Embeddedness of Economic Action in the Context of Neoliberal Globalization

Pathways of Slovenian Foreign Direct Investment

By Jaša Jarec

Submitted to
Central European University
Department of Sociology and Social Anthropology

In partial fulfillment of the requirements for the Degree of Master of Arts

Supervisor: Assistant Professor Balazs Vedres
Second Reader: Assistant Professor Alexandra Kowalski

Budapest, Hungary
2006
Abstract

The purpose of this thesis is to establish the logic that is used by Slovenian multinational companies when they are selecting geographical locations and concrete partners for their foreign direct investments (FDI). The point of departure is the broader context of contemporary processes of neo-liberal globalization, which I argue seek to put forward alleged universal economic principles of market rationality on a global level. After that, I construct a theoretical framework by setting these principles against the backdrop of those sociological perspectives that use the notion of social and cultural embeddedness in accounting for economic actions. A qualitative case study of selected Slovenian companies is conducted in order to examine the ways in which their decision makers decide about foreign investments. I argue that even though these decisions are to a considerable extent founded on the principles of economic rationality, they are at the same time embedded into decision makers' networks of social ties and cultural affinities. By using these ties, decision makers take a role of local actors who particularize processes of global marketization by appropriating them in their own specific ways.
Acknowledgements

I would like to express my sincere gratitude to my mother and father for their help, support and deep understanding.

I am deeply grateful to Vlasta for her help, support and unspeakable understanding.

I need to thank to Balazs Vedres and Alexandra Kowalski for all their valuable comments and suggestions.

I am grateful to Krisztina Bradeanu and Eszter Timar for their strong commitment.

Special thanks go to Anca Simionca for her comradely support and true understanding.

And finally, I also need to thank to all the others, who were with me...
# Table of Contents

Introduction............................................................................................................................1

Chapter 1: Literature Review ..................................................................................................5
  1.1 Slovenian FDI in the Context of Globalization.................................................................5
  1.2 FDI as a Type of Economic Exchange.............................................................................10
    1.2.1 The Logic of the Market in Economic Exchange......................................................11
    1.2.2 The Logic of Embeddedness in Economic Exchange..............................................14
      1.2.2.1 Social Embeddedness ......................................................................................14
      1.2.2.2 Cultural Embeddedness .................................................................................17

Chapter 2: The Research Design ...........................................................................................22
  2.1 Selection of the Cases.......................................................................................................22
  2.2 The Interviews................................................................................................................24

Chapter 3: Discussion of the Findings ...................................................................................25
  3.1 Researching FDI.............................................................................................................25
  3.2 The Role of Culture in Foreign Investments.................................................................26
  3.3 The Role of Social Ties in Foreign Investments..............................................................31

Conclusion ...........................................................................................................................37

References............................................................................................................................40
Introduction

In this paper I focus on foreign direct investments (FDI) of Slovenian multinational companies (MNC's), i.e. the companies which decided to expand their business operations outside the country. I will particularly focus on the process of selection of concrete geographical locations and partners which companies choose for their investments.

In general, the role of FDI in the global economy is constantly increasing. (Held, McGrew 2002) It is important to note, however, that whereas at the beginning of the 1990s more than 90% of MNC’s had their headquarters situated in developed countries of the West, the share of MNC’s originating in developing countries of the world steeply increased by 2004 (up to 50%), with significant participation of MNC’s stemming from post-transitional countries as well. An important fact which increases the significance of my topic is that out of all transitional and now post-transitional countries of Central Europe, Slovenian MNC’s have been among the most internationalized and have been realizing very high figures of FDI flows. (see Jaklič 2006 and Svetličič 2006).

The centrality of FDI in today’s globalization of the economy (and globalization in general), together with the peculiarity as well as the relevance of FDI in the context of transition and post-transition of Slovenian economy make this issue appealing and call for further research and investigation.

However, it should be noted that since globalization is not only a descriptive concept but also a discursive one (Rizman 2001), it does not suffice to look at it merely from the perspective of facts and figures. Ever since the world economic crisis took place in 1970s, the concept of
globalization has made a quantum leap from a mere empirical fact with deep historical roots to a new ideology of free market and neo-liberal economy endowed with explicit universalistic pretensions. Born as a pure “technical vocabulary” (Kalb, 2000) devised to resolve the grave crisis of post-war Western welfare states, it was soon transformed into a “policy prescription” (Mittelman, 2001) advocated and promoted by many powerful Western governments in conjunction with some influential international economic organizations and agencies. This attempt to change the world in accordance with that new global imagery (Rizman, 2001) shaped by ideas of a borderless free exchange of goods and services based on market principles, extended the concept of globalization to become a new social paradigm or a new grand narrative precisely at the time when grand narratives were proclaimed as dead (Kalb, 2004, Kalb 2000).

After the dissolution of communist regimes in Central and Eastern Europe at the end of the last millennium, the grand narrative of globalization pretended to spread its self-declared universalistic liberal political recipes onto newly established transitional countries as well. As a result, Slovenia—although it has been in many cases different from other countries in transition—commenced large-scale economic restructurings towards liberal market economy (Svetličič, 2000). By virtue of gradual adjustments of economic policies to the rules of global liberal economy, Slovenian companies needed to deal with the increasing pressures of global market competition. Many of them chose a strategy of investing abroad as a response to global challenges (Svetličič, 2006, Jaklič 2004). Therefore, the main question that arises and which I will try to answer in the thesis is: What kind of logic guides the decision-makers of Slovenian multinational companies, when they are selecting geographical locations and partners for their foreign investments?
Considering the rhetoric and recommendations typical of the narrative of globalization, which is founded on the premises of neo-classical economic theory (Svetličič, 2004), one would intuitively assume that the logic behind foreign investments of Slovenian companies is subject to the logic of profit-maximization based on the principles of market. However, we can also find a pool of theoretical knowledge that refutes the universalistic tendencies of the logic of the market, emphasizing the role of local actors which have a capacity to create their own local variations of global forces. Nina Bandelj, for example, argues that although they have to deal with pressures and prescriptions of global forces, “in practice, however, economic actors involved in the foreign direct investment transactions resist and particularize the global processes on the basis of their network ties, political circumstances and cultural affinities.” (Bandelj, 2004: 170). According to her, economic actors elude the logic of the market by sticking to their embedded social and cultural ties to help them select adequate partners for investment.

In short, I will conduct a research on selected Slovenian foreign investors to test how the contradictory character of globalization is reflected in their decisions to invest abroad. I will compare neo-classical economic theories of the market which I argue are inherent in the ideology of globalization with those sociological accounts that argue that economic actions are inevitably embedded in the networks of social ties and cultural preferences. These opposing sets of theories will help me both to establish the logic that prevails in the case of Slovenian foreign investment and to find out the ways how Slovenian MNC’s particularize the universalistic imperatives of globalization. I will argue that economic rationale that drives Slovenian investors to invest their capital abroad is embedded into the networks of social ties and cultural affinities.
The paper is divided into three chapters. In the first chapter, I place Slovenian foreign investments into the context of neo-liberal globalization and set theoretical framework for my research by comparing both economic and sociological views of the market exchange. In the second chapter I present the research design by describing the logic of selection of the cases and the type of the research methods I used. And the third chapter serves to present and discuss the main findings of the research.
Chapter 1: Literature Review

1.1 Slovenian FDI in the Context of Globalization

Globalization as a Grand Narrative

As it was indicated in the introduction, the issues of Slovenian FDI in general and Slovenian foreign investors in particular should be first considered in the context of (post)transition countries’ subjection to the forces of economic globalization designated above as an ideology and/or a grand narrative of globalization.

