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## The economic subjects, influencing the emergence and breakdown of cartels in the country of small economy with developed culture of competition

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### Abstract

The paper identifies and analyses the main economic subjects which have impact on the emergence and breakdown of the cartels in the country of small economy with developed culture of competition. The modified M. Porter's "Five Forces" model is used as the methodological base for the empirical analysis in Lithuania. The analysed period is 2000 - 2014 years. The analysis proved that the business associations and intension of undertakings to form the cartels are the main factors in the analysed country, which had positive impact on the emergence of the cartel. The producers of substitutes and potential competitors had no effect. The biggest influence on the breakdown of the cartel had the activity of Competition Council of the Republic of Lithuania.

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*Keywords:* Cartels, Cartel markets, Competition, Competition policy, Country with developing culture of competitiveness.

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### Introduction

Despite the development of legislation on competition policy and its supervisory authorities' activities, the prohibited agreements – cartels, - emerge in the modern economy. The European Union and national statistics only confirm the annually growing number of detected cartels, justifying the relevance and timeliness of the problems addressed. Cartel problems have received a significant attention from researchers and practitioners (Marshall & Marx, 2012, Connor, 2011, 2010, 2008, Veljanovski 2011, Utton, 2011, Davies & Ormosi, 2010, Hüscherlath, 2009,

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Bolotova et al., 2007, Connor & Bolotova, 2006, Levenstein & Suslow, 2006, 2004). The spectrum of their studies is broad, covering the economic and managerial aspects of cartel activities, the assessment of damage caused by cartels, the efficiency of competition policy implementation, targeted to fight against cartels. In Lithuania, having little competition policy implementation practices, there is not much research done to analyse cartel problems. Damage caused by cartels and the efficiency of competition policy with respect to cartels has been mainly dealt by Bruneckiene & Pekarskiene (2015), Bruneckiene et al. (2014), Klimašauskienė (2011, 2006), Stanikūnas (2009).

Theoretical and practical studies have proved that the operation of cartels in the market is affected by many factors, and prior to each cartel formation it is difficult to predict its success or failure in the future. In addition, in the countries of different competitive culture these factors can vary. Despite the growing interest of scientists in the success factors of cartel operation in the market, there is still a lack of research, particularly from the perspective of small economies with a developing culture of competition, on the factors and economic subjects that determine the emergence and breakdown of cartels. Identification of these factors would help the competition authorities to faster, more accurately and with lower costs identify the markets where cartels are most likely to emerge, would contribute to the efficiency of these authorities' activities and prevent the emergence of cartels in the market.

**Purpose of the article:** to identify the main economic subjects and analyse their impact on the emergence and breakdown of the cartels in Lithuania, as the country of small economy with developed culture of competition.

**Methodology used in the article:** systemic, comparative and logical scientific literature analysis; empirical research employing systemic analysis of external secondary data. This article deals with both hard core cartels and prohibited agreements in public procurement.

## 1. Methodological aspects of cartels emergence and breakdown in the market

The mechanism of cartel operation in the market has been analyzed by scholars in different ways: some introduced the dynamic and static oligopoly models, others used the game theory, while others described in simple words. Marshall & Marx (2012) modified Porter's Five Forces model in order to show the competition between a cartel and non-cartel companies and the relationship with customers, suppliers, potential competitors and substitutes. The authors of this article, having analyzed Porter's (1990) original and Marshall & Marx's (2012) modified Five Forces model, believe that the inclusion of economic subjects, affecting cartel activities, into the Five Forces model would specify and reveal in a more detailed way the peculiarities of cartel operation in the market and increase its methodological application. Porter's Five Forces model, modified by the authors, is presented in Figure 1.

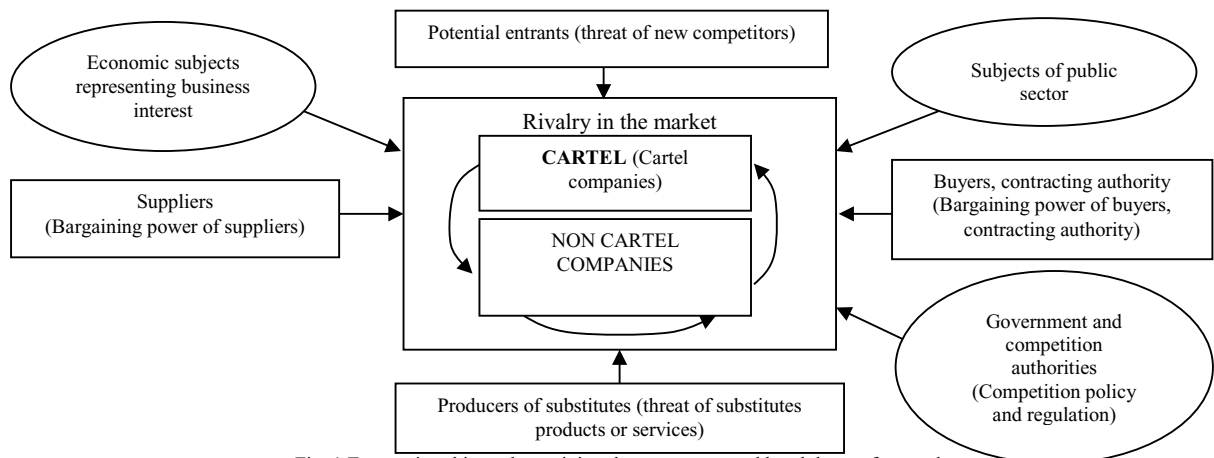


Fig. 1 Economic subjects determining the emergence and breakdown of a cartel  
(Created by the authors, based on Marshall, Marx 2012, Porter 1990)

The model distinguishes the main economic subjects that influence the emergence and breakdown of a cartel. Not all companies form a cartel, thus, the model distinguishes a cartel forming companies (which, under the agreement, do not compete with one another) and non-cartel companies, which compete with the cartel and other non-cartel companies.

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