

## AN ANALYSIS OF SLOVAKIA USING COMPETITIVE ADVANTAGE, CORE COMPETENCE CONCEPTS: IMPLICATIONS FOR LITHUANIAN BUSINESS

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*The article analyses Slovak business environment and opportunities using the concepts of National Competitive Advantage and Core Competence. These are two fundamental concepts in the literature on competitive strategy. The analysis provides not only ideas for consideration by policy makers and managers in Slovakia but also highlights opportunities for Lithuanian businesses in Slovakia.*

**Key words:** *business environment, Competitive Advantage, Core Competence*

### Introduction

Considerable current attention has been placed on business in Europe for two primary reasons. First, the concept of Europe 2010 and a borderless as well as united European market resulting in a potential market of 320 million people living in so-called developed countries emerged. This notion has sparked much debate on the advantages and disadvantages of the arrangement between European Union nations and the implications for the rest of the world, Japan and the United States in particular. Secondly however, more recent drastic political and economic reforms occurring in former East Bloc countries have not only added the concerns of Eastern Europe to the consideration of Europe 2010.

The opening up of the economies of former East Germany, Hungary, Poland, Bulgaria, Rumania, Slovakia, Czech Republic, Lithuania, Latvia and Estonia, and their move (in varying degrees) towards a more market-oriented system has provided a new area of discussion and concern. Developments such as dismantling of the Berlin Wall, the collapse of communist regimes, the liberalization of laws restricting foreign investments have all facilitated responses from for example U.S. companies, such as GM manufacturing cars in Germany and GE making light bulbs in Hungary and so on.

However, significant uncertainty and volatility in the transition from a command economy to a capitalist version confront these nations, primarily inexperienced in the nuances and complexities of a free-market world. The dynamic situation of EU can provide both an opportunity and a challenge to the rest of the world especially to the United States and American businesses.

This article examines this metamorphosis of former East Bloc countries and focuses specifically on its effects on one nation, Slovakia, and the implications for other members of the EU. The article is organized into three sections. This introduction is followed by the second part, which provides an overview of the economic and political background of Slovakia, and the current situation it is now in. The third section provides an evaluation of Slovakia utilizing the concepts of National Competitive Advantage and Core Competence. The fourth section offers a strategic framework for Slovakia, outlining the role of government and national policy, industry and foreign investment. Given this suggested direction, Section Five discusses the implications for business of the new members of the EU in terms of areas of opportunity, entry strategy, and marketing management considerations. The last section provides a summary and conclusion.

### 1. Background

Prior to first gaining independence, Slovakia had been part of the Hapsburg Empire. At this time, glass and china production, the textile, construction materials, paper and timber industries began to develop. Late Czecho-Slovakia in that time and especially Bohemia were a very advanced area of Europe with considerable industry and trade. For example, Skoda Works was the Czecho-Slovakia's world class engineering company that competed on level terms with the leading German and American firms of that time. Companies such as Siemens, GE and Krupp were then its equals. As early as 1937, the CSR had established contact with Japan as Japanese were sent to former Czecho-Slovakia to study the technology for manufacturing pencils!

After the fall of the Austro-Hungarian monarchy in 1918, the CSR emerged as a separate state with Tomas G. Masaryk as its first president. By 1938, before Nazi invasion, Czecho-Slovakia developed into the most vigorous and dynamic industrial nation in Central Europe. The Czech and Slovak people became known for their rich traditions of literature, industry, engineering, art and democracy. Then the

periods of Nazism, militarism and World War II, followed by forty-two years of socialism which included a Soviet occupation came. Such a repressive environment included a centrally planned communist economy proved detrimental to maintaining a continued industrial growth as had been experienced in the past.

In November 1989, the CSFR underwent what is called the “Velvet Revolution“ (Financial World 1990a), which has been one of the more peaceful transitions of government in Eastern Europe. Unlike the more violent and radical events in Rumania for example, a student insurrection followed by a general strike was sufficient to bring Communist leaders to their knees and catapult dissident playwright Vaclav Havel from political prisoner to president. Similar to its East Bloc neighbours, Czecho-Slovakia has expressed a commitment to developing the path to a market economy. However, the primary concern of Czecho-Slovakia and other Eastern Europe nations in that time was how to initiate and maintain the transition while preserving economic order and minimizing the inevitable dislocations.

The Havel government has legalized private enterprise, enacted laws to attract foreign investment, and begun to lead public industries on the road to privatization. Czecho-Slovakia has also pioneered the effort to dismantle the East Bloc’s trade vehicle, COMECON. The prognosis was optimistic for Slovakia as experts cite that its five million inhabitants have a fairly strong industrial sector, low foreign debt, and exportable products that can garner some of the hard currency vital to modernization of its industries. Unlike even the Soviet Union, there are no food lines as the country has been considerably self-sufficient. In contrast to other Eastern Europe nations, it can be argued that Czecho-Slovakia has the economic foundation to make the move to a market economy in a less turbulent manner.

Table 1 further illustrates Czecho-Slovakia’s relative advantage in various areas in that time when compared to the other leading Eastern European nations in that time: East Germany, Poland and Hungary. Czecho-Slovakia’s situation was also compared to that of Spain.

