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Unknown Multinationals; the case of Slovenia

Paper to be presented at OECD Investment Forum, Paris, March 27-28th.

(Not language edited version)

March 25, 2008

1. Introduction

Only some 10 years ago talking of Slovene multinational companies (MNCs), here in Slovenia, would be something like cursing. Inherited perception of MNCs has been like talking about bad guys taking out of the country profits, hiding and creating uneven development. MNCs have been considered as being responsible for many bad things in the economy leading also to political dependency. Multinationals was a synonym for the large companies exploiting other countries coming from Western industrialized countries. Talking of own multinationals, those coming from Slovenia operating in other countries was not an issue at all until very recently in public debates. Even after presenting the Press release on top 25 Slovene MNCs the first question of the TV journalist was, do we have MNCs. Similar was in the academia; investing abroad was considered as anti patriotic since “we badly need capital at home”¹. As recent as 2007 and 2008 authors were asked by major Slovene newspapers to give interviews on the issue whether Slovene firms are multinationals. The general believe was, and still is among many, that Slovenia does not have such firms.

Such attitudinal barriers prevailed in spite of the fact that Slovene MNCs in fact facilitated the transition process following disintegration of Slovenia from SFRJ. After declaring independence in 1991 Slovenia lost almost 50% of the “local” Yugoslav market. Companies were able to compensate this loss by expanding their sales to foreign, mostly EU markets only thanks to strong export capabilities and inherited foreign economic network of affiliation (mostly trade oriented), and thus made transition less

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¹ Example; the paper presented at the academic conference on outward FDI in 1995, published in 1996 was explicitly criticized on the grounds how an economist can promote outward FDI when we badly need investment at home.

painful. Due to such an early internationalization the making of the country was easier and transition depression shorter.

After 1999 when outward FDI were finally completely liberalized and after becoming EU member in 2004 (May 1st), the infrastructural, legal conditions were set for the kick off of internationalization of Slovene companies and consequently also the re(creation) of Slovene MNCs. Attitudinal barriers started to evaporate. Companies realized that their internationalization is the survival kit because of the smallness of Slovene market of 2 millions of inhabitants.

Systemic factors, which explain the lion's share of such operations before the transition started, could be an argument that challenges what appears as a 'reverse investment development path' model, meaning that outward FDI started in Slovenia before the inward ones. Since many of these factors are system/transition related, they ceased to exist parallel with the advancement of the transition and particularly after joining EU.

2. History²

Outward FDI started in Slovenia as early as in the end 1950s, when Slovenia was still a part of socialist Yugoslavia and before specific type of contractual joint venture were allowed in 1967. The process of outward internationalization was not linear, but sequential and it had ups and downs. Also liberalization after 1991 was gradual. Only in 1999 outward FDI has been really completely liberalized according to OECD guidelines.

Up until the late 1990s the motivation for investing abroad was determined by systemic factors like sanctions imposed on Yugoslavia by Stalin in 1948 and the market-oriented reform of 1965. The establishment of representative offices, branches and affiliations abroad became a way escaping (socialist) system, or facilitating imports and later promoting exports. By establishing companies abroad firms increased their competitive edge by gaining regular access to foreign exchange without losing the

² More in Jaklič and Svetličič 2003, Svetličič et al. 1994.

margin between the market and official exchange rate. Such outward FDI was not driven by genuine firm-specific advantages but by stability seeking motives (Svetličič et al.1994, p. 365).

Not so few companies from Slovenia established their first affiliations abroad in the late 1950s. The first one was established by the trading company Intertrade in 1959 in India. Gorenje, now the second largest Slovene MNC, established its first unit abroad in France in 1965. Iskra (then the largest Slovene firm, but now disintegrated in many companies) set up first trading units in London and Stuttgart in 1967. Some of the early “to be multinationals” are not existing any more or have lost their importance. By 1988 Slovene firms were involved in 87 firms abroad what contributed to the accumulation of elementary internationalization knowledge and management skills.

Slovene MNCs are obviously not really a transition babies. Out of top 25 only one MNCs was established during the transition and became multinational, leapfrogging stages, while all other firms followed gradual internationalization basically following Loustarinen / Upsalla school model - firstly internationalizing trade functions and much later production. The departure to the evolutionary Scandinavian model at that time was that in many cases first affiliations abroad were not established in neighboring countries but further away developing or developed countries. Such departure from evolutionary model can be explained by institutional factors, by the politics of non-alignment which stimulated firms to strengthen their economic cooperation with this part of the world.

Slovene authorities were trying to facilitate such export and enhancing international economic cooperation also by establishing joint representation offices abroad. Ljubljanska banka (now NLB; see Annex, Box 2), Slovene Chamber of Economy and some firms established a Special Fund for financing of preinvestment studies and establishment of companies in developing countries in 1974.

The newly emerging outward FDI of Slovenian firms can therefore be partly regarded as a new and partly an inherited phenomenon. Nevertheless, early internationalization positively contributed to the development of investing firms’ capabilities and has been instrumental for today’s, more organic internationalization. Most other investors are in fact ‘leapfrogging globals’, as they became global in a very short time by jumping over some of the stages.

Later, as transition proceeded, outward internationalization accelerated in spite of many attitudinal barriers (the unpatriotic view on exporting of capital). Emergence of Slovenian multinationals reflected also freed up entrepreneurial spirit. Simultaneously some investors also underwent a disintegration process or found themselves in crises that forced them to close their foreign operations down ('investment diversion effect') since the EU market can be efficiently served by exports. Spin-offs that were oriented abroad took place as a side effect (details in Jaklič and Svetličič 2003, p. 46).

