 2004 | 2003 | % change | Score | Total Score (4) |
|--------|---------------------------|------|----------|-------------|------------------|-------|----------|-------------|-----------------|
| AL | 39 | 37 | 5 | -1 | 390 | 220 | 77 | -4 | -5 |
| BH | 36 | 31 | 16 | -1 | 330 | 630 | -48 | 3 | 2 |
| BG | 34 | 26 | 31 | -2 | 440 | 410 | 7 | -1 | -3 |
| HR | 22 | 20 | 10 | -1 | 415 | 330 | 26 | -2 | -3 |
| FYRM | 27 | 27 | 0 | 0 | 509 | 509 | 0 | 0 | 0 |
| RO | 43 | 28 | 54 | -3 | 335 | 225 | 49 | -3 | -6 |
| SM | 36 | 40 | -10 | 1 | 1028 | 1028 | 0 | 0 | 1 |
| Av SEE | 33,9 | 29,9 | 15,1 | -1,0 | 492,4 | 478,9 | 15,9 | -1,0 | -2,0 |
| SD | 7,2 | 6,8 | 21,2 | | 244,1 | 283,9 | 39,9 | | |
| Σ SEE | | | | -7 | | | | -7 | -14 |
| CZ | 22 | 16 | 38 | -2 | 300 | 270 | 11 | -1 | -3 |
| HU | 21 | 17 | 24 | -2 | 365 | 365 | 0 | 0 | -2 |
| PL | 41 | 18 | 128 | -5 | 1000 | 1000 | 0 | 0 | -5 |
| SK | 27 | 26 | 4 | -1 | 565 | 420 | 35 | -2 | -3 |
| SL | 25 | 22 | 14 | -1 | 1003 | 1003 | 0 | 0 | -1 |
| Av CEE | 27,2 | 19,8 | 41,3 | -2,2 | 646,6 | 611,6 | 9,1 | -0,6 | -2,8 |
| SD | 8,1 | 4,1 | 49,9 | | 338,4 | 360,0 | 15,0 | | |
| Σ CEE | | | | -11 | | | | -3 | -14 |

Source: Doing Business database and authors' calculations

The ease of market exit is researched by insolvency indicators and scores presented in table 6.

Table 6 Closing a Business

| | Time of insolvency (years) 2004 | 2003 | % change | Score | Cost of insolvency* 2004 | 2003 | % change | Score | Total Score (5) |
|--------|---------------------------------|-------------|----------|-------------|--------------------------|-------------|----------|------------|-----------------|
| AL | 4,0 | no practice | n/a | n/a | 38,0 | no practice | n/a | n/a | n/a |
| BH | 3,3 | 1,9 | 74 | -4 | 8,0 | 8,0 | 0 | 0 | -4 |
| BG | 3,3 | 3,8 | -13 | 1 | 8,0 | 18,0 | -56 | 3 | 4 |
| HR | 3,1 | 3,1 | 0 | 0 | 18,0 | 18,0 | 0 | 0 | 0 |
| FYRM | 3,7 | 3,6 | 3 | -1 | 38,0 | 38,0 | 0 | 0 | -1 |
| RO | 4,6 | 3,2 | 44 | -3 | 8,0 | 8,0 | 0 | 0 | -3 |
| SM | 2,6 | 7,3 | -64 | 4 | 23,0 | 38,0 | -39 | 2 | 6 |
| Av SEE | 3,5 | 3,8 | 7,1 | -0,5 | 20,1 | 21,3 | -15,8 | 0,8 | 0,3 |
| SD | 0,7 | 1,8 | 47,7 | | 13,5 | 13,7 | 25,1 | | |
| Σ SEE | | | | -3 | | | | 5 | 2 |
| CZ | 9,2 | 9,2 | 0 | 0 | 18,0 | 38,0 | -53 | 3 | 3 |
| HU | 2,0 | 2,0 | 0 | 0 | 23,0 | 38,0 | -39 | 2 | 2 |
| PL | 1,4 | 1,5 | -7 | 1 | 18,0 | 18,0 | 0 | 0 | 1 |
| SK | 4,7 | 4,8 | -2 | 1 | 18,0 | 18,0 | 0 | 0 | 1 |
| SL | 3,6 | 3,7 | -3 | 1 | 18,0 | 18,0 | 0 | 0 | 1 |
| Av CEE | 4,2 | 4,2 | -2,3 | 0,6 | 19,0 | 26,0 | -18,4 | 1,0 | 1,6 |
| SD | 3,1 | 3,1 | 2,7 | | 2,2 | 11,0 | 25,6 | | |
| Σ CEE | | | | 3 | | | | 5 | 8 |

* % of estate

Source: Doing Business database and authors' calculations

Both time and cost of insolvency show almost same levels in all countries and little change.

The next table presents the total reform score which is the sum of scores of each of 5 topics.