**Table 1. Country comparisons**

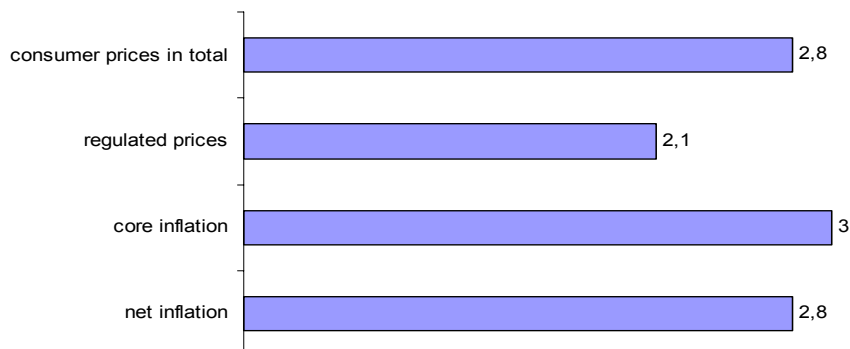
	<b>Czecho-Slovakia</b>	<b>East Germany</b>	<b>Poland</b>	<b>Hungary</b>	<b>Spain</b>
<b>PER CAPITA GNP GSP/NMP converted 1988</b>	\$7.5K	\$9.38K	\$5.1K	\$5.5K	\$8.75
<b>HOURLY WAGES converted at official rates 1988</b>	\$2.21	\$4.00	\$1.33	\$1.60	\$1.50
<b>EDUCATION %workforce, w/secondary or higher mid-1980s</b>	30%	28%	29%	33%	47%
<b>POPULATION (1989)</b>	15 mil	16mil	37mil	10 mil	39 mil
<b>INDUSTRIALIZATION Factory Output as percent of GNP 1987</b>	61%	62%	46%	50%	30%
<b>DEBT Net Hard-Currency Foreign 1988</b>	\$1.5bil	\$4.0bil	\$35bil	\$11bil	\$33bil
<b>HARD CURRENCY 1988</b>	\$5bil	\$16bil	\$4bil	\$6bil	\$39bil

Sources: Derived from Business Week, 1989.

As a further point of reference to Western Europe nations, the Czecho-Slovak Federal Republic (CSFR) per capita GNP can be compared to that of France or Norway during the 70s (Quarterly Economic Review, 1976; 1978). With a 1988 GNP of \$118.6 billion and a population of 15.6 million, Czecho-Slovakia ranks second only to East Germany in per capita GNP. Hourly wages in the CSFR rank second again to East Germany, while the education level was surpassed only by that of Hungary. Evident of the CSFR’s skilled work force, about thirty percent have a secondary or higher education. Moreover, Czecho-Slovakia’s level of industrialization closely approaches that of East Germany with factory output of sixty percent of GNP (about \$71.2 billion) surpassing that of both Poland and Hungary. In addition, the CSFR distinctly has the least amount of foreign debt among the four countries, with only about \$6 billion outstanding compared to Poland’s close to \$40 billion. Table 1 also indicates a common need among these countries in hard currency assets as further evidence of an infrastructure that was in better condition than its other East Bloc neighbours.

## 2. Competitive evaluation

Given the current economic and industrial situation Slovakia is in, a closer look into Slovakia's competitive position can provide a much clearer picture of the country's potential.

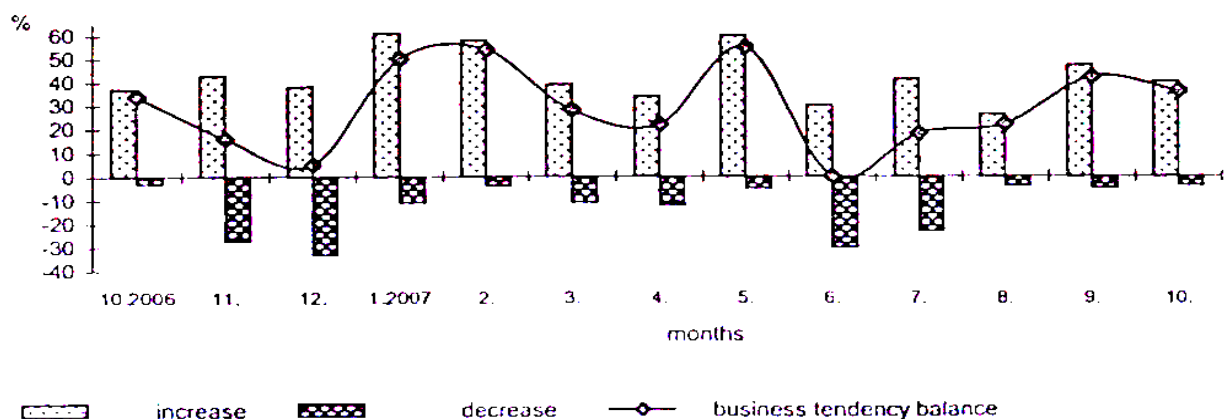


Source: Ekonomický monitoring stavu hospodárstva SR, Štatistický úrad SR, č. 9/1/2007

Fig. 1. Consumer Prices, Core and Net Inflation in September 2007 year-to-year in %

In doing this, the concepts of National Competitive Advantage (Porter 1998) and Core Competence (Prahalad and Hamel 1990) are utilized and adapted to the Slovak case.

It can be argued that a National Competitive Advantage and Core Competence perspective applied to Slovakia has its relevance and appropriateness. If traditional economic thinking (such as comparative advantage theory found in the classical economics of Smith and Ricardo) is applied, Slovakia can never be a serious player in the world economy. Through a more dynamic National Advantage approach, Slovakia has the potential to become not only an economic powerhouse in EU, but also in the global market.



\* In October 2007, 461 respondents representing all industry branches took part in the survey

Source: Ekonomický monitoring stavu hospodárstva SR, Štatistický úrad SR, č. 9/1 2007

Fig. 2. Expected Trend of Industry Production\* in index 3-month period

Moreover, the Core Competence emphasis on the importance of a firm's fundamental or "core" strengths provides a very direct relevance to Slovakia's and its companies.

