

## BUSINESS ENVIRONMENT CONDITIONS IN MORE ADVANCED TRANSITION ECONOMIES

**Grazina Startiene** dr. of social sciences (Economics), professor of of Kaunas University of Technology, the Faculty of Economics and Management, the Department of Economics and International Trade,  
address: Laisves str. 55; e-mail: [grazina.startiene@ktu.lt](mailto:grazina.startiene@ktu.lt)

**Rita Remeikiene** (*Corresponding Author*) doctor, and lecturer of Kaunas University of Technology, the Faculty of Economics and Management, the Department of Economics and International Trade,  
address Laisves str. 55; e-mail: [rita.remeikiene@ktu.lt](mailto:rita.remeikiene@ktu.lt)  
+370 616 24114

---

### ABSTRACT

Scientific literature lacks of the research on what barriers and business environment peculiarities an individual faces when starting up and developing self-employment in transition economies. The purpose of the article is to analyse what conditions of business environment are characteristic to transition economies during the transition period. With reference to the methodologies of the European Bank for Reconstruction and Development (EBRD), the World Bank and the Heritage Foundation, the peculiarities of business environment in advanced transition economies have been established considering the factors of micro and macro environment. The established peculiarities of business environment in advanced transition economies enable proposing the recommendations on the business environment improvement

**Keywords:** advanced transition economies, business environment, business barriers, developed countries.

## 1. Introduction

Small and medium business plays an important role forming and sustaining competition in economics (Snieska, Venckuviene, 2011). According to Ciemleja and Lace (2011), small and medium enterprises are socially and economically important for their national economies since they make about 99 per cent of all enterprises working in the European Union. Unfortunately, being little and having limited resources, small enterprises and individually self-employed people cannot compete with large enterprises. That is why governments have to create more favourable conditions for small and medium business enterprises so that they would become full-fledged subjects of competition.

Scientific literature (Fetzer, 1998; Krasniqi, 2009; Taylor, 2004; Benz, 2009; Henley, 2007) unambiguously emphasises the benefits for the country (unemployment rate reduction, creation of GDP and work places, reduction of discrimination and gender differences and so forth) and an individual (income increase, psychological comfort, sustaining of qualification skills, etc.) gained from self-employment and small and medium business. Scientific literature is rich in the research analysing business problems and difficulties in advanced industrial countries.

Considering the problems of the countries with transition economies, it can be noted that scientific literature focuses on the analysis of early transition economies, i.e. it identifies the difficulties of business development in the early stages of the transition period, for instance, robberies, extortion, problems to get business licence, high input price, low production capacity (Anderson, Pomfret, 2001 - researched business environment in Kyrgyzstan); lack of the following infrastructure: physical, bank, legal, institutional, quality of goods, technologies, marketing, free access to export markets, taxes, business transparency (Dana, 1994 – Vietnam); lack of well-functioning financial infrastructure, local capital, market-oriented business, training on finance and economics, business consultations (Young, Teodorovic, Koveos, 2002 – Hungary, Czech Republic, Poland, Estonia, Korea); *official* (too high taxes, imperfections of business regulations, fast changes in tax policy, obscurity of tax system) and *unofficial* (problems with the implementation of business regulations, a large number of tax offices, corruption of tax inspectors, government corruption in regional and state levels, customers' delayed payments, mafia, racket, waste of time in negotiation with local officers and inspectors); *environmental* (low purchasing power, lack of information, lack of business investment funds, competition with illegal business); *abilities* (management problems, inability to enter new business markets) and other obstacles (Aidis, 2005 – Lithuania, but similar problems have been observed in Latvia and Poland); too high taxes, legislative regulations, lack of business investment, strong competition, lack of skilled workers, low purchasing power fast changes of tax regulations (Aidis, Welter, Smallbone & Isakova, 2007 – Lithuania, Ukraine); competition with the “black market”, low demand, unclear economic legislation and tax regulation, reluctance of local businessmen to research the market emerged due to the lack of management knowledge, information imbalance, lack of appropriate education and financial resources, corruption, bureaucracy, inadequate business infrastructure, inefficient licensing system (Bitzenis, Nito, 2005 – Albania, but similar problems have been observed in Georgia, Kirghizstan, Tadzhikistan); inefficient business agreements; limited access to markets emerging due to the lack of information; lack of the information about promotion programmes; lack of management skills and basic business knowledge; funding insufficiency (Saar, Unt, 2006 – Estonia); corruption, competition with unofficial sector (black economy), low administration efficiency, high tax rates, weak law enforcement, slowness of legal operations, lack and inaccessibility of funding, bureaucracy, uneducated and unskilled work force, political instability (EBRD, 2010 – 29 countries); lower than the employees' social security, including higher risk of accidents at work, holidays, unemployment and so forth, lack of labour unions or other associations to provide support for the self-employed, working without any employees, tax tariffs uniform for both forms of self-employment, imperfections of legal framework (European Fund, 2009 – Lithuania, Poland, Estonia, Latvia, the Slovak Republic, Slovenia, Bulgaria); *formal barriers* (too high tax tariffs, indeterminacy of

regulatory policy, tax administration, customs and trade regulations, business licenses and authorizations), *informal barriers* (corruption, crime rate, thievery and irregularities), *environmental factors* (accessibility of financial resources, cost of financial resources, macroeconomic instability, the judicial system / litigations, opportunities to acquire / use land, electricity, transport, communications), *skills* (education and skills of the work force) (Banys, Rudminaitis, Grybėnas, 2006 – Lithuania); worn out equipment and outdated production technologies, lack of the means of financial support, applied for the people starting-up and developing small and medium business (Tamošiūnas, Lukošius, 2009 – Lithuania) and so forth.