The grand narrative was born out of the economic crisis in the developed world in the mid-1970s. At the time, the old post-war Fordist type of production, embedded into institutionalized corporatist social consensus and the system of redistributive state policies started to lose its economic efficiency (Cox, 2002). Instead, the new strategies came into play, which “emphasized a weakening of trade union power, cutting of state budgets (especially for social policy), deregulation, privatization, and priority to international competitiveness” (Cox, 2002: 22). After that turn, multinational companies were recognized as major agents of globalizing the economy as they were given extensive freedom to choose the most favorable locations for capital investments in order to maximize their economic performance (Cox, 2002). Moreover, “[g]lobalization began to be represented as finality, as the logical and inevitable culmination of the powerful tendencies of the market at work. The dominance of economic forces was regarded as both necessary and beneficial. States and the interstate system would serve mainly to ensure the working of market logic.” (Cox, 2002: 23).

After the end of the Cold War in 1989 and the collapse of Yugoslavia in 1991, the grand narrative of globalization, propelled and propagated by a global political alliance between “market liberals” and “political liberals” (Kalb, 2004) spread from developed countries into
young post-socialist transition countries as well. Since the process of neo-liberal globalization is a political project, it has been primarily promoted by international political institutions that countries in transition started to associate with. These associational processes served to consolidate and legitimate transition countries’ position in the world community, and enabled them to become a constitutive part of today’s neo-liberal global culture which is being constructed, legitimated and propagated by such associational processes (Meyer et al. in Bandelj, 2004). Thus, as of its independence in 1991, Slovenia joined most of the major neo-liberally inspired international organizations, such as IMF, WB, WTO, OECD IBRD, UNCTAD and, not least, the European Union. As a result, Slovenian economic and other actors were increasingly subject to instantaneous top-down policy prescriptions, as “[g]lobal organizations exert formal and informal pressures on (aspiring) member states, such as Slovenia, to align their legislations with neoliberal institutions, promoting convergence in official economic policies worldwide.” (Bandelj, 2004: 174)

The ideology of globalization promoted by such global organizations seeks to depict globalization as a universalistic, trans-historical and indispensable process that is beyond the control of concrete local actors. It seeks to reduce existing social realities and complexities from particular locales to only a few sets of abstract factors and causal relationships, taking the logic of the market as a point of departure and claiming universal applicability, irrespective of local histories and territorial social developments. (Hugvelt in Svetličič, 2004, Kalb 2002) However, as it is marked by a synthesis of various (often contradictory) elements, an empirical process of globalization is in itself too complex and oftentimes paradoxical to be accounted for merely by such simplistic and reductionistic theoretical propositions.
The contradictory nature of globalization processes was succinctly epitomized by Ulrike Schuerkens:

In the emerging contemporary world, two processes of social transformation increasingly and inextricably intertwine. On the one hand, there are universalizing processes of modernization and globalization, mostly of western origins, that are spreading all over the world. On the other hand, there are tendencies to maintain traditional life-worlds, attempting at keeping up the authenticity of their cultures.” (Schuerkens, 2004: 1)

Instead of (or apart from) bringing general homogenization and integration of ideas and practices throughout the world, forces of globalization always need to interact with particular local settings, thus contributing to the new hybrid synthesis of global and local, integration and fragmentation and even order and chaos (Plevnik, 2003). In other words, globalization processes can hardly retain their original form, since they are subject to a tendency to be appropriated and particularized by local actors. Thus, while the latter are taking on a role of mediators between two different sets of forces, their local reaction to global currents very frequently results in “glocalization” (Robertson, 1995) of outcomes of their modes of action.

It is important to emphasize, that the grand narrative of globalization- although written in concrete political agendas, laws and codes- could not work out without being co-produced by particular local actors. As a consequence, according to Kalb, the outcomes of the pressures of globalization “(…) depend on social power relationships, local development paths, territorially engraved social institutions, and the nature of and possible action within social networks, and cannot simply be derived from any general framework (…)” (Kalb, 2004: 7)

Focusing on ground level analysis is thus crucial if we tend to grasp the issues of globalization in their whole multidimensionality.

*Neo-institutionalist Perspective*
As suggested above, on the very practical level, ideology of globalization manifests itself as a set of policy prescriptions, articulated from without (e.g. on the part of international and transnational organizations or even individual powerful nation-states), and in turn translated into national legislations of particular countries; this is especially true for countries in transition and other non-developed countries, which, according to Meyer et al. are but “enactors of scripts” and not truly “self-directed actors” (Meyer et al. in Bandelj, 2004: 150). Yet, in many cases the absorption of policy prescriptions, recommended by important global political players is only a matter of the aforementioned countries’ desired legitimacy vis-à-vis the world community and a consequential tendency towards isomorphism with the global institutional setting. (Bandelj, 2004) As small post-transitional countries such as Slovenia often do not have any option other than to converge their policies with those of the international (institutional) environment, it might well happen that concrete practices become decoupled from formal policies (Bandelj, 2004). In other words, even though certain formal policy measures are devised to function similarly everywhere, local actors might respond to them in their own way. In our particular case of FDI, according to Bandelj (her focus was on Slovenian inward FDI), due to the potential of decoupling of policy and practice “it is likely that processes of FDI allow for much negotiation and diversification at the practical level of business transactions, even though official policies establish a uniform response to global investors.” (Bandelj, 2004: 175)

When we look at Slovenia and its foreign investors in the context of the grand narrative of globalization, we should therefore take into account a distinction which has its roots in two different understandings of the neo-liberal globalization. While abovementioned market liberals (who are mostly economists) consider the process as a triumph of the market and/or market rationality, which has thus become liberated from all kinds of external »obstacles«,
there is another view, based on sociological neo-institutionalism\(^1\), which helps us to conceive globalization as a process designed and orchestrated by international institutions mentioned in the previous section. (see for example Carruthers and Halliday, 2007) That means that when (post)transitional states like Slovenia decide to adopt policies suggested and prescribed by these institutions, it does not necessarily mean that these decisions are the most efficient and rational. On the contrary, the quest for legitimacy vis-à-vis institutions of the world community makes them submit to the institutional myths, symbols and ceremonies which accompany the process of globalization, but do not always imply actual efficiency (Meyer and Rowan, 1977). In other words, while states and other organizations are becoming increasingly isomorphic in institutional terms and in fact subscribe to the principles of the Weberian type of bureaucratic rationality, that does not always imply that their decisions are truly rational in terms of improvement of efficiency or maximization of profitability (DiMaggio and Powell, 1983, Guthrie 2002). Neo-liberal globalization could be thus understood as a process in which a global culture or an ideology of rationality (market rationality in particular) is being disseminated through institutional arrangements which individual nation-states adopt without any guarantee that these arrangements optimally serve their interests. Consequently, the abovementioned decoupling of institutional policies and concrete practices might take place.

