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Magnitude of changes in selected areas in FIEs in Slovenian manufacturing following the entrance of a foreign parent company¹

Area of change	Value of sales	Share of exports	Level of productivity	Level of technology	Level of quality	OVER-ALL
SAMPLE FIEs DISTRIBUTION BY MAGNITUDE OF CHANGE (%)						
Considerable reduction or reduction	4.2	4.2	0.0	1.4	0.0	n.p.
No change	13.9	22.2	20.8	23.6	32.0	n.p.
Considerable increase or increase	82.0	73.6	79.2	79.0	68.0	n.p.
INDICATOR OF MAGNITUDE OF CHANGE²						
Total	0.597	0.569	0.585	0.528	0.471	0.550
High technology industries	0.583	0.500	0.333	0.417	0.333	0.433
Medium-high technology industries	0.593	0.556	0.556	0.481	0.481	0.533
Medium-low technology industries	0.643	0.625	0.630	0.519	0.481	0.580
Low technology industries	0.500	0.500	0.682	0.727	0.500	0.582

Source: Analysis prepared by Boris Majcen and Matija Rojec in the framework of the Fifth Framework Programme Project: »EU Integration and the Prospects for Catch-Up Development in CEECs: The Determinants of the Productivity Gap«; *Notes:* ¹Data is based on a sample of 72 FIEs surveyed in 2002. The surveyed FIEs represent 53.6% of all fixed assets, 50.8% of all employees, 62.1% of all sales and 64.2% of all exports of FIEs in the Slovenian manufacturing sector, ²Calculated so that answers »considerable reduction« are weighted by -1.0, answers »reduction« by -0.5, answers »no change« 0, answers »increase« by 0.5 and answers »considerable increase« 1.0. The higher the indicator the higher the magnitude of change.

Changes occurring in FIEs after the engagement of strategic foreign investors are in the focus of interest of every host country seeking the positive development impacts of FDI. The above table describes the magnitude of changes in FIEs in Slovenian manufacturing since the engagement of strategic foreign investors in the fields of sales, export propensity, level of productivity in production, level of technology of production equipment and level of quality of produce. The magnitude of changes ranges between »considerable increase« and »considerable decrease«. The vast majority of FIEs experienced positive trends in the above categories following the entrance of a foreign parent company. The highest magnitude of changes has been in sales (average mark of 0.597), followed by the level of productivity (0.585), share of exports (0.569), level of technology (0.528) and level of quality (0.471). All in all, the magnitude of changes in all areas has been on average pretty much the same. Only very few companies experienced a »decrease« in some areas. Changes that foreign investors brought to the companies were therefore predominantly positive.

Spearman's coefficients of rank correlation between the magnitude of changes in individual areas show relatively high positive and significant correlations. This demonstrates not only that changes in one area are positively correlated with changes in other areas but also that, when changes are introduced, this does not happen in just one or two areas but on a broad scale of a company's operations and with a similar intensity. The magnitude of changes seems to fall with the increase of FIEs' technological intensity. The average magnitude of changes for FIEs in high technology industries is 0.433, in medium-high technology industries 0.533, in medium-low technology industries 0.580 and in low technology industries 0.582. In the level of productivity, level of technology and level of quality, the magnitude of changes consistently decreases with an increase in FIEs' technological intensity. Absolute differences in the magnitude of changes among various categories of technological intensity are, however, relatively small; all the changes are concentrated somewhere around +0.5, meaning an »increase«.

The table below deals with the issue of who has been the initiator of changes in the areas of organisation of business functions, number of lines of business, and sales and exports. There is no doubt that FIEs themselves and not their foreign parent companies are the biggest initiators of change. This is true for all the above areas, but especially in the area of organisation of business functions, where initiatives for changes have been solely or mainly put forward by FIEs in 75.0% of cases. In the areas of lines of business, the respective percentage is 61.1%, and in sales and exports 58.3%. This confirms the view that the position of foreign subsidiaries, to a certain extent, depends on their own ambitions.

Who initiated changes in individual areas of FIEs' operations?; %¹

Area of change	Organisation of business functions	Number of business lines	Sales and exports
DISTRIBUTION OF SAMPLE FIEs			
Solely/mainly FIE	75.0	61.1	58.3
Solely/mainly foreign parent company	25.0	38.9	41.7
INDICATOR OF INITIATIVE²	0.366	0.431	0.431

Source: see table above; *Notes:* ¹see table above, ²Calculated so that answers »Only FIE« are weighted by 0.0, answers »Mainly FIE« are weighted by 0.33, answers »Mainly foreign parent company« are weighted by 0.66 and answers »Only foreign parent company are weighted by 1.0. The lower the indicator the more changes in individual area were initiated by FIE.