The Slovak State as an Entrepreneur

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The first 16 years of the post-1989 period in Slovakia can be described as an era of privatization. A majority of the state-owned economy was transformed into a market-oriented model, where state-owned enterprises (SOEs) remain the only key player in several sectors.

HISTORY OF SOEs IN SLOVAKIA

Unlike Hungary and Poland, where certain forms of private ownership (especially in agriculture, the service sector, and crafts) were revived during the 1970s and 1980s[1], the state and collective organizations held almost 100% control of all legal economic activities in Czechoslovakia before 1989.

After 1989, the Czechoslovak government decided for a "shock" transformation instead of a gradual one, which included rapid privatization across most of its sectors. The majority of SOEs had been privatized in the 1991–1995 period, either by auctions, direct sales, or a voucher system.

Auctions and direct sales of smaller enterprises (hairdressers, pubs) often involved employees, while the big companies were usually sold to persons with strong ties to the government.

The voucher system offered all adult citizens a chance to buy (for a rather symbolic price) one "voucher book" and allocate the vouchers to desired companies (the transactions were cleared in several rounds of auctions), then becoming a shareholder. In almost all cases, 100% of the ownership was transferred. What remained was a handful of big utility companies, rail and bus companies, the mail, and several dozen smaller companies, usually with some specific function (airports, hospitals, testing centers). The majority of new owners were Slovak nationals, with few exceptions.

The second wave of privatization came with two reform governments at the beginning of the millennium. In the 2002–2004 period, part of the stakes in the utilities was sold to foreign investors. The state usually kept 51% of shares, but surrendered managerial control to investors. Privatization of 17 regional bus companies started in the mid-1990s, and was finished a decade later.

With the change of government in 2006, the attitude towards privatization altered. Besides intensive rhetorical condemnation of the previous privatization, the ongoing privatization of Bratislava Airport and CARGO (rail freight transport) was abandoned. Besides accusations of selling companies under the market price, the center-left coalition with strong populist elements lamented about the loss of state influence in the economy. Paradoxically, the minor coalition partner HZDS had been the main driver behind the notorious 1994–1998 privatization period.

In 2009, the government prepared a law about "strategic companies", giving the government the right of the first buyer for "strategic companies" in bankruptcy. It has not been used since.

The topic of "strategic companies" with a twist resurfaced with the new government in 2016. The 2009 law was aimed at struggling private companies (motivated by then-current troubles of a big employer in central Slovakia), but the 2016 bill was aimed at the SOEs. The law would ban privatization of "strategic companies" (mainly utilities), but has not become reality yet. The only major privatization since 2006 was the sale of the remaining 49% of Tel-

[1] See: Martin, R. (2013) *Constructing Capitalisms: Transforming Business Systems in Central and Eastern Europe*, New York: Oxford University Press, p. 75.

ecom shares to the majority holder in 2015. In the opposite direction, the government recovered 49% of the SPP parent company of the Slovak gas holding[2] in 2014 and owns a 100% stake. Two main reasons were voter appeasement ("the family gold returns!" rhetoric) and more direct control of gas prices for domestic users. Interestingly, the recovery was deemed beneficial also for the private investor by some analysts because the investor remained 49% owner of the highly profitable daughter companies (especially Eustream gas transit company), while the share in loss-generating[3] and politically sensitive mother company (due to selling to the households) went to the state.

The first wave of privatization is considered very controversial. The big industrial companies especially were quickly drained of any valuable assets by their new owners and many of them collapsed. Where the smaller "voucher" shareholders were involved, these were usually squeezed out by bigger players, thanks to the poor rule of law in financial, accounting, and holding matters.

The second wave proved to be much more successful, largely due to the different political environment. The privatized shares became a part of respected international corporations (Enel, GDF Suez, and Deutsche Telecom, among others) and the companies show sound results. In several cases, some concerns were raised about either the selling price being too low[4] or the processes being influenced by corruption [See Table 1].

