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FDI in Slovenia: A Love-Hate Relationship

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Abstract: Similar recent history (former communist economies), geographical position (central Europe), relatively small size (except Poland), political systems (parliamentary democracies) and EU membership define Visegrad countries as the perfect group to compare with Slovenia. When we analyse the stock of inward foreign direct investments (IFDI) in comparison to GDP in Slovenia and all Visegrad countries, noticeable differences appear. With 30.5% (December 2016) the stock of IFDI in Slovenia was much lower than the comparable data for Poland (39.4%), Slovakia (48.8%), Czech Republic (60.0%) and Hungary (64.3%). Also the trend of the IFDI share of GDP shows that the differences between Slovenia and Visegrad countries will not diminish noticeably in the forthcoming years. We try to verify whether the explanation of this phenomenon can be realized with the help of well-known cross-cultural models. In other words, is there a country-specific cultural dimension which influences whether Slovenia receives less IFDI than the Visegrad countries? In what ways is this dimension an influence on Slovenia receiving less IFDI? We conclude that the lack of IFDI has to be attributed to Slovenian particularities rather than significant cross-cultural differences when compared to Poland, Hungary, Czech Republic and Slovakia.

Keywords: FDI, Communist economies, Central Europe, GDP, Cross-cultural differences

1. Introduction

The fall of communist ideology resulted in historic changes in Eastern European countries in the '90s. Among them especially Hungary, Slovakia, Czech Republic and Poland registered a quick growth of inward foreign direct investments (IFDI), which was especially the result of the privatization process in the first decade after the socio-political change. Later on these countries became not only the European champions in attracting FDI but also one of the most prominent regions for foreign investors worldwide. On the other side Slovenia, part of the former Yugoslavia, gained its independence in 1991. The communist political system of the former country was a bit less rigorous and consequently the economic system was slightly more market-oriented in comparison to the other four mentioned countries. So, Slovenia's economy in the beginning of the '90s was in somewhat better shape and more internationally competitive, although it suffered from the important loss of the former Yugoslav market during several years after gaining its independence.

Based on a historic agreement from the 14th century, former Czechoslovakia, Poland and Hungary in 1991 created the so-called Visegrad group. Known first also as the V3 it later changed into the V4 as the result of the dissolution of Czechoslovakia into the Czech Republic and Slovakia in 1993. The complacency of Slovenia but also the hesitation of the founding members of the Visegrad group (due to the war conflict in former Yugoslavia) resulted in Slovenia not joining the Visegrad group at that time.

Nevertheless, the excellent political and economic relations of Slovenia with all V4 members are today's fact, especially with growing awareness that the seventy-year long Slovenian experience with the former South-Slav political entities was preceded by several centuries of common Central European heritage, mostly within the Habsburg Monarchy and Austro- Hungarian

Empire. In order to find an answer to whether there is any specific dimension of Slovenia's culture that could help us to explain such a different role of IFDI in the national economy of Slovenia, in comparison to all Visegrad countries, we will start with establishing a theoretical framework. It will include selected research from the field of FDI and especially the importance of privatization. The second part of the theoretical framework is devoted to the topics of culture and cultural distance, where we argue and finally select the theoretical model which will enable us to present a relevant cross-cultural comparison between the culture of Slovenia and all other four cultures of the Visegrad countries. In the empirical part, and based on the presented comparison, we continue our research to find a more appropriate cultural dimension which we connect to the topic of communication. We also present historical events in Slovenia in the last three decades which support the theoretical conclusion previously presented. After the influences are defined, we ask ourselves about the possible macro political measures that governmental politics can use or even avoid in order to support faster growth of the inflow of FDI into the economy of Slovenia.

2. Theoretical Framework

2.1 Foreign Direct Investments and Privatization

From a wider perspective it seems nowadays that one of the most important differences between Slovenia and the Visegrad countries is the attitude toward foreign investors. With its dominant part in state ownership in the last years Slovenia is now announcing the official governmental readiness to privatize a substantial part of the state-owned companies. This process has already been more or less finished in all other Visegrad countries. It is not only a larger share of the state-owned companies which were privatized but we also observe the faster growth of new, Greenfield investments. These are reasons why the relative stock of IFDI in all Visegrad countries is substantially higher than in Slovenia, as presented in Figure 2 where we compare the parts of IFDI stock with the GDP of each country.

