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PROBLEMS AND SUCCESS FACTORS OF FOREIGN-OWNED COMPANIES IN SLOVAKIA: PAST, PRESENT, AND FUTURE ¹

***Abstract:** The authors studied almost 200 foreign investors in Slovakia in order to find out what the firms considered and consider as the pressing problems and success factors of doing business in Slovakia in the past, at present and in the future. Among the ten most important factors in all the three periods, the firms defined the following ones (although in a different order): customers, the building of brand recognition, market share growth, designing effective organizations, cutting costs in the organization, designing and developing new products, and partially also talent management (in the past as talent acquisition and in the future as developing and retaining suitable labour force). The factors such as the organization's growth, the building of brand recognition, and strategic thinking and planning decreased in importance, while the factor of financial and economic crises appeared as a new one, and the importance of a factor "cutting costs" in the organization increased in comparison with the past. The firms define almost the same factors for the present and for the future, which is due to their vague expectations about the future – they may be said to perceive the future as a simple extrapolation of the present: they have no strategic vision; they fail to handle the current crisis instead of viewing it as an opportunity for a change.*

***Key words:** success factors, doing business in Slovakia, foreign investors in Slovakia, human resource management, Slovakia.*

JEL: M 16, F 23

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Introduction

It is always interesting for researchers and academic workers in the management field as well as for firm representatives to compare what the majority of firms consider as the most important problems in doing business and as the basic success factors. An interesting problem is what influenced their activities in the past, and what they expect to be the most important factor for their success in the future. We decided to do this research because a similar research on a larger scale on a sample of foreign investors in Slovakia has never been done before. Our ambition was also strengthened by the time factor: in the last decade the basics of the market economy were built in Slovakia, while Slovakia as a transition country was ranked among low-income economies. On the other hand, at present Slovakia is considered to be a developed market economy, and a lot of foreign institutions (e.g. the World Bank) rank Slovakia among high-income economies from the last year on. Our ambition was to find out if the companies surveyed saw the difference among pressing problems at the time of the building and strengthening market economy in Slovakia and in the following period of the “mature” market economy. The previous decade was also a decade of economic growth, and at the time when we conducted this survey, we were just entering a much harder economic period, a period of global economic crises. Our goal was to find out the differences that the firms saw between the pressing problems and success factors in the past and the factors in the future and to what extent the firm representatives were aware of the beginning of the financial crises, and how they thought about the impacts of the financial crises on their business.

There has not been done an adequate amount of theoretical work in this area in Slovakia. In the „Western“ economic literature Robert Quinn and his team from Business School University of Michigan studied pressing problems in modern organizations (Quinn, 2000) in order to identify, understand and eventually solve them. People problems and process problems were identified by this team as the most important pressing problems in 117 companies they surveyed in the USA. Corrosive organizational politics, serving two (or more) masters, overworked people, analysis paralysis – according to the authors – these are the kind of problems that organizations are grappling with as they continue to demand better performance from fewer resources. Based on research that is theoretically grounded, methodologically rigorous, and relevant to the real world, this book bridges the gap between organizational theory and actual practice and supplies new framework for understanding today’s most urgent organizational problems. The authors of this article used this framework and adapted it to the conditions of the transitional economy. The approach of R. Quinn was been developed in certain directions by Wayne Baker (Baker, 2000) and Gretchen Spreitzer (Spreitzer, 2001) who underlined the value of the social capital and human resource management in solving the pressing problems of the organizations.

The Characteristics of Sample Studied and Research Methods

The sample comprised firms with foreign investment doing business in Slovakia. We contacted 500 firms altogether chosen at random from the National Bank of Slovakia database of foreign investors to Slovakia; and 197 of these firms returned us a completed questionnaire. Response rate was quite high and accounted for 39%. The questionnaires were completed by the members of the top management of the firms involved. The survey was conducted from December 2008 to February 2009.

