

Multinationals from Slovenia – Nano size, but giga important

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Abstract

Rapid creation of multinational enterprises and new dynamic forms of internationalization patterns in emerging markets and transition economies seem an inevitable phenomenon incorporated in development, and their existence speed up several changes. The paper discusses major outward foreign direct investment trends, drivers, motivations, internationalization patterns, changes and effects driven OFDI internationalization, followed by challenges brought by economic crises on the case of Slovenian multinational enterprises.

Key words: Outward foreign direct investment, MNE, transition economies, emerging markets, Slovenia

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I. Introduction

Creation of multinational enterprises (MNEs) seems an inevitable phenomenon incorporated in development, and their existence speed up changes. FDI trends from emerging economies and many transition economies highlight that enterprises increasingly invest abroad. New MNEs and new dynamic forms of internationalization patterns have emerged. Since communist and socialist regimes frequently hampered MNEs (interpreting the creation of domestic MNEs as adverse export of capital needed at home and foreign MNEs as a synonym for the large exploiting enterprises coming from Western industrialized countries¹), many found the process of internationalization in these economies as surprisingly quick. Yet the case of Slovenia show, that exactly the escape from the system may serve as a strong incentive for direct investment abroad (Svetličič et al. 1994, Jaklič and Svetličič 2003). Firm level, bottom up initiative has been after the change of the system slowly accompanied by economic policy, influenced also by the changes in global environment. The speed of emergence in some economies has thus challenged traditional theories and patterns of internationalization as well as existing knowledge on changes and developments brought by their existence (Rugman, 2008, Dunning 2008).

While FDI and internationalization theories traditionally emphasised firm level determinant as the main driver of creation of MNEs, the determinants outside enterprise have become increasingly important with rapid globalization and development of information and communication technology (ICT). Not only the increasing opportunities in international environment (L-advantages), also rapid changes and increasing competition in domestic business environment act as a stimulus to outward internationalization. Enterprises from small countries on the other hand face additional incentive for outward internationalization from small domestic market, as limited partners (buyers and suppliers) and scale possibilities influence their development and growth.

FDI trends were often found as unexpected and even declinations from traditional investment development path were identified, like reverse development path in Slovenia. The firm-level determinants remain very important and still play main role in international growth and survival of those MNEs in the longer run, yet other factors gained weight. Understanding the main factors important for creation of MNEs as well as the effects of outward internationalization through FDI is important for business strategies and economic policy. This chapter reveals the experience of the emergence of MNEs in Slovenia. The next part presents trends of foreign direct investment and creation of MNEs since the transition period in the 1990s and introduces top Slovenian MNEs. The third part describes changes and restructuring process driven by outward internationalization, the fourth discuss the reaction of the largest MNEs to the global economic crises and the fifth conclusions.

II. FDI trends and creation of MNEs

In 1991, when Slovenia became independent country, FDI were insignificant. As in many past socialist countries the capital flow was restricted, though Slovenia was quite specific compared to other transition economies (Jaklič, Svetličič, 2003, 34-46). “Reversed investment development path”, with outward foreign direct investment (OFDI) starting before inward FDI (IFDI) was system specific (some form of IFDI were only allowed in 1965) and so were also direct investment abroad, that were first of all “system escape motivated” (Svetličič et al., 1994). Those were however crucial for reorientation to Western markets, accumulation of internationalization knowledge and stimulation of transition. Many of top largest Slovene MNEs, as presented in the next part, originate from the socialist period.

¹ See Svetličič, 1996.

