

# Investing and doing business in Slovakia: What can be done better?

Foreign Investors Survey

January 2016



# Introduction

This is AmCham's (American Chamber of Commerce in Slovakia) second Foreign Direct Investors Report carried out in cooperation with EY (formerly known as Ernst & Young), which builds on a previous report from 2009. **The goal of this survey was to identify current conditions and barriers to foreign investors doing business in the Slovak Republic.**

**We received 100 responses** to the survey from companies representing investors from 23 countries, ranging from small and medium enterprises to multinational corporations. Additionally, **representatives of 10 companies were interviewed** to gain a better understanding of their opinions and suggestions.

The survey was carried out from September to December 2015. We would like to extend our gratitude to all the participants - especially those interviewed.

We examined the following questions related to foreign investments in Slovakia:

- Does the Slovak Republic provide favorable conditions for developing existing investments and supporting the influx of new investments?
- What can be done to improve the quality of labor?
- Are there any other areas for improvement other than quality of labor?
- What is the future of investment in Slovakia?

This report summarizes the key findings of our survey and provides policy recommendations for the government, businesses and educational institutions. We hope that, in a small way, it will **contribute to developing a healthy business climate and improving conditions for businesses** operating in Slovakia.

If you would like to respond to our conclusions in any way, we would be delighted to hear from you, to meet you or to welcome you to one of our events.



**Jake Slegers**

Executive Director of AmCham Slovakia



**Matej Bošňák**

EY Slovakia Country Managing Partner

# Key findings

AmCham, in cooperation with EY, has conducted its second Foreign Direct Investors Survey. **The goal of this survey was to identify current conditions and barriers to foreign investors doing business in the Slovak Republic.**

The results of the 2009 survey showed multiple areas for improvement such as lack of qualified workforce, a rather non-favorable administrative environment, non-transparent conditions for allocation of public tenders and financial resources, and corruption. When compared with this year's results, there are only a few areas that have improved according to investors.



**55%** of respondents think the current **economic policy** is highly ineffective or ineffective for sustainable growth and has not contributed to growth over the past six years (big increase from 27% in 2009).

Over a half of respondents state that the **corruption level has not** changed in the past six years while another 1/3 of respondents believe it to have increased.



Improving **highways and roads** was the primary recommendation from **91%** of the respondents regarding infrastructure.



**2/3** of respondents believe that the **state supports** foreign investors in effectively using investment **incentives and EU funds** at least to some degree during the initial phase of investment, but not continually afterwards.



Lack of a **qualified workforce** is the **No. 1 issue** companies face in human resources.

Over **73%** of respondents replied that the costs of their **administrative burden** have increased over the past six years and only 1% stated that they had actually decreased.

Despite these conditions, almost **1/2** of companies are planning to **expand** their business in Slovakia.



Only **10%** of respondents believe that the education system prepares individuals adequately.

**Managerial skills are least available skills** influencing future growth according to investors.

**81%** of respondents, who feel legal regulation slows down their business, named the **labor code as the most negative influence**.



**67%** of respondents think e-Government is implemented insufficiently despite significant public investments in this area.

**We believe that the investors' opinions and recommendations in this survey will stimulate changes towards better business conditions.**

# State support and support of investments

A positive economic environment, favorable conditions for doing business and an effective mix of incentives is crucial for developing existing, and attracting new investments. Therefore, the survey first sets out to understand investors' perceptions of the state's economic policies, incentives, legal and administrative environment in the Slovak Republic.

This is of particular interest, since creation of a favorable business environment was one of the Slovak government's program goals, declared in 2012. So how do respondents perceive the fulfillment of this goal? Has the Slovak government progressed towards a better and more suitable business environment? Do respondents think that the state allocation of support, incentives and EU funds is beneficial and transparent?

