

## “Business Environment in Tourism During the Global Economic Crisis: Comparison of Slovakia and Austria”

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### **Abstract:**

*The article is dedicated to the business environment in catering and hospitality services (basic components of tourism products) in Slovakia and Austria during the latest economic recession. It identifies the main burdens of doing business perceived by entrepreneurs according to the results of opinion survey in context of Slovak economic activity indicators' decrease. It analyzes selected factors influencing doing business as well as competitiveness of a country in tourism in Slovakia and Austria based on secondary sources' analysis in connection to the burden's perception.*

*Keywords: Business Environment, Catering and Hospitality Services, Doing Business, Tourism.*

*Paper Type: Scientific Paper*

### **Introduction**

Tourism is a sector of national economy. The level of tourism development affects the competitiveness of national economy as well as the tourism competitiveness of a country on the global tourism market. Countries are presented as a tourism final destinations and places of services consumption on this market. It means that they are selling the majority of services directly in the final destination placed in certain business environment. Entrepreneurial conditions are the base of services' production, direct selling and consumption. Business environment of a country (tourist destination) as well as the attractiveness of the area in relation to the visitors' decision making in tourism can be considered as a market advantage influencing global competitiveness (Pompurová, 2009). The global competitiveness (influenced by number of visitors - consumers in tourism) reveals in severity of doing business. The main aim of the article is to analyze selected indicators of tourism business environment in Slovakia and Austria since 2007 to 2010 as assumption of competitiveness in tourism and to review the main findings and differences.

### **Theoretical solutions**

Basic services in tourism are provided by catering and hospitality businesses. We can measure the changes in doing business in tourism according to the results of economic activity in

section of accommodation and food services (Statistical classification of economic activities NACE rev. 2). The majority of catering and hospitality businesses are small and medium-sized enterprises (SME) in most economies. The economic crisis threatens national economy as well as SME which are usually more vulnerable according to the possibilities of savings, potential markets and positioning (Elexa- Krafská, 2011). Tourism sector is emerging from the most difficult period in its recent history in last years. The industry has faced not only the global economic crisis, but also climatic disturbances, multiply security incidents, pandemics, and strikes among industry personnel (World Economic Forum, 2011). On the other hand the crisis has renewed interest in good rules and regulation. In times of recession, effective business regulation and institutions can support economic adjustment (World Bank Group, 2011). Those come from external business environment and they constitute an opportunity for enterprising. The role of state is very significant, not only as a warrantor of systematic support, but also as creator of favorable environment. It is not its only task, but in order to create functioning business conditions it should be the initiator of measures ensuring competitive economy (Elexa, 2009). We focused mainly on legislative, political and economic environment of doing business in catering and hospitality, namely on the intersection of mentioned fields, in order to the extensiveness of given topic (Figure 1).

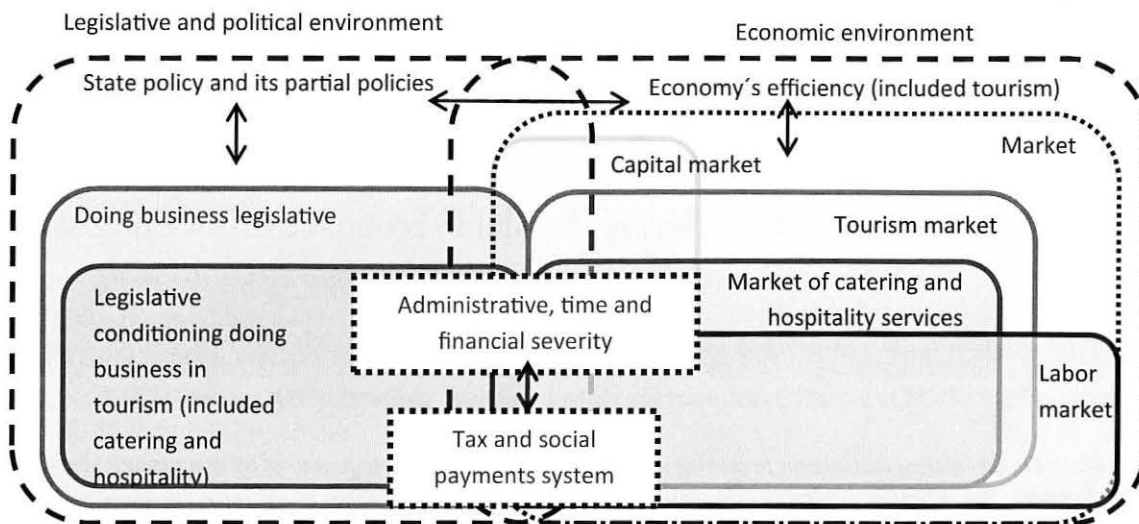


Figure 1. Intersection of legislative, political and economic business environment.

