Andreja JAKLIČ, Marjan SVETLIČIČ*

DO STEREOTYPES HINDER OR PROMOTE FOREIGN DIRECT INVESTMENT? THE CASE OF WESTERN BALKAN COUNTRIES

Abstract. In this paper we explore the influence of national stereotyping on bilateral foreign direct investment (FDI) in seven countries of former Yugoslavia 25 years after it disintegrated. Western Balkan countries face revived economic cooperation, but also large and ongoing differences in economic development and bilateral FDI. Their understanding lies beyond the well-known determinants of FDI location choice. The results show a positive relationship between the share of positive stereotypes and the share of inward FDI in total FDI in the former Yugoslav countries. The value of inward FDI stocks in host countries for which positive stereotypes dominate is statistically significantly higher than in countries where negative stereotypes exist. Qualitative analysis further indicated that stereotypes influence the initial decision-making and learning process, as well as control and management in foreign affiliates. Positive stereotypes enhance and increase FDI, while negative ones stimulate learning and risk assessment. A lack of inter-cultural knowledge and (subsequent) failures may lead to the (ab)use of stereotypes as excuses.

Key words: FDI, cultural differences, national stereotypes, international business, Western Balkans, former Yugoslavia

Introduction

There are several incentives to explore the relationship between foreign direct investment (FDI) and stereotypes using the case of former Yugoslavia. First, the gap between the limited practical application of existing theory on culture’s impact on choices and decisions in international business.

* Andreja Jaklič, PhD, Professor, Faculty of Social Sciences, University of Ljubljana; Marjan Svetličič, PhD, Professor, Faculty of Social Sciences, University of Ljubljana.

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The rapidly growing research in the last four decades still does not provide a robust response about how stereotypes impact FDI. Yet the evidence of failures and development of poor business relations due to cultural ignorance is not scarce, so the awareness that “underestimating differences is not only wrong but even expensive” (Ghemawat, 2001) is on the rise.

The second reason for this exercise arises from the observations that knowledge about other cultures in the area of former Yugoslavia has been decreasing with the new generation coming through to do business there. How can one do business and communicate with others in the territory of former Yugoslavia without knowing some basic historical facts, not understanding the ethnic roots and origins of the deeply rooted problems in the Balkan powder keg or their roots, for what has been branded in the literature as balkanisation? Twenty-five years after the disintegration of the once common country, the younger generations from the various countries no longer know the local languages. The use of Serbo-Croatian (officially used and taught at primary school during former Yugoslavia) is often replaced by English, not only by the younger generations, but even by older ones who have not succeeded in absorbing and learning the specifics and differences between the national languages. Studies on foreign trade and investment across the region in the last two decades reveal that managers often relied on geographical, historical and institutional proximity while underestimating cultural differences (Wiliams and Grégoire, 2015: 275; Jaklič and Svetličič, 2003; Rašković and Svetličič, 2011a,b; Udovič, 2011, Rašković and Vuchkovski, 2016). Case studies of regional multinational enterprises (MNEs) further reveal that doing business outside the region helped managers identify and understand also the cultural differences (and their impact) inside the region. Experience with very distant and culturally different markets helped them develop cultural sensitivity, which is also necessary in the neighbourhood. Such ‘traps’ can also be detected by MNEs outside the region; according to surveys among foreign affiliates in the region, the Western Balkans often seem to be perceived as quite a homogeneous region (the same goes for Central and Eastern Europe (CEE) as a whole) and therefore treated with one single business strategy. Bilateral national stereotypes among former Yugoslav countries thus not only reveal the nature of national stereotypes (whether positive or negative stereotypes dominate) but also an insight into intraregional cultural diversity and the diversity of perceptions.

The third reason is curiosity about the dynamics and changes of stereotypes. Differences among states in this territory have even continued after the disintegration and during the transition (see Schwartz, 2008), which requires more knowledge on cross-cultural differences. There are ever more distinctions between us and them based on ethnic, religious and other differences, transforming them into ideological ones. Studies have confirmed
such cultural differences in the territory of former Yugoslavia (Pavasović Trošt, 2013; Schwartz, 2008). The first study on stereotypes was done in 2010 (Rašković and Svetličič, 2011a, b), while a recent study (Udovič et al., 2015) expanded the sample in terms of the number of countries as well as respondents and variables observed, thus offering a new research challenge.

