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PERCEPTION OF FOREIGN DIRECT INVESTMENT AS A RESULT OF CULTURAL DIFFERENTIATION

Case
Study

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F21, P33, Z13

Abstract

The impact of foreign direct investment (FDI) on the economy is difficult to overestimate. The influence of cultural factors on FDI is recognized in the scientific community. There are attempts to approach the subject, although they are usually superficial and focused on a certain side of the relation, qualitative analysis is rarely used. The paper presents a qualitative approach to the link between the country's culture and FDI. We propose the results of content analysis of the articles published in three countries: Romania, Ukraine and Moldova, which aim to highlight differences in the vision of FDI as a result of cultural differentiation and cohere with the amount of FDI. The research results aim to underline the role of cultural differentiation between the countries.

INTRODUCTION

Investment is a source of capital for countries with growth potential (but which cannot realize it by itself) and therefore a factor of their economic development. At the same time this is a mean to achieve the interests of investors, which stimulates them to invest. Cross-border investments can also be a source of development for Eastern European countries, as for example, Romania, Ukraine and Moldova. Moreover, these investments and the cross-border cooperation in general could transform this area into a center of investments attraction worldwide, by combining the advantages of the three countries. This will contribute to a positive image of the countries on the world market.

The cultural component will have a considerable role in this process, considering the relations between these countries throughout the history. Despite differentiation, caused by the known historical circumstances, Romania and Moldova represent the same nation, speaking the same language and having the same traditions. Their direct interconnection with Ukraine is based on territorial proximity and the fact that on some territories which now belong to Ukraine, Romanian ethnics who have a genuine culture are living for hundreds of years. This fact had an influence on the formation of an understanding of phenomena and concepts, including the economic ones. All three countries have Orthodox Christianity as the dominant religion, which is a considerable factor in the initiation of the forming of common cultural features.

The purpose of the research is to determine the attitude on foreign direct investment (FDI) reflected in the online press in Romania, Ukraine and Moldova. To achieve the aim the following objectives are set:

1. Identification of the optimistic / pessimistic attitude concerning FDI.
2. Determination of the vision of FDI importance for each country.
3. Establishment of the accents of advantages and disadvantages vision of each country in FDI attraction.

In this regard we realized a content analysis of the articles investigating FDI from the researched countries, separating the aspects of FDI vision, such as: the advantages, the disadvantages of the country in FDI attraction and the vision of the investment importance for the country. This vision should consider the amount of FDI attracted by each country.

Our contribution is presented in underlining the influence of country's cultural context on the perception of FDI and its importance, and the association of this factor with real process of attracting FDI.

The importance of FDI has been appreciated by

many authors who have highlighted advantages, resulting from the attraction of investments (Glass, 2008; Vdovichen, 2011; Bochi, 2015; Sarbu, 2015). Different authors have highlighted the role of cultural factor in the attraction of FDI, mentioning it as important or devoting the entire research to study the impact of culture on FDI (Vasil'chenko, 2009; Tang, 2012; Kuksa, 2014; Lopez-Duarte, Vidal-Suarez & Gonzalez-Diaz, 2015).

The paper proceeds as follows. The second section presents the theoretical basis of the research, divided in two sections: the importance of FDI and the impact of cultural factor on FDI. The third section describes the empirical methodology and the data sources, while the fourth presents the results. The last section draws conclusions, and discusses the limitations and the directions for future research.

THE IMPORTANCE OF FOREIGN DIRECT INVESTMENT (FDI)

The importance of direct investment lies in the fact that they belong to the real sector, contributing to the creation of jobs, higher population incomes and taxes to the budget. The investment does not require the payment of interest, as loans do (Bochi, 2015).

As noted by Sarbu (2015): "In contemporary economy FDI has become an important source of external financing for all countries in the world. Foreign direct investments facilitate the transfer of advanced technologies and "know how", implementing new managerial and organizational forms, and their presence in the economy is a key factor of globalization".

FDI and cross-border investment have a considerable importance to the economy and brought real results. They are not only a source of funds, but also became one of the main instruments for ensuring the modernization and accelerate the growth of economies in Central and Eastern Europe (Vdovichen, 2011).

Glass (2008) states: "Post-socialist states pursued varied cultural and political strategies in order to legitimize foreign investment as a means of economic development".

The dynamics and the volume of foreign direct investment attraction into the countries of Commonwealth of Independent States (CIS) are significantly different from other post-socialist countries, including Central and Eastern Europe. This is caused largely by characteristic features and peculiarities of countries and economic priorities. The characteristics of FDI in the CIS were manifested mainly by motivating investment capital (Haidutsky, 2011).