We created the list of 67 factors which, according to us and research findings of Robert Quinn and his team, influenced the success of doing business to the greatest extent (see Annex 1) and are considered as real pressing problems for them. Then we designed our own methodology: the respondents were asked to choose ten most important factors and rank them in terms of their importance. In case the factor was not on the list, the respondents could add the factor themselves (see Annex 2). The respondents rated the factors in points according to their importance from 10 (the most important factor) to 1 (the least important factor from the ten most important factors). All the points from all the firms were added, and this way we could form a ranking of key pressing problems in the three separate periods.

The problems and success factors were sorted into the following categories: product, market, organization, human resources, strategy, cost, and external factors.

We worked in the questionnaire with A period – the most important problems and success factors that the firms had to manage in the past decade, B period – the most important problems and success factors in the next decade, and C period – the most important problems and success factors at present.

The structure of the firms in the sample by country of origin is shown in Table 1.

Table 1

The Country of Origin of the Firms Surveyed

Country	Number	Share
Germany	41	21%
Austria	27	14%
USA	27	14%
More investors from different countries	25	13%
France	13	7%
Czech Republic	9	5%
Great Britain	8	4%
Holland	6	3%
Italy	6	3%

Sweden	4	2%
Spain	4	2%
Belgium	3	2%
South Korea	2	1%
Taiwan	2	1%
China	2	1%
Finland	2	1%
Denmark	2	1%
Japan	2	1%
Luxembourg	2	1%
Ireland	1	1%
Turkey	1	1%
Croatia	1	1%
Brazil	1	1%
Switzerland	1	1%
Hungary	1	1%
Australia	1	1%
Canada	1	1%
Israel	1	1%
Iceland	1	1%
Total	197	100%

Source: processed data from questionnaires.

As seen from the table above, the structure of the sample roughly corresponds to the structure of the biggest investors to Slovakia, dominated by the geographically near countries of the European Union such as Germany and Austria, the Czech Republic, France, Great Britain, and Italy. The United States is the biggest investor in Slovakia from the overseas countries, and it invests in Slovakia either directly or very often through the subsidiaries of American firms in the Netherlands.

The next table shows the industry structure of the sample: the service sector dominates and is 2.5 times bigger than the production. Some firms are active in various sectors, and it is striking to observe that just a small number of firms carry out also R&D activities (which is typical for foreign investors in Slovakia who rarely invest in R&D).

Table 2

The Structure of the Sample by Business Activity

Activity	Number of companies
Production	48
Services	129
R&D	2
Production and services	10
Production, services and R&D	1
Services and R&D	4
Production and R&D	3
Total	197

Source: processed data from questionnaires

The sample researched consisted of small as well as big companies (the smallest had 4 employees, the biggest 10,000 employees). They were part of the foreign subsidiaries network of MNCs: the biggest parent company had 200 subsidiaries worldwide and the smallest just one Slovak subsidiary.²

The Most Important Pressing Problems and Success Factors in the Previous Decade

We described the past decade as a decade of economic growth and as one of the building of the market economy in Slovakia. A lot of firms inquired were established closely before or during this period. As seen from the following table, the companies stated as the most important problem and success factor customer growth, then building brand recognition and market share growth, followed by designing effective organizations and growing the organization. Other places were taken by factors such as cutting costs in the organization, designing and developing new products, thinking and planning strategically, talent acquisition and at the end improving internal processes. When we think about these factors in greater detail, we can see that they reflect and represent the development phase of firms in the period of economic growth.

² The authors are aware of the big variety of the sample in terms of the size and the higher representation of the service sector; however, they believe that the foreign activity is such a significant denominator that the survey results may have their significance for the academic as well as practical sphere.

Table 3

**The Most Important Problems and Success Factors
of Foreign Companies in Slovakia in the Past Decade**

Factor/Problem	Type	Order	Number of Points
- Customers Growth	m	1	764
- Building Brand Recognition	p	2	732
- Market Share Growth	m	3	504
- Designing Effective Organizations	o	4	439
- Growing the Organization	s	5	427
- Cutting Costs in the Organization	c	6	404
- Designing and Developing New Products	p	7	384
- Thinking and Planning Strategically	s	8	338
- Talent Acquisition	hr	9	325
- Improving Internal Processes	o	10	307

Source: processed data from questionnaires

Note: m – market, p – product, o – organization, s – strategy, c – costs, hr – human resources

Table 4

The Pressing Problems and Success Factors by Clusters

Factors (Clusters)	Number of Factors	Number of Points	Average
Product	4	1732	433
Strategy	4	997	249
Market	7	1725	246
Costs	4	734	184
Organization	13	1594	123
HR	18	1459	81
External	20	1301	65

Source: processed data from questionnaires

According to the factor clusters, the companies were focusing mostly on solving problems in the production and with the products, strategy and market activities followed by the costs and organization. HR and external factors appeared to be relatively unimportant.