Source: Own elaboration based on literature sources, 2011

We can result from characteristics evaluated on the international level in context of the connection between tourism competitiveness of a country and business environment. There are many reports rated the business environments and global competitiveness among the world countries available. We consider the Travel and Tourism Competitiveness Report and the Doing Business publication as being the most tangible once in order to the article's objectives. Both focus mainly on criterions of external business environment.

The Travel and Tourism Competitiveness Report is published annually by the World Economic Forum. The report measures the Travel and Tourism Competitiveness Index (TTCI). This index measures many different regulatory and business-related issues that have been identified as levers for improving travel and tourism competitiveness in countries around the world. It measures the factors and policies that make it attractive to develop mentioned sector. The index is divided into three sub-indexes; each is split into number of competitiveness pillars totaling 14 of them. The ranking covers over 70 indicators included in the pillars (World Economic Forum, 2011).

Doing Business is a report published by the World Bank since 2003. This institution pays attention to the macroeconomic conditions as well as to the laws, regulations and institutional agreements that shape the daily activities. The report provides a quantitative measure of regulations for starting a business dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing business as they apply to domestic small and medium sized enterprises. Each topic is divided into categories evaluating characteristics of doing business (World Bank Group, 2011).

The competitiveness of Slovakia as a tourist destination is decreasing since 2008. Slovakia held the 37<sup>th</sup> place in 2007, 38<sup>th</sup> in 2008, 46<sup>th</sup> in 2009 and 54<sup>th</sup> in 2011 according to The Travel and Tourism Competitiveness Report published by The World Economic Forum (World Economic Forum, 2011). The effects of the economic crisis were mostly revealed in tourism since 2008

and 2009. Austria was the most competitive country in tourism in European Union and the second most successful country in the world (first place was held by Switzerland) at that time. That was the reason to choose the results of Austrian doing business with comparison to Slovak during the economic crisis.

## Objectives and methodology

Objective of the topic is business environment (assumption of competitiveness) in tourism in Slovakia and Austria during the global economic crisis. Subjects of observation are business entities providing catering and hospitality services. The main aim is to analyze selected indicators of tourism business environment in Slovakia and Austria since 2007 till 2010 and to review the main findings and differences. The research is based on data of secondary and primary character.

Secondary data are gained from statistical documents and information published by national institutions for statistics. We select indicators of turnover and employment in catering and hospitality in Slovakia and Austria, according to the statistical data availability of both countries. We use mathematical-statistical methods of processing; namely, indexes lined up in time series since 2008 to 2010.

Other secondary sources are international reports evaluating business environment such as the Travel and Tourism Competitiveness report and Doing Business publication. This research phase targets on selection, analysis and comparison of certain indicators' development in Slovakia and Austria. We use secondary document analysis of named reports published since 2007 till 2011 focusing on criterions between intersection of legislative, political and economic environment as defined in theoretical solutions of the study.

The documents analysis is based on the method of abstraction applied to select certain indicators with regards to the extensiveness of the given topic. 36 criterions covered in the Travel and Tourism Competitiveness Report and Doing Business are

meeting conditions of inclusion in interception between legislative, political and economic environment. We did not accept indicators focusing on the other fields of business environment or mainly on global competitiveness as well as indicators perceived to have indirect influence on doing business by enterprises. We decided not to analyze all criterions connected to foreign investment or ownership according to approximately 2% share of catering and hospitality businesses with foreign ownership in Slovakia (Statistical Office of the Slovak Republic, 2011).

Indicators without updated values during observed period are not included in the analysis as well as indicators whose values have not changed at least in one observed country during the global economic crisis (between 2008 and 2010). We selected 18 indicators out of 36, according to those specified conditions. Criterions are evaluated based on subjective perception (mostly in the Travel and Tourism Competitiveness Report 2007, 2008, 2009, 2010- 2011 or based on objective legislative data in Doing Business (Table 1).

Table 1. Selected indicators of business environment evaluation during economic crisis.

Selected indicators	Character of measurement	Source *
Transparency of government policy making	qualitative (opinion survey)	T&TCR
Property rights	qualitative (opinion survey)	T&TCR
Registering Property (duration)	quantitative (number of days)	DB
Starting a Business (cost)	quantitative ( % GNI per capita)	DB
Starting a Business (minimum capital required)	quantitative ( % GNI per capita)	DB
Dealing with construction permits (procedures)	quantitative (number of steps)	DB
Enforcing contracts (cost)	quantitative ( % of claim)	DB
Closing a business (recovery rate)	quantitative ( cents on the USD)	DB
Getting credit (public and private registry coverage)	quantitative ( % of adults)	DB
Paying taxes (total tax rate)	quantitative ( % of profit)	DB
Paying taxes (time required)	quantitative (number of hours)	DB
Extent and effect of taxation	qualitative (opinion survey)	T&TCR
Government prioritization of the Travel and Tourism industry	qualitative (opinion survey)	T&TCR
Effectiveness of marketing and branding	qualitative (opinion survey)	T&TCR
Hotel price index	quantitative (room rate in USD)	T&TCR
Quality of the educational system	qualitative (opinion survey)	T&TCR
Local availability of specialized research and training services	qualitative (opinion survey)	T&TCR
Hiring and firing practices	qualitative (opinion survey)	T&TCR

Source: Own selection out of the Travel and Tourism Competitiveness Report (T&TCR) and Doing business (DB) according to specified conditions.

