

# The Context and Evolution of Business Environment Research: Based on the Review of Foreign Literature

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## ABSTRACT

With the release of the global business environment report by the world bank every year, the research on business environment has attracted the attention of governments and more and more scholars, and has gradually become a research hotspot. Many countries have gradually realized that the construction of business environment plays an important role in the economic development of a country or region, which is considered as an important embodiment of regional economic soft power and international market competitiveness. This paper systematically combs the foreign literature related to business environment in the literature, so as to provide reference for future research.

**Keywords:** *business environment, influencing factors, assessment framework*

## 1. INTRODUCTION

The construction of business environment plays an important role in the economic development of a country or region. It is considered as an important embodiment of regional economic soft power and international market competitiveness [1]. With the release of the global business environment reported by the world bank every year, the research on business environment has attracted the attention of governments and more and more scholars, and has gradually become a research hotspot. This part systematically combs the relevant literature of business environment in the existing literature, on the one hand, it is conducive to a more comprehensive, objective and systematic understanding of business environment construction; on the other hand, it can also find the deficiencies in the existing research and problems that need further in-depth study. In order to collect documents more comprehensively, this study uses "business environment", "doing business" and "investment environment" as key words to search CNKI and English database (web of science, ProQuest, Springer), sort out the collected documents, clarify the research context of domestic and foreign scholars on business environment, and explore the areas to be studied.

## 2. foreign research topics and directions on business environment

There are three main research directions on business environment construction in foreign countries:

### 2.1 research on the value and significance of business environment

Such studies generally use empirical methods to verify the impact of the improvement of the environment on economic development (foreign direct investment, regional economic development, etc.). For example, many scholars have studied the relationship between the improvement of business environment and foreign direct investment. For example, Jayasuriya (2011), based on the research results of the world bank, used the generalized matrix method to study the data of 84 economies between 2006 and 2009, and found that for general countries, the improvement of some key indicators in business environment will increase foreign investment in the country. However, for developing countries in the process of reform, the improvement of business environment ranking has no significant impact on the substantial improvement of FDI inflows. Anderson and Gonzalez (2013) studied the relationship between business environment and foreign direct investment in 150 countries, and analyzed the capital inflow and business environment ranking of a country. They found that there was a positive correlation between the two, that is, countries with a higher ranking business environment attracted more per capita FDI inflows (in US dollars). Based on the data of 30 ex socialists from 2005 to 2011, petreski (2014) found that a good business environment is conducive to economic growth only under a better system. Vogiatzoglou (2016) found that the measures taken by ASEAN countries in terms of business environment have an important impact on attracting foreign direct investment, among which effective business regulations are an important determinant. Jovanovic and Jovanovic (2018) used the world bank's business indicators as measurement criteria to explore whether business facilitation affected

FDI in 27 former socialist countries[4]. Classical econometrics and Bayesian econometrics are used in the study. The results show that there are great uncertainties in the influencing factors, most of which are not significant or lack of robustness. In both estimates, as a strong determinant, the only aspect of business regulation is the convenience of cross-border trade.

**2.2 research on Influencing Factors of business environment**

In the existing research, the research on the influencing factors of business environment is mainly divided into two aspects. Some scholars believe that the business environment is determined by a series of internal factors of the enterprise, such as the creativity, independence, risk acceptance ability, perseverance, responsibility and professional knowledge of entrepreneurs (Belas et al., 2014; kozubikova et al., 2015). However, more scholars believe that the external factors have a greater impact on the business environment. For example, Wendy & Seabright (2003) concluded that social system is the most important factor affecting business environment by means of investigation and interview, data collection, case study and other methods; Flapper, Lewin & Delgado (2008) found that in the stable political environment of developing countries, the formulation and implementation of policies are sustainable, which is conducive to improving the efficiency and effect of the government, so as to better realize the governance of enterprises. The government should start from these aspects, and then improve the governance ability of the business environment; Lei (2010) believes that the government's supervision of the market, corruption, the improvement of infrastructure construction, the development of modern financial system and other factors have an important impact on the construction of business environment.

