

INTERDEPENDENCE BETWEEN POLITICAL ENVIRONMENT AND COMPETITIVENESS OF COMPANIES IN A COMPLEX BUSINESS SYSTEM ¹

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Abstract: Amidst a landscape of constant change—marked by the incredible speed of pandemics and military conflicts on one hand and the advancements of the metaverse with its artificial intelligence elements on the other—the global business environment must redefine itself at an even faster pace. Against this background, companies are continuously pressured to maintain their level of competitiveness in foreign or local markets and are directly influenced by the business environment. The interdependence between company competitiveness and the political environment is becoming increasingly powerful because a country's level of prosperity depends on its political system. In this article, the author aims to analyse how the elements of the political environment directly affect the business environment and companies' competitiveness, ultimately determining a country's level of development. The author attempts to analyse a company's level of competitiveness through the prism of the type of political system used in certain countries, such as the USA, Germany, and Venezuela.

Keywords: political environment, competitiveness, institutions, policies, companies
JEL Classification: O5, P5, K2

1. Introduction

The connection between politics and economics has existed since the beginning of time. The political environment has always been the catalyst or impediment to business development. The visible differences in per capita income between developed and less developed countries largely reflect the quality of their institutions. By reducing uncertainty, institutions are the key facilitators of cooperation, realizing the gains from trade and exchange. It is argued that there is no single institutional design strategy that can be applied to all countries (North, 2003). This is due to the diversity of political systems worldwide and the constantly changing global environment influenced by the aspirations of powerful nations. Despite facing a volatile and complex business environment, companies are fiercely competing, facing significant social, technological, military, and political pressures. They strive to remain competitive and seek ways to maximize their resources and capabilities to achieve optimal performance. Therefore, the policy environment exerts a strong impact on the companies' competitiveness, influencing both the regulatory framework and general economic conditions. This influence manifests itself through the link between the institutional and political systems. Considering that companies seek to develop on foreign markets and the institutional system is different from country to country, it is imperative to adapt to the national specificity, considering that the legislative framework, the contracting process, or the political system can be unique, thereby directly impacting the conduct of business. It is a complex process because the political system is defined as the set of institutions, political organizations, interest groups, and relations between them, which differently transpose the approach to socioeconomic problems and international affairs (Belu, 2018). Using concrete statistical data, we will show the interdependence between these factors.

2. Literature review and key concepts in defining the political environment

In our research process, it is important to define several theoretical concepts to understand the link between competitiveness and the political environment. These two notions are so intertwined that companies

¹ **Acknowledgement:** The work of Popa Marina was conducted in the Project under the institutional programme "Monitoring the viability of enterprises and developing recovery instruments by assessing their competitiveness". INCE, ASEM, 2024-2027.

need to understand in real-time the changes taking place in the institutional environment to face the challenges imposed by one system or the other. This relationship has a direct impact on the level of development of countries. (Popa, 2018) The methodological and theoretical-scientific support of the article focuses on a set of concepts aimed at researching concepts such as political environment, competitiveness, and business environment developed by world and regionally renowned authors (M. Porter, D. North, I. Popa, M. Marinoiu, M. Ion, P. Bontempo, M. Stocker and others). It is also important to mention the author's contribution in his attempt to help identify the concrete factors of interdependence between the political environment and the companies' competitiveness in the current post-pandemic years. As mentioned above, the political body and the economy are indissolubly linked (North, 2003). The elements of the political environment have a direct influence on the business environment. (Stocker, M., & Erdélyi, Á. (2024) Starting from the idea of how the political environment is defined, we identify several key notions. The political environment is part of the external business environment in which a company operates, or in other words, part of the PESTLE (Political, Economic, Social, Technological, Legal environment), which is the environment in which a firm operates. The political environment and political dynamics affect the decisions, strategies, and results of companies in the market, as well as overall economic growth. It also influences how the government intervenes in the market, consequently enhancing competitiveness (Ion, 2015). On the other hand, the political environment is an accumulation of variables that influence business at the national, regional, and international levels. More precisely, the political environment is the political factor through which the activities and competitiveness of companies are determined. (Marinoiu, 2019) So, the relationship between institutional governance (rule of law, control of corruption, political stability, regulatory quality and government effectiveness) and the competitiveness of countries (productivity per worker) determine economic growth. (Bontempo, 2022)

In the specialized literature, the concept of competitiveness is approached through an abroad prism. The competitiveness of an economy is generated by the level of performance of firms and industries in this state and competitiveness at the macro level, which refers to the outstanding results of companies operating at local and international levels. A company's competitiveness is its ability to sustainably fulfil its dual purpose of satisfying customer demand and making a profit. Achieving competitiveness requires a company to continuously adapt to changing social and economic norms. (Chikan, 2022) At the same time, the level of competitiveness is determined by the influence of factors in the political environment.