Using the conceptual tools of DiMaggio and Powell (1983), we could say, that as of its independence, Slovenia has been subject to both “coercive isomorphism” implied by its membership in international institutions and “mimetic isomorphism” whereby it has been copying the models from their institutional environment in order to reduce uncertainty and increase its own legitimacy. Decisions of the Slovenian state to adopt the neo-liberal global culture and apply it to its own institutional setting, however, exposed other actors to that

---

\(^1\) It is important not to confuse sociological neo-institutionalism with the new institutional economics.
culture as well. Thus, Slovenian companies were enabled to freely enter the international economic arena, which implied their increasing subjection to the rules of global market competition. As a result, many Slovenian companies have decided to invest their capital abroad, which would seem at first glance as a rational economic choice of international expansion of their economic operations. However, their decisions might be equally as in the case of the state, driven also by the motives of seeking legitimate cultural models and fashions, rather than only by the goal of maximization of their economic returns. Consequently, their concrete economic actions and particularly the decisions to make foreign investments might not necessarily reflect the global neo-liberal culture of market rationality, but could be based on some other (i.e. non-economic) logic. In the following few sections, I will therefore focus on a more abstract distinction between “the market” and “the markets”. That distinction between the economic primordial conception of the market and some sociological views on market exchange will later on help me to identify the logic that guides Slovenian companies in investing their capital abroad.

The broader context in which Slovenian foreign investment takes place, outlined in this section will further on serve as a framework for the two sets of theories which deal with economic exchange in more general terms.

1.2 FDI as a Type of Economic Exchange

An important point in my argument so far is that the profit-maximizing logic of the market, theoretically backed by neo-classical economics is an underlying principle of contemporary ideology of globalization. We should keep in mind that every FDI operation is actually an economic transaction with at least two parties involved. Therefore, I will now turn to the two opposing theoretical views on the very nature of economic exchange. First, I will present in more detail the market exchange as it is understood by classical and neo-classical economics
which I argue represents the *credo* of ideology of globalization (I call that view as “the logic of the market”). After that, I will confront those accounts with position of economic sociology which made a great step forward in undermining universalistic tendencies of economics (this view I call “the logic of embeddedness”). Both contrasting views will later on serve me as a basis to test the logic standing behind foreign investments of Slovenian companies. As a result, the way Slovenian investors respond to imperatives of the grand narrative of globalization will be elucidated.

1.2.1 The Logic of the Market in Economic Exchange

*Ideological and Intellectual Context of the Market*

According to Barber (Barber in Baker et al. 1998), it is one of the characteristics of economics that it automatically presupposes the existence of the market and hence never makes it a subject to investigation. For him, that taken-for-grantedness of the markets leads to the so-called “absolutization of the market”. The absolutization, in turn, happens to appear in two interconnected contexts, namely ideological and intellectual, both of which I will briefly describe below.

With regard to the ideological context, it is important to stress that from the 19th century onwards the logic of the market has exerted a strong ideological influence in the West. (Barber, 1995) The recent ideological wave born out from the grand narrative of globalization as depicted above is thus not a historical novelty. The powerfulness of the market as an ideological concept of modernity was for example nicely depicted by Karl Polanyi. According to him, economy and markets have always been embedded in both economic and non-economic institutions (Polanyi, [1957] 1999). However, with the raise of modern industrial societies in the 19th century, a politically installed “great transformation” brought about a situation that “[i]stead of economy being embedded in social relations, social relations are
embedded in the economic system” (quoted by Krippner, 2001: 780). Hence, the economic system became disembedded from all social institutions and began to “dominate all other principles of social organizations” (Krippner, 2001: 781). That means, according to Polanyi, that the market type of economic exchange became the governing mechanism of disembedded economic system in the 19th century. Barber illustrates market exchange as a type of exchange in which “the values and norms prescribe that each of the partners in economic exchange must behave like homo economicus, that is, as an economizing, rationalizing individual, considering only price, not other obligations; buying cheap and selling dear; treating all buyers and sellers impersonally and honestly.” (Barber, 1995: 398)

The intellectual context of the absolutization of the markets, on the other hand, is also of great relevance to my argument. Neoclassical economics has its intellectual roots in utilitarian tradition of social thought. According to this tradition, competitive markets operate perfectly only when they are liberated from all potential influences of social structures and social relations between actors. The father of classical economy Adam Smith, for example, regarded social relations as but an impediment to competitive markets, which can induce frictions among different economic actors. In his view, atomization of the individual is the only guarantee that markets will operate perfectly. (Smith [1776], 1991) Thus, markets are perceived as mechanisms that can be self-regulated and hence devoid of any need to be assimilated by their respective social environment. Albert O. Hirschman made an accurate and concise formulation of the concept of the perfect market, which according to him is characterized by large numbers of price-taking anonymous buyers and sellers supplied with perfect information…without any prolonged human or social contact between the parties. Under perfect competition there is no room for bargaining, negotiation, remonstration or mutual adjustment and the various operators that contract together need not enter into recurrent or continuing relationship as a result of which they would get to know each other well. (Hirschman, 1982: 1473)
Through its absolutization, the market became the principal explanatory concept in economy with the power to account for various types of economic exchange. (Barber, 1995; Lie, 1997). Hence, the principles of the market and the underlying self-interested, profit-maximizing and rationalizing behavior of atomized actors are basic assumptions of neoclassical economic account. As a result, all economic transactions and exchanges should be expounded through this optics according to that view.

**Arm’s Length Ties**

It is important to note that markets as depicted above constitute exchange systems in which economic exchanges and transactions are carried out by means of very specific ties, commonly called as “arm’s length ties” (see for example Uzzi, 1996 and Uzzi 1999). I already quoted Hirschman above, who conceived of arm’s length ties as economic transactions without any additional human or social relations between the parties. In a similar vein, Max Weber depicted these ties as not being sensitive to any social distinction and as not knowing anything about human honor (Weber, [1922] 1946).

Since arm’s length relations are essentially informed by the principles of the market, they are primarily motivated by an egoistic and profit-seeking behavior. Furthermore, as the principles of market are based on the notion of atomized individuals, the transactions in arm’s length relationships are “limited to the exchange of data on price and quality because it contains all the information needed to make efficient decision (…)” (Uzzi, 1996: 676). Most importantly, no information other than the information about the market characteristics of an exchange is needed for economically rational transaction. An important determinant of these ties is the impersonality of relationships which is believed to enhance the efficacy of the market transactions. If I refer to Brian Uzzi again, he argues that impersonal relations in the markets
“are thought to optimize efficiency by facilitating access to market information and by averting asset-specific/small-numbers bargaining situations that impede unilateral action and add needless coordination costs to interfirm exchanges.” (Uzzi, 1996: 676) It should be added that impersonal arm’s length ties engender economic relations, which are not long-lasting, but are episodic in their nature and occur only when specific economic transactions take place. After the transaction is ended, the interpersonal ties between the parties are ended as well. (Podolny and Page, 1998) Logically, the formation of the arm’s length economic ties is based on the classical economics’ maximization rule, which is transaction-specific and does not take into account any other possible intervening factors. (DiMaggio, Louch, 1998). These factors such as elements of social structure (or society in general) are considered redundant, “having only a marginal effect on performance relative to the impersonal, external, incentive-based logic of market transacting.” (Uzzi, 1996: 677)

1.2.2 The Logic of Embeddedness in Economic Exchange

1.2.2.1 Social Embeddedness

Sociological View of Economy

In spite of the ideological and intellectual powerfulness of the concept of the market outlined above, the concept has been nonetheless clashing with some serious and theoretically well-founded critiques. An influential critique, which is the most relevant to the present discussion comes from the field of sociology and emphasizes the role of social forces which I argue every economic activity is inextricably related with. An intellectual history of cohabitation between economics and sociology as academic disciplines is very complex and controversial. While boundaries between them were still rather blurred in the mid-19th century, the more clear distinction between the two began to take shape towards the end of that century. The separation became particularly evident after the end of the famous “Methodenstreit” in the 1880s where the ahistorical abstract-deductive model of economy won an important victory
over historically and socially oriented approaches and set up a paradigmatic framework with an important impact on further development of both economics and its neoclassical theoretical positions. (see Granovetter, Swedberg, 1992).

