

Foreign Investors on Slovenian Business Environment: Summary of the 2016 Survey Results among Companies with Foreign Equity¹

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About the Survey

Recording foreign investors' perceptions of- and experience in the Slovenian business environment has been an annual activity financed by SPIRIT Slovenia – Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology; since 2008. The aim of the study is to identify the changing motives and barriers for doing business in Slovenia among foreign investors in order to develop and implement measures and policies corresponding to the investors' changing needs and to promote FDI in Slovenia. The study is conducted by the Centre of International Relations at the Faculty of Social Sciences, University of Ljubljana – the leading FDI and internationalisation research institute in Slovenia.

Sample

In 2016, **239 foreign-owned firms** (with at least 10 % of foreign equity) participated in the study, which is a **25.4 % response rate**. Additional interviews with managers were also conducted.

Sample Firms' Characteristics:

- *Investor's countries of origin:* 20% of foreign investors came from Austria, 20% from Germany, 9% from Italy, 7% from Croatia, 5% from Switzerland, and 5% from Great Britain. Investors from other countries were represented in less than 10 companies in the sample.
- *Company size:* 13.5% of the surveyed companies were micro; 50.5% small; 25.5% medium-sized, and 10.6% large firms.
- *Sector:* 59.6 % of the surveyed companies were service providers; while 40.4% were manufacturing firms.
- *Market:* 49.5% of the surveyed companies were exporters; while the remaining 50.5% were predominantly focused on the domestic market.
- 75.95 % responding companies had *foreign equity ownership of 100%*.
- *Foreign investor's entry mode:* 53.2% of the surveyed companies were green field investments; 43.4% were cases of acquisition of an existing enterprise (or its share); while 3.4% of the surveyed companies listed other entry modes by foreign investors.
- *Experience with the Slovenian market:* Companies with years of experience in the Slovenian market dominated the sample.

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- *International dispersion*: More than 70% of the surveyed companies' parent firms have subsidiaries also in countries other than Slovenia.

Motives

The most important advantages of Slovenia according to foreign investors are the **quality of labour and the width and depth of employees' knowledge**. When speaking about knowledge and skills of their employees in Slovenia, foreign investors assess the ability for **intercultural communication and digital literacy** as the areas in which employees are the most proficient. The significance of the country's advantages related to human capital as a motive to invest in Slovenia has been rising most vigorously over the past three years.

The survey showed that Slovenia remains **most appealing to 'efficiency-seeking' FDI** (i.e. investments aiming to increase cost efficiency by transferring production to low labour costs locations or rationalise operations of the existing MNEs through exploitation of comparative advantages in adjacent territories, exploiting economies of scale and scope internationally), while market-seeking FDI (focused on market access and development) is less relevant. Nevertheless, Slovenia's relevance as an **entry point to South-East European markets** is increasing. Moreover, **access to the Slovenian market**, where more than half of foreign-owned enterprises realise most of their revenues, is gaining importance as a motive as well.

Obstacles

The most pressing barriers in 2016 were related to the **inflexible and costly labour market**. The majority of firms with foreign equity (55.4 %) also reported **difficulties when searching for aptly qualified labour**. Although barriers in the Slovenian business environment have remained rather unchanged since 2008, when the study was first conducted, compared to 2015 **a slight progress in removing obstacles to investment** was recorded in 2016. Also, companies which have a foreign equity in their capital structure for a longer period of time (i.e. for 10 years or more), report less obstacles.