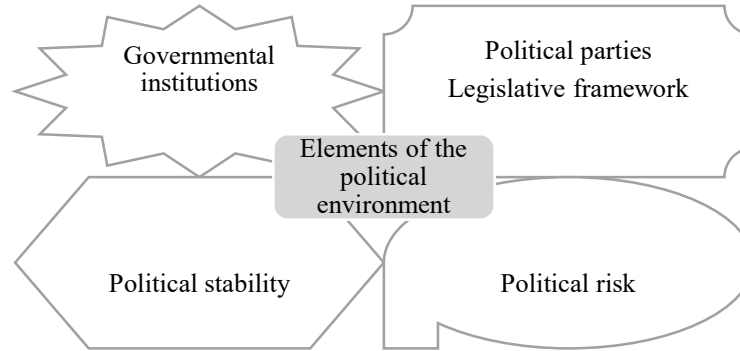
3. Methodology

To achieve the objectives proposed in the article, the author used a complex methodology by mixing several forms of research. Using the following scientific research methods, such as the abstraction method, deduction method, induction, unit method of quantitative and qualitative analysis, observation method, and comparative economic analysis method, allowed a clearer understanding of the connection between business and politics. Through concrete examples of political systems used in certain countries, we can distinguish why some countries have thriving economies with competitive companies and others do not. At the same time, the databases of the World Bank, UNCTAD, or the International Monetary Fund allow the analysis of macroeconomic indicators to demonstrate the link between these notions.

4. Exploring the conceptual field of the political environment

Political factors refer to the extent the government and political actions in a country influence the business climate. These factors include government policies, political stability, taxation, trade regulations, and international relations, observing them in figure 1.

Figure 1. Specific elements of the political environment



Source: Adapted by the author from researched literature

Understanding these elements is crucial for businesses operating in new or emerging local markets or planning to enter them. Meanwhile, political actors refer to the mechanisms, operations, and actions of governments and political institutions that affect the business environment in which companies operate. These factors are fundamental in business reshaping, influencing strategic decision-making, operational capabilities, and the overall viability of market entry or expansion strategies. A political system can either attract foreign investment by providing a steady and predictable business environment or discourage investment if perceived as volatile and unpredictable. In addition, government taxation policies can significantly affect the profitability of businesses, while trade regulations and tariffs can determine the ease or difficulty of cross-border operations. From this perspective, when a company wants to operate in a particular space to make a profit and be competitive, it is necessary to study the political environment from the standpoint of the following questions:

1. How stable is the government?
2. Which form of government: democracy or autarchy?
3. If a new political party comes to power, will it change the rules of business?
4. Is power concentrated in the hands of one or several persons?
5. Is there a well-established regulatory framework to govern businesses in a country?
6. How transparent is government decision-making?

It is important to analyse the political environment from the perspective of the questions above. Each government has its own rules, holding authority in a country as legislative bodies and administrative agencies. Government institutions create and implement laws, regulations, and policies that influence the operation of businesses. They can provide support through favourable policies or pose problems through strict regulations. If we talk about changing political parties, they represent different ideologies and interests within a nation. Changes in government due to elections can lead to changes in priorities and policies. Businesses must cope with these changes and may align themselves with certain parties or advocate for policies that suit their interests. A stable political environment also allows companies to plan and invest with confidence. However, political instability, marked by frequent changes in leadership or social turmoil, can disrupt business operations, supply chains, and consumer behaviour.

Looking at the form of government, democracy and autocracy emerge. In Table 1, we reflect how each of type deals differently with elements of the political environment, supporting or undermining the development of companies.

Table 1: Comparative analysis of forms of government

Democracy	Autocracy
Free and fair elections	Free elections either do not occur or are marred by significant irregularities and restrictions.
Govern democratically elected leaders	Democratically elected leaders do not de facto have the power to govern.
Presence of civil society organizations, NGO	Freedom of association or assembly does not exist, or civil society organizations are repressed.
Freedom of speech	Freedom of speech or media freedom is absent or severely restricted.