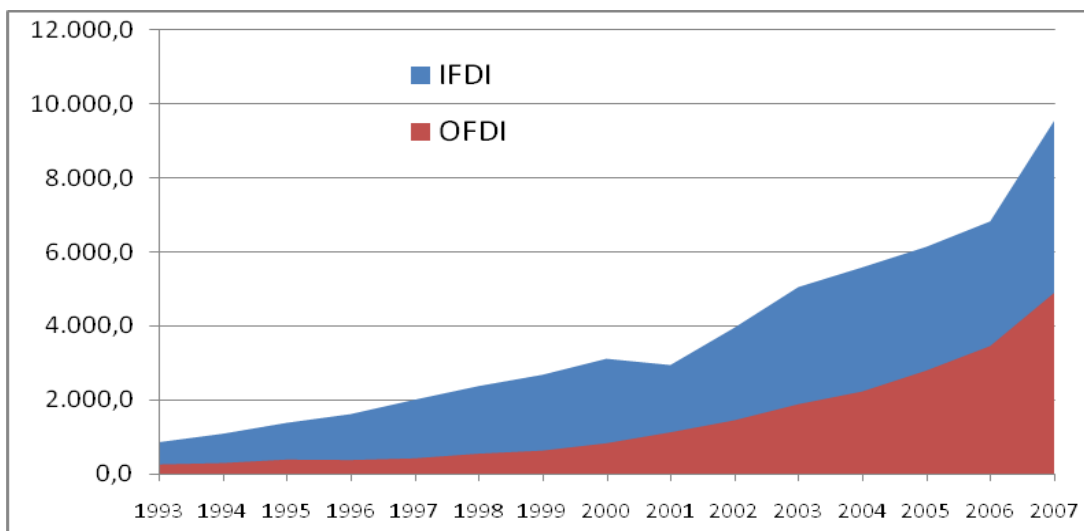
II.I. FDI trends and structure

The loss of markets in former Yugoslavia put Slovenian enterprises, used to sell mostly there into very difficult positionⁱ. Limited resources together with the need for technological and organizational restructuring were poor companions for rapid reorientation to more demanding markets that seemed the only way to survive. Export promotion and the OFDI had proven as survival strategies and a mean to return to former Yugoslav markets. Four stages of the internationalization process can be identified in the nineties, predominantly characterized by institutional/legal and political developments, mostly privatization and accession to the EU:

1. Early transition stage (1990-1993) - the first wave of internationalization - marked by a rapid increase of outward investment on one hand, and divestments and restructuring on the other.
2. Consolidation phase in the mid-nineties (1994-1998) characterized by slow progress in outward investment activity that was mostly carried out by existing multinational companies, which consolidated and strengthened their foreign affiliates' network.
3. A new wave of internationalization at the end of decade (from 1999-2008) - that speeded up the outward investments of existing multinationals and newcomers in terms of broadening and strengthening their foreign affiliate networks and rapid expansion to the former Yugoslav markets.
4. Consolidation, diversification and slowing down internationalization plans (2009-...).

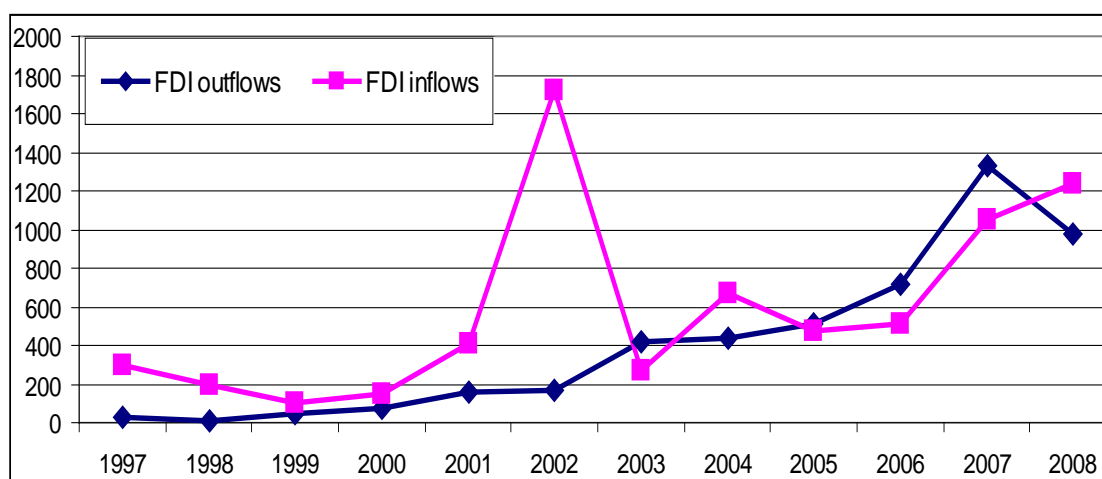
The process has been predominantly bottom up and external environment driven, and policy measures were designed only after 1997 (See Jaklič, Svetličič 2003, 45-63). Though Slovenia started to invest abroad earlier than other transition economies the net outward position (OFDI stock minus IFDI stock) remained negative (Figure 1). Yet the FDI outflows have exceeded the FDI inflows continuously since 2005 (Figure 2) all until 2008 when impact of the crises on OFDI seemed to be stronger than on generally rather modest inflow of FDI.

Figure 1: FDI stocks in Slovenia 1993-2007 (end-year stock in EUR million)



Source: Bank of Slovenia.

Figure 2. Slovenian FDI outflows and inflows, 1997-2006 (millions of EUR)



Source: Bank of Slovenia.

