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IMPACT OF FOREIGN DIRECT INVESTMENTS ON COMPANY MARKET PERFORMANCES

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Abstract: The aim of this paper is to determine the effects of foreign direct investment on improving the market performance of companies. Accordingly, through the theoretical concept of the research, the factors through which the host country attracts foreign investors have been identified. The effects arising from foreign investments, both from the point of view of the host - the recipient of capital, and from the point of view of the foreign investor - the provider of capital, are also presented. In the empirical part of the research, companies operating in Bosnia and Herzegovina are observed, which have a foreign share in their capital or the entire ownership of a foreign investor. Special attention during the research was paid to the impact of foreign investments on strengthening the market performance of companies such as: increasing production, increasing sales, deepening the product range, increasing managerial and technological know-how.

Keywords: foreign investment, business environment, market performance

INTRODUCTION

Foreign investment is one of the most important sources of capital, especially for those developing countries. However, countries are often not in a position to provide these funds, both due to insufficient infrastructure development and due to political risk, which is usually high in developing countries and low-developed countries. The state should neutralize these adverse effects with other incentive measures and ensure the inflow of foreign investments through adequate promotion, because this is very often the best and fastest way to develop the economy. The main goal of attracting foreign investment is reflected in the construction of a competitive advantage by which companies will achieve a profitable and sustainable position in relation to competitors in the observed market. Competitive advantage basically arises from improvements, innovations and changes, and this is most often enabled by increasing the inflow of funds provided by foreign investments. Companies created from foreign capital usually have a larger range of products than domestic companies in Bosnia and Herzegovina, especially those whose privatization has not yet been completed or completed. The positive effect of foreign investment is reflected, among other things, in the expansion of existing product lines, by adding completely new products to the offer, especially in state-owned enterprises. Foreign companies have a diverse portfolio of markets, because operating in several countries, they monitor several market indicators in order to see the real market situation and adequately compare the obtained parameters, and assess which markets are attractive or not for initial or further investments. Increasing the inflow of foreign investments leads to stronger competition in the market, and thus companies are faced with new market challenges, and are forced to improve and change their market performance. The primary research is based on the collection of data by the examination method (written examination technique), using the survey questionnaire as an examination instrument. Companies in Bosnia and Herzegovina that have a share or all ownership of a foreign investor in their ownership structure were examined.

1. KEY ASPECTS OF FOREIGN INVESTMENT

Foreign direct investments aim to create a permanent and active economic interest that motivates investors to make a profit on invested capital in any form through control and management. Foreign investments represent a strategy of entering the foreign market with its own business plan and program. This strategy is most often used by large multinational companies to ensure a physical presence around the world. The concept of direct investment implies several relevant facts such as: settlement, ownership of venture capital, control of operations and the possibility of management. Also, it is necessary to establish an economic organization whose founder is a foreign investor. Of course, it is not necessary to exclusively establish a new company, it is also possible to buy an existing economic institution.

Depending on the direction of demand or supply, direct investment can be divided into two basic forms (Previsic 1983: 54):

- demand-oriented direct investment, the main motive of which is to supply the national market of the country in which it is invested,
- supply-oriented direct investment, the main motive of which is to use local resources in order to place products outside the host country.

Foreign direct investment can occur in three different forms, such as (Domazet 2001: 271):

- own companies,
- joint ventures and
- branches.

International direct investments represent a long-term investment of corporate capital abroad, which acquires ownership and management control over a specific business (Rakita 2010: 321). The definitions and classifications established by the IMF and the OECD have been accepted in the professional and scientific literature, so, according to them, foreign direct investment (hereinafter FDI) is defined as; type of international investments undertaken by a resident from one economy or country (direct investor) in order to take over a permanent share in a company operating in another economy or country (direct investment enterprise). A permanent share is considered to exist if the direct investor has taken over at least 10% of ordinary shares (or other form of equity) or voting rights of the direct investment firm (Antevski 2008: 134). According to the definition of foreign direct investment, a foreign direct investor is considered to be an entity from one economy that has directly or indirectly acquired at least ten percent of the voting rights in a company that is from another economy. A direct investor can be an individual, a group of legal or natural persons, a corporation or an individual company, a group of related companies, as well as a specific government body (OECD 2008: 40). FDI has several key functions that can be represented as follows (Cavusgil et al. 2012: 403): - FDI is a significant source of capital. - FDI implies local presence and operations. - Firms invest in countries that provide certain comparative advantages. - FDI implies significant risk and uncertainty. Foreign direct investors need to pay more attention to the specific social and cultural changes that are characteristic of certain markets. International joint ventures are a form of direct production cooperation, through which two or more companies from different countries combine production, financial, human resources and marketing potential, based on joint risk-taking, joint profit-making and joint management and control of business (Rakita 2010: 275). . The need for international branches, ie departments, stems from the need to harmonize production activities abroad, because the importance of production of subsidiaries for the parent company has increased, because their share in total production has become significant (Previsic and Dosen 1999: 481).

