



The American Chamber of Commerce
in the Slovak Republic

Better Regulation

Competitive Workforce

Adapting to Change



Executive Summary

**2009
Foreign Investors Survey**

INTRODUCTION

The American Chamber of Commerce in Slovakia (AmCham) was founded in 1993 in Bratislava as an independent and self-supporting organization, entirely dependent on contributions from its members. Today, it serves as one of the most active foreign chambers of commerce in Slovakia. Currently, its membership has reached more than 300 international and Slovak companies, including many of the largest and most important firms and foreign investors in Slovakia.

The aim of AmCham is to “build bridges” among its members, non-members and many official political, diplomatic, economic and other representatives and institutions and to help fulfill goals and missions of its members much easier than on their own. It contributes to the development of a healthy business climate and to improving conditions not only for its members, but also for other businesses operating in Slovakia. Focusing on creating favorable conditions for doing business and

environment that would positively influence development of investments existing in the Slovak Republic and supporting the influx of the new investments to this area, AmCham helps to increase the quality of everyday life in the Slovak Republic.

In recent years, Slovakia has frequently been recognized as a country with favorable conditions for doing business. Due to its unprecedented economic growth, the country was often labeled as the “Central European Tiger”. Now, with its entry into the Eurozone, Slovakia has a unique opportunity to set a course that will build on this success and continue to strengthen its competitiveness. However, as competition intensifies for the limited supply of highly skilled and educated labor, Slovakia’s political and business elites need to review the main deterrents to economic growth in order to secure healthy conditions for doing business in the country and ensure positive and sustainable development of Slovakia’s economy.

Therefore, AmCham conducted a survey of foreign investors in Slovakia which identified current conditions and barriers for foreign investors doing business in the Slovak Republic. The results of the 2009 Foreign Investors Survey are summarized in policy recommendations for the government, businesses and educational institutions.

The Foreign Investors Survey (Survey) was conducted in March – June 2009. More than 100 companies representing foreign investors from 22 different countries responded to the survey which covered three main areas:

1. Competitive Workforce
2. Better Regulation
3. Adapting to Change

The results in two of these areas (Competitive Workforce and Better Regulation) also served as a basis for policy recommendations.

I. COMPETITIVE WORKFORCE

The potential of the labor force and the flexibility of the labor market are for Slovakia one of the key factors for sustainability and growth of its competitiveness on the global market. At the same time, it plays an important role in attracting and retaining foreign investments.

According to the Foreign Investors Survey, the lack of a qualified workforce is seen as the main challenge that companies face in the area of human resources (Table 1). Nearly 45% of respondents see the educational system as not adequately preparing individuals for Slovakia’s labor market needs (Table 2). Therefore, the trend set by the latest amendment to the Law on Vocational Education is greatly encouraged by the foreign investors. The business sphere welcomed the new provisions of this Law, which provides motivation for employers to actively engage in the educational process by providing financial and material assistance to schools as tax-deductible items.

Further options for increasing investment in equipment, facilities, and technology should be explored in the near future to keep Slovak students at par with their EU counterparts. The increase of influence of employers on curricula of local schools by means of negotiating “school educational

programs” with school founders is another positive step. The outcomes of the Survey also point out the need for strengthening cooperation between educational institutions and businesses at the local level, attracting younger teachers and increasing teachers’ salaries.

“The candidates use the right words and terminology, but they are not really able to apply them in practical life, not understanding the real meaning.”

Comment from respondent

As businesses struggle to fill positions requiring soft skills - especially in the fields of management, sales and marketing (Table 3) - a greater emphasis should be put on practical training/education at all levels and a shift from “memorizing” to “experiential learning”. Applying modern, innovative teaching methods such as case studies, simulations, games, and role plays is crucial in this respect. Simple verbal communication and public speaking during Slovak language class, where students present their work verbally in front of their classmates, is a simple and effective way of improving the communication skills of young Slovaks. In addition to the need for increased focus on

communication skills in general, the Survey revealed that improving foreign language skills of Slovak students is crucial for their later success on the labor market.

“We need to improve mobility between jobs and occupations. Workers have to be able to move from occupations in decline to jobs that are hot or in demand. They need new forms of security or safety nets that underpin their ability to remain and progress in the labour market.”

