

Katoliški inštitut
Fakulteta za poslovne vede



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FDI in Slovenia: A love-hate relationship

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Observation and research questions

Observation:

The role of IFDI in Slovenia's economy is less important than in most comparable countries (Visegrad group) and it doesn't seem to change soon.

Research questions:

1. Is there a country-specific cultural dimension which influences whether Slovenia receives less FDI than the Visegrad countries?
2. In what ways is this dimension an influence on Slovenia receiving less FDI?

Research plan

1. IFDI in Slovenia and Visegrad countries

2. IFDI and the role of privatisation

5. Cultural distance – selected models

4. Concept of distance and cultural distance

3. Differences in stock of IFDI – intermediate conclusions

7. Cultural zones: position of Slovenia and Visegrad countries

6. Cultural distance – Slovenia vs. Visegrad group

IFDI

CULTURE

FINDINGS

8. If it's not culture – what then?

9. Who benefits from it?

10. Conclusions

IFDI in Slovenia: stable lowest share compared to GDP

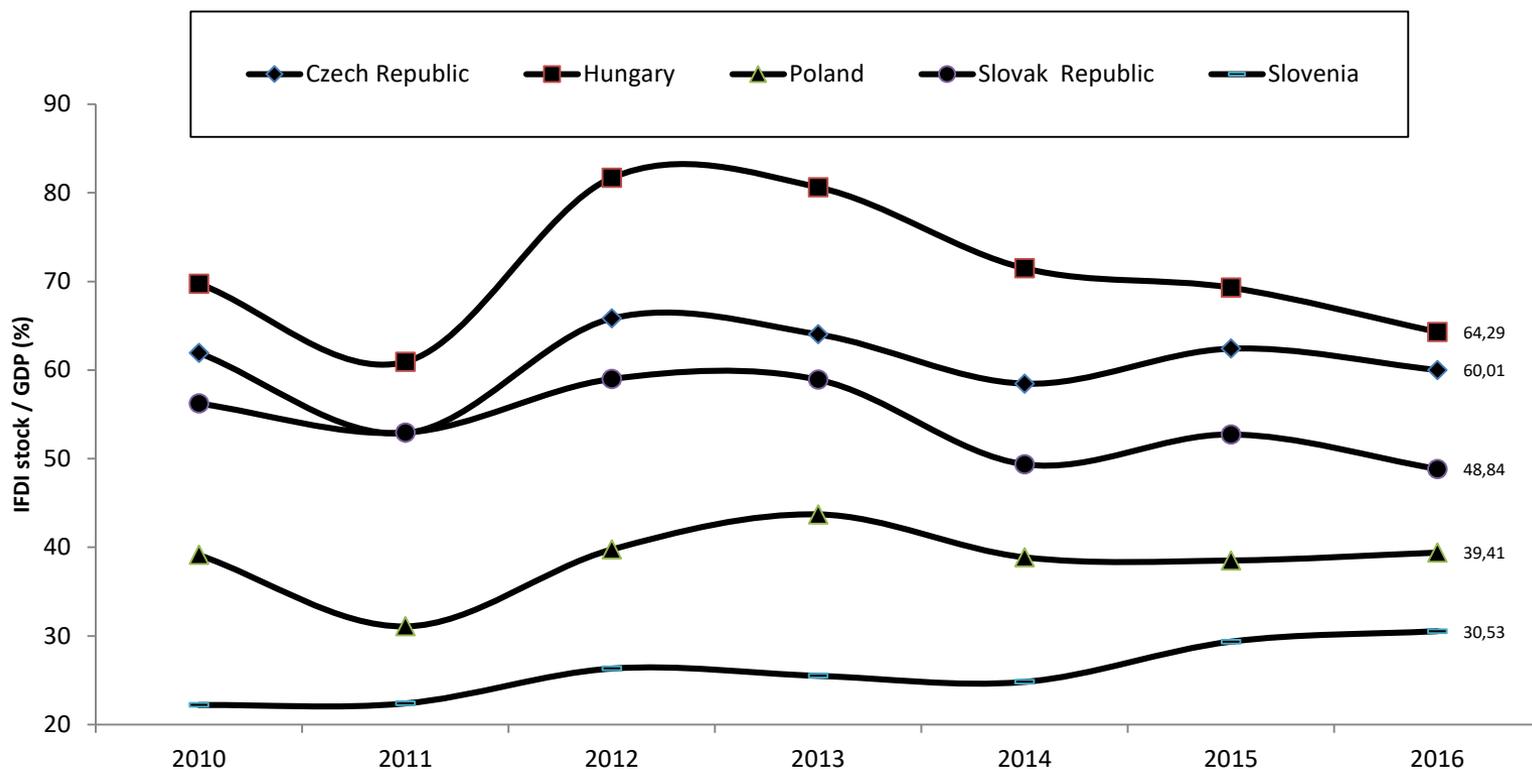


Figure 1: Part of inward FDI stock in comparison with GDP.