Table 1. Selected characteristics of Slovak Republic

Characteristic	Size	Year	Source
GDP	EUR 80.96 billion	2016	Statista.com
Number of employees	2 512 700	2016	Statistical Office (SK)
Number of public employees[5]	128 000	2015	Statistical Office (SK)
State budget revenue/GDP	18%	2016	The State Budget Act 2016
State investment/Total investment	27.4%	2016	Eurostat

THE CURRENT STATE OF SOEs

The majority of SOEs were formally booked in the "state company" special legal form in the 1990s. That legal form posted a num-

[2] The SPP is now a 100% state-owned gas supplier in Slovakia both to domestic and industrial consumers (the market is open and there are more than 20 other suppliers, yet SPP has by far the biggest market share). It is also a holding company with an array of gas storage, distribution, and transit companies. However, in those it holds only a 51% stake and no managerial control. The 49% stake and the managerial control are held by a private investor, which is currently the Czech company EPH.

[3] There is some dispute about the financial viability of selling gas to households, since the holding does not officially publish separate numbers for this activity. Most experts consider it money-losing, or zero-profit activity at best.

[4] The privatization shenanigans around the power generator, gas company, and others were the core of the Gorilla Scandal. https://spectator.sme.sk/c/20042075/slovak-politics-gripped-by-gorilla-file.html

[5] In the narrow sense: excluding teachers, police, and municipal workers.

> NONE OF THE SOEs IS LISTED ON THE STOCK EXCHANGE. IN A TYPICAL "CHICKEN OR EGG" DILEMMA, THIS CAN BE BLAMED ON THE EXTREMELY SMALL SIZE OF THE BRATISLAVA STOCK EXCHANGE, OR VICE VERSA

ber of restrictions on management (limited ability to transform assets being one of the foremost) so they were gradually changed into standard legal forms, especially unlisted joint stock companies. Today, the "state company" form remains in about a quarter of Slovak SOEs – the majority of them are in the agricultural and forestry sectors.

Most of the companies to be privatized were then transferred to the special state equity fund "Fond národného majetku" (National Assets Fund) or FNM, which was responsible for the formal side of management and privatization. In the first wave of privatization (until 1998), the fund privatized assets with book value of about SKK 103 billion (about USD 2.9 billion in 1998, or about EUR 7 billion in 2017). However, without open competition for the state assets, there was no way to find the market price of these assets. The assets were privatized for about SKK 30 billion, out of which only about 17 billion was actually paid. Later, the fund held around EUR 2-3 billion (EUR 2.3 billion in 2011) of assets. SOEs not intended for privatization have been formally held under ministry ownership. Ministries are also the responsible shareholders in the companies where private investors hold managerial control, despite having a minority ownership. The Fund was finally disbanded in 2016, since the main role of the fund was to facilitate "mass" privatization. The remaining SOEs in its portfolio were transferred under ministries.

In 2015, 11 ministries and two governmental agencies were shareholders or owners in 65 SOEs. In 59 of those, the state held majority ownership (but in four companies from the energy sector, the minority stockholders hold managerial rights). In 56 of them, the state held over 95% of the shares. Total book value of equity in those companies is EUR 19.4 billion, and equity weighted by share is EUR 16 billion. The majority of equity is concentrated under the Ministry of Transport (EUR 6.6 billion weighted equity) and the Ministry of Economy (EUR 5.3 billion weighted equity). The biggest holdings are the National Motorway Company (100% of EUR 3.5 billion equity), SPP – Slovak Gas Industry (100% of EUR 2.6 billion[6]), and Railways of the Slovak Republic (100% of EUR 1.6 billion equity).

Slovak SOEs employ more than 60,000 employees (some of the smaller companies do not publish an official number of employees), comprising about 3% of all employees in the economy. The three

[6] SPP is a holding with a 51% stake in a number of energy companies in Slovakia. The remaining 49% in daughter companies is held by private investors who hold managerial control.

Table 2: Ten biggest employers in Slovakia in 2016

Company	Industry	Number of employees
Železnice Slovenskej republiky (Slovak Railroads)	Railways/Infrastructure	14 009
Slovenská pošta (Slovak Post]	Post	13 446
Volkswagen Slovakia	Automotive	12 300
Tesco Stores SR	Retail	10 100
U.S. Steel Košice	Steelmaking	10 093
Schaeffler Slovensko	Bearings	9 492
Kaufland Slovenská republika	Retail	6 195
ZSSK (Railway Company Slovakia)	Railways/ Passenger transport	5 967
Cargo Slovakia	Railways/ Cargo	5 932
Lidl Slovenská republika	Retail	4 000

Source: Individual annual reports

rail companies and the Slovak Post employ around 40,000 of them. Significant employers also include the state health insurer (2,000 employees), the National Highway Company (1,500 employees), and the co-owned power generation and electricity distribution companies (more than 5,000 employees in 4 of them) [See Table 2].