Comment from respondent

Suggestions made by respondents:

- More practical training/education should be included in school curricula
- Soft skills (service attitude, leadership), language and communication skills should be improved
- Investment in hiring and retaining highly qualified teachers and investment in high-quality equipment facilities at educational institutions should be a priority
- Cooperation between the state, universities/research institutes/schools and businesses at all levels of education should be strengthened

II. BETTER REGULATION

Foreign investors strongly encourage the Slovak government to decrease the administrative burden on businesses (Tables 4,5), reduce rapid and nonsystematic changes of legislation and allow greater discussion and involvement of various stakeholders in preparation of new legislation. The Survey revealed that transparency and corruption present an important issue directly impacting foreign investors in Slovakia.

As many as 72% of respondents consider the allocation of public tenders and financial resources as non-transparent (Table 6), and feel that the state has not created and does not apply transparent procedures for allocation of incentives and EU funds (Table 7). Furthermore, 81% perceive corruption as a barrier to doing business (Table 8). The surveyed investors expressed their will to support all of the Slovak government's

initiatives to raise awareness in this area and implement additional anti-corruption measures.

“People are educated. Many have access to the internet. It is a shame it is not used in e-government.”

Comment from respondent

One of the ways to overcome this barrier and increase transparency, as well as efficiency, is to proactively advance positive initiatives in e-Government and e-Procurement, which are currently only in intention/design status. According to our survey, less than 3% of respondents think that e-Government is effectively implemented in the Slovak Republic (Table 9). The UN's 2008 e-Government Readiness

Index compares various countries according to two primary indicators: i) the state of e-government readiness; and ii) the extent of e-participation. Slovakia ranked 38th (behind all Central and Eastern European neighbors) in the list of the top 50 countries. A greater sense of urgency is therefore expected in this area.

Suggestions made by respondents:

- **Rapid and nonsystematic changes of legislation should be eliminated**
- **Various stakeholders should be openly invited and encouraged to take part in preparation of new legislation**
- **e-Government should be intensely prioritized**
- **Rules of public tenders, licensing and incentives should be more transparent and more in line with EU standards**
- **An online procurement system would significantly increase both transparency and efficiency**
- **Anti-corruption efforts should begin with education of young people**

III. ADAPTING TO CHANGE

The global economic crisis has significantly affected foreign investors' plans for their future investments in Slovakia (Table 10). According to the Survey, 99% of respondents have been impacted by the economic downturn on their operations. Nevertheless, only 1% of respondents are considering moving their operations out of Slovakia and only 8% plan to downsize (Table 11). The fact that a vast majority of foreign companies want to keep their operations at least at current levels is a strong indication that Slovakia remains highly competitive.

According to the 2009 Czech Competitiveness Report (conducted by the Council on Czech Competitiveness), Slovakia could be the first country in Central Europe to catch

up to Austria in terms of its overall competitiveness. According to the report, “Even though the Czech Republic has competitive economic policy across all areas and outperforms Slovakia in three of six areas, and is nearly even in the general indicators of performance, the poorer results in public administrative efficiency and exchange rate stability place this country slightly behind its former partner. Slovakia benefited from its decision to apply euro stability rates instead of Slovak currency rates; it joined the ranks of euro countries on January 1, 2009. Otherwise, the rankings could have been reversed.” The Foreign Investors Survey proves that Slovakia's efforts to stabilize its public finances to enter the Eurozone are bearing fruits. Eighty-three percent of foreign inves-

tors perceive that the use of euro as the official currency has had a positive impact on their business (Table 12) and, importantly, 35% are even considering expansion of their operations in Slovakia (Table 11). However, most respondents are dissatisfied with the current economic policy of the Slovak government and its response to the crisis (Tables 13-15).

“The current financial crisis should be seen as an opportunity. Priority should be the implementation of the Lisbon Agenda, development of infrastructure (highways) and new high-tech sectors.”

Comment from respondent

CONCLUSION

The volume of direct investments of foreign business entities, which in 2008 reached the total amount of 26 bn. EUR, shows the importance of these investors for the macroeconomic growth of Slovakia, and for the growth of the quality of life of its inhabitants. It is important to note that according to the Hospodárske noviny (Economic Daily), 90% of the profit currently produced in the Slovak economy was generated by the 125 largest

enterprises, out of which 124 are foreign companies. These businesses represent an 86% share of Slovak exports. Many foreign companies operating in the Slovak Republic are key employers and dominant business representatives in their regions, thus playing an irreplaceable role not only in their area of business, but in the Slovak economy as a whole. Therefore, we hope that the Slovak government will take the recommendations given by the participants of this Survey into

consideration and that the open and constructive dialogue between the government and foreign investors will result in steps taken in the direction that will be of benefit to the country and its citizens.

The American Chamber of Commerce in the Slovak Republic, along with other foreign chambers of commerce operating in Slovakia, stands ready and willing to facilitate this process in any way possible.

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