2. BUSINESS ENVIRONMENT AS A DETERMINANT OF DEVELOPMENT FOREIGN INVESTMENT

The process of globalization has enabled the world to become so-called. "Global village", which resulted in the allocation of capital to those parts of the world where at a given time companies can achieve extremely favorable business results. The economic dimension of globalization is expressed through the process of intensifying free trade flows and establishing the liberal movement of people, capital and money (Pelevic and Vuckovic 2007: 264). The business environment is not identical in any country. Companies operate in different parts of the world and most often have to adapt their business policy to domestic market conditions and social relations, and managers must have exceptional skills in conducting business activities. In order to fully understand the business environment of a company, it is necessary to analyze the general environment and the economic branch in which the company exists. If we look at the branch in the dimensions of products and markets, ie. that it consists of a group of companies that produce products that are close substitutes, and which are sold to customers with different characteristics, we can define it as a series of companies that produce similar products (Todorovic 2003: 93).

The general environment consists of factors that can have dramatic effects on a company's strategy. As a rule, one company has little ability to predict trends and events in the general environment, and even less is able to control them (Des et al. 2007: 49). The most visible differences relate to the economic, legal, political, cultural, natural and technological dimensions of the international business environment.

The characteristics of the economic environment determine the attractiveness of the country as a destination for foreign products, services and direct investment. The potential impact of the economic environment can be viewed from a macroeconomic and microeconomic aspect. The most important indicators of the macroeconomic environment are: population, gross domestic product, income and income distribution, consumption structure and infrastructure (Sinanagic 2008: 25). The analysis of the microeconomic environment implies the perception of competition in the foreign market. When entering a foreign market, each company faces local companies, as well as other foreign business organizations operating in that market (Sinanagic 2008: 28).

Internationally oriented companies face three different effects of international politics; domestic, foreign and international politics. Although it does not seem so at first glance, domestic politics can often be a stumbling block to the internationalization of a company. First of all, it protects domestic interests, the outflow of capital and technology from the country, and also performs high regulation of imported products. Foreign policy is tied to countries that receive foreign investment, they are very often friendly to importers of capital or technology, but this does not always have to be the practice. The attitude towards foreign investments mostly depends on the type of business venture, as well as on the political changes in the country. International politics is a political relationship between two or more countries, which is usually extremely complex, especially in situations where there is some disagreement between the importing country and the capital-exporting country.

The legal system is a system for regulating and enforcing laws, whose acts, regulations and rules regulate social norms of behavior (Sinanagic 2008: 176). The legal system includes institutions and procedures for ensuring order and resolving disputes in business activities, regulation of customs, as well as protection of rights and intellectual property.

Culture can also be defined as learned, passed down from generation to generation and enduring forms of behavior. People demonstrate their culture through: values, ideas, attitudes, behavior and certain symbols. The relationship between marketing and culture is a two-way and interactive process. For marketing, the influence of culture on: the structure and system of consumption in individual countries, the behavior of consumers, organizations and institutions, the prevailing system of thought and value process, and the process of communication is extremely important (Rakita 2005: 54).

The natural environment has become a major global concern. Water, air and soil pollution has reached dangerous proportions. The constant introduction of new regulations on reducing emissions of polluted gases and water has affected many industries. Marketers must be aware of the dangers and opportunities that exist in relation to the four trends in the environment (Kotler and Keller 2010: 90):

- shortage of raw materials,
- increase in energy costs,
- higher degree of pollution and
- changing government roles.

It is important to point out that the technological environment plays a major role in economic processes. Technology is one of the most powerful factors shaping human lives. The rate of economic growth is also affected by the fact how many significant new technologies have been discovered and how much they are used in certain areas.