However, the following assumptions, limitations and caveats should be stated. This paper assumes that political reform in Slovakia has achieved a substantial degree of stability and certainty to facilitate the economic transition. The limitations of the notion of National Competitive Advantage and Core Competence are acknowledged, as they have been cited (Economist, 1990). It is recognized that these terms were conceptualised with developed long-standing market economies in mind. Porter's study for

example, involved ten developed or newly developed market-oriented nations. However, with an awareness of such an orientation and with sufficient and proper adaptation, these concepts can be applied to Slovakia's case. Furthermore, in as much as a framework for a strategic alternative can be proposed for Slovakia, it was accepted.

In modifying and applying the National Competitive Advantage approach to the post-centrally planned economy case of Slovakia after the period of fifteen years, there are two basic distinctions that need to be made relative to the original free-market/developed country economy situation:

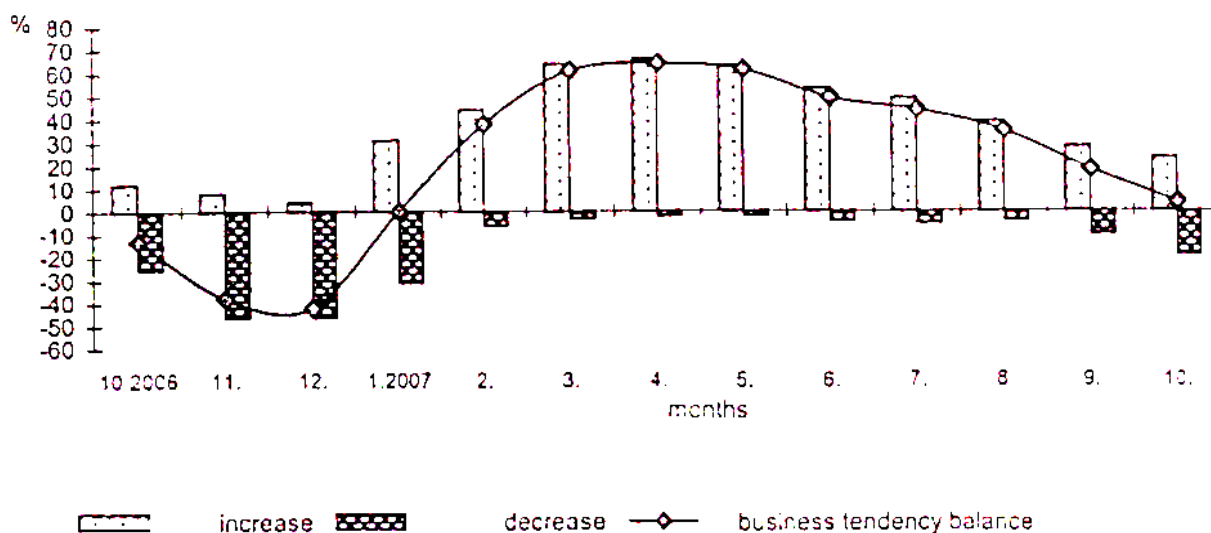
1. It should be recognized that unlike Slovakia situation, much of the elements found in the original cases (countries studied by Porter and his colleagues) already do exist, and have just been overlooked or not further developed through innovation and upgrading. Much of this in that time of transition Slovakia didn't exist and was created and maintained. Then the potential for further innovation was realized. In contrast to westernised developed countries, Slovakia is in the first stage of the development of National Competitive Advantage.

2. Given this absence of important factors in that time and the need to create them, take considerably more time and effort relative to the original free-market situation. Therefore, it was accepted that the development of national competitive advantage for Slovakia did not happen overnight. One advantage for the Slovakia case was that the mistakes and pitfalls encountered by developed free-market countries were avoided by Slovakia in developing its own National Competitive Advantage.

Porter's concept of National Competitive Advantage proposes that there are four attributes essential to be "Diamond of National Competitive Advantage" that determine success in the global market. These attributes are 1) Factor Conditions, 2) Demand Conditions, 3) Related & Supporting Industries and 4) Firm Strategy, Structure and Rivalry. In all these attributes, considerable development was obviously needed for Slovakia. However, substantial potential had been exist in a variety of areas.

### Factors Conditions

Factor conditions concern Slovakia's factors of production. Given its education and industry levels it was often argued that former Czecho-Slovakia is like a "diamond in the rough" with a relatively significant amount of skilled labour and infrastructure (see Table 1). In fact, current literature has cited Eastern Europe's skilled low-cost labour as a general advantage of the region (Business Week 2003). However, having such factors does not amount to a competitive advantage in international competition. Porter's approach would contend that the rate and efficiency with which Slovakia can create, improve and allocate its factors into a specialized effort targeting the needs of specific industries are more crucial to creating a competitive advantage.