We process data gained by secondary analysis using mathematical-statistical methods, mainly the methods of descriptive statistics, especially the methods of medium values (mean, modus, median). The World Economic Forum provides world average value of most indicators. The world average is calculated depending on the number of countries covered in evaluation out of 124 countries in 2007, 130 countries in 2008, 133 countries in 2009 and 139 countries in 2010 including. We calculated the medium values for EU countries to gain the data for comparison between observed countries and member states. We apply mean (average) to calculate the medium values of indicators measuring subjective perception of business entities and applied in indexes (qualitative measurement). We utilize modus to calculate medium value of indicators based on objective data (quantitative measurement). Medium values are counted out of 27 current members of EU. We use theoretical methods of abstraction, induction and comparison.

The indicators' evaluation is the last phase of research based on primary data. Those data are gained from businesses' opinion survey accomplished in Slovakia in 2010-2011. The field research was conducted in the form of questionnaire. The research sample was 170 business units providing catering and hospitality services in Slovak republic. The sample meets the conditions of catering and hospitality businesses' representativeness according to the economic activity and business's position in Slovakia. All business units were SME (61% micro, 38% small enterprises and 1% medium sized enterprise). We processed the data using mathematical- statistical methods, namely the methods of descriptive statistics focused to identify main burdens of doing business in catering and hospitality perceived by entrepreneurs during the global economic crisis in connection to the article's aim. The majority of observed Slovak business entities perceive legislative, political and economic conditions to be the main burdens of conducting business

according to the results of the survey. We consider the theoretical specification of the intersection of mentioned fields of business environment to be substantiated in order to the objectives and extensiveness of the given topic.

### Indicators of economic activity in catering and hospitality

We observe differences in Austrian and Slovak indicators namely in the turnover and the employment. The turnover in catering and hospitality was about 22,8% lower in Slovakia

in 2009 compared to previous year. This was a critical downturn for doing business in Slovakia because revenues had been slowly rising till 2008. The turnover fell additional 6,8% in 2010 compared to 2009. This economic indicator decreased about 28% during the economic crisis, and even the rate of the fall down slowed down in 2010. The turnover keeps rising each year in Austria in the observed period. It had increased by almost 1% in 2009 and by 3% in 2010 compared to 2008. We do not observe decrease of turnover in catering and hospitality in Austria during the economic crisis. This indicator is about 10 times higher in Austria than in Slovak Republic (Table 2).

Table 2. Employment in catering and hospitality in Slovakia and Austria.

Year	2008		2009		2010	
	SR	Austria	SR	Austria	SR	Austria
Country (Economy)						
State employment (in thousands of jobs)	1425,8	3419,4	1248,3	3375,3	1229,3	3398,6
Employment in catering and hospitality (in thousands of jobs)	50,1	180,8	41,2	178,7	38,2	181,3
Annual change (in thousands of jobs)	-	.	-8,9	-2,1	-3,0	2,6
Chain index of employment	100,0	100,0	82,2	98,8	92,7	101,5
Basis index of employment	100,0	100,0	82,2	98,8	76,2	100,3
Percentage share on state employment	3,51	5,29	3,30	5,29	3,11	5,33

Source: Own processing based on data of Statistics Austria, 2011 and Statistical Office of the SK, 2011.

Employment generated by the catering and hospitality sector is one of the most important indicators of economic activity and doing business in tourism. Employment of the observed sector (measured by the registered number of employees) has changed during the economic crisis. The number of jobs created by catering and hospitality sector had decreased by 17,8% in Slovak Republic in 2009 compared to the previous year. The employment decreased by additional 7,3% in 2010 compared to 2009. There was about 23,8% decrease during the economic crisis, and even the employment downturn has slowed down in 2010. Observed sector's share

on state employment was about 3,51% in 2008 and 3,11% in 2010. The sector's percentage share on national economy has fallen during the economic crisis as well as the total number of jobs. There was only one fall in number of employees in Austria during observed period. The employment has decreased by 1,2% in 2009 compared to the previous period. It rose approximately to the level of 2008 in 2010 (0,3% growth compared to 2008). Austrian catering and hospitality employment share's development is stable, in spite of the jobs decrease in 2009. It rose on the level of 5,33% continuously with the number of jobs increase in 2010 (Table 3).

Table 3. Turnover of catering and hospitality businesses in Slovakia and Austria.