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3. STATE AND CORPORATE INTERESTS TO INCREASE INFLOW FOREIGN INVESTMENT

We can look at state interests from the angle of the host country and the angle of the investor's country, ie the country of origin of the capital. Host country governments typically worry about the following consequences of foreign investment (Rakita 2010: 327):

- how they will affect national sovereignty and independence,
- how they will affect the level of market transparency and market control and
- how they will affect the country's balance of payments position.

Decades ago, it was thought that foreign capital and foreign property could threaten the sovereignty and independence of the host country. However, in the modern business environment, the prevailing view is that such fears have been overcome and are characteristic of earlier epochs. Today, most countries have a positive attitude towards the inflow of foreign capital, and the question is no longer whose capital it is, but what benefits can be achieved by its inflow into the host country. Based on all the above, we can conclude that countries in the world are interested in the largest possible continuous inflow of foreign investment.

Investing capital through foreign investments has favorable but also unfavorable consequences for the socio-economic development in that country. The favorable impact is especially reflected in the increase of available funds for investments and development, increase of foreign exchange inflow, balancing of the balance of payments, introduction of modern technology and know-how. Direct investments contribute to the increase of the gross domestic product of the host country, and significant cooperation is achieved with other domestic companies, influencing the increase of the quality of their business performance.

The host country often feels fear of foreign investment because there is a possibility that it will lead to market monopolization and the elimination of domestic companies from market competition. When multinational companies come to a position of dominant or monopolistic position, they usually begin to dictate the conditions of business in the market. The host country must take into account the impact of foreign investment on its balance of payments. Thus, the positive effects of foreign capital can be reversed over time in two ways; through excessive transfer of profit and earning effects abroad, and through excessive procurement (import) of components, parts, raw materials and intermediate goods from abroad (Rakita 2010: 329). For these reasons, many countries restrict the outflow of funds to foreign branches or parent companies, and reinvestment of a certain part of the profits is required.

We can group corporate interests into primary and secondary. Primary motives can be (Rakita 2010: 329):

- market (they are in the function of entering and better marketing positioning in new and attractive foreign markets),
- resources (they should ensure that the company is in a position to make the most favorable exploitation of the necessary resources on a global scale) and
- competitive (reducing transaction costs, raising business efficiency, technology transfer, knowledge and experience).

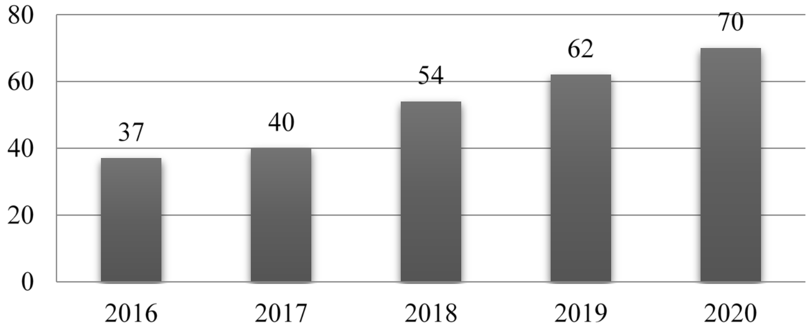
Secondary motives can be (Rakita 2010: 335):

- fiscal (direct investments abroad can be motivated by fleeing from locations that have unfavorable regulatory business conditions to locations that have favorable and stimulating economic and fiscal policy measures),
- additional (in this case the emphasis is on controlling some ancillary activities under more favorable conditions) and
- lucrative (sometimes companies can be motivated by making earnings and profits in the short term, on non-long-term development and market positioning).

4. THE IMPACT OF FOREIGN INVESTMENTS ON THE DEVELOPMENT OF THE PRODUCT PORTFOLIO AND THE COMPANY MARKET

An important indicator of the company's development is the number of production lines, ie the number of different products that the company produces. When entering the market and starting the business of the company in which the foreign investor invests, they usually produce a small number of products, and over time, foreign investors increase the product range. When asked how many products (items) the company produces per year, in the period from 2016 to 2020, we received an extremely positive result. Every year, the number of product range in the observed period increased. In the first observed period, ie in the period from 2016 to 2017, the average number of products increased by 7.5%. In the following observed period from 2017 to 2018, the average number of product range increased by 26%. In the period from 2018 to 2019, the average number of product range increased by 13%. In the last observed period, ie from 2019 to 2020, the average number of product range increased by 11.5%. If we compare the first year of observation, ie 2016, and the last observed year 2020, we will come to the conclusion that the product range has increased by 47%. The results of the research are presented in Graph 1.