Krutylo (2011) concludes that the countries of Central and Eastern Europe have made significant steps in liberalizing the economy and simplifying regulation of foreign capital inflow in the

preparation for EU accession. These measures have had both positive and negative consequences. Those positive include increased foreign direct investment. Meanwhile, entire industries have come under the influence of foreign companies and lost their “national” status, thus becoming vulnerable to global economic fluctuations. However, the example of the CIS countries shows vulnerability to fluctuations and global economic conditions, when economic liberalization and FDI were not subject of the reforms.

The economists mention a large number of factors influencing FDI flows, among them the cultural factor, however the examination of this factor’s influence (especially a qualitative approach) is not frequently presented.

THE IMPACT OF CULTURAL FACTOR ON FDI

The cultural factor has a significant contribution to the most different sides of cross-border investments. Cultural differences may influence the investment processes in different way. As Tang (2012) notes: “The impact of cultural difference on FDI depends on the level of acculturative stress when two different cultures interact with each other.”

A considerable number of scientists mention the contribution of various sides of mental-national-cultural factor on the process of FDI. Making decisions about investment in another country depends on many factors and is determined by the conditions and investor mentality, national traditions, typical behavior etc (Vasil’chenko, 2009). On the other hand, attitude towards foreign investment in the community, degree of stratification of the community, the presence or absence of agreement on the basic questions of economic and social development, the rate of unemployment, the possibility of strikes play an important role for potential investors (Kuksa, 2014). Glass (2008) states: “Despite conventional wisdom that global capitalists wield power to invest wherever they wish, foreign investment is always relational and investors must navigate potential cultural and political resistance to their efforts”. The companies that provide cross-border investment must take into account the following: differences in socio-cultural attributes, in regulatory and legal structure, in level of economic development, in the availability of supporting administrative and physical infrastructure, all of which may be unique to a particular country (Yip, 2003).

Managers making decisions on the choice of entry mode must take into account the relative position of the cultural dimension of each individual, and interaction with other cultural dimensions and background variables of FDI, rather than just considering the cultural distances between the

countries. It allows consideration of both the cultural characteristics of each party and their relative values with individual cultural dimensions (Lopez-Duarte, Vidal-Suarez & Gonzalez-Diaz, 2015).

Therefore, foreign investment depends on relational, institutional traditions and culture of both parties of the exchange. The predominant attitude on different economic processes (including FDI) is a part of cultural specificity, since psychological processes and structures are integrated into the larger cultural context. Furthermore, specific attitude is connected to a specific cultural dimension, for example: individualism is linked to optimism bias (Antonczyk & Salzmann, 2014). Forgeard (2012) affirms more generally, that environmental influences may affect the development of optimism.

The optimism is interrelated with economic phenomena. There are evidences, that optimistic people present a higher quality of life (including wealth and social conditions) compared to pessimists (Conversano et al., 2010). Optimists may also be more successful than average. On the other hand, socioeconomic status may influence the development of optimism or pessimism (Forgeard & Seligman, 2012). On the basis of this interdependence we hypothesize that predominantly optimistic attitude will be positively associated with the level of FDI and vice versa.

H1: countries with a lower level of FDI per capita have a predominantly pessimistic attitude.

Going to further details, Scheier (1992) states that optimists seem to be more fully engaged in their lives and making the best of them, pessimist experience life as harder and less manageable, namely optimists concentrate on positive aspect of life, while pessimists concentrate on negative ones. We hypothesize that countries with predominantly pessimistic attitude will pay more attention to disadvantages and vice versa.

H2: countries with a pessimistic attitude tend to generalize the advantages and detail disadvantages.

METHODOLOGY

Sampling

The analysis was based on the articles in the online press in Romania, Ukraine and Moldova, displayed on the official websites and shown in Table 1.

We selected three articles for each country. The main condition of selection was the presence of both the advantages and disadvantages in each article. The publication should not be before 2012. Also we used the amount of FDI from World Investment Report (WIR) in order to examine its relation with cultural factor (predominant attitude) (UNCTAD, 2015).

Method

As a qualitative research method, we used content analysis with the emergence coding of groups of

words. In the first phase we have identified keywords, on the next stages we have set categories / subcategories, established the affiliation of keywords to exhaustive and interexclusive subcategories, depending on the meaning assigned. We identified three broad categories (variables):

1. Advantages - benefits of the country in attraction of FDI.
2. Disadvantages – the disadvantages of the countries, regarding FDI attraction.
3. Importance – the importance of FDI for every country.

First two categories were divided into five subcategories, the third one – into three subcategories. The results of the process are shown in the Table 2.

On the next stage we determined the frequency of keywords appearance in each category by country. Then we evaluated the frequency as a percentage (%) of keywords appearance in each category separately (Advantages, Disadvantages and Importance).