Table 1: The most important motives and barriers in Slovenia according to foreign investors, 2016

Motives	Barriers
1. Knowledge and quality of employees	1. Labour-related taxes and contributions
2. Labour costs	2. Labour costs
3. Geographic location and infrastructural connectedness of Slovenia	3. Taxation of profits and revenue
4. Access to or increase of existing market share in Slovenia	4. Taxation procedures
5. Efficiency of service activity in Slovenia	5. Payment indiscipline
6. Access to markets of South-Eastern Europe	6. Employees' qualifications
7. Efficiency of production in Slovenia	7. General attitude toward foreign investors

Source: Centre of International Relations, Survey on FDI 2016

Survey on FDI 2016

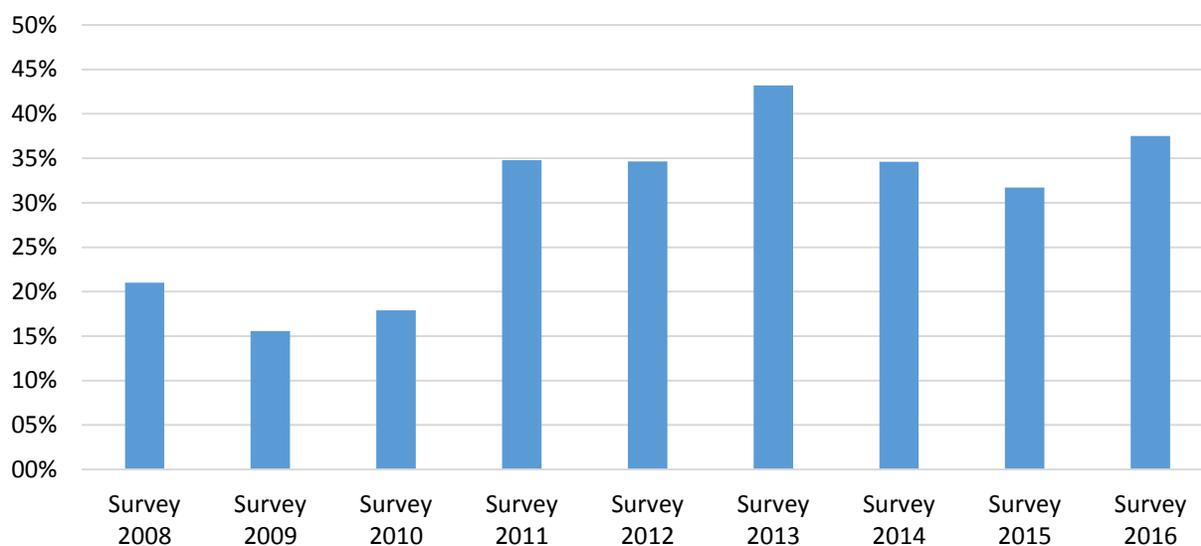
The Structure of the Exchange of Goods and Services between Entities

Trading with parent companies is an important element in exchange of goods and services by companies with foreign equity in Slovenia. The companies in Slovenia have particularly been **increasing the share of high-tech products** in sales to their parent companies. This upward trend in technology intensity in exports is most notable in micro companies and service companies, while large companies have experienced similar trends in the past few years already.

Plans

More foreign investors are planning to expand in 2017 compared to their plans for 2016: Specifically, expansion in Slovenia is planned by 37.5 % of all surveyed enterprises, which is 6.4 % more than a year earlier. Only 2.3 % of enterprises plan to decrease their activities in Slovenia, while 41.7 % of businesses are assuming their activities in Slovenia to remain stable.