Market and product are the most numerous as clusters. Organization, HR and external factors are on the same level of importance as wholes.

The Most Important Pressing Problems and Success Factors in the Next Decade

The companies inquired suppose that the most important problem and success factor in the future will be customer growth again, but they put cutting costs in the organization in the second place, and designing effective organizations in the third one. While the importance of designing and developing new products slightly increased in comparison with the past, the importance of market share growth, the building of brand recognition and growing the organization slightly decreased, because the companies suppose that their brands have already been introduced, and that they have a relatively stable market share and thus a company growth behind them.

The factor talent management became more important, which means that the companies realize the importance of talents for their success and also the financial crises as well as an intensified competition (designing and developing new products) – all of them will be the challenges for the next decade.

It is interesting to observe that factors such as strategic thinking and planning as well as improving internal processes lost their importance (which may be “translated” as a growing centralisation from the headquarters during the time of crises).

Table 5

**The Most Important Problems and Success Factors
of Foreign Companies in Slovakia in the Next Decade**

Factor/Problem	Type	Order	Number of Points
– Customers Growth	m	1	702
– Cutting Costs in the Organization	c	2	592
– Designing Effective Organizations	o	3	476
– Designing and Developing New Products	p	4	462
– Market Share Growth	m	5	426
– Developing and Keeping Good People	hr	6	422
– Building Brand Recognition	p	7	410
– Financial Crises	v	8	396
– Competitive Goods and Services Production	p	9	348
– Growing the Organization	s	10	319

Source: processed data from questionnaires

Notes: m – market, p – product, o – organization, s – strategy, c – costs, hr – human resources

Table 6

The Pressing Problems and Success Factors by Clusters

Factors (Clusters)	Number of Factors	Number of Points	Average
Product	4	1456	364
Market	7	1891	270
Costs	4	892	223
Strategy	4	745	186
Organization	13	1400	108
HR	18	1850	103
External	20	1471	74

Source: processed data from questionnaires

According to the factor clusters, the companies were focusing mostly on solving problems in the production and market followed by the costs and strategic field. The organization, HR field and external factors were evaluated as less important. Costs factors will increase in importance, and the importance of strategic factors will decrease in comparison with the clusters in the past decade. It is very interesting that the HR and external environment appear to be less problematic to the firms inquired on average; on the other hand, market and HR are the most numerous ones as the wholes.

The Most Important Pressing Problems and Success Factors at Present

It could be said with a little bit of simplification that the companies consider the problems of the present as the basic problems of the future (with the exception of a bigger role of the financial crises and euro introduction at present).

The same as with the success factors, we also have roughly the same results for the factor clusters at present, when comparing them with the factor clusters relevant to the future decade. A logical explanation is that the companies are not able to predict their future development very well and consider the present-day phenomena of almost the same importance in the following decade.

Table 7

The Most Important Pressing Problems and Success Factors of Foreign Companies in Slovakia at Present

Factor/Problem	Type	Order	Number of Points
– Customers Growth	m	1	647
– Cutting Costs in the Organization	c	2	567
– Financial Crises	v	3	513

Factor/Problem	Type	Order	Number of Points
- Designing Effective Organizations	o	4	421
- Building Brand Recognition	p	5	412
- Market Share Growth	m	6	365
- Euro Introduction	v	7	362
- Designing and Developing New Products	p	8	341
- Competitive Goods and Services Production	p	9	329
- Developing and Keeping Good People	hr	10	315

Source: processed data from questionnaires

Notes: m – market, p – production, o – organization, s – strategy, c – costs, hr – human resources