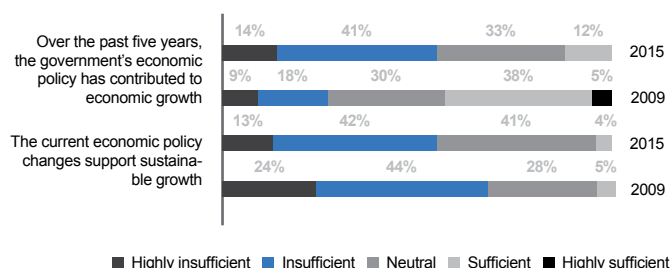
- 55% of respondents considered economic policies in recent years to be either highly ineffective or ineffective for **economic growth**.
- Only 12% of investors believe that over the past five years, economic policy has contributed effectively or highly effectively to economic growth – this group has **shrunk by 31 percentage points** in comparison with 2009.
- 55% of respondents believe current policies insufficiently contribute to **growth that is sustainable**.
- Of those asked, over 40% responded that the Slovak legal and administrative environment is either highly non-favorable or non-favorable to doing business. Furthermore, the share of companies which rate it as favorable has decreased by two percentage points. **None** of the respondents **rated the environment as highly favorable for doing business**.
- **73% stated that the cost of legal and administrative burden have increased** or increased significantly over the six year period. Only 1% stated that administration costs have actually decreased.

- Over half of respondents think that the transparent procedures for allocation of incentives and EU funds, public tenders and financial resources are created to only a low degree or not at all. Still, this is an improvement from almost three-quarters in 2009.
- Two-thirds of respondents think that the **state supports foreign investors in effective use of investment incentives and EU funds at least to some degree during the initial phase**. Only a third of respondents think that the state **continuously** supports foreign investors effectively.

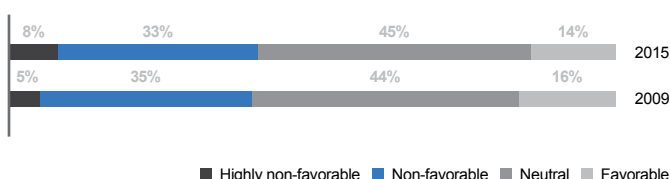
## Respondents recommend:

- Reducing bureaucracy
- Increasing transparency in public tenders and allocation of financial resources, incentives and EU funds
- Promoting other industries aside from automotive
- Increasing involvement of private sector in law-making

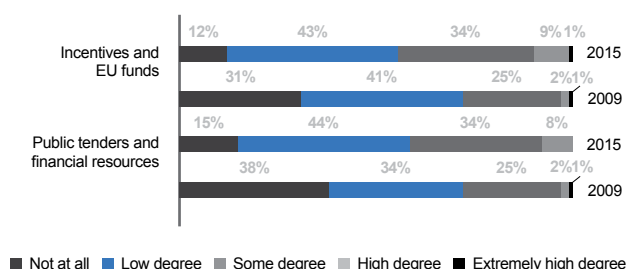
## How do investors perceive economy policy?



## Is the legal and administrative environment favorable to doing business in the Slovak Republic?



## To what degree has the state created and applies transparent procedures for the allocation of incentives, EU funds, public tenders and financial resources?



# What can be done to improve the quality of labor?

Regardless of the incentives and state support, there would be no investment without appropriate available labor. The question of whether Slovakia is able to provide an adequate level of qualified and skilled labor was also raised in the 2009 survey and it is interesting to compare it to this year's results.

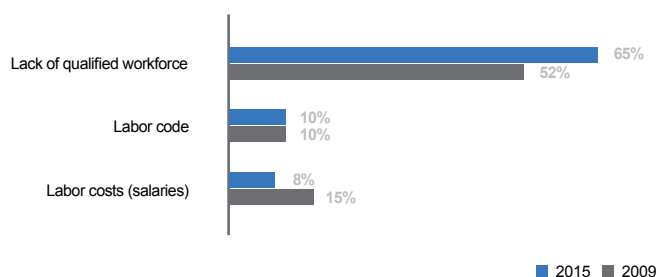
Overall, there have been some improvements in how respondents perceive labor issues in Slovakia, but some concerns, such as lack of qualified workforce and lack of certain skills or education levels, still persist from six years ago.