As I pointed out in the previous section, neoclassical economics occupied a rather dominant position within academic economics from the 19th century onwards. However, in the 20th century it succeeded not only in isolating itself from other academic disciplines, but made some expansionistic attempts to meddle into other areas within social sciences as well. As a result, the economic approach became a target of many critiques both from within and from without the discipline of economics. One of the important critiques, which triggered a great revival of economic sociology in the 1980s, came from the theoretical approach called the New Economic Sociology which used the notion of social embeddedness of economic action as the main conceptual tool to refute neoclassical assumptions about market relations.

The concept of social embeddedness is very important as a convincing theoretical alternative to the tendency of the absolutization of the market mentioned above. Though the basic notion standing behind the concept of embeddedness was contained already in the works of sociological classics and some other thinkers (see Lie, 1997) it was firstly used as a central method of economic analysis by Karl Polanyi in the mid-20th century (see the section above). The embeddedness approach was revitalized a few decades later by Mark Granovetter in 1985, when he published his famous AJS article titled “Economic Action and Social Structure: The Problem of Embeddedness” (see Granoveter, 1985). Soon after its publishing, this seminal work became both the main point of reference for the concept of embeddedness in the literature of economic sociology (Krippner, 2001) and an informal manifesto of the

---

2 One of the leaders of that theoretical expansionism is for example Gary Becker, who applied economic approach to account for almost every single aspect of social life (see Lie, 1997)
New Economic Sociology approach. Granovetter's article sparked a wide application of the embeddedness approach in various areas of economic life.

*The Role of Embedded Social Ties*

As a critique of neoclassical economics or economic approach, the notion of social embeddedness contends, that social relations and social ties have an impact on economic action. In the article mentioned above, Granovetter paradigmatically suggested that

> [a]ctors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations. (Granovetter, 1985: 487)

Whereas the economic approach stipulates that markets as mechanisms with self-regulating propensity should be but minimally affected by any type of non-market (i.e. social) influences- these influences were often condemned for having an adverse effect on the functioning of market mechanisms- the proponents of embeddedness approach suggest that embedded ties are nearly indispensable in any market exchange. Uzzi concisely defines social embeddedness “as the degree to which commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social, non-commercial attachments to govern business dealings.” (Uzzi, 1999: 482) That implies that the logic of social embeddedness differs from neoclassical economic accounts of economic exchange substantially, shifting the focus from impersonal and atomistic market relations to the existence of social ties between actors of economic transactions. According to the logic of social embeddedness, social ties have a power to considerably alter the economic performance of actors, inasmuch as they shape economic actors’ expectations and opportunities in a very specific way. (Uzzi, 1996) Indeed, these ties may easily inflict some mandatory and sometimes unproductive constraints upon individuals as every social structure does, however they frequently act as a necessary condition for efficient economic action.
The embeddedness approach has been commonly used in studying economic organizations (companies) and their networks of embedded ties, which is particularly relevant to my research. Gulati and Gargiulo (1999), for example, demonstrated in their study of the origins of interorganizational strategic alliances, how companies and key individuals thereof rely on their networks of previous business and personal ties in order to obtain the proper information about potential partners’ profile and consequently their adequacy for economic cooperation. According to them, information about competencies, needs and reliability of potential partners, which are a key to success of any joint business action, are only hard to acquire through impersonal arm’s length contacts. The authors stress that the main uncertainty of such business cooperation derives from an “[i]mperfect information about potential partners [which] raises search costs and the risk of exposure to opportunistic behavior.” (Gulati and Gargiulo: 1440) What they imply is that social ties function as a catalyst of economic exchange. That means, as Brian Uzzi (1996) suggested in his study of apparel firms in New York that social relations perform some elementary functions in economic transactions. The most important function is a generation of trust, which acts as a governance mechanism of social ties, enabling a voluntary exchange of some very valuable resources which could otherwise not be obtained via arm’s length relationships. Once the trust is established, it also facilitates an exchange of thick and fine-grained information that is possible due to the quality of social ties, as the latter is somehow in the function of the former. In other words, “[s]ocial relations make information credible and interpretable, imbuing it with qualities and value beyond what is at hand.” (Uzzi, 1996: 678) Both generation of trust and transfer of thick information are most commonly argued to be the leading functions and features of embedded relations, usually unavailable through the channels of pure market economic transactions.

1.2.2.2 Cultural Embeddedness

The Role of Culture in Economy
Beside the concept of social embeddedness elaborated in the previous section, there is another (complementary) approach in the sociological research of economic action which should be taken into account when investigating the routes of FDI, i.e. the approach associated with the concept of cultural embeddedness. Nina Bandelj distinctly explicates the relevance of that concept by asserting that

(...) foreign investment does not have only structural implications that lie outside the experienced and meaningful social lives of actors on the ground. On the contrary, FDI, as other economic activities, is imbued with meaning and ideas about the appropriate economic strategies, goals and media of exchange, and it is shaped by the cultural conceptions of transaction partners. Researchers refer to this role of understanding and meanings in economic life as cultural embeddedness. (...) It tells us what kind of cultural resources individuals use in framing their conceptions of economic processes, as well as how these individuals attempt to influence and transform collective understandings surrounding cross-border economic transactions. (Bandelj, 2006: 5)

When the new economic sociology approach has been vividly developed after Granovetter’s publishing of his classic article mentioned in the previous section, it was predominantly the social network dimension which was widely applied in explaining economic phenomena. Cultural dimension, on the other hand, has been used less frequently, dealing by and far with marginal economic topics\(^3\), and was therefore marked by Swedberg as “a minority perspective” within economic sociology (quoted by Bandelj, 2006: 7).

Nevertheless, I regard cultural aspects of economic phenomena, particularly when it comes to the research of FDI as rather substantial and think that they should therefore be considered parallel with the social embeddedness approach. It is a very common view today that it is primarily economic relations which affect people’s ways of thinking, whereas the fact that culture may equally shape economic matters is repeatedly ignored. (DiMaggio, 2004). An important analytical distinction which should be made when we deal with the cultural aspect of economy is the one between elements of culture which are constitutive and those which are

\(^3\) It was used mainly to account for economic phenomena such as informal economies, sexual economies, household labor etc. (Bandelj, 2006)
regulative to economic action. DiMaggio (2004) suggests that these two groups of elements generally overlap with two basic theoretical approaches about the relationship between culture and economy. One approach understands culture as inseparably intertwined with economic action\(^4\) and therefore emphasizes the constitutive elements of culture, contending that culture “provides the categories and understandings that enable us to engage in economic action.” (DiMaggio, 2004: 28). The other approach\(^5\), however, perceives culture and economy as two separate spheres and puts an emphasis on elements of culture that are regulative to economic action, explaining how “norms and conventions constrain the individual’s untrammeled pursuit of self-interest.” (DiMaggio, 2004: 28) Both accounts in one way or another presuppose the existence of the so-called “cultural effect” (DiMaggio, 2004), i.e. the susceptibility of every economic action to a cultural context in which it occurs.

**Cultural Construction of Economic Exchange**

Following the notion of cultural embeddedness of economic exchange, Lyn Spillman (1999) argues that one possible way of researching cultural aspects of the economy is to look at how parties of market exchange are culturally constructed and imagined. In her view, parties of exchange are usually perceived as “the others” who might be considered either as individuals or as parts of larger social groups (e.g. corporations, nations, families etc.). Thus, parties of exchange are subject to a culturally constructed social imaginary and delimited by various types of symbolical boundaries. Spillman corroborates her argument by re-contextualizing Benedict Anderson’s concept of the “imagined community”\(^6\) in order to demonstrate how social imaginaries operate in the field of economy. She suggests that since they are embedded in their respective cultural contexts, economic actors recognize their parties to exchange on

\(^4\) In his work «The Protestant Ethic and the Spirit of Capitalism», Max Weber generated a *locus classicus* of this view on relationship between culture and economy. Needless to say, that approach is mostly applied by sociologists and anthropologists.