Two of the categories used represent the indication of the countries' advantages and disadvantages, so we performed trend analysis (Stanciugelu, 2011) to highlight optimistic or pessimistic attitude reflected in the press of each country in relation to FDI. This was achieved by using the trend analysis index:

$$AT = \frac{F - D}{T},$$

where:

AT - trend analysis index;

F - number of favorable units;

D - number of unfavorable units;

T - total number of units.

An index greater than 0 will mean an optimistic attitude and a smaller one – a pessimistic attitude. We compared the trend analysis index results with the amount of FDI per capita to test the dependence between the priority country attitude on FDI and the absolute amount of investments per capita.

Results

We started from a general demonstration to plunge then in detailing researched phenomena.

Fig. 1 reflects the relationship between the amount of FDI per capita in USD and the tendency analysis index. We observed that Romania, with a considerably higher amount of FDI per capita than neighbour countries, had mainly optimistic attitude (index > 0), when the press was writing about investments. Meanwhile, Ukraine and Moldova, with a lower amount of FDI per capita, had a pessimistic attitude on FDI in the press. So we could say that countries with a higher amount of FDI per capita more likely would release a optimistic attitude, when it came to FDI, and countries with a lower amount of FDI – a pessimistic attitude. It should be noted that Ukraine had a considerably

lower index, even compared to Moldova, what possibly characterizes the influence of its cultural specificity.

Table 3 presents the frequency of the countries' advantages regarding FDI attraction. The information in this table shows a considerable inequity in the indication of advantages. While the press in Romania and Moldova mentioned advantages 19 and, respectively, 18 times, the press in Ukraine – just four times. This can be a mirror of people mood (mentality), the result of cultural specificity, because the press is intended to form (and express) public opinion.

Another aspect of this category analysis is to identify the vision of advantages – which they are and how often they characterize the country. Romania tended to detail advantages by mentioning five categories of these, while Ukraine and Moldova had a tendency to generalize the advantages: articles from Moldova have highlighted four categories of benefits (most often referring to taxation, positioning and resources), and Ukrainian press - only three categories, particularly referring to territorial positioning and resources when it comes to country advantages for FDI attraction. Therefore, the tentative suggestion is that countries with a predominantly optimistic attitude tended to detail the benefits, while those with pessimistic one – to generalize them.

From Table 4, which reflects the frequency of countries' disadvantages in the attraction of FDI, we see a high frequency (especially in comparison to the advantages mentioned) for Ukraine it is equal to 24 times, 23 times for Moldova and 15 times for Romania.

The vision of disadvantages specified a major difference too: the press in Romania only mentioned 4 categories of disadvantages, while the press in Ukraine and Moldova mentioned all five. Hence, we could make a new statement: countries with a predominantly optimistic attitude tended to generalize disadvantages, while those with pessimistic one – to detail them.

Table 5 presents the frequency of keywords in the text, describing the importance of FDI for the corresponding country. We saw that the press in the Republic of Moldova mentioned the importance of FDI for their country most often, 12 times, while the press in Romania and Ukraine mentioned it five times each.

Romanian press tended to generalize importance of FDI, while in Ukraine and Moldova we mentioned the tendency to detailing the importance of FDI: here came a new category – innovation, which was seen as an effect of FDI, important for the country. A conclusion to this point might be the fact that countries with a predominantly optimistic attitude tended to generalize the importance of FDI, while those with pessimistic one tended to a detail it.

Regarding the general frequencies of advantages,

they appear in the text 41 times. The disadvantages occur in the text of the articles the most frequently, 62 times, and the ISD importance is the most rarely specified in the articles, it appears only 22 times.

CONCLUSIONS

The research results show that Ukraine and Moldova, with the amount of FDI per capita considerably lower than Romania, had a predominantly pessimistic attitude regarding FDI, by emphasizing the disadvantages of investment attractiveness of the country; they tended to detail both disadvantages and the importance of FDI and generalize the advantages. Meanwhile in the press in Romania there was an opposite situation: an amount of FDI per capita was higher and it was a generally optimistic attitude regarding FDI with a tendency to detail the advantages and generalize both disadvantages and the FDI importance.

The most pessimistic attitude was registered in Ukraine, where the corresponding index showed a higher proportion of disadvantages compared with the advantages. Generally speaking, the disadvantages appeared most frequently in the text, than the advantages. The importance of FDI for the country was least frequently mentioned by the press. These results tend to show the link between the economic and the cultural differentiation (which is of interest for research) of Romania, Ukraine and Moldova.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The limited number of articles analyzed (9) present the limitations of the research, which did not allow to affirm with a high level of trust the relationships discovered. In future research it would be possible to increase the number of countries and number of analyzed items for each country and to raise the quality of the selection of items.

