



ARE INDUSTRIAL ENTERPRISES PREPARED FOR ENTRY INTO THE EU COMMON MARKET?

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In connection with the preparation of the Slovak Republic for accession into the EU various studies are being drawn up. The analysis presented here concerns the business enterprise sphere, without which it is not possible to assess the Slovak Republic's real level of preparation for entry into the EU. The subject of the analysis comprises the following adaptation instruments:

1. Selected characteristics which are connected to the internationalisation of an enterprise:

- level of exports as a share of an enterprise's revenue,
- level of exports to the EU as a share of an enterprise's revenue,
- level of exports to V4 countries as a share of an enterprise's revenue,
- forms used for accessing a foreign market (EU).

2. Selected characteristics of the internal and external environment focused on enterprises' operations in the EU market:

- motives,
- strengths and weaknesses in the domestic market and the EU market,
- information sources,
- implementation of ISO standards,
- use of export support,
- strategies used for EU markets,
- knowledge of the effect of the EU Common Market on enterprises,
- enterprises' expectations (revenue, growth, opportunities and risks).

3. Entry of foreign investors (in particular from the EU), able to assist Slovak enterprises to adapt to the EU market:

- country of origin of the foreign investor,
- motives of the strategic investor,
- benefits of the entry of a strategic investor for an enterprise and the region,
- satisfaction of a strategic investor with its operation in the Slovak Republic.

The results were gained from research carried out through questionnaires in enterprises from all branches of Slovak industry. Overall 211 questionnaires were sent with a rate of return of 47.8 per cent. The share of connected enterprises represented 30.5% the share in overall earnings of Slovak industry in 2000, may be considered as strongly representative in particular with regard to the strong concentration in Slovak industry, since the share of

four enterprises (Volkswagen, a. s., Slovnaft, a. s., SPP, a. s., VSŽ, a. s.) represented in 2000 38.2% of overall earnings of industry. These four enterprises were not included in the research for various reasons:

1. the effect of the Common Market will on several of these be small (long-term operation in the EU market),
2. they are a component of strong multinational enterprises, which set their foreign aims and strategies for the long-term,
3. there exists strong concentration of production and exports,
4. there exist problems with gaining the relevant data (in particular following the entry of a foreign investor).

The level of internationalisation of an enterprise and its size is to a significant extent determined by the effect of the EU Common Market on the enterprise as well as its opportunities.

We can monitor the level of internationalisation through a system of three indicators. Data gained as well as other data confirm the fact that the level of exports as a share in the earnings of individual sectors of industry is varied, though however is significant (Table 1, 2). These shares in several sectors decline significantly if we raise the limit for the share of exports to 75% (Table 2).

The effect of the EU Common Market (and the need for adaptation) needs to be judged also from the aspect of the destination of exports of individual enterprises - operation in the EU market, but also V4 countries, future EU members.

Table 1. Share of exports of enterprises having an export share of greater than 50% in their earnings in the total exports of the industry sector (%)

Sector	2000
Mechanical engineering	99.4
Chemical, pharmaceutical and rubber	97.3
Metallurgy	99.5
Energy	86.0
Wood processing	88.7
Electrical engineering	100.0
Consumer goods	100.0
Foods	-
Glass	85.7
Construction materials	84.8
Polygraphics	100.0
Mining	100.0

Table 2. Share of exports of enterprises having an export share of greater than 75% in their revenue in the total exports of the industry sector

Sector	2000
Mechanical engineering	86.9
Chemical, pharmaceutical and rubber	26.1
Metallurgy	40.2
Energy	–
Wood processing	27.2
Electrical engineering	81.0
Consumer goods	62.6
Foods	–
Glass	85.7
Construction materials	35.9
Polygraphics	–
Mining	100.0

In view of the operations of individual Slovak enterprises in the EU market we can divide (as we can generally) these enterprises into three groups:

Orientation	Sector
1. with strong orientation on EU	<ul style="list-style-type: none"> • Mechanical engineering • Consumer goods • Glass • Electrical engineering
2. with moderate orientation on EU	<ul style="list-style-type: none"> • Chemical, Pharmaceutical and rubber • Wood processing • Construction materials • Polygraphics
3. with weak orientation on EU	<ul style="list-style-type: none"> • Foods • Mining

The share of industry sectors with a strong orientation on the EU market represented in 2000 in the sectoral structure of exports 39.8% of total exports.