Year	2008		2009		2010	
	SR	Austria	SR	Austria	SR	Austria
Country (Economy)						
Turnover (in thousands €)	1 518 700	14 401 067	1 172 600	14 504 935	1 092 800	14 947 686
Annual change (in thousands €)	-	-	- 346 100	103 868	- 79 800	442 751
Chain index of turnover	100,0	100,0	77,21	100,72	93,20	103,05
Basis index of turnover	100,0	100,0	77,21	100,72	71,96	103,80

Source: Own processing based on data of Statistics Austria, 2011 and Statistical Office of the SK, 2011.

We can conclude that the employment generated by catering and hospitality sector as well as its share on the state employment is much more stable in Austria than in Slovak Republic. We can find significant differences between both countries during economic crisis.

## Business environment indicators

We analyze indicators grouped in the interception of legislative, political and economic environment. We included indicators influencing doing business in general; that means, also providing catering and hospitality services. Description of certain indicators' development is in sequence of specification mentioned in the article's methodology and based on the selection out of The Travel and Tourism Competitiveness Report and Doing Business publication.

Transparency of Slovak government's policy making is getting worse. It has become more difficult for Slovak businesses to obtain information about changes in government policies and regulations affecting their activities. The evaluation has been falling under the average values of EU countries since 2009 until 2010. Values of this indicator have decreased in Austria only in 2009. Transparency of Austria government's policy making is higher than in the majority of EU countries (7<sup>th</sup> position) and is aligned with positive rating in the world (17<sup>th</sup> position).

We can observe significant differences in the evaluation of property rights. Protection of the property rights is weaker in Slovakia than in almost every EU country (Slovakia held 25<sup>th</sup> ranking in 2010). The rating of this indicator has decreased in Slovakia since 2009. On the other side, Austrian businesses perceive the protection of property rights, including the financial assets, as very strong. This country has one of the strongest property rights in the world (7<sup>th</sup> place) and in EU (4<sup>th</sup> place) and therefore it fell insignificantly in 2010 (Table 4).

Table 4. Transparency of government policy making and property rights in Slovakia and Austria.

Transparency of government policy making (1 = negative; 7 = positive)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	-	-	-	-	-	-	-	-
2008	4,5	5,2	4,1	4,5	41	15	12	6
2009	4,3	5,0	4,2	4,4	50	25	15	7
2010	4,2	5,3	4,4	4,6	82	17	19	7
Property rights (1 = very weak to 7= very strong)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	5	6,4	4,6	5,5	45	7	20	7
2008	5	6,5	4,7	5,5	52	4	20	3
2009	4,9	6,6	4,7	5,5	55	3	21	1
2010	4,2	6,2	4,4	5,1	74	7	25	4

Source: Own processing based on World Economic Forum 2007, 2008, 2009, 2011.

The process of property registration measured by the World Bank is connected with the property rights according to the difficultness of the legislative process. Only the time period for the mentioned process has changed in Austria during the global economic crisis in 2010. It takes less days in both observed countries than in the majority of EU countries (17 days in Slovakia and 21 days in Austria). Medium value of the property's registering duration has decreased in EU during the crisis. It was only 24,5 days in 2010 instead of 38 days in 2007. Slovakia has lower costs related to the legal registration of property than the majority of EU countries.

The process of starting-up a business, getting credit, paying taxes, dealing with construction permits, and assignment of enforcing contracts as the other legislative indicators have changed during the crisis. All mentioned are evaluated according to the World Bank, it means based on the legislative conditions and processes directly influencing doing business in catering and hospitality. The conditions of starting-up a business process have improved in Slovakia during the crisis. This process in general is better rated in Slovakia than in Austria (Table 5).

Table 5. Starting a Business in Slovakia and Austria.

Starting a Business (cost)					
Year	% GNI per capita		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	4,2	5,4	5,4	10	13
2008	3,3	5,1	4,35	12	14
2009	2,0	5,1	2,65	11	16
2010	1,9	5,2	2,7	10	16
Starting a Business (minimum capital required)					
Year	% GNI per capita		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	34,1	55,5	34,1	13	21
2008	30,4	52,8	22,5	16	25
2009	23,8	52	19,65	18	26
2010	22,2	53,1	15,3	16	26

Source: Own processing based on World Bank Group, 2011.

Slovakia has lower costs, as well as requires less minimum capital at the beginning of doing business. We do not have to understand the fact of decreased financial severity at the beginning of doing business such as legislative improvement or lower businesses' establishment fees. It might be caused by the positive development of living and the economy's level according to the method of this criterion's evaluation. The evaluation is based on the measurement by % share of costs and minimum capital of the gross national income per capita.

There are not so many differences in dealing with the construction permits between Slovakia and Austria even though it has changed during the crisis. The number of procedures has been similar in both observed countries until 2009 (13 steps). The level has decreased up to 14 steps in Austria in 2009 and has stayed on this level in 2010. This country has held the 11<sup>th</sup> and Slovakia held the 7<sup>th</sup> ranking in EU in 2010. The administrative severity of dealing with the construction permits has decreased and it has been lower than the 14 steps in most EU countries in 2010. The process of enforcing contracts is getting more difficult in Slovakia (Table 6).

