QUALITY OF BUSINESS COMPETITIVE ENVIRONMENT IN SLOVAKIA

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INTRODUCTION

Open economies and continual integration processes evoke a higher need to compare enterprising subjects on markets, in regions and economies. Permanent analysing of competitive environment is important for understanding currently existing relationships on the market. Competition environment has become a necessary base for realization of economic competition, it has an influence on market subjects behaviour and it is a motive power of the whole economy. Knowledge and comprehension of the competitive environment can help the market subjects to open new opportunities and space for successful business and to consolidate market position. [1] A health competition forces the enterprising subjects to behave more effective, to increase the product quality, to improve technology, to lower prices which presents an advantage for potential and existing customers.

Through analysis of competitive conditions and environment it is possible to gain a complex vision how the market is functioning, the view about market positives, motive powers, way of regulation and also about its negatives, ways and areas of the most frequent infringements of conditions of economic competition. [4] These facts are important when considering big investments or to start up new business. From the global view a quality of competitive environment affects competitiveness level of the economy. Detection of market failures or deformation and finding tools for their elimination is the basic prerequisite of creating an effective economic competition. The aim of our performed survey was to evaluate a quality of Slovak competitive environment, to identify factors with negative and positive impact on the economic competition.

To perform the evaluation of business competitive environment requires study of theoretical knowledge regarding competitive factors, conditions of economic competition and government rules of their protection. It is important to point a necessity of correct keeping the rules of economic competition. The rules are regulated by government but a significant role plays also a market and its development.

Based on relevant theoretical and scientific information a following methodology of evaluating quality of business competitive environment was set up:
- the evaluation of country’s competitiveness at a macro level,
- the level of keeping rules of economic competition in a country focused on results of realization of government competition policy reflecting cases of breaking competition conditions,
- the evaluation of business environment in a country through business environment index (BEI),
- synthesis of achieved results in particular analyses,
- identification of factors influencing the quality of business competitive environment.

Suggested methodology enables a complex evaluation of business environment quality, definition of problem areas and suggestion of solution for improvement of present situation. The methodology was implemented in Slovakia.

1 COMPETITIVENESS OF THE SLOVAK REPUBLIC

Competitiveness has been still hard measurable, therefore its research is mostly focused on identification and description of decisive factors. The key factors of competitiveness are considered significant parameters identified by regression analysis. Among the most important competitive factors at macro level belong: technologic level of production process, innovativeness, volume of expenses to research and development, unit labour costs, currency exchange rate, credibility of police and jurisdiction, economic infrastructure. The evaluation of global competitiveness on macroeconomic level has been performing by organization “Worldwide Economic Forum” in cooperation with Harvard’s University through index of global competitiveness (GCI). GCI displays a perspective of the country to achieve a sustainable economic growth in middle time period by evaluation of factors underlying productivity level in the country. Index GCI includes evaluation of factors in 12 pillars divided into three groups. The first group “Basic requirements” includes institutions, infrastructure, macroeconomic environment, health a primary education. The second group “Efficiency enhancers” includes six pillars: higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness and market size. The last group “Innovation and sophistication
factors” is represented by two pillars: business sophistication and innovation. World Economic Forum (WES) evaluates competitiveness on the base of statistical data and the worldwide survey of managers’ opinions. The results are published in annual report of global competitiveness.

Results of global competitiveness published in global competitiveness report by World Economic Forum in 2013 showed that position of the Slovak republic, according to index GCI with score 4.1, has gone down from rank 71 to 78 out of 148 evaluated countries. This position is the worst historic rank. Slovakia has got to position of the second least competitive country of European Union; the worse position within EU has got only Greece (rank 91). Even Croatia (rank 75) and Romania (rank 76) fit in better places than Slovakia in 2013. [7] Development of ranking SR during whole evaluated period is shown in table 1.