Considering business problems and business environment conditions in the transition economies that are advanced transiting from the central planned to market economy<sup>1</sup>, it was noticed that scientists pay less attention to identification of these problems; more comprehensive analysis of business promotion is also lacking. It can be stated that the obstacles and business environment peculiarities, that a person faces starting-up and developing business in the advanced transition economies, have not been well researched.

**Aim** of the research – to analyse business environment conditions in advanced transition economies.

In order to achieve the aim of the research, the following **objectives** have been defined:

- 1) to evaluate business start-up and development conditions in more advanced transition economies;
- 2) with reference to the EBRD methodology, to establish the opportunities of the advanced transition economies to reach the level of the advanced industrial countries;
- 3) to make the cluster of the advanced transition economies by the factors, reflecting business environment in these countries.

*Research methodology* includes systematic comparative and logical analysis of the scientific literature, analysis of the statistical data and cluster analysis.

## **2. Evaluation of business start-up and development conditions in more advanced transition economies**

The main characteristic of all transition economies is the transition process from a central planned to a market economy (Aidis, 2003). Although advanced in the early transition stage, the countries with transition economies still face more difficult business start-up and development conditions than advanced industrial countries. Scientific studies are mostly based on the environment evaluation, annually presented by EBRD. According to Startiene and Remeikiene (2009; 2011), business environment is influenced by different business-affecting factor groups such as institutional environment, cultural, social psychological and other factors. Establishment of the characteristics of the factors influencing business start-up and development in more advanced transition economies would enable the research of business environment specificity, typical only of these advanced transition economies.

Evaluations of business environment conditions, presented by the World Bank and EBRD, enabled establishment of the main obstacles to start-up and develop business in more advanced transition economies (see Table 1).

---

<sup>1</sup> Advanced transition economy is the country which meets particular standards of business environment, and evaluation of particular spheres reaches 4.33 points, for instance, in the spheres of price liberalization and forex system, but the level of advanced industrial countries still has not been reached in other business environment defining spheres (enterprise restructuring, competition policy, securities markets and others). The definition is presented considering the evaluations carried out by EBRD in 2010.

The research, presented in the article, includes more advanced transition economies of the Central Europe: Estonia, Hungary, Lithuania, Latvia, The Slovak Republic, Slovenia and Poland (with reference to EBRD), which entered the EU in 2004.

As it can be seen from Table 1, the main obstacles for business in more advanced transition countries are related to the regulation of institutional business environment, i.e., business administration inefficiency, inflexible labour market, corruption, numerous bureaucratic processes.

In order to evaluate the state of business environment in different countries, since 2004, The World Bank has carried out an annual business environment research to rank and evaluate the main business environment describing indexes such as starting a business, dealing with construction permit, registering property, getting credit, paying taxes, protecting investors, enforcing contracts, trading across borders, closing a business.

In order to compare the conditions of business starting and closing in advanced transition economies and advanced industrial countries<sup>2</sup>, the comparative analysis of business starting/closing procedures has been presented in Figures 1-2.

The research revealed (see Fig. 1) that business starting takes both longer time and higher costs in advanced transition economies. For example, the minimal amount of capital (per cent), necessary to open company's account, is on the average 9.13 times bigger, business registering duration (days) is 2.22 times longer, number of business starting procedures is 1.33 bigger and business registering costs (per cent) are 6.66 times higher than in industrial countries

As it can be seen from Figure 2, business closing takes longer in advanced transition economies in comparison with advanced industrial countries. Duration of business closing (years) is on the average 2.64 times longer, bankruptcy costs, expressed as a percentage from the income per capita, are 2.28 times higher than in advanced industrial countries. Thus, there are more administrative barriers for business starting and closing in advanced transition economies than in advanced industrial countries. This conclusion can also be based on the values of business freedom indexes<sup>3</sup> (Heritage Foundation, 2012). The calculations revealed that with reference to the data of 2012, business freedom index in advanced transition economies was on the average 0.8 times lower than in advanced industrial countries.

Inflexible labour market is considered to be no less important disadvantage of business environment in both advanced transition economies and advanced industrial countries by scientists Cazes (2002), Cazes, Nesporova (2004), Lehman, Muravyev (2011). For the evaluation of labour market flexibility, the Heritage Foundation uses the following main components of the labour market: ratio of minimum wage to the average value added per worker; hindrance to hiring additional workers; rigidity of hours; difficulty of firing redundant employees; legally mandated notice period and mandatory severance pay.

Figure 3 shows that labour market in advanced industrial countries, considering the defining components, is more flexible (on the average of 1.4 times) in comparison with advanced transition economies.

According to EBRD (2010), Bitzenis, Nito (2005), Aidis (2005) and Dana (1994), one of the main business problems that transition economies face alongside with the business obstacles mentioned above, are corruption and black economy. These problems are faced by advanced industrial countries as well, but the scale of the problems is much smaller. With reference to Startiene and Trimonis (2009), the scale of the unofficial economics reached up to 10 per cent of GDP in the USA, 10-20 per cent of GDP in the United Kingdom, New Zealand and Norway while it made up to 20-30 per cent of GDP in Slovenia and Hungary, and 30-40 per cent of GDP in Lithuania, Latvia and Estonia. With reference to the data of "Transparency

<sup>2</sup>Advanced industrial countries include the eight top countries by the World Bank "Easy of Doing Business" index, 2011: New Zealand, United Kingdom, USA, Denmark, Canada, Norway, Ireland, Australia.

<sup>3</sup> Business freedom is a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process (2012 Index of Economic freedom).