**2.3 Research on business environment assessment**

Because the business environment has an important impact on the regional economic development, many scholars actively explore the business environment evaluation index and evaluation mechanism. In the existing literature, the evaluation of business environment mainly focuses on two aspects. One is to build a unique business environment index system to adapt to the economic development of each economy. For example, Korner, kudrna & vychodil (2002) studied the business environment of Central European countries, and believed that the evaluation of business environment should be carried out from the aspects of integrity index, comprehensive corporate governance index, policy transparency index and corporate governance risk index. Civelek (2016) based on the research on the business environment faced by small and medium-sized enterprises in the Czech Republic,

constructed the business environment quality evaluation model, that is, the business environment quality of small and medium-sized enterprises depends on the national, social, financial market, business risk and other factors, and further analyzed the relationship between these factors and their impact on the business environment. Second, combining the evaluation index system and evaluation results in the business environment report of the world bank, this paper analyzes the problems existing in the business environment of each economy, and puts forward corresponding policy suggestions.

In addition to the academic focus on the evaluation of business environment, international authorities such as the world bank, the world economic forum, the Lausanne School of international management, etc. have also been committed to the evaluation of the global business environment, as discussed later.

**3. EVALUATION OF BUSINESS ENVIRONMENT ABROAD**

Many authoritative organizations around the world evaluate the business environment of various countries. From the content of the evaluation system, some of them are evaluated from a micro perspective (for example, the world bank's annual global business environment report, doing business), some from a macro perspective (for example, the global competitiveness report of the world economic forum, the global competitiveness report, the global competitiveness index of Lausanne University, Switzerland, and the world competitive Index). The evaluation system of micro perspective is based on the perspective of the enterprise to evaluate the business environment of the whole life cycle of the enterprise, while the evaluation system of macro perspective is based on the perspective of the environment, from the perspective of comprehensive investment environment. The evaluation indexes of the global competitiveness index of Lausanne college in Switzerland mainly include four fields: economic performance, government efficiency, business efficiency and infrastructure. Each field also contains secondary indexes ranging from 6 to 22. The specific contents are shown in Table 1.

**Table 1** evaluation index framework of world competitiveness index

First level indicator	second level indicator	First level indicator	second level indicator
Economic performance (45 items)	domestic economy (8)	business efficiency (64 items)	production efficiency (7)
	International Trade (13)		labor market (21)
	International Investment (12)		financial services (17)
	Employment (6)		management level (11)
	Price level (6)		business values (8)
Government effectiveness	Public Finance (8)	infrastructure (90)	infrastructure (22)

s (63 items)	Tax policy (8)	items)	science and technology facilities (21)
	Institutional framework (15)		scientific facilities (21)
	Business supervision (20)		healthy environment (15)
	Social structure (12)		education level (15)

Source: according to relevant data

**Table 2** index system of global competitiveness

First level indicators	second level indicators
Basic needs indicators (45 items)	legal and administrative framework (21)
	Infrastructure (9)
	Macroeconomic environment (5)
	Health and basic education (10)
Efficiency improvement indicators (53 items)	higher education and training (8)
	Commodity market efficiency (16)
	Labor market efficiency (10)
	Financial market development (8)
	Technology (7)
	Market size (4)
Innovation and completeness indicators (16 items)	business environment completeness (9)
	Innovation (7)

Source: according to relevant data

As one of the three major financial institutions in the world, in order to better measure the development of the global business environment, the world bank has set up a doing business group, which is responsible for building and gradually improving the business environment assessment index system applicable to global economies, so as to better promote countries to formulate laws and regulations conducive to the development of business activities and effective supervision of them. Since 2003, the world bank has issued a report on business environment assessment of major global economies every year. For example, the business environment report 2019 ranks the business environment of 190 global economies, and explains the reasons for the change of business environment index ranking of some economies, effective business environment reform measures and other issues. The index construction, data acquisition, calculation and other works in the business environment report issued by the world bank every year are completed by the world's top scientific research team, and are continuously tracked. After nearly 20 years of development, the business environment evaluation index system constructed by the world bank has been widely recognized.

## **4. RELEVANT RESEARCH AND SUMMARY ON BUSINESS ENVIRONMENT OF THE WORLD BANK**

### **4.1 General Situation of business environment assessment**

The world bank's index system for business environment evaluation is based on the enterprise life cycle, which mainly investigates the time and cost of policies and regulations formulated by each economy that an enterprise should follow in the process of establishment (opening), business process (post establishment trade activities), end (enterprise closure, bankruptcy), etc. That is to say, the integration of all the external environments encountered by an enterprise from the beginning to the end. In 2001, the world bank established the business environment group, which is committed to the construction of business environment indicators. After two years, the global business environment report was first released in 2003. By 2019, the world bank has published the report for 17 consecutive years, which makes statistics, comparison and ranking on various indicators of business environment in global economies. The global business environment report issued by the world bank every year helps to urge the global economies to improve their business environment, provide better soil for the development of private economy, and provide reference for global capital investment decision-making. After more than ten years of development and improvement, the world bank's business environment assessment index has developed from the initial five first-class indicators to the current 11 first-class indicators, of which the labor market supervision index has not been included in the assessment system in practice. That is to say, 10 first level indicators have been evaluated in practice; the second level indicators have also developed from the initial 20 to the current 43, of which the two indicators of employment supervision flexibility and work quality control flexibility have not been included in the evaluation system, that is, 41 second level indicators have been evaluated in practice.