Most of investments were directed to the markets of former Yugoslavia. The major recipient countries are Serbia, Croatia, Bosnia and Herzegovina, Germany, and Nederland.ⁱⁱ More than 70 percents of OFDI stock has been in the studied period located in the countries of former Yugoslavia. These markets have been normally also the first entry markets. Increasing Slovenian FDI outflows were directed to some EU countries, Russia (that hosts 5 percent of total outward stock), and in recent years also in China, yet the latest still host less than half percent of total Slovenian stock. Also industry structure remained quite stable since 1990s. In terms of volume the most important direct investors are coming from pharmaceutical and chemical industry, wholesale and retail. The structure of OFDI is significantly determined by a handful of large investors. The fastest was growth by financial and other business services.

2.2. The top Slovene MNEsⁱⁱⁱ

In spite of rapid expansion of OFDI, investors abroad represented small share in total corporate sector. Their share increased from 1.4 in 1993 to 2.4% in 2007 (Bank of Slovenia, Direct Investment 2007, 2008). OFDI was not reserved only for large enterprises^{iv}, SMEs have increasingly entered outward investment activity and show dynamic growth. SMEs represent three quarters of investors in terms of number; however the largest Slovenian MNEs remains the major creators of OFDI trends.^v

The survey of the “Top Twenty-five Slovene MNEs” carried out in October 2007 covers only indigenous Slovene firms, ranked by the value of foreign assets abroad.^{vi} Even the largest Slovenian MNEs are not large when compared to MNEs developed economies or other transition economies^{vii}, but they play a vital role in Slovenia’s economy. The “Top Twenty-five Slovene MNEs” include old and young MNEs. Seven MNEs have pre-transition experience in OFDI.^{viii} Nine Slovene MNEs made their first investment abroad in the mid-1990s, and nine others established their first foreign affiliate after 1999 (although the firms were established in the pre-transition period).

Table 1. CIR-CPII ranking of the “Top Twenty-five Slovene MNEs,” 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 Slovene multinationals.

Table 2. A snapshot of Slovenia’s twenty-five 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 Slovene multinationals.

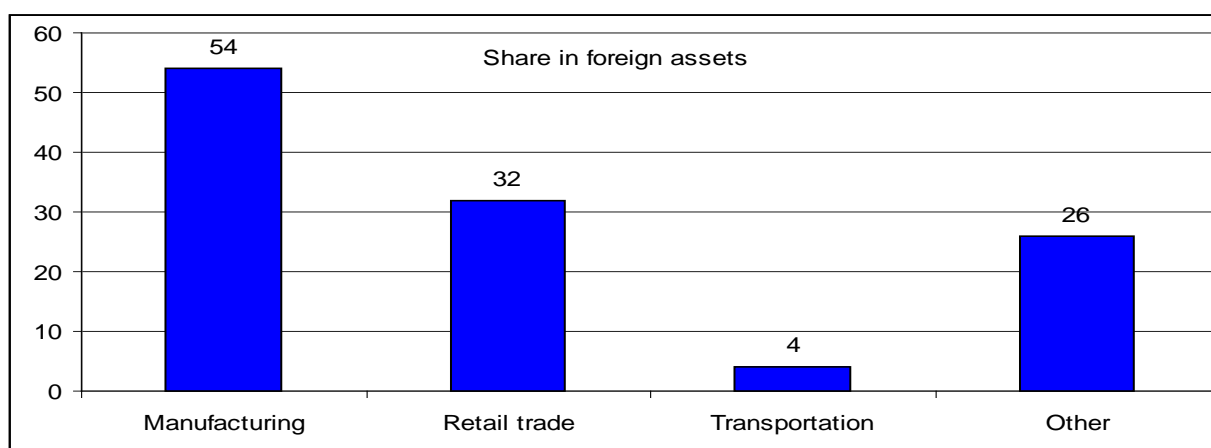
Slovenia’s “Top Twenty-Five MNEs,” valued by foreign assets, had almost US\$4 billion^{ix} in assets abroad (see Table 2); almost US\$4 billion in foreign sales (including exports); and employed 23,616

people abroad. Their foreign assets and employment have each more than doubled since 2004, while foreign sales increased by 60%. Foreign assets are concentrated in Europe. The top three MNEs account for more than half of the total assets of the “Top Twenty-five,” and the top five MNEs account for 68% of the “Top Twenty-five’s” total foreign assets. As a rule, they are private firms (with the exception of one public company, accounting for only about 2% of the aggregate foreign assets).