International“, by the Freedom from Corruption Index, advanced industrial countries took 1 – 22 positions in 2010 (for example, New Zealand took the 1st position (9.3 points<sup>4</sup>); Norway – the 10th position (8.6 points) and so forth) from 178 world countries while the researched advanced transition economies took the positions from 26 to 62 by their Corruption Perception Index (Lithuania took the 46th position (5 points), Latvia – the 59th position (4.3 points), and Estonia – the 26 position (6.5 points) (see Figure 4).

Other peculiarities of business start-up and development in advanced transition economies, less emphasized in theoretical studies, can be defined with social psychological, economic and cultural business factors (Startiene, Remeikiene, 2010, 2009). The research establishes that business environment in transition economies is influenced by GDP and unemployment rate (Congregado, Golpe, Carmona, 2010; Knuth, 2006; Parker, Robson, 2004). For instance, with reference to the data of the World Bank, 2011, Lithuania, Latvia and Poland are attributed to the group the countries of higher than the average income while advanced industrial countries such as USA, Australia and others are treated as the countries of high income. With reference to the Eurostat, OECD, statistical data shows that unemployment rate and the scale of unemployment are also higher in advanced transition economies in comparison with advanced industrial countries (during the period of 1998-2010, the rate of unemployment in advanced transition economies was on the average 2 times higher). It can be presumed that advanced industrial countries still lack of the experience to deal with unemployment, and currently applied methods do not give any significant results. High unemployment rate determines decreased consumption in the local markets, which, in turn, decreases the volumes of production/services.

Entrepreneurs in advanced transition economies lack of the personal characteristics, typical of businessmen. The cases when determination to start-up business is limited not by bureaucracy or lack of financial resources, but the fear of risk and failure are rather usual. The society in advanced transition economies in most cases still follows the attitude that business failure is only the personal problem of an entrepreneur while in the USA it is considered that failed business is only “a failed attempt to create something good” (Verheul, Wennekers, Audretsch, Thurik, 2001). With reference to the data of the Department of Youth Affairs under the Ministry of Social Security and Labour, the number of the Lithuanian young people, wishing to start their own business, is only 16 per cent while in the USA it makes 61 per cent. Respectively, the number of the people who tried working on their own in Lithuania is 14 per cent while it makes 45 per cent in the USA. Disposition to business and the behaviour typical of an entrepreneur should be formed just before the period of university studies (Coleman, 1998). Unfortunately, the research carried out by Župerka (2009) (Lithuania) revealed that the biggest part of educators are not well-prepared for the development of students’ enterprise; there is a lack of methodologies, student books and general programmes for enterprise development. Thus, the fear to risk and become an entrepreneur is deeply entrenched in advanced transition economies, and the main causes for that are the gaps in educational system, preparing business subjects. On balance, it can be stated that young people, as the potential work force, lack of proper education on business start-up and development in advanced transition economies, so they lack of characteristics, typical of an entrepreneur.

According to Stripeikis (2008), Stripeikis and Žukauskas (2011), negative attitude towards an entrepreneur is prevailing in Lithuania (72 per cent<sup>5</sup>), Poland (69 per cent), Slovenia (67 per cent), Latvia (50 per cent), Estonia (63 per cent), the Slovak Republic (55 per cent) and Hungary (40 per cent). This attitude is considered as one of the most negative in Europe. This proposes that businessmen still face

<sup>4</sup> The Freedom from Corruption Index is based on a 10-point scale in which a score of 10 indicates very little corruption and a score of 0 indicates a very corrupt government. In scoring freedom from corruption, the *Index* converts the raw Corruption Perception Index (CPI) data to a scale of 0 to 100 by multiplying the CPI score by 10. For example, if a country’s raw CPI data score is 5.5, its overall freedom from corruption score is 55 (2012 Index of Economic Freedom).

<sup>5</sup> Data of the entrepreneurship survey, EU (2007).

negative public attitude in advanced transition economies, which burdens business start-up and development.

Summarizing, it can be stated that in spite of the progress made in the early transition stage, advanced transition economies still face many difficulties with business start-up and development.

### **3. Opportunities of advanced transition economies to achieve the level of industrial countries in business environment**

In order to research the opportunities of the advanced transition economies to achieve the level of industrial countries with developed market economy, the methodology of EBRD has been used. EBRD evaluates the progress of transition economies through the following main indicators of the transition process: *Large scale privatization; Small scale privatization; Governance and enterprise restructuring; Price liberalization; Trade & Forex system; Competition policy; Banking reform & interest rate liberalization; Securities markets and non-bank financial institutions; Infrastructure (electric power, railways, roads, telecommunications, water and waste water)*. The research of business environment peculiarities is based on the following selected indicators: enterprise restructuring, price liberalisation, trade & forex system, competition policy, bank reform & interest rate liberalisation and securities market (see Fig. 5).

As it can be seen from Figure 5, advanced transition economies have shown significant progress, but there are some spheres (*enterprise restructuring, price liberalisation, securities markets, bank reform and interest rate liberalisation, competition policy*), where the level of advanced industrial countries still has not been achieved (numerical value is not equal to 4.33), i.e.:

- *In the sphere of enterprise restructuring*, in order to comply with the standards of industrial countries, the effective control of the enterprises, carried out through domestic authorities and markets, is necessary for the encouragement of market restructuring. According to the report of EBRD “Transition Indicators‘ 2010“, the advanced transition economies have made significant and sustained actions to harden budget constraints and to promote corporate governance effectively (for example, privatisation combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation). The values of indicators of this factor vary from 3 to 3.67 for the advanced transition economies.
- *In the system of securities markets*, securities laws and regulations approaching IOSCO (*The International Organization of Securities Commission*) standards are necessary; non-bank intermediation must be developed. At present, the Slovak Republic is lagging behind the other advanced transition economies in the system of securities markets because its securities of exchanges, market-makers and brokers are being formed; there exists some trading in government paper and/or securities, rudimentary legal and regulatory framework for the issuance and trading of securities (evaluation 2.67). Lithuania, Latvia, Estonia and Slovenia have made a significant progress in this sphere (evaluation of the criterion varies from 3 to 3.67). These countries show substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (for example, investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework. Hungary and Poland show significant movement of banking laws and regulations towards IOSCO standards, market liquidity and capitalization; well-functioning non-bank institutions and effective prudent supervision (evaluation of the criterion is equal to 4).
- *In the sphere of bank reform and interest rate liberalisation*, the advanced transition economies must seek for full convergence of banking laws and regulations with BIS standards and provision of full set of competitive banking services. Meantime, while making bank reform and liberalising interest rates, such countries as Hungary, Latvia, Lithuania, Poland, Slovenia and the Slovak Republic have made the

significant progress in the establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalisation with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks (evaluation of the criterion varies from 3.33 to 3.67). Estonia has shown significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening (the value of the criterion is equal to 4).

- *In the competition policy (strategy)*, the advanced transition economies must ensure the effective implementation of the competition strategy and unlimited access to numerous markets. Making competition policy, advanced transition economies (except Slovenia) take some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates<sup>6</sup>; substantial reduction of entry restrictions (evaluation of the countries for their competition policy vary from 3 to 3.67). Slovenia is setting up competition policy legislation and institutions and make some reduction of entry restrictions or enforcement action on dominant firms (evaluation is equal to 2.67).
- *In the sphere of price liberalisation*, some advanced transition economies, such as Slovenia, show the existence of comprehensive price liberalisation; state procurement at non-market prices largely phased out; only a small number of administered prices remain (evaluation of the criterion is equal to 4). Other countries (Estonia, Hungary, Latvia, Lithuania, the Slovak Republic, and Poland) show the standards and performance typical of advanced industrial economies: complete price liberalisation with no price control outside housing, transport and natural monopolies (evaluation of the criterion is equal to 4.33).
- *In the trade and foreign exchange system*, all advanced transition economies show the standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO (evaluation of the criterion for all countries is equal to 4.33). This is the maximum rating, which proposes that the countries have already reached the level of advanced industrial countries in this sphere.

Other evaluation criteria for business environment and competition (according to EBRD), including *competition office, quality of insolvency law, secured transaction law*, outline whether the country can be treated as the country of market economy and whether it meets the requirements for business environment (see Table 2).

Evaluating business and competition environment from the side of structural indicators, it must be noted that the advanced transition economies have not comprehensively met the requirements in such spheres as *quality of insolvency* and *secured transaction law*:

- *Quality of insolvency law* should meet international requirements, such as World Bank principles, and become the guidelines for the effective systems of insolvency and creditor's rights, UNCITRAL (United Nations Commission on International Trade Law) legislation work group guidelines for the quality of insolvency law and so forth. Insolvency law in Estonia and Slovenia has been evaluated as "high"<sup>7</sup>; and as "medium" in such countries as Hungary, the Slovak Republic and Poland; Lithuanian insolvency law has been evaluated as "low".
- The level of *secured transaction law* reform should meet the requirements of transaction security by the EBRD Model law and 20 main principles of EBRD laws on transaction security. At present, Hungary, Latvia, Lithuania and the Slovak Republic have achieved the level of advanced industrial countries with

<sup>6</sup> Business association, made by the enterprises working in different economics.

<sup>7</sup> Evaluations: very high (characteristic of advanced industrial countries); high; medium; low; very low. Source: EBRD Legal Sector Assessment, 2004.

the implementation of their Secured transaction law reforms (evaluation “advanced<sup>8</sup>”) while the implementation of the Secured transaction law reforms in Estonia is inefficient, in Poland it is modern/some defects, and in Slovenia it is under development.

- Considering the establishment of the *Competition Office*, it was established that Competition or Antimonopoly Office (institution) exists separately from any Ministry in all researched advanced transition economies, i.e. in this sphere, the level of industrial countries has been achieved.

Summarizing, it can be stated that most advanced transition economies have made a significant progress creating favourable business environment in the transition period. However, there still are some spheres that need more effort in order to achieve the level of advanced industrial countries.

#### 4. Clusters of the advanced transition economies

In order to research the progress of the advanced transition economies in business environment creation by the indicators of business environment, the cluster analysis has been carried out (see Table 3). Using SAS (statistical analysis system) programme, hierarchical cluster algorithm was calculated for the researched advanced transition economies by the selected indicators of business environment; to define the distance between the clusters Ward’s method was used. Clusters of the countries were made following the principles of business environment in transition economies, indicated above (see Table 3).

Having grouped the countries by the indexes, used in **EBRD methodology**, two clusters were made. Estonia, Poland, Hungary and the Slovak Republic are attributed to the first cluster, Latvia, Lithuania and Slovenia – to the second cluster. The countries of the first cluster show higher indexes of *bank reform and interest rate*, *enterprise restructuring* and *securities markets* in comparison with all 7 countries in general. The countries of the second cluster show lower values of the mentioned indexes, contrary to the countries of the first cluster. Higher index values mean bigger progress, so it can be concluded that the countries of the first cluster are more advanced in business environment creation.

Having grouped the countries by **the methodology of the World Bank**, two clusters were made as well. Estonia, Latvia, Poland, Hungary and the Slovak Republic are attributed to the first cluster, Lithuania and Slovenia – to the second cluster. The countries of the first cluster show higher values of *cost* and *cost of estate* indexes, but lower value of *paid in min capital* index in comparison with all 7 countries in general. The countries of the second cluster, contrary to the countries of the first cluster, show lower values of *cost*, *cost of estate* indexes, but higher value of *paid in min capital* index. It difficult to establish unambiguously, which cluster is more advanced because, for instance, the countries attributed to the first cluster have to deal with lower costs of business starting and bankruptcy procedures while minimal amount of capital for business start-up is much bigger in the countries attributed to the second cluster. Other indexes – number of procedures, duration of business start-up and closing – are similar in the countries of both clusters.