3. Slovenia outward FDI

3.1 Investing abroad; general trends

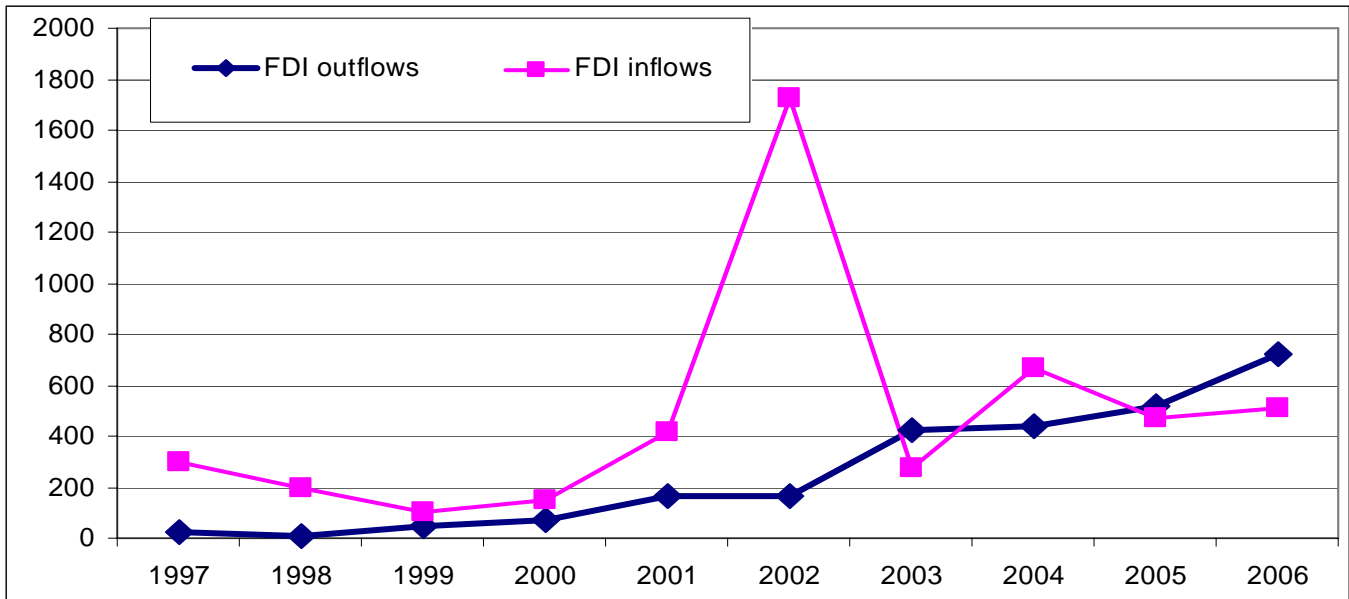
Macroeconomic data suggest that Slovenia is now somewhere between the second and third stage of IDP with the tendency of outward FDI flows overtaking inward FDI flows, which took place for the first time in 2003 (Figure 1).³ With relatively low inflow of FDI this may be an overstatement, as the inward FDI stock is still almost 2 times larger than outward FDI in 2006. Yet, descriptive evidence and case studies suggest that Slovenia is, nevertheless, still at an earlier stage. The rapid and constant growth of outward FDI brought the accumulated stock of outward FDI to 3,457.2 EUR million in the end of 2006 which is still lagging behind inward FDI stock that amounts to 6,774.9 million EUR (Figure 2). Such trends continue also in 2007.⁴

The role of top MNC in Slovene outward investment is crucial (Figure 2). They account for 86% of total outward FDI stock of Slovenia. Acceleration of outward FDI after 2001 followed rising globalization trends in the world and a need for restructuring of many Slovene firms operating in mature industries. Enhanced competition on the local market also stimulated internationalization of trading and manufacturing companies in order to keep and enlarge foreign market shares by getting closer to customers.

³ If we were to neglect two FDI transactions (Lek and NLB) which influenced the exceptionally high inflow of FDI in that year then it could have already happened in 2002.

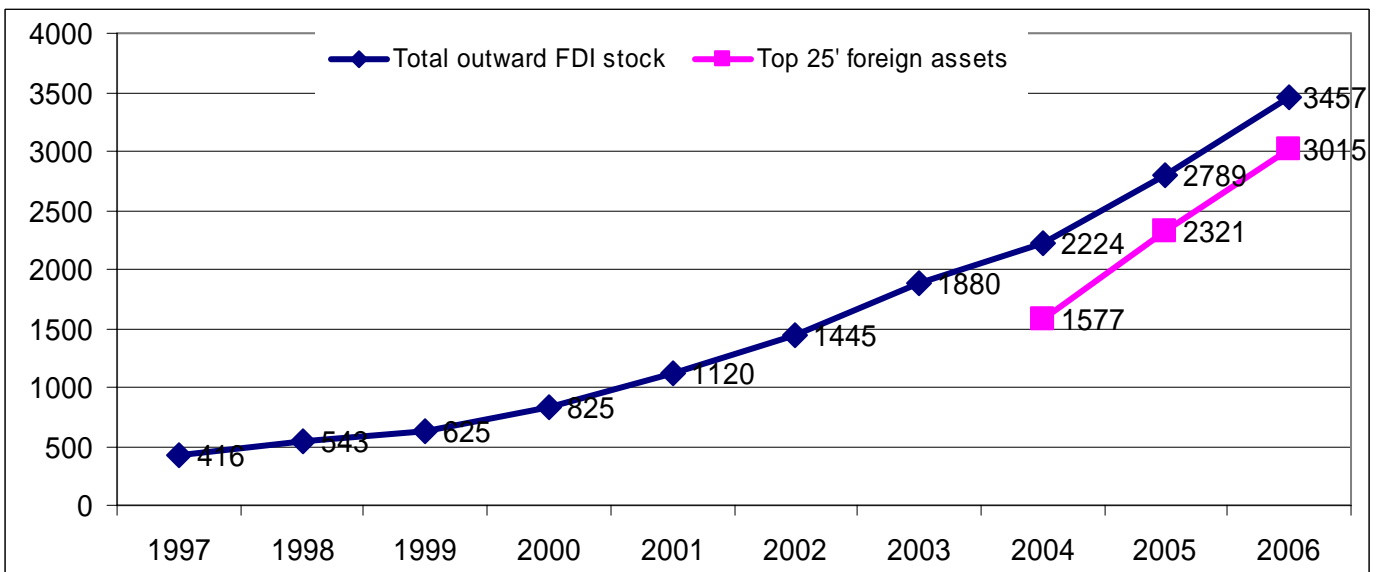
⁴ However, it is expected, that lagged privatization and governmental privatization plans for Telekom and some banks and other companies may increase foreign acquisitions in the future and consequently also inward FDI.

Figure 1. FDI outflows from and inflows into, Slovenia, 1997-2006 (EUR million)



Source: Bank of Slovenia.

Figure 2: Stock of outward FDI from Slovenia, 1997-2006 (Millions of EUR)



Source: Bank of Slovenia, and CIR-CPII survey of Slovenian multinationals.

While greenfield investments were prevalent during the 1990s, mergers and acquisitions activity intensified after 2000 (Annex table 4)⁵. One explanation for such a trend is related to a large extent also to late privatization in some major host countries such as Serbia or Montenegro. Larger acquisitions were undertaken in the financial sector, chemicals (particularly pharmaceuticals), retail trade, electrical appliances and the food industry. It also facilitated internationalization by knowledge accumulation and the early creation of an internationally experienced management.

3.2. General characteristics of top 25 Slovene MNCs

The Survey of the top 25 Slovene MNC cover only indigenous Slovene firms but even if we included foreign owned firms as MNCs located in Slovenia only few would qualify. Slovene MNCs are therefore more home grown⁶ than in other transition economies where the role of foreign owned companies as investors abroad (indirect investors) has been more important.⁷

Slovenia's Top 25 MNEs, valued by foreign assets, had nearly US\$ 4bn⁸ in assets abroad (see table 1); nearly US\$4bn in foreign sales (including exports); and employed 23,616 persons abroad. Their foreign assets and employment each more than doubled since 2004, while foreign sales increased 60%. Foreign assets are concentrated in Europe. The top three firms account for more than half of the total assets of the Top 25, and the top five firms for 68% of the Top 25's total foreign assets. And they are private companies (with the exception of one, accounting for only about 2% of aggregate foreign assets).

⁵ Data on Top Slovene Multinationals are the result of joint project between Centre of International relations, Faculty of Social Sciences, University of Ljubljana and The Columbia program on International Investment realised on March 18 2008.

⁶ Only 11% of companies investing abroad were foreign owned (Jaklič and Svetličič, 2003, p. 59).

⁷ The only substantial foreign owned investor abroad would be LEK, another pharmaceutical firm acquired by Novartis in November 2002. Even Lek has developed its internationalization strategy as Slovene firm. It was acquired having 27 affiliations abroad already. Just an opposite is an example of Kolektor who started as a Slovene firm, later entered into JV with a foreign partner and in 2004 took over foreign partner share and bought its factory in Germany as well and hence became again a Slovene, now multinational firm (see Annex box 1).

