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Book Review

Enhanced Transition through Outward Internationalisation:
Outward FDI by Slovenian Firms

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This book presents a comprehensive and valuable analysis of an important subject, namely the significance of outward FDI in the transition process and economic development of Slovenia. According to the authors, the stimulus for the study of outward internationalisation through FDI was the increased internationalisation in recent years of the transition economies in general, and Slovenia in particular. Moreover, despite the increasing importance of the issue, it has been largely neglected in the scholarly literature, which has mostly focused on inward FDI. Within this context, the case of Slovenia is particularly interesting and relevant for several reasons. First, it is the most advanced transition economy in terms of gross domestic product (GDP) per capita, and according to theory, outward FDI tends to follow a country's level of development. Moreover, Slovenia is a small country and the theory predicts that small countries are more inclined towards internationalisation than large ones. Slovenia is also a country where outward investment did not start upon independence from Yugoslavia in 1991; the earliest record of outward FDI started in the 1950s, during the socialist era. This has contributed to the fact that some Slovenian firms are truly multinational and account for important market shares in industrialised - and not just transition – economies.

The book's premise is based on the proposition that foreign direct investment (FDI) may prove to be one of the most effective and dynamic tools at the disposal of the formerly centrally planned economies as they tackle one of the major challenges of their transition, namely how to cope with globalisation. The key novelty of the book is its concentration on outward internationalisation through direct investment abroad, as opposed to inward FDI. The main objectives of this study, as summarised by the authors, are:

- to evaluate the process of outward internationalisation and its impact on the transition from a planned to a market economy;

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- to evaluate the role of transnational companies in transition economies for the national economy and the development implications of outward internationalisation;
- to place Slovenia's experience with internationalisation within the framework of existing internationalisation theories, and to detect the differences, if any, from the experiences of similar firms from transition economies or those from OECD countries;
- to present an in-depth evaluation of the size, trends, geographical distribution, and sectoral allocation of outward FDI as well as the chief motives, barriers and problems; and
- to identify whether the internationalisation of Slovenian firms is transition-specific, given its different systemic background, and to explore the link between internationalisation and transition.

The study's theoretical framework is a set of theories proven to be the most effective for the analysis of outward FDI. They comprise: (i) the investment development path paradigm (Dunning, 1981, 1993; and Dunning and Narula, 1996); (ii) the Scandinavian sequential internationalisation pattern that reflects increasing international involvement in terms of entry mode, product and market diversification (Welch, Luostarinen, 1988; Johanson, Vahlne, 1977); (iii) the eclectic paradigm (Dunning, 1993) that synthesises the three necessary conditions (ownership, location and internationalisation advantages – OLI) for firms to undertake outward FDI; (iv) life cycle theory (Vernon, 1966) and (v) Ozawa's dynamic paradigm of transnational corporations assisted development (1992).

However, despite the widely accepted contribution of the above theories to the analysis of outward FDI, the authors point out an important caveat: the particularity of the transition economies, which may limit the applicability of the theories to these cases. There are so many specific, system-based characteristics of economies, which are making the transition from central planning to market economies, that it is difficult to apply theories that have been developed based on the market economy model. Industry and firm-specific characteristics and the stage of their development (previous experience) are very important explanatory variables that differ from case to case. Thus, the authors point out that any generalising of the experiences of outward FDI by Slovenian companies or by investors from other transition economies has to be undertaken with caution.

An important constraint concerning the empirical dimension of the study was the availability of data. It is a fact that in transition economies the statistical data base on outward FDI is very poor, and in some cases it did not even exist until very recently. Even when data was available, one could seriously question its reliability and comprehensiveness. The authors tried to circumvent these difficulties by employing a synthesis of various data sources: specifically, their empirical analysis was based on secondary data available on outward FDI and primary data collected through surveys. The main source of secondary data on outward FDI was the Bank of Slovenia, which provided a set of aggregate data such as time series data on the volume of outward FDI, stocks and flows of investments, geographical distribution, and breakdown of activity. Another secondary data source of outward FDI statistics was the Ministry of Finance that runs a register of announced investments abroad. As far as primary data on outward FDI is concerned, the authors prepared and conducted four surveys:

1. Survey among Slovenian companies investing abroad (June-October 1999); the questionnaire gathered elementary data from investing companies and their foreign affiliates, as well as the main determinants of outward FDI, such as the motivation for, effects of, and barriers to outward FDI;
2. Survey of potential outward FDI of Slovenian companies (June-October 1999), using the lists of the biggest exporters and the fastest growing firms in Slovenia as the sample framework;
3. Survey among managers on internationalisation through outward FDI (June 2000), carried out on a sample of the leading direct investors abroad. This survey aimed at exploring attitudes, experiences and knowledge about internationalisation;
4. A second survey on outward FDI of Slovenian companies (June-September 2001), using a list of companies registered as direct investors abroad in 1999 as a sample framework.

