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# Governance's Role in Business Environment of Visegrad Group / Maghreb Countries

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## Abstract

This paper focuses on identifying, conceptualizing, and explaining good governance in Visegrád Group (Czech Republic, Hungary, Poland and Slovakia) and Maghreb countries (Algeria, Libya, Mauritania, Morocco and Tunisia). In addition, the research is an attempt to investigate the relationship between the good governance and the business environment in these zones by creating a Pearson correlation between the six indicators of good governance and the score of ease of doing business. This research aims to examine the importance of the indicators of rule of law, political stability, control of corruption, voice and accountability, regulatory quality, and government effectiveness to implement an attractive business environment in these two regions using a regression analysis. The empirical data were collected from the Worldwide Governance Indicators (WGI) (1996–2020) and Doing Business Report (2015 – 2020), World Bank. This paper represent an argument for the relevance of governance indicators on the business environment which was justified by a strong correlation near to 1 for all the indicators. As a general perception, an attractive business environment will be one of the most important results of the existence of good governance. The second objective is to prove the relevance of governance quality for the ease of doing business in order to achieve the development for both regions.

**Keywords:** Governance, Business environment, Ease of doing business, Worldwide Governance Indicators, Visegrád Group, Maghrebcountries

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## Introduction

Good governance has become a topic of great interest for both scholars and public policy organizations due to its importance and effectiveness to deal with general topic as the economy development, business environment, social stability, and digitalization.

This paper will focus on the effects of good Governance on creating a transparent, free, and attractive market in Visegrád Group and Maghreb countries. Good governance must necessarily guarantee a framework of good rules that clearly establish and clarify property rights, rules, and transparency in order to enhance the predictability of economic interactions between various contractual partners.

Several researches highlighted the link between governance and various development outcomes using the governance indicators as quantitative dimensions of good governance. These indicators are designed to measure the main characteristics of good governance, reflecting aspects, which many would consider as being relevant for a good application of the good governance aspect. Some academic papers empirically tested how these characteristics influence the various development outcomes.

The business environment seems to be one of the affected development outcomes by these indicators. As a result, this paper intends to empirically investigate the influence of the governance indicators on the ease of doing business, aiming to develop this empirical analysis in two different regions (Visegrád Group countries and Maghreb countries). The choice of these two regions was based on the transformations and dynamicity of their environment in the last decade. The main hypothesis of this research are:

- Governance indicators have a strong influence on the business environment.
- The governance indicators in the Visegrád Group region have a positive effect on the business environment in this region.
- The governance indicators in the Maghreb region have a negative effect on the business environment in this region.

However, the purpose of this study is to prove the influence of the governance indicators on the business environment even if this impact is felt differently by the two different regions. This paper briefly establishes the main coordinates in defining good governance and governance indicators. However, it presents the research methodology and research questions.

In the next session, this paper deals with empirical analysis of the results and finishes with conclusion. The findings in this study provide context for initiating constructive debates concerning the real influence of governance indicators on the business environment and the ease of doing business.

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## Literature Review

Many studies and researches worked on clarifying the connection between governance and different development outcomes. Through history, scholars have focused more on corruption as the most important threat for development. Mauro, in his paper "Corruption and Growth", showed the effects of corruption on the economic growth and investment. The following researches shared the same opinion as Mauro but with more specific target.

The paper titled "Corruption, Public Investment, and Growth" by Tanzi and Davoodi (1997) prove the influence of corruption on the Public Investment. However, Wei in his paper "How Taxing is Corruption on International Investors" showed the effects of the corruption on the attraction of international investors. Friedman continue the work on corruption but this time in making evident the role of corruption in the development of the unofficial economy. Other scholars made their researches on the role of institutions in achieving the economic growth as Keefer and Knack in their paper titled "Does Social Capital Have an Economic Payoff?".

Moreover, the outcome which was analyzed during this paper, the business environment, was examined by Çule and Fulton in their research "Corporate governance and subjective well-being". They showed influence of governance over the business environment. According to them, the creation of a business environment is relative to the reduction of bureaucracy, easiest legislations for investors, and control of corruption.