None of the SOEs is listed on the stock exchange. In a typical "chicken or egg" dilemma, this can be blamed on the extremely small size of the Bratislava stock exchange, or vice versa. In 2016, an idea to create an "energy holding" emerged within the government. The holding would concentrate all its stakes in energy utilities, which are the most valuable SOEs in market-value terms. The realization of the idea is uncertain, due to a potential clash with the unbundling rules of the EU and potential power struggles in the government.

STATE OWNERSHIP, IN THEORY

The problem of SOEs encompasses several fields of economic theory – property rights theory, contract theory, agency theory, transaction theory, incentives theory (principal-agent problem), and, of course, firm theory[7]. Empirical evidence shows that, around the world, SOEs tend to be underperforming privately-owned enterprises[8].

The underperformance of SOEs stems from several sources. There is often a different incentive structure (both formal and informal) in place, which motivates managers of SOEs to divert from chasing economic performance indicators and instead push employment indicators or price rigidity[9]. HR and leadership management often resemble the bureaucratic style of management[10] found in public offices. State ownership often results in problems in defining the targets of the company[11]. Also, innovations in SOEs seem to be less effective and less oriented toward market application[12]. The principal-agent problem and insufficient definition of property rights are obvious implications in this case since the shareholders are (depending on the point of view) either politicians (with a very limited long-term view due to political cycle) or the public (with very limited and delayed voting rights via a democratic election).

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[7] See: Peng, M.W., Bruton, G.D., Stan,C.V., andY. Huang (2016) *Theories of the (State-Owned) Firm,* New York: Springer Science+Business Media. https://www.researchgate.net/profile/Yuanyuan_Huang12/publication/301793251_Theories_of_the_state-owned_firm/links/572c12b708ae2efbfdbddfb1/Theories-of-the-state-owned-firm.pdf

[8] See for example: Megginson, W.L., Price, M.F., and J.M. Netter (2001) "From State To Market: A Survey Of Empirical Studies On Privatization", *Journal of Economic Literature* Vol. 39, No. 2 (June), pp. 321-389, https://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/1929649.pdf or Djankov, S., and P. Murrell (2002) "Enterprise Restructuring in Transition: A Quantitative Survey", *Journal of Economic Literature* Vol. 40 (September), pp. 739–792, http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.319.411&rep=rep1&type=pdf

[9] Shirley, M., and Nellis, J. (1991) *Public Enterprise Reform: The Lessons of Experience*, http://documents.worldbank.org/curated/en/156711468779074142/pdf/multi-page.pdf, *Bureaucrats in Business* (1995) A World Bank Policy Research Report, http://documents.worldbank.org/curated/en/197611468336015835/pdf/150370REPLACEM0Box0377372B00Public0.pdf or Musacchio, A. and S.G. Lazzarin (2014) *State-Owned Enterprises In Brazil: History And Lessons* https://www.oecd.org/daf/ca/Workshop_SOEsDevelopmentProcess_Brazil.pdf

[10] Masterfully described by Mises in *Bureaucracy* (1944). https://mises.org/system/tdf/Bureaucracy_3.pdf?file=1&type=document

[11] Megginson, W.L., Price, M.F. and J.M. Netter (2001) "From State To Market: A Survey Of Empirical Studies On Privatization", *Journal of Economic Literature* Vol. 39, No. 2 (Jun., 2001), pp. 321-389. https://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/1929649.pdf

[12] Belloc, F. (2013) *Innovation in State-owned Enterprises: Reconsidering the Conventional Wisdom*, MPRA Paper. https://mpra.ub.uni-muenchen.de/54748/1/MPRA_paper_54748.pdf

WORST PRACTICES IN THE RECENT SLOVAK HISTORY

Taking into consideration the abovementioned theoretical drawbacks of SOEs, we have identified several real-life implications for many Slovak SOEs:

- General economic underperformance;
- Seriously delayed innovations and slow/non-existent reactions to market changes;
- Lack of a pro-client approach;
- Orientation on political goals (employment, product price rigidity);
- Low transparency and responsibility of management;
- Quasi-bureaucratic internal organization;
- No long-term strategy concerning SOEs.