Fourth, a large part of the economic relations of these economies is concentrated within the region. Countries of former Yugoslavia remain some of each other’s most important foreign trade and FDI partners and bilateral ties retain their high importance even if they internationalise outside the region, for example when attracting FDI outside the region or entering global value chains. Seeing how cultural distance and ignorance about others’ cultures influence economic ties can help; in particular, with FDI where the issue of trust among partners, knowledge of each other, knowing the language etc. is even more important than in trade. FDI requires building a long-term relationship so managing cultural differences and stereotypes may be more important than in indirect foreign entry modes.

Fifth, knowing that identifying stereotypes is the best way to break or use them constructively is thus the next incentive for the study. To enhance the historically rooted economic ties across the region with such a dynamic, rich and bloody history as the Balkans, business has to avoid mistakes which can de-stimulate or even prevent further cooperation.

In this article, we initially discuss the literature dealing with cross-cultural differences and their relevance for economic cooperation. The third part addresses the data and methodology and presents the results of the study. We examine potential links between FDI and stereotypes by comparing bilateral FDI stocks and bilateral stereotypes among former Yugoslav states. We are interested in whether the prevalence positive stereotypes stimulate FDI into the country and lead to greater FDI. Next, we explore how stereotypes influence the entry (or non-entry) decision and the management of foreign affiliates. The fourth section concludes.

**Literature review**

Although Hymer recognised the “liability of foreignness” already back in 1960, the early FDI theories mostly ignored culture. Later internationalisation theories expanded the number of relevant determinants for FDI and started to recognise cultural distances between countries as being strongly influential for international business (Brouthers, 2002). Hofstede claimed that the “business of international business is culture” (Hofstede, 1994). Differences among cultures relate to the objectives of business operations, to philosophy, style communications (direct or indirect) and the perception of time (Lewis, 2006).
However, culture and cultural differences have recently become increasingly explored in both the international business and international management literature (Hofstede, 2001; 2005) and several concepts and measures (like cultural distance, psychic distance etc.) have been developed to capture culture-related risks. According to literature and anecdotal evidence, the impact is context- and time-specific (Hammerich and Lewis, 2013).

The major deficiency of all theories based on cultural differences is that they are static, they “fail to capture the change of culture over time” (Kirkman et al., 2006). Shenkar (2001) criticised the “illusion of stability” with regard to culture. He called for “reassessing the very role of culture in our theoretical frameworks” in order to avoid “contrasting predictions”: low control to compensate for the lack of local knowledge, or tight control to reduce dependence upon agents whose actions are poorly understood (Shenkar, 2012: 15, 16). A more “comprehensive view is needed, enriched by other disciplines like sociology and political science” (Shenkar, 2012:16).

National stereotypes, defined as set of beliefs or generalisations about a group of people coming from the same country (Rinehart, 1963: 137), can stimulate or de-stimulate business. The more one stereotypes other ethnic groups/nations (national stereotypes), the more difficult it is to conduct business. For simplicity, we tend to categorise people, objects and events (stereotype them) to simplify how they think about others. Stereotypes’ bias occurs less when information is rich, Katz posited (1995: 5). Actual knowledge depends on access. Where unavailable, we fall back on stereotypes. They are (ab)used to justify certain prejudices we hold about others, or to strengthen our self-image/superiority at the expense of someone else.

Stereotypes can be dangerous when underestimating the differences within national cultures. Managers have to know of them but not rely on them without analysing the situation on the ground. Ignorance can namely impede the transfer of knowledge or lead to wrong understanding of verbal or nonverbal signs or to cultural stress.

Cultural differences and stereotypes are more important in a direct and longer type of business cooperation like FDI, although Tihany, Griffith and Russel (2005) question the link between cultural distance and the organisational entry decision. If managers perceive low institutional distance between the home and host country, they should consider minority ownership as opposed to acquisitions (Contractor et al., 2014: 934–939). On the other hand, Xu and Shenkar (2002) suggest that MNEs tend to enter institutionally distant markets via greenfield investments in order to avoid intra-organisational

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2 Slovenian managers, for instance, report that even when their products/services are among the best in the world in terms of quality or innovation, they are still considered in the West as being of lower quality due to the stereotype of a bad socialist reputation.
conflict and difficulties. Establishing a joint venture with a local partner typically lowers the risk of institutional conflict (Dikova, 2012: 21).

