



Survey ranking Slovenian multinationals finds them small and vulnerable, but flexible and increasingly international*

Report dated December 7, 2009

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Ljubljana and New York, December 7, 2009

The Centre of International Relations (CIR), University of Ljubljana, and the Vale Columbia Center on Sustainable International Investment (VCC), a joint initiative of the Columbia Law School and The Earth Institute at Columbia University in New York, are releasing today the results of their second annual survey of multinational enterprises (MNEs) from Slovenia. The survey is part of a long-term study of the rapid global expansion of MNEs from emerging markets. This year's report will be presented and discussed in a special session at the OECD's Eighth Global Forum on International Investment, to be held in Paris, France, on 8 December 2009.

The results of the survey reveal increased internationalization of the largest Slovenian multinational enterprises. MNEs on the CIR-VCC list (table 1 below) were among the first to face the consequences of the global financial crisis, but also the front-runners in strategic response. Their reaction has been mostly proactive, enhancing and consolidating internationalization, even though aggregate figures on foreign direct investment (FDI) reveal a decrease in FDI outflows from Slovenia from € 1,316 in 2007 to € 932 in 2008 and then a further decline in the first eight months of 2009 to € 398 (annex table 3) compared to € 713.5 in the first eight months of 2008.

The first reaction to the global economic crisis among top Slovenian MNEs was cost-cutting and increasing sales activity. Sales promotion includes, in particular, focusing on key customers, maintaining good relations with main business partners and rationalizing the product portfolio. Internationalization, however, remained the strategic priority.

*This report was prepared by Andreja Jaklič and Marjan Svetličič of the Centre of International Relations, in cooperation with the Slovenian business newspaper *Finance*.

Besides more emphasis given to sales promotion by the ever broader network of affiliates, the other response to the crisis has been keeping and/or increasing the diversification of markets. Entry into new and more distant markets is increasing not only among large but also among medium-sized and small outward investors. Expansion into the BRICs is demonstrated by the number of affiliates and representative offices established in BRIC countries in 2007/2008.

As noted earlier, this is the second ranking of the top 23 MNEs in Slovenia.¹ One-third of the enterprises on this year's list were not on the list last year but the majority of those that were have retained their positions. There were no big changes among the top five Slovenian MNEs.

Rank	Name	Industry	Foreign assets
1	Mercator	Retail trade	1,012
2	Gorenje	Electricity supply, manufacturing	668
3	Krka	Manufacturing	613
4	Petrol	Oil supply	447
5	Merkur	Retail trade	328
6	Splošna plovba	Shipping	313
7	Droga Kolinska ^a	Manufacturing	301
8	ACH	Trade	161
9	Helios	Manufacturing	144
10	Perutnina Ptuj	Manufacturing	91
11	Unior	Manufacturing	67
12	Impol	Manufacturing	57
13	Trimo	Manufacturing	49
14	HIT	Entertainment	46
15	Kolektor Group	Manufacturing	42
16	Hidria	Manufacturing	30
17	Kovintrade	Manufacturing	29
18	Jub	Manufacturing	22
19	Alpina	Manufacturing	18
20	Gen-I	Electricity supply	17
21	HSE	Electricity supply	15
22	Valkarton	Manufacturing	11
23	Iskra	Manufacturing	n.a.
TOTAL			4,536

Source: CIR - VCC survey of Slovenian multinationals.

^aDroga and Kolinska merged in 2004.

¹ Most of the companies included in last year's ranking (available at <http://www.vcc.columbia.edu/projects/#Emerging>) are also included here. Among those not on this year's list are companies that did not respond to our survey. Reluctance to report can have many reasons. They include changes in ownership or/and governance, internal structural problems, the lack of timely restructuring or bad strategic decisions in the past (such as late reactions to globalization; for example the delayed relocation of traditional production given rising wages in Slovenia), or other, mostly Slovenian market- or policy-related issues.