Table 8

The Pressing Problems and Success Factors According to Clusters

Factors (Clusters)	Number of Factors	Number of Points	Average
Product	4	1340	335
Market	7	1796	257
Costs	4	883	221
Strategic	4	639	160
Organization	13	1339	103
HR	18	1777	99
External	20	1511	76

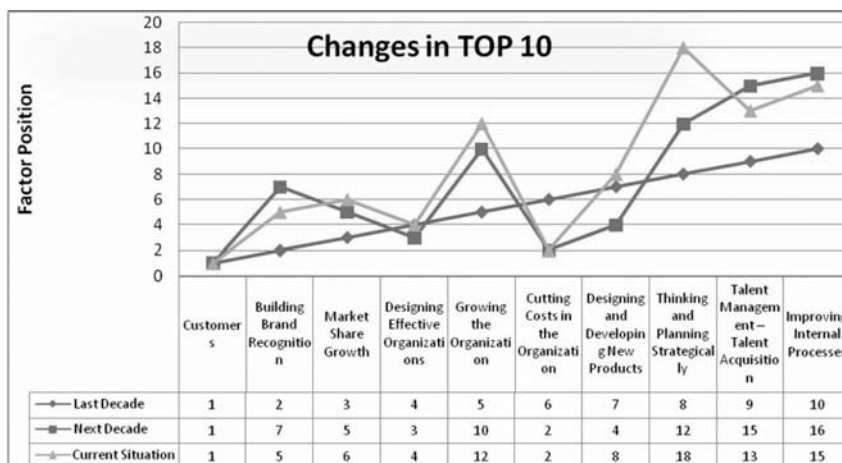
Source: processed data from questionnaires

The Factor Importance in all the Three Periods: Comparison

We can see from the following figure which factor has or will have a bigger importance in the future and which one will be of a smaller importance than in the past (the last decade was used as the basis for comparison). Seven factors could be found in the top ten in all the three periods: customer growth, building brand recognition, market share growth, designing effective organizations, cutting costs in the organization, designing and developing new products, and partially also talent management (in the past as talent acquisition and in the future as developing and keeping good people).

Figure 1

The Factor Importance in All the Three Periods: Comparison

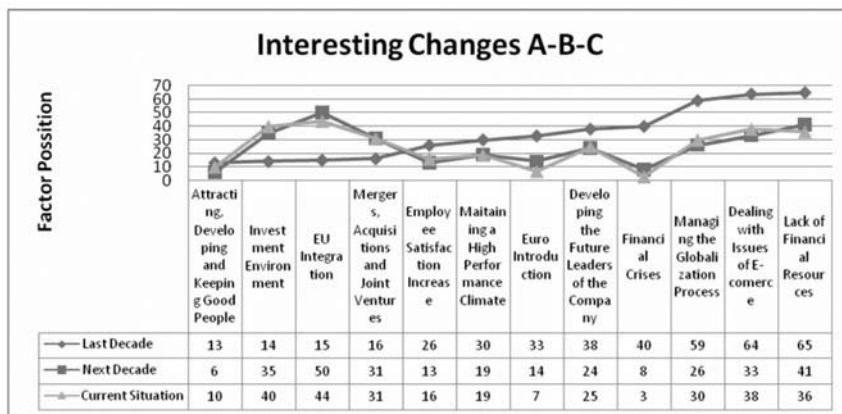


Source: processed data from questionnaires

Interesting Changes in the Factor Positions in the Periods Researched

Figure 2

The Interesting Changes in Factor Positions in the Periods Researched



Source: processed data from questionnaires

Notes: A – last decade, B – next decade, C – current situation

Besides the top 10 factors we also studied the most interesting changes in the positions of some factors. We found out that the importance of investment environment, EU integration, mergers, acquisitions, and joint ventures considerably decreased, and on the other hand the importance of the factors from the HR field:

developing and keeping good people, employee satisfaction increase, maintaining a high performance climate and developing the future leaders of the company considerably increased. There are also other factors which considerably increased such as euro introduction, financial crises, lack of financial resources, managing the globalization process and dealing with issues of e-commerce.