To sum up, the literature and anecdotal evidence suggest that the impact is context- and time-specific (Hammerich and Lewis, 2013). A variety of home- and host-country economic, political and other effects are important in international business. These factors depend on, but can also compensate for, cultural differences. As Katz put it, one should not “overestimate the role of stereotypes” (Katz, 1995: 3) because “national stereotypes are easily overwhelmed by other information” (Thorelli et al., 1988: 13), but should study and explore their impact in time and in a variety of contexts.

Results and discussion

Data and methodology

This empirical exercise uses a recently developed database on national stereotypes developed by Udovič et al. (2015). The sample consists of 814 respondents from seven countries: Bosnia and Herzegovina, Croatia, Montenegro, Macedonia, Kosovo, Serbia and Slovenia (Rašković and Udovič, 2016). We examine the five most frequently recalled associations in bilateral relations across the nations and estimate the share of positive stereotypes among the top five stereotypes.

For bilateral FDI data for the countries of former Yugoslavia we rely on the latest FDI Report 2016 (WIIW). Rather than testing the impact on bilateral FDI flows, we examine cumulative investment in the last 25 years and therefore use inward FDI stock data by partner countries in 2014 (the latest, most complete year available).³

The relationship between stereotypes and FDI is tested by Pearson’s correlation and a comparison of means. In contrast with associations where data were collected for all bilateral pairs of countries, investment flows and stocks do not occur for all bilateral pairs, which limits the number of observations.⁴

The quantitative analysis was further extended by qualitative analysis. The main question was how stereotypes influence international business, the investment decision process and business relationships. Qualitative data were collected through semi-structured interviews with 11 international managers that were conducted individually or in groups (two interviews in a group of three, one interview in a group of four and one individually) from May to June 2016. All of the interviewed managers have more than 5 years of personal experience doing business in the Western Balkan region

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³ FDI data are based on the directional principle in line with BPM6.
⁴ Auto-associations are available, but excluded from the correlation analysis.
through foreign affiliates, while each also has experience outside the region (most have experience of doing business in Western Europe and other Central and Eastern European countries, but some also in the Middle East, the USA, Latin America and Asia).

We first overview the bilateral FDI relations across the seven selected countries of the Western Balkans and examine the relationship among stereotypes and FDI and proceed by summing up the managerial discussion of how stereotypes influence FDI decisions, operations and business relationships.

The relationship between stereotypes and FDI

Bilateral FDIs across former Yugoslav countries are quite intensive, but also disparate and bilaterally highly asymmetrical (Table 1). Disparate and asymmetric are also stereotypes (Table 2; for more, see Udovič et al., 2015). Although Western Balkan countries became attractive FDI locations within the emerging Europe following the 2004 EU enlargement, the countries have among themselves remained among the most important (top 5) investors. The slump in FDI flows after the global economic recession reduced interest in the region, and bilateral investment within the region (like in the 1990s when intra-regional investors played the key role) has recently regained its importance.