Obviously, Slovene MNEs are much smaller than other international competitors (could be called *nano* MNEs). Not one of the Slovene “Top Twenty-five” makes it into the “Top Fifty MNEs from developing countries (LDCs).^x Yet, their expansion has been rapid. Between 2004 and 2006 their aggregate foreign assets doubled, their foreign sales grew by more than 50% to US\$7.3 billion (comprising more than half of the “Top Twenty-five’s” total sales), and foreign employment doubled to 23,616 people (Table 2). Foreign expansion is the engine of growth of the “Top Twenty-five”. Their domestic sales 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 demonstrates the extent to which trading companies, and manufacturers of white goods, are dependent on global markets.

A breakdown by industry² reveals the predominance of manufacturing among the top MNEs. This can be explained by the structure of the economy, wherein traditional mature industries, with strong cost competition and accelerating globalization, dominate. Firms in these sectors have been under greater pressure to internationalize, in order to reduce costs. Less internationalized industries on the other hand faced slower restructuring. Manufacturing^{xi} is by far the most important industry in the “Top Twenty-five Slovene MNEs,” with sixteen of the twenty-five MNEs. It is followed by retail trade, with five MNEs. Other industries include transportation, electricity supply, oil supply, entertainment, travel, and related activities.

Figure 12.3. Breakdown of the “Top Twenty-five Slovene MNEs” foreign assets by industry, 2006 (in percentage)



Source: CIR- CPII 2008 survey of Slovene multinationals

² MNCs in financial services were not included in the definition of MNCs in this project. If included Nova Ljubljanska banka would be leading the list of Slovene MNCs in terms of volume of assets abroad.

The “Top Twenty-five Slovene MNEs” have 286 foreign affiliates across fifty-three countries, that is, eleven affiliates, and a presence in nine countries, on average. (Annex table 1). The aggregate Transnationality Index^{xii} of the “Top Twenty-five Slovene MNEs” increased between 2004 and 2006, from 36% to 45%, reflecting the rapid growth of international operations. These statistics show that Slovene MNEs do not lag far behind the largest firms in the world. They are more multinational than firms from other transition economies. The most internationalized Slovene company is Droga-Kolinska, a food manufacturer, 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 Slovene firms.

Along with a small number of global players, such as Kolektor and Iskra-avtoelektrika, many companies from the “Top Twenty-five Slovene MNEs” are regional multinationals. Slovene MNEs are generally regional market-seekers, with trade and production affiliates, in the Western Balkan countries. For most of them it is the final strategy, for few others a stepping stone to more global orientation. More than 80% of their foreign affiliates are located in Europe. Eight of the “Top Twenty-five Slovene MNEs” are based exclusively in Europe, as revealed by the Regionality Index (Annex Table 2); while five operate on at least four different continents, and ten of them are present on at least three continents. Recently, Slovene firms have shown a growing interest in Russia, China, and other, more distant, Asian locations.

In spite of high geographical spread the internationalization level of management is relatively low, and, with the exception of one MNE, all other CEOs are Slovene. Only eight out of the “Top Twenty-five Slovene MNEs,” have more than 10% of foreign senior management^{xiii}. In seventeen firms, senior management is entirely Slovenian. The “Top Twenty-five Slovene MNEs” all use Slovenian as their official language, although fifteen MNEs also use foreign languages. Ten MNEs have Slovenian and English as official languages, two have three official languages, Slovenian, English, and German, and one has five official languages, Slovenian, English, German, Russian, and Croatian.

Low internationalization of management along with fully or majority owned foreign affiliates, slow development of joint ventures and modest cooperation with foreign partners are frequently seen as their weaknesses and difficulties in their future development. Many Slovenian MNEs are too small, their managers too young and not mobile enough to grow global networks (Jaklič, Svetličič, 2008, p.46-47). But in spite of numerous challenges that lie in front Slovenian and MNEs in their future growth (discussed in the last part), the effects by existing investment activity are extremely important.

5. Changes driven by OFDI internationalization

Though their minor (2,4 percent) share in total corporate sector Slovene MNEs are of vital importance for export oriented Slovenian economy (exports exceeds 70 percent of GDP). Outward investors alone provide over 40% of exports in total Slovenian corporate sector and over 30 percent employees of total corporate sector (Jaklič, 2004). Several econometric studies show that outward investors are significantly more successful than average Slovenian firm, exporting firm or comparable firms without investment abroad (Jaklič, Svetličič, 2003, Jaklič, 2004, Damijan et al., 2004, Burger et al. 2006, Burger, 2009). Companies investing abroad are larger, more capital intensive, have a better assets structure and are more

export-oriented. Investing firms performed better than non-investing firms. The growth of investing companies was much faster than of non-investing firms. Investing abroad considerably speeded up companies' restructuring, especially as regards value added and export propensity (Jaklič, Svetličič, 2003, 100-104). The share of innovative firms among outward investors (42 percent) is much higher compared to the share among exporters (35 percent) or total corporate sector (21 percent) (Jaklič, 2004).