The next table shows us the exact positions of the factors stated in A, B and C periods (A – last decade, B – next decade, C – current situation). As we already underlined, here we have studied the interesting changes (decrease in the importance or increase in the importance of the given factors for the companies in the course of time) – some of them have gained more weight and some of them have lost their value for the companies within the time frame studied.

Table 9

Interesting Changes in the Positions of Chosen Factors

Interesting Changes A–B–C	Factor Position in the Last Decade	Factor Position in the Next Decade	Factor Position Currently
– Developing and Keeping Good People	13	6	10
– Investment Environment	14	35	40
– EU Integration	15	50	44
– Mergers, Acquisitions and Joint Ventures	16	31	31
– Employee Satisfaction Increase	26	13	16
– Maintaining a High Performance Climate	30	19	19
– Euro Introduction	33	14	7
– Developing the Future Leaders of the Company	38	24	25
– Financial Crises	40	8	3
– Managing the Globalization Process	59	26	30
– Dealing with Issues of E-commerce	64	33	38
– Lack of Financial Resources	65	41	36

Source: processed data from questionnaires

Notes: A – last decade, B – next decade, C – current situation

Pressing Problems and Success Factors in the HRM

The next table concentrates on the factors of HR area and compares their evaluation in the past and in the future decades. We can see some interesting facts: the importance of talent acquisition is decreasing, but developing and keeping good people will be more important in the future. According to the respondents, the importance of interpersonal relations at workplace, lack of suitable workforce (although only by one position) and effective compensation systems, even also

problem of employee professionalism and stress will decrease. Also replacement of expatriates by local managers and problematic employees will be less important. The importance of the following factors will increase: employee satisfaction increase, maintaining a high performance climate, developing the future leaders of the company, lack of suitable managers, planning and managing career, personal reconciliation with the current changes, corporate social responsibility and trade unions.

Table 10

Factors of Human Resource Management Area

		A			B			C		
		o	n	p	o	n	p	o	n	p
- Talent Acquisition	h	9	325	42.5%	15	263	37.5%	13	273	42.2%
- Developing and Keeping Good People	h	13	255	33.4%	6	422	60.1%	10	315	48.7%
- Interpersonal Relations at the Workplace	h	17	180	23.6%	25	128	18.2%	22	161	24.9%
- Employee Satisfaction Increase	h	26	121	15.8%	13	277	39.5%	16	240	37.1%
- Lack of Suitable Workforce	h	28	108	14.1%	29	105	15.0%	26	113	17.5%
- Maintaining a High Performance Climate	h	30	98	12.8%	19	214	30.5%	19	227	35.1%
- Developing the Future Leaders of the Company	h	38	51	6.7%	24	131	18.7%	25	115	17.8%
- Effective Compensation Systems	h	41	48	6.3%	56	21	3.0%	41	40	6.2%
- Managing the Globalization Process	h	42	46	6.0%	42	42	6.0%	46	31	4.8%
- Employee Professionalism	h	43	43	5.6%	47	33	4.7%	52	26	4.0%
- Lack of Suitable Managers	h	45	37	4.8%	43	40	5.7%	56	24	3.7%
- Planning and Managing Career	h	49	32	4.2%	36	64	9.1%	35	57	8.8%
- Stress	h	50	30	3.9%	89	4	0.6%	69	14	2.2%
- Personal Reconciliation with the Current Changes	h	58	23	3.0%	37	56	8.0%	34	62	9.6%
- Corporate Social Responsibility	h	60	22	2.9%	49	33	4.7%	50	28	4.3%
- Replacement of Expatriates by Local Managers	h	61	22	2.9%	67	14	2.0%	61	22	3.4%
- Problematic Employees	h	66	18	2.4%	101	0	0.0%	48	29	4.5%
- Trade Unions	h	118	0	0.0%	92	3	0.4%	101	0	0.0%

Source: processed data from questionnaires

Notes: o – position in the factors order, n – number of points, p – percentage of acquired points compared to the most important factor in the corresponding period