The profile of the top 23

- The foreign assets of the top 23 Slovenian multinationals are equal to 80% of Slovenia's outward FDI stock of €5,661 (annex table 3).
- Slovenian multinationals are small compared to most of their emerging market counterparts:
 - Only seven have over € 300 million in foreign assets, only four employ over 2,000 people abroad, and three have fewer than 500 employees (annex table 1).
 - None of the Slovenian top 23 makes it into the top 100 non-financial MNEs from developing countries listed by UNCTAD.²
- Slovenian multinationals are expanding dynamically: from 2007 and 2008, their aggregate foreign assets increased by 30% to more than € 4.4 billion, their foreign sales grew by 18% to € 7.07 billion (comprising nearly half of the top 23's total sales), and foreign employment increased by 20 % to 29,125 persons (table 2).

Table 2. Snapshot of Slovenia's largest MNEs, 2007 - 2008³
(€ million and number of employees)

Variable	2007	2008	% change 2008/2007
Assets			
Foreign	3,425	4,480	30.8
Total	11,773	13,678	16.2
<i>Share of foreign in total (%)</i>	<i>29.1</i>	<i>32.8</i>	
Employment			
Foreign	24,187	29,125	20.4
Total	82,945	86,117	3.8
<i>Share of foreign in total (%)</i>	<i>29.2</i>	<i>33.8</i>	
Sales			
Foreign	6,009,	7,070	17.7
Total	12,901	14,984	16.1
<i>Share of foreign in total (%)</i>	<i>46.6</i>	<i>47.2</i>	

Source: CIR - VCC survey of Slovenian multinationals.

- Foreign expansion is the engine of growth for the top 23. Domestic sales of the Top 23 were 53 % of total sales in 2007, and remain the same share in total sales in 2008. For seven of the top 23 firms, foreign sales amounted to 80% or more of their total sales. In some cases, foreign sales amount to as much as 99% (Splosna plovba).

² See UNCTAD, *World Investment Report 2009* (New York and Geneva: United Nations, 2009), pp. 231-233. Data for 2007 are the latest available.

³ 25 in 2007 and 23 in 2008.

- Foreign growth has not come at the expense of existing home country investment and sales, but has complemented them. Domestic sales increased by 14%, and their domestic assets have grown by around 10% from 2007 to 2008. Domestic employment was on the contrary reduced by 3% and 1,776 jobs terminated from 2007 to 2008 among ranked enterprises. The top 23 however remain among the most important domestic employers
- Twelve enterprises reduced the total number of employees from 2007 to 2008. Cumulatively, the number of newly employed people exceeds the number of people laid off. Most of the top 23 Slovenian MNE increased the number of employees abroad,⁴ while ten enterprises reduced it. Together, they added 4,938 jobs abroad.
- The aggregate Transnationality Index⁵ of the Top 23 has risen to 41%. The most internationalized aspect is sales (59%) followed by employment (36%) and assets (30%). The most internationalized Slovenian company is Splošna plovba Piran – a shipping firm – with a Transnationality Index of 96%.
- The overwhelming share of outward investment from Slovenia is being made by private companies. The state has shares (or is owner of stocks through its Pension Fund Management (PFM) and Slovene Restitution Fund (SRF)) in ten MNEs out of the top 23. Four are majority-owned by the state (HSE and GEN are 100% owned, in HIT and Unior the shares of PFM and SRF exceed 50 %). In three, the state share is approximately 25% and in the remaining three below 20%.
- The top 23 now have 331 foreign affiliates (annex figure 1) in 52 different countries. The average number of affiliates is 14 in 10 countries (annex table 1). Gorenje is present in 31 countries (with 61 foreign affiliates), followed by Unior in 20 countries (with 23 foreign affiliates) and Hidria in 19 countries (20 affiliates).
- Many of the Slovenian top 23 are regional multinationals. Their foreign affiliates are concentrated in Europe, as revealed by the Regionality Index (annex table 2). More than 77% of foreign affiliates are located in Europe, and 10 of the top 23 MNEs are based exclusively in Europe. The Western Balkans is the most important location for affiliates, although Slovenian firms have recently shown a growing interest in Russia, China and various Asian locations.
- Manufacturing (food and beverages, chemicals and pharmaceuticals, machinery and equipment, electrical equipment, sports apparel, etc.) is by far the most important sector among the top 23, with 15 of the 23 MNEs (49% of foreign assets). The next largest sector, with three MNEs, is trade and retail trade (32% of foreign assets). Other activities are: electricity supply (15% of foreign assets), transport (7%), oil supply, entertainment, travel, and related activities (11%, see annex figure 2).
- Only eight of the top 23 are headquartered in the country's capital, Ljubljana, a reflection of a decentralized type of development strategy that dates back to the socialist period. Such decentralization was not a characteristic of the

⁴ Some of them increased the number of employees abroad in spite of decreasing sales.