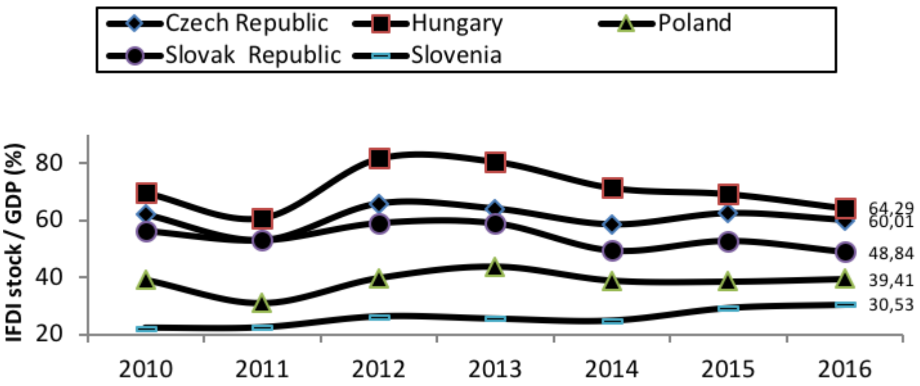

Figure 1: Part of inward FDI stock in comparison with GDP (OECD Data 2018)

At least partially, the faster privatization led V4 countries to also stronger growth in new investments. Let's just mention three research in this area which confirm our statement. Calderȯn et al. (2004) analyse data from 72 countries for the period 1987–2001. They find that companies who were primarily targeting their investments toward the purchase of existing state-owned companies also invest in new companies in the following years (so-called spillover effect). In industrialized countries the volume of new investments is similar to the size of initial investment in the privatization of the state-owned company. The authors estimate that at the macroeconomic level investment in the purchase of existing state-owned enterprises in the scope of 1% of GDP results in subsequent new investments of the same volume. In developing countries (among which we also include Slovenia and Visegrad countries), the result is even higher: 1.5% of GDP in new investments as the result of 1% of GDP of the original investments in the privatization of existing state-owned enterprises. One of the most important findings of the study is the forecast that countries can also expect future growth of IFDI in new companies, also as a consequence of privatization.

The second study, which we mention and most suits our geographical region, is from next year when Merlevede and Schoors (2005) analyse the link between the privatization method (direct sale to the best bidder and indirect sales methods: internal purchases by managers and/or employees and voucher privatization) and the volume of IFDI. With multivariate analysis, which includes data for eight new members of the EU (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) they prove as significant the impact of direct sales to the best bidder on the increase of the volume of IFDI. Such an influence is not proven with any of the indirect sales methods. This tends toward a conclusion that the choice of indirect selling methods is a negative sign for potential foreign investors who interpret it as a fear of selling to foreign companies. This can lead to the decision from potential foreign investors that the ideas about investing (not only in the privatization process) are delayed or even abandoned. In addition, the use of indirect privatization methods can cause the new domestic private owners to stop the restructuring of the privatized state enterprise, which can lead foreign investors to postpone or cancel investment projects since they may interpret the behaviour of the domestic owners as rejecting the expected positive effects that potential foreign owners could cause in the privatized companies.

To find specific answers to our topic, the closest is the survey from the end of the last decade when Mukherjee and Suetrong (2009) prove the two-way link between privatization and the volume of FDI in new investments: privatization promotes FDI in new companies and these Greenfield investments promote incentives for privatization. Their explanation of this phenomenon is interesting: they explain that the purchase of a domestic state-owned company by a foreign investor is later on understood as a way of reducing competition in the domestic market, by which the domestic market becomes more attractive for new investments after privatization.
Our intermediate conclusion concerning the relative comparison of the IFDI stock between Slovenia and Visegrad countries is that the presented significant differences are the result of three main factors:

- the principal method chosen in the 1st phase of privatization in the ’90s (Slovenia did not choose direct sales but rather indirect sales: internal purchases by managers and/or employees and voucher privatization),
- the long and closed (as the result of privatisation methods chosen) process of privatization in the ’90s (it signalled to foreign investors a clear non-welcome in Slovenia’s privatization process and investment activity in general),
- we add to the above factors often hostile general public opinion expressed toward foreign investors created by small groups with particular interest, mostly hidden behind most influential political parties and non-governmental organizations with political agenda and promoted by the dominant media in Slovenia who tend to defend so-called “national interest” and express open hostility toward globalization and liberalization.