⁸ The following EUR/USD exchange rates, based on XE.com Universal Currency Converter (<http://www.xe.com/ucc/>), were used throughout: 1.31954 (2006); 1.18395 (2005); 1.35338 (2004).

Table 1. CIR-CPII ranking of the Top 25 Slovenian multinationals, in terms of foreign assets, 2006 (Millions of US\$)

Rank	Name	Industry	Foreign assets
1	Mercator	Retail trade	954
2	Gorenje	Electricity supply, manufacturing	668
3	Krka	Manufacturing	439
4	Droga Kolinska ^a	Manufacturing	352
5	Petrol	Oil supply	307
6	Merkur	Retail trade	203
7	Intereuropa	Transportation	127
8	Helios	Manufacturing	121
9	Iskra Avtoelektrika	Manufacturing	80
10	Elan	Manufacturing	75
11	Unior	Manufacturing	66
12	Lesnina	Retail trade	66
13	Kolektor Group	Manufacturing	59
14	Prevent	Manufacturing	50
15	Trimo	Manufacturing	46
16	Viator & Vektor	Transportation	40
17	HIT	Entertainment	37
18	JUB	Manufacturing	35
19	Hidria	Manufacturing	33
20	Perutnina Ptuj	Manufacturing	32
21	Kovintrade	Manufacturing	28
22	ERA	Retail trade	22
23	ETI Elektroelement	Manufacturing	21
24	Alpina	Manufacturing, retail trade	20
25	Kompas	Travel and related activities	20
TOTAL			3,903

a. Droga and*Kolinska merged in 2004.

Source: CIR - CPII survey of Slovenian multinationals.

Slovenian MNEs are small when compared to their counterparts in Brazil and Russia⁹ (the foreign assets of the Top 25 are roughly 5% of the Top 25 in Russia and the Top 20 in Brazil). But they play a vital role in Slovenia's economy and dominant role as outward investors. Today, more than 2.5% (around 970) out of almost 50.000 corporations in the Slovenian corporate sector are involved in outward investment activity. However, the vast majority (almost 75%) of these 950 MNEs can be classified as small- and medium-sized enterprises (SMEs).

⁹ The ranking lists for Brazilian and Russian MNEs were released in December 2007 (see www.cpii.columbia.edu).

Obviously Slovene MNCs are also much smaller than other international competitors. None of the Slovenian Top 25 makes it into the top 50 MNEs from developing countries (LDCs).¹⁰ But their expansion is rapid; between 2004 and 2006, their aggregate foreign assets doubled, their foreign sales grew by more than 50% to US\$7.3bn (comprising more than half of the Top 25's total sales), and foreign employment doubled to 23,616 people (table 2). Foreign expansion is the engine of growth of the Top 25. Domestic sales of the Top 25 dropped from 59% to only 48% of total sales in 2006. For the top two manufacturing firms, foreign sales amounted to 86% of their total sales which demonstrate how much a trading company and a manufacturer of white goods is dependent on global markets.

Table 2. Snapshot of Slovenia's 25 largest MNEs, 2004 – 2006 (Millions of US\$ and no. of employees)

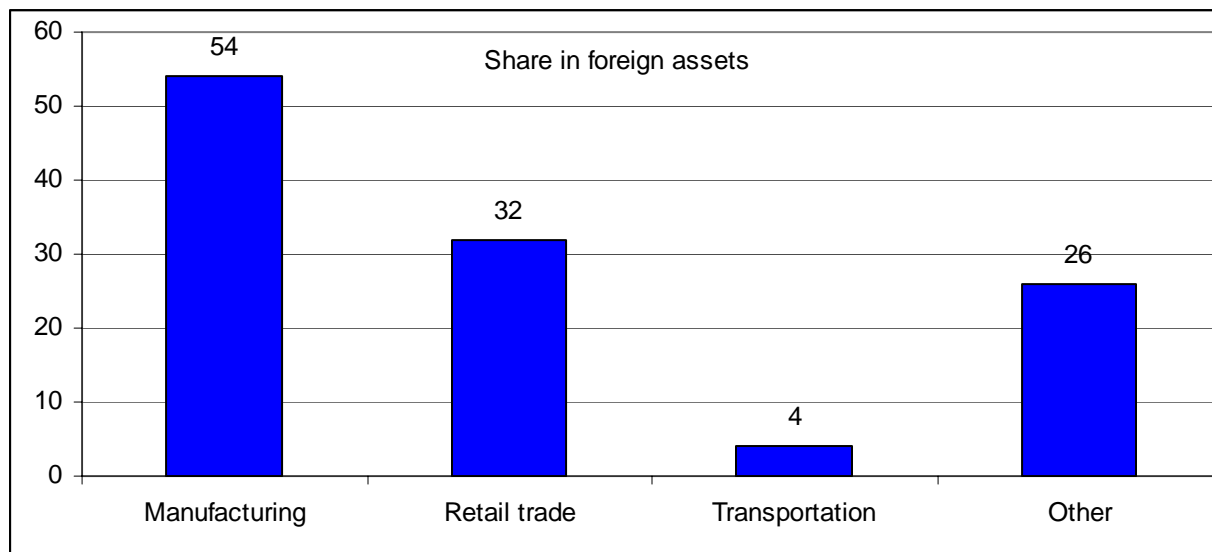
Variable	2004	2005	2006	% change 2006/2005
Assets				
Foreign	2,068	2,680	3,903	31
Total	9,061	9,407	11,777	12
Share of foreign in total (%)	23	28	33	16
Employment				
Foreign	11,699	18,972	23,616	24
Total	69,655	77,027	81,349	6
Share of foreign in total (%)	17	25	29	18
Sales (incl. exports)				
Foreign	4,730	5,093	7,256	28
Total	11,497	11,045	13,885	13
Share of foreign in total (%)	41	46	52	13

Source: CIR Source: CIR- CPII 2008 survey of Slovenian multinationals.

Industrial breakdown reveal domination of manufacturing sector among top MNCs. This can be explained by the structure of economy where traditional mature industries with strong cost competition and accelerating globalization dominate. Firms in such sectors are just pushed to go international in order to reduce costs.

¹⁰ See UNCTAD, World Investment Report 2007 (Geneva: UNCTAD, 2007). Data for 2005 are the latest available.

Figure 3. Breakdown of the Top 25's foreign assets (Percentage) by industry ^a, 2006



Source: CIR Source: CIR- CPII 2008 survey of Slovenian multinationals.

Manufacturing (food and beverages, chemical and pharmaceutical products, machinery and equipment, electrical equipment, sport apparel, etc.) is by far the most important sector of the Top 25, with 16 of the 25 MNEs. The next largest sector, with five MNEs, is retail trade. Other activities are: transportation, electricity supply, oil supply, entertainment, travel, and related activities (Annex table 3).