Table 1: BILATERAL FDI AMONG WESTERN BALKAN COUNTRIES; FDI INWARD STOCKS IN 2014 IN EUR MILLION

<table>
<thead>
<tr>
<th>To / From</th>
<th>Bosnia and Herzegovina</th>
<th>Croatia</th>
<th>Kosovo</th>
<th>Macedonia</th>
<th>Montenegro</th>
<th>Serbia</th>
<th>Slovenia</th>
<th>total from ex Yu</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia and Herzegovina</td>
<td>779.96</td>
<td>n.a.</td>
<td>n.a.</td>
<td>5.5</td>
<td>1052.8</td>
<td>462.2</td>
<td>1838.1</td>
<td>5952.9</td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>112.6</td>
<td>n.a.</td>
<td>2.4</td>
<td>n.a.</td>
<td>12.6</td>
<td>726.9</td>
<td>854.5</td>
<td>24788.5</td>
<td></td>
</tr>
<tr>
<td>Kosovo</td>
<td>11.1</td>
<td>n.a.</td>
<td>24.5</td>
<td>n.a.</td>
<td>14.5</td>
<td>216.7</td>
<td>266.6</td>
<td>2961.4</td>
<td></td>
</tr>
<tr>
<td>Macedonia</td>
<td>8.9</td>
<td>95.0</td>
<td>n.a.</td>
<td>2.4</td>
<td>77.2</td>
<td>387.6</td>
<td>571.1</td>
<td>4023.6</td>
<td></td>
</tr>
<tr>
<td>Montenegro</td>
<td>29.2</td>
<td>62.5</td>
<td>1.8</td>
<td>6.0</td>
<td>225.1</td>
<td>186.4</td>
<td>511.0</td>
<td>3989.8</td>
<td></td>
</tr>
<tr>
<td>Serbia</td>
<td>94.3</td>
<td>576.9</td>
<td>n.a.</td>
<td>15.8</td>
<td>154.2</td>
<td>742.1</td>
<td>1383.3</td>
<td>17142.0</td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>24.3</td>
<td>777.1</td>
<td>n.a.</td>
<td>2.2</td>
<td>8.0</td>
<td>n.a.</td>
<td>859.1</td>
<td>10129.8</td>
<td></td>
</tr>
</tbody>
</table>

Notes: n.a. – not available

Another explanation is investments inherited in former Yugoslavia (Svetličič, 1994) by firms in other republics of Yugoslavia.
Table 2: SHARE (IN %) OF POSITIVE ASSOCIATIONS AMONG THE TOP FIVE OPEN ASSOCIATIONS

<table>
<thead>
<tr>
<th>About people in...</th>
<th>Bosnia and Herzegovina</th>
<th>Croatia</th>
<th>Kosovo</th>
<th>Macedonia</th>
<th>Montenegro</th>
<th>Serbia</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia and Herzegovina</td>
<td>33</td>
<td>41</td>
<td>38</td>
<td>45.8</td>
<td>35.1</td>
<td>38.5</td>
<td>21.0</td>
</tr>
<tr>
<td>Croatia</td>
<td>9</td>
<td>19.5</td>
<td>36</td>
<td>42</td>
<td>14.9</td>
<td>7.2</td>
<td>17.7</td>
</tr>
<tr>
<td>Kosovo</td>
<td>13</td>
<td>18</td>
<td>38</td>
<td>16</td>
<td>3.8</td>
<td>4.2</td>
<td>19</td>
</tr>
<tr>
<td>Macedonia</td>
<td>26</td>
<td>33</td>
<td>6</td>
<td>50</td>
<td>33</td>
<td>40.4</td>
<td>25.4</td>
</tr>
<tr>
<td>Montenegro</td>
<td>12</td>
<td>16</td>
<td>14</td>
<td>13</td>
<td>20.1</td>
<td>16.2</td>
<td>13.8</td>
</tr>
<tr>
<td>Serbia</td>
<td>18</td>
<td>18</td>
<td>7</td>
<td>44.4</td>
<td>17.5</td>
<td>29.8</td>
<td>18.7</td>
</tr>
<tr>
<td>Slovenia</td>
<td>13.0</td>
<td>13.0</td>
<td>48</td>
<td>45.5</td>
<td>25.5</td>
<td>35.9</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Source: Calculations based on Udovič et al. (2015).

The most intensive investment flows took place among the neighbouring countries; Bosnia and Herzegovina received 30% of all its inward FDI from the former Yugoslav countries, with most investment coming from Serbia and Croatia. Both Serbs and Croats in general have much more amiable associations about Bosnians, and vice versa. Bosnians list some negative associations among the top five characteristics for Croats (for example, nationalist) and Serbs (aggressive and nationalist). In Croatia, Slovenian investments represent 85% of all investments by former Yugoslav countries, while Bosnian ones account for 13%. Slovenia and Serbia received their largest share of investment from former Yugoslavia from Croatia (90% and 27%, respectively), while Serbia is also the most important ‘ex YU’ investor in Montenegro. These countries have generally positive associations about each other, although negative ones can also be found among the top five that were recalled; they all see each other as exalted. The most negative associations were found among Serbs for Croats and Kosovars. Kosovo and Macedonia stand out of the ‘neighbouring’ pattern as Slovenian investments represent the biggest share of investment from the observed area (in Kosovo 81%, however only 7% of total inward FDI, and in Macedonia 67%, representing 9% in total). Both countries have extremely positive associations with Slovenians, and positive characteristics for these two nations also dominate among Slovenians.