\(^5\) That approach is the most common in economics.

\(^6\) Originally, the concept was constructed to account for the birth of modern nation.
the basis of some pre-defined cultural conceptions. Consequently, “[p]otential transaction partners may be implicitly or explicitly seen as limited by geography, existing social networks, class, ethnicity, race, gender, nation and so on (sometimes even ethical or religious commitments), but shifts in the range of potential market partners is a frequent matter of contestation.” (Spillman, 1999: 1056) Spillman’s observations thus pose another potential obstacle to the pure profit-maximizing rule of market exchange advocated by neoclassic economic accounts.

Cultural embeddedness as described in the previous paragraph is particularly significant for studying the logic of foreign investment. Bandelj (2004) suggests that when a company transfers its capital abroad, it not only carries out an international economic transaction, but also obtains a lasting interest in a newly established or acquired company. Lasting interest implies a lasting influence on the management of foreign company that might bring some specific implications for relations between investor and host. Since particular cultural and national environments breed particular organizational cultures, managerial practices and managerial ideologies (see for example Boltanski 1990, Hofstede and Peterson 2000, Weber 2000), it might be of great importance for investors to choose host countries which they find congenial in terms of their cultural or national values and practices. (Bandelj, 2004). In other words, cultural and/or national characteristics of a host company might serve as an important signal for investors in making decision about geographical location of their capital.

Cultural compatibility mentioned above could be theoretically linked to what DiMaggio (1993) described as “cultural matching”. According to him, economic actors search for their potential transacting partners not only through different networks of relations, but carry out the process of identification and assessment of partners by taking into account their own “folk
conceptions of networks” as well (DiMaggio, 1993: 125). That means that apart from paying regard to potential partners’ individual attributes, actors are guided also by their own cognitions, i.e. “the ways in which people express themselves- the values, norms, or attitudes that can be read into their utterances and more elusive aspects of style.” (DiMaggio, 1993: 126) Cognitions help actors to establish sympathies with potential partners which may serve as a basis for belief in their compatibility. In DiMaggio’s words “sympathy is constructed in part out of categories (like us/not like us) and in part out of ongoing interactions in which participants form strong impressions (confidence, distrust) on the basis of the form and content of utterances (…)” (DiMaggio, 1993: 127) In other words, general reputation or some other potential partners’ qualities might not suffice for transaction to take place. Instead, actors use cultural typifications and categories before entering into transaction process. In short, cultural matching is tightly linked to the process of assessing sympathy with potential partners in economic exchange. Thus, cultural matching is also a process, “in which actors rely subliminally on verbal and nonverbal cues to estimate cultural overlap, experienced comfort/discomfort and confidence/unease.” (DiMaggio, 1993: 127) As such, the process of cultural matching is an aspect of cultural embeddedness of economic action which might prove useful for understanding companies’ decisions to invest their capital in particular cultural or national setting.
Chapter 2: The Research Design

2.1 Selection of the Cases

As the focus of my research was on the agents of Slovenian foreign investment- multinational companies- I could have dealt with a rather wide range of potential informants. Therefore, I had to make a wider selection of the companies which I should try to approach. The selection process could be divided into three major parts (as follows).

First of all (and most importantly), I drew upon the statistical data from 2006 which shows, that 60% of Slovenian FDI is situated in the countries of former Yugoslavia. (Jaklič, 2006) My theoretical framework, i.e. the opposition between the logic of market and the logic of embeddedness made me think that a high percentage of Slovenian outward investment in the countries of ex- Yugoslavia might be linked to the pre-existing business and personal ties that Slovenian investors had established in that region. Similarly, cultural matching between Slovenian investors and former Yugoslavian hosts is presumably higher than in the case of other nations (due to linguistic and historical linkages with former Yugoslavian countries). Therefore, I would expect that companies which have been investing in these countries were not guided merely by a pure economic or market interest to choose the target countries and partners for their foreign investment. As a result, I decided that Slovenian companies which predominantly invest in former Yugoslavia should be taken into consideration. On the other hand, however, I thought it is important to select also those companies which invest throughout the world. Drawing upon the same theoretical framework, I think these companies should be selected in order to see whether the logic which guides their investments is any different from the logic in the case of investments in former Yugoslavia. It should be emphasized, however, that the two groups were not chosen in order to make a direct comparison between them, but to cover two groups which are rather typical among Slovenian
investors. Furthermore, due to the qualitative character of my research approach, the selection of the cases did not aim at getting a representative sample of Slovenian foreign investors, but to acquire as much diverse thick information as possible.

Secondly, I took into account the empirical fact that apart from many large companies, there is an ever increasing number of medium-sized and small companies which make their investments abroad. Thus, I divided each of the two groups from the previous step of selection (former Yugoslavian and global investors) into three categories, i.e. small, medium-sized and large investors to get altogether 6 cases.

Once the target groups of companies were selected, I started to identify concrete companies/cases. At this point, I was primarily taking advantage of my own networks of social ties to access the companies that match the categories identified above. Consequently, I obtained the following 6 cases: 1.) small retail and wholesale company investing in former Yugoslavia, 2.) medium-sized mobile telecommunications operator investing primarily in former Yugoslavia, 3.) large automotive components manufacturer investing primarily in former Yugoslavia, 4.) small IT solution provider investing throughout the world, 5.) medium-sized steel building product manufacturer investing throughout the world, 6.) large corporation (they deal with manufacturing of wide range of products such as components for heating, ventilation and air-conditioning, automotive industry and power tools) investing throughout the world.

In each of the selected companies I conducted an interview with one person who tightly participates in decisions about foreign investment. In both cases of the largest companies, however, I interviewed two persons in order to get an insight into entire span of their
investments, which could not be covered by only one person (due to the size of the companies). In most cases managers of high ranks were interviewed, except for one case when the interview was made with a well-informed corporate lawyer.

2.2 The Interviews

My questions had a purpose to acquire a thick description of the whole decision-making process about foreign investments, from the very first idea about investing abroad to the final choice of locations and partners for their foreign investments. By asking questions, I wanted to identify the entire set of motives that led the companies to specific countries and partners. Therefore, I thoroughly questioned my informants about the reasons for choosing specific countries and the channels through which the contacts with their foreign partners were established. Although I was aware that it would be utopian to expect that the logic of the companies is devoid of any market rationality, I wanted to map the possible limits that are set upon that rationality in the case of investing their capital abroad. Thus, they were asked about why they were considering and finally selected certain options (i.e. countries, locations, and partners) and why they excluded some others. By answering these questions, informants made a brief reconstruction of the entire path of their investments, taking into account as many factors that influenced their decisions as possible. With an insight into the constellations between all these factors, I was enabled to compose the logic which stands behind the decisions of investments in my selected cases.