Top SLO MNCs are also among the most respected companies in Slovenia, according to DELO (major newspaper in Slovenia), among 10 the most respected firms, 6 are Top Slovene MNCs. The list of the 63 most successful firms in Slovenia (according to 18 indicators) as well involves 14 top Slovene MNCs (DELO 2007, Nov. 26 FT, p. 23). The largest Slovene MNCs are also among the largest 101 Slovene companies. Among largest 10, five are Top MNCs, (see Finance 2007, May 28.). Although large in Slovenia, they are not so high in the league of the most profitable companies. They account for 2. 4., 6., 14., 17., and 19. place among top 20 most profitable firms in Slovenia (DELO 2007, 21. May; 31). Consequently they are also not very high in the league of value added per employee. There are several reasons for that. Firstly they are mostly old companies, many operating in medium technology intensive industries¹¹ where profit rates are by the definition lower. Secondly, they are long term strategically and

¹¹ Out of 16 firms in manufacturing only one is in high tech industry, 9 are in medium technology intensive industries (mostly medium high) and 5 in low technology intensive industries.

not short term cash maximization oriented. They are mostly not involved in present rent seeking financial operations selling or buying properties on the local market. Many the most profitable Slovenian companies are in high capital intensive sectors, in still protected infrastructural operations.

The Top 25 now have 286 foreign affiliates in 53 different countries, for an average of 11.5 affiliates and in an average of 9 countries (Annex table 1). The aggregate Transnationality Index¹² of the Top 25 has risen from 2004 to 2006 from 36% to 45%, which reflects the rapid growth of international operations not lagging much behind the largest companies in the world. They are more transnationalized than firms from other transition economies. The most internationalized Slovenian company is Droga-Kolinska– a manufacturer of food – with a Transnationality Index of 68 %. For a small country of two million people, foreign growth through FDI means survival and is a vital engine of growth for Slovenian firms.

Slovenian MNEs are mostly regional market-seekers, with trade and production affiliates, mostly in Western Balkan countries. Many are regional multinationals, but some are also global actors, like Kolektor,¹³ More than 80% of foreign affiliates are located in Europe. and eight of the Top 25 MNEs are based exclusively in Europe as revealed by the Regionality Index (Annex table 2), while five out of top 25 Slovene MNCs operate at least on 4 different continents and 10 of them cover minimum 3 continents. Recently Slovenian firms show a growing interest in Russia, China and other (more distant) Asian locations.

The Top 25 include old and young multinationals: seven firms have pre-transition experience in outward investment (some, like Gorenje, invested in the 1960s. Krka established a pharmaceutical firm near Nairobi in the mid 1970s, and Elan produced skis in Sweden¹⁴, also in the 1970s.) Nine made their first investment abroad in the mid-1990s, and nine others established their first foreign affiliate after 1999.

All MNEs use the Slovenian language as their official language; however 15 out of 25 also use foreign languages. Ten out of 25 top MNEs use Slovenian and English as official languages, two companies use

¹² The Transnationality Index is a composite ratio calculated by averaging the relative shares of foreign assets, foreign employees and foreign sales as a percentage of their respective totals. See UNCTAD op. cit. 2007.

¹³ See Annex case box 1.

¹⁴ The famous Swedish skier Ingemar Stenmark used Elan skies for racing.

3 official languages (Slovenian, English and German), while one of them uses 5 official languages (Slovenian, English, German, Russian and Croatian).

The internationalization of management is relatively low; except for one¹⁵, all other CEOs are Slovenian. Top management is more internationalized in eight out of the Top 25 companies (in three cases 40% of top managers are foreign, two cases with 30%, two cases with 20%, and one with 10% foreign management), while in 17 companies the management is entirely Slovenian.

3.3. Competitive advantages

Though competitive advantages of top Slovene MNCs were not traced in greater detail recently, the sample matching of the analysis done few years ago and their important role in the whole population of Slovene investors abroad allows us to apply some general conclusions about Slovene investors abroad also to Slovene top MNCs. Most of Slovene investors abroad claimed their advantages compared to local firms lie either in superior technology, marketing and/or management skills. Marketing know how was considered as the most important competitive advantage, followed by technological know how and lastly organizational (Jaklič and Svetličič 2003, p. 125). Firms have accumulated specific firms specific advantages in their markets of penetration (differentiated products and services...), which more than compensate their weaknesses compared to large multinational firms or local companies. Technological superiority is a result of much larger R&D expenditures of firms investing abroad compared to the average Slovenian company as well as the higher share of university-educated employees. Perhaps the major managerial advantage is the know-how to do business in the familiar business environment of the Western Balkans, in this unstable and un-transparent and unpredictable environment. Some managers have developed a very specific management style based on personal contacts, and highly assimilated to the cultures of the destinations of outward FDI. Previous experiences in, i.e. Western Balkan countries or other transition economies, demonstrate that smaller cultural gap has facilitated such outward FDI by Slovene multinationals. In general management of companies has played crucial role in outward FDI. Without the clear and ambitious visions of firms' managers, such successful internationalization would have been impossible. A realistic strategy, good management with excellent training, (many were

¹⁵ The CEO of Droga Kolinska, Slobodan Vucicevic, is Serbian.

trained abroad) adapted technology and own R&D efforts have proved to be the key success factors in most cases.

Yet some of these advantages are temporary, therefore they have to be exploited rapidly before other competitors enter the market.¹⁶ First-mover advantages have proved to play much more important role compared to the experiences of investors abroad from industrial countries. Somewhat weaker ownership advantages compared to large industrial countries' multinationals make them internationalize earlier than would otherwise be the case just to gain complementary advantages and to buy time to enhance existing limited ones before other multinationals start competing.

Operating in medium, even low technology intensive activities imply that soft factors more than hard technology factors are decisive competitive advantages of Slovene MNCs. Relocation of labor intensive activities from Slovenia to lower labor costs countries following Ozawa theory (Ozawa 1992) have speeded up after 2004 (see Svetličič, 2007, p. 67). Many firms have started such relocation late, according to global trends also because of the strong attitudinal barriers in Slovenia. Therefore managers are under pressures not to go international in order to keep jobs at home. Arguments that such investments are more complementary to local investment, local employment and export are not heard strongly enough. Even less the argument that it is not only important to calculate net effects of employment or export or investment effects but also counterfactual situation. Therefore managers go international only as the last resort, when situation with raising wages is becoming really unbearable and they are facing dilemma of closing down the factory in general.¹⁷

Japec Jakopin, the owner of the Seaway company (Slovenia), a major designer of sailing (and motor) boats in Europe, claims that small firms/countries can turn their weaknesses into strengths if they follow

¹⁶ Many products are known to older generation living before in the same country, Yugoslavia but not to younger generations for instance.

¹⁷ A very good example is company ISKRAEMECO, among the most internationalized Slovene MNCs which has faced a challenge of technological modernization several years ago. They were not able to introduce electronic electric meters in their production program by their own efforts but refused to go into strategic partnership or cooperation with foreign investor fearing foreign ownership, They have also not properly internationalized their production, relocating low end phases in low cost country although they have operation in Malaysia for instance. Two years ago company faced closing down challenge. With government support it was somewhat rescued but reduced number of employees substantially and was last year finally acquired by Egyptian partner with not good prospects for survival, because this partner is not among the leading ones in the world in electric meters the major product of ISKRAEMECO.

the right policy. If you are small, you must educate well, adapt, learn from others' experiences and try to assimilate productively the others' best practices when creating your own solutions. This is only possible if you know foreign languages well since you cannot otherwise adapt to other cultures and assimilate their knowledge. By listening you learn, by applying the best practices of many countries/firms in creating your own solutions you can outperform those who are larger and stronger, while by not claiming you are the best you do not threaten the superiority complex of traditional, established and large players. "We have thereby created what we call a European sailing boat, which is appealing to the French, British, Swedes and most other tastes". (see also: Podjetnik, December 2001, p. 7 and Jaklič and Svetličič, 2003; 186).

