Evaluation of Quality of Business Environment

10. lecture

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BUSINESS ENVIRONMENT

Introduction

- The quality of the business environment creates an elementary precondition for sustainable growth and long-term competitiveness of each global market economy. It creates the basic conditions for the development of organizations.

- Business environment creates the conditions for sustainable economic growth. It is a prerequisite for long term competitiveness of a state in the international market.

- Quality of business environment affects competitiveness and attractiveness of the region and country. The business environment in a broader sense reflects the quality of the economic conditions of the state.

Quality of Business Environment and Competitiveness

- Quality business environment is one of the ways of sustainable economic growth.

- The relevant comparison and evaluation of the quality of the business environment of different states is possible under compatible economies which are of the same type with similar geopolitical conditions.

- The main pillars of competitiveness of countries can include infrastructure, macroeconomic and microeconomic environment, level of education, level of corruption, bureaucratic efficiency, size, maturity and market efficiency, business sophistication, degree of innovation etc.

Quality Factors of Business Environment

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- **Business factors:**
    - Proximity to markets;
    - Major organizations;
    - Presence of foreign organizations;
    - Support services.

- **Infrastructural factors:**
    - Quality of roads and railways;
    - Airport proximity;
    - Development of information and communication technology.

- **Labor factors:**
    - Offer of development areas;
    - Knowledge base;
    - Financial assistance.

Quality Factors of Business Environment

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- **Local factors:**
    - Offer of development areas;
    - Knowledge base;
    - Financial assistance.

- **Price factors:**
    - Labor cost;
    - Land price;
    - Rental price.

- **Environmental factors:**
    - Urban and natural attractiveness of the area;
    - Environmental quality of the area.

Competitiveness

- Competitiveness is a question of relative efficiency, whether dynamic or statics. This can be measured by looking at relative performance levels – productivity and productivity grow.

- Competitiveness is reflected in relative international trade performance. Whether competitiveness is measured as shares of world export markets advantage, the degree of import penetration or an index of revealed comparative.

- Competitiveness is a concept that is widely but not consistently used and that can be analyzed at various levels – by groups of countries, country, industry and organization.

- Competitiveness is a complex issue which has price and non price dimensions and that embraces micro and macro elements which interact with each other.

Country competitiveness

- The concept of individual country competitiveness is made complex not only through the internationalization of organizations, but also due to the variety of links and relationships among countries.

- Individual countries retain many differences that are important in determining their economic competitiveness.

- Major differences between countries remain that may directly and indirectly affect competitiveness.

- Competitiveness is seen largely in real or trade terms, at the expense of the key roles that financial factors, and institutional and other micro level features play in determining how successful a country s trade and competitiveness position is.

Regional competitiveness

- Regional competitiveness has to do with the success with which regions and cities compete with one another over shares of national and global export markets.

- Competitiveness is measured by productivity. Productivity allows a nation to support high wages, strong currency and attractive returns to capital, and with them a high standard of living (Porter and Ketels 2003, 7).

- Competitiveness at the national level defines a competitive country as one that can maintain high rates of growth and employment.

- Under the Lisbon strategy one indicator of competitiveness is labor productivity measured as GDP per hour.

Global competitiveness index

- Global Competitiveness Index is published annually by the World Economic Forum. The report assesses the competitiveness of 144 countries.

- The index assesses the ability of countries to achieve sustainable economic growth in the medium term, ensuring a high prosperity for its citizens.

- Index analyses the level of public institutions, infrastructure, macroeconomic stability, health and primary education, higher education, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size and level of innovation.

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Global competitiveness index

Country	Ranks 2015 – 2016	Ranks 2014 – 2015
Switzerland	1	1
Singapore	2	2
USA	3	3
Germany	4	5
Netherlands	5	8
Japan	6	6
Hong Kong	7	7
Finland	8	4
Sweden	9	10
United Kingdom	10	9
Czech Republic	31	37

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World competitiveness

- Project The World Competitiveness is published annually by the Swiss research institute IMD. The project examines the competitiveness of 60 countries.

- It analyzes the ability of nations to create and maintain an environment in which organizations can compete.

- Objectivity is guaranteed not only by a small number of organizations, but also by the number of criteria on which the table of competitiveness is compiled. The number of criteria is 327. They are divided into four areas:
  - Economic growth;
  - Efficiency of enterprises;
  - Infrastructure;
  - Government effectiveness.

World competitiveness

Country	Ranks 2016	Ranks 2015
Hong Kong	1	2
Switzerland	2	4
USA	3	1
Singapore	4	3
Sweden	5	9
Denmark	6	8
Ireland	7	16
Netherlands	8	15
Norway	9	7
Canada	10	5
Czech Republic	27	29

Doing Business Study

- Doing Business Study is published every year by the World Bank. It compares the quality of the business environment in 185 countries.