⁵ The Transnationality Index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment. See UNCTAD, op. cit., endnote 22, p. 39.

development of other socialist countries. Three out of the top five are located outside Ljubljana.

- With three exceptions, all listed MNEs were established long before the transition to a market economy had begun.
- The top 23 include old and young multinationals: nine firms have pre-transition experience in outward investment. Seven made their first investment abroad in the mid-1990s, and seven others established their first foreign affiliate after 1999.
- Five of the top 23 are listed on the Ljubljana Stock Exchange, two are listed on Beogradska borza and one on Borza Skopje; seventeen companies are not listed anywhere.
- All MNEs use the Slovenian language as their official language; however, 14 out of the 23 also use other languages. Ten out of the 23 use Slovenian and English as official languages; two use Slovenian, English and German; while one firm uses *five* official languages: Slovenian, English, German, Russian and Croatian.
- The internationalization of management is relatively low; except for one,⁶ all CEOs are Slovenian. The board of directors is multinational in two cases. Yet senior management below the CEO level is increasingly internationalized, since 13 out of the top 23 companies have multinational management (as against only eight in the 2007 ranking).

Response to the global economic crisis

Central and Eastern European economies experienced the most radical (40%) fall in FDI in the crisis period (from end 2007 to end 2008, according to FDI Intelligence) and Slovenia was no different. Slovenian MNEs have, however, responded to the crisis in distinctive ways, in both timing and type.

- Some MNEs initially followed a wait and see approach, since Slovenian banks have been only modestly contaminated by bad investments in US banks. The first impression was that Slovenian firms would therefore be less affected. Later, when it became obvious that the crisis was moving into the real sector, firms started thinking about their strategic response.
- Although the response has not been uniform⁷ most Slovenian MNEs have not divested⁸ or substantially curtailed their internationalization process. The response was proactive, although not without “bread and butter” survival issues (cost cutting, operational efficiencies, reducing employment). The emphasis was on the consolidation of the existing international network. More emphasis was given to the implementation of the strategy within the existing business model rather than rethinking the fundamentals of the way business was being done. Some MNEs have even broadened their international expansion through new acquisitions.
- As the crisis escalated, firms were also forced to undertake cost reductions, focusing on cash flow and business efficiency, downsizing, centralizing decision

⁶ The CEO of Droga Kolinska, Slobodan Vucicevic, is Serbian.

⁷ An MNE's reaction to the crisis depends on its type of activities, type of affiliates (in place or planned), and of course host countries (which were affected in different ways by the crisis).

⁸ A few firms did divest but for strategic reasons unrelated to the crisis.

making but not significantly changing the business model. Laying off workers has been seen as the last resort.

- Such a response is reflected also in outward investment flows; they contracted in 2008 and 2009 compared to the 2007 peak, but still outperformed inward flows. Since inward FDI almost stalled in 2009, Slovenia is now a net outward investor in spite of the crisis (see annex table 3).
- There are two major lessons of the crisis. First, Slovenian MNEs that had already, *before* the crisis, increased the geographic spread of their operations fared much better *during* the crisis. Secondly, it seems that Slovene MNEs managers take the long view and do not reduce international operations except as a last resort.

There are some specific characteristics of Slovenian enterprises response to the crisis.