Cases like Seaway and Kolektor demonstrate that a firm can become global and successful in a relatively small niche. The smallest the niche, the more global, one must be. It also seems that it is somewhat easier to become an important player if you specialize in an intermediate and not a final product if you are a SME or you come from a small country. Final-product orientation or consumer goods production and marketing is financially much more demanding, more threatened by changes in technology, and is brand, advertising intensive. You also must have an already established global network in order to exploit your advantages in the shortest time possible. It is also safer to be in an intermediate sector since you can become a major producer for many large multinationals and thus reduce your dependence on any one purchaser or market. Through such diversification you also gain economies of scale and bolster your competitiveness.

Such competitive advantages have contributed to the enhancing of the Slovene international competitiveness in general since investing firms performed better than non investing ones. Profits as percentage of sales is higher compared with non outward investing firms (see table 6 in Svetličič 2007, p. 70). Premiums in sales, profits and productivity were the highest in the case of outward investors that started to establish their affiliates abroad between 1998-2000. . Majority of managers also claimed that their competitiveness strongly improved also thanks to outward FDI (59%) and enhanced transformation of the economy (52%, Jaklič and Svetličič 2003, pp. 38, 67 and 174).

4. Slovenian MNCs in international comparisons

There are many characteristics which make Slovene MNC different from others from emerging and transition economies or those from developing or more advanced industrial countries. The major differences are:

- a) they are smaller, but relatively more internationalized¹⁸,
- b) foreign owned firms are not important as outward investors from Slovenia,
- c) they prevail in manufacturing
- d) strategically they are niche oriented and manufacturing ones operate mostly in intermediate products,
- e) they are mostly regional multinationals although diversifying recently also globally, particularly in other emerging economies,
- f) investors are old, now private firms, but young as multinationals.

Regarding transition economies Slovene firms have been in general earlier in their internationalization. Small size of the economy has been stronger push to internationalization than in the case of large countries.¹⁹ Outward orientation of firms, initially exporting much more to Western markets than other socialist countries also stimulated internationalization.

Slovenian MNCs are smaller compared to the MNCs from larger transition or LDC economies. They can hardly compete on highly sophisticated technologies or know how. The Balakrishnan hypothesis stating that investment among LDCs come as the fourth stage of product life cycle hypothesis (Vernon 1966) has proved quite relevant to both groups of countries [relatively more in the case of early third world MNCs]. Firms start by building on advantages more in areas Western multinationals are not interested in pursuing, more on assimilating or adapting their technologies but simultaneously upgrading their own specific advantages although initially more in organization, design than of totally new quality products or even brand names.

¹⁸ Transnationality index of 45 comes close to the one by world TNCs of 55.8% (see UNCTAD 2005, pp.17-19)

¹⁹ This was clearly demonstrated in comparison with Polish firms which at the late 1990s have almost not started to invest abroad. One explanation was the size of the local market. (see Svetličič and Rojec, 2003).

The stronger involvement of small and medium-sized enterprises in the case of Slovenia can be traced to macro location-based factors, previously established networks in the common market of now disintegrated country (SFRY). Previous experiences of managers of the larger state monopoly firms which later established their own firms but inherited all the experiences and networks from previous international businesses is an additional explanation. The new information technology infrastructure also makes it easier for SMEs to internationalize today, particularly as suppliers to large MNCs [client-driven internationalization]. It was not so important when integrated global production was not as advanced.

The ownership structure of subsidiaries abroad also differs: third world MNCs have been traditionally much more keen to enter into JVs with local partners [see Wells 1983:115] than Slovene MNCs where majority ownership prevail. Firms want to control their operations abroad partly out of weaknesses not strengths, [see Svetličič and Jaklič 2003]. Explanation is partly system-specific [late privatisation in host countries, non-transparent systemic conditions and other instability] which would increase risks in the case of shared ownership. The other explanation is the type of FSAs. They are similar to those a local partner might bring into a venture therefore there is no need to acquire them.

We can observe also strong differences but also some similarities among MNCs from 3 emerging economies. Similarities are mostly in terms of regional orientation, dynamics (recent fast expansion), ownership (mostly private), increasing transnationality and development implications. Differences are mostly in terms of size, sectorial allocation, role in the economy or among investors abroad, age, regional orientation and location within the economy. Differences are to be expected comparing economies so different in their size and also many other characteristics.

Table 3: Profiles of the 3 economies

	Slovenia	Russia	Brazil
Population est. 2007, mil.	2	141	190
GDP in bil. \$, est. 2007	55	2,076	1,838
GDP pc in \$ PPP, est. 2007	27,300	14,600	9,700
Foreign assets by top MNCs	3.9 bil \$	58 bil \$	n.a.

Source CIA The World Factbook, 2008.

As one can expect Slovene MNCs are much smaller than those in other 2 large countries but less small than the difference in the size of their economies would indicate. Slovenia is namely in terms of its population 70 times smaller than Russia and even 95 times than Brazil. The difference in GDP is less pronounced but still from 33 to 38 to times. But in the per capita GDP Slovenia is in the lead having almost twice GDP pc by purchasing power parity than Russia and almost 3 times that of Brazil. However in terms of total assets abroad Slovene top MNCs lag behind Russian ones by just bellow 15 times. Slovene MNCs are therefore comparatively large for the size of the country, which demonstrate the small size effect on internationalization. Small economies' firms just have to grow internationally in order to survive on the global market. Therefore it is also not so surprising that the local importance of Slovene MNCs is much higher. They are consequently also much more transnationalized in all aspects.

Table 4: Top 25 Slovene MNCs compared with Russian and Brazilian ones

Issue	Slovenia top 25	Russia top 25	Brazil top 20
Size	Assets 4 bil. \$ Small, largest 0.96 bil \$, 23,616 employed abroad, 5% of assets of Russian or Brazilians, largest 723 mil \$, smallest 15 mil \$ first 5 68% of assets abroad	Assets 59 bil.\$ Largest Lukoil 18 bil. \$, The smallest 116 mil \$ 130,345 employed abroad The smallest would be 7th among SLO TOP 25 MNCs	Assets 56 bil \$, Large dominate, 2 CVRD and Petrobras more than 10 bil.\$ each, 77,000 employed abroad (all 20) but Smaller also growing fast
Sectors	54% manufacturing (by No of firms)	53% resources, 25% metal Mining, 1% manufacturing, telecom...	66% of for. assets by natural resource firms, Manufacturing 19%
Importance	86% of SLO OFDI stock	38% OFDI stock	n.a.
Ownership	Private, only 1 state dominated	5 state, others private (27% of assets)	Private, only Petrobras state
Regional orientation	80% Europe (by No of affiliates), 9 MNCs only in Europe,	63% Europe (by f. assets), now more globally	50% L. America (by number of affiliates)

	now also globally		
Transn. index	45% and increased from 36% in 2004	30%	17.5 % (arithmetic mean)
Shares of (2006); - assets abroad - employed - sales	33% 29% 52%	13 % 6 % 63 %	20 % 19 % 16 %
Age	Old pre transition established firms, 7 invested already in socialism, But young as MNCs	Young, 18 after 1999	Young 4 (of 18) began intern. between 1990-1996
Location of headquarters	19 out of the capital city	17 from the capital city	50% Sao Paulo
Dynamics	For. assets and employment more than doubled from 2004	Recent fast, faster than SLO MNCs, for. assets more than doubled (2005-06)	Recent fast expansion, more than doubled assets
Inward / outward ratio	For 3 years outward flows larger than inward	Balanced, but in 2006 inward higher	In 2006 outward larger than inward for the first time
Impact on domestic investment, growth, employment	Not impede, rather complement ²⁰	Not impede	n.a.
Listing at the Stock exchanges (SE)	10 Ljubljana SE	9 London SE, 2 NY SE	n.a.