Source: OECD (<https://data.oecd.org/>)

IFDI and the role of privatization - theory

Calderón et al. (2004):

- confirm spillover effect; 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 even more: 1,5%,
- countries can also expect future growth of IFDI in new companies, also as a consequence of privatization.

Merlevede and Schoors (2005):

- significant 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.

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.

IFDI and the role of privatisation - practice

- The privatisation in general is one of the most important sources of IFDI; in the case of Visegrad countries it has been the most important first source since there has been generally positive attitude toward foreign investors, expressed also by the methods of privatisation chosen (direct sales to the investors-best bidders widely used).
- By its choice of the privatisation methods (indirect sales: internal purchases by managers and/or employees and “distributed vouchers” method) in the ‘90s Slovenia clearly preferred domestic owners and discriminated potential foreign investors.



Differences in stock of IFDI - conclusions

- The presented significant differences of the IFDI stock between Slovenia and Visegrad countries are the result of three main factors:
 - the principal method chosen in the 1st phase of privatization in the '90s (direct sales vs. indirect sales),
 - the long and closed Slovenian process of privatization signaled to foreign investors a clear non-welcome in Slovenia's privatization process and investment activity in general,
 - often hostile general public opinion expressed toward foreign investors.

Concept of distance and cultural distance

- Within the focus on how distances impact on firms' international expansion 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**.
- **Geographical distance:** analyzed within the concept of gravity models based on Newton's universal law of gravity (*Tinbergen, 1958*).
- **Psychic distance:** impact of human awareness, understanding, and perceptions concerning geography, culture, language, politics, the level of education, the economic situation, the level of industrial development, time zones, etc. (*Nebus and Chai, 2014*).
- **Cultural distance:** mostly seen as an important component of the psychic distance; we generally agree that “culture” refers to the collection of assumptions, values, and normative behaviors of a group of people (*Kwok et al. 2005*).

Cultural distance – selected models

- **KSI-Cultural Distance Index** (*Kogut and Singh, 1988*): based on Hofstede's dimensions; there is more or less evident opposition against this concept (*Harzing, 2003* and *Shenkar, 2012*).
- **WMA-Weighted, Mahalanobian and Asymmetrical** (*Yeganeh, 2014*): improves KSI, well theoretically founded, measurement does not avoid some of the existing criticisms already used against KSI; Hofstede's data collected several decades ago and within one multinational company (IBM) which is risky to be used as a proxy for the whole national culture of each country.
- **GLOBE project** (*House et al. 2004*): certain improvements but 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".
- **Composite Index of Cultural Distance** (*Kaasa et al. 2016*): cultural dimensions created using data from the European Values Survey and the European Social Survey based on Hofstede's descriptions.

Cultural distance – Slovenia vs. Visegrad group

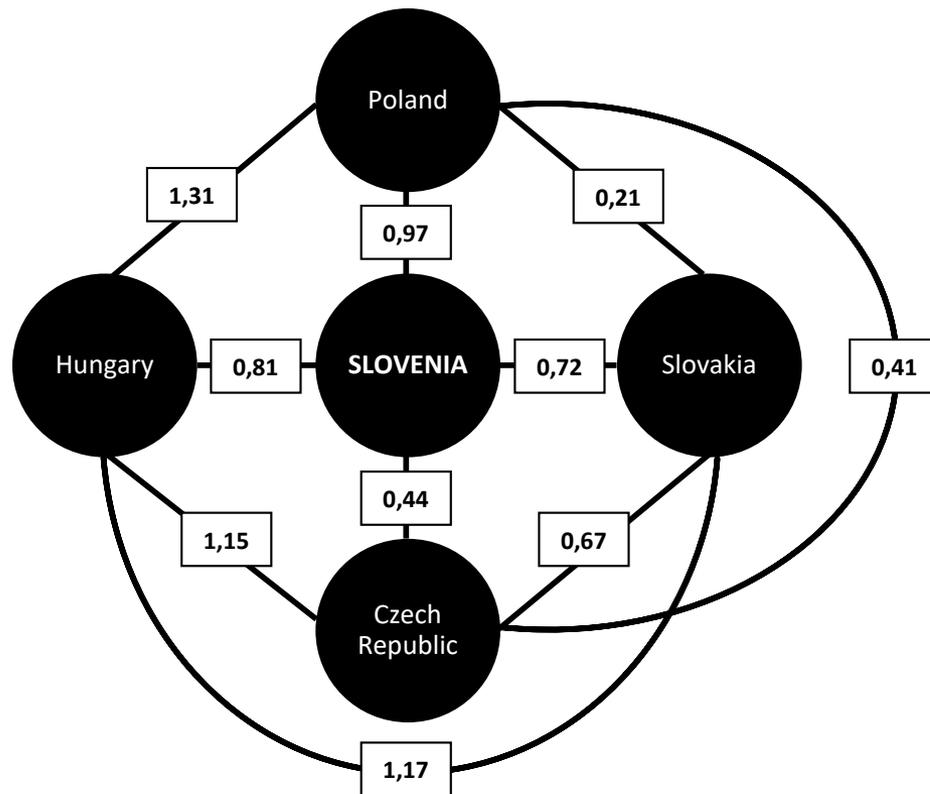


Figure 2:
Cultural distance: composite index.
Source: Kaasa et al. (2016).
Adapted by the author.