While the dark times of the worst practices in managing SOEs would be in the early 1990s, when money and assets were syphoned out of the companies in broad daylight, we will focus on the examples post-2006 because the government (and its attitude toward governing SOEs) remained largely unchanged since then, with a brief exception (2010-2011, when a center-right government ruled briefly).

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> THE NUMBER OF SLOVAK MEDICAL SUPPLIERS ARE KNOWN TO HAVE STRONG TIES TO THE RULING PARTY

1. Rail freight cargo

After splitting the integrated railway monopoly into a passenger transport company, a cargo company, and an infrastructure company, Cargo was put under privatization in 2006. A buyer was confirmed, offering EUR 520 million for the company.

However, after a government change in summer 2006, the privatization deal was abruptly canceled. The company had been losing market share due to private competitors (as a consequence of EU-desired market liberalization). After the global crisis hit Slovakia in 2009, Cargo started to quickly accumulate crippling losses (almost EUR 130 million in 2009), but the government prohibited the company from reducing its employee numbers. The company with 10,000 employees was bailed out by the government for EUR 166 million in 2009.

Nevertheless, that helped only for a short time. In 2013, the government announced its plan to sell the majority of tangible assets (wagons and depots) to private buyers in order to raise EUR 200 million for the company and subsequently lease them back. Currently, the accumulated loss reaches EUR 400 million. While the company was able to turn mild profits in the last few years and shed 4,000 jobs, its future remains uncertain.

2. Airport Bratislava

A small regional airport, serving mainly low-cost carriers (especially Ryanair) and charters, was subject to privatization in 2006, with a similar story but a less-dramatic conclusion.

> STATE INVESTMENTS TURN THE TAXPAYERS INTO INVOLUNTARY "ENTREPRENEURS"

A consortium, which included Vienna airport (70 kilometers away and connected via a highway), offered EUR 240 million, including investments. The offer was declined after a government change. Instead, the state invested EUR 70 million directly and another EUR 50 million as a loan to build a new passenger hall, raising the annual airport capacity to more than 5 million passengers.

In the next year, the airport started experiencing a massive decline in the number of passengers (40% between 2008-2014), bottoming out at fewer than 1.4 million passengers in 2014. The airport has recorded a net loss for eight consecutive years. Despite a partial recovery in passenger numbers, revenues stagnate. Moreover, the airport lost the opportunity to team up with a strong international partner.

3. The state health insurer VŠZP and state hospitals

Slovakia has an obligatory contributions-based[13] health insurance system with two private insurers and one public insurer with 64% market share. However, due to chronic financial problems (a continuous loss generation) of public health care providers, the state insurer has been under political pressure to increase payments.

The insurer first got into trouble in 2010, recording a loss of EUR 120 million. The situation repeated in 2016, when an audit discovered wrongly calculated reserves that meant a EUR 78 million and EUR 112 million book loss in 2015 and 2016, respectively. Since the private insurers have been facing similar payment conditions (with the market leader driving up payments also for competition), a large part of those losses has to be accounted for mismanagement and poor efficiency.

> THE POWER GENERATOR SLOVENSKE ELEKTRÁRNE (33% OWNED BY THE STATE) IS FORCED TO PURCHASE COAL FROM THE MINE FOR ITS HIGHLY INEFFECTIVE THERMAL POWER PLANT LOCATED NEARBY

[13] After removing the contribution ceiling in 2017, the contributions scheme is literally identical to a tax scheme.

The history of the insurer is littered with a number of payment scandals (for non-existent or dubious care or overpriced material) and the number of Slovak medical suppliers are known to have strong ties to the ruling party.

THE STATE AS AN INVESTOR

An important part of the state's involvement in the private sector is through the facilitation of investments. As already suggested in the story of Bratislava Airport, the state is often a poor investor. The motivation to invest tends to be painfully short-sighted, often focusing on political (the promotion of tangible "achievements") or immediate economic (GDP and employment generated during construction) or financial (business for allied suppliers) gains. State investments turn the taxpayers into involuntary "entrepreneurs".

There have been several cases of intended investments which stand out. They highlight the complete disregard for long-term planning and a lack of sense of economic reality.