Source; own calculations based on Press Releases of all 3 countries

Although Slovenia and Russia are former socialist countries their major MNCs are privately owned. Strong regional footholds of all 3 countries top MNCs is not a surprise. Slovene and Russian MNCs are mostly Europe oriented while Brazilian ones in Latin America. Data reveals also that we can assume

²⁰ Outward FDI does not come at the expense of existing home country employment, investment and sales, but is complementary. Domestic sales and employment have both remained stable. The Top 25 remain among the most important domestic employers, while home country assets of the Top 25 have grown by around 15% from 2004 to 2006.

that the impact on local economies was similar both on Russia and Slovenia, that outward FDI have not substituted for local investments or exports and have not exported jobs abroad.

The most important differences are in terms of sectors, local importance, transnationality index, age, listing on Stock Exchange markets and location of headquarters. Not even all Slovene MNCs are listed on local Ljubljana Stock Market while Russians are listed internationally. Dominant Slovene MNCs are manufacturing and trading companies while expectedly Russian and Brazilian ones are strong in the natural resource sectors, particularly oil and minerals (Brazil).

Relative importance of Slovene MNCs is much stronger for the local economy or among investors abroad. Being small these Slovene firms are pushed to go transnational therefore expectedly their index of transnationality is much higher. One would have expected that major MNCs would be newly emerged firms after the transition started. However in Slovenia they are mostly old firms established well in the socialist times and less so in Russia. With the exception of one, all Top 25 Slovene MNEs were established years before the transition to a market economy had begun. As much as 7 MNCs have invested abroad already in socialist times. Nevertheless they are younger in terms of becoming multinationals.

The result of different development strategies of compared countries makes also difference in terms of location of top MNCs. In Slovenia they are mostly outside the capital city of Ljubljana while in Russia and Brazil they are mostly located in the capital or main city in the country. Even 3 out of the top 5 are located outside Ljubljana. Such allocation is in Slovenia a result of more decentralized development strategy Slovenia practiced already in socialist times. Partly it can be also a result of small size of the country since the distance from the centre is small and hence disadvantages of being “regional outsider” are weaker. One explanation may be that firms located outside the centre had to rely, even in the socialist system, much more on their own capabilities, while those in the centre had strengthened their competitiveness by networking with politicians and banks (crony socialism). Another explanation is the commitment of the management and those employed in such companies. They are much more committed to the company since it is often the lifeblood of the place where they live. In some cases, it is the only firm or at least a significant firm in the region. Among other things, this brings about higher employment stability and improved management, which has been demonstrated to be a key success factor (Jaklič and Svetličič, 2003; 183).

5. Obstacles, problems and policies

Although most investors abroad claim their operations have been successful (see Jaklič and Svetličič 2003, p. 165) there are also some **problems**, weaknesses and threats facing Slovene MNCs, investors abroad in general. The main reasons for problems and some failures were poor preparations, limited or inexperienced personnel, not enough or inadequate information which all contributed to internationalization sometimes being too early or not the best project choice in terms of the available investor capabilities or country location. Some firms also claimed that their mistake was trying to build their foreign network gradually while experiences demonstrated that it is necessary to start from the beginning in “full gas” establish operation abroad at the optimal scale and not to try with a small operation to be gradually increased later as the market develops. It is not any more time for such graduality due to the market and competition pressures.

Two major challenges face firms in the future. First, how to enhance firms' capabilities given the limitations SMEs face in the context of the increasing oligopolization and concentration of global markets? The response to the first challenge has been selective strengthening of own capabilities by enhancing own R&D efforts, enhancing innovativeness and creativity in organizational styles as well and by concentrating on core capabilities. Firms are also becoming aware that, in the future, longer-term strategic or equity inward co-operation with foreign partners can be a strategic response to the growing challenges of globalization. Such orientation has proved to be necessary particularly in view of increasing vulnerability and the turbulent global environment. Another strategy is also diversification. In some cases, firms adhere to their core business niche when going international but diversify at home. Others also try to diversify internationally. The prime dilemma here involves the trade-off between the benefits of specialization and the costs of diversification compared to the reduced risks. In terms of **home country barriers**, enterprises considered the late liberalization of outward FDI regulations, the lack of governmental support, inadequate coverage of risks, the absence of intergovernmental agreements (because of the creation of new states) and a lack of information support as the most challenging. Unfriendly political and public opinion regarding investing abroad as unpatriotic activity also discouraged managers from embarking on developing long-term international investment plans. The legislation itself prevented firms from investing abroad before their privatization had been completed.

Firms complain that they are too alone in their efforts to create or strengthen their technological capabilities. Among the **host-country barriers**, political instability, high economic risk, the lack of legal framework, and slow administrative procedures were considered major obstacles. In general, **internal firm barriers** were later, after general business climate has changed, evaluated as being more hindering than external barriers. The biggest internal barrier to internationalization was the lack of experience, lack of capacity to manage risks and lack of knowledge, including information on how to invest and operate abroad. Even the most internationalized and experienced firms claimed that they lack internationalization knowledge.

Slovenian firms also face additional barriers compared with other international investors. The relatively high quality of life in Slovenia makes it difficult to find experienced experts/managers who would be willing to go abroad. The high rate of employed women who do not want to discontinue their professional careers²¹ in accompanying their husbands abroad (or vice versa) adds to this limitation. Separate families on the other hand had induced divorces and consequently high social costs of internationalization in the long run. In the long run human capital seems to be the biggest barrier to enterprise internationalization. The second one being a lack of cross-cultural management knowledge parallel to expanding business outside Europe. Some managers emphasized this as the second most important success or failure factor of internationalization.

Slovenia's policy framework for outward FDI has evolved over time. (See more in Svetličič 2007, pp. 76-78). From a restricted policy environment, to specific promotional programs and now to creation of the infrastructural preconditions without specific promotion measures. The country's legal framework for outward FDI has been adjusted in line with the European Union's regulations, and investments are regulated by the Foreign Exchange Act of 2 October 2003. The Act on Attracting FDI and Internationalization of Companies (August 2004), further demonstrated a shift of policy towards promoting such form of international cooperation. In 1999, a new concept of industrial policy – enterprise and competitiveness development was introduced. Ministry of the Economy (ME) sought to strengthen the competitive capacity to expand exports and enhance internationalization of SMEs businesses through attracting strategic foreign investment and promoting outward FDI by Slovenian

²¹ For instance, a medical doctor may not be able to practice in many countries without passing additional examinations of the host country. There are also problems with children schooling and foreign languages.

companies. In 2002, a special promotional program for outward FDI was launched²² as part of the promotion on entrepreneurship development and competitiveness.²³ The outward FDI program was mainly conceived as the promotion of the internationalization of SMEs, which were at their early stage of internationalization.

