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Comparative analysis of some EU member states and EU associated countries to identify the phenomenon of business development in post-socialist countries

Abstract

The authors of the article have analysed different conditions and the level of business development which exist in post-socialist countries by using international methodologies such as «Doing Business» and «BDO International Business Compass». The main aim of the article is to outline the main features of every economy analysed by different criteria in order to identify the level of business development and its constraints in the period of 2012-2016 in countries such as the Czech Republic, Poland, Latvia, Lithuania, the Slovak Republic, Hungary, Estonia, Bulgaria, Moldova, Georgia and Ukraine. The presented analysis proves that some countries hold the leading positions in performing business (Estonia, Georgia and the Czech Republic), whereas others do not have such favourable conditions (Moldova and Ukraine). The authors described some of the advantages of the mentioned methodologies, among which are big databases, different categories of parameters, possibilities to overview risks and market potential and opportunities to make relevant comparisons. The disadvantages include a lack of corruption level assessment methods and the availability of financial and loan instruments for business. It has been proved that it is reasonable to use international ratings to avoid information asymmetries and to assess economy by different aspects.

Keywords: Business Development; Economic Conditions; Rating Methodology; Country Ranking; Post-socialist Country

JEL Classification: F23; F42; F47; G38

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Порівняльний аналіз країн ЄС та асоційованих країн ЄС для виявлення феномену розвитку бізнесу в постсоціалістичних країнах

Анотація

Автори статті проаналізували рівень розвитку та різні умови ведення бізнесу, які існують у постсоціалістичних країнах, з використанням міжнародних методик як, наприклад, «Ведення бізнесу» та «БДО Міжнародний бізнес-компас». Метою статті є виявлення особливостей кожної аналізованої економіки за різними критеріями для визначення рівня розвитку бізнесу та його стримуючих факторів у 2012-2016 рр. у країнах, таких як Чехія, Польща, Латвія, Литва, Словаччина, Угорщина, Естонія, Болгарія, Молдова, Грузія та Україна. Проведений аналіз доводить, що деякі країни займають провідні позиції відносно ведення підприємницької діяльності (Естонія, Грузія та Чехія); інші країни (Молдова та Україна) перебувають в інших умовах. Було доведено, що доцільно використовувати міжнародні рейтинги для ліквідації інформаційної асиметрії та оцінки економіки за різними аспектами.

Ключові слова: бізнес; економічні умови; рейтингові методики; рейтинг країни; постсоціалістичні країни.

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Сравнительный анализ стран ЕС и ассоциированных стран ЕС с целью выявить феномен развития бизнеса в постсоциалистических странах

Аннотация

Авторы статьи проанализировали уровень развития и различные условия ведения бизнеса, которые существуют в постсоциалистических странах, с использованием международных методик, таких как «Ведение бизнеса» и «БДО Международный бизнес-компас». Целью статьи является выявление особенностей каждой анализируемой экономики по различным критериям для определения уровня развития бизнеса и его сдерживающих факторов в 2012-2016 гг. в странах, таких как Чехия, Польша, Латвия, Литва, Словакия, Венгрия, Эстония, Болгария, Молдова, Грузия и Украина. Проведенный анализ показывает, что некоторые страны занимают лидирующие позиции для ведения предпринимательской деятельности (Эстония, Грузия и Чехия); другие страны (Молдова и Украина) находятся в и противоположных условиях. Было доказано, что целесообразно использовать международные рейтинги для ликвидации информационной асимметрии и оценки экономики по различным аспектам.

Ключевые слова: бизнес; экономические условия; рейтинговые методики; рейтинг страны; постсоциалистические страны.

1. Introduction. The existing business development, the level of international economic competitiveness and the investment attractiveness play a pivotal role in economic development. This is the reason why there are different types of rankings and indices compiled by global international institutions covering various aspects of economic, political and socio-cultural conditions to provide objective results of financial sustainability and feasibility of each country. A range of available ranking resources helps to estimate possible risks and profit values by assessing the level of government interference and business environment.

It is also important to emphasise that these indicators are essential not only for businessmen, private investors and financial funds, but also for governmental institutions as an information tool for identification of factors which negatively influence a single country's economic growth and its sustainability.