There are other studies which shared the same opinion like "The impact of governance reform on performance and transparency" by Price, Román, and Rountree (2011). This research proved the positive relationship between the quality of governance and the good allocations of economic resources.

Based on these previous theoretical and empirical literature, this paper will investigate the governance's role in business environment using a correlation between the good governance indicators and ease of doing business for two different regions (Visegrád Group / Maghreb countries).

## Defining Good Governance

As it was mentioned above, one significant challenge for researchers is to find a definition of good governance which could be widely accepted. According to Ngobo and Fouda (2012), the concept of public good governance became rather significant in the early 1990s when many international aid agencies realized that poor governance was a major obstacle to the economic development of many developing countries. Landell-Mills and Serageldin (1991) defined the concept of governance as the use of political authority and exercise of control over a society and the management of resources for social and economic development. Some experts from the World Bank wrote a

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working paper titled “Governance and economy: a review”, citing from Random House College Dictionary (1984, p. 571) which defines governance as a neutral concept, meaning “the political direction and control exercised over the actions of the members, citizens or inhabitants of communities, societies and states” (Brautigam, 1991, p. 3).

In the opinion of World Bank researchers, the influence of political factors in the process of governance should not be ignored. The power and authority of governments in establishing the necessary framework that regulates the social and economic functioning of institutions are decisive. In the same working paper, the World Bank experts highlight the idea that there are some dimensions of governance (six indictors presented by the World Bank) which affect some indicators such as accountability, openness, transparency, and the rule of law.

## Governance Indicators

Despite the fact that governance concept were discussed by several policymakers and scholars, this term is still without a single definition. Many authors and organization proposed multiple definitions. In general, these definitions cover that governance is applied not only in the enforcement mechanisms and management of organizations as it was defined by the World Bank Development Report "Building Institutions for Markets", but also on the public sector management issues. The World Bank defined governance as “the manner in which power is exercised in the management of a country's economic and social resources for development”.

According to the variation of data and information, Kaufmann, Kraay, and Mastruzzi defined in their paper the concept of governance as “the traditions and institutions by which authority in a country is exercised. This definition is used in this paper and it covers three important pillars. Each of this area contains two Governance indicators, resulting in a total of six dimensions of governance.

**Table 1.** A Synthesis of the Main Definitions of Governance Indicators

| **Area of governance** | **Governance indicator** | **Definition** |
|---|---|---|
| The process by which governments are selected, monitored, and replaced | Voice and accountability | Capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media |
| | Political stability and absence of violence | Capturing perceptions of the likelihood that the government will be destabilized or overthrown |

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| | | |
|---|---|---|
| | | by unconstitutional or violent means, including politically-motivated violence and terrorism |
| The capacity of the government to effectively formulate and implement sound policies | Government effectiveness | Capturing perceptions of the quality of public services, the quality of the civil service, and the degree of its independence from political pressures, the quality of policy formulation, and implementation, and the credibility of the government's commitment to such policies |
| | Regulatory quality | Capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development |
| The respect of citizens and the state for the institutions that govern economic and social interactions among them | Rule of law | Capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence |
| | Control of corruption | Capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests |

Source: Kaufmann, Kraay, and Mastruzzi (2010)

## Methods

The main research question of this study refers to whether the governance indicators captured through the six indicators discussed above have a positive influence on the ease of doing business, followed by the development of this empirical analysis. There is an extensive literature investigating the link between governance indicators and various development outcomes, but few authors were investigating the direct link that might be

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observed between governance indicators and the ease of doing business measured through a certain score.

In other words, this paper intends to develop an empirical study based on, firstly, a Pearson correlation between governance indicators and score of ease of doing business and, seconldy, on a regression analysis starting from the dataset of indicators of governance quality and the score over the ease of doing business in nine countries presenting two different regions. Data referring to the indicators of governance refer to the year 2015 and 2020 and were available from the report developed by the World Bank.