Table 6. Enforcing contracts and recovery rate in Slovakia and Austria.

Enforcing contracts (cost)					
Year	(% of claim)		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	25,7	12,7	18,6	21	3
2008	25,7	18	18,3	22	13
2009	25,7	18	20,6	24	13
2010	30	18	20,6	24	13
Closing a business (recovery rate)					
Year	cents on the dollar		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	45,2	72,4	51,3	16.	10.
2008	45,9	71,5	48	14.	9.
2009	45,9	71,5	50,8	15	9
2010	55,3	73,1	55,6	14	9

Source: Own processing based on World Bank Group, 2011.

The high administrative and time severity of enforcing the contracts has not improved and the cost has risen in Slovakia during the crisis. Austria has better rating than Slovakia and the majority of EU countries. The legislation has not significantly changed. This country has almost the lowest administrative severity in EU (2nd place) since 2007. The costs for the court fees and attorney fees are staying on the same level at 18% of the debt value during the crisis. On the other side, costs increased to 30% in Slovakia in 2010. Resolving insolvency identifies weaknesses in existing bankruptcy law and the main administrative, time and financial severity in the bankruptcy process. Only one criterion out of the mentioned once, the recovery rate, has changed during the crisis. Claimants (creditors, tax authorities and employees) recovered from an insolvent firm 55,3 cents on the dollar in Slovakia and 73,1 cents on the

dollar in Austria in 2010. The recovery rate of Slovak's creditors is under the medium value of European Union countries; even though it has been increasing during the crisis.

Getting credit is another topic included in the interception between economic and legislative environment. It explores two sets of issues - credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending (World Bank Group, 2011). Strength of the legal rights index and depth of the credit information index has not changed. On the other hand the public and private registry coverage has increased in both countries during the crisis. It reports the number of individuals and firms listed in a public credit registry with information on their borrowing history from the past 5 years. The registry coverage is higher in both observed countries than in the majority of EU countries during the crisis (Table 7).

Table 7. Credit information registries in Slovakia and Austria.

Getting credit (private registry coverage)					
Year	% of adults		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	40,3	40,6	14,9	10	9
2008	39,9	40,9	17,7	10	9
2009	39,9	39,2	19,5	10	11
2010	44,5	40,6	27,85	11	12
Getting credit (public registry coverage)					
Year	% of adults		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	1,2	1,3	1,2	12	13
2008	1,4	1,3	1	12	13
2009	1,4	1,4	1,1	12	12
2010	2,2	1,4	1,2	12	13

Source: Own processing based on World Bank Group, 2011.

Paying taxes is one of the most frequently discussed indicator of business environment. That might be the reason for evaluation by the World Bank (processed in Table 8) as well as by the World Economic Forum (processed in Table 9). The World Bank reports taxes, mandatory contributions and burdens in mentioned process (administrative, time and financial severity). Time required to prepare, file and pay 3 main taxes (the corporate income tax, the value added tax and social secu-

rity contributions) is higher in Slovakia than in the majority of EU countries (including Austria), even though it has decreased on 257 hours per year in 2009. The total tax rate measuring the amount of taxes and mandatory contributions to be paid by the businesses has risen in both countries along with the fall in the majority of EU countries during the crisis. The taxes' share from the commercial profit was 48,7% in Slovakia and 55,5% in Austria in 2010.

Table 8. Total tax rate in Slovakia and Austria.

Paying taxes (total tax rate)					
Year	% of profit		Medium value in EU (median)	EU position	
	SR	A		SR	A
2007	48,4	54,6	47,8	14	20
2008	47,4	54,5	47,1	14	21
2009	48,6	55,5	46,8	17	21
2010	48,7	55,5	44,8	17	23

Source: Own processing based on World Bank Group, 2011.

The survey results show the World Economic Forum evaluates impact of paying the taxes on businesses' incentives either to work or to invest. Paying taxes limits incentives to work or invest in Slovakia less than in Austria as well as less than in the majority of EU countries. On the other side, the businesses'

perception of taxes became worse since 2008. This circumstance caused Slovakia to fall from the 1<sup>st</sup> place in 2008 to the 4<sup>th</sup> place in the period 2009 and 2010. Austrian's tax perception is more negative than Slovakia's.

Table 9. Subjective evaluation of taxes in Slovakia and Austria.

Extent and effect of taxation (1= taxes limit incentives; 7 = taxes have no impact on incentives)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	5,5	3,8	3,5	3,4	8	34	1	7
2008	5,4	3,9	3,6	3,4	10	37	1	6
2009	5,0	3,5	3,6	3,4	17	67	4	11
2010	4,1	3,6	3,6	3,3	27	63	4	9

Source: Own processing based on World Economic Forum 2007, 2008, 2009, 2011.