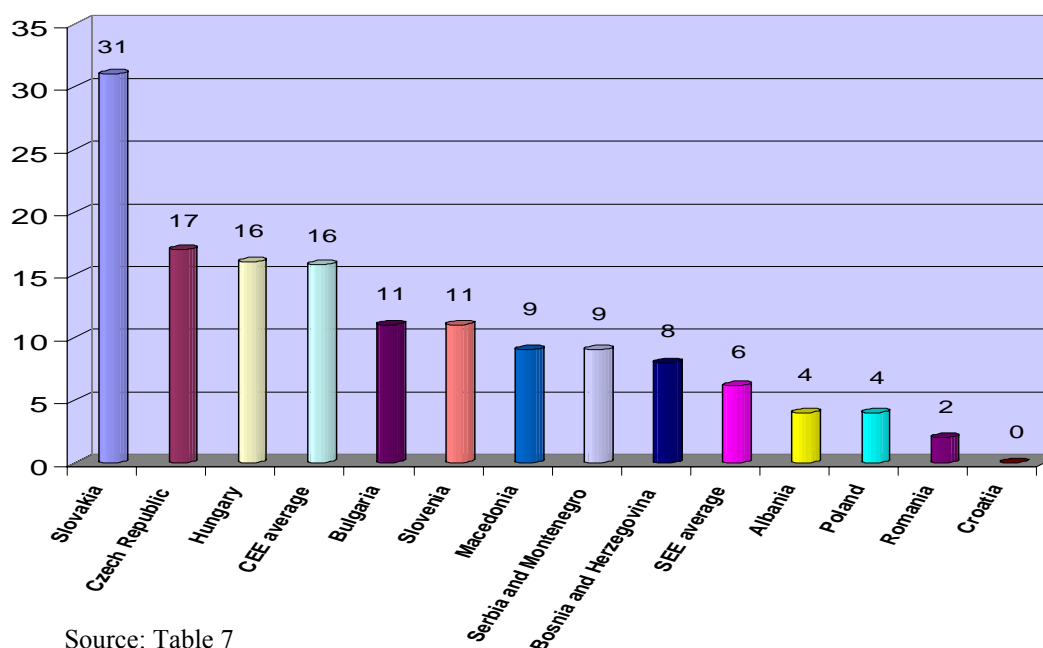
Table 7 Total Reform Score

| | Total Score (1) | Total Score (2) | Total Score (3) | Total Score (4) | Total Score (5) | Total Reform Score | Rank |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------|------|
| Albania | 4 | 4 | 1 | -5 | n/a | 4 | 9 |
| Bosnia & Herzegovina | 7 | 0 | 3 | 2 | -4 | 8 | 8 |
| Bulgaria | -3 | 9 | 4 | -3 | 4 | 11 | 4 |
| Croatia | 7 | -1 | -3 | -3 | 0 | 0 | 12 |
| Macedonia | 3 | 3 | 4 | 0 | -1 | 9 | 6 |
| Romania | 7 | -6 | 10 | -6 | -3 | 2 | 11 |
| Serbia & Montenegro | -5 | 6 | 1 | 1 | 6 | 9 | 6 |
| Czech Republic | 7 | 1 | 9 | -3 | 3 | 17 | 2 |
| Hungary | 8 | 3 | 5 | -2 | 2 | 16 | 3 |
| Poland | 5 | 8 | -5 | -5 | 1 | 4 | 9 |
| Slovakia | 10 | 14 | 9 | -3 | 1 | 31 | 1 |
| Slovenia | 6 | 2 | 3 | -1 | 1 | 11 | 4 |
| Average SEE | 2,9 | 2,1 | 2,9 | -2,0 | 0,3 | 6,2 | |
| Average CEE | 7,2 | 5,6 | 4,2 | -2,8 | 1,6 | 15,8 | |
| Total SEE | 20 | 15 | 20 | -14 | 2 | 43 | |
| Total CEE | 36 | 28 | 21 | -14 | 8 | 79 | |

Source: Authors' calculations

The numeric data is also presented in graphic form and from the best to the worst score.

Reforms of Political - Legal Business Environment Sector in SEE and CEE countries 2003/2004



Source: Table 7

Reforming efforts could be grouped in three ranges. Slovakia by itself forms one and it should set an example to the rest of the countries. The second group (CZ, HU, BG, SL, FYRM, SM) should

redesign their reform agenda. The third group (AL, PL, RO, HR) should be aware that profound changes at all levels should be considered without delay. Growth potentials are very much constrained by unattractive political-legal business environment sector.

5 CONCLUSIONS

Attractiveness of political-legal business environment sector can be achieved through reforms that enable easier business conditions for entrepreneurs. There are good government practices throughout the world that prove that reforms can improve growth potentials of a national economy. Through the analysis in this paper it has been proven that all CEE and SEE countries have both similarities but also differences in approaching such important issues that directly affect the efficiency of business activities in a country.

Results of the analysis show that the focus of the reforms of all of the researched economies should be directed towards solving the inefficiencies in contract enforcement. Undoubtedly, the current practices stimulate fraud, payment delays, grey economy and corruption. Main obstacle seems to be in the judiciary system. In 9 out of 12 countries it takes 25 and more procedures and in 3 countries more than 1000 days to enforce a contract. And indicators are even worsening. Enforcing agencies should be established and procedures taken out of courts. Slovakia is regional top reformer with almost twice as strong reforms as the runner-up Czech Republic. At the other end Croatia is leading a dead race, all good moves have been erased by bad ones which results with the lowest score among CEE and SEE countries – 0.

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