Separation of state powers	Constitutional oversight and control mechanisms for collaboration between the government, parliament, and judiciary do not exist or exist only on paper.
Human rights	Human rights are systematically violated.
The state is the supreme authority	Statehood is eroded (failed state): the state has no control over large parts of the country and fails to fulfil basic administrative functions.

Source: Adapted by author based on The Bertelsmann Stiftung's Transformation Index report (BTI), Available at: <https://bti-project.org/en/methodology#Democracies%20and%20autocracies>

Analysing these features of each form of government, we can easily identify the level of economic, social, and political development of the country, clarifying in which environment a company will operate, in a free economy or in a failed state.

5. The correlation between the political environment and its effects on the economic environment

The political environment directly impacts the country's trade policy, capital control, and competition policy, which defines the investment climate and the attraction of foreign direct investment and is explained in more detail in Table 2.

Table 2: The correlation between the political environment and its effects on the economic environment

Indicators	Type of economy	Trade policy	Investment climate	Impact on companies
Democracy	<p>Market economy:</p> <ul style="list-style-type: none"> • Open economy • Profit • Economic freedom • Private ownership <p>Social market economy:</p> <ul style="list-style-type: none"> • Open economy • Social equity • Private + state ownership 	<p>Free: exclusion of customs duties, free trade</p> <p>Protectionist: The existence of customs duties to protect domestic producers</p>	<p>Open</p> <p>Investment friendly</p>	The favourable policy environment creates conditions for profit enhancement, development, and growth, promoting innovation, and generating competitive goods and services.
Results	<i>Companies thrive in a favourable competitive environment</i>	<i>Companies expand through internationalization</i>		High competitiveness of economy, companies, satisfied consumer
Autocracy	<p>Planned economy:</p> <ul style="list-style-type: none"> • Closed economy • Plan • Collectivism • State ownership 	Autarchic: imports and exports are excluded. The state develops solely on its own resources	<p>Closed</p> <p>Foreign direct investment is not encouraged</p>	An autonomous or unstable political environment, corruption, and sudden changes can disrupt supply chains, investment, and consumer behaviour. In this case, companies should identify new development strategies or exit this area.
Results	<i>Monopoly</i>	Companies operate only on the local market		Lack of competition, frustrated consumers, lack of innovation and growth

Source: adapted by the author.

Benchmarking two systems of governance that generate different types of economies shows where companies have the potential to grow profitably and increase their competitiveness. A market economy in a democratic and free market environment allows companies to become innovative and internationalize their activities, achieving huge turnovers by creating thousands of jobs globally. This system generates the systemic virtuous cycle of economic growth (Popa, 2018). At the opposite pole are closed economic systems, which stifle business activity through a corrupt environment, lack of private ownership, and freedom of action. Table 3 shows concrete examples of the impact of politics on the economy.

Table 3: Comparative analysis of economic systems as a result of the heterogeneity of the political environment

<i>Indicators</i>	Economic system	Country	Macroeconomic indicators (2023)	Company Market capitalization (2024)	Turnover (2024)	Number of employees (2024)
<i>Form of governance: Democracy</i>	Market economy	The United States of America	Total GDP – 28 trillion USD GDP per capita – 80 000 USD	1. Apple – 3.5 trillion USD	1. Apple – 385 billion USD	1. Apple – 150000
				2. Nvidia – 3.3 trillion USD	2. Nvidia – 96 billion USD	2. Nvidia – 29000
				3. Microsoft – 3.1 trillion USD	3. Microsoft – 245 billion USD	3. Microsoft – 221000
	Social market economy	Germany	Total GDP – 4.5 trillion USD GDP per capita – 52 000 USD	1. SAP – 269 billion USD	1. SAP – 35 billion USD	1. SAP – 107000
				2. Siemens – 158 billion USD	2. Siemens – 83 billion USD	2. Siemens – 320000
				3. Allianz – 129 billion USD	3. Allianz – 107 billion USD	3. Allianz – 157000
<i>Autocracy</i>	Closed economy/ Autarchic economy	Venezuela	Total GDP – 129 billion USD GDP per capita – 4500 USD	1. Banco nacional de crédito, c.a., banco universal – 1.48 billion USD	1. Banco nacional de crédito, c.a., banco universal – 1.2 million VES	1. Banco nacional de crédito, c.a., banco universal – 3200
				2. Banco provincial, S.A. Banco Universal – 190 million USD	2. Banco provincial, S.A. Banco Universal – 2.3 million VES	2. Banco provincial, S.A. Banco Universal – 1852
				3. Productos EFE S.A. – 174 million USD	3. Productos EFE S.A. – 1.4 billion VES	3. Productos EFE S.A. – 2300