The size scale of enterprises is compatible with methodology in the EU and includes three groups of enterprises:

1. 1 – 49 employees,
2. 50 – 449 employees,
3. 500 – and above employees.

The size scale is in Table 3.

Table 3. Size composition of the group monitored

Size group	Number of employees	Share in earnings of the sample monitored
1 – 49 employees	1	0.1 %
50 – 499 employees	38	10.9 %
500 and above employees	62	89.0 %
Total	101	100 %

The average size of an enterprise, calculated as the average revenue pertaining to one enterprise in an individual size group (2, 3) is significantly varied. In the group with the number of employees ranging from 50-499 this is 0.622 billion, in the group with the number of employees ranging above 500 this is 2.96 billion. Thus, it is apparent

that with regard to the effect of the Common Market and opportunities there are different groups of enterprises.

An important indicator of the level of an enterprise's internationalisation is the form used for entry into a foreign market. Five options were considered in the research. We show below the frequency of each form for entry into a foreign market employed by individual firms:

Form employed for entering a foreign market	Frequency
• indirect export (through foreign organisations)	22
• direct export without investment (own units as a component of the enterprise's organisational structure, e.g. sales department, marketing section, etc.)	7
• direct export with investment (representation office, sales branch abroad)	21
• joint venture abroad	9
• production enterprise abroad	10

Research confirmed in particular the use of lower forms of entry into a foreign market. Higher forms were used in particular by enterprises with more than 500 employees (28 enterprises represent only 49.5% of the total revenue of this size group), entry via these forms was little used by enterprises with a number of employees from 50 to 499 – only four enterprises with a 3% share of the revenue of this size group.

The competitiveness of Slovak enterprises is an important adaptation instrument for entry into the EU Common Market. The strengths exhibited by individual enterprises and the frequencies of each are shown in the following table (table 4).

Table 4. Strengths

	Frequency in the domestic market	Frequency in the EU market
• Tradition	3	1
• Monopoly position	2	
• Own research and development	4	6
• Technical and technological level	7	3
• Sufficient production capacity	4	4
• Flexibility	13	9
• Cheap workforce	4	5
• Personnel	8	7
• Knowledge of the market	7	7
• Knowledge about the customer	8	8
• Brand	4	2
• Quality	41	28
• Range	10	3
• Servicing, service	7	1
• Price	25	19
• Expenses	5	
• Product	13	3
• Good financial situation	3	
• Geographical position		2
• ISO		2

**Ranking of strengths**

EU market	Domestic market
1. quality	1. quality
2. price	2. price
3. flexibility	3. flexibility
4. product	4. personnel
5. range	

Weaknesses (exhibited by a small number of enterprises) in both markets mainly concern the use of marketing instruments – distribution and communication.

The reasons for the entry of Slovak enterprises into the EU market are many and varied. From the aspect of their frequency the dominant reason is the use of production capacities, saturation of the domestic market and distribution of risk (Table 5).

Table 5. Frequency of motives for entering the EU market

Motive	Frequency
• better use of production capacities	65
• growth not expected in the domestic market	26
• domestic market is saturated	35
• gaining of financial resources	14
• gaining of foreign know-how	21
• distribution of risk	33
• other	6

The main information sources on the EU markets are the Slovak Chamber of Commerce, banks and commercial representatives (Table 6).

Table 6. Information sources on the EU market

Source	Frequency
• Slovak Chamber of Commerce	31
• banks	30
• commercial representative	24
• personal contacts	7
• parent company	6
• exhibitions	6
• other	4

Very few enterprises of the sample monitored, only 30 out of a total number of 101 enterprises monitored, used the various forms of export support (Table 7).