- ▶ The three main issues in the area of human resources remained **labor quality, labor code and labor costs**.
- ▶ The **lack of qualified workforce** continues to be the most important challenge and it has increased. This issue is prevalent in the EU, as according to the OECD's PIAAC 2013 survey, 20% of the EU workforce suffers from a lack of specific skills.
- ▶ As for the remaining two areas, the **labor code ranked second** this year and its perception has not changed over the six years. Labor costs, specifically salaries, are perceived as challenging by less companies compared to 2009, but still remains the No. 3 challenge.
- ▶ An effective education system should play a vital role in preparation of individuals for the labor market, thus avoiding a shortfall of required skills within the workforce. Unfortunately, **only 10% of respondents believe that the system prepares individuals adequately**.
- ▶ For future investments and growth, respondents lack mostly managerial, technical and engineering skills.
- ▶ **Lack of technical / engineering skills showed great increase in importance** over the time period in question.
- ▶ **71% of respondents consider labor mobility within Slovakia as a barrier** for doing business.

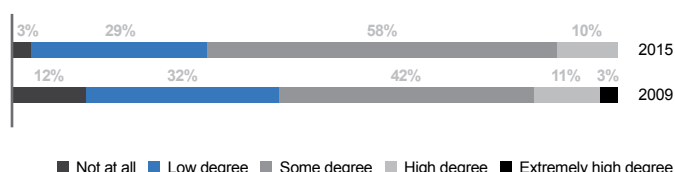
## Respondents recommend:

- ▶ Improving education and skills in the demanded areas
- ▶ Extending dual education to all education institutions besides vocational schools
- ▶ Introducing strategic solutions preventing brain drain
- ▶ Improving language skills apart from English

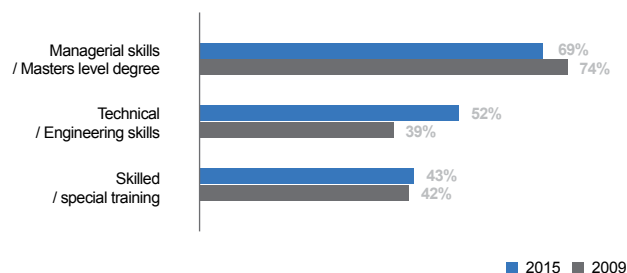
## Main challenge companies face in the area of human resources



## Does the education system adequately prepare individuals for Slovakia's labor market needs?



## Top three least available skills or education levels vital for future growth according to investors



# Are there any other areas for improvement other than labor?

Multiple factors constitute a favorable business environment. Aside from human resources, we asked investors about additional aspects of the legal and administrative environment, such as legal regulation, transparency and e-Government and their effects.

Has Slovakia managed to improve its legal regulation, decrease corruption or implement e-Government over the six year period? There are some signs of improvement but these areas still remain a challenge to be addressed.

- ▶ **62% of respondents think legal regulation holds back the business.** Out of the top three legal regulation issues identified by companies, two are related to labor.
- ▶ **81% of respondents**, who feel legal regulation slows down their business, **named the labor code as having the most negative influence.**
- ▶ An additional two issues – **taxes plus social security and pensions – were each identified by 47% of respondents.**
- ▶ **97% of respondents feel that policy makers / public servants are not accessible enough** to discuss issues slowing down their business.

- ▶ **Almost 40% of respondents indicated that corruption presents a high or extremely high barrier** to doing business in Slovakia.
- ▶ According to Transparency International's Corruption Perceptions Index from 2014, the fight against corruption in Slovakia has been improving each year.
- ▶ However, a third of respondents indicated they believe that corruption has increased over the past six years. For an additional 50%, the corruption barrier stayed the same.

- ▶ One of the frequently mentioned areas for improvement by respondents in 2009 was e-Government and it remained a hot topic also in 2015.

- ▶ 67% of respondents think e-Government is implemented insufficiently despite significant public investments in this area.

- ▶ **e-Government should support the development of the digital economy** and contribute significantly to GDP growth, employment and overall competitiveness of the economy.