Tab. 1: Position of SR in global competitiveness rank by WEF

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<td>Rank</td>
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<td>43</td>
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<td>37</td>
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<td>60</td>
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<td>78</td>
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<tr>
<td>Change</td>
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<td>+6</td>
<td>0</td>
<td>+2</td>
<td>+4</td>
<td>-4</td>
<td>-5</td>
<td>-1</td>
<td>-13</td>
<td>-9</td>
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Source: adjusted [7]

The rank of countries is created on the base of reached score in evaluated factors within scale from one to seven where the score one presents the worst result. According to achieved score and rank in The Global Competitiveness Report 2013, the main problems with negative affect to competitiveness of Slovakia are as follows:

- Public trust in politicians – score 1.8, rank 139
- Corruption (favouritism) – score 1.9, rank 144
- Ineffective public institutions and bureaucracy – score 2.2, rank 142
- Low judicial independence and enforcement of law – score 2.3, rank 133
- Low transparency and wastefulness of government spending – score 2.1, rank 137
- Low quality of educational system – score 2.7, rank 130
- Unattractive taxation system - score 2.7, rank 130
- Rigid labour codex – score 2.4, rank 130

In Slovakia from the long term view there are factors which have been still worsen and are considered to be competitive disadvantages: high level of corruption, low law enforcement, public mistrust in politicians’ correctness, and inflexibility of labour legislation.

On the other hand, we should mention positive competitive factors of the Slovak Republic creating competitive advantages of the Slovak market. Results in The Global Competitiveness Report (2013) showed following indicator:

- Health and primary education – score 6.1, rank 39
- Prevalence of foreign investments and ownership – score 5.9, rank 7
- Low trade tariffs and duties – rank 4,
- Law risk of terrorism – score 6.2, rank 26
- Soundness of banks – score 5.8, rank 32,
- High correlation between wages and productivity – score 5.1, rank 22
- FDI and technological transfer – score 5.1, rank 26
- Procedures to start a business – score 6.0, rank 47
- Foreign market size index – score 5.1, rank 41
- Internet access in schools – score 5.5, rank 31
- Quality of electricity supply – score 6.2, rank 31

Competitive advantages of the Slovak Republic resulting from the above mentioned indicators are: openness to foreign investments and ownership including supporting legislation, low terrorism risk, low interest rates and high labour productivity.

2 RESULTS OF COMPETITION POLICY REALIZATION IN SLOVAKIA

The sense of competition policy is to protect rules and conditions of the economic competition on the market. Keeping competitive conditions on the Slovak market is monitored and regulated by the Antimonopoly Office. The Office intervenes in cases of cartels, abuse of a dominant position, vertical agreements; it controls mergers that meet the notification criteria and assesses actions of state and local administration authorities if they restrict competition. There are three main types of breaking competition conditions: mergers, abuse of dominant position and agreements restricting competition.
The results of the Slovak antimonopoly office actions during period 2006-2012 are shown in figure 1.

Fig. 1: (a) Actions of the Antimonopoly Office; (b) Assessed sanctions.

We can see that during monitored period a number of infringements of economic competition are decreasing. In the first year, the most frequent infringement was a merger formation. Merger formation means joining of more enterprises with aim to reach economic advantages on the market. Since 2007 the situation has been changed and the most frequent case the restrictive agreements have become. However, the number of cases decreased from 73 in 2007 to 33 in 2012. The graph 1b displays relative amounts of sanctions derived from the total amount of sanctions (281, 19 mil. €) for period of seven years 2006 – 2012 and shows the declining trend. The amount of sanctions decreased from 85 mil. € to 13,5 mil. €. It is possible to make following summary concerning the development of infringements of economic competition in SR during monitored period:
- the number of cases decreased by 60.6 %,
- amount of sanctions declined by 84,12 %,
- cases of abuse of dominant position decreased from 21 to 1 case (by 95.24 %),
- merger cases lowered from 69 to 5 (by 92,75 %),
- restrictive agreements at the beginning has risen from 9 to 73 and since 2009 the trend has been decreasing to 33 cases in 2012 (by 54,8%).