A brief descriptive analysis suggests that positive stereotypes about a host country correspond with more intensive investment; the stereotypes held by investors about a host country seem to be more relevant than the

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6 Partly explained by the large Serbian and Croatian population in B&H, having their own entities/cantons (two are Croat while three are mixed with Bosniaks and Republika Srbska).
stereotypes held by the receiving country about the investor. However, the strong FDI ties show that negative stereotypes between neighbouring countries can be compensated by other factors, as predicted by theory (Schwartz, 2008: 46). Serbia, for example, invests in Croatia and Kosovo despite negative associations appearing among the top five associations, yet its level of investment in Macedonia is much higher because Serbs view Macedonians much more positively.

Further examination (Table 3) confirmed that FDI is much higher in countries where positive stereotypes dominate. The average value of inward FDI in countries for which positive stereotypes dominate amounted to EUR 239.4 million in 2014 and is statistically significantly higher (almost 60%) than in host countries where negative stereotypes dominate. The average value of inward FDI stock in these economies amounts to EUR 150.4 million.

Table 3: COMPARISON OF MEANS; AVERAGE INWARD FDI STOCKS, IN EUR MILLION

<table>
<thead>
<tr>
<th>Positive associations held by investors about host countries</th>
<th>Negative associations held by investors about host countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>average inward FDI stocks</td>
<td>239.4</td>
</tr>
<tr>
<td>n</td>
<td>20</td>
</tr>
<tr>
<td>Positive associations held by receiving country about the investing country</td>
<td>Negative associations held by receiving country about investing country</td>
</tr>
<tr>
<td>average inward FDI stocks</td>
<td>167.8</td>
</tr>
<tr>
<td>n</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Own calculations.

On the other hand, the impact of stereotypes about investors in the receiving country is quite different. The relationship between the stereotypes held by host countries about investors is the opposite; the average value of inward FDI in countries which mainly see the investor negatively (EUR 268.5 million) is higher than in host countries which view the investors positively (EUR 168 million).

Research by Raškovič and Svetličič (2011a: 16) demonstrated that the correlation between shares of negative stereotypes and trade is much stronger than in the case of FDI, which also shows that the impact of stereotypes is stronger in initial phases, when trust is supposed to be established, than later when cooperation is intensified. Analogically, passive actors – i.e. the receiving countries – may adapt (and build trust) slower than the proactive
ones (the investors). Still, the last result calls for further analysis regarding how foreign affiliates are managed and integrated with the local environment and what is the role of stereotyping there. The question of whether FDI influences the creation of stereotypes also remains an issue for future research.

An additional research challenge is auto-stereotyping and its potential impact on the type of FDI (with regard to ownership share and type of affiliate) and international management. Relatively poor auto-stereotypes may be related to a low capacity for building partnerships and joint ventures, resulting in low shares of mergers and acquisitions (M&A) within the region (M&A make up a major part of FDI globally)\(^7\). Most Slovenian direct investments in the region of former Yugoslavia for example (but also many others in the last decade) were greenfield investments and few of them involved local partners.

The influence of stereotypes on FDI decisions and business relationships

To improve understanding of how stereotypes influence international business, FDI decisions (initial FDI decision and further management of foreign affiliates) and business relationships, we have summarised the managers’ statements, reflections and experience in Table 4.

The summary conclusion is that stereotypes do influence business decisions about direct entry modes (more than exporting). Positive stereotypes enhance motivation to do business and establish a direct presence, or speed up FDI (sometimes they also allow emotional decisions and an economically less tested investment) and promote business and personal relationships. In contrast, prevailingly negative stereotypes about the host country or confronting negative stereotypes held about the home country brings hesitation or slows the investment decision-making process down. However, negative stereotypes may also stimulate analysis, learning about the foreign culture, better preparation and a more detailed risk assessment (including the cultural environment, which is often neglected in the pre-investment stage). Stereotypes, even negative ones, may thus trigger positive reactions in the investment decision process. Attention to stereotypes normally increases after an FDI is completed; experienced managers use stereotypes as a valuable source of information, integrate them into risk assessment and management practices but move beyond stereotypes to learn about the culture and institutions of the host location.