Graph 1. Increasing the depth of the range in the respondents



(**Source:** Research)

In order to adequately show the pace of change in the range of respondents, it is best to use a chain index. The obtained values of the index are extremely favorable, and the obtained results are over 1, which means that the phenomena in all observed periods recorded an increase compared to the previous period. The lowest growth was achieved in 2017 compared to the previous observed year, which is 0.8, and the highest growth compared to the previous year was recorded in 2018 of 0.35. A detailed overview of chain indices is presented in Table 1.

Table 1. Chain index of assortment depth growth in respondents

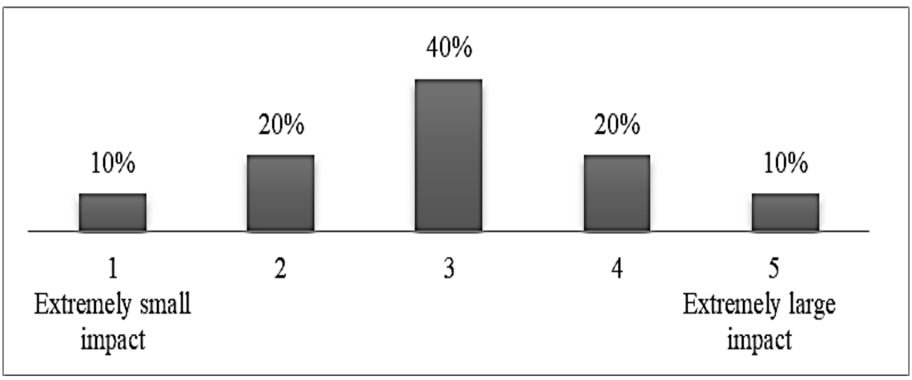
Year	Assortment depth growth	Chain index
2016.	37	-
2017.	40	1,08
2018.	54	1,35
2019.	62	1,15
2020.	70	1,13

(**Source:** Research)

The size of the company is concretized and expressed in capacity. Capacity represents its production capacity during a certain period, determined on the basis of organization and production conditions that ensure maximum use of equipment (Penezic 2005: 174). It is necessary to create an optimal balance between oversizing and re-minimizing the capacity of the company. In the first case, the company does not use its production capacity to the full, and based on that, there is an increase in costs per unit of product. On the other hand, if it makes maximum use of its capacities and does not invest in their further increase, it misses the possibility of further business expansion and reduction of costs per unit of product, which further implies the failure to increase profits. For these reasons, the company should take into account the production capacity, and to increase production on time or to install additional capacity. At a certain level, the company operates profitably, and everything below that level sooner or later leads to business losses.

Based on the research, we received answers to questions about capacity utilization, which ranged at very different intervals. On a scale from one to five, where the unit represents extremely low capacity utilization, and five extremely high capacity utilization, we obtained the result that 10% of respondents use their capacity minimally, ie to the maximum. That is, 10% of companies face a constant increase in production costs per unit of product, while the other 10% maximally using their capacity achieves extremely low costs per unit of product, and is at a time when it needs to expand its capacity as soon as possible and provide further growth and enterprise development. Other responses ranged from two to four. The observed capacity points can be defined as, low utilization, then the mean value which represents neither low nor high utilization, and high capacity utilization. Low capacity utilization is present in 20% of companies, their costs per unit of product are also high, but lower compared to the previous point of the interval, and in the near future should strive to increase capacity utilization. The largest number of observed companies, 40% of them, are in the middle point of the interval, and their capacity utilization is neither large nor small, in the end they should remain at the existing level and strive to increase production capacity. High capacity utilization represents the level of utilization in which 20% of the observed companies are located. They achieve relatively low costs per unit of product and should already be thinking about increasing production capacity, so as not to end up in a situation where they cannot meet all the needs of business partners and consumers. The obtained research results are presented in Graph 2.