Source: drafted by the author based on UNCTAD data, available at : <https://unctadstat.unctad.org/datacentre/dataviewer/US.GDPTotal> and company analysis databases, (Marketcap, 2024) available at: <https://companiesmarketcap.com/all-countries/>; <https://stockanalysis.com/>

In democratic states, the economic level is significantly higher than in autocratic states, with GDP per capita being 10 times larger in highly democratic economies (UNCTAD, 2024), and this has a strong impact on the development of companies, generating huge turnover. If in the liberal model of economic development companies, have market capitalization levels at over \$3 trillion and are based on manufacturing high-value-added goods in the technology and innovation sector, then in Venezuela, which is an autarchy, with an inflation level of over 200% (2024), decreasing from 63500% (2018) according to UNCTAD(2024) data, state sector companies predominate, mainly providing banking services, which is not a favourable pool for launching prosperous free

businesses in diverse sectors. Analysing turnover and employee numbers in developed economies, we observe a very high level of labour productivity in companies, and this generates an equally high level of competitiveness.

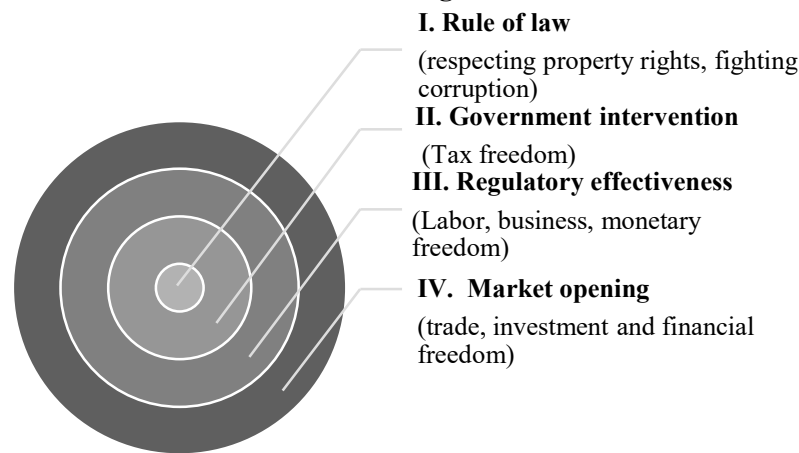
6. Assessment of the political environment through specific indicators

To analyse and identify the political and economic environment in which a company should operate, several specialized institutions produce various complex reports on which entrepreneurs can choose whether or not to operate.

Healthy democracies emphasize economic freedom. Economic Freedom is the absence of government constraints on the production, distribution, or consumption of goods and services to protect and maintain the liberty of the entrepreneur and consumer. This concept, proposed by the Heritage Foundation (2024), is measured by the **Index of Economic Freedom**. The Index measures the impact of liberty and free markets worldwide, demonstrating the positive influence of economic freedom on business progress.

The indicators used to compile the Freedom Index are grouped into several categories, as seen in figure 2.

Figure 2. Dimension/indicators determining the economic freedom index



Source: adapted by the author based on the report *The Index of Economic Freedom*, available at: <https://www.heritage.org/index/pages/about#indexMethodology>

According to the above indicators and the analysis methodology, countries are ranked in the following order:

1. Free Countries – with an index between 80-100 points;
2. Preponderantly free countries – with an index 70-70.9 points;
3. Moderately free countries – index 60-60.9 points;
4. Countries Slightly Free – 50-59.9 points;
5. Repressed countries – 40-49.9 points.

In comparing countries, we can observe in table 4 a significant disparity in the level of freedom between the USA, Germany, and Venezuela. When we examine specific indicators for the year 2024, the differences are quite evident. While the US and Germany can be considered as free economies, Venezuela is obviously repressed in terms of economic freedom.