Investing companies have generally experienced a positive net effect of OFDI and the related success was mostly in line with the expectations. Similarly as econometric studies that emphasized export and productivity increase also surveys among investing firms revealed (1999, 2001, 2004) that trade and competitiveness effects were far more important than any other effects. Market-seeking investments resulted in increased market shares, growth of exports and increased domestic production levels. Intra-firm trade grew, though the impact on imports was smaller (and heterogeneous) compared to export increase. Consequently, outward FDI enhanced efficiency and restructuring of investors, although these were not the initial motives. Investing companies introduced new products, product differentiation and increased also the quality of products/services, since direct presence in a foreign market helped them respond to customers' needs more rapidly. By investing abroad, firms also achieved other positive asset-creation effects. They have improved their image and enhanced and broadened their marketing, management and organizational skills. Studies on ICT use also demonstrated that more internationalised firms use ICT earlier and efficiently than non-internationalized firms (Stare et al. 2004). On the contrary MNEs assessed technological learning on average as modest, also due to the fact that the majority of host countries are less developed than Slovenia. The employment effect was less important, with the majority of firms seeing no changes here as a result of OFDI. However Slovene MNCs are very important employer in the domestic economy. International growth provides much better development opportunities than growth limited to the domestic setting only.

Firm-level effects of OFDI spill over to the whole domestic economy and influence the trade balance, the level and structure of industrial production, investment and employment, with all related development implications. OFDI was found to be a mode complementary to exports and has not crowded out domestic investment (Jaklič, 2004). Investing firms have the highest growth potential, while exposure to foreign competition forces them to pursue high quality, adaptations and innovations, which are also introduced in the home economy. As welfare depends much more on innovation and knowledge creation than the accumulation of physical capital, OFDI is also growth and development instrumental. Companies evaluated that OFDI improved the competitiveness and transformation of Slovenian economies and also stimulate EU integration. Investing firms speeded up the transition process and reduce the gap between transition and developed industrial countries. The restructuring and development benefits of OFDI can be seen more in the long term, and in the increasing number of investing firms. The effects on the home economy are stronger if investing firms develop more links with other firms and exploits scale and factor differences internationally.

First study on international sourcing in Slovenia (Statistical office of RS, 2009)^{xiv} revealed relatively modest international fragmentation of production. Only 16 percent of Slovenian enterprises source

internationally, though the dynamics from 2001-3 to 2004-6 has increased. International sourcing follows sequential pattern, and increases with the level of internationalization. MNEs are the most involved in international sourcing. More than 36 percent of the largest Slovenian MNEs source internationally. Activities are more frequently sourced within than outside the enterprise group (Annex Figure 1). Marketing, sales, distribution and logistics and production were the most frequently sources activities (Annex table 3).

In line with geographical concentration of OFDI countries of former Yugoslavia (mostly Serbia and Croatia) followed by new EU member states (Poland, Hungary, Romania) are the most important host for international sourcing, while selected developed countries (Austria, Ireland) and China are gaining weight. The main motivation for sourcing decision was improved competitiveness, access to new markets, position on the market and reduction of costs, while the main barriers were overall concerns that the costs of sourcing operation would exceed the expected benefits, the high risk of sourcing internationally and a lack of management resources and know-how. Interestingly, the lack of knowledge, personnel and difficulties with partners selection were especially emphasized by largest MNEs which may demonstrate that smaller companies are not yet in the stage to realize these gaps or are not yet aware of them. Difference in the assessment of the results of outsourcing activities by firms proves such a conclusion. Namely Slovenian enterprises in general realized positive impact of international sourcing, which contributed to their competitive advantages. Although negative experience can be found in total sample, all the largest MNEs reported positive results in line or even above expectations.

4. Slovene MNEs' Response to the global economic crises

MNEs were among first that face the global financial crisis, yet the consequences of crises were not the gravest for them. Survey on the global economic crises among top 25 Slovenian MNEs (launched in June 2009 and complemented by interviews^{xv}) revealed that the consequences of the crises varies a lot among top MNEs and the scale of effects has been less dramatic than daily media clipping would suggest. Generally, lower sales were accompanied by cost cutting, reduced investment and employment. Frequently the pool of unemployed people included also those who should have been dismissed already before the crisis but management postponed the decisions during *good times*.