\(^7\) They account for 14.6% of all M&A in the region in the period 1996–2015. Croatia accounts for over half of all M&A in former Yugoslavia by other states that emerged from Yugoslavia, followed by Serbia with 26.6% and Slovenia with 17.3% (based on Dealogic Analytics, including all former Yugoslav countries with the exception of Kosovo).
### Table 4: PROS AND CONS OF STEREOTYPES IN FDI DECISION-MAKING

<table>
<thead>
<tr>
<th>+</th>
<th>–</th>
</tr>
</thead>
<tbody>
<tr>
<td>- positive stereotypes increase motivation for a direct presence and building relationships</td>
<td>- negative stereotypes cause hesitation in the investment decision-making process</td>
</tr>
<tr>
<td>- a direct presence abroad increases motivation for learning and understanding stereotypes, it helps you understand the habits and values behind the stereotypes and the capacity to put the stereotypes into context increases;</td>
<td>- hostile stereotypes divert from location and may block motivation for building relationships</td>
</tr>
<tr>
<td>- only a deeper understanding of stereotypes helps you understand the local humour and avoid ‘embarrassing’ situations which might appear with superficial understanding, knowledge or information</td>
<td>- stereotypes offer a very limited picture and understanding of the host nation</td>
</tr>
<tr>
<td>- communication in the Western Balkans is highly contextual and often indirect, the use of stereotypes is common for communicating risks (especially poorly analysed ones), or as excuses for unmet expectations</td>
<td>- sticking to stereotypes (on both sides) acts as a brake in building relationships</td>
</tr>
<tr>
<td>- negative stereotypes about investors can be a valuable source of information, an incentive for reflection and management change within the whole enterprise not only within the foreign affiliate</td>
<td>- negative stereotypes about the investing country or the host country enhance the motivation for higher control (majority ownership in foreign affiliates)</td>
</tr>
<tr>
<td>- negative stereotypes give you a first-hand view of the ‘worst-case scenario’ in foreign markets and plan B</td>
<td>- stereotypes change over time (are generation-specific – even more in the Western Balkans where political and institutional changes are so frequent) and are not reciprocal among nations, old stereotypes may be very wrong and also insulting</td>
</tr>
<tr>
<td>- negative stereotypes may influence the controlling, centralisation and hiring of locals</td>
<td>- failures in host markets revive stereotypes and create new barriers to business</td>
</tr>
<tr>
<td>- getting a mirror image of ourselves (especially when negative) may cause learning and improvements and bring international business to a higher level</td>
<td>- negative stereotypes may be used as an excuse for unmet expectations and, as such, abused; they may block investigation of true reasons for a loss/delay/poor result</td>
</tr>
<tr>
<td>- going beyond (especially negative) stereotypes is easier the longer the direct presence in the host country and the greater the experience with foreign markets (the number and diversity of foreign markets count)</td>
<td>- stereotypes are a result of poor analytics and limited knowledge (data) about culture, direct presence and improved databases break stereotypes</td>
</tr>
<tr>
<td>- negative stereotypes make you aware of cultural differences, helping to avoid future mistakes</td>
<td>- stereotypes blur reality</td>
</tr>
<tr>
<td>- a negative stereotype about the investing country motivates you to behave in the host country in a way that a local employee would at least reduce or even reject/break the stereotype</td>
<td></td>
</tr>
</tbody>
</table>

Source: In-depth interviews with international managers, 2016.