Broad-gauge railway. While the Slovak railway infrastructure had been struggling to keep up with western counterparts, a megalomaniac plan for more than 400 kilometers of broad-gauge trans-Slovak railroad emerged in the mid-2000s. A consortium of Austrian, Slovak, and Russian railroads spent several million euros on studies and analyses (most recently in 2015, with the Russia-Ukraine conflict already under way). With the estimated cost of more than EUR 6 billion, it has been closer to a pipe dream than a reality.

Nuclear power plant. Despite four nuclear reactors covering more than 50% of electricity consumption, two more reactors under construction and a chronically low commodity price, various governments have contemplated the construction of a third nuclear power plant for about a decade. Both economic rationality and a solvent investor are missing, but the responsible state company spends millions on projects and land purchases for an intended plant.

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In both cases, millions were spent for preparatory studies, despite not having any economic ground for the projects, nor any potential funding source in sight.

CRONY CAPITALISM

The informal connection of the state and several privately owned companies also have to be taken into consideration, as these companies act as quasi-SOEs. The most striking example is the lignite mine in central Slovakia.

Despite being privately owned, keeping the employment level was pronounced a national interest. The power generator Slovenske elektrárne (33% owned by the state)

> UNIONS HAVE BEEN LESS ACTIVE COMPARED TO THE WEST AND THE UNION STRONGMEN HAVE A LONG AND GOOD RELATIONSHIP WITH THE GOVERNMENT

is forced to purchase coal from the mine for its highly ineffective thermal power plant located nearby. Since the power generation from local lignite is extremely costly, the costs are covered by a subsidy scheme.

1. Besides the rhetoric about the importance of job protection (which recently came under fire due to declining unemployment), there is no strategy with quantifiable goals for the coal subsidies, costing about EUR 100 million annually. The media accused the mine owner of bribing government officials in 2015.

2. Intensive campaigns by NGOs, media, and opposition have slowly turned public opinion, but the government remains firm about the subsidies.

INSPIRATION FROM ABROAD

While the number of SOEs in Slovakia is not very high, there is still a large potential for economic gains from privatization. An inspiration can be drawn from several projects which took place in other countries.

Deutsche Bundespost. DB, established in 1950, employed 500,000 people in the late 1980s. The state-owned company was broken into three parts (postal service, telecommunications, and banking) in 1995 and floated on the stock market. The state retained only minority shares in the post and the telecommunications.

Royal Mail. The UK state-owned postal service was completely privatized via IPO in four steps during the 2013–2015 period. About 140,000 eligible employees received 12% of the shares, with a market price around GBP 3,000 per capita.

WHAT TO PRIVATIZE IN SLOVAKIA

Three recurrent major obstacles appeared in recent privatization efforts in Western Europe: unfunded liabilities (pension plans[14]), union pressures[15], and political unwillingness. The first two are not very noticeable in Slovakia.

Company pension plans are practically nonexistent and while the market value of some SOEs (Cargo especially) may be close to zero, unfunded liabilities are not on the books. Unions have been less active compared to the West and the union strongmen have a long and good relationship with the government[16]. Especially in the case of the post, wage levels

[14] http://www.if.org.uk/2013/09/25/the-privatisation-of-royal-mail-what-about-the-pension-scheme/

[15] http://www.dailytelegraph.com.au/news/nsw/sydney-bus-strike-transport-minister-demands-drivers-get-back-to-work/news-story/af2275fb841b94984d186171cce2888d

[16] There have been only a few cases of noticeable strike actions in the past two decades, concentrating around nurses, doctors, teachers, and railway workers. All of them were concerning wages and working conditions, not a (potential) privatization. Especially during the Smer (social democrats) governments, unions were very cooperative with the government. Only recently (since 2015), new union organizations split from the old ones in several industries (teacher unions, VW company unions) and organized actions.

> THE SP STRUGGLES TO IMPROVE BOTH THE QUALITY OF TRADITIONAL SERVICES AND NEW MARKETS

are extremely low, as is the overall lucrativeness of the job, making strong union action improbable. Yet, of the 10 biggest employers in Slovakia, four are SOEs with a combined workforce of 40,000 (Slovak railroads and the Slovak Post being the two largest employers in the country), which makes around 2% of all employed Slovaks. That makes employment a question of imminent political interest.