Graph 2. Capacity utilization rate

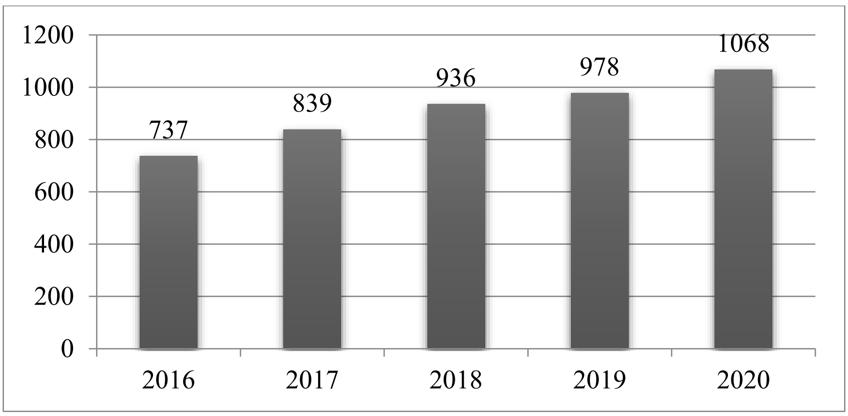


(**Source:** Research)

5. ANALYSIS OF OTHER BUSINESS PERFORMANCE ENTERPRISES IN WHICH WAS TESTED

The inflow of foreign investments should primarily ensure the improvement of the living standard of the entire population and enable the growth of the gross domestic product. In order to ensure the economic progress of the country and to improve the living conditions of the population, it is necessary to approach the creation of new jobs. In this way, the state would gain multiple benefits, in addition to increasing the gross domestic product, the living standard of the population would improve and higher funds would flow into health and pension funds, allocations for culture and education would increase, and society as a whole would begin to be established. a harmony that has long been disturbed. In the surveyed companies, a trend of employee growth was recorded, which is an extremely positive indicator for the entire society. During 2016, the company employed seven hundred and thirty-seven workers, and in 2017, that number increased to eight hundred and thirty-nine employees. The next three observed years also recorded an increase in the number of patients, so that in 2018 the number of employees in the ten observed companies in the food industry was nine hundred and thirty-six, in 2019 nine hundred and seventy-eight, and in 2020 the number of employees was one thousand sixty-eight. If we compare the first year of observation and the last, we will come to the conclusion that the number of employees in ten companies increased by 31%, which is more than satisfactory. A detailed overview of the research is presented in Graph 3.

Graph 3. Movement of the number of employees in the respondents



(**Source:** Research)

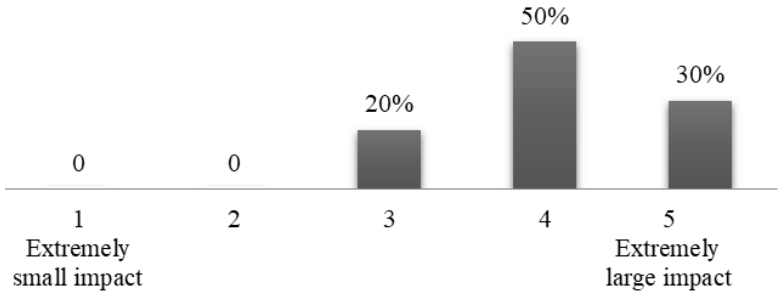
The growth rate of employees in the observed companies was extremely positive, all obtained chain indices have a value over 1, which means that in all observed intervals there was an increase in the number of employees. The lowest growth rate of employees was recorded in 2017 compared to the previous 2016, which is an increase of 0.14. While, the highest growth rate was recorded in 2020 compared to 2019 and amounts to 1.45. A detailed overview of the growth rate, obtained through chain indices, is presented in Table 2.

Table 2. Chain growth index of the number of employees among the respondents

Year	Number of employees in the observed period	Launch index
2016	737	-
2017	839	1,14
2018	936	1,27
2019	978	1,33
2020	1068	1,45

The inflow of foreign capital into the state and the company also leads to increased transfer of technology and knowledge, which requires additional training of employees or employment of new workers. In some cases, a quick response is needed so people outside your organization are hired. This method can be life-saving but also very risky, because in a short period of time people find it difficult to get used to the new business environment. As a rule, training of existing employees gives better results than hiring new workers, although there are exceptions. In the past twenty years, our market has stagnated, and equipment and knowledge are outdated, and to make the business environment more attractive to foreign investors, it is necessary to train employees. , especially in the field of modern technologies. Foreign investors, when investing in certain countries, independently train employees. So that companies that invest in Bosnia and Herzegovina apply this practice. Based on the research conducted, it is important to point out that all surveyed companies provide additional training to employees. Which is extremely important for the further development of society as a whole. In this way, a trained and qualified workforce is provided with better mobility and the possibility of starting a business on their own. Graph 4 presents the impact of additional employee training on the competitive advantage of the company. If we look at this indicator on a scale of one to five, where the number of units represents an extremely small impact, and the number five an extremely large impact, we come to the conclusion that training employees from the perspective of employers is an important factor in business development. The obtained results range from the number three, which can be defined as a central value, ie that it represents neither a large nor a small impact, to the number five, which expresses an extremely large impact.