The subjects providing catering and hospitality services are influenced by government measures that are applied in the tourism. The government's prioritization of the Travel and Tourism industry; and effectiveness of marketing and branding are the

indicators evaluated according to the businesses' perception (published by the World Economic Forum). Those criterions are included between the political and economic environment (tourism market) (Table 10).

Table 10. Tourism market indicators in Slovakia and Austria.

Government prioritization of the Travel and Tourism industry (1 = is not a priority at all; 7 = a top priority)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	3,6	5,4	4,5	4,4	99	23	22	6
2008	3,9	6	5,1	5	115	18	25	3
2009	4,5	6,4	5,5	5,5	115	15	25	2
2010	3,9	6,4	5,3	5,3	131	9	27	1
Effectiveness of marketing and branding (1= ineffective to 7= very effective marketing and branding)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	3,1	5,7	4,2	4,4	108	7	26	1
2008	3,1	6,1	4,6	4,7	121	4	27	1
2009	3,2	6,4	4,8	4,9	126	4	27	1
2010	2,5	6,4	4,4	4,5	137	2	27	1

Source: Own processing based on World Economic Forum 2007, 2008, 2009, 2011.

The world and EU countries' medium values of both indicators have gone up until 2009 and fell in 2010. We can observe the same development in Slovakia. Evaluation of both criterions is below the medium world and EU values. Slovakia was an economy with the most negative government's approach to tourism as an industry and with the most ineffective country's marketing and branding campaigns in EU in 2010, according to the Slovak businesses' perception. Out of the world countries, only Venezuela and Angola had least effective marketing than Slovakia. Austrian business entities' perception of both indi-

cators became more positive since 2007 and became stable in 2010 on the contrary to the mentioned negative development in most countries (including Slovakia). Those circumstances rated Austria to be a country with the best government's approach to tourism industry in EU in 2010 and to be a country with the most effective marketing and branding in EU since 2007 to 2010.

The price competitiveness is an important factor influencing doing business in tourism. That is why we included evaluation of hotel price index as an indicator of economic environment



(influencing tourism market). The World Economic Forum measures this criterion as an average room rates calculated for first-class branded hotels for calendar year (in US dollars). The first measurement was published in 2008 and it was based on the prices in 2006. The hotel price index was 165,6 USD in Slovakia and 124,5 USD in Austria. It means 41,1 USD difference between prices between the observed countries. The average hotel prices have slumped in both countries during the crisis. The price dropped to 129,6 USD in Slovakia and to 114,9 in Austria in 2010 (published in 2011). Otherwise, the prices were more than 14,7 USD higher in Slovakia than in Austria. Austria held the 11<sup>th</sup> position in EU and 45<sup>th</sup> position among most price competitive countries in the world in 2010.

We can include two other criterions that have changed during the crisis in the economic environment as follows: quality of the educational system, local availability of specialized research,

and training services. We consider those to be the indicators of labor's quality (influencing labor market) (Table 11). The quality of educational system in Slovakia has decreased and it has fallen below the evaluation of EU and world countries since 2009. It has met the needs of a competitive economy, less than all other EU countries in 2010 (27<sup>th</sup> place).

Evaluation of Austrian educational system decreased in 2010 but it fulfilled the requirements of a competitive economy more than the majority of EU countries (8<sup>th</sup> place) and world countries (24<sup>th</sup> place). The local availability of specialized research and training services rose in Slovakia and Austria as well as in the majority of EU countries in 2010. In spite of the fact that the mentioned services have been available in Slovakia, their occurrence was below the level of majority of EU countries during all observed years. Austria held 4<sup>th</sup> place in EU and 6<sup>th</sup> place in the world in 2010.

Table 11. Labor market indicators in Slovakia and Austria.

Quality of the educational system (1 = not well at all; 7 = very well meet the needs of a competitive economy)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	3,9	5,1	3,7	4,4	49	12	19	5
2008	3,7	5,2	3,7	4,5	63	14	21	5
2009	3,4	5,2	3,7	4,5	76	14	23	8
2010	3,1	4,9	3,8	4,3	111	24	27	8
Local availability of specialized research and training services (1 = not available; 7 = widely available)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	4,2	5,3	3,9	4,8	45	14	20	8
2008	4,2	4,8	4	4,8	47	14	20	9
2009	4,1	5,2	4	4,7	59	16	21	9
2010	4,6	5,9	4,1	5,0	41	6	18	4
Hiring and firing practices (1 = impeded by regulations; 7 = flexibly determined by employers)								
Year	Index value		Medium value (mean)		World position		EU position	
	SR	A	World	EU	SR	A	SR	A
2007	5,1	3,6	3,9	3,4	15	84	2	10
2008	4,7	3,7	3,9	3,3	27	79	2	8
2009	3,9	3,6	3,8	3,4	65	86	5	9
2010	3,4	3,9	3,9	3,4	104	105	12	12

Source: Own processing based on World Economic Forum 2007, 2008, 2009, 2011.