- Slovenian MNEs are not disheartened by a crisis, since they have a good deal of experience with crises – the disintegration of Yugoslavia, the collapse of the Eastern Bloc, the Russian crisis of 1998, and so forth. They survived these and thus face the current crisis more optimistically.
- Similarly, Slovenian executives are looking for new markets as their crisis exit strategy – because they have done this before. They successfully made up for the loss of the Yugoslav market in less than two years. Expansion into BRICs is demonstrated by the growing number of affiliates established there, the majority having been established in the last three years.
- Slovenian affiliates abroad have also been given additional functions, including the adding of new production lines. Some have started offering higher-value products to keep their return on investment constant or to raise it..
- Finally, Slovenian managers (especially the older ones) are good at improvising, since this was a required skill in the unpredictable environment of the socialist economy.

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Emerging Markets Global Players Project

The CIR-VCC ranking of Slovenian multinationals was conducted in the framework of the Emerging Markets Global Players Project, a collaborative effort led by the Vale Columbia Center. The project brings together researchers on foreign direct investment from leading institutions in emerging markets to generate annual ranking lists of emerging market MNEs. It was launched in 2007 and the first rankings, for Brazil and Russia, were published in December of that year. The present report is the seventh to appear in 2009 (the previous six being on MNEs from India, Israel, Argentina, Brazil, Russia and Turkey). Others expected in December include reports on China and Mexico. Visit <http://www.vcc.columbia.edu/projects/#Emerging> for further information.

Centre of International Relations

The CIR is an interdisciplinary and independent institution with more than 25 years of experience. The Centre is a constituent part of the Institute of Social Sciences at the University of Ljubljana, Faculty of Social Sciences (<http://www.fdv.uni-lj.si/anglescina/default.htm>). CIR experts are strongly integrated in local and international research networks. They conduct research, consultancy and teaching in International Relations, International Economics, International Business, Political Science, International Organizations, International Security, and European Integration. The CIR has conducted consultancy work for the European Commission, international governmental organizations (such as OECD, WB, UNCTAD, UNDP, UNIDO, Central and Eastern European Privatization Network, International Center for Economic Growth), the national government and governmental agencies, as well as a number of corporations. For more information and contacts, see <http://www.mednarodni-odnosi.si/cmo/>.

Vale Columbia Center on Sustainable International Investment

The Vale Columbia Center on Sustainable International Investment (VCC), led by Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to FDI in the global economy. The VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. For more information, see www.vcc.columbia.edu.

Annex table 1. CIR-VCC ranking of the top 23 Slovenian multinationals, key variables, 2008
(€ million and number of employees)

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Ranking		Name	Industry	Assets		Sales		Employment		Trans-nationality index	No. of foreign affiliates	No. of host countries
Foreign assets	Trans-nationality Index			Total	Foreign	Total	Foreign	Total	Foreign			
1	11	Mercator	Retail trade	2,540	1,012	3,111	1.192	21,636	8497	39	9	16
2	23	Gorenje	Electricity supply, manufacturing	1,258	668	1,331	1057	11,323	2804	52	61	7
3	3	Krka	Manufacturing	1,271	613	950	845	7,602	3543	61	16	9
4	7	Petrol	Oil supply	1,209	447	2,950	594	3,536	955	28	14	5
5	17	Merkur	Retail trade	1,158	328	1,267	369	5,102	1358	28	14	8
6	18	Splošna plovba	Transportation	319	313	214	214	770	696	96	4	11
7	15	Droga Kolinska	Manufacturing	481	301	378	291	2,953	2257	72	24	12
8	13	ACH	Trade	556	161	735	400	2,857	525	34	21	6
9	2	Helios	Manufacturing	377	144	354	285	3,075	1,590	57	23	20
10	22	Perutnina Ptuj	Manufacturing	326	91	233	44	3,158	1,636	33	8	4
11	4	Unior	Manufacturing	544	67	299	238	4,023	737	37	22	19
12	16	Impol	Manufacturing	308	57	446	393	1,759	727	49	6	9
13	1	Trimo	Manufacturing	165	49	213	158	1222	675	53	18	10
14	9	HIT	Entertainment	398	46	233	33	2,870	436	14	5	19
15	14	Kolektor Group	Manufacturing	198	42	241	155	2,395	644	37	12	11
16	12	Hidria	Manufacturing	233	30	215	168	2,511	283	34	20	11
17	5	Kovintrade	Manufacturing	135	29	238	146	369	177	44	10	11
18	20	Jub	Manufacturing	69	22	83	63	455	205	51	10	8
19	10	Alpina	Manufacturing	76	18	60	44	1,680	1,026	53	12	7
20	21	Gen-I	Electricity supply	89	17	378	57	49	7	16	7	1
21	6	HSE	Electricity supply	1,748	15	873	247	3,897	2	10	7	18
22	8	Valkarton	Manufacturing	64	11	64	14	965	305	24	1	8
23	19	Iskra	Manufacturing	154	-	120	63	1,910	40	18	7	7
TOTAL				13,676	4,480	14,984	7,070	86,117	29,125		331	52