## Respondents recommend:

- ▶ Increasing labor code flexibility
- ▶ Introducing transparency in the public procurement and lobbying
- ▶ Promoting an independent justice system
- ▶ Making policy makers accountable for their decisions
- ▶ Sustaining and boosting positive initiatives in e-Government, e-Procurement and e-Business

## Is legal regulation holding back the business?

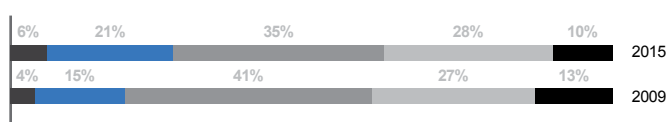


### Top legal regulations holding back business

2015	2009
1. Labor code (81%)	1. Labor code (54%)
2-3. Social security, pensions (47%)	2. Social security, pensions (40%)
2-3. Tax (47%)	3. Tax (29%)

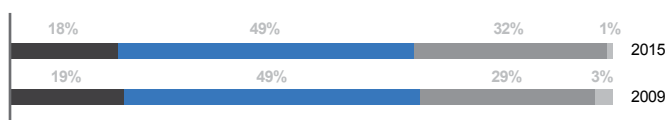
■ No ■ Yes

## Does corruption present a barrier to doing business in Slovakia?



■ No barrier ■ Low barrier ■ Some barrier ■ High barrier ■ Extremely high barrier

## Is e-Government implemented effectively in Slovakia?



■ Not at all ■ Low degree ■ Some degree ■ High degree



# What is the future of investment in Slovakia?

Like any other country, Slovakia has advantages and disadvantages from an investor's point of view. Even with the identified areas for improvement, the majority of the surveyed respondents expressed positive sentiment over the future of investment in Slovakia. The stabilization after the economic crisis is one of the reasons for economic growth.

We asked investors what are the five top issues impacting growth and investment and what changes would help in making Slovakia more attractive to foreign investment.

➤ Compared with the 2009 survey results, the number of investors who will most likely **expand the operation of their business unit** increased by 10 percentage points to 45%.

➤ **Only 9% of companies plan to downsize or relocate**, the majority being companies with 20 or fewer employees with small decision-making power.

➤ Despite dissatisfaction with numerous conditions for doing business in Slovakia listed in previous pages, investors plan to expand and stay in Slovakia – mainly due to positive economic development. However, **this attitude can change in the event of economic slow-down – if conditions for doing business in Slovakia do not improve.**

➤ To make Slovakia more attractive to potential investors, respondents identified the top five issues that influence their growth and investment (see chart for details). The two **most important issues related to labor.**

➤ The issue of **accessibility to labor has skyrocketed in comparison with 2009** (64% vs 18%) along with the cost of payroll taxes and social contributions in line with previous findings.

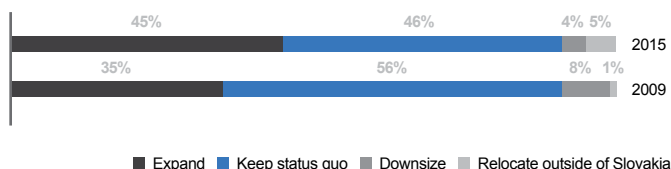
➤ In the area of infrastructure, **92% of respondents would recommend improvements to highways and roads.**

➤ Improvement of railways and more frequent air connections would be welcomed by one quarter of surveyed respondents.

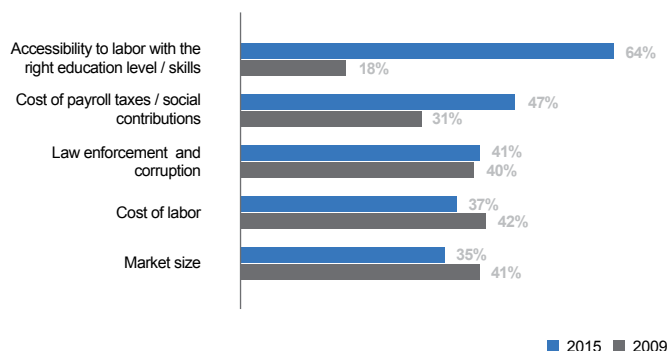
## Respondents recommend:

- Continuing and speeding up the development of highways and roads
- More frequent domestic and international flights
- Improving high speed internet coverage in less developed regions
- Decreasing regulation costs in selected industries

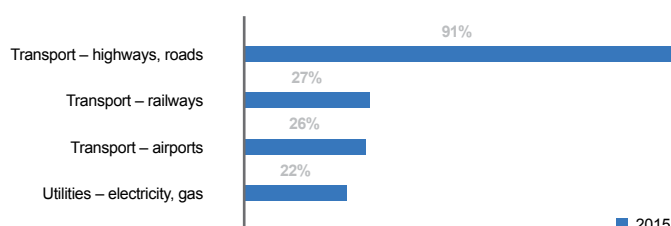
## Which of the following is the most likely future scenario for your business unit's function in Slovakia?