Table 4: Index of economic freedom in different countries

Indicators/country 2024	Total index and type of economy	Government integrity	Rule of law/ judicial efficiency	Tax burden
The USA	70.1 points/ 25th place out of 184, Preponderantly free economy	76.4 of 100 points	74.8 of 100 points	74.8 of 100 points

Germany	72.1 points/ 18th place out of 184, Preponderantly free economy	86.4 of 100 points	93 of 100 points	59 of 100 points
Venezuela	28.1 points/ 174th place out of 184, Repressed economy	6.4 of 100 points	3.3 of 100 points	75.9 of 100 points

Source: adapted by author from Heritage foundation, (2024). The *Index of Economic Freedom*, available at: <https://www.heritage.org/index/pages/about#indexMethodology>

The USA is in the category of predominantly free in 2024 because it's an election year, and the government has increased public spending, directly impacting business regulation. However, that doesn't mean it's not a free environment for companies to grow and prosper.

Germany's economy is based on decades of high competitiveness. It has an effective judicial system (93 points), which supports a strong rule of law. Government transparency is high with effective enforcement of anti-corruption measures. Open market policies enhance the benefits of Germany's involvement in global trade. The regulatory regime allows dynamic, innovative, and competitive businesses to be established and operate.

Venezuela, as a repressed economy, is not a favourable space for business development. The formal economy is stagnant due to state intervention, while informal activity is rising. Prices of nearly all goods and services are controlled, and the rule of law is weak and unequal, partly due to widespread corruption and legal framework weaknesses. Entrepreneurial activities are restricted by heavy government control and inconsistent enforcement of regulations. Decision-making transparency is low, and most contracts are awarded without competition. The labour market is also controlled by the state, and inflation is nearly 187%. (VENEZUELA, 2024)

Another important indicator that analyses how the political system and governance do or do not stimulate the business environment is the *Bertelsmann Transformation Index*. The Bertelsmann Transformation Index (BTI, 2024) analyses and assesses countries leading social change towards democracy and market economies. It studies the transformations world countries experience in their economic evolution from underdeveloped to advanced economies. There are 17 criteria according to which 137 countries undergo an analysis. Following their study, we identify *the Status Index* and the *Governance Index*, which represent the quality of the rule of law and democracy and how they stimulate the business environment. The index ranges from 1 to 10. The more positive changes the country shows, the closer the score is to 10. The report does not include Germany and the USA because they are countries with a formed political system and governance, meaning they are mature countries with a high level of development. However, Venezuela appears with great shortcomings in this area. The Political Transformation Index is 3.08, indicating a high level of autocracy, while the Governance Index is 1.63, generating an Economic Transformation Index of only 2.39. It is hard to believe that in 2024, we will still have states with oppressive autocracy as a form of government, as in Venezuela. This is due to the lack of basic democratic principles such as separation of powers, judicial independence, and the rule of law. Under the leadership of President Nicolás Maduro, the country's GDP has fallen by more than three-quarters, resulting in the worst economic depression outside of wartime. Venezuela is still an oil state, with a staggering level of corruption, a limited number of civil servants with military training rather than job-specific skills, millions of Venezuelans out of the country, inadequate education, and 80% of the population below the poverty line. In this context, Venezuela is unfavourable for business development and does not stimulate economic growth.

Another influential indicator is the *Democracy Index* by the Economist Intelligence Unit. It combines information on the extent to which citizens can choose their political leaders in free and fair elections, enjoys civil liberties, prefer democracy over other political systems, participate effectively in political life, and have a functioning government working on behalf of its citizens. According to this index, companies choose whether or not to operate in a market. Democracy conditions the development of companies. It ranges from 0 to 10 (most Democratic) (EIU, 2024). Comparing this indicator, the United States of America has a democracy index of 7.8 out of 10, Germany 8.8 out of 10, and Venezuela 2.3 out of 10, the latter being a dramatic situation because instead of increasing from 2006 to the present, it has decreased from 6 to 2, once again demonstrating the lack of democracy and development.

7. Conclusions

In conclusion, one observation is that without a correct political environment based on law and democracy, we cannot speak of economic growth. There is a strong correlation between the political and economic environment, and the space in which companies operate depends on them. We have shown by concrete examples that a political environment based on democracy generates evolution, growth, innovation, prosperity, and profit for companies. While autocracy facilitates profits for a small group of corrupt and influential people, a non-existent business environment, and under such conditions, companies cannot be competitive and prosperous. It is mandatory for any company to correctly analyse the business environment where they intend to expand their activities and for national economies to constantly review their level of governance and political system in order to create an attractive investment environment to increase national compatibility by stimulating the development of local and international companies.

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