Source: CIR-VCC survey of Slovenian multinationals.

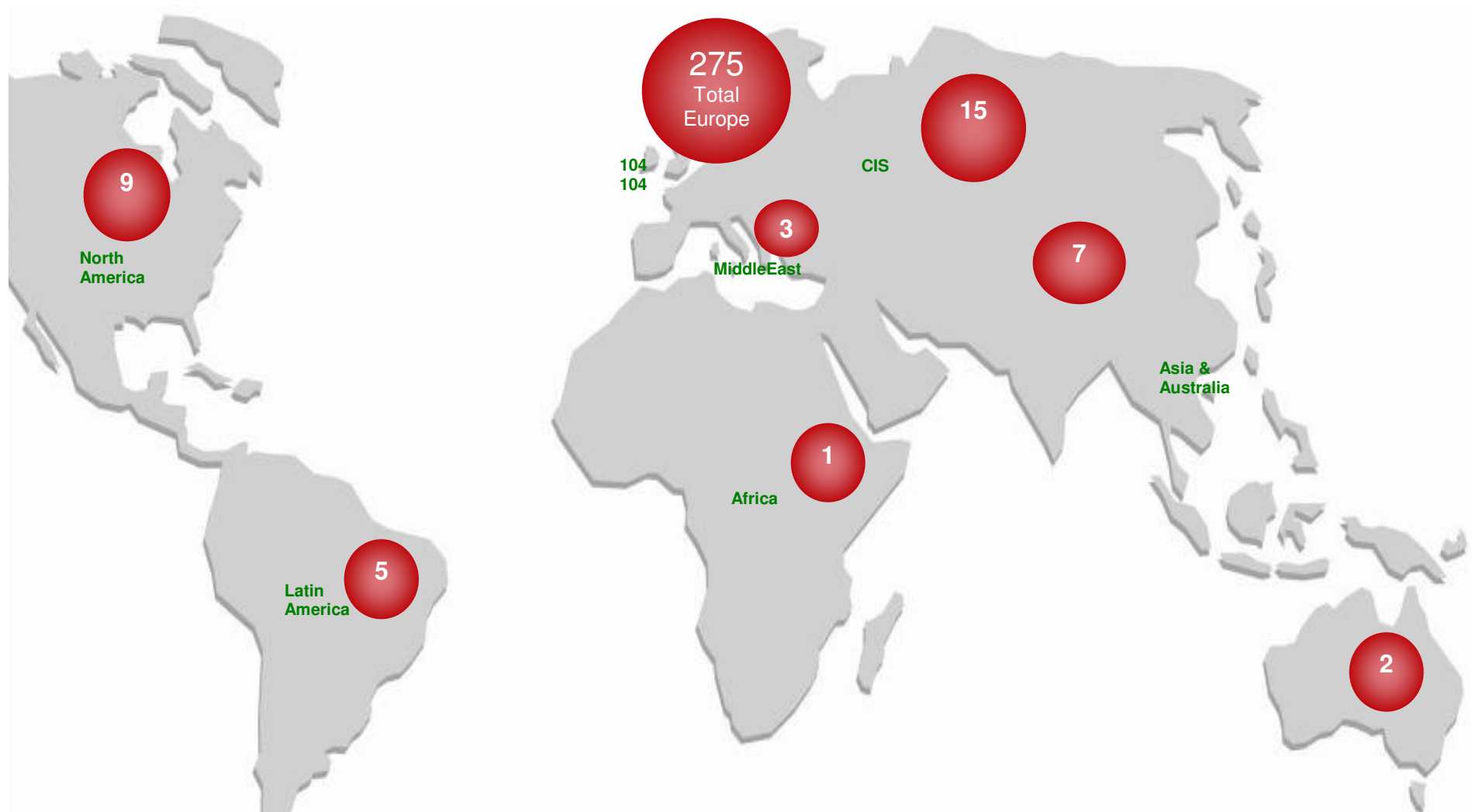
Annex table 2. The top 23 Slovenian MNEs: Regionality Index^a, 2008