## The top five issues impacting growth and investment in your company's business unit in Slovakia



## What changes in Slovakia's infrastructure, if any, would you recommend?



# Information about the sample

## Sample size

- EY has collected 100 responses to survey and further conducted 10 detailed interviews.
- The survey was carried out from September to December 2015.
- Each question was on average answered by 91 respondents.

## Origin

- The companies involved in the survey have headquarters mainly in Europe (67%), USA (23%) with a small number of Asian investors (7%).
- As for the size of the companies, the sample was evenly distributed with a minor emphasis on companies with over 1000 employees (30% of the sample).

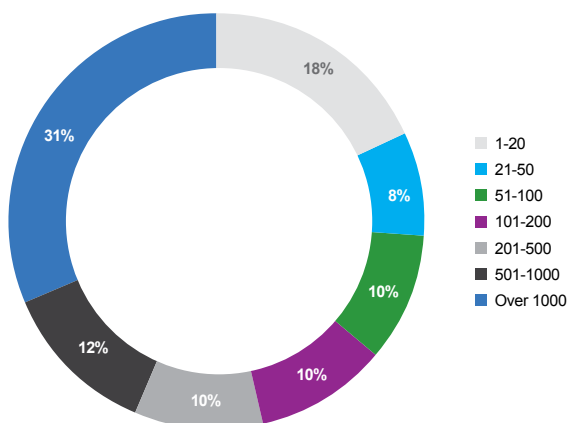
## Sectors

- Sectors were also represented evenly: manufacturing (15%), automotive (14%) followed by IT / Computers (12%) and Accounting and Finance (12%).
- According to the surveyed companies, their Slovak operations mostly fulfilled the purpose of either a production facility (35%), shared service center (32%) or a sales and marketing office (25%).

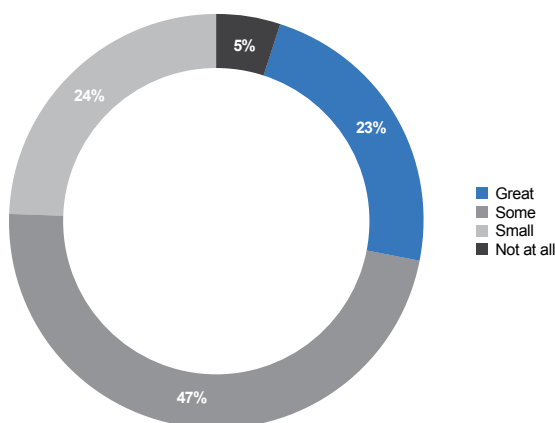
## Type of business

- For 22% of the surveyed companies, the Slovak entity has great decision-making power and almost half of the sample had some decision-making power with regards to their headquarters.

## Number of employees in Slovakia



## Decision-making power of Slovak entities



The American Chamber of Commerce (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. The Chamber's three main pillars are providing through a variety of channels networking opportunities, comprehensive information, and extensive advocacy services for its members.

Currently, its membership has reached more than 330 international and Slovak companies, including many of the largest and most important firms in Slovakia. Of this amount, approximately 25 % are American companies, about 40 % are Slovak and about 35 % represent other nationalities.



Hodžovo námestie 1A  
811 06 Bratislava  
Slovak Republic  
+421 254 640 534  
office@amcham.sk  
www.amcham.sk

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY Slovakia has been present in the Slovak professional service market for 25 years. We were among the first professional firms to establish offices in the Central and South-East Europe region and now have more than 280 employees, who are based in Bratislava and Košice.



Hodžovo námestie 1A  
811 06 Bratislava  
Slovak Republic  
+421 233 339 111  
marketing@sk.ey.com  
www.ey.com