2.2 Concept of Distance and Cultural Distance

The concept of “distance” in international research is concentrated in three main areas which are defined by different types or dimensions of distance: geographical, psychic and cultural. These studies have mainly focused on how distances impact on firms’ international expansion. As stated by Ojala (2015), we also acknowledge certain distance concepts that have received attention more recently. For example, Xu and Shenkar (2002) focused on how institutional distance affects foreign direct investment by multinational enterprises, Peretto and Smulders (2002) investigated how technological distance reduces the spillovers between firms and Estrin et al. (2009) examined how human resource distance impacts on the entry mode choices of multinational enterprises.
The importance of geographic distance (which can be defined as physical separation between one location and another, involving the space between the domestic location of a firm and the foreign

location in which it is selling/investing, or exploring possible sales/investments) has been analysed within the concept of gravity models, which were originally used by economists to explain the flow of international trade, and later also in the field of analysing foreign direct investment and international migration. The theoretical basis of the gravity models is based on Newton's universal law of gravity. Tinbergen (1958), the first winner of the Nobel Awards for Economics (1969), applied this law in the field of international exchange flows. His hypothesis was that exchanges between two countries depend on the economic power of the individual country and the geographical distance that separates them. This distance is used as an approximation of the volume of transport and other trade costs affecting exchange. Tinbergen's model has been improved by many authors through the decades, for example: Linnemann (1966), Bergstrand (1985), Blonigen et al. (2007), Garretsen and Peeters (2009) and Shepotylo (2012). By better definition, improved measurement and addition of new variables (population, international agreements, prices, exchange rates…) the gravity models are still improving their explanatory power but the basic idea of importance of geographical distance remains.

The psychic distance encompasses the disturbance in information flows between organizations and foreign markets caused by actors' perceptions (Ojala 2015). According to Nebus and Chai (2014) the differences between dimensions of psychic distance (geography, culture, language, politics, the level of education, the economic situation, the level of industrial development, time zones, etc.) disturb information flow between actors and increase perceived psychic distance; in other words, human awareness, understanding, and perceptions concerning these factors impact on psychic distance. As stated by Ellis (2008), the psychic distance is asymmetrical in nature, and the assessments made by sellers and their buyers are inherently inequivalent. Applying this finding to the region of Central Europe, we can say that citizens of relatively small Central European countries, especially at the beginning of the 90s had much better overall knowledge about the socio-economic situation, geography, culture and language of large Western economies than vice versa.

The cultural distance is mostly seen as an important component of the psychic distance. We generally agree that "culture" refers to the collection of assumptions, values, and normative behaviours of a group of people (Kwok et al. 2005). There are many studies about how culture and cultural distance affects international business. Still one of the most popular tools for measuring cultural distance is so called Cultural Distance Index proposed by Kogut and Singh (1988). As stated by Yeganeh (2014), more than 310 empirical studies have relied on the Kogut–Singh Index (KSI) to investigate the effects of cultural distance on a variety of business and management phenomena including firms' market selections, entry mode choices, international acquisitions, joint ventures and alliances, organizational performance, technology transfer, headquarters–subsidiary relations, and international human resources management. But the empirical research on the impact of cultural distance has often led to mixed, inconclusive, and even conflicting results. As a result, many scholars expressed their more or less evident opposition against this concept, let's just mention Harzing (2003) and Shenkar (2012).

Based on the methodological shortcomings of the KSI, Yeganeh (2014) introduces an improved version of a tool for measuring cultural distance between countries named WMA (which stands for: Weighted, Mahalanobian and Asymmetrical). Although well theoretically founded especially in its mathematical dimension in comparison to the original KSI, the newly proposed measurement does not avoid some of the existing criticisms already used against KSI. The usage of Hofstede's data brings the same limitations: they were collected several decades ago and many things have changed since (e.g. end of Cold war, decline of communism, some countries do not exist anymore-e.g. Soviet Union, Yugoslavia, Czechoslovakia-and some were established since-Slovenia, Czech Republic, Slovakia…) and we should neither forget that these data were collected within one multinational company (IBM) which is risky to be used as a proxy for the whole national culture of each country. Also many other aspects of Hofstede's critics have been presented by Drogendijk and Zander (2010). Taking these limitations into consideration the GLOBE project (House et al.

2004) seems to introduce certain improvements. Using findings from Hofstede (1980), Schwartz (1994), Smith and Peterson (1995), Chidester and Inglehart (1998) and others, they established nine cultural dimensions that make it possible to capture the similarities and/or differences in norms, values, beliefs and practices among societies. Since not all national cultures are included in the GLOBE research (Slovakia is missing and Czech Republic has been excluded from some measures due to "pervasive response bias") we cannot use these results in our research.