Nowadays, post-socialist countries can be differentiated by their types of economy classified as advanced, developing, emerging, etc. However, having almost equal conditions during the change of the political system due to the collapse of socialism, by creating the new opportunities for doing business and conducting market reforms, these countries used their potential in different ways if we take EU member states and EU associated countries as examples. Thus, it is reasonable to conduct a comparative analysis of the characteristic features of their business development for further research to detect their prospects and constraints.

2. Brief Literature Review. The issues of proper conditions for business development are widely studied by domestic and foreign scholars. According to Michael E. Porter (Porter, 2012) «only business can create prosperity» [1]. The problems related to entrepreneurial development in socialist and post-socialist countries are described in the work of J. Nikula and I. Tchakalov (2013) who expressed the idea considering the need of marketisation, liberalisation and privatisation to create optimal economic structures via boosting entrepreneurship [2].

A crucial role in creating entrepreneurial society, including a «detailed analysis of what really succeeded in the marketplace in the last couple of years and what has chances for further development in future», is justified in the study of S. Kwiatkowski (2002) [3]. In addition, some specific recommendations for focusing on slower rather than quicker growth in post-socialist countries are also given by him.

J. Tomkiewicz (2003) declared in his works that a «high level of accumulation in socialist economies, capital production was not able to deliver level and structure of production which was demanded in market oriented economy, production capital in post socialist countries did not fit market system» [4].

In the works by Oncioiu Ionica (2012), the presence of recursive relationships between transformation economy and entrepreneur development and the essence of SME's development for shifting business environment are revealed [5, 176].

3. The purpose of this article is to analyse the positions of some post-socialist countries in different ranking systems by using different indicators for identification advantages and disadvantages of every rate methodology and their index contents and the level of business development of each of the analysed countries, which include economies of the Czech Republic, Poland, Latvia, Lithuania, the Slovak Republic, Hungary, Estonia, Bulgaria, Moldova, Georgia and Ukraine.

4. Results. The most widely used and popular methodology for estimating ease of doing business among 190 countries in the world is «Doing Business» report which can be considered as an informational tool for the analysis and observation of data provided by the World Bank [6].

The above-mentioned rating estimates the level of auspiciousness of conditions for small and medium-sized enterprises activities and different types of legislative and other regulative procedures, which are required to start and carry out business activities. It is reasonable to explore the trend rankings of the analysed countries in dynamics (Figure 1).

The rank mentioned in Figure 1 represents the integrated indicator which consists of 10 sub-indicators in different categories which are important for entrepreneurial activity. The meaning of rank which is the closest to the «top» position (1st rank in the list) shows better conditions for doing business than ranks which are too close to 190th rank on the list. According to Figure 1, a drastic

gap between Ukraine and other countries can be observed, especially in 2012, which proves a set of complicated procedures for doing business in Ukraine. However, this trend shows a positive momentum reducing strong discontinuity.

As for other countries, the next lowest indicators are shown by Moldova, whose indices also reduced the existing gap.

The best results are shown by Georgia in the period of 2012-2015, which demonstrated such a trend being a representative of the top 20 countries. Nevertheless, in 2016 the situation changed and Estonia became the leader among the analysed post-socialist countries and exposed a 20-point rating.

A group of countries, such as Estonia, Lithuania, Latvia, which are EU member states, and Georgia (EU associated country) have ranks within a range from 20 to 30 points. Other countries such as Poland, the Slovak Republic, the Czech Republic, Hungary and Bulgaria have ratings in the range from 30 to 65, which proves satisfactory conditions for doing business.

It is expedient to make a linear forecast using the level of approximation validity which evaluates the reliability of the forecast for the leader and the outsider country. As is observed, the meanings of the level of approximation are too close to 1, which proves a high degree of robustness of the analysed process.

To better understand the essence of this methodology, it is required to analyse the sub-indices of this methodology, which have a great impact on business development. Table 1 represents the results of the mentioned analysis.

Table 1 reveals a direct dependence of the integrated indicator on its sub-indices and shows that every sub-indicator has a set of evaluation criteria, the majority of which include the number of procedures, their cost, duration and other features.