Having grouped the countries by **the methodology of the Heritage Foundation**, two clusters were formed. Estonia and Slovenia are attributed to the first cluster, Lithuania, Latvia, Poland, Hungary and the Slovak Republic – to the second cluster. The countries of the first cluster show very high values of *Freedom from corruption index*, but lower *Labour freedom index* in comparison with the average of all countries. Evaluation of which cluster is more advanced in business environment creation is also difficult. For instance, the countries of the first cluster lag behind the ones of the second cluster creating more flexible labour market conditions, but are more advanced in corruption prevention.

<sup>8</sup> Evaluations: advanced (characteristic of advanced industrial countries); modern/some defects; ineffective; advanced, under development, malfunctioning. Source: EBRD, Regional Survey of Secured Transactions, 2005. The state of Slovenian transaction security law has not been presented by EBRD.

Thus, it can be proposed that clustering of the advanced transition economies, using the methodology of EBRD, enabled to form the cluster, including such countries as Estonia, Poland, Hungary and the Slovak Republic, which are more advanced in business environment creation. However, the cluster analysis, using the methodologies of the World Bank and the Heritage Foundation, did not enable to unambiguously identify a country/ a group of countries that is more advanced in business environment creation.

## **5. Conclusions and recommendations**

The research revealed that in spite of the fact that business start-up and development conditions have improved (the researched countries have established competition authorities, removed many tariffs, joined WTO, achieved complete price liberalisation with no price control outside housing, transport and natural monopolies and so forth) in advanced transition economies since the beginning of transition period, they still have to deal with unfavourable business start-up and development conditions in comparison with industrial countries. The research helped to establish the following peculiarities of business environment in advanced transition economies: in institutional business environment – more difficult business starting / closing from the point of view of time and costs, large-scaled government intervention in business, higher level of corruption, lack of experience forming business-favourable tax systems, lower efficiency of business administration, large-scaled competition with illegal business, strict regulation of labour market, lack of the support funds for business investment; in economic business environment – lower consumer purchasing power, more sensitive businessmen's reaction to environmental changes, large-scaled unemployment; in cultural business environment – persisting stereotype of the negative attitude towards an entrepreneur, and in social psychological environment – lack of the characteristics, typical of an entrepreneur.

In order to improve business environment in advanced transition economies, the research of the conditions for business creation in advanced EU countries is necessary so that the experience of the industrial countries could be applied in advanced transition economies. In order to form favourable attitudes towards an entrepreneur and entrepreneurial spirit, it is recommendable to pay more attention to the education of young people and introduce them with the prospects of business creation.

The cluster analysis proposed that clustering of the advanced transition economies, using the methodology of EBRD, enabled to form the cluster, including such countries as Estonia, Poland, Hungary and the Slovak Republic, which are more advanced in business environment creation. Unfortunately, the cluster analysis, using the methodologies of the World Bank and the Heritage Foundation, did not enable to unambiguously identify a country/ a group of countries that is more advanced in business environment creation.

## References

1. Aidis, R. (2003). Entrepreneurship and Economic Transition. *Tinbergen Institute Discussion Paper*, TI 2003-015 / 2.
2. Aidis, R. (2005). Institutional Barriers to Small- and Medium-sized Enterprise Operations in Transition Countries. *Small Business Economics*, 25, p. 305-318.
3. Aidis, R., et. al. (2007). Female Entrepreneurship in Transition Economies: The Case of Lithuania and Ukraine. *Feminist Economics*, April 13(2), p. 351 – 377.
4. Anderson, K.; Pomfret, R. (2001). Challenges Facing Small and Medium-Sized Enterprises in the Kyrgyz Republic, 1996-7. *Moct-Most*, 11, p. 205-219.
5. Banys, R.; Rudminaitis, V.; Grybėnas, V. (2006). Smulkaus ir vidutinio verslo plėtros kliūtys Lietuvoje. *Mokslinė-praktinė konferencija „Smulkaus ir vidutinio verslo plėtros perspektyvos integracijos į Europos Sąjungą kontekste“*, Kaunas, p. 14-20.
6. Benz, M. (2009). Entrepreneurship as a non-profit-seeking activity. *International Entrepreneurship and Management Journal*, vol. 5, no. 1, p. 23-44.
7. Bitzenis, A., Nito, E. (2005). Obstacles to entrepreneurship in a transition business environment: the case of Albania. *Journal of Small Business and Enterprise Development*, vol. 12, no. 4, p. 564-578.
8. Cazes, S. (2002). Do labor market institutions matter in transition economies? An analysis of labor market flexibility in the late nineties. *International institute for labor studies. Discussion Paper*, p. 34.
9. Cazes, S., Nesporova, A. (2004). Labour markets in Transition: Balancing Flexibility and Security in Central and Eastern Europe. International labour office, Geneva, Budapest., p. 32.
10. Ciemleja, G., Lace, N. (2011). The Model of Sustainable Performance of Small and Medium-sized Enterprise. *Inzinerine Ekonomika-Engineering Economics*, 22 (5), p. 501-509.
11. Coleman, P. (1998). *Parent, Student and Teacher Collaboration: the Power of Three*. Thousand Oaks: Corwin Press.
12. Congregado, E., Golpe, A. A., Carmona, M. (2010). It is a good policy to promote self-employment for job creation? Evidence from Spain. *Journal of Policy Modelling*, vol. 32, issue 6, p. 828-842.
13. Dana, L. P. (1994). A Marxist Mini-Dragon? Entrepreneurship in Today's Vietnam? *Journal of Small Business Management*, 32(2).
14. European Bank for Reconstruction and Development. Forecasts, macro data, transition indicators. Available at: <http://www.ebrd.com/pages/research/economics/data/macro.shtml>
15. European Bank for Reconstruction and Development. Transition Report 2010: Recovery and Reform. Available at: <http://www.ebrd.com/pages/research/publications/flagships/transition.shtml>.
16. European Bank for Reconstruction and Development. Structural indicators box methodology. Available at: [http://www.ebrd.com/pages/research/analysis/surveys/tds\\_methodology.shtml](http://www.ebrd.com/pages/research/analysis/surveys/tds_methodology.shtml).
17. European Bank for Reconstruction and Development. Transition Report 2011: Crisis in transition: the People's perspectives. Available at: <http://www.ebrd.com/downloads/research/transition/tr11.pdf>
18. European Bank for Reconstruction and Development. Transition Report 2005 – Business in transition. Available at: <http://www.ebrd.com/downloads/research/transition/TR05.pdf>
19. European Foundation for the Improvement of Living and Working Conditions. Self-employed workers: industrial relations and working conditions. Available at: <http://www.eurofound.europa.eu/comparative/tn0801018s/index.htm>