A – last decade, B – next decade, C – current situation

Conclusion

On the basis of studying the sample of 200 foreign investors in Slovakia, and with the goal of identifying the most important pressing problems and success factors of doing business in Slovakia in the past decade, currently and in the future,

we found out that during all the three researched periods the companies similarly defined (although in a different order) the following factors among the top ten most important ones: customer growth, building brand recognition, market share growth, designing effective organizations, cutting costs in the organization, designing and developing new products, and partially also talent management (in the past as talent acquisition and in the future as developing and keeping good people). The importance of factors such as growing the organization, building brand recognition, and thinking and planning strategically lowered, a factor of financial and economic crises appeared and the importance of the factor of cutting costs in the organization increased in comparison with the past. It is obvious that the companies are surprised by the crisis and react „mechanically“ – by cutting the costs instead of devoting more attention to the strategic issues. The fact that the firms define almost similarly the same factors for the present and for the future decades also indicates that they understand the future as a simple extrapolation of the present and do not expect or suggest any significant strategic changes for the coming decade.

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Annex 1

Original Pressing Problems and Success Factors
(offered to the companies surveyed to choose from)

- Building brand recognition
- Centralization
- Tax legislation
- Decentralization
- Domestic subcontractors
- Dealing with issues of e-commerce
- Designing effective organizations
- Effective compensation systems
- Energy crises
- Financial crises
- Mergers, acquisitions and joint ventures
- EU integration
- Investment environment
- Investment incentives
- Corruption and clientelism
- Cultural changes in organization
- Legislation
- Interpersonal relations at the workplace
- Replacement of expatriates by local managers
- Lack of financial resources
- Lack of suitable workforce
- Lack of suitable managers
- Low business ethics
- Trade unions
- Personal reconciliation with the current changes
- Planning and managing career
- Political changes

- Local currency appreciation
- Access to EU funds
- Privatization
- Problematic employees
- Problems of managing alliances and other forms of partnerships
- Problems of managing the company
- Competitive goods and services production
- Rising input prices
- Growing the Organization
- Market share growth
- Rising domestic competition
- Rising foreign competition
- Restructuring
- Managing the Globalization Process
- Project management
- Developing and keeping good people
- Corporate social responsibility
- State and local byrocracy
- Public procurement
- Innovation stimulation in the organization
- Thinking and planning strategically
- Stress
- Technological innovations
- Maintaining a high performance climate
- Government deregulation
- Developing the future leaders of the company
- Designing and developing new products
- Foreign subcontractors
- Customers
- Euro introduction
- Desision making processes improvement
- Improving internal processes
- Talent acquisition
- Changes in organizational structure
- Cutting costs in the organization
- Downsizing
- Employee satisfaction increase

Annex 2

Other Pressing Problems as Named by Respondents
(in case the respondents considered some other factors important)

Price policy and business strategy
Tax legislation
Toll
Distribution
Business activities diversification
Sufficient number of foreign investors
Credit accessibility
Effective monitoring process
Flexible reaction and seizing an opportunity

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Goodwill
Economic policy
Slovak economic policy
Information technologies
Driving times of drivers
Competitive advantage
Qualified workforce
Quality of management and leaders
Quality distribution
Quality complaints handling
Better price accessibility for consumers
Logistics
Employee loyalty
Marketing
Marketing communication
Amount of work
Replacement of original suppliers by Slovak suppliers
Lower labour costs
Business strategy of the organization
Economic recession resistance
Risk factors optimization
Optimal safety measures
Personal contacts
Parent company support
Falling input prices
Credit provision
Land and place for further enlargement
Services provision
Production facilities relocation
Marketing research
Presence of key customers at the production facility
Employee professionalism
Parent company support
Rising purchasing power of the population
EU enlargement to Bulgaria and Romania
Automotive industry development
Customer respectability
Small competition
Software piracy
Invoice maturity
Sponsoring
Stable sales
Technically professional consultants
Market, currencies
Maintenance of internal competitiveness
Very good relations with suppliers
Suitable location–Slovakia
New markets entry
Managers responsibility for economic results
Company establishment and beginning of business activities

Employees having the feeling of security and company stability
Better service for customers
Knowledge of foreign languages
Waste decrease
Complaint decrease
Employee professional knowledge increase
Customer satisfaction increase