- The basic assumption of the study Doing Business argument is that economic activity requires good quality rules.

- The study compares various criteria for business such as:
    - Difficulty of starting a business;
    - Registering property;
    - Enforcement of contracts;
    - Protecting investors;
    - Amount of taxes and levies etc.

Doing Business Study

Country	Ranking 2015
Singapore	1
New Zealand	2
Denmark	3
Korea, Rep.	4
Hong Kong	5
United Kingdom	6
USA	7
Sweden	8
Norway	9
Finland	10
Czech Republic	36

Business Environment Rakings

- Business Environment Rankings BER are published by The Economist Intelligence Unit. The business rankings model measures the quality or attractiveness of the business environment in 82 countries.

- It is designed to reflect the main criteria used by organizations to formulate their global business strategies and is based not only on historical conditions but also on expectations about conditions prevailing over the next five years.

- The business rankings model examines ten separate criteria or categories, covering the political environment, macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, taxes, financing, labor market and infrastructure. Each category contains 91 indicators that are scored from 1 to 5.

Business Environment Rakings

Country	Global ranking 2009 – 2013	Global ranking 2014 – 2018
Singapore	1	1
Switzerland	2	2
Hong Kong	3	3
Canada	7	4
Australia	5	5
Sweden	4	6
USA	8	7
New Zealand	11	8
Finland	6	9
Denmark	9	10
Czech Republic	28	28

Attractiveness of Country

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- Attractiveness of country is the function of the market and resources prospects, the competitive context and the risks of operating in a country.

- ***Dimensions that contribute to the country attractiveness***:
    - Market and resources opportunities;
    - Competitive context;
    - Country risks.

- ***Framework for country attractiveness***:
    - Market opportunities;
    - Resources opportunities;
    - Industry opportunities;
    - Competition;
    - Country risks;
    - Ease of doing business.

Attractiveness of Country

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- Attractiveness of country (or region) is assessed according to the degree to which a country is attractive to organizations in business, financial and human resource factors.

- Therefore we can distinguish:
    - ***A country s business attractiveness*** – the degree to which a country (or region) is attractive to organizations because of favorable business environmental factors such as economic stability, political stability, cultural stability, infrastructure quality and security of intellectual property.
    - ***A country s financial attractiveness*** – the degree to which a country is attractive because of favorable financial factors such as labour costs, taxes, regulatory and other costs.
    - ***A country s human resource attractiveness*** – the degree to which a country is attractive because of favourable people skills and availability factors such as size of labour pool, education, language skills, experience and attrition rates.

Attractiveness of Country

- A country will be attractive to foreign investors, if, in investing in that country, they get a return that is equal to or higher than their risk adjusted weighted cost of capital.

- A country s attractiveness can change rapidly.

- A country s (or regional) attractiveness has been measured using market size, market growth rate, number and type of competitors, governmental regulation, as well as economic and political stability.

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Framework for country attractiveness

- ***Market opportunities***
  - Market size;
  - Market growth;
  - Quality of demand.

- ***Resources opportunities***
  - Natural resources;
  - Human resources;
  - Infrastructure and support industries resources.

- ***Industry opportunities***
  - The quality of the competitive climate;
  - The quality of the industry competitive structure;
  - The investment incentives granted by governments.

Attractiveness of Country

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Framework for country attractiveness

- ***Competition***
    - Intensity of rivalry;
    - Entry barriers;
    - Bargaining power of suppliers and customers;
    - Rank of the country in global competitiveness.

- ***Country risks***
    - Political risks;
    - Economic risks;
    - Competitive risks;
    - Operational risks.

- ***Ease of doing business***
    - Taxes;
    - Subsidies;
    - Infrastructures;
    - Government contracts.

Process of assessing country competitiveness

- ***Initial screening***
  - In the first stage is to eliminate those countries which have little chance of being markets or production sites by assessing if there is a basic demand for the organization s products or if the basic resources required are present and the business environment is acceptable.
  - In the first stage we can eliminate many countries from the search.
- ***Assessing general market or site potential***
  - At this stage, the objective is to develop a number of indicators which help organizations assess the general potential of a market so that further countries can be eliminated.
  - In particular, organizations will want an indication of:
    - Market potential – market size, market growth, quality of demand;
    - Site potential.

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Process of assessing country competitiveness

- ***Assessing the general business environment***
  - Assessing the general business environment can further eliminate some countries and provide useful information to be incorporated into the next steps in the process.
  - In this section, the PESTLE framework is a useful framework to use.

- ***Product/service market assessment***
  - At this stage much more specific industry indicators are called for in attempting to measure the total market demand in particular industry and gaining as much information as possible about the market in each of the countries selected after stage.