The most significant consequence of the crises for the largest MNEs has been sales decrease (80 percent of surveyed firms reported sales decrease, most frequently between 20-49 percent) and lower profit. None of the surveyed MNEs experienced a decrease in market share and none of them has lost suppliers or key personnel. Even laying off was not regular on the agenda. 40% reduced the number of employees below 20%, or use the instrument of shorten workweek (partly subsidised by government), while majority did not reduce the number of employees.

First reaction to crises was cost-cutting and increasing sales activity. Long term investment has been postponed, investment in R&D and marketing reduced. Sales promotion activities are focusing on key customers, maintaining good relationship with main business partners and rationalizing product portfolio.

Rising uncertainty and scarcity of capital has been less painful to more internationalized firms. One of the most efficient remedies has been diversification of markets, since the crises show its teeth differently by markets and in time. Enterprises with more diversified sales could help themselves with managing the “lags in the effects of crisis”. Many Slovene MNEs’ sales decrease in Europe lags behind sales decrease in USA, while the responses in Middle East, Russia and other Asian markets were slower, less intensive, showed large differences by industries.

Entry to new markets by variety of modes (keeping and/or increasing diversification of markets) has thus been selected as a response by all top MNEs. None of top MNEs has withdrawn from foreign market, but on the contrary they increased international economic cooperation. Strategic alliances, international R&D cooperation, outsourcing and captive offshoring have been identified as the most promising escape from the crisis and expected to be more used in the future. 40 percent of surveyed enterprises plan to increase (or has recently invested) OFDI in new markets due to the crisis.^{xvi} Enterprises with governmental influence (through ownership share or indirect influence) or are recently more retained in internationalization plans.

Entry to new and more distant markets is increasing not only among large but also among medium sized and small direct investors. Expansion to BRICs is demonstrated also by the number of affiliations and representative offices^{xvii} of firms established there (Annex table 4). Majority of them have been established only recently, particularly by state sponsored agency JAPTI. Facilitating business cooperation and entry to more distant markets has been identified as strategic need also in national economic policy. Recognizing that Slovenia has the lowest share of its trade with China among all EU members the economic policy (particularly of the Chamber of Commerce) started to promote cooperation with BRICs in view of current tectonic changes in the world. Several activities have been undertaken, and mostly Slovene MNCs participated. The climate of neglecting cooperation outside EU which dominated the first years of transition, also as a reaction to, perhaps too much political attention being given to cooperation with non aligned and developing countries has been changing into active promotion of strengthening economic ties with BRICS and other developing countries. Current economic crises will hurt them relatively less than industrial countries in general and has thus been additional incentive beside the fact that BRICS will grow much faster and be drivers of new demand in years to come, major source of additional demand.

5. Conclusion- MNEs face rising challenges

Creation of MNEs is certainly only the beginning of challenges that come along international growth. They substantially facilitated the development of this new, small state that faced the loss of almost half of its former market. MNEs, though minor in share, still remain the most important employers, investors and innovators. Due to its small size and openness, it is expected that the Slovenian economy will be dominated by highly internationalized firms, domestic and foreign-owned. Local firms, operating mostly in domestic market, will eventually be in the minority. Slovene MNEs, therefore, became an important

development instrument, which was not the case some fifteen years earlier, when many attitudinal barriers actually restricted outward internationalization. Over time, even the most skeptical policy makers and managers have realized that, in the era of globalization, outward internationalization has become a precondition for growth and enhanced competitiveness. Investing and exporting firms miss incentives and systemic approach by economic policy, however admit that several barriers are intra-firm.

Managing human resources is one of the most important challenges within existing MNEs and for creation of new MNEs. Several MNEs, even among top MNEs, still lack systematic internal HRM and replace it by ad hoc activity. Lack of skilled and internationally mobile managers, which has proved to be the major barrier to internationalization, is a message for existing education and training programs. These shortages highlight the need for holistic education that provides interdisciplinary knowledge of many areas of international business.

Opportunities of existing Slovenian MNEs also lie in improved corporate governance, international integration of activities, international sourcing, organization and management. Especially the largest publicly owned MNEs face difficulties with higher international risk and needs for swift response and strategy adaptation. While largest MNEs fear the possibilities of hostile takeovers; SMEs and niche players mostly lack financial and human resources and supportive business environment.