The authors point out, however, that despite diligent efforts to compensate for the aforementioned limitations, the many data and statistical problems did indeed limit the scope of their research. They specifically point out that the short history of Slovenia as an independent state as well as that of outward FDI - and consequently the shortness of time series - prevented them from conducting trend and time-series analysis. In addition to the incomplete existing official data, the authors encountered difficulties during the survey process, such as the reluctance of firms to disclose information concerning FDI and the low response rate.

The book is presented in five parts. The first part presents important background information, such as Slovenia's origins, its economy, history and the beginning of outward internationalisation. The second part of the study analyses the development of outward investment in the 1990s at the macroeconomic level by introducing the legal framework, analysing outward FDI trends, their geographical and sectoral distribution, particularities of outward FDI in the successor states of the Socialist Federal Republic of Yugoslavia and the importance of outward investors in the Slovenian economy in general. Part three focuses on the firm-level perspective of outward direct investment; it analyses the characteristics of investing companies and their affiliates, the motivations for investment, the barriers they face in internationalising their business, and finally, the impact of such activities abroad. The fourth part evaluates selected case studies of Slovenian multinational companies. The last part concentrates on the lessons the Slovenian case could hold for other transition economies; it examines what the response of governments should be in regulating or promoting this new type of international activities of firms from transition economies and assesses the relevance of the Slovenian case.

The key conclusions of the study may be summarised as follows:

- Trends in Slovenian outward FDI have gone through three stages: a) the early transition stage (1990-1993) – the first wave of internationalisation – which was marked by a rapid increase in outward investment on the one hand, and divestments and restructuring on the other; b) the consolidation phase (1994-1998), which was characterised by slow progress in outward investment activity - mostly carried out by existing multinationals that consolidated and strengthened their foreign affiliates' network; and c) a new wave of internationalisation at the end of the decade (1999 onwards) 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.
- When the transition began, the Slovenian economy was different to the other former socialist countries: it was more open, its liberalisation had started earlier, it had a strong export orientation towards the west, and its autonomous firms had accumulated some market experience, a fact which made Slovenian companies ready for internationalisation earlier than others. However, in spite of the early start made during the socialist era, Slovenian firms must still be regarded as beginners among multinational investors. Limited time series, the limited scope of data, changing methodology that has still not been fully harmonised with international standards and the reluctance of firms to disclose information make a definitive and accurate evaluation difficult.
- Although annual flows have been following an upward trend recently, the volume of outward FDI by Slovenian firms is still modest by international standards. In spite of the 340% increase in outward FDI in the 1993-2000 period, Slovenian firms have cumulatively invested 854 million Euro abroad, significantly less than Portugal, a country whose GDP per capita is similar to Slovenia. By domestic standards, outward FDI is more important as it accounts for 4.4 percent of GDP.

- Companies investing abroad perform much better than non-investing companies, and compared to the average Slovenian company. In general, companies investing abroad are larger, more capital-intensive, have a better asset structure and are more export-oriented. The growth of investing companies was much faster than that of non-investing firms, while experience has shown that investing abroad considerably speeded up companies' restructuring, especially as regards value added and export propensity.
- The net effects of outward FDI on investing firms were generally positive. Outward FDI was found to enhance efficiency and restructuring by introducing new products, product differentiation, increased quality and a better response to customers' demands. Investing abroad also seemed to improve the image of investing firms and enhanced their marketing, management and organisational skills.
- While at the macroeconomic level outward FDI effects are still difficult to evaluate, firm-level effects spill over into the domestic economy and have important development implications. International growth offers much better development opportunities than growth solely within the domestic setting, as "small country effects" often include poor resource availability and a lack of domestic demand that prevents domestic firms from exploiting standardised and mass production, low costs and economies of scale. Slovenian firms are used to looking for market niches, which can best be exploited through foreign production.
- In spite of the wide geographical spread and diversification in terms of number of host countries, Slovenian outward FDI is concentrated in value terms in culturally and historically linked and neighbouring countries. Unlike exports, which are concentrated in developed EU markets, outward investment is mostly located in low- and middle-income countries (those less developed than Slovenia). The successor states of the former Yugoslavia are particularly attractive locations for Slovenian outward investment, due to the former common market and the resulting wealth of knowledge and interaction.
- Slovenia is one of the top transition economies in outward FDI internationalisation terms. Its experience and lessons can therefore be particularly relevant for other transition economies that are in an earlier stage of their transition. In spite of some particularities in Slovenia's internationalisation path, more similarities than differences were found in the internationalisation theories.

In conclusion, the authors have presented a significant and competent study, which makes a valuable contribution towards the understanding of the role of outward FDI in Slovenia's economic development and transition process. Most important, the case study of Slovenia offers many learning opportunities for other transition economies, and may be used as a starting point for similar studies in the region.

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