Table 7. Form of export support

Source	Frequency
• information and advisory services	14
• state export insurance	13
• export financing	12
• evaluation of export activities	5

We see the introduction of the ISO 9000 standards as a very positive development. Of the total number of enterprises monitored 68% had implemented these. Without the implementation of these standards it would not be possible today to be successful as an exporter. The implementation of ISO 14000 standards is progressing at a slower rate, it is however necessary to mention that a strong role is played here by the industry sector.

The use of adaptation strategies is in good consonance (pleasingly) with other answers of participants in the research (in particular the motives for entry into the EU market and the forms of entry into a foreign market) – Table 8. The most strategies most often used are cooperation, expansion and diversification.

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Table 8. Strategies used in entering the EU market

Chosen strategy	Frequency
• cooperation	45
• diversification	26
• acquisition	8
• merger	7
• identifying a gap in the market	8
• expansion	27

The overall expectations of the enterprises monitored of the SR's accession to the EU are very optimistic. To the question of whether they expect a positive effect from accession to the EU, 80 enterprises (79.2% of the total number) answered positively, 9 enterprises (8.8% of the total number) answered negatively and 12 answered "don't know" (11.9%). Expectations of business revenues and profits are less optimistic (table 9), with these expected to be small or average – in total 74.3% of the total number of enterprises in the sample monitored.

Table 9. Expectations of enterprises

Expectations of enterprises	Number of enterprises	% representation of enterprises
• small	23	22.8
• average	52	51.5
• large	26	25.7
Total	101	100.0

Specifically Slovak enterprises expect of entry into the Common Market an increase in sales opportunities and the removal of barriers to entry (customs, administrative, etc.).

To the question as to whether the enterprise knows the effect of the Common Market on itself a significant majority of the enterprises – 70 – answered yes. 22 enterprises answered no and 9 enterprises were unable to evaluate the effect of the Common Market. The majority of enterprises evaluated the effect of the Common Market as being moderate or small (63 enterprises – 62.4% of the total number of enterprises monitored) and therefore underestimated the effect. Similarly, a large majority of enterprises are very optimistic and expect opportunities to flow from entry into the EU Common Market – 61 enterprises (60.4% of the total number of enterprises monitored), 12 enterprises stated there are chances as well as risks and the rest,

i.e. 28 enterprises stated risks. The most sceptical were clearly those in the food industry.

The researchers also judged for themselves the possible effect of the Common Market, the opportunities and risks. The results of this assessment show that the effect as well as the opportunities were evaluated “correctly” by 32 enterprises of the size group above 500 employees (total number 62). The share of the earnings of these enterprises (32) from the total earnings of the group monitored (101 enterprises) is 48.9% (average size SKK 3.2 billion.). This therefore concerns primarily those enterprises with higher earnings than that of the average for this group.

In the size group 50 – 499 employees the effect of the Common Market and the opportunities were evaluated “correctly” by 17 enterprises (out of 37). The share of the earnings of those enterprises evaluating correctly in terms of the total earnings of the monitored sample is 56.4%.

Overall it can be said that the effect of the Common Market, its opportunities as well as risks were evaluated correctly by 49 enterprises (out of a total number of 101) and their share in the earnings of the sample monitored represents 49.8%.

A foreign investor may represent a good adaptation instrument in the case of entry into the EU Common Market. In the monitored sample of (101) enterprises a foreign investor was present in the size group 50 – 499 employees group in 17 enterprises and in the size group above 500 employees in 22 enterprises (only in exceptional cases was this an investor outside the EU). In terms of the earnings of enterprises with a foreign investor present as a percentage of the total earnings of the individual size groups these represented:

• Size group 50-499 employees	56.4%
• Size group above 500 employees	47.3%

In terms of the earnings of the 39 enterprises with a foreign investor present in the total earnings of the sample monitored this was almost half, 48.8%.

Among the motives of foreign investors dominated those connected with the market (market expansion, securing the existing market) and lower wage costs (Table 10).