International mindset is strongly related to openness and here Slovenia still faces unexploited potential. Enhancing inward internationalization and improving business environment (especially labour market rigidities, tax regime and administration procedures) that has been traditionally criticized by foreign investors) would add to it. The present global economic crises has, of course, influenced the outward internationalization strategies of firms, but has not halted their long term orientation. Top MNEs are responding to this crisis with further outward internationalization, which should be incentive also for policy makers. In development, smallness can be only outweighed by internationalization. In current global changes this is not relevant only for Slovenia, but also for Europe in general.

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

Ranking		Name	Industry	Assets		Sales		Employment		Trans-nationality index	No. of foreign affiliates	No. of host countries
Foreign assets	Trans-nationality Index			Foreign	Total	Foreign	Total	Foreign	Total			
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	-	-	-

Source: CIR-CPII survey of Slovenian multinationals.

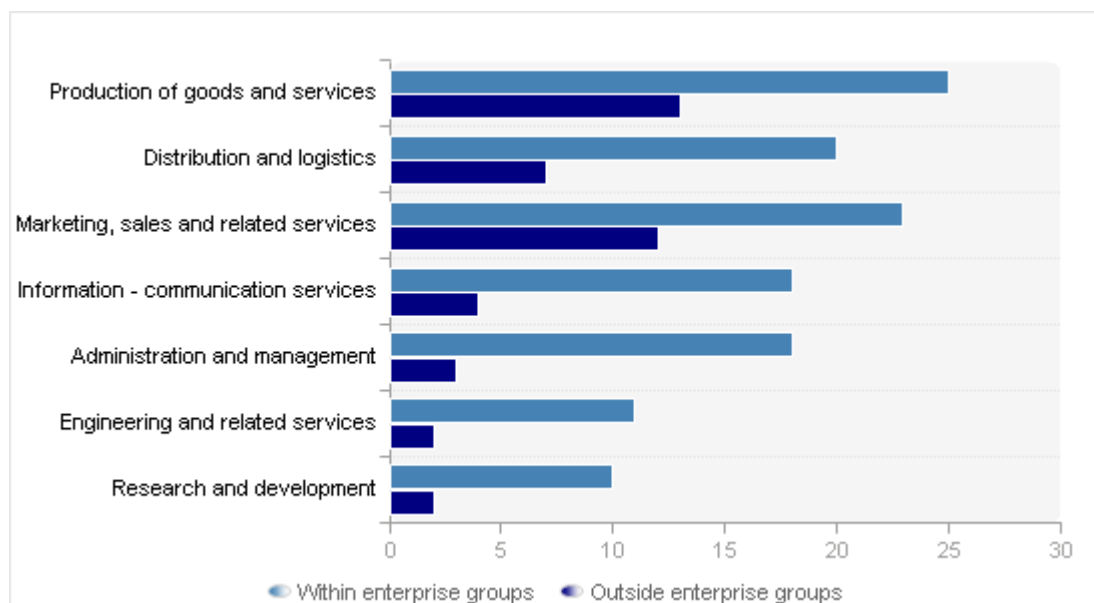
^aThe Regionality Index is calculated by dividing the number of a firm's foreign affiliates in a particular region of the world by its total number of foreign affiliates and multiplying the result by 100.

Anex table 3: International sourcing by activity In Slovenia, in 2001-3 and 2004-6

	TOP MNEs (N=25)		TOTAL sample (N=827)	
	2001-2003	2004-2006	2001-2004	2004-2007
Production	25,9	40,7	3,6	8,3
Distribution and logistic	22,2	33,3	3,5	6,0
Marketing, sales, aftersales services.	29,6	44,4	5,8	9,3
ICT services	7,4	14,8	1,5	3,9
Administrative services	7,4	18,5	2,2	3,9
Ingeniring	7,4	18,5	1,0	2,1
Research and development services	11,1	7,4	1,2	1,7

Source: Statistical Office of the Republic of Slovenia.

Anex Figure 1: International sourcing within and outside of enterprise groups (in %), Slovenia, 2001-2009



Source: Statistical Office of the Republic of Slovenia.

Anex table 4: Slovene investment and representative offices in BRIC countries, (value in mil. EUR)

	China	Russia	India	Brazil	Total
Affiliations. Number	13 (7 SLO MNCs)	8 (5 Slo MNCs)	4 (2 SLO MNCs)	5 (4 SLO MNCs)	
Slovene OFDI stock 2007, mil EUR	10.4	249	4.0	4.1	267.5 (5.5%)
Representative offices	11 (3 SLO MNCs)	80	5 (1 Slo MNCs)		
Representative offices of JAPTI (established)	Shanghai (2008)	Kazan (2008)	Mumbai (planned)	Sao Paulo (2008)	

Source: Bank of Slovenia, Direct investment 2007; 61 and Chamber of Economy.