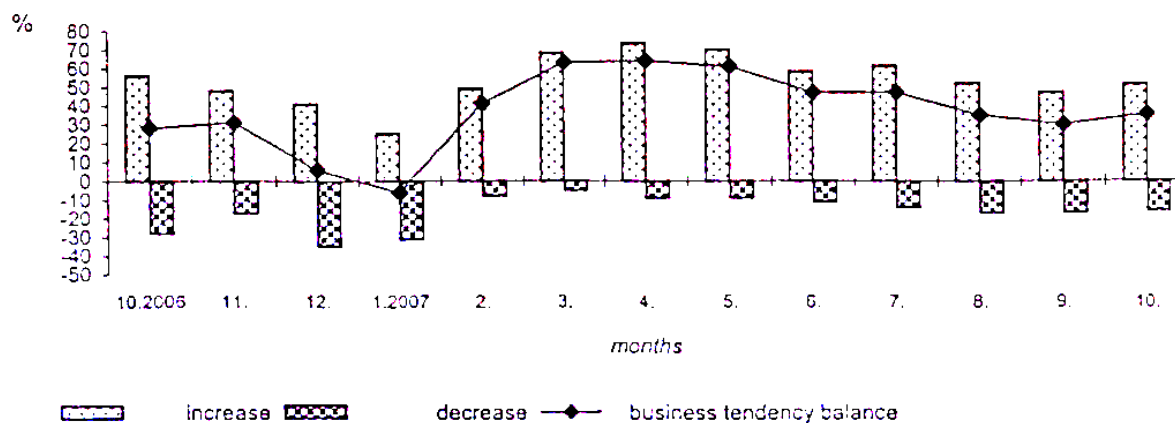
\* In October 2007, 478 respondents representing the whole construction branch took part in the survey  
**Source:** Ekonomický monitoring stavu hospodárstva SR, Štatistický úrad SR, č. 9/1 2007

**Fig. 3. Expected Trend of Construction Activity \* in index 3-month period**

As later discussed in the second part of this article, Slovakia has the potential in a number of industries. To develop further these areas as a competitive advantage, Slovakia needs to meet sustained investment in the next period of time to establish.

### **Demand Conditions**

Demand Conditions involve the characteristics of Slovakia's home market demand for Slovak products and services. Domestic demand in every country is important to the creation of competitive advantage as it provides a potentially defensible conduit to emerging consumer needs and facilitates further and faster innovation.



\* In October 2007, 355 respondents representing all types of retail units took part in the survey

**Fig. 4. Expected Trend of Retail Sale Receipts\* in index 3-month period**

Moreover, another popular statement in literature is that the EU from Eastern Europe basically have a huge amount of “pent-up“ demand suppressed in a large pool of potential consumers waiting for the influx of products from abroad. However, in a developed country environment, this determinant assumes that domestic buyers are considerably well informed and sophisticated. Therefore, demand conditions can be only used to develop competitive advantage of the demand condition itself is developed.

### **Related & Supporting Industries**

The third determinant involves the existence of related and supporting industries in Slovakia that are internationally competitive. Conceptually, this provides efficient access to components and machinery as well as the close working relationship conducive to further innovation and upgrading. Arguably, the difficulty with Slovakia lies in the “internationally competitive” prerequisite. Although a number of Slovakia supplier industries are regionally competitive and even dominant, none can be seriously considered as globally competitive. However, Slovakia can alternatively source abroad from global competitors in the areas of generalized technologies where a narrow application area is concerned, minimizing any detrimental effects on domestic industry.

### **Firm Strategy, Structure and Rivalry**

Along with Demand Conditions, the area of firm strategy, structure and rivalry is the most critical for Slovakia. The detrimental impact of 42 years of central planning in the former Czecho-Slovakia is quite evident in Slovakia's inept management system, the absence of viable domestic company goals and insufficient individual motivation in various sectors of economy. Such characteristics have translated into a lack of firm strategy very often an inefficient and bureaucratic firm structure and suppressed domestic firm rivalry. Domestic firm rivalry has been identified as the most important of the four determinants of National Competitive Advantage. Such rivalry provides a powerful incentive for firms to innovate and upgrade. Unfortunately, it is arguably the area wherein Slovakia is deficient. Privately held companies

have been illegal in former Czecho-Slovakia up until February 1990. Under these conditions it was no wonder that domestic rivalry was essentially non-existent.

Given the above state of Slovakia viewed under a National Competitive Advantage lens, there are three industries that provide Slovakia with the greatest potential in terms of four determinants previously discussed. They are the MECHANICAL/ELECTRICAL ENGINEERING, AGRICULTURE/FOOD and CHEMICAL INDUSTRIES.

In these particular industries, Slovakia maintains a considerable foundation or starting point for development into a national competitive advantage. Slovakia already maintains a regional competitive advantage in these areas. The determinants of Factor Conditions and Related and Supporting Industries exhibit the most potential in these areas.

#### **Mechanical & Electrical Engineering Industries**

Traditional Slovakia engineering products include vehicles such as aircraft, automobiles, scooters, trucks, tractors, haulers and river barges. Slovakia also manufactures other industrial equipment such as heavy and light machinery, agricultural and chemical machinery, construction and cement plant equipment, pumps, engines and energy installations. Recent focus has been in the areas of microelectronics and robotics.