	EVROPE	CIS	Middle East	Afrika	North America	Central and South America	Asia	Avstralia
Mercator	100%							
Gorenje	95%	3%	2%					
Krka	81%	13%			6%			
Petrol	100%							
Droga Kolinska	96%	4%						
Merkur	100%							
Splošna plovba	0%		25%		25%	25%	25%	
Helios	91%	9%						
ACH	100%							
Impol	83%				17%			
Unior	78%	9%					9%	4%
Perutnina Ptuj	100%							
Trimo	83%	11%	6%					
Kolektor Group	67%					8%	17%	
HSE	100%							
Hidria	55%	5%			15%	15%	5%	5%
Kovintrade	100%							
HIT	100%							
Jub	90%	10%						
Gen-l	100%							
Valkarton	100%							
Iskra	71%	14%			14%			
Alpina	75%	8%			8%		8%	

Source: CIR-VCC survey of Slovenian multinationals.

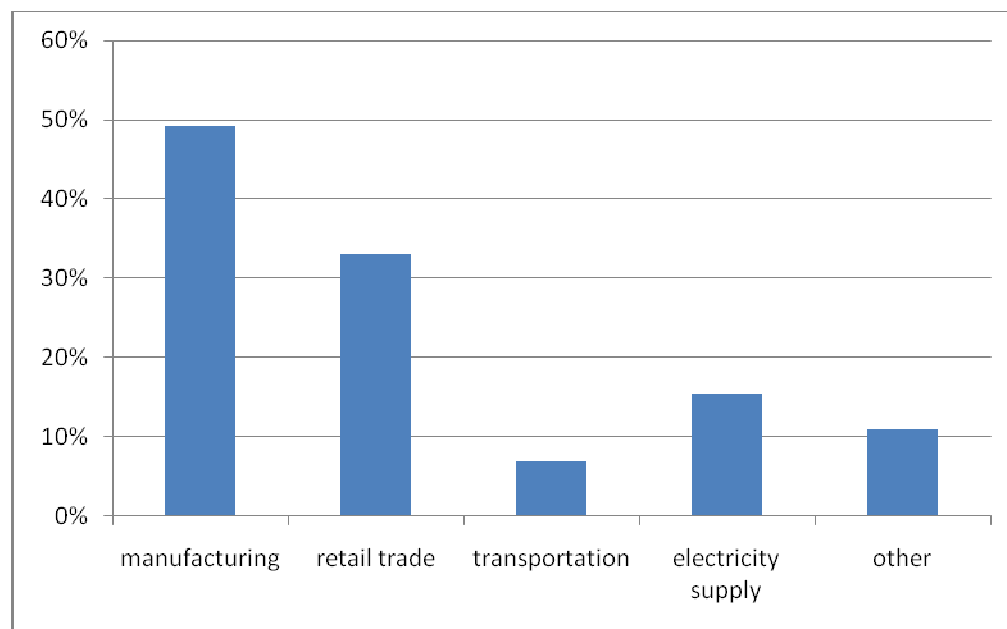
^aThe Regionality Index is calculated by dividing the number of a firm's foreign affiliates in a particular region of the world by its total number of foreign affiliates and multiplying the result by 100.

Annex figure 1. Foreign affiliates of the top 23 Slovenian multinationals, by region, 2008
(Number of foreign affiliates)



Source: CIR-VCC survey of Slovenian multinationals.