Process of assessing country competitiveness

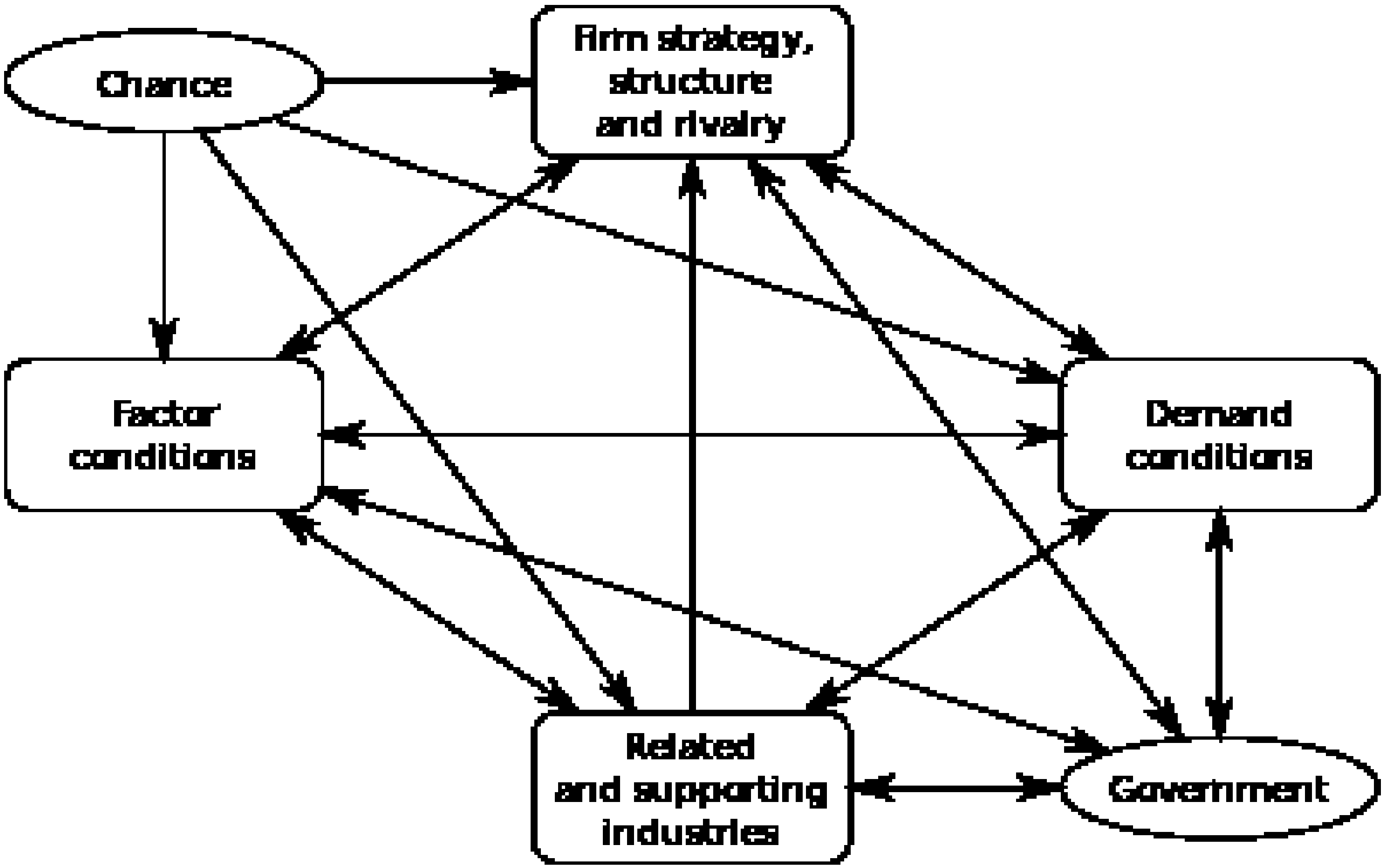
- ***Production site assessment***
  - This will include information on setting up the business, the quality and cost of the resources available, the infrastructure, regulations, taxation, financial reporting and legal system.
- ***Undertake risk assessment***
  - Organizations provide assessment of risk and sources of environmental instability.
- ***Select market and/or site***

Country Diamond – Porter Diamond

- Michael Porter has argued that countries or regions within countries can build competitive advantages that make them attractive for business development in certain industries.

- He distinguishes four major drivers of national competitive advantages:
    - The natural endowment – natural, human, capital, physical, technological and administrative or scientific resources;
    - The quality of the demand – whether customers are demanding on quality;
    - Vigorous competition – whether competitors stimulate each other;
    - The presence of supporting industries – whether there is a pool of qualified products that enhance the quality and competitiveness of organizations operating in this country.

Country Diamond – Porter Diamond



Country Diamond – Double Diamond Model