- Cultural distances between Slovenia and the other four countries are relatively small; this stands for the composite index but also for every separate dimension (Power distance, Individualism, Uncertainty avoidance and Masculinity).

Cultural zones: position of Slovenia and Visegrad countries

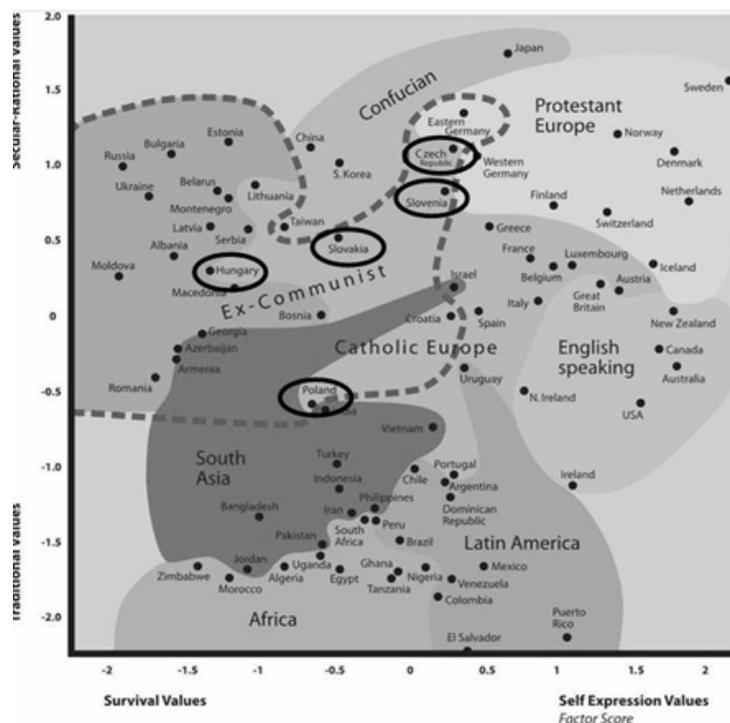


Figure 3:
Inglehart–Welzel Cultural Map of the World (2005).
Adapted by Koyos and the author.

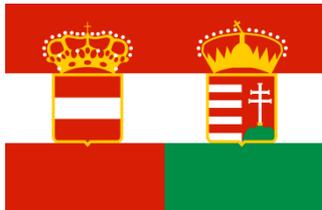
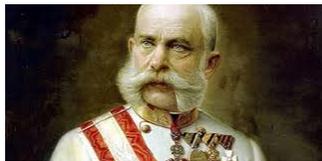
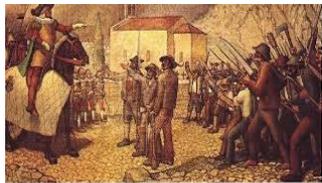
- All five cultures are positioned within ex-communist and Catholic Europe.
- With the exception of Poland, all the other are closer to the secular-rational values.
- Slovenia and the Czech Republic have more expressed self-expression values.

If it's not culture – what then?



Kara Mustafa - the leader of Turks.

- 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.
- 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?
- We think the answer is existence of the “**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).
- The culture of fear in Slovenia has historical roots but a very goal-oriented present usage.



Who benefits from it?

- The fear of foreigners is a part of Slovenian culture already for centuries.
- 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.
- Two basic reasons for sustaining the culture of fear in connection with foreign investors:
 - to block foreign competitors (suppliers) on the Slovenian market,
 - to enable only domestic or “approved” foreign investors to buy state-owned companies in the process of privatization (if really necessary).
- The first reason is nowadays of lesser importance, but the second one is still very much alive since the “deep state networks” want to control the companies which employ the “right” employees, select the “right” suppliers and donate / finance the “right” receivers.

Conclusions

- The lack of IFDI has to be attributed to Slovenian particularities rather than significant cross-cultural differences in comparison to the Visegrad cultures.
- The main particularity is sustaining the culture of fear against foreign investors through the mass-media, controlled by the small but economically powerful local individuals and groups with partial interests.
- The culture of fear justifies measurements to block foreign investors who cannot be controlled and allows only « special deals » in the process of privatization.
- This is clearly the situation of the « **captured state** » (*Transparency international*) and it will last until the majority of citizens decides to stop it.