To assess the leader and the outsider scores, exemplified Estonia and Ukraine respectively, some specific parameters are to be compared. A huge difference between these countries can be observed in the segments of paying taxes measured in hours (84 hours per year for Estonia and 355.5 for Ukraine respectively) and the total tax rate (48.7% and 51.9% for these countries).

Trading across borders has an enormous gap between Estonia and Ukraine (17 and 110 points for Estonia and Ukraine respectively) as figures for practically all positions are high for Ukraine, especially when they are connected with the duration and cost of export/import operations.

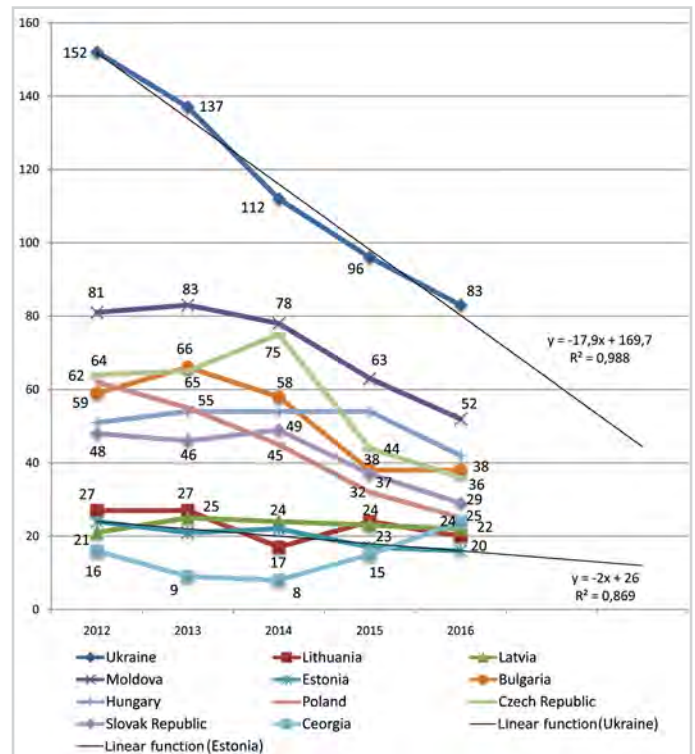


Fig. 1: «Doing business» ranks for post-socialist countries in the period of 2012-2016

Source: Compiled by the authors based on [7-11]

For successful business development, it is also essential to estimate the level of economy attractiveness as a complex combination of economic, political and socio-cultural conditions which are fully considered in the following evaluating methodology. BDO International Business Compass (IBC) allows investors to estimate locations according to their aims among 174 countries. BDO IBC overall rate for the analysed countries is represented below (Figure 2).

BDO IBC rates show that the majority of countries demonstrate the average score within the range of 20 to 60 with minor fluctuations. The best rates during all the analysed period are submitted by the Czech Republic. The forecast for this country has a level of approximation validity which equals 36%, which shows that the degree of reliability is lower than the average.

Ukraine posed a sharp decline in its position and the level of losing its attractiveness which amounted 41 points due to worsening in all categories (Figure 3).

To estimate possible conditions for such evaluation, it is essential to study the main parts of the methodology, the contents of which are economic, political and socio-cultural conditions (Figure 3).

As it can be seen from Figure 3, Ukraine showed the lowest results by all indicators, especially by political ones, which are mostly connected with the current political crisis and the ongoing war. For a detailed analysis of each type of conditions, it is feasible to describe their main components (Table 2).