### **4.2 business environment assessment framework**

#### **1) 5 stages and 10 indicators.**

In the global business environment report issued by the world bank every year, it is mainly measured from the perspective of private enterprises in various economies, especially small and medium-sized enterprises, according to the different stages in the enterprise life cycle, namely, the stage of enterprise entrepreneurship, the stage of obtaining site, the stage of financing, the stage of daily operation, the stage of enterprise ending (bankruptcy), and the rules in the process of government supervision. Rank on the basis of measuring the scores of 10 first level indicators (there will be some differences in some years, for example, the 2015 report includes 11 first level

indicators). The comprehensive ranking of each economy shows the convenience of its business environment. The higher the ranking, the looser the business environment of the economy. The business environment index system of the world bank is as follows: in which the start-up stage includes the first level index of start-up enterprises; the site acquisition includes the three first level indexes of construction license, power supply and property registration, mainly the legal recognition of the status and property of new enterprises; In the financing stage, there are two first-class indicators: access to credit and protection of a small number of investors; Business activities include three primary indicators: tax payment, cross-border trade and contract execution, which are the norms of business activities; The completion of an enterprise includes a first-class indicator for bankruptcy. To some extent, it is also a kind of legal protection for the interests of enterprise investors.

## **2) Scoring method of business environment: Frontier distance method**

The world bank's evaluation index of the business environment of various economies is based on the perspective of enterprises, and adopts the "time action" method to measure the legal procedures, time and money cost of an exchange conducted by enterprises according to the local laws and regulations. The method adopted is the "frontier distance" scoring method based on the optimal comparison method. The ranking of each indicator in the business environment assessment is determined by the score of the distance between the indicator and the frontier level (that is, the distance between the studied economy and the "frontier economy", which means the economy with the highest score in the studied indicator). The final score of an economy is the sum of the scores of all indicators. The leading-edge distance scoring method adopted by the world bank for business environment assessment enables each economy to see the gap between the enterprises in its jurisdiction and the leading-edge level in each indicator, and also helps enterprises to find out the changes in their external regulatory environment. The evaluation range of each index of business environment is 0 to 100, of which 100 represents the leading level of the index. The higher the score, the higher the efficiency, the more sound and loose the legal system of the enterprise.

### **4.3 Brief comments**

It can be seen from the above literature that the starting point of the world bank's evaluation of the business environment of global economies is to guide free competition in the global market, improve the efficiency of government approval and supervision of various economies, and make an important contribution to the development of the global economy. However, there are still some problems worthy of discussion: for example, the business environment assessment indicators of the world bank are globally unified, that is, the unified assessment indicators are adopted for 190 economies around the world, and the differences between economies are not fully

considered; secondly, the positive role of government supervision of various economies in the development of small and medium-sized enterprises is ignored. In many cases, effective government supervision is very important and necessary. Thirdly, in the evaluation indicators, government supervision focuses on the procedures, costs and time of enterprises, while the importance of government supervision quality is not enough; fourthly, the economic development level of 190 economies in the world is not the same, and the evaluation indicators do not take into account the differences in the development stages of each economy, as well as the impact of such differences.

Because the world bank has the above problems in the evaluation of the business environment of each economy, the ranking of developed economies is better than that of developing countries in the global business environment report released every year. This is mainly because the business environment evaluation index constructed by the world bank only pays attention to the efficiency of government supervision and ignores the impact of the quality of government supervision; in addition, it uses a unified index to evaluate the global economy and ignores the differences between the various economies.

## **5. CONCLUSION**

In a word, the research on business environment has been carried out relatively early and systematically in foreign countries, but there are also research defects, such as different research evaluation, research diversification caused by multiple cross directions. However, these studies do bring us a lot of enlightenment. When we examine these studies, we must combine our own country's actual situation, so as to carry out relevant research. Especially the evaluation report of the world bank has great influence. We can use it for reference to promote the construction of business environment in China.

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