We included employees' on-boarding and off-boarding practices on the interception between economic (labor market) and legislative environment. This measures the level of the labor code's regulation by state or by the employer. Slovakia had almost the most flexible labor code in EU (2<sup>nd</sup> place) in 2007. Only Denmark had better rating. It has become more impeded by regulations during the crisis than in the majority of world countries, even though the evaluation has been on the medium value of EU countries. Slovakia has the same rating as Austria after the fall in 2010.

### Business environment barriers perceived by Slovak entrepreneurs in catering and hospitality

Most businesses (43,5%) perceive doing business in catering and hospitality as non-perspective in case if the current conditions in Slovakia won't change. Only one third (33,5%) of them considers the tourism to be a boom sector. The minority of them (23%) is not able to evaluate the current situation and the future of catering and hospitality.

The main barriers of doing business are included in the intersection of the legislative, political and economic business environment. They are identified according to the criterion's

negative perception or direct indication as a burden by the majority of observed enterprises (Table 12).

Table 12. Business environment burdens perceived in catering and hospitality in Slovakia.

Barrier	Share of negative perception
Doing Business (administrative severity)	89%
Bureaucracy in state institutions	86%
Paying social payments (total rate)	77%
Paying taxes (total rate)	55%
Value added tax	54%
Starting a Business (severity in general)	72%
Starting a Business (administrative severity)	70%
Starting a business (financial severity)	54%
Dealing with construction permits (in general)	51%

Source: Own processing, 2011.

Less than one half of observed entities identified the demand's decrease during the crisis as a burden which was caused by the difficult market conditions (18 %), quality of labor (7 %), non - effective marketing and branding (6 %), and insufficient state's support of tourism (5%) in the context of the analyzed indicators of economic activity and business environment indicators.

We analyzed two aspects of effectiveness of the marketing and branding according to the results of the opinion's survey. It was the subjective perception of regional and state marketing and branding in tourism. The majority of business entities do not feel any effect of regional marketing (44%) and state marketing (71 %). It means, that they do not evaluate current tourism marketing positive or negative. Only 6% of them perceive current marketing and branding as a burden for doing a business in tourism.

Only 31% of business entities perceive enforcing contracts and relations to debtors as negative, even though the severity of the legal rights process is higher than in the majority of EU countries. It might be caused by the fact that the eligible funding fixed in outstanding is not so significant in value in catering and hospitality businesses.

## Discussion

Doing business in catering and hospitality has become harder in Slovakia during the crisis. The employment decreased by 23,8% and the turnover fell by 28% in 2010 compared to 2008. Economic activity of catering and hospitality businesses has increased in Austria during the crisis. The employment rose by 0,3 % and the turnover increased by 3% in

2010 compared to 2008. Such a growth is indicating a stable economic development. It is not significant in the value but in the circumstances of economic downturn caused by the global economic crisis. We compared the evaluation of 19 indicators included in the intersection of legislative, economic and political environment in Slovakia and Austria since 2007 to 2010 based on the measurements on the international level (Table 13).

More than one half of observed indicators changed in a positive way (12) and was better rated (13) then in the majority of EU countries in Austria in 2010 compared to 2007. On the other hand 12 indicators were worse rated than in most EU countries in Slovakia in the same period. It means that Slovakia is behind not only Austria but also behind most of the other EU countries in observed tourism business environment's evaluation, even though 7 indicators have changed in positive way in Slovakia during the crisis.

Transparency of the government's policy making influences the start-up process as well as doing a business process (both perceived by catering and hospitality businesses to be a burden of business environment in Slovakia). It is one of the negative developed and evaluated indicators in Slovakia during the crisis. This political factor might affect all processes; and moreover also the level of bureaucracy in the state institutions which is highly perceived by 86% of business in Slovakia.

Both countries decreased the severity of the starting-up a business process during the crisis. This process as well as the connected processes of dealing with construction permits and registering property is better evaluated in Slovakia than in Austria. So we can rate those as a Slovak business competitive advantage in comparison to Austria even though they are concerned to be a burden in Slovakia.

Table 13. Evaluation's change of selected indicators in 2010 compared to 2007 and position of observed states among EU countries in 2010.

Indicator / Country	Change of indicator		Position in EU	
	Slovakia	Austria	Slovakia	Austria
Transparency of government policy making	negative	positive	19	7
Property rights	negative	negative	25	4
Registering Property (duration)	no change	positive	11	15
Starting a Business (cost)	positive	positive	10	16
Starting a Business (minimum capital required)	positive	positive	16	26
Dealing with construction permits (procedures)	no change	negative	10	14
Enforcing contracts (cost)	negative	negative	24	13
Closing a business (recovery rate)	positive	positive	14	9
Getting credit (private registry coverage)	positive	positive	11	12
Getting credit (public registry coverage)	positive	positive	12	13
Paying taxes (total tax rate)	negative	negative	17	23
Paying taxes (time required)	positive	no change	21	14
Extent and effect of taxation	negative	negative	4	9
Government prioritization of the Travel and Tourism industry	positive	positive	27	1
Effectiveness of marketing and branding	negative	positive	27	1
Hotel price index	positive	positive	19	11
Quality of the educational system	negative	negative	27	8
Local availability of specialized research and training services	positive	positive	18	4
Hiring and firing practices	negative	positive	12	12

Source: Own processing, 2011.