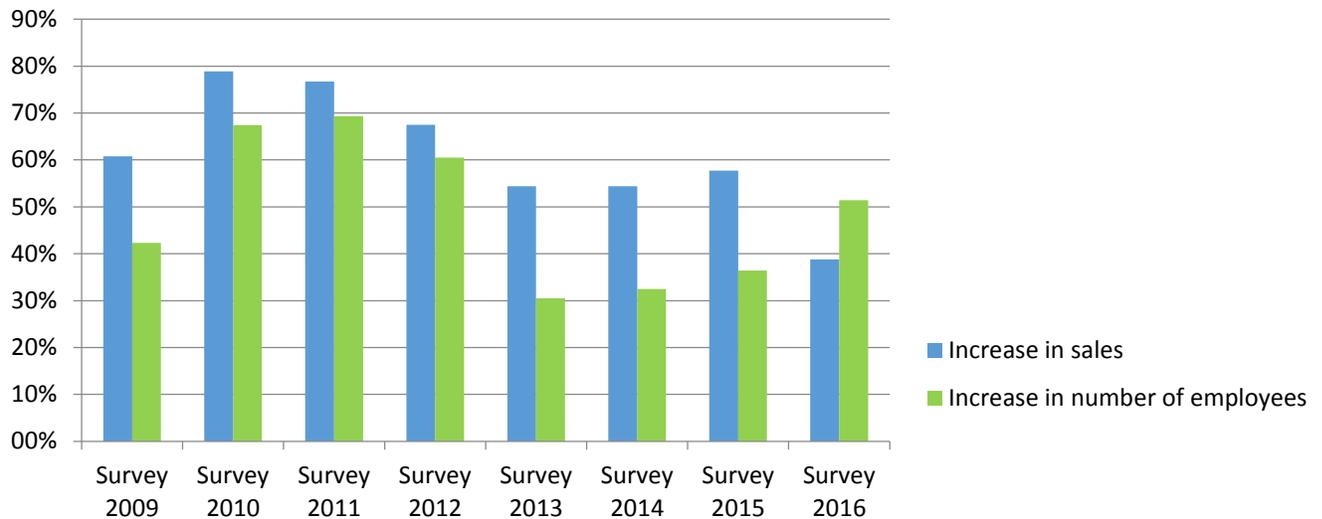
Chart 1: Share of foreign-owned enterprises with expansion plans in Slovenia for the following year, 2008–2016 (%)



Source: Centre of International Relations, Surveys on FDI 2008–2016

Most of the surveyed companies (51.5 %) are also planning to increase the number of employees, while almost 40 % are planning to increase their sales.

Chart 2: Share of foreign-owned enterprises with plans to increase sales or the number of employees, 2009–2016 (%)



Source: Centre of International Relations, Surveys on FDI 2009–2016

Parent companies of foreign-owned firms in Slovenia are actively expanding in markets other than Slovenia too: Among the 26.4 % of the firms from our sample that are informed of their parent companies' expansion plans, the most are planning expansion in Croatia, China, Serbia, Germany, USA, the Czech Republic, Romania, Bosnia and Herzegovina, Switzerland, Slovakia, Poland, and Hungary. The findings indicate that countries in the Central and Eastern Europe are gaining importance in short-term expansion plans of companies investing in Slovenia in the past three years. More companies are also planning expansion in China.

Opportunities Slovenia as a Location for FDI

- A more flexible labour market.
- Greater emphasis on creativity and innovativeness in the education system.
- Reducing taxes and contributions levied on salaries of highly qualified employees.
- Simplifying tax procedures and improving the functioning of tax administration.
- Synchronised and more agile functioning of the public administration (including local administration).
- Reinforcing the functioning of the rule of law and increasing efficiency of the court system.
- Greater stability of legislation.

ADDITIONAL INFORMATION

Additional information about the survey is available to companies that have participated in the study. Please address any requests for further materials or information at either Andreja Jaklič (andreja.jaklic@fdv.uni-lj.si) or Iris Koleča (iris.kolesa@fdv.uni-lj.si).

About the Centre of International Relations: Centre of International Relations (CIR) conducts interdisciplinary research in the fields of international relations, international economics and international business, politics of international law, diplomacy and human rights, international organisations, and European integration. Members of the Centre are top-notch researchers, cooperating with numerous international scientific networks, such as TEPSA, EADI, WISC, EIBA, RESER, CEEISA, EISA, ISA, ECSA, IPSA, ECPR, ILA, and SGIR. CIR researchers are active in several national, European, and international projects – publishing and widely disseminating their research results both in Slovenia and abroad. The Centre also issues several publications: the CIR Analyses and the Acta Diplomatica collections, as well as the Journal of International Relations and Development (an official journal of the Central and East European International Studies Association – CEEISA), which is published in cooperation with Palgrave.