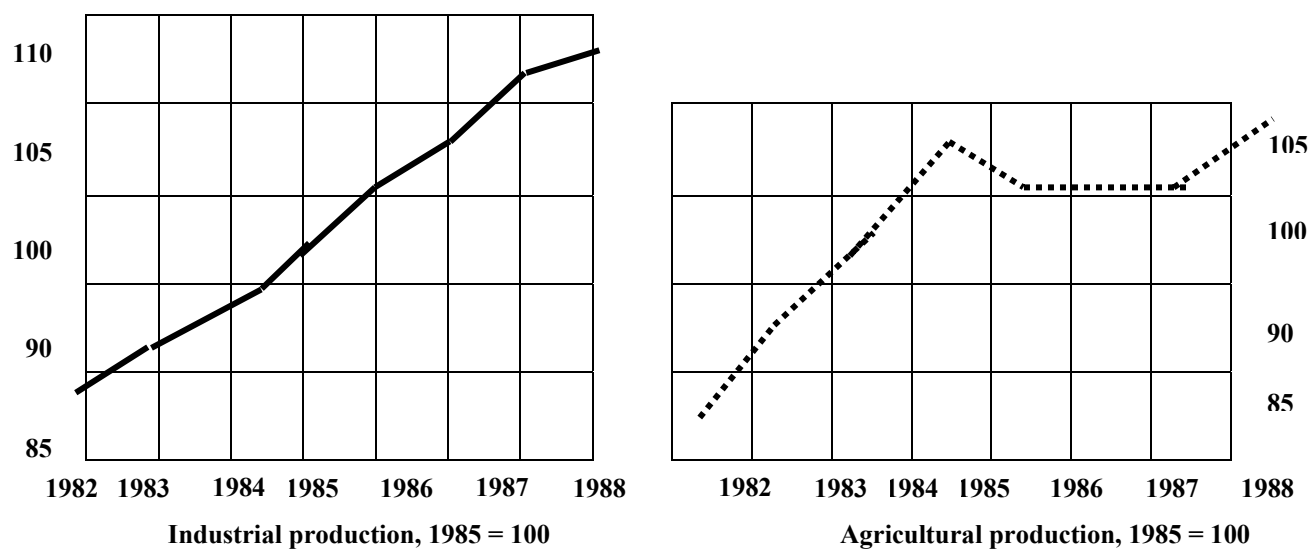
#### **Agriculture & Food Industry**

Slovakia has been uniquely self-sufficient in the area of agriculture enabling its citizens to avoid the lines for agricultural produce characteristic of other economies. Supplies to Slovakia consumers have continued without major disruption while the food industry has been one of the more successful sectors of manufacturing. After the revolution in 1989, farms were largely exempted from the central planning system and allowed to keep most of its revenues. Consequently, the new farms have diversified into other areas including biotechnology, top-quality farm equipment manufacturing and even computer assembly. Moreover, with increasing dual career families (as in the West) and increasing incentives to work, a more elaborate food processing industry may need to emerge. Such a need created the opportunities in the international market for Slovak food and agriculture products.

#### **Chemical Industry**

Czecho-Slovak chemist Otto Wichterle and his development of polymers for the first soft contact lenses in the early 1960s (Financial World, 1990) indicates much potential for the \$5 billion chemical industry. The chemical industry is one of the most promising sectors of Slovak economy. Amidst a sluggish GDP growth, this sector accounted for 13.5 percent of overall production and 6 percent of exported industrial goods. Further evidence of the chemical industry's increasing strength is the shift of the major trade organizations from an import to an export-oriented agency. In addition, various laws and government measures have been taken to reduce middle management bureaucracy, increase individual company accountability and liberalize foreign investment.

However, a boost of further innovation and upgrading is needed. The domestic competition or rivalry among manufacturers and their suppliers should also be dealt with. For example, in the sector of electronics, there are quite a few more domestic companies in Italy, than those found in former Czecho-Slovakia. Even in the electronic equipment sub-sectors of radars and instruments, domestic rivalry can be found.



Sources: Statistica Rocenka ĀSFR, Business International Country Report 1990

Fig. 5. **Former ĀSFR Production in 1982-1988**

An example of an industry cluster involving aircraft manufacturing is illustrated in Figure 6. The former CSFR aircraft industry has specialized in particular small airplane segments such as trainers, commuter planes, sports, and utility (transport, crop dusting, fire fighting, etc). Such a direction of specialization augments the development of national competitive advantage.