The second dataset used within this study were the 'Doing Business' indicators of the business environment also developed by the World Bank. The World Bank report 'Doing Business in a More Transparent World 2020 and 2015' is an annual reports that evaluate the regulatory framework that ensures business activity and that restricts it.

**Table 2.** Description of the Variables

| Variable Name | Source | Description | Countries |
|---|---|---|---|
| 1. Voice and accountability | Worldwide Governance Indicators (WGI) 1996–2020 | It ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance | - Visegrád Group ( Poland, Hungary, Slovakia and Czech Republic)<br>- Maghreb (Tunisia, Morocco, Algeria, Mauritania and Libya) |
| 2. Political stability and absence of violence | | | |
| 3. Government effectiveness | | | |
| 4. Regulatory quality | | | |
| 5. Rule of law | | | |
| 6. Control of corruption | | | |
| Score on ease of doing business | Doing Business Report 2020, World Bank | The ease of doing business index make a score for the different economies from 0 to 100. For each country included in the sample, the score is calculated as the average of the percentile scores on each of the topics covered by the index calculated in Doing Business between 2015 and 2020. | - Visegrád Group (Poland, Hungary, Slovakia and Czech Republic)<br>- Maghreb (Tunisia, Morocco, Algeria, Mauritania and Libya) |

Source: World Bank, 2020

 ISSN: 1857-7881 (Print) e - ISSN 1857-7431

## Results and Discussions

Considering the availability of data included in this study, the final sample in realizing the cross-country survey included nine countries, for which all three datasets were available. The tables below show a regional classification of all these surveyed economies for 2015 (Table 3) and for 2020 (Table 4). It can be observed that this is an overwhelming proportion of economies classified within Visegrád Group (four countries) and Maghreb countries (five countries).

All governance indicators are measured with scores from approximately -2.5 (weak) to 2.5 (strong) governance performances. However, the score of ease of doing business varied between 0 (weak) and 100 (strong). As a result, the country which has the score of its governance indicators nearest to 2.5 indicates a best practice of good governance and vice versa. Secondly, the country which has the highest score of ease of doing business nearest to 100 indicates that it contains a good business environment and vice versa.

However, considering the quality of business environment captured through the score on the ease of doing business measured by the World Bank, it is expected for the Visegrád Group economies to have a better capacity to promote a pro-business environment than the Maghreb countries. This is basically because the best scores correspond to the most effective countries from the perspective of the ease of doing business.

By comparing the two regions in 2015 and 2020, the Visegrád Group countries have a better good governance indicators and a better score of ease doing business. Czech Republic has the highest score of governance indicators in 2015 and 2020 (Only control of corruption was higher in Poland). The highest doing business score was for Poland in both observations. In the other side, Libya declared the worst score in all the indicators in 2015 and 2020.

 ISSN: 1857-7881 (Print) e - ISSN 1857-7431

**Table 3.** Score of Worldwide Governance Indicators (WGI) for Visegrád Group and Maghreb Countries in 2015

| **Country** | **Region** | **Voice and accountability** | **Political Stability** | **Government Effectiveness** | **Regulatory Quality** | **Rule Of Law** | **Control of Corruption** | Doing business score |
|---|---|---|---|---|---|---|---|---|
| Hungary | VISEGRÁD GROUP | 0.55 | 0.74 | 0.54 | 0.76 | 0.40 | 0.15 | 68.8 |
| Poland | | 1.03 | 0.87 | 0.72 | 1.00 | 0.78 | 0.72 | 73.56 |
| Slovakia | | 0.96 | 0.87 | 0.76 | 0.78 | 0.49 | 0.14 | 71.83 |
| Czech Republic | | 1.04 | 0.97 | 1.05 | 1.09 | 1.13 | 0.50 | 70.95 |
| Tunisia | Maghreb | 0.24 | -0.96 | -0.12 | -0.40 | -0.06 | -0.06 | 67.35 |
| Algeria | | -0.84 | -1.09 | -0.50 | -1.17 | -0.86 | -0.64 | 50.69 |
| Libya | | -1.34 | -2.19 | -1.65 | -2.23 | -1.62 | -1.61 | 33.35 |
| Morocco | | -0.62 | -0.34 | -0.06 | -0.17 | -0.08 | -0.22 | 65.06 |
| Mauritania | | -0.88 | -0.63 | -1.02 | -0.86 | -0.86 | -0.92 | 44.21 |