20. Fetzner, J. (1998). Who is likely to become self-employed in Vietnam? Available at: <http://ssrn.com/abstract=1161152>.
21. Henley, A. (2007). Entrepreneurial aspiration and transition into self-employment: evidence from British panel data. *Entrepreneurship & Regional Development*, 19, p. 253-280.
22. Jaunimo verslumas. Jaunimo reikalų departamentas prie Socialinės ir darbo ministerijos. Available at: [http://www.jrd.lt/go.php/lit/Programos\\_igyvendinimas\\_2008\\_m./624](http://www.jrd.lt/go.php/lit/Programos_igyvendinimas_2008_m./624).
23. Young, A.; Teodorovic, I.; Koveos, P. (2002). *Economies in transition. Conception, Status and Prospects*. World Scientific Publishing Co. Ptc., Ltd., p. 204.
24. Knuth, M. (2004). Self-employment and the labour market in Germany. Available at: [http://www.resqresearch.org/uploaded\\_files/publications/knuth10.pdf](http://www.resqresearch.org/uploaded_files/publications/knuth10.pdf).
25. Krasniqi, B. A. (2009). Personal, household and business environmental determinants of entrepreneurship. *Journal of Small Business and Enterprise Development*, vol. 16, no. 1, p. 146-166.
26. Lehman, H., Muravyev, A. (2011). Labour markets and labour market institutions in transition economies. Discussion paper series, IZA DP No. 5905, p. 23.
27. Parker, S. C.; Robson, M. T. (2004). Explaining international variation in entrepreneurship: evidence from a panel of OECD countries. Available at: <http://www.dur.ac.uk/resources/dbs/businessschool/research%20paper%20004.pdf>.
28. Remeikiene, R., Startiene, G., Vasauskaite, J. (2011). The influence of psychological-sociological factors on self-employment. *Economics & Management*, p. 287-294.
29. Remeikiene, R., Startiene, G. (2011). The institutional environment factors of self-employment in transition economies: the case of Lithuania. *Changes in social and business environment. Proceedings of the 4<sup>th</sup> International Conference*, p. 186-194.
30. Saar, E.; Unt, M. (2006). Self-employment in Estonia: Forced Move or Voluntary Engagement? *Europe-Asia studies*, vol. 58, no. 3, p. 415-437.
31. Snieska, V., Venckuviene, V. (2011). Hybrid Venture Capital Funds in Lithuania: Motive, Factors and Present State of Development. *Inzinerine Ekonomika-Engineering Economics*, 22 (2), p. 157-164.
32. Startiene, G., & Remeikiene, R. (2009). The Influence of Demographical Factors on the Interaction between Entrepreneurship and Unemployment. *Inzinerine Ekonomika-Engineering Economics*. (4), p. 60-70.
33. Startiene G., Trimonis K. (2009). The size of non-observed economy. *Economics & Management*, p. 976-983.
34. Stripeikis, O. Antrepreneriškumo formavimas Lietuvos smulkaus ir vidutinio verslo įmonėse. *Daktaro disertacija, Socialiniai mokslai, vadyba ir administravimas (03S)*, 2008, Kaunas, 145 p.
35. Stripeikis, O.; Žukauskas, P. (2011). Factors influencing person's decision to start-up business. *Management of Organizations: Systematic Research*, 57, p. 127-141.
36. Taylor, M. P. (2004). Self-employment in Britain: when, who and why? *Swedish Economic Policy Review*, 11, p. 139-173.
37. Tamosiunas, T. and Lukosius, S. (2009). Possibilities for Business Enterprise Support. *Inzinerine Ekonomika-Engineering Economics*, (1), p. 58-64.
38. The World Bank. Doing Business Measuring Business Regulation, 2011. Available at: [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings).
39. The Corruption Perceptions Index 2010. Available at: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2010](http://www.transparency.org/policy_research/surveys_indices/cpi/2010).
40. Verheul, I., et. al. (2001). An eclectic theory of entrepreneurship: policies, institutions and culture. *Economic of Science, Technology and Innovation*, 27, p. 11-81.