Macroeconomic factors at the national level are taken into account through calculating the mentioned

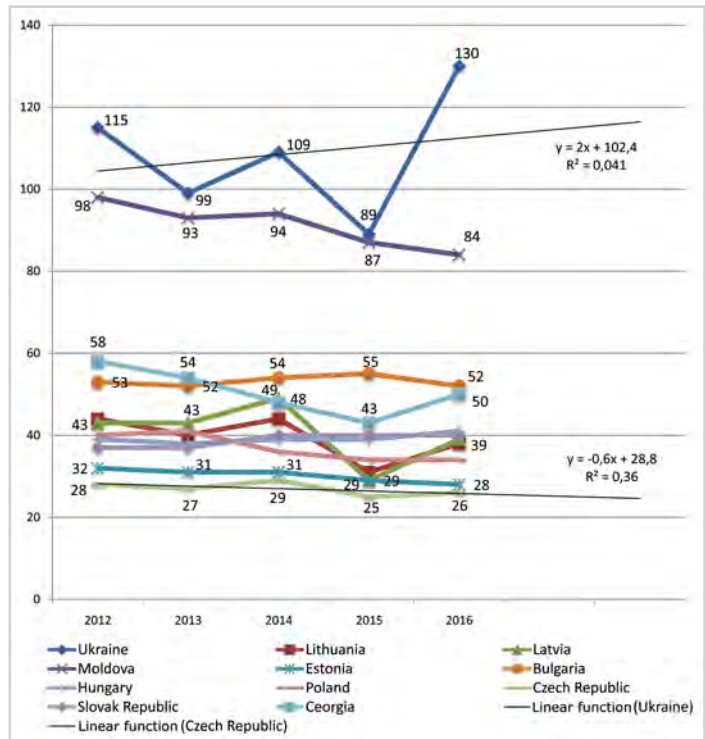


Fig. 2: BDO IBC for post-socialist countries in the period of 2012-2016
Source: Compiled by the authors based on [12]

Tab. 1: Analysis of sub-indices by «Doing Business» (DB) in 2016 for some post-socialist countries

	Czech Republic	Poland	Estonia	Slovak Republic	Hungary	Moldova	Ukraine	Latvia	Lithuania	Bulgaria	Georgia
DB 2016	36	25	16	29	42	52	83	22	20	38	24
Starting a business	88	102	11	64	71	38	24	20	28	72	10
Procedure (number)	8	4	3	6	6	5	4	4	4	6	3
Time (days)	9	37	3.5	11.5	7	6	5	5.5	5.5	23	3
Cost (% of income per capita)	5.7	12.1	1.2	1.2	7.1	6.2	0.5	1.5	0.6	1.3	2.4
Paid-in min capital (% of income)	0	10.9	16.4	17.8	45.5	0	0	0	20.3	0	0
Registering property	31	36	4	5	28	20	62	23	2	59	3
Procedures (number)	4	6	3	3	4	5	7	4	3	8	1
Time (days)	28	33	17.5	16.5	17.5	5.5	23	16.5	3.5	11	1
Cost (% of property value)	4	0.3	0.5	0	5	0.9	1.9	2	0.8	2.9	0
Quality of the land administration index (0-30)	25	19.5	27.5	26.5	26	22	15.5	22	28.5	19	21.5
Getting credit	29	19	29	42	19	29	19	19	29	29	7
Strength of legal rights index (0-12)	7	7	7	7	10	8	8	9	6	9	9
Depth of credit information index (0-8)	7	8	7	6	5	6	7	8	8	5	8
Credit registry coverage (% of adults)	6.8	0	0	3.1	0	0	0	84.9	37.8	66.9	0
Credit bureau (% of adults)	79.2	92.5	35.1	76.4	89.8	11.4	40	63.2	84.2	0	88.6
Protecting minority investors	51	40	51	85	78	40	101	40	48	10	22
Strength of min investor protection index (0-10)	6	6.3	6	5.3	5.5	6.3	5.7	6.3	6.2	7.3	7.7
Extent of conflict of interest regulation index (0-10)	5.3	6	5.7	4.7	4	6.3	4.7	5.7	6	6.7	7.7
Extent of shareholder governance index (0-10)	6.7	6.7	6.3	6	7	6.3	6.7	7	6.3	8	7.7
Paying taxes	53	44	19	58	79	55	83	16	29	85	35
Payments (number per year)	8	7	8	8	11	10	5	7	11	14	5
Time (hours per year)	234	271	84	192	277	181	355.5	168.5	171	453	270
Total tax rate (% of profit)	50	40.4	48.7	51.6	46.5	40.4	51.9	35.9	42.7	27	16.4
Postfiling index (0-100)	94.3	92.2	98.6	89.9	75.8	91.4	79.3	98.1	97.6	73.3	87.2
Trading across borders	1	1	17	1	1	34	110	25	19	21	62
Time to export: border compliance (hours)	0	0	2	0	0	3	26	24	9	4	14
Cost to export: border compliance (USD)	0	0	0	0	0	76	75	150	58	55	383
Time to export: documentary compliance (hours)	1	1	1	1	1	48	96	2	3	2	2
Cost to export: documentary compliance (USD)	0	0	0	0	0	44	292	35	28	52	35
Time to import: border compliance (hours)	0	0	0	0	0	4	72	0	0	1	15
Cost to import: border compliance (USD)	0	0	0	0	0	83	100	0	0	0	396
Time to import: documentary compliance (hours)	1	1	1	1	1	2	168	1	1	1	2
Cost to import: documentary compliance (USD)	0	0	0	0	0	41	212	0	0	0	189
Enforcing contracts	67	56	11	81	13	70	93	23	5	49	17
Time (days)	611	685	425	705	395	585	378	469	370	564	285
Cost (% of claim)	33	19.4	21.9	30	15	28.6	46.3	23.1	23.6	23.8	29.9
Quality of juridical processes index (0-18)	10.5	10.5	13.5	10.5	12	9.5	9	12.5	14.5	10.5	12
Resolving insolvency	22	33	41	34	63	58	148	43	68	47	101
Recovery rate (cents on dollar)	66.5	60.6	40.3	55.6	43	28.1	7.5	49.1	45	34.9	39.5
Time (years)	2.1	3	3	4	2	2.8	2.9	1.5	2.3	3.3	2
Cost (% of estate)	17	15	9	18	14.5	15	42	10	10	9	10
Outcome (0 as piecemeal sale and 1 as going concern)	1	1	0	1	0	0	0	0	0	0	0
Strength of insolvency framework index (0-16)	13	14	14	13	9	12	7.5	12	8	13	6