Several SOEs could benefit from obtaining substantial private capital. While the left-leaning governments of Smer[17] had been traditionally adamant against privatization, several ministers of the current government, including the minister of health (and previous CEO of the Slovak Post) or the minister of transport, have shown some openness toward discussing privatization. This may also be due to the favorable economic situation in the country, with unemployment plummeting and an increasing shortage of a workforce in some regions. That would mitigate the expected political impact of privatization due to potential job cutting in privatized companies.

> THE SLOVAK POST EXISTS IN A LIBERAL ENVIRONMENT AND THERE IS NO REASON THE STATE SHOULD HAVE ANY STAKE IN THE COMPANY

1. Slovak Post (SP)

As any other traditional postal service provider, Slovak Post has been facing a continuous decline in the use of traditional services. It has also been losing its monopoly position in various markets, especially packages over 50 grams and hybrid post[18].

The market was fully liberalized in 2012. Company revenues have been stagnating for a decade and it lost more than EUR

[17] There are three distinct periods in Slovak politics. The 1994–1998 period was ruled by semi-autocratic Prime Minister Vladimir Meciar and his center-populist-nationalist party HZDS (and minor coalition partners). In 1998, the two consecutive center-right governments of Mikulas Dzurinda kickstarted the economy and integration process into EU and NATO. The third period, from 2006 until now (with the brief 2010–2011 break of the center-right Radicova government) by Prime Minister Robert Fico and his party Smer and various minor coalition partners. Smer positions itself in the social democratic political specter, but in reality it resembles the populist-nationalist politics, represented for example by Viktor Orbán.

[18] Hybrid post monopoly was granted in 2008 by the government, then subsequently disputed by the EC until finally, after 7 years of litigating, canceled.

20 million from 2010–2012. Today, about 80% of clients come from corporations and other entities.

The company managed to improve its financials in recent years. The post reacted to market changes mainly by cutting costs (creating “mobile post offices” in remote areas) or adding additional (sometimes dubious and prone to jokes) services to its portfolio, like selling insurance or drugstore materials. More recently, the SP teamed up with a private mobile phone service provider.

Yet the SP struggles to improve both the quality of traditional services and new markets. Extremely long waiting times, the low utilization of simple technologies (queue ticket machines were introduced in the country’s biggest post office only in the beginning of 2017), and the lack of an international network make package and shipping services less competitive with little hope for future improvements without external capital.

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TO THE BENEFIT OF TAXPAYERS AND PASSENGERS, THE GOVERNMENT SHOULD SET A DEFINITE DEADLINE FOR LINE LIBERALIZATION AND OFFER A SUBSTANTIAL PART OF ZSSK FOR INVESTMENT

The idea to offer SP shares on the stock exchange was proposed in 2015 by the SP CEO, and the new government started contemplating the idea in 2017. The talks are about 5%-30% free float.

Such a small amount of free float may be largely insufficient to attract any substantial investment and introduce a new drive in company management. The Slovak Post exists in a liberal environment and there is no reason the state should have any stake in the company. The social goal of involving the remote areas in the postal network is already secured by the Universal Service Provider scheme. The scheme can be conducted by a privately owned SP in the same manner as today. Guaranteeing a certain part of shares to employees (as in the case of Royal Mail privatization) can improve the position of the common postal worker in Slovakia.

Another option to consider is a direct sale to a strong partner who would be able to implement SP in its global operation and open it to new markets. As an example, the partly privatized Austrian Post teams up with a number of local retailers and plans to compete with Amazon on the Austrian market.

2. Cargo and ZSSK

The rail freight transporter was already introduced in the worst practices chapter. The survival of the company is secured for some time due to the sale of its assets. However, the company is completely dependent on its top client, the major Slovak steelmaker US Steel. However, the steelmaker is for sale and securing long-term contracts on the liberalized freight market in Europe (with strong Polish or Czech competitors, as well as smaller Slovak competitors) will be challenging.

> MISSING THE KEY TOOLS PROVIDED BY THE MARKET – LIKE BETTER-DEFINED OWNERSHIP AND DIFFERENT STRUCTURE OF INCENTIVES – SOEs WILL TEND TO UNDERPERFORM PRIVATELY OWNED ENTERPRISES IN BUSINESS TERMS

A strong partner can be a way forward. In this case, the state has to be ready to accept minimum net revenue from the sale, since the market value of the company is dubious and largely dependent on the value of existing contracts.