Table 10. Motives of foreign investors

Motive	Frequency
• gaining new markets	19
• securing existing markets	12
• lower wage costs	20
• lower tax burden	1
• better purchasing and delivery possibilities	–
• access to public sector customers	2
• state investment support	–
• expectations of a higher profit	7
• other	2

A surprise is the zero occurrence of state support for investment.

The benefits brought to enterprises were in particular technology, managerial and marketing know-how.

It is also necessary to evaluate positively the level of satisfaction among foreign investors – 34 out of 39 are satisfied.

Synopsis of analysis results

- Slovak industry is characterised by a high concentration of exports as well as earnings from a sectoral as well as industry aspect and this fact will influence the results of any research.

- The factor of the level of internationalisation of enterprises in Slovak industry also corresponds to sectors, where a high share of exports in the enterprise’s earnings is reported in particular by engineering, consumer, glass and electro technical industries.

- From the aspect of adaptation instruments the target territory for exports – in particular to the EU – entry into the Common Market is of particular significance. A sectoral influence can also be observed here.

- An adaptation instrument is also the form of entry used for entry into a foreign market. Slovak industry enterprises use in particular lower forms of entry into a Common Market – indirect export and export without investment. Higher forms of entry into a foreign market are used primarily by enterprises in the size group above 500 employees (but by fewer than would be assumed) and this in the larger enterprises of this size group (in terms of earnings) – with a size greater than the average size of this size group. A low rate of exploitation of higher forms of foreign market entry in the size group 50 – 499 employees is seen as a warning sign.

- Monitoring of the internal and external environment is connected (partially) with an assessment of competitiveness in the EU Common Market and leads to these conclusions:

- the main strengths of Slovak industrial enterprises are in particular quality and price (very often there is a coherence, i.e. reasonable quality at a good price) and flexibility (in particular from the aspect of sufficient production capacities and supply times),

- price as a strength is in particular in enterprises with a high material and energy demand in the future a possible risk in the future

- weaknesses are the marketing instruments distribution and communication (as found in other studies),

- the main motive of industrial enterprises in conducting business in the EU Common Market is in particular the use of production capacities, saturation of the domestic market and distribution of risk,

- use of the ISO 9000 is well represented in enterprises in the size group above 500 employees; only 8 enterprises do not have the ISO 9000, (these mainly in the consumer



and glass industry) out of a total number of 61 enterprises of this size group.

– A surprise is the low use of any form of export support whatsoever.

– The main sources of information on the EU Common Market were stated as being the Slovak Chamber of Commerce, banks and commercial representatives,

– The chosen adaptation strategies are in accordance with answers to various other questions, which is positive. The chosen adaptation strategies – cooperation, diversification and expansion (for large enterprises of the size group of above 500 employees) may be considered in the accession process as promising.

– Foreign investors can be an important adaptation instrument, in particular where these come from the EU. The balanced number of enterprises in both size groups with foreign participation can be seen as positive and also as an expression of the satisfaction of foreign investors operating in the SR. It is worthwhile considering the assessment of foreign investors' motives, mainly the non-use of state support for foreign investment.

– The high expectations of Slovak industrial enterprises of entry into the EU were not a surprise for the researchers (such expectations have been found by other studies). It is not however apparent whether this optimism is based on an overall underestimation of the effect of the Common Market on enterprises (as the research showed also in the

monitored sample) or an insufficient differentiation of the SR's entry into the EU and the revenue and profit opportunities of the individual enterprises. Similarly overestimated are the expected opportunities. Overall the situation in the sample monitored can be realistically evaluated that enterprises representing 50% of the total earnings of the sample "correctly" evaluated their situation (these being in particular those enterprises having 500 or more employees and a strong territorial orientation on the EU).

The results of the analysis confirmed the relatively low degree of attention given to business in the accession process. The results document a better level of preparation of business with a number of employees above 500, with a high level of internationalisation, an export orientation on the EU, the use of cooperation, an implemented ISO 9000 system and a "satisfied" strategic investor from in particular the EU.

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