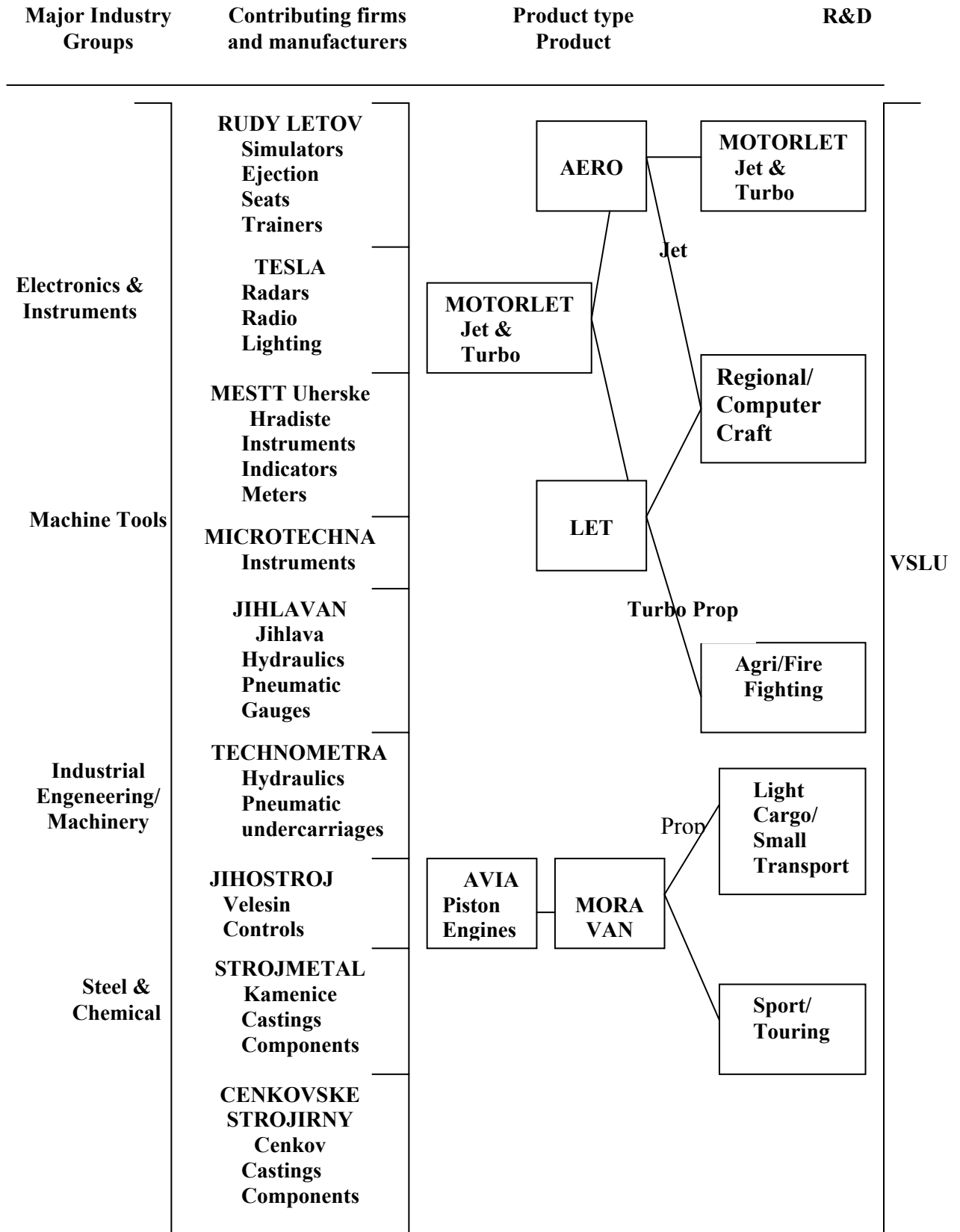


Fig. 6 Former Czech-Slovakian aircraft Industry cluster

However, a boost of further innovation and upgrading is needed. The lack of domestic competition or rivalry among manufacturers and their suppliers should also be dealt with.

To illustrate this further, the former CSFR aircraft industry in that time could be compared with the rest of Europe's industry, in particular, for example with the Italian aircraft equipment industry. Similar to CSFR's, Italy's equipment industry was relatively modest in size. Although comprised of about fifty Italian companies, all but six of these firms were relatively small-scale operations. However, evident of its international competitiveness, the Italian aircraft equipment sector was in direct competition with its larger French and British counterparts. One significant contributor to such competitive advantage is the considerable degree of domestic rivalry indicated by Figure 7.

MAJOR INDUSTRY GROUP	INDUSTRY SUBGROUP	FIRMS
ELECTRONICS & INSTRUMENTATION	ELECTRONIC COMPONENTS:	<b>Agusta</b> <b>Brenda Meccanica</b> <b>Officine Galileo</b> <b>Elettronica</b> <b>Marconi Italiana</b> <b>OTO Melara</b> <b>Elmer</b> <b>Farem</b> <b>Magnetti Marelli</b> <b>MES</b>
	- RADARS:	<b>Fiar</b> <b>SMA</b>
	- TEST EQUIPMENT:	<b>Selema</b> <b>OMT</b> <b>Litton Italia</b>
	HYDRAULIC/ FUEL/LANDING SYSTEMS:	<b>Fimac</b> <b>Magnaghi Napoli</b> <b>Magnaghi Oleodinamica</b> <b>Nardi</b> <b>OMA</b> <b>Secondo Mona</b> <b>Microtecnica</b>
INDUSTRIAL ENGINEERING/ MACHINERY	AIRFRAMES:	<b>Aeritalia</b> <b>Agusta</b>

Fig. 7. Italian aircraft equipment industry cluster

In the sector of electronics, there are quite a few more domestic companies in Italy, than those found in Czechoslovakia. Even in the electronic equipment sub-sectors of radars and instruments, domestic rivalry can be found. Another example, there were also considerably more Italian companies than CSFR firms that dealt with aircraft hydraulics. These Italian companies also formed consortiums (such as CIRSEA and CITES) to facilitate cooperation in areas such as research and development, but internal competition was not hindered. Large Italian companies such as Aeritalia, Agusta and Selenia also foster domestic rivalry through vertical integration with their subsidiaries in the various industry sectors.

### **Slovak Firm's Core Competence**

The emergence of Slovakia's national competitive advantage depends by in large on the development of individual Slovak firms. This company development in turn relies on the firm's core competencies and their creation. According to Prahalad and Hamel, core competencies are derived from the "collective learning" of the company involving the integration of diversified technologies and production skills. Applying such a concept to the Slovak environment accustomed in the past time to the bureaucracies and inefficiencies of central planning, a re-emphasis on "communication, involvement, and a deep commitment to working across organizational boundaries" would seem like an insurmountable effort. However, having to build from scratch provides Slovakia with the opportunity to avoid the problem of Western firms in overlooking the significance of their core competencies.

An essentially industrialized economy relative to the rest of Eastern Europe provides Slovakia with a significant catalyst to spark the creation, maintenance and growth of core competencies. Skoda with its subsidiary in Slovakia for example, achieved combined (including the automobile operation) sales of about \$1.25 billion in 1989, making it in that time the largest industrial firm in the Eastern Europe. A potential of Slovak firm's core competence might be found in engine building. However, substantial needed steps were taken in the emergence of such a competence. In addition to the importance of innovation and modernization vital to the building of competencies, the inefficient practices of central planning needed to be eliminated. An overly self-sufficient steel company for example, does everything unnecessarily from smelting steel to generating its own electrical needs. This promotes not only production and resource allocation inefficiency, but discourages supplier competition. The steel company case also illustrates the need not solely for vertical integration, i.e. the right level of vertical integration in the future.