The passenger transport ZSSK has been facing a massive outflow of passengers, especially due to higher use of individual transport. Of the last 12 years, only two were profitable for the company. The company is extremely dependent on state subsidies. It held a monopoly on the subsidized lines, but the monopoly was broken in 2013 by a smaller private transporter, which secured a contract with the state on a minor line.

ZSSK have also been facing competition from non-subsidized private rail operators (which hold only a minor share) and also from resurgent bus transport. The service quality is notoriously poor, a fact which was made painfully obvious after the entry of private operators[19].

The governments have delayed liberalization of the subsidized-lines market for years. But once the major subsidized lines are open to bidding from private operators,

[19] Czech private operator Regiojet, offered substantially higher quality and travel experience both on a subsidized route (granted one concession in 2012) and on commercially operated routes. Regiojet left the majority of the non-subsidized routes in 2016, accusing the state-owned competitor of intentionally dumping on the commercial market and misusing revenues from the subsidized routes.

it might spell quick doom for ZSSK. To the benefit of taxpayers and passengers, the government should set a definite deadline for line liberalization and offer a substantial part of ZSSK for investment.

3. Bratislava Airport

Despite the "lost decade" mentioned above, the airport is experiencing a growing interest in passengers. Still, the numbers are well below its capacity and financials are stabilized, but not growing. In 2017, a Chinese investor showed interest in purchasing a 30-year concession to operate the airport, and so far, the government has not given the cold shoulder. When a sale of assets is not politically feasible, a lease deal can be a viable alternative.

IMPROVING SOE MANAGEMENT: RECOMMENDATIONS

Missing the key tools provided by the market – like better-defined ownership and different structure of incentives – SOEs will tend to underperform privately owned enterprises in business terms. That, however, does not always result in financial troubles because many of the SOEs hold monopoly privileges. But it comes at the expense of clients, taxpayers, or general economic competitiveness.

Nevertheless, the management of SOEs can be improved. Most importantly, there has been no coherent general strategy for SOEs in Slovakia, with each ministry pursuing its own goals with "their" SOEs. Private ownership should be set as a general rule for the soundness of the economy. State ownership of any enterprise should have clearly defined goals, which shall be measured and regularly re-evaluated to justify the state ownership. If possible, less intrusive tools to secure the goals should be considered (like the use of Universal Service Provider in the case of postal ser-

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SOEs NEED TO BE OBLIGATORILY BENCHMARKED AGAINST RELEVANT PRIVATE COMPANIES AND SIMILAR SOEs ABROAD vices, or subsidy lines in the case of transport). However, that is the less ideal case, as there is a high danger of a crony relationship.

Internally, SOE management should be selected in a publicly transparent way. The election of the top management (or at least a CEO) shall involve more decision-makers (depending on the context, central government, parliamentary, presidential, or regional bodies or employer associations or unions). Moreover, the management ought to have a set of managerial goals clearly defined in quantitative terms and public (and set before their hiring), whereas their remuneration should be closely bonded to the results. SOEs need to be obligatorily benchmarked against relevant private companies and similar SOEs abroad. Even in situations when EU state aid rules do not apply, there should be no ad-hoc financial bonds between the treasury and SOEs (like emergency loans).

On a more optimistic note, in SOEs where the state waived managerial control despite retaining a majority stake, such managerial methods are to some extent already in place (although not public)[20].

CONCLUSIONS

After the great privatization wave from the 1990–2005 era, the idea of SOEs has been rising in political popularity. Slovak SOEs lack transparency, have deep connections to ruling politicians and their sponsors, and underperform economically. They often resist innovation, both in technology and in business models. That often results in financial problems and in lower customer experience when compared to privately owned companies.

At least two sectors in Slovakia could hugely benefit from new capital and innovations, the postal service and railroad transport. However, in the near future, a wide-scale entry of private investors into Slovak SOEs seems politically difficult. Despite that, at least a substantial improvement of governance methods in SOEs could bring value to clients, taxpayers, and the Slovak economy in general. ●

[20] The utitlies (co-owned by big western coporations like Enel or E.ON.) employ standard modern managerial procedures.

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