Source: Compiled by the authors based on [7-11]

BDO IBC indicator. According to the figures from Table 2, Ukraine has a significant drop almost by all indicators and some political indices have the negative values, which proves a negative trend in economic development.

The Czech Republic has all indicators in proper values, which allows it to take a leading position among the analysed countries. In general, the positions of post-socialist countries, currently being the EU member states on the international scale can be characterised as strong, which is why such countries as Ukraine and Moldova should integrate the relevant experience of the successful countries.

Along with advantages such as the available big databases, different categories of parameters, a possibility to overview risks and market potential, an opportunity to make clear comparisons, there are some disadvantages of the mentioned methodologies.

According to doing business, procedures such as business liquidation or ease of obtaining licences for business activity, the corruption level indicator are not considered in the methodology. The disadvantages also include the consideration of only the main country business centre where representative enterprises perform their activities and have a big time lag, i.e. «t-2», which is why the estimations might be unreliable.

Regarding the BDO IBC index, the availability of financial and loan instruments for business is not evaluated at all, thus this methodology does not reflect the full level of economic attractiveness.

5. Conclusions. International ratings should be examined as a way to eliminate information asymmetries and to conduct economic evaluation by different aspects, which could be useful for investors, financial and governmental institutions and other market participants.

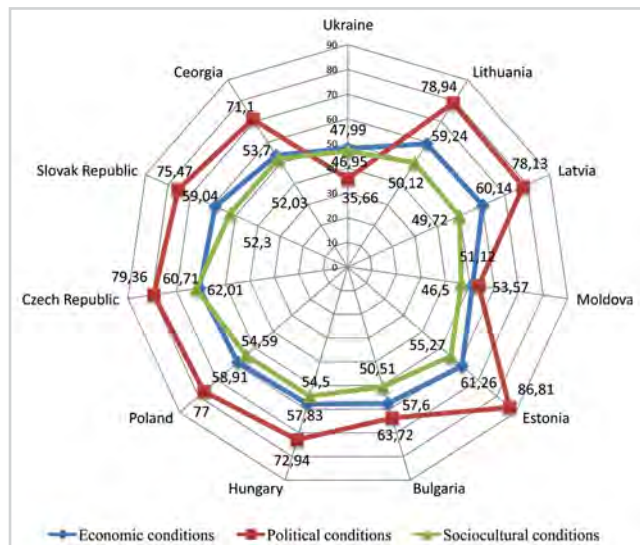


Fig. 3: Comparative analysis of BDO IBC contents in 2016
Source: Compiled by the authors based on [12]