In addition, the existing external supplier situation in that time also needed to be developed to facilitate the emergence of more supplier firms and hence domestic supplier rivalry. A considerable amount of steel company components in that time came from other state-owned enterprises, many of which faced an uncertain future. For example, BAZ, a Bratislava truck manufacturer, was the only supplier of axles for Skoda. With the uncertainty that BAZ faced, should have BAZ gone under, Skoda's supply of axles could have suddenly been cut off.

### **Vision, Innovation and Commitment**

Both National Competitive Advantage and Core Competence highlight three main concerns when applied to Slovakia. In the creation and development of advantages and competence, they needed to focus on:

VISION – all involved, government and firms, need to formulate a sense of direction in the form of compatible national and company goals and the strategies to achieve them.

INNOVATION – a vital element to the success of these strategies is the process of continuous upgrading and enhancement of Slovak business. Investment (capital as well as educational) kept this process alive. In turn, such investment, foreign included, was in line with the previously mentioned strategies.

COMMITMENT – direction and innovation are ineffective without a long-term commitment, spanning at least a decade. The high short-term expectations of government, business and the general public may prevent the preservation of such a commitment.

Figure 8 shows the interdependence of the three previously identified industries conducive to the development and maintenance of core competencies and national competitive advantage.

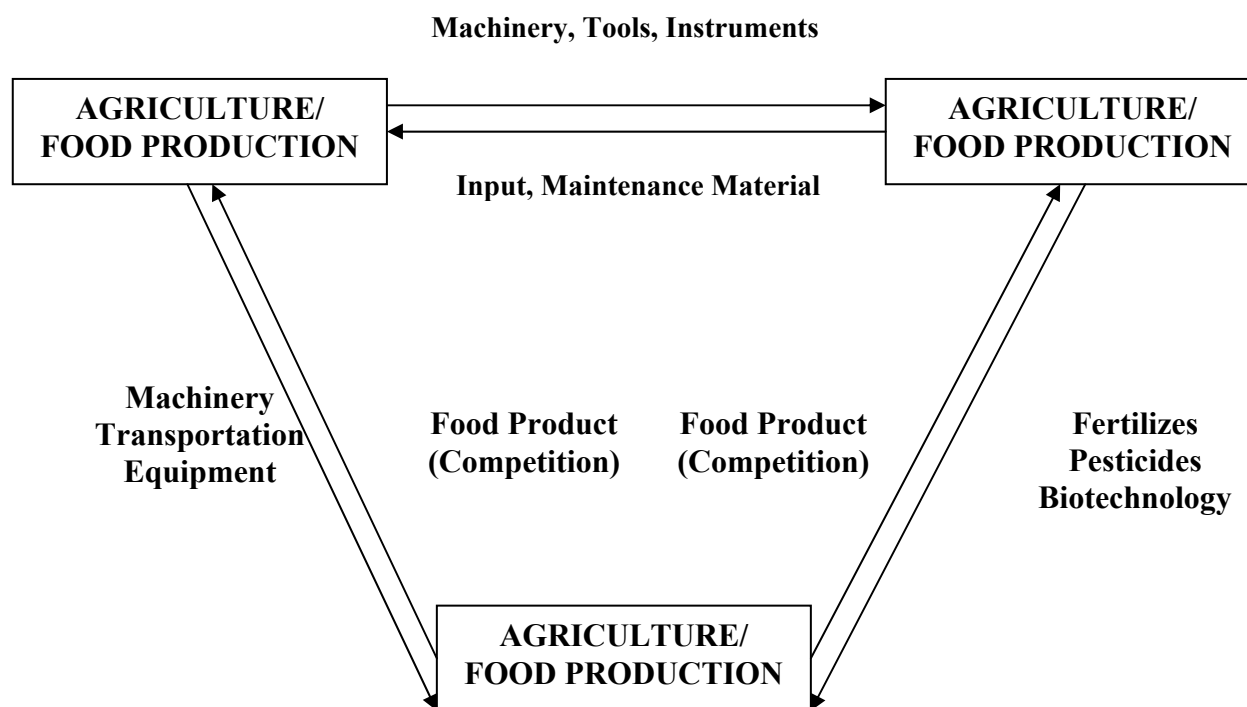


Fig. 8. CFSR three-industry interdependence

An example of cross-industry relationships involves companies such as Moravan, Chemopetrol and Slovnaft. Chemical companies like Slovnaft Bratislava provide inputs such as polystyrene, pigments, dyes that help Moravan to manufacture the Z-37 Cmelak Crop Sprayer airplane used in spraying beet fields with sugar beet herbicide made by Slovnaft. Also, the seeds of inter-industry rivalry can be seen in the competition the agricultural sector is providing the others by diversifying into agricultural equipment and biotechnology.

### 3. Strategic framework

In Slovakia's quest step by step grew a viable global competitor given its potential, the Slovak government played a significant role. This may sound strange given our earlier diatribe against centrally planned economies. However, in the transition from central planning to a free-market orientation, the government first had to relinquish its hand in business and industry through systematic privatization and the maintenance of a "hands-off" policy. Government-owned monopolies were carefully dismantled, insuring that their places are taken by viable competitive private enterprises with vision. Significant steps to this effect had already been taken by Slovak action in the past. At the same time however, it was crucial that the Slovak government:

1. Identified potential national competitive advantages;
2. Created an overall strategy towards developing and maintaining these competitive advantages, and achieving economic growth and prosperity;
3. Designed and implemented national policies to carry out such a strategy. (A good example to follow the example was how Japan's Ministry of International Trade and Industry (MITI) operates and how a network of powerful government officials and company executives insures rowing to a competitive rhythm);
4. Developed a strong national government with a concerted effort towards development.