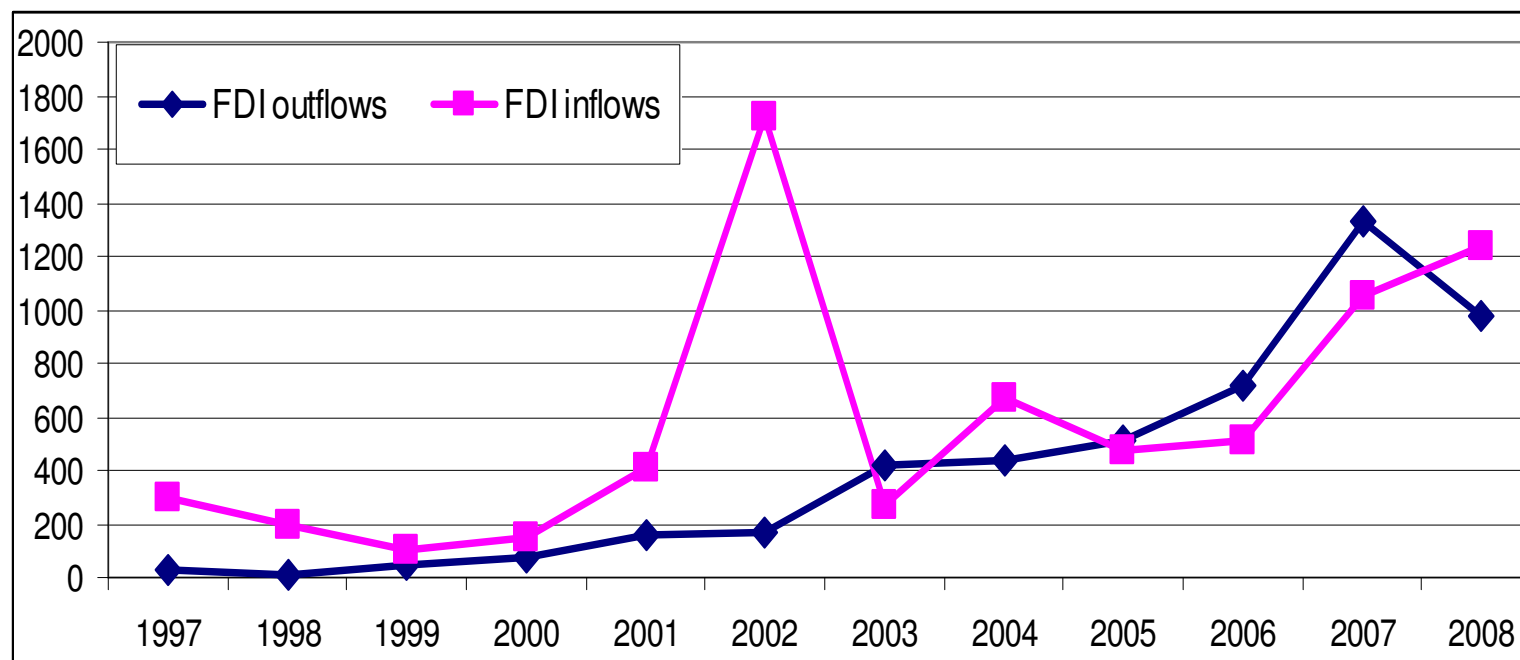
Annex figure 2. Breakdown of the top 23's foreign assets by industry^a, 2008 (percentages)



Source: CIR-VCC survey of Slovenian multinationals.

^a *Some of the firms engage in manufacturing and other activities at the same time.*

Annex figure 3. FDI outflows from, and inflows into, Slovenia, 1997-2008
(€ million)



Source: Bank of Slovenia.

Anex table 3: FDI outflows from, and inflows into, Slovenia, 1997-2008

(€ million)

	2006	2007	2008	2009 (first 8 months)
Inward FDI stock	6,822	9,765	10,996	n.a.
Inward FDI flows	513	1,106	1,313	8.0
Inward FDI reinvested earnings	196	84	- 62	41
Outward FDI stock	3,452	4,917	5,661	n.a.
Outward FDI flows	687	1,316	932	398
Outward FDI reinvested earnings	99	125	1.4	34.8

Source: Bank of Slovenia Bulletin, October 2009; p. 53.