The responsibility in the property settlement (in the process of enforcing the contracts as well as in closing-down a business) has decreased in Austria during the crisis. It is still higher than in Slovakia; not only in the association to the evaluation's results, but also in the context of the economic activity indicators development during the crisis. It might be affected by a very strongly defined property rights in Austria (almost the strongest among the EU and world countries). Enforcing the contracts and the business relation to debtors was evaluated mostly positive in Slovakia, but it was accomplished only among active business entities.

The most commonly discussed and negatively perceived are the taxes and social payments in Slovakia. The taxes are an important financial instrument of the tourism development especially on the regional level (local taxes) in most countries with developed tourism (Kučerová-Makovník, 2009). We consider the businesses' perception of taxes to be important especially in the process of improving business conditions during and after the economic downturn in tourism (namely in catering and hospitality sector).

The majority of Slovak business entities providing catering and hospitality services consider those to be the main barrier of doing a business in tourism. They mostly evaluated the value added tax to be negative (54% of businesses) and with influence on total tax incidence, even though the business does not bear the financial burden of this indirect tax. Value added tax affects the entire final consumption without exception and the

tax burden is borne by the consumer (Bánociová, 2009). The total tax rate is lower in Slovakia than in Austria (one of the most competitive countries in tourism the world), in spite of the negative perception. In connection to the economic activity indicators' downfall during the crisis, the businesses requested value added tax rate's decrease to assure lower prices as well as financial sources needed for investments and become more competitive in price and quality of services. That might be the reason to retrospect. We can prove that decrease of the value added tax rate does not assure lower consumption prices of certain goods (case of books' prices in Slovakia after 2007 and hospitality services' prices in Germany after 2010) and this way does not support demand in all cases (Kučerová-Šmardová, 2010). We consider the reduction of the tax rate in certain field of economy as giving catering and hospitality businesses tax advantage over other entities which products are with the same or higher human labor intensity. This fact affects the clarity of the tax system and fair competition at the market. Giving advantage to the businesses providing selected services might increase the risk of leakages into taxes and might lead to deformations of business environment.

The average hospitality prices measured by the hotel room index were by 41,1 USD higher in Slovakia than in Austria in 2006. In spite of the fact that the prices have slumped in both countries during the crisis, they were by 14,7 USD higher in Slovakia than in Austria in 2010. It should be considered whether the problem of low price competitiveness of Slovakia is

caused by high value added tax rate. We do not consider reducing VAT rate on catering and hospitality services to be the possibility of price competitiveness increase and tourism demand rise. Slovakia as a tourism destination should be looking for other ways of how to attract tourists (Pompurová, 2011).

We consider business environment as more important than those indicators that are connected to measurements targeted directly to tourism sector such as government prioritization of tourism industry and effectiveness of marketing and branding in order to Austrian tourism growth. We can see the most significant differences in evaluation of those criterions between Austria and Slovakia during the critical period. Austria is the best rated and Slovakia the worst rated country in EU. Effective state's marketing and branding of a tourist destination

used to attract tourists (final consumers) has become important competitiveness factor during the crisis; moreover, Slovak businesses providing catering and hospitality services do not assign importance to the effectiveness of marketing and branding in tourism. Other fact is, that the circumstances of the economic development have caused higher demand for price-quality relationship of provided services as we mentioned. Price competitiveness (based on the hotel room index) as well as the quality competitiveness (according to the measured indicators of labor market such as quality of educational system, local availability of specialized research and training services) of Slovakia is behind EU countries and Austria. Only the minority (7%) of business admitted that there is not enough quality labor (employees) for providing the catering and hospitality services.

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## Summary

The article focuses on the tourism business environment during the global economic crisis. The main aim of the topic is to analyze the selected indicators of tourism business environment in Slovakia and Austria since 2007 to 2010 and to review the main findings and differences.

Doing business in catering and hospitality has become more difficult based on the indicators of economic activity in Slovakia. The majority of business entities in Slovakia perceives legislative, political and economic conditions to be the main burdens of doing business. We compare those most discussed criterions of Slovakia to a country with stable development during the tourism downturn (Austria). The main finding of the analysis is that the role of certain indicators is differentiated. The factors such as price-quality relationship of tourism services; price competitiveness and marketing; and destination's branding tools used to attract tourist became more important than most discussed indicators among businesses such as taxes.

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