Specifically, in its bid towards increased privatization, the Slovak administration's most significant task was to revamp the structure of its companies, utilizing a combination of the following alternatives given in Table 2.

Table 2. **Alternative approaches to privatisation**

I	<b>EMPLOYEE OWNERSHIP</b> Installation of an Employee Stock Ownership Plan (ESOP) transferring ownership of State Owned Enterprise (SOEs) from Government to workers themselves.
II	<b>PUBLIC OWNERSHIP</b> Creation of marketable shares of (SOEs) distributed to citizens as a "social dividend" or through a voucher system, transferring primary ownership from government to the public.
III	<b>S-FIRM OWNERSHIP</b> Conversion of SOEs into amore supplier/ creditor-oriented group of smaller firms, with worker participation and cross ownership among principal interrelated companies.
IV	<b>ENTREPRENEUR OWNERSHIP</b> Creation of new smaller private companies through new cooperatives, partnerships and new ventures initiated by motivated managers and employees themselves.
V	<b>MANAGEMENT OR FOREIGN OWNERSHIP</b> Conversion of SOEs into current management-owned or foreign investor-owned companies through sale or joint venture.

Source: Derived from Business Week, 1990

In this context it was critical in the dismantling to maintain the right level of vertical integration in each industry. This right level provided for any invigorative environment for innovation-reducing the bureaucratic chains of command that predictably consume valuable time. And, it allowed for sufficient size for synergistic management.

The former government price bureau, which sets artificial prices, was eliminated, as prices should reflect the real value that goes into products. The Slovak political leadership also played the role of catalyst for increased domestic entrepreneurship and rivalry among Slovak firms. In doing so, the development of specialized factors of production in the three key industries cited was promoted.

Although Slovakia has also taken steps to encourage foreign investment by establishing clearer and more attractive joint venture laws insuring repatriation of investments and transfer of profits under bilateral agreements (Industry Week, 1992), the direction and strategy that Slovakia has envisioned and taken needed to also be imbedded into such foreign investment policy. Incentives were designed to attract investment in the targeted industries. This investment was able to upgrade both specialized production factors and local management.

In addition to microeconomic reforms, macroeconomic policies were also needed to stabilize the economy. Substantial income taxes and probably consumption taxes during the years needed to help minimize increasing budget deficits and finance support for labour unemployed in the transition to a market economy. Monetary policy was also designed to control the inflationary effect of a substantial supply of money pursuing a limited amount of goods.

Significant to not only Slovakia but also the entire region itself was the problem of pollution and deteriorating environmental conditions. This concern and the industrial advantages Slovakia had, provided the potential for Slovakia to pioneer in this respect by employing effective safety and environmental standards. Slovakia also could avail of profitable opportunities in pollution control and environmental clean-up industries by focusing its capable chemical and instrumentation industry effort in this direction.

In the area of demand conditions, both government and domestic firms played an important role in consumer education. The Slovak consumer needed to become more knowledgeable and sophisticated in terms of product alternatives. This had been done through the creation of consumer groups, organizations, media and other promotional efforts much in the same way as found in the west. Information is the key to consumers providing an engine for innovation and competition.

Developing private organizations, like consumer union providing information such as consumer reports was a step in the right direction. Perhaps such organizations needed to be initially supported by the government until they achieve credibility with the consumers.

Alternatively, western consumer groups, in exchange for consumer research, initially supported these.

Ultimately, Slovak manager had the essential role in developing a competitive advantage. But is this Slovak manager ready?

First, domestic companies need to provide further adequate training and education for their management staff in the workings of a market economy. By this way, domestic management was able to, for example, tackle the task of determining a pay scale difference between two employees with varying skills. Second, further training and education needs to be specialized in specific industries or industry groups, such as industrial engineering. In this context, besides providing business or specialized training to college graduates, perhaps students of polytechnics (or associate technical programs) was also put through a business sensitizing program.

Externally, Slovak firms also contributed to consumer education and development efforts especially for consumer goods companies. This facilitated an effective awareness of current and potential consumer needs which would contribute significantly to further product innovation and improvement. Domestic companies further promoted such innovation and upgrading, and the eventual development competitive advantage, by welcoming and taking advantage of domestic rivalries.

With its relatively small foreign debt, one alternative was for the Slovak government and domestic firms to borrow more to finance their efforts. However, adequate entrepreneurial spirit and the knowledge of proper investment strategies needed to be first present among Slovak managers. There was no advantage to borrowing more funds if company management didn't know how to use it most productively. This would also presuppose a well-developed legal system for business and financial matters.

This introduced the role of foreign investment. The primary role of foreign investment was to help upgrade production equipment and infrastructure that was mostly 20 or more years old and of which a full one-third was useless. Foreign efforts also contributed significantly in the education process of both Slovak management and consumer, through training or education programs and through the introduction of consumer oriented media. Foreign companies also contributed by increased rivalries among domestic companies and their suppliers by competitive sourcing practices.

## Conclusions

From the Slovakia perspective, it is important that foreign investment creates specialized employment and promotes the development of the targeted industries or industry clusters, based on the arguments of National Competitive Advantage Exports in these industries need to be developed and upgraded in order to gain hard currency export revenues that can in turn facilitate further innovation and improvement.

Domestic companies need to provide further adequate training and education for their management staff in the workings of a market economy. Training and education needs to be specialized in specific industries or industry groups, such as industrial engineering.

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