3. Cultural Distance and Culture of Fear

3.1 Cultural Distance between Slovenia and Visegrad Countries

The presented serious limitations in the cultural distance measurement led us to the decision to choose the concept presented by Kaasa et al. (2016) who presented a new dataset of cultural distance measures both at the country and regional levels in Europe. The composite index of cultural distance was calculated on the basis of the cultural dimensions created using data from the European Values Survey and the European Social Survey based on Hofstede's (1980, 2001) descriptions. The values of the composite index (which is an arithmetic average of the four indices of cultural distance) range from 0 to 8.96. The values of the index of cultural distance, according to power distance range from 0 to 16.40, according to uncertainty avoidance from 0 to 17.43, according to masculinity from 0 to 17.03 and according to individualism from 0 to 13.97. We can observe that separate distances somehow "neutralize" among themselves since the maximum result of the composite index is smaller than the results of all individual distances.

The use of Kaasa et al. (2016) dataset of cultural distance measures shows that cultural distances between Slovenia and the other four countries are relatively small. As we can observe from the graphical presentation of the composite index results in Figure 3, all distances between Slovenia and other countries are smaller than 1.00. The biggest distance is measured between Poland and Hungary (1.31) which is still relatively low taking into account the scale of the composite index. A closer look at every separate distance result shows that Slovenia Power distance (defined as to what extent unequal distribution of power in organisations and institutions and hierarchical relations are accepted in a culture) differs significantly only from Hungary (2.66) but then also Hungary differs from the other three countries (Slovakia=2.20, Czech Republic=1.95 and Poland=1.21). A similar situation in the case of Individualism (defined as the extent to which people prefer to act as individuals rather than as members of groups): Slovenia differs significantly from Poland (3.58) and Slovakia (2.26) but again Hungary (with practically no difference in comparison to Slovenia: 0.01) differs significantly also from Poland (3.24) and Slovakia (2.00). The results of the remaining two distances (Uncertainty avoidance which reveals to what degree people feel comfortable with uncertainty and Masculinity which shows to what degree masculine values, such as orientation toward achievement and success, assertiveness and competitiveness, prevail over values like modesty and good relationships, caring, solidarity, tolerance, and the quality of life) show no significant differences between the results of Slovenia and the other four countries.

In order to put these results into the wider perspective, we also present the work of Inglehart and Welzel (2005) who introduce their "cultural zones" based on the results of the World Values Surveys research. According to Inglehart and Welzel, the polarization between the worldviews of people in rich societies is dramatically different from those in poor societies. This includes variance across the range of political, social and religious norms and beliefs. The polarisation lies along two dimensions: traditional versus secular-rational values, and survival versus self-expression values. In Figure 4 we can observe the position of the national cultures of Poland, Hungary, Slovakia, Slovenia and the Czech Republic. All five cultures are positioned within ex-communist and Catholic Europe. With the exception of Poland, all the other four are closer to the secular-rational values. Slovenia and the Czech Republic have more expressed self-expression values which position them closer to the most developed countries worldwide.

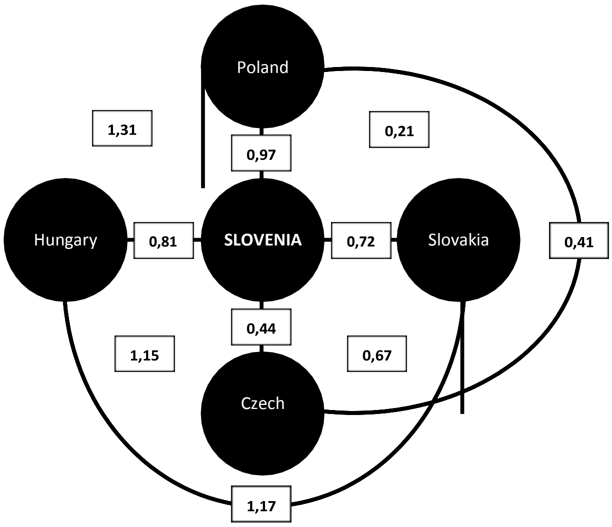

Figure 2: Cultural distance: composite index
Source: Kaasa, Vadi and Varblane 2016