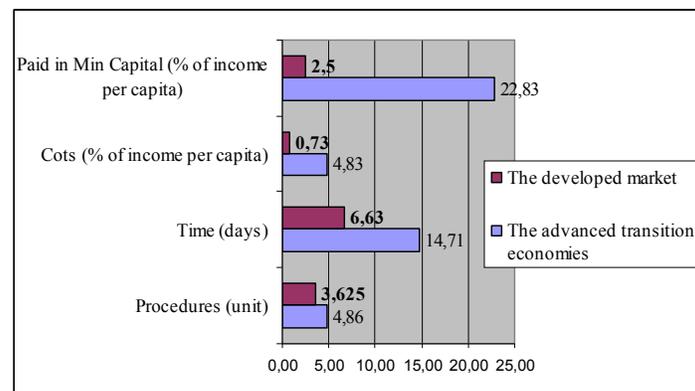
41. Župerka, A. (2009). Moksleivių verslumo ugdymo tobulinimo kryptys Lietuvoje. *Verstas, vadyba ir studijos*, p. 299-311.
42. 2012 Index of Economic Freedom. Available at: <http://www.heritage.org/index/download>.

**Table 1: Institutional business environment obstacles in advanced transition economies**

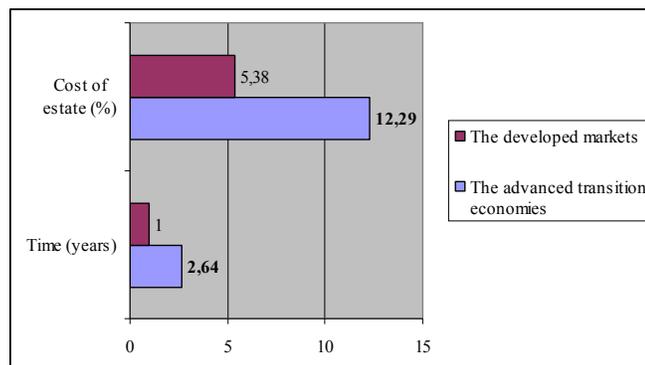
|                     |  |
|---------------------|--|
| Estonia             | Difficult conditions of business closing, poor protection of investors, bureaucracy and business administration inefficiency in less developed regions                                       |
| Hungary             | Poor protection of investors, long process of business registering, high business start-up and legal costs, underdeveloped information system for business crediting, weak insolvency system |
| Latvia              | Lack of business investment, burden of business administration, weak business infrastructure   |
| Lithuania           | Black economy, government gaps, for instance, law imperfections making conditions to avoid taxes, lack of support for risk capital funds, corruption   |
| Poland              | High business administration taxes, difficult business registering procedures, irregularities in recruitment, hard access to funds, corruption, imperfections of the legal framework         |
| The Slovak Republic | High business administration taxes, inflexible labour market   |
| Slovenia            | Unfinished enterprise restructuring, slow structural reforms, long process of business registering, inflexible labour market   |

Prepared by EBRD „Transition Report 2011 – Crisis in transition: the People’s perspectives“; „Transition Report 2005 – Business in transition“).

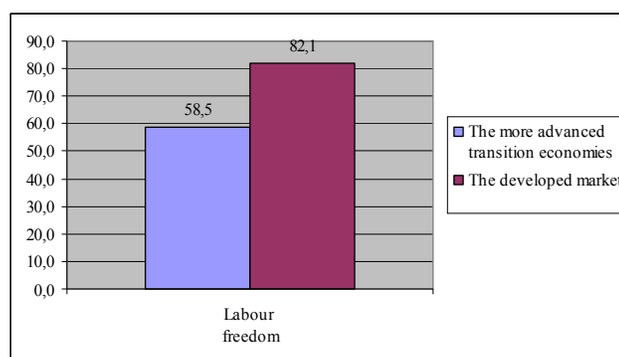
**Figure 1.** Comparison of business starting conditions in advanced transition economies and advanced industrial countries (with reference to the World Bank “Doing Business 2011“ report)



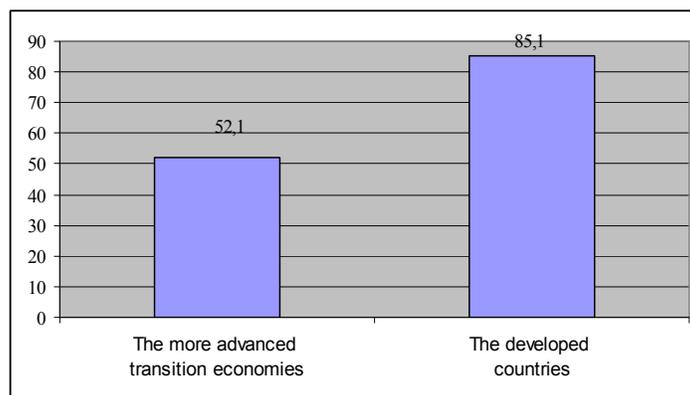
**Figure 2.** Comparison of business closing conditions in advanced transition economies and advanced industrial countries (with reference to the World Bank “Doing Business 2011” report)