On the base of presented results we can make statement that conditions of economic competition in Slovakia are getting better. In spite of still existing infringements we can say that their relevance is decreasing, which is indicated by lower sanctions. The problem can be seen in repeating infringements of competition conditions on the Slovak market. This situation has become a reality in spite of sanction assessments. The multiple competition-breakers are large companies as for example Slovnaft, Slovak Telecom, then institutions of municipality and Slovak ministries.

3 STATUS OF THE SLOVAK BUSINESS ENVIRONMENT

Slovak business environment is monitored and evaluated by Business Alliance of Slovakia (BAS) and its indicator, the business environment index (BEI). The index BEI includes three categories: legislation and regulation environment, influence of macroeconomic factors on enterprising and micro factors as enterprise’s contribution to environment development. Each category contains of ten indicators. Slovak business environment has been monitoring by Business Alliance of Slovakia since 2001 and its evaluation is created through survey of managers’ opinions and experiences with doing business on the Slovak market. The base period of BEI calculation is July 2001 when the value of index was 100 points. The BAS publishes percentage changes of index quarterly. By BEI it is possible to monitor total development and also partial changes in individual categories and indicators.

Quality of business environment in Slovakia has been getting worse since 2006. Conditions for doing business are considerably deformed because of increasing anti-competitive practises, corruption by public orders, non-payments and tax frauds. The value of the enterprising environment index has been going down since the third quarter 2006. The value of index at the end of 2013 was 68, 1 point what is a decrease by 2, 88 % compared to previous quarter. [6] Slovak entrepreneurs are mostly unsatisfied with low enforcement of the law, which results from unkind situation in justice and
insufficient application of principle of equality before the law. The critics garnered also mismanagement of government and access to state aid which is perceived as opaque and selective.

Among still worsen indicators with negative influence on business environment belong:

- Law enforcement and judicial effectiveness
- Application of the principle of equality before the law
- Efficiency of state economy and access to state support,
- Existence of economic criminality and organized crime
- Mistrust to effectiveness of political system

Positive trend was noticed mostly at indicators from category of subjective influence of entrepreneurs on business environment. The value of index BEI rose at information openness of enterprises, relationship to the environment, investment and technological development, labour legislation and predictability of euro exchange rate.

The second part of business environment evaluation is survey of managers’ opinions and experiences. In 2013 the survey involved managers from 250 large and 250 middle and small Slovak enterprises. From the list of factors shown in table 2, respondents were asked to select the five most problematic for doing business in Slovakia and to rank them between 1 (most problematic) and 5. The data in the table 2 show the responses weighted according to their rankings.

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<th>Tab. 2: The most problematic factors for doing business in Slovakia</th>
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<td>Factor</td>
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<tr>
<td>Inefficient government bureaucracy</td>
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<td>Corruption</td>
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<td>Restrictive labour regulations</td>
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<td>Policy instability</td>
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<td>Tax rates</td>
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<td>Inadequate supply of infrastructure</td>
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<td>Tax regulations</td>
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<td>Access to financing</td>
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<td>Insufficient capacity to innovate</td>
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<td>Poor work ethic in national labour force</td>
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<td>Inadequately educated workforce</td>
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<td>Crime and theft</td>
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<td>Government instability/coups</td>
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<td>Inflation</td>
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<td>Foreign currency regulations</td>
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<td>Poor public health</td>
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Source: [6]

4 IDENTIFICATION OF FACTORS INFLUENCING THE QUALITY OF SLOVAK BUSINESS ENVIRONMENT

The synthesis of results found out in evaluation of competitiveness and business environment in Slovakia brings possibility to identify factors with negative and positive influence on quality of Slovak business environment. Factors deforming the business competitive environment can be identified as follows:

- **Absence of ethical behaviour of firms and unfair business practises:**
  - Abuse of limited liability in limited companies practices of white horses.
  - Tunnelling and transfer of property to new established company.
  - Intentional non-payment bearing into mind long lasting eventual lawsuit.
  - Failure to perform obligations to the public budgets (taxes, contributions).
  - Grey economy on the high level (enterprising without permissions, accounting documentation).
  - Repeated infringements of competition conditions on the Slovak market, especially agreements restricting competition despite assessed sanctions.