Source: World Bank data, 2015

 ISSN: 1857-7881 (Print) e - ISSN 1857-7431

**Table 4.** Score of Worldwide Governance Indicators (WGI) for Visegrád Group and Maghreb Countries on 2020

| Country | **Region** | **Voice and accountability** | **Political Stability** | **Government Effectiveness** | **Regulatory Quality** | **Rule Of Law** | **Control of Corruption** | **Doing business score** |
|---|---|---|---|---|---|---|---|---|
| Hungary | VISEGRÁD GROUP | 0.39 | 0.86 | 0.58 | 0.48 | 0.51 | 0.10 | 73.4 |
| Poland | | 0.62 | 0.57 | 0.38 | 0.89 | 0.54 | 0.65 | 76.4 |
| Slovakia | | 0.88 | 0.64 | 0.54 | 0.78 | 0.68 | 0.44 | 75.6 |
| Czech Republic | | 0.98 | 0.92 | 0.96 | 1.24 | 1.06 | 0.59 | 76.3 |
| Tunisia | Maghreb | 0.27 | -0.63 | -0.20 | -0.36 | 0.14 | -0.07 | 68.7 |
| Algeria | | -1.10 | -0.86 | -0.53 | -1.29 | -0.78 | -0.64 | 48.6 |
| Libya | | -1.38 | -2.48 | -2.01 | -2.32 | -1.97 | -1.62 | 32.7 |
| Morocco | | -0.61 | -0.33 | -0.03 | -0.12 | -0.09 | -0.35 | 73.4 |
| Mauritania | | -0.84 | -0.75 | -0.77 | -0.81 | -0.59 | -0.81 | 51.1 |

Source: World Bank data, 2020

 ISSN: 1857-7881 (Print) e - ISSN 1857-7431

## Robustness Tests

The robustness check has been done in this paper to ensure that the outcomes of this research are robust to the sample selection and the data preparation methods. In practical, in order to check if the differences between the means are statistically significant, a comparison of the p value (probabilities) to the significance level must be hold to assess the null hypothesis, which indicates the equality of the population means.

In general, the value of Alpha (significance level) is 0.05, which works well for the determination of results. This Alpha (0.05) indicates a risk of 5% or more to determine the existence of a significant difference. The Table 5 below presents the results (probabilities) collected from the robustness test of this data. In our case, the P-value >α: It means that p-value is greater than the significance level. Thus, the differences between the means are not statistically significant. In this robustness test, all results have the same statistical significance and prove the robustness of the main results.

**Table 5.** Probabilities Values of the Robustness Tests for Visegrád Group and Maghreb Countries on 2015

| | **Visegrád Group** | **Maghreb countries** |
|---|---|---|
| 2015 | P-value = 0.998 | P-value = 0.978 |
| 2020 | P-value = 0.986 | P-value = 0.996 |

Source: Own calculation using the world bank data, 2015 and 2020

Moreover, the correlations results, reported in Table 6 and Table 7, confirm the existence of a relationship between the governance indicators and the place held in the score of doing business, even if this relationship is felt somewhat differently for all these six indicators of good governance. However, even if that in 2015, the ‘political stability and the lack of violence’ is considered as being important, from a statistical point of view, it seems that it is not able to be significantly influence by itself based on the ease of doing business, especially for the Visegrád Group countries. The same was the case for voice and accountability in 2020 which did not show a strong correlation with the ease of doing business (Table 6).

Moreover, the situation is different for governance indicators such as ‘government effectiveness’, ‘regulatory quality’, ‘rule of law’, and ‘control of corruption’. However, for Visegrád Group countries, their influence is obvious in 2015 and 2020, while a strong relationship between the level of governance indicators and the ranking on the ease of doing business was statistically proven in both regions.