In the research, I used the technique of in-depth interviews, the content of which was later on qualitatively interpreted and conceptualized. Technically, the interviews were formal, face-to-face and semi-structured, and lasted approximately 50 minutes on average. All respondents except one were male. Altogether, 8 interviews were conducted.
Chapter 3: Discussion of the Findings

3.1 Researching FDI

According to Bandelj (2002), the most of the research on FDI (especially as regards countries in transition) has been so far oriented on abstract relations that allegedly exist between an investor and a host country. Most of it has been based on neoclassical economic assumptions, that the maximization of profit is the dominant principle which guides the logic of choosing sites of investment. According to this research, there are no other economic actors or other factors, which would significantly affect that logic of investment, since the motive of profit-maximization by itself does not require any external (i.e. non-economic) incentives. Therefore, the only relevant set of information which interests companies when they are considering options of investing their capital, is the information about a host country’s economic as well as political characteristics. In other words, those countries whose economically measurable features promise the highest economic returns have the highest chances to become the targets of investment.

These methodological approaches usually concentrate on some specific economic indicators, which are believed to be the key determinants of FDI flows. The analyses of market potential and measurements of key cost factors are for example the two common tools which take into account some key hard indicators and are regarded by these approaches as the starting point of every decision for investing abroad. Adding to this also an assessment of potential countries’ political climate for investment, we can conclude that “(…) prior research on the determinants of FDI flows focuses, without exception, on the effects of country characteristics. This research treats foreign investment markets as atomistic, assuming that economic actors are independent from one another.” (Bandelj, 2002: 416).
Findings in economic and cultural sociology presented in the first chapter call for a different methodological approach to complement or perhaps even alternate economi(sti)c models, which have been predominantly applied in studying FDI in (post)transition countries so far. As regards Slovenia, there have been few attempts to use sociological approach in studying FDI (see Bandelj 2002, 2004, 2006). Therefore, I hope the findings of this research will expand the existing pool of knowledge on FDI in Slovenia by putting the dynamics of outward FDI of Slovenian companies into a ground-level sociological perspective.

3.2 The Role of Culture in Foreign Investments

Matching of National Cultures

Since the objects of this research are Slovenian companies, it would be naïve not to expect that their actions are basically oriented towards the pursuit of some kind of economic utility. However, what I was particularly interested in is how that pursuit could be in various ways “accommodated” by other, i.e. non-economic factors. The basic statement of my thesis, i.e. that economic action is embedded into social structure was concisely summarized by one of the respondents who commented on the rationale standing behind the foreign investments of his company in the following way:

Well, that’s how it is, the utility is one of the factors, because we are rational creatures, and this is also the way we behave, however there are often also certain ties underway… (Large, ex-Yu)  

As far as the cultural aspects of economic action is concerned, it became clear during the interviews that respondents are fully aware of the particularities of the “imagined community” which they belong to and the fact that foreign investments necessarily lead to dealings with other cultural universes. However, the respondents differed in terms of the significance they ascribe to the cultural factors when they are making decisions about investing abroad.

---

7 Respondents are referred to with regard to the type of the company they represent, i.e. according to the size (small, medium, large) and the direction of their investments (ex-Yu, world)
According to DiMaggio (1993), economic actors perceive each other through sets of cultural attributes, which can differently affect their willingness to cooperate. He argues that cooperation is more likely when actors’ experiences engender shared perspectives and potential content for their conversations, which makes their attributes being closer and more similar to each other. That does not mean that they have to be completely similar, however they should find a “cultural match” which helps them orient to each other.

The significance of the cultural match was underlined by most respondents, however it affects differently their decisions to invest abroad. A director of a small company investing in former Yugoslavia clearly expressed that a cultural sympathy played an important role when he was deciding to expand his business abroad. Even though he is aware that there are some other countries in the Slovenian neighborhood which are potentially interesting for investment he did not take them in consideration because:

> For us, it is the easiest way to penetrate into the markets of former Yugoslavia, because in these markets we are familiar with the language, we are familiar with their culture and that’s it. In a word, it is easier for us to penetrate into these markets than into Albanian market, Bulgarian market, when you don’t know the language, culture, customs, it’s much more difficult. (…) You know how it looks like to talk to a Serb for example, it’s easy, and *we can immediately understand each other*[^8]. (Small, ex-Yu)

The above statement is particularly interesting in the light of the respondent’s general attitudes towards globalization of economy. When he was asked about the theoretical geographical limits of his investments in the hypothetical case of possessing unlimited financial resources, he revealed his principal orientations:

> The whole world, the whole world… Absolutely, my thinking is global, but it is financially restricted. (…) Globalization is a trend, it is a future, global thinking is a future. (Small, ex-Yu)

[^8]: I put that sentence in italics since the respondent said it in Serbian language in order to highlight the importance of knowing the language.
We can see how despite the explicit global orientation of the decision maker, the investments of his company were particularized and directed into a geographically and culturally very specific area. The investment certainly would not have been made if the market potential of these countries did not promise any economic benefits, however the decision maker’s own cultural typifications made him differentiate between potential foreign locations for his capital.

A similar logic was noticed also in the case of the large company which has its foreign investments throughout the world. Although their economic operations have a global span and are always economically firmly justified, the manager responsible for international business whom I interviewed showed that in some segments of their business the decisions happen to be influenced by a “cultural homophily” they feel towards some countries (particularly those of former Yugoslavia). Thus, when they were considering investments in the broader region of Eastern Europe, a cultural effect influenced their final decisions in a way that they excluded some countries on the basis of “shared perspectives” with the others:

When we were making decisions, we definitely go first in Bosnia or Serbia and not in Russia or Romania, finally we know each other well, they look at us differently, it is different, I think that it is still much easier to have production in former Yugoslavia, because Slovenia has certain image there and that is also important. (Large, world)

Whereas on the one hand the feeling of cultural match prioritizes certain countries, it obviously also has a flip side of excluding the others. Some interviewees clearly emphasized that in spite of large economic opportunities, which exist in certain countries, the cultural incompatibility may aggravate business operations there. In many cases, these incompatibilities need to be dealt with if the economic logic demands so, however sometimes the gulf between the cultures is so large that it can prevail over pursuit of pure economic goals. Thus, a manager of the small company investing throughout the world depicted how
the clash between economic rationale and the cultural mismatch might sometimes become unbearable:

We had had a company in Hungary and later on we closed it. Nobody actually knows why, but my personal experience with Hungarians was that they weren’t really compatible with us. Well, that’s not the main reason why we do not have the company in Hungary anymore, but I was responsible for a part of operations at that time as a project manager and it was really not simple to work with them. If I could personally decide at that time whether I would rather work with our partners in Bosnia, or whether I would rather go and establish a company in Serbia, I would rather decide to go to Bosnia or Serbia and not to Hungary. (Small, world)

However, as mentioned above, economic factors and economic interests are oftentimes so strong that decision makers should seek to ignore cultural divergences when considering locations for investments and stick to the pure economic calculus. In this case, cultural match can nevertheless play a role of a catalyst of the process of investment, since it enables both investors and hosts to take advantage of their “shared perspectives” and cooperate more effectively and smoothly. Whilst economic opportunities are the principal incentive to select a location of investment, the closeness of their cultural attributes facilitates the economic transaction from the very beginning. In this vain, a lawyer from a large company investing mostly in former Yugoslavia explained the reasons for the strong presence of their foreign capital in that region:

Cultural ties of course have an impact, one might even draw a brief conclusion that this is why we are present in the countries of the former Yugoslavia. But no, we understand ourselves easier, that’s the fact which of course helps us to find a common ground already at the beginning of the cooperation which we later on build on in the further cooperation, so cultural similarities are very important. But there is no big philosophy here (…) we deal with a branch, which is very demanding and does not allow for doing whatever you want, so we are required to understand each other. (Large, ex-Yu)