Nevertheless the FDI promotion program played a relatively marginal role in all state aid programs provided by the Ministry of Economy. In 2003, the promotion of inward FDI received less funding allocation as compared with outward FDI. The established Public Agency for Entrepreneurship and Foreign Investment (PAEFI) provides institutional facilities to support internationalization of Slovenian firms. It provides such facilities as (i) provision of information, (ii) consultancy services, (iii) support for promotional activities and (iv) training and capacity building activities on enterprise internationalization. Nevertheless outward FDI promotion services constitute a minor part of the activities of the Agency. Priority is given to SMEs and their first foreign market entry and to larger established investors venturing into new markets. There are also market priorities: traditional markets in order to increase market shares and potential new markets. The central role of the new programmed is to provide support for internationalization through the establishment of new representative offices of Slovenian business abroad.²⁴ In the mid-term, the network of such offices abroad is expected to reach 15-20 offices (Ministry of Economy 2005c, pp. 8, 17). So far 5 have been already established (Milan, Düsseldorf, Bucharest, Istanbul, and 2 are to be established in 2008: Shanghai and Kazan- Russia).

²² Firms could receive support for: (i) preparation of projects up till the registration of an affiliation abroad (feasibility studies, training), and (ii) start-up operations abroad, strengthening of development work in the parent company (financing of mentors, production start-up costs, material investments etc.).

²³ All together 17 programmes were introduced.

²⁴ Several organisational forms of these offices are foreseen. They can be representative offices of the PAEFI, of Slovenian firms or their groups which get support in public bidding and the internal unit at the embassies and consulates of Slovenia abroad.

Annex table 1. CIR-CPII ranking of the Top 25 Slovenian multinationals, key variables, 2006
(Millions of US\$ and no. of employees)

Ranking				Assets		Sales		Employment				
Foreign assets	Trans-nationality Index	Name	Industry	Foreign	Total	Foreign	Total	Foreign	Total	Trans-Nationality index	No. of foreign affiliates	No. of host countries
1	20	Mercator	Retail trade	954	2,456	585	2,725	5,892	19,539	30	5	5
2	6	Gorenje	Electricity supply, manufacturing	668	1,194	1,254	1,466	2,109	10,556	54	41	26
3	7	Krka	Manufacturing	439	1,160	759	881	2,113	5,759	54	14	12
4	2	Droga Kolinska	Manufacturing	352	577	315	446	2,605	3,577	68	11	6
5	24	Petrol	Oil supply	307	1,112	354	2,561	363	2,768	18	6	5
6	23	Merkur	Retail trade	203	1,153	464	1,318	661	4,075	23	8	7
7	13	Intereuropa	Transportation	127	383	194	290	1,018	2,310	48	12	10
8	3	Helios	Manufacturing	121	340	416	342	920	2,211	66	21	13
9	17	Iskra Avtoelektrika	Manufacturing	80	223	199	261	443	2,534	43	12	11
10	4	Elan	Manufacturing	75	161	145	162	337	1,267	54	7	6
11	19	Unior	Manufacturing	66	513	255	376	645	3,796	33	21	17
12	12	Lesnina	Retail trade	66	129	94	182	303	683	49	6	2
13	10	Kolektor Group	Manufacturing	59	235	302	327	1,110	2,879	52	10	9
14	11	Prevent	Manufacturing	50	285	468	435	1,143	3,817	52	5	5
15	5	Trimo	Manufacturing	46	162	231	222	278	979	54	12	12
16	15	Viator & Vektor	Transportation	40	289	322	315	549	2,554	46	11	9
17	25	HIT	Entertainment	37	400	25	300	236	2,548	9	3	3
18	1	JUB	Manufacturing	35	68	84	116	136	342	77	9	9
19	18	Hidria	Manufacturing	33	238	182	243	330	2,400	34	21	17
20	21	Perutnina Ptuj	Manufacturing	32	249	98	219	625	2,289	28	5	3
21	16	Kovintrade	Manufacturing	28	146	166	235	134	294	45	10	9
22	22	ERA	Retail trade	22	91	12	107	163	371	27	2	2
23	14	ETI Elektroelement	Manufacturing	21	83	84	94	431	1,745	47	10	10
24	8	Alpina	Manufacturing, retail trade	20	80	62	75	866	1,625	54	8	7
25	3	Kompas	Travel and related activities	20	51	152	216	206	431	52	16	16
TOTAL				3,903	11,777	7,256	13,885	23,616	81,349		286	53

Source: CIR-CPII survey of Slovenian multinationals.

Annex table 2. The Top 25 Slovenian MNEs: Regionality Index^a, 2006

Name	Europe	CIS	Middle East	Africa	North America	Latin America	South-East Asia	Australia
Mercator	100	-	-	-	-	-	-	-
Gorenje	98	-	2	-	-	-	-	-
Krka	79	14	-	-	7	-	-	-
Droga Kolinska	100	9	-	-	-	-	-	-
Petrol	100	-	-	-	-	-	-	-
Merkur	100	-	-	-	-	-	-	-
Intereuropa	83	17	-	-	-	-	-	-
Helios	81	19	-	-	-	-	-	-
Iskra Avtoelektrika	42	17	8	-	8	8	17	-
Elan	71	-	-	-	14	-	14	-
Unior	71	-	-	-	5	-	19	5
Lesnina	100	-	-	-	-	-	-	-
Kolektor Group	50	-	-	-	20	10	20	-
Prevent	40	-	-	-	-	20	20	-
Trimo	75	25	-	20	-	-	-	-
Viator & Vektor	91	9	-	-	-	-	-	-
HIT	100	-	-	-	-	-	-	-
JUB	89	11	-	-	-	-	-	-
Hidria	67	5	-	-	5	14	10	-
Perutnina Ptuj	100	-	-	-	-	-	-	-
Kovintrade	100	-	-	-	-	-	-	-
ERA	100	-	-	-	-	-	-	-
ETI Elektroelement	80	-	-	-	-	-	20	-
Alpina	63	13	-	-	13	-	13	-
Kompas	88	6	-	-	6	-	-	-

^a The Regionality Index is calculated by dividing the number of a firm's foreign affiliates in a particular region of the world by its total number of foreign affiliates and multiplying the result by 100.