To complete an evaluation of a certain economy or make some comparisons, it is advisable to use different ranking systems such as Doing Business, BDO IBC, Global Competitive index. Information agency indices provided by Euromoney, Economist, Forbes and others, Corruption index and indicators provided by other financial and auditing institutions. In further research, considerable attention will be paid to selection advantages and disadvantages of methodologies which are not presented in this work.

Tab. 2: The parameters of BDO IBC in 2016 for analysed countries

	Czech Republic	Poland	Estonia	Slovak Republic	Hungary	Moldova	Ukraine	Latvia	Lithuania	Bulgaria	Georgia
Economic conditions	60.71	58.91	61.26	59.04	57.83	51.12	47.99	60.14	59.24	57.61	53.7
Per capita income	30,046.71	25,247.21	27,879.72	28,288.81	25,019.03	4,997.59	8,680.83	23,793.48	27,258.88	17,925.79	9,209.1
Gross National Debt (% of GDP)	42.62	50.13	10.38	53.58	76.97	31.51	71.21	37.78	40.89	26.9	34.83
FDI inflows per capita	685.98	327.58	1,201.25	310.48	176.13	83.32	119.24	478.92	269.21	248.77	201.01
Inflation (%)	0.35	-0.03	0.5	-0.1	-0.24	5.06	12.1	0.7	0.24	-1.6	3.07
Business Freedom	68.2	67.3	81.5	69.6	74.5	66.8	59.3	82.1	84.9	68.5	88.6
Infrastructure	3.49	3.49	3.35	3.25	3.46	2.65	2.98	3.4	3.18	3.16	2.51
Tax burden on company profits (%)	50.1	40.2	54.5	50.1	50.7	34.3	33.54	36.1	43.3	27.4	16.2
Actual market potential (standardized measure)	44.54	38.88	34.65	46.92	40.12	32.72	33.54	34.7	36.46	33.88	27.64
Politico-legal conditions	79.36	77	86.81	75.47	72.94	53.57	35.66	78.13	78.98	63.52	71.1
Political stability	0.97	0.87	0.76	1.02	0.7	0.1	-1.93	0.55	0.78	0.08	-0.23
Regulatory quality	1.02	1.06	1.67	0.9	0.77	0.02	-0.63	1.17	1.2	0.57	0.93
Rule of Law	1.14	0.82	1.16	0.47	0.5	-0.27	-0.79	0.87	0.91	-0.14	-0.02
Control of corruption	0.32	0.59	1.27	0.12	0.13	-0.85	-1	0.34	0.48	-0.28	0.74
Free trade	88	88	88	88	88	79.8	85.8	88	88	88	8.6
Investment freedom	80	70	90	80	75	50	15	85	80	65	.80
Socio-cultural conditions	62.01	54.59	55.27	52.3	54.5	46.5	46.95	49.72	50.12	50.51	52.03
Average Population Growth Rate	0.13	-0.08	-0.32	0.12	-0.32	-0.05	-0.3	-1.47	-1.53	-0.6	0.42
Unemployment Rate (%)	6.2	9.2	7.7	13.3	7.8	3.4	7.7	10	11.3	11.6	13.4
Per capita Consumer spending in private households	6,942.84	6,645.1	6,123.41	7,872.29	5,667.46	985.6	1,767.18	5,702.16	6,237.57	3,460.74	1,466.95
Life expectancy at birth	78.6	77.4	76.8	76.3	75.2	71.6	71	74.2	73.3	74.2	74.9
Average school-based learning	12.32	11.82	12.48	12.23	11.64	11.19	11.34	11.48	12.38	10.57	12.11
Labour Freedom	82.9	60.4	58.7	56.5	67.7	40.6	48.2	61.5	62	76.6	79.9

Source: Compiled by the authors based on [12]

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