 ISSN: 1857-7881 (Print) e - ISSN 1857-7431

**Table 6.** Pearson Correlations between Governance Indicators and ease of doing Business inVisegrád Group and Maghreb Countries on 2015

| | |
|---|---|
| Voice and accountability | 0.903934 |
| Political Stability | 0.855148 |
| Government Effectiveness | 0.954408 |
| Regulatory Quality | 0.931641 |
| Rule Of Law | 0.946017 |
| Control of Corruption | 0.968045 |

Source: Own calculation using the world bank data, 2015

**Table 7.** Pearson Correlations between Governance Indicators and ease of doing Business in Visegrád Group and Maghreb Countries on 2020

| | |
|---|---|
| Voice and accountability | 0.87607 |
| Political Stability | 0.911839 |
| Government Effectiveness | 0.94068 |
| Regulatory Quality | 0.948947 |
| Rule Of Law | 0.956008 |
| Control of Corruption | 0.934282 |

Source: Own calculation using the world bank data, 2020

The regression results are displayed in Table 8 and Table 9, where the dependent variable is the ease of doing business, measured through the ranking of doing business assessed by the World Bank. On the other hand, the independent variables are represented by all the six governance indicators. Proceeding to an analysis from the different countries regions, the regression results emphasized the importance of some governance indicators as determinants for the business environment.

 ISSN: 1857-7881 (Print) e - ISSN 1857-7431

**Table 8.** Regression of the Score of the ease of doing Business on Governance Indicators in Visegrád Group and Maghreb Countries on 2015

| | **Visegrád Group** | | | **Maghreb countries** | | |
|---|---|---|---|---|---|---|
| | a | b | R2 | A | B | R2 |
| Voice and accountability | 0.097899 | -6.08372 | 0.693606 | 0.03551 | -2.5392 | 0.888693 |
| Political Stability | 0.024621 | -0.89264 | 0.267259 | 0.035146 | -2.87423 | 0.705246 |
| Government Effectiveness | 0.030489 | -1.40589 | 0.081656 | 0.045558 | -3.04502 | 0.962839 |
| Regulatory Quality | 0.037955 | -1.79809 | 0.212094 | 0.051572 | -3.65453 | 0.845434 |
| Rule Of Law | 0.056887 | -3.35521 | 0.116956 | 0.044753 | -3.02905 | 0.955594 |
| Control of Corruption | 0.099833 | -6.73912 | 0.487408 | 0.042499 | -2.90556 | 0.956383 |

Source: Own calculation based on the world bank data, 2015

**Table 9.** Regression of the Score of the ease of doing Business on Governance Indicators in Visegrád Group and Maghreb Countries on 2020

| | **Visegrád Group** | | | **Maghreb countries** | | |
|---|---|---|---|---|---|---|
| | A | b | R2 | A | B | R2 |
| Voice and accountability | 0.141111 | -9.92574 | 0.543953 | 0.030878 | -2.42736 | 0.909736 |
| Political Stability | -0.04591 | 4.213475 | 0.142505 | 0.0449 | -3.47489 | 0.783585 |
| Government Effectiveness | 0.021096 | -0.97657 | 0.014454 | 0.043982 | -3.1229 | 0.840453 |
| Regulatory Quality | 0.19013 | -13.4922 | 0.718303 | 0.05144 | -3.80458 | 0.930823 |
| Rule Of Law | 0.09131 | -6.18928 | 0.255784 | 0.047361 | -3.25764 | 0.87221 |
| Control of Corruption | 0.175629 | -12.8023 | 0.986859 | 0.032998 | -2.50893 | 0.822228 |

Source: Own calculation based on the world bank data, 2020

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Analyzing the results of the regression analysis, it can be observed that in 2015 (Table 8), the indicators of Maghreb countries showed a strong variance of the ease of doing business (between 70% and 96%) contrary to the Visegrád countries indicators which indicated low variance (between 8% and 69%). The most influential indicators in the Maghreb countries are: Government effectiveness, rule of law, and control of corruption. However, it was voice and accountability for Visegrád Group. Another observation is that political stability, government effectiveness, regulatory quality, and rule of law explains very low variance of the ease of doing business for Visegrád group.