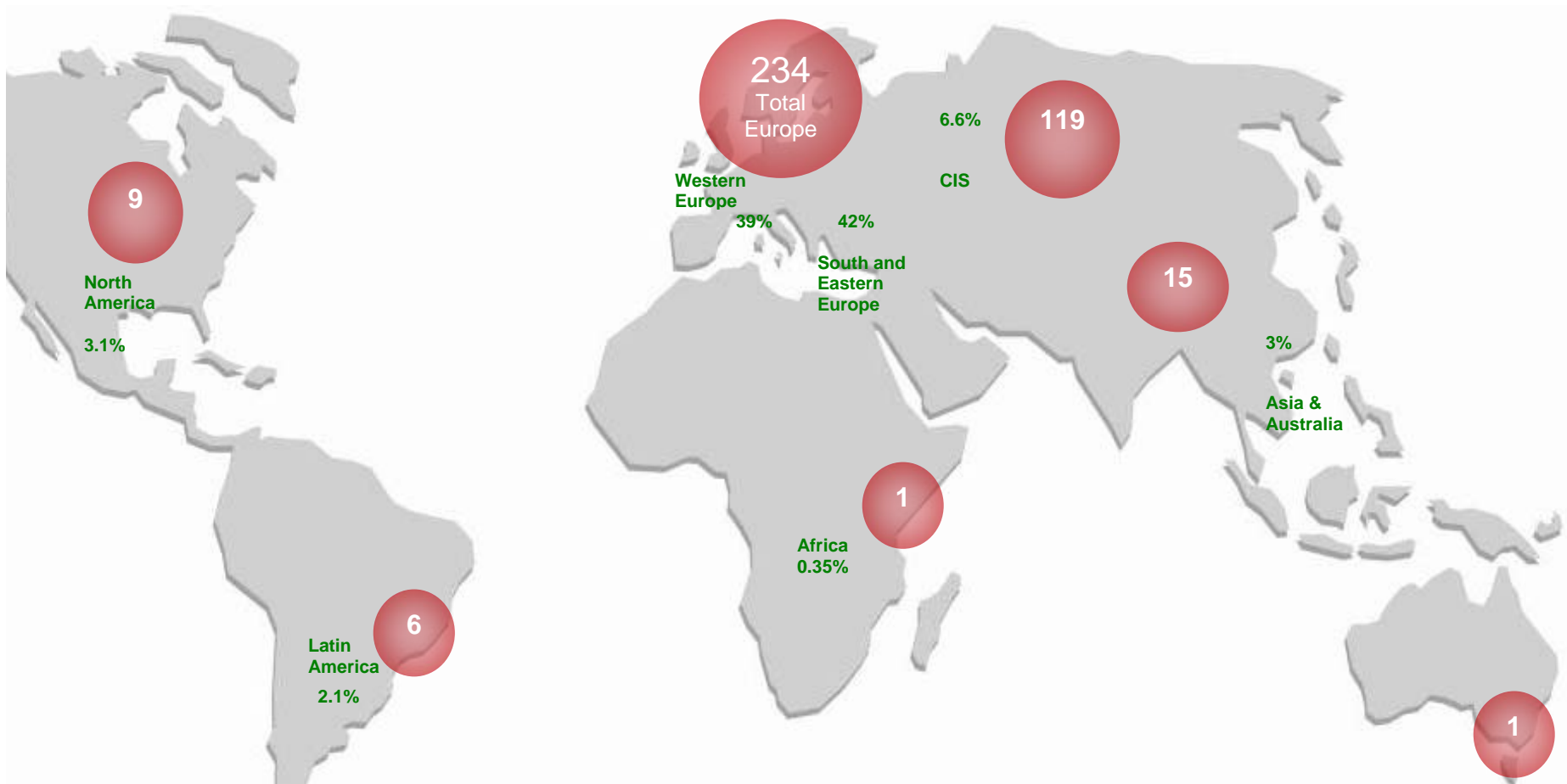
Annex table 3. Breakdown of the Top 25's foreign assets, by industry^a, 2006

Industry	No. of firms	Foreign assets (Millions of US\$)	Share in the total foreign assets of the Top 25 Slovenian MNEs (Percentage)
manufacturing	16	2,125	54
Retail trade	5	1,265	32
Transportation	2	167	4
Electricity supply	1	668	17
Oil supply	1	307	8
Entertainment	1	37	1
travel and related activities	1	20	1

^a Some of the firms engage in manufacturing and retail trade at the same time.

Source: CIR-CPII survey of Slovenian multinationals.

Annex figure 1. Foreign affiliates of the Top 25 Slovenian multinationals, by region, 2006
 (Number of foreign affiliates and percentage of foreign assets)



Source: CIR-CPII survey of Slovenian multinationals.

Annex case box 1. Kolektor: from local, to foreign owned, to a Slovene multinational enterprise

Kolektor, now a leading producer of commutators in the world (20% of worldwide and over 50% of European demand), started as a small Slovene company in 1963. It entered into a joint venture agreement with a German firm, Kautt & Bux, in 1968. In 2002, Kolektor bought out its parent firms and acquired the K&B factory in Germany, becoming a Slovene multinational enterprise. It started transnationalizing production in 2000. Now it is producing commutators in a number of major markets: Germany, USA, China (one greenfield, one joint venture), the Republic of Korea, Brazil, and Iran. Cost considerations also have motivated the relocation of production to Bosnia and Herzegovina.

Source: CIR-CPII survey of Slovenian multinationals.

Annex case box 2. NLB Group among the largest Slovene multinationals

If banks were included in the ranking list, the second largest MNE in terms of employees abroad and the third in terms of invested capital abroad (probably the first if investment by its firms abroad were included) would be Slovenia's largest bank, NLB Group. NLB is partially owned (34%) by KBC (Belgium) and EBRD (5%). NLB Group's total assets (2006) were US\$25 billion, and it employed abroad 3,009 (38%) out of a total 8,009 employees. Its transnationalization began in the 1970s when it was 100% Slovene. It now has 40 affiliates in 16 countries. Sixteen of the 40 are banks in which US\$624 million was invested by the parent firm, mostly by way of acquisitions from 2003 – 2007. Most of them are located in South East and other Central and Eastern countries, but also in the EU. NLB aims to become one of the leading financial groups in its target markets

Annex table 4. The top 10 Slovenian outward merger and acquisitions, 2005-January 2008

(Millions of US\$)

<u>Date</u>	<u>Acquirer name</u>	<u>Target name</u>	<u>Target industry</u>	<u>Target economy</u>	<u>% of shares acquired</u>	<u>Value of transaction</u>
2006	Mercator	Rodić Trgovina	Retail	Serbia & Montenegro	100.00	198.00
6-Jul-05	Nova Ljubljanska Banka dd	Continental Banka	Banking	Serbia & Montenegro	98.43	59.08
2007	Mercator	Presoflex, d.o.o	Retail	Croatia	100.00	50,79
24-Apr-07	Telekom Slovenije dd	Gibtelecom	Telecommunications	Gibraltar	50.00	49.97
28-Aug-07	Holding Slovenske Elektrarne	Toplofikatzia Ruse EAD	Electricity and heating	Bulgaria	100.00	46.70
7-Nov-07	Adria Mobil doo	Sun Roller SA	Mobile homes	Spain	80.00	13.75
19-Oct-06	Pozavarovalnica Sava dd	Polis Osiguranje	Life insurance	Serbia & Montenegro	100.00	13.58
27-Mar-06	Investor Group	MAIB	Banking	Moldova	19.66	9.80
5-Jan-07	Pozavarovalnica Sava dd	Tabak Osiguranje	Life insurance	Macedonia	53.65	9.08
20-Mar-06	Telekom Slovenije dd	On.net	Internet service provider	Macedonia	76.00	5.71
3-Oct-07	Telekom Slovenije dd	ANEKS doo	Telecommunications	Bosnia	70.00	4.69
20-Feb-06	Nova Ljubljanska Banka dd	Klas dd Sarajevo	Groceries	Bosnia	5.54	1.57

Source: Thomson Financial.

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