**Figure 3.** Labour market index, 2012<sup>9</sup> (points) (Heritage Foundation, 2012)

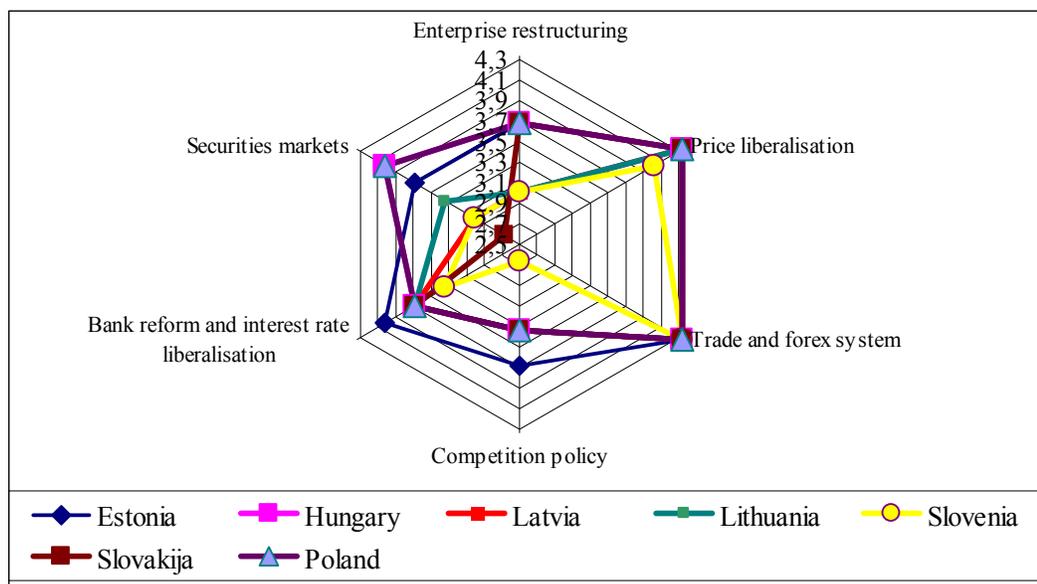


**Figure 4.** Freedom from Corruption Index in advanced transition economies and industrial countries (with reference to “Transparency International“, 2010)



<sup>9</sup> Labour market freedom is graded on a scale from 0 to 100 (2012 Index of Economic freedom).

**Figure 5:** The indicators of the transition from a central planned to a market economy, reflecting business environment, 2010 (with reference to EBRD)



**Table 2:** Evaluation of business environment and competition criteria of the advanced transition economies (with reference to EBRD, 2010)

| Country with transition economy | Business environment and competition |                           |                         |
|---------------------------------|--------------------------------------|---------------------------|-------------------------|
|                                 | Competition office                   | Quality of insolvency law | Secured transaction law |
| Estonia                         | yes                                  | high                      | inefficient             |
| Hungary                         | yes                                  | medium                    | advanced                |
| Latvia                          | yes                                  | under reform              | advanced                |
| Lithuania                       | yes                                  | low                       | advanced                |
| Poland                          | yes                                  | medium                    | modern/some defects     |
| Slovenia                        | yes                                  | high                      | under development       |
| The Slovak Republic             | yes                                  | medium                    | advanced                |

**Table 3: Clusters of the advanced transition economies**

| Indicator  | Indicator values  | SPSRQ (semi-partial R <sup>2</sup> ) <sup>10</sup> , clusters                             |
|--|---|---|
| <i>Values by the methodology of EBRD (max 4.33):</i> |   |   |
| <b>2 cluster</b>                                     |   |   |
| Enterprise restructuring                             | Values vary from 3 to 3.67 points.  | <p style="text-align: center;"><b>1 cluster</b></p>                                       |
| Price liberalisation                                 | Values vary from 4 to 4.33 points.  |   |
| Trade and foreign policy                             | Value of this indicator is equal to 4.33 points for all countries.  |   |
| Competition policy                                   | Values vary from 2.67 to 3.67 points.   |   |
| Bank reform and interest rate liberalisation         | Values vary from 3.33 to 4 points.  |   |
| Security markets                                     | Values vary from 2.67 to 4 points.  |   |
| <i>Indicators by World Bank methodology</i>          |   |   |
| Number of business establishment procedures          | Number of procedures varies from 2 to 6 while establishing business.  | <p style="text-align: center;"><b>1 cluster</b>                      <b>2 cluster</b></p> |
| Business establishment duration, days                | Business establishment takes from 4 to 32 days.   |   |
| Cost (% of income per capita)                        | Cost is recorded as a percentage of the economy's income per capita. It includes all official fees and fees for legal or professional services if such services are required by law. Cost percentage fluctuates from 0 to 17.5. |   |
| Paid in Min Capital (% of income per capita)         | Paid in minimal capital while opening company's account fluctuates from 5.9 to 45% of income per capita.  |   |
| Business closing                                     | Business closing process takes  |   |

<sup>10</sup> SPSRQ – semi-partial determination coefficient by which the countries are joined into clusters. Values vary in the interval from 0 to 1. The lower or equal to 0 the values are, the countries making a cluster are more similar to each other; if the value is equal to 1, the countries are very different from each other and cannot make a cluster.

|  |   |  |
|--|---|--|
| duration, years                                      | from 1.5 to 4 years.  |  |
| Cost of estate, %                                    | The cost of the bankruptcy proceedings is recorded as a percentage of the estate's value. Values vary from 4 to 20%.  |  |
| <i>Indicators by Heritage Foundation methodology</i> |   |  |
| Freedom from Corruption Index                        | Values vary from 43 to 65 points. The higher value of the index, the lower corruption.  | <p style="text-align: center;"><b>1 cluster</b></p> <pre> graph LR     E[Estonia] --- C1[0.0883]     S[Slovenia] --- C1     C1 --- C2[0.2293]     P[Poland] --- C2     L[Lithuania] --- C3[0.0071]     H[Hungary] --- C3     C3 --- C4[0.1019]     La[Latvia] --- C5[0.0130]     SR[The Slovak Republic] --- C5     C5 --- C6[0.1019]     C4 --- C6     C6 --- C7[0.1019]     C2 --- C7   </pre> |
| Labour Freedom Index                                 | Values vary from 42.2 to 67.6 points. In general, the greater the degree of labour freedom, the lower the rate of unemployment in an economy.   |  |
| Business Freedom Index                               | Values vary from 61.4 to 81.4 points. Burdensome and redundant regulations are the most common barriers to the free conduct of entrepreneurial activity. The higher the value of the index, the easier business conditions. |  |