In 2020, the same results were concluded (Table 9). The indicators of Maghreb countries showed a strong variance of the ease of doing business (between 78% and 93%) by comparing it to the Visegrád countries indicators which indicated low variance (between 1% and 98%). The most influential indicators in both regions were changed: Voice and accountability and Regulatory Quality for Maghreb countries and a significant influence of Control of Corruption for Visegrád group (98%). Another observation is that political stability and rule of law explains very low variance of the ease of doing business with a negligible effect of government effectiveness for Visegrád group (1%).

It has been empirically proven by our research that government effectiveness, political stability, and rule of law explain from a global perspective only little of the variance of ease of doing business in Visegrad countries. There are some studies which identifies a negative correlation between political instability and business investment (Perroti, 1996; Mauro, 1995). Others prove empirically the effects of political instability on economic growth (Aisen & Veiga, 2010). These results showed that political instability have a high significant influence on investments which are different from our findings. The low influences of political stability on the ease of doing business in the Visegrád group can be explained by the other indicators as voice and accountability, and control of corruption are more highlighted in this region. The Maghreb countries had the same idea that political stability had the lowest influence on the ease of doing business when compared to the other indicators.

However, 'Control of corruption' influences significantly the business environment for Maghreb countries and Visegrád countries. According to Gani and Duncan (2007), the corruption in the public sector can negatively influence economic activities, including business environments. On the other hand, there are some studies which prove empirically the link between corruption and governance, which can affect the business environment (Van Rijckeghem & Weder, 1997).

The limitations of this study is that doing business scores or reports are not the only indicators which present the business environment in a country or

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region. It can be measured also by FDI, international trade, etc. In addition, the effects of good governance indicators are not limited to only the business environment but also to the social and economic development of a country.

## Conclusion

Several studies and literature investigated the connection between governance and different development outcomes. However, only few, which indicated the relation between governance indicators and the business environment, were included in this study as an evidence of the relation between Maghreb and Visegrád Group countries. This research used the six good governance indicators and the score of ease of doing business for both regions as quantitative data to prove this link.

In order to improve the business environment in Maghreb and Visegrád Group countries, the government of these countries must consider the ease of doing business as a priority on its activities by creating more accessible business regulation and regulatory process. The analysis presented in this paper indicated that for the Maghreb countries, the most influential governance indicators on the ease of doing business are the ones related to the respect of citizens and the state for the institutions that govern economic and social interactions among them in 2015. However, it was related to the capacity of government to effectively develop and implement sound policies (government effectiveness and regulatory quality) in 2020.

For the Visegrád Group countries, the situation is different. The most influential governance indicators on the ease of doing business are voice and accountability and control of corruption in 2015. However, regulatory quality and control of corruption were the most significant in 2020. It is clear from these results that control of corruption is the most important indicator, which influence the ease of doing business in the Visegrád Group countries.

Surprisingly, the common result for both regions in 2015 and 2020 indicated that political stability is the less important indicator for the business environment from a general perspective. The governance indicators have influence on the ease of doing business even if the impact was different on the Maghreb economies when compared to the Visegrád Group economies.

From the outcomes of this study, some recommendations can be held in order to improve the ease of doing business. For the Maghreb countries, almost all governance indicators have an impact on the business environment. It means that the governments of these countries must be working on improving all these indicators. The good governance concept must be more applied in the public management using new mechanisms in order to get a better business environment even if the political stability does not reach a good score.

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Contrarily, the governance indicators in Visegrád Group countries did not have the same effect on the ease of doing business. Political stability, government effectiveness, and rule of law have a very low influence. In 2020, the control of corruption was the most significant factor for the improvement of business environment. It therefore means that the governments of the Visegrád Group must create new tools to control corruption and reduce it in order to make the business environment in this region more dynamic.

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