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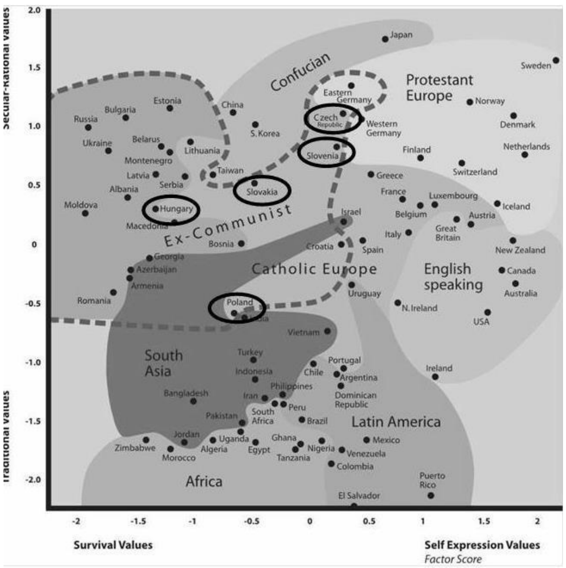

Figure 3: Inglehart–Welzel Cultural Map of the World
Source: Inglehart and Welzel 2008

3.2 Culture of Fear and Public Opinion

Using well-known cross-cultural comparison research, we were not able to identify any specific cultural characteristic which differentiates Slovenian culture from those of all Visegrad countries.

In other words, the national culture of Slovenia does differ in some aspects from the cultures of the other four countries but, then again also these countries differ among themselves so they do not present a unified group with a clear distinction in comparison to Slovenia in any of the presented cultural dimensions. So, maybe there is another characteristic of Slovenia's culture that could help us to explain the presented difference in roles that FDI plays in Slovenia and the other four countries? When trying to find an answer to this question, we will first cite Šarić et al. (2010):

"Slovenia's history of foreign dominance became topical during the EU integration process. Despite the pro-European element in Slovenia's position… there is also an accompanying fear of the foreign. Slovenia's relation to foreign countries today is therefore still presented as a threat to financial and economic sovereignty."

The historical fact is that Slovenes first gained their national sovereignty in the form of an independent country in 1991. Before that, the nation of Slovenia lived for centuries and without interruption as a constitutional part of different countries or kingdoms, which was not the case with any of the Visegrad countries. When the expected independence was finally gained, quite logically the fear of losing it appeared. It's been an ideal moment to reinforce/redefine so-called "culture of fear" which can be defined as the concept that people may incite fear in the general public to achieve political or workplace goals through emotional bias, which was popularized by the American sociologist Barry Glassner (2010). But is the fear against foreigners (and, by consequence also foreign investors) already innate or incited deliberately as the result of activities in forming the "culture of fear"? We cite Hahn-Holbrook et al. (2010):

"Humans everywhere are born with a firm dislike of stimuli such as hunger, cold, pain, and loud noises, whereas other aversions manifest later. Fearful reactions, for instance, often develop just when the relevant danger would first be encountered."

Clearly, fear of foreign investors in Slovenia is not an innate characteristic of Slovenia's population and neither of any other. It is true that because of the explained historical reasons the fear of foreigners is a part of Slovenian culture already for a very long time. That fact simplified the task of those individuals and interest groups who after 1991 decided to promote the fear of foreign investors, although we cannot present any important case where foreign investors would cause long-term and/or substantial problems to Slovenian society. On the contrary, when we compare data published by the Bank of Slovenia in 2016 the wages per employee paid by firms with FDI were 12.7% higher than the average wage per employee in Slovenia overall. Firms with FDI likewise achieved higher net profit per employee and higher value-added per employee.

So, why then is Slovenian public opinion4 as a part of the national culture so negatively oriented toward foreign investors? For decades now academics have presented numerous proofs concerning the net benefits of foreign direct investments at the national level. It is widely accepted that the benefits are far more important than the problems caused by the foreign investors (Arnold et al. 2011; Bamber et al. 2014; Farole and Winkler 2012). The real, dominant issue in the literature but also in real life is not whether to accept foreign investments but rather how to promote countries/regions as attractive investment locations and how to define the appropriate local policy?

Fewer academic contributions exist about the negative influences of foreign investments on certain groups of individuals or business sectors (Aitken and Harrison 1999; Djankov and Hoekman 2000; Konings 2001). The negative influence can be in different forms. For example, as appearance of the new foreign competitor on the local market, this especially causes problems in the case of previous monopoly. And the negative influence can also be expressed as a threat of appearance of the new, foreign investor who is ready to invest into the brownfield investment projects of existing private or state ownership which was previously already meant/planned to be acquired by the selected local investors. When this happens, the local investors will certainly do everything to fight the "foreign threat", also by influencing public opinion. The causality relations between the main actors in influencing public opinion are in fact very complicated. We cite Baum and Potter (2008):

"In short, scholars have investigated every conceivable causal link between the public, decision makers (foreign and domestic), and the media… Information asymmetry largely dictates the dynamics between the public and its leaders-specifically the degree to which the public is informationally disadvantaged, thereby allowing leaders to sustain their preferred frames on information. The media play the crucial role of collecting, framing, and distributing information-the key market commodity. Without question, leaders place great value on controlling this commodity."