Matching of Organizational Cultures

Cultural effect that I have been discussing so far is associated with the compatibility of both national and organizational cultures between actors in foreign investments. According to Hofstede and Peterson (2000), particular national cultures often imply specific organizational cultures in companies. A mismatch of not only national, but also organizational cultures
between investors and hosts\textsuperscript{9} may deteriorate the economic performance of a company which is a target of an investor’s capital. Some respondents confirmed that by explaining how the examination of a potential host’s organizational characteristics is mandatory before making a final decision about investment. That implies that in case the discrepancy between the two organizational cultures is too high, decision makers might decide not to carry out an investment, even if economic opportunities are theoretically promising. One interviewee described that factor as follows:

Wherever we come, whoever we start to cooperate with and whenever we talk about the decision, impressions are very important, impressions that you get when you talk to the people in other companies. Thus, you can see whether they are optimists or pessimists, whether they are positively oriented or negatively, whether they are hardworking or not, what kind of views they have, whether they treat you as an enemy because you are a foreigner… All these are elements that contribute to the final decision. (Large, ex-Yu)

Some companies develop distinctive organizational cultures which are different from typical national organizational cultures, but they nevertheless impact their decisions about foreign investments:

I think we have developed our own culture, which means a little bit more than Slovenian culture, we are so much international that I would hardly say that we have characteristics of Slovenian companies (…) We have developed some values, which many Slovenian companies don’t have, so they are not typical of Slovenian companies, but of our company (…) You can somehow feel that you could cooperate with someone (…) due to these values which are in our company recognized as values and upon them we build our business politics and strategy and we somehow expect them from our foreign partners which we find somewhat close if they have them. (Medium, world)

\textit{Dealing with Cultural Mismatch}

As economic interest is an important motive of the companies’ investments of their capital abroad, it is logical that they seek to overcome and accommodate cultural mismatches whenever it is possible and as much as possible. Matching of national cultures is clearly more important while companies are still at the initial stages of foreign investment, when the lack of experience increases the uncertainty of transaction and when the possibilities to choose

\textsuperscript{9} That applies to those foreign investments which contain a merger or an acquisition of another company.
among different countries/locations are higher. However, later on companies often need to set themselves free from the “chains” of cultural embeddedness and are obliged to pursue their economic goals irrespective of any cultural obstacles. This was particularly true for those interviewees who work in companies that invest throughout the world:

Where you clearly know, where it is clear that you have to do it globally, you go globally, regardless of cultural matters. If the others are there, you can do it, regardless of cultural differences. (Small, world)

We are now present in about 50 countries (…) So we started to go beyond that cultural closeness, which we used to treat as our potential. Our strategy now is the world, we are becoming global and in this respect we have to get used to everything. (Medium, world)

Some respondents also explained how perceptions of cultural match could be relative, as they are changing with regard to decision makers’ experience of investing abroad. It means that the more a company invests in various countries of the world, the broader is the circle of the countries which could be considered as culturally close and compatible. This was illustrated by a manager of a medium-sized company who has experience of investments throughout the world:

We feel at home all over the Europe, so when you arrive back in Europe from some other continent you already feel at home. So these differences are now so small in Europe that they are not important for us anymore. However, there are some countries outside Europe that are different in their ways of living, such as China, Brazil or Japan, where these differences will play an important role again. We will have to somehow overcome these thing and these are our opportunities, our challenges. (Medium, world)

3.3 The Role of Social Ties in Foreign Investments

In a high number of foreign investment operations, investors have to find partner(s) on the very spot of operation with whom they carry out an economic transaction of investment. These partners could be either owners of the company which is being acquired or bought through the investment, or partners who cooperate in establishing a new company abroad, or some other economic subjects. My research showed that pre-established (embedded) ties with foreign partners play an important role in making decisions about investment. It would be an
exaggeration to assert that these ties can affect the choice of the countries in which capital is
invested, however once the country is selected they serve as an important tool of searching for
partners of investment. In this section I will present how, why and what kind of ties are used
by Slovenian investors when the decisions about concrete partners of investment are being
made.

The Ways of Formation of Embedded Ties

In theory, there are two most common sources that companies and other economic actors use
for creation of embedded social ties. The first source is associated with what Granovetter
(1985) calls “trusted informant” and implies one actor’s indirect linkages to another one by
means of a mediator who creates expectations of trust between the two by virtue of his/her
pre-established embedded ties with both of them. However, there is another source of
embedded ties, which is often even more reliable and comes from direct pre-existing personal
or business links between actors. (Granovetter, 1995; DiMaggio and Louch, 1998; Uzzi 1996)
According to Granovetter, the latter is cheaper, richer in terms of information, more
trustworthy and even more endowed with social content which reinforces trust among actors.
Both sources have a power to shape economic behavior significantly (particularly due to their
capacity to improve economic performance) and oftentimes interfere with atomistic picture of
economic exchange advocated by neoclassical economic accounts. Both ways of formation of
embedded ties were proved very common among my interviewees and very important in
making decisions about partners of investments.

Respondents mentioned the use of trusted informant less frequently as a source of choosing
investment partners in comparison to direct pre-existing relations. However, in some cases a
trusted informant served as a crucial source of identification and selection of partners. One
respondent, for example, explained how he was looking for a partner in Kosovo which his
company required in order to establish a new subsidiary company there. Though he was given many offers by other business persons in Kosovo, he finally chose the one proposed by someone he knew from before:

This partner was actually brought by one relatively strong politician and two other Slovenians, who said that he’s phenomenal. And then our CEO met with him, found out that he is one of the strongest businessmen in Kosovo and made a decision to take him. So the decision was made upon the recommendation of one politician and two other people, who said that he is probably appropriate. I also had contacts with some other people in Kosovo and they were all telling me how powerful they are (…) But we decided to take him and if I look at it from today’s perspective we chose the right person. (Medium, ex-Yu)

Direct pre-existing personal ties were more often reported as a source of finding partners. As mentioned above, these ties were usually activated after the selection of the country of investment was already done. Nevertheless, one interviewee told me how pre-established embedded ties actually determined the choice of the two countries in which his company moved its capital:

We arrived in Bosnia, because we used to have many people from Bosnia employed here in Slovenia, who wanted to move back in Bosnia after the war ended there. And because we didn’t want to lose our best cadres, we asked them: “If you really want to go home, why wouldn’t you work for us in your country?” And that was the direct reason why we established a company there. Then, one of the reasons why we established a company in Ireland is because our ex director of sales moved in Ireland, so even though it was a greenfield investment we did not go into completely unknown environment. (Small, world)

The Role of Embedded Ties

In most other cases, pre-existing ties did not determine the country of investment, but had a strong impact on the selection of concrete partners. According to Uzzi (1996), embedded ties divert economic actors’ motivation away from the pursuit of immediate economic benefits towards trust and reciprocity which enrich relationship among economic partners and reduce transactional uncertainty. This is very important in our particular case of foreign investments, which usually demand high financial inputs and are therefore in their nature relatively risky economic operations. Trust in partners thus guarantees the sustainability of investments, which I found more important than immediate and quick maximization of profit. As it was
mentioned in the first chapter, once a trust is established it opens opportunities for exchange
of thick information which may even further reduce the risk of economic partnership. The
following two statements of my respondents shed a light upon the importance of trust and
thick information exchange in foreign investments that could only be achieved through
socially embedded ties:

It is very important to go into a business with someone you know, that you know that (s)he
can do that business. You won’t take someone… Well, an initial price of investment is very
high and you need to know what you invest your capital in, so it’s good to know the partner, to
know that (s)he knows how to do the business. (Small, ex-Yu)