- **Execution of judicial authority:** long-lasting legal proceedings, low enforcement of debts, inefficient organization of judge work, unsolved corruption cases or suspicions from dis-economy. The unfavourably perceived situation in justice evokes a feeling of inequality before the law and it lowers the justice credibility.
- Inefficient government bureaucracy: hold-out at proceedings of state offices, complicated procedures at government authorities, policy instability and favouritism in decisions of government officials.

- Low transparency and wastefulness of government spending: ineffective state economy and access to state support, selective and opaque allocation of government subsidies and contributions, corruption by public orders, moving consolidation burden on businesses and population, while saving and rationalisation measures in the public sector are deemed to be inadequate.

- Low quality of educational system and workforce: connection between secondary schools and labour market is insufficient; the result is inadequately educated and skilled workforce. There is high migration of workforce, poor work ethic, low ability to retain and attract talents, restrictive labour regulations, absence of adequate workforce.

It is needed to monitor and support factors creating conditions for an effective business environment. Among factors supporting quality of Slovak business environment belong:

- Local supplier quantity and quality: availability of sufficient input materials and services.
- Openness to foreign investments and ownership.
- Low trade barriers by imports and exports.
- Flexibility of wage determination.
- Access to financial loans and services, health financial market.
- Ability of firms to use latest technology, high technology transfer.
- Work force motivated to higher labour productivity.

CONCLUSIONS

Slovakia is situated in the environment characterized by increasing market openness and integration economies. For the successful provision of long-term progress and increasing competitiveness it is important an objective evaluation and knowledge of current situation. Only high-quality and competitive business environment is encouraging firms to expand investment activities, brings new jobs and determines a positive development of economic activities.

It is necessary to use positive factors, as far as possible, to support and develop them. However, it is important to thoroughly understand the negative factors deforming competitive environment. In many cases, knowing negative stand is much more important, only then it is possible to avoid their negative effects and seek ways to reduce them.

The competitiveness of the Slovak Republic has constantly declining trend. The biggest problems in Slovak business environment we consider an increase in unfair business, repeated violations of competition rules, large regional differences, low level of innovation and low operational efficiency of government institutions and the courts. Ways to clean up and improve business environment are several. The most promising after thorough analysis we consider tightening legislation, constant communication with experts and those real acting in the market, increased flexibility of reactions to the situation and their prompt solution, in some cases, prevention and anticipate emerging situations, sufficient current, objective and high quality information. Entrepreneurs call for urgently adoption of changes to the system leading to more efficient judicial processes because functional justice is absolutely essential for improving the business environment.

As a significant positive aspect we perceive constantly developed efforts to improving the competitive environment, in Slovakia, detection of deficiencies and making proposals to deal with the situation, whether by entrepreneurs and stakeholders, state or the European Union.

Mapping business environment provides an answer to economic policy makers, where their effort is positive and where it is appropriate to take decisive action to improvement.

LITERATURE


QUALITY OF BUSINESS COMPETITIVE ENVIRONMENT IN SLOVAKIA

Abstract
Permanent monitoring, regulating and checking still changing and developing conditions of economic competition is only way how to reach an effective behaviour of market subjects and to keep a health competitive environment. The paper deals with evaluation of level and quality of business competition environment in Slovakia through performed analyses focused on competitiveness level of Slovakia, realization of economic competition policy, situation of business and regional environment in the Slovak republic. In the paper the attention is paid to main results of performed analyses which enable specification of factors lowering the quality of Slovak competitive environment and factors with positive impacts to competitive environment.

Key words
Business competitive environment; competitiveness; economic competition; enterprise

JEL Classification
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