In other words, who controls media controls public opinion. And what is the real reason why public opinion in Slovenia was created and supported by the media against foreign investors, since there has not been any really important negative experience with them since 1991? First, we divide the period from 1991–2018 into the two sub-periods: 1991–2008 and 2009–2018.

The privatization process of the state-owned[5] companies in Slovenia has been defined by the law and started in 1992. Although the methodology of privatization has been the compromise of different political views, clearly the orientation toward indirect sales methods (internal purchases by managers and/or employees and voucher privatization) has been chosen. These two methods have been used by more than 90% of all companies because they enabled discounts of share prices of 50% and also prevented an entrance of external (especially foreign) investors into the ownership structure. Until 2008 the concentration of ownership in the hands of managers and local investment funds was an ongoing process. The communicated politics of "national interest" and demonization of foreign ownership created public opinion in the way that small owners shouldn't sell their shares to anybody other than managers of the companies they were working for. Financed generously by the domestic state-owned banks this process ended in 2008 with the appearance of the international financial crisis.

A clear cut of irrational financing of MBO's[6] since 2009 provoked huge problems in several important Slovenian groups (Pivovarna Lasko, Istrabenz, Merkur, SCT, Vegrad, Primorje, Viator-Vektor…). They either went bankrupt or their shares have been confiscated, mostly by the banks which had problems with non-performing assets themselves. In 2013 a "bad bank" (DUTB) was created which acquired non-performing assets from state-owned banks and purchased some claims from other banks in order to consolidate exposures and ensure more effective management of assets. In reality it is only since the establishment of the DUTB that Slovenian media somehow changed the message about the general "danger of foreign investors" (which are now officially welcomed to buy the shares of de facto nationalized companies, controlled by the DUTB) into the message that "state-owned companies…" (controlled by the Slovenian Sovereign Holding-SDH-fully state-owned company, which has the largest portfolio of state capital assets in Slovenia) "…should be carefully privatized". So, the general aversion against foreign investors is replaced by an official welcome in the Greenfield and selected Brownfield projects but a de facto non-welcome in the process of privatization remains.

The state-owned bank NLB (Nova Ljubljanska banka) is an excellent case[7] to show what the above statement means in real life.

4. Conclusion

The Slovenian government still controls about 50% of the economy and about 45% of the banking sector (Miller 2018). Considering these numbers it becomes clear that the role of foreign investments in Slovenia is much less important than in all the compared countries of the Visegrad group.

A small number of existing companies which were available to receive foreign investments in '90s and the privatization methods chosen, signalled to foreign investors a clear non-welcome in Slovenia's privatization process and investment activity in general which later reflected also in the limited number of Greenfield foreign investments. We were not able to confirm any cultural dimension from the model chosen that would present an obvious cultural distance between Slovenia and the group of Visegrad countries. It is within the larger psychic distance concept (which includes dimensions as geography, culture, language, politics, the level of education, the economic situation, the level of industrial development, time zones, etc.) that we selected "politics" as a dimension which could represent the difference. That kind of politics which tolerates and even supports (through the public ownership or direct control of the media) the existence of the "culture of fear" whose constitutional part in Slovenia was (and still is) fear of foreign investors.

This fear is in fact a communication issue. However, it is not an issue of bad communication (with non-wanted results) but rather of carefully planned communication where the publicly hidden goal of individuals and groups with special interests has been perfectly achieved. Of course, concrete investment decisions depend not only on media and public opinion, but strongly on institutional quality, tax systems (Slovakia, Hungary) and educational qualities. Nevertheless, to strengthen the role of these qualities a change in the situation first requires a change in the sense that the real national interest will prevail over the partial interests of small but economically powerful local individuals and groups. They use governmental politics, political parties, some non-governmental organizations (and even own media) with two basic goals: to limit market presence of potential foreign competitors and to disable their active role in the privatization process of the companies which were either meant to be privatized by "the chosen ones" or should simply remain under government control. In order to employ the "right" employees, to select the "right" suppliers and to donate the "right" receivers. In other words, it requires Slovenia to leave the situation of a captured state.

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