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ANNEXES

Table 1
The articles included in the analysis

No.	Source	Country	Website
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1	Biz	Romania	http://www.revistabiz.ro/unde-vin-investitiile-straine-in-romania/
2	InCont	Romania	http://incont.stirileprotv.ro/investitiile-tale/pe-ce-pariaza-investitorii-straini-in-2014-in-romania-agricultura-it-si-servicii.html
3	Capital	Romania	http://www.capital.ro/cele-mai-mari-investitii-straine-in-anul-2015.html
4	Vid i Do	Ukraine	http://vidido.ua/index.php/pogliad/article/inozemni_investori_bojat_sja_uk_rainciv/
5	Yurydychna Gazeta	Ukraine	http://yur-gazeta.com/interview/shchob-zacikaviti-investora-vazhliivy-ne-mehanizm-zaluchennya-koshitiv-a-mehanizm-zahistu-investiciy-.html
6	UMDI	Ukraine	http://umdi.org/archives/99
7	Agora	Moldova	http://agora.md/stiri/4579/motivele-pentru-care-investitorii-straini-ocolesc-republica-moldova
8	BNM	Moldova	http://www.bnm.org/ro/content/investitiile-straine-directe-competitivitatea-regionala-republicii-moldova-0
9	Economist	Moldova	http://www.eco.md/index.php/rss/item/3938-investi%C5%A3iile-str%C4%83ine-directe-%C3%AEn-economia-moldoveneasc%C4%83-c%C3%A2te-sunt-%C5%9Fi-de-unde-provin

Table 2
The results of the categories and subcategories coding

Categories	Subcategories
Advantages	Infrastructure and taxation
	Territorial position and resources
	Workforce
	Efficiency
	Stability
Disadvantages	Regulation and taxation
	Instability
	Intransparency, bureaucracy and corruption
	Infrastructure
Importance	Economic and financial crisis
	Export and income growth
	Economic development and jobs creation
	Innovations

Table 3
The frequency of the advantages appearance in the countries studied

No.	Advantages	Romania	Ukraine	Moldova	Total
1	Infrastructure and taxation	4	1	7	12
2	Territorial position and resources	7	2	6	15
3	Workforce	3	0	2	5
4	Efficiency	4	1	3	8
5	Stability	1	0	0	1
	Total	19	4	18	41

Table 4
The frequency of the disadvantages appearance in the countries studied

No.	Disadvantages	Romania	Ukraine	Moldova	Total
1	Regulation and taxation	7	9	6	22
2	Instability	4	3	5	12

3	Intransparency, bureaucracy and corruption	3	10	5	18
4	Infrastructure	1	1	5	7
5	Economic and financial crisis	0	1	2	3
	Total	15	24	23	62

Table 5
The frequency of the importance of FDI for countries studied

No.	Importance	Romania	Ukraine	Moldova	Total
1	Export and income growth	2	1	3	6
2	Economic development and jobs creation	3	3	7	13
3	Innovations	0	1	2	3
	Total	5	5	12	22

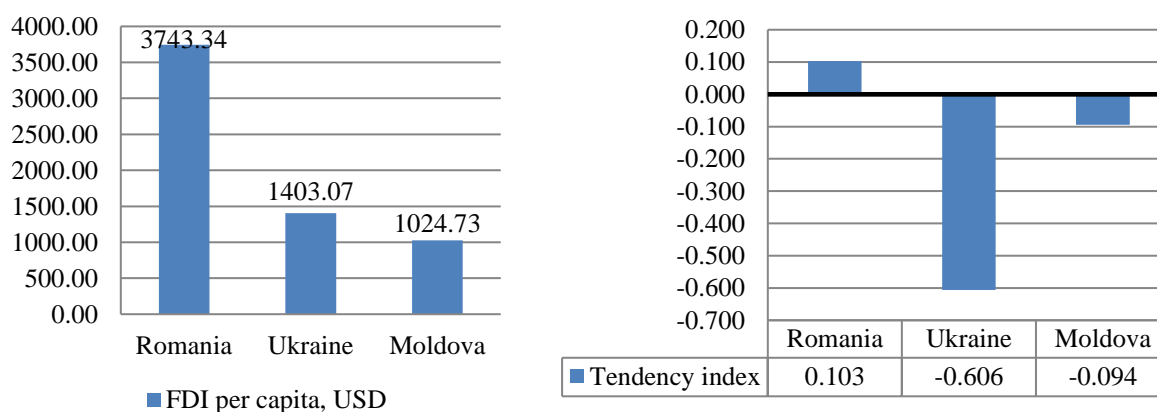


Figure 1. The relationship between the amount of FDI per capita and the optimistic / pessimistic attitude
Source: own calculations based on data obtained from UNCTAD (2015)