Stereotypes may influence the type of FDI (type of foreign affiliate, ownership share, management of foreign affiliate, the presence of home and local management etc.). Enterprises with a direct presence in foreign markets (MNCs) learn over time and may adapt faster than individual employees/expatriates. To sum up, professional international managers predominantly claim that the FDI decision-making process goes beyond stereotypes.
They know of them at least superficially, and follow them, but they do not play a major role in the FDI process and are not considered a big determinant: “high bilateral FDI among Western Balkan states is a result of business opportunities, not positive stereotypes”. In general, cultural differences are still underestimated and their influence cannot be neglected. Retrospective event analysis by the managers themselves revealed a rich list of stereotypes, the conscious readiness and ability to learn about cultural differences and to apply this in their management and risk assessment, but also their unconscious application (especially negative stereotypes) leading to failures. It is also tempting to (ab)use them as an excuse for failures. These results are in line with earlier findings that managers in the Western Balkans do not see cultural differences as an important barrier to FDI (Jaklič and Svetličič, 2003) or undervalue the level of cultural differences (the low psychic distance paradox; Beckerman, 1956).

Conclusion

This study is one of the first attempts to evaluate the impact of national stereotypes on FDI in the Western Balkan countries (i.e. former Yugoslav countries) 25 years after the disintegration of Yugoslavia. The transition, liberalisation and EU integration processes raised the differences among these economies. Trade and investment relations within the Western Balkans have been revived and the former Yugoslav countries today remain among each other’s top business partners. Cultural differences, while recognised, were always evaluated as the least (or even non-) important barriers to doing business in the region (Jaklič and Svetličič, 2003). However, a number of failures demonstrate the cultural blindness of executives, who are often unable to see the impact of national cultures on their businesses. “Fish can’t see the water” (Hammerich and Lewis, 2013) and cross-cultural knowledge among the Western Balkan countries within the younger generation is vanishing due to lower learning and the progress of globalisation and Europeanisation.

Yet the survey on bilateral national stereotypes in Western Balkan states highlights how diverse, persistent and deeply embedded stereotypes are (Udovič et al., 2015). Despite the history of conflict in the region, frequently referred as a powder keg, the survey revealed the prevalence of positive stereotypes among nations, which motivated exploration of the impact of stereotypes on bilateral FDI. The results indicate the influence of stereotypes on FDI. In the quantitative analysis, we found a positive relationship

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8 Assumptions of cultural similarities prevent managers from learning about critical differences that nevertheless exist.
between the share of positive stereotypes and the share of inward FDI in total FDI in former Yugoslav countries. The value of inward FDI stocks in countries where positive stereotypes dominate among the top five stereotypes is 1.6 times and statistically significantly higher than in countries where negative stereotypes dominate. The qualitative analysis further suggests an impact on the decision-making and learning process as well as on management practice and the type of foreign affiliates.

The results call for a reassessment of the role of culture along with the role of stereotypes and stereotyping in time and various contexts. Especially for areas or regions with rapid institutional and economic changes and among countries with strong trade and investment ties, stereotypes may be useful for understanding business better. The paper brings several managerial implications as well as suggestions for further research. International management can benefit from both positive and negative stereotypes that generate, influence or moderate business decisions. Stereotypes may help recognise cultural confrontations and speed up the learning process. The main traps to be avoided are the generalisation of stereotypes that would demotivate intercultural learning or to use negative stereotypes as an excuse for failures. Mistakes in cross-cultural communication, neglecting religious or other ethnic feelings of a business partner can be fatal, can break a relationship and bring a business to an end. As one businessman stated: “one can fix the product, technology, sources and prices, but it is almost impossible to fix mistakes in cross-cultural communication made due to a lack of interest or respect of others’ cultures, language, habits and perceptions”. The intercultural knowledge held within enterprises is thus an asset which is important for international growth.

In this complex matter, we believe that a more in-depth analysis and extension can be performed in the future. The study indicates the need to go beyond the standard locational determinants of FDI. Including stereotypes as a determinant of FDI in econometric analysis may increase the ‘explained’ component of a locational decision. The use of standard locational determinants and controls would highlight the weight of stereotypes in the FDI investment decision process. Mapping how stereotypes generate and moderate business decisions and vice versa coupled with empirical testing would be a step towards a better understanding of stereotypes in international business. Next, extending the comparative studies outside the Western Balkans would enable the use of stereotypes to be examined in a specific context and to test whether smaller and historically and institutionally closer countries or in countries involved in conflict are more sensitive to stereotypes and whether in such a context stereotypes are more relevant as an explanatory factor in international business.
BIBLIOGRAPHY