ⁱ Many of entrepreneurs and older managers have seen the situation in the early nineties as more difficult than at current economic crises. The sales were drastically cut, as formerly “domestic Yugoslav markets represent more than 50% of total sales.

ⁱⁱ Netherlands is a special case since it attracts mostly financial investment for tax minimization purposes and is not part of »real« developmentally or structurally motivated internationalization.

ⁱⁱⁱ See Jaklič and Svetličič, 2008 and 2009 for greater details.

^{iv} Direct investors abroad with more than 500 employees represent about 25% in terms of number of investors, but majority in terms of value of capital invested.

^v The top Slovene MNEs are also among the most respected companies in Slovenia, according to *DELO*, a major newspaper in Slovenia. Six of the ten most respected firms, also feature on the “Top Twenty-five Slovene MNEs.” The list of the sixty-three most successful firms in Slovenia, based on eighteen indicators, also includes fourteen of the “Top Twenty-five Slovene MNEs” (DELO 2007, Nov. 26 FT, p. 23). The largest Slovene MNEs are also among the largest 101 Slovene companies. Of the largest ten, five are Top 25 MNEs, (see Finance 2007, May 28). Although large in Slovenia, these MNEs do not rank place highly in the ranking of the most profitable companies. They account for second, fourth, sixth, fourteenth, seventeenth, and nineteenth place among the twenty most profitable firms in Slovenia (DELO 2007, 21. May; 31), and consequently, they also fail to rank highly in terms of value added per employee^v. There are several reasons for this. Firstly, these MNEs are mainly older companies, and many operate in medium technology intensive industries^v, where cost competitiveness is essential and profit rates are, by definition, lower. Secondly, strategically they are long-term, and not short-term, profit-maximization oriented.

^{vi} Even if foreign owned MNEs that are located in Slovenia and invest abroad (indirect investors) were included, only a few would qualify. Slovene MNEs are, therefore, more home grown than in other transition economies, where foreign owned companies have played a greater role in outward investment. Only 11% of companies investing abroad were foreign owned (Jaklič and Svetličič, 2003, p. 59). The only substantial foreign owned investor abroad would be Lek, a pharmaceutical company acquired by Novartis in November 2002. Even Lek developed its internationalization strategy as a Slovene firm and became an acquisition target for that reason. It was acquired already having 27 affiliates abroad. An opposite example is that of Kolektor, which started as a Slovene firm, later entered into JV with a foreign partner, and in 2004 took over the foreign partner’s share and bought its factory in Germany as well, and hence again became a Slovene firm and now an MNE (Jaklič, Svetličič, 2003, 251-262).

^{vii} Slovenia was included in Emerging markets global Players Project (EMGP). The foreign assets of the Top 25 are roughly 5% of the Top 25 in Russia and the Top 20 in Brazil (the ranking lists for Brazilian and Russian MNEs were released in December 2007 - see www.cpii.columbia.edu).

^{viii} Gorenje, for example, undertook OFDI in the 1960s; Krka established a pharmaceutical firm near Nairobi in the mid-1970s, and Elan has produced skis in Sweden since the 1970s).

^{ix} 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).

^{ix} This includes food and beverages, chemical and pharmaceutical products, machinery and equipment, electrical equipment, and sport apparel.

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

^{xi} This includes food and beverages, chemical and pharmaceutical products, machinery and equipment, electrical equipment, and sport apparel.

^{xii} 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.

^{xiii} In these eight MNEs the breakdown is as follows: 40% or more of top management that is foreign: three MNEs; 30% or more of top management that is foreign: two MNEs; 20% or more of top management that is foreign: two MNEs; 10% or more of top management that is foreign: one MNE.

^{xiv} The pilot survey on the reasons, extent and consequences of international sourcing was conducted as a part of Eurostat surveys and is one of the first attempts to estimate the extent of international sourcing in the EU.

^{xv} Eleven enterprises out of top 25 MNEs responded in detail, while some information of the rest were taken from clipping.

^{xvi} Recent acquisition of ECS GmbH from Essen (Germany) by Kolektor (June 2009) has been realised as joint venture with Chinese partner. Recent investments by Trimo were oriented toward investment hubs important for Middle East and Africa (Turkey, North Africa).

^{xvii} It is part of internationalization promotion strategy which has been launched few years ago by the government.