In general, the role of these ties is that something grows from something which happens in a
random business. It is essential that the scope of business cooperation with a partner spreads,
for doing only one business with someone means only a one-time business act, which cannot
be a basis for partnership or for a long-term cooperation. It means, that the relationship is
growing and when it grows up to the critical level, when you recognize that an opportunity
could be bigger, you put your proposal on the table or you expose that question in on of these
discussions, when you talk also about some other, non-business things. So it’s about a
continuity of growth, of common cooperation and in this way an idea can be born and of
course, if environment allows us to go, then we go. (Medium, world)

Many respondents explained that they mostly know all relevant actors in their particular
branch of business, whom they have met either through formal business cooperation or
through some other kinds of personal meetings. These specific business circles in turn help
them to identify individuals whom they find adequate partners to cooperate in foreign
investments. Selection of concrete partners, however, is sometimes not determined only by
their economic proficiency and potential, but also by some more intimate factors:

We work in a branch where people know each other. (…) There are many companies which
we met on different occasions and then we also made some joint projects, but it is essential to
recognize that you could cooperate with concrete partners from the human point of view, and
that’s it. (Medium, world)

Arm’s Length Ties

In some instances, arm’s length ties can serve as a basis for establishing a contact between
investors and hosts, and are eventually transformed into an embedded tie. According to Uzzi
(1996), an arm’s length tie could be modified into an embedded relationship, if an exchange
between economic actors brings forth concrete cooperative expectations as well as voluntary
contributions of new resources to the relationship. If that process is being repeated, it can
“emancipate” from the initial economic goals and makes that not only economic transactions
are embedded in social relations, but that the latter become reversely embedded in economic
transactions as well. Some of my respondents confirmed that sometimes an initial impersonal
arm’s length tie might result in an embedded tie that in turn helps them to make a choice
about the partner for investment. The following statement makes an example of that kind of
transformation of the nature of ties between Slovenian investor and some companies that
eventually became hosts of its capital:

Some of the hosts were our business partner already before, however with some of them we
did not have any form of cooperation before. It means that they only made an offer to us,
saying that they have certain capacities and people who have experience with that work. And
this does not happen overnight, it somehow “ripens”, cause as our market share grows, our
needs to have capacities grow as well. (…) And in this way cooperation is born, even there
when it did not exist so far. So first there is a cooperation and after that sometimes even
something more. (Large, ex-Yu)

Only few interviewees mentioned that the selection of partner was based on atomistic arm’s
length principle. I mentioned in the first chapter that relations in that type of exchange are
reduced on the data on quality and price which are considered as sufficient information to
make efficient and rational economic choice. Links between economic actors are impersonal
and information that is shared between them is strictly public market information, which does
not contain any voluntary transfer of distinctive private knowledge. (Uzzi, 1999) Respondents
who reported the use of arm’s length ties did not refer to any particular advantage of that type
of searching for partners for their investments. They explained that once they identify a
country with high market potential or high economic opportunities, they simply have to invest
their capital there, as this is what economic logic demands from them. Although they agreed
that the existence of pre-established embedded ties in selected countries usually facilitates the
choice of partners, they should not be prevented from investing their capital in the case of
absence of any kind of ties. In that case, they select a partner whom they find the most adequate from the economic point of view:

In the last couple of years we have been very active on the field of acquisitions. In most cases, we are contacted by advisors of the companies which are being sold, so we get offers and if it is potentially interesting, we react. (…) In this industry, people know each other, but otherwise advisors find us via internet. (…) Of course, it helps if you already have a team there, but if not you just have to set it up. We will now for example make a greenfield investment in Russia, though it is better to buy something that is already set up, where there is a team of people, so it is definitely better to have a local contact who can help you, but this is definitely not decisive. (Large, world)
Conclusion

The aim of this thesis has been to establish the logic used by Slovenian foreign investors when they are looking for and selecting locations and partners for their foreign direct investments. I have defined foreign direct investment as an economic transaction or an economic exchange, which includes (at least) two economic actors, i.e. an investor and a host (partner). I argue that after its independence in 1991, Slovenia started a process of association with prominent international institutions, which are agents of the promotion and implementation of a global culture or an ideology of neo-liberalism. As a result, both the state and economic actors have been increasingly exposed to the imperatives of the market and the processes of marketization inherent in that ideology. Thus, my research focused on the question if and to what extent the logic of the market is reflected in Slovenian foreign investors' decisions to invest their capital abroad.

I have argued that Slovenian foreign investors are economic subjects, who decide to expand their business operations abroad primarily in order to pursue their own economic interests. However, although the maximization of profit- a governing principle of the logic of the market- is undeniably a constituent part of these interests, the economic decisions about investments are embedded both into investors’ cultural contexts and imageries and into their networks of social ties. The embeddedness of their choices has been manifested in various forms and is found on different stages of their decision making process.

When decision makers select the host countries for their investments, they usually take into account cultural compatibility with other nations, which derives from cognitions and imageries they construct about their own cultures. When they ascertain a match in either a national culture of a particular country or an organizational culture of a particular partner,
they consider these locations differently than if there is an absence of any shared cultural perspectives. Cultural (mis)match, in turn, serves as a starting point for distinguishing between different potential locations for investment on the basis of cultural (dis)similarities. Thus, in some cases, cultural match decisively affects the decisions about the locations of investment, which are chosen on the basis of shared cultural attributes decision makers attach to a host country. That implies that sometimes certain locations are eliminated from the decision making process due to the incompatibilities of cultural perspectives. In other cases, the established match of cultures does not directly influence the decision about the location of investment, however it facilitates the economic transaction between investor and a host if the latter is recognized as a “similar other” in cultural terms. We could say that the logic of maximization of economic returns, which drives foreign economic expansion of Slovenian companies, has to coexist with the specific cultural affinities of the decision makers whose decisions are thus embedded into cultural ties with specific national and organizational environments. The more the company invests throughout the world, however, the more its decision makers have to relativize the meaning of cultural (mis)match and choose locations in accordance with pure economic rationale.

A choice of concrete partners for investments usually takes place after the selection of the country is made. When choosing partners, decision makers very often rely on their own networks of pre-existing personal and/or business ties. While they sometimes use a “third-party referral network” to learn about the qualities of the potential partner whom they do not know yet, more often they use their direct pre-established social ties. Decision makers thus seldom search for partners on the basis of abstract features or characteristics of some unknown economic actors, but seek to find a trustworthy partner. And many of them use embedded social ties as an important source of generation of trust and “thicker” relationships
with partners. Even though an absence of such ties does not prevent them from carrying out an investment, social embeddedness plays an important role in choosing final partners in that economic transaction. An important message of that finding is that decision makers do not make foreign investments (only) on the basis of impersonal market relations, but differentiate among potential partners (also) with regard to their personal characteristics. Whereas market-based arm’s length relations are not excluded from the process of selection of partners (especially when there is no other option), decision makers strongly prefer to look for the existence of embedded ties.

We could conclude that the logic of the market which defines contemporary neo-liberal global processes only partially affects decisions of Slovenian companies in choosing locations and partners for their foreign investments. The decision makers in these companies appropriate and particularize these processes by accommodating their decisions to the influence of both cultural and social embedded ties with potential partners. Of course, the decisions to invest capital abroad are basically driven by economic interest. However, the logic of the market which is commonly expected to optimally serve that interest has to coexist and “negotiate” with the forces of cultural and social embeddedness which shape economic action.
References


Bandelj, Nina. 2006. Cultural Understandings of Economic Globalization: Discourse on Foreign Direct Investment in Slovenia. MPIfG Discussion Paper 06/1