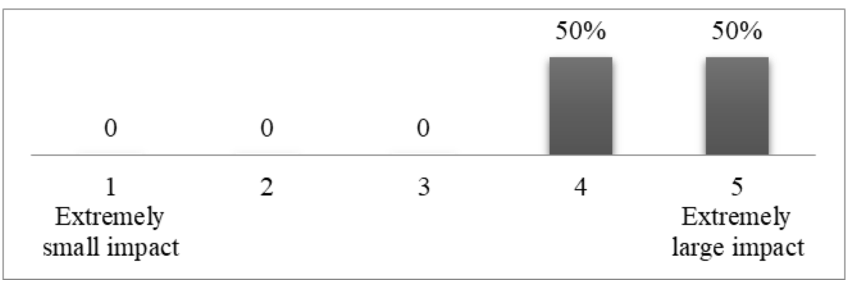
Graph 4. The impact of employee training on the competitive advantage of the company



(**Source**: Research)

With the increase in the inflow of foreign investments and their business and promotion models, an increasing number of domestic companies decide to increase their promotional activities. Marketing techniques and promotional instruments are becoming increasingly dominant in the increasingly fierce competition, and are constantly forcing manufacturers to take new steps. When researching the question of whether foreign investors invest in promotional activities, we received an extremely positive answer, all ten surveyed companies answered in the affirmative, ie to invest in promotional activities. It is important to point out that the obtained indicators on the scale range from three to five, where number one represents an extremely small impact, and number five an extremely large impact of promotional activities on the competitive advantage of the company. Based on the obtained results, we can conclude that the impact of promotional activities is a very important factor in creating a competitive advantage of the company, because 50% of respondents answered that for them investing in promotional activities has an extremely large and large impact on business improvement. The obtained research results are presented in Graph 5.

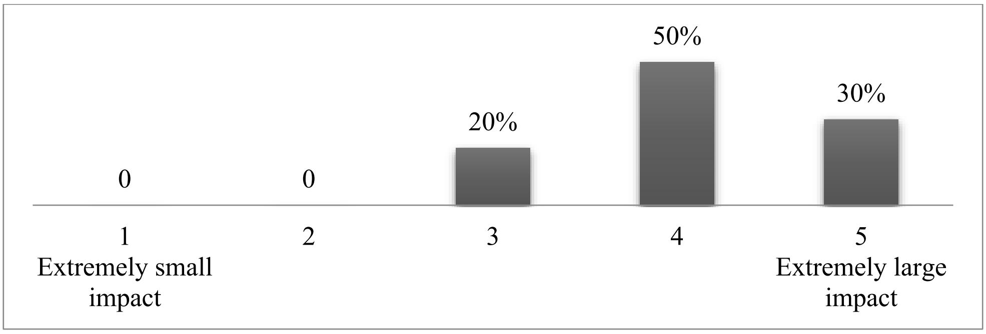
Graph 5. The impact of promotional activities on the competitive advantage of the company



(**Source:** Research)

To the questions whether the company implements modern technical and technological achievements, we received an extremely positive answer, all surveyed companies invest in this extremely important area of business, which provides the company with an advantage in the market. When assessing the impact of modern technical and technological achievements on increasing competitive advantage, we received relatively satisfactory answers. On a scale of one to five, where number one represents an extremely small impact, and number five an extremely large impact of the implementation of modern technical and technological achievements on increasing the competitive advantage of the company, the obtained values ranged from three to five. Such a research result shows that the implementation of modern technical and technological achievements has a great impact on increasing the competitive advantage of the observed companies. The obtained results are presented in Graph 6.

Graph 6. Influence of modern technical-technological achievements on increase competitive advantages of the company



(**Source:** Research)

In order to implement modern technical and technological achievements, it is necessary that the company meets several prerequisites. The first of these preconditions refers to an adequately trained workforce, which would fully understand the way of performing business activities, and which would be able to follow modern technical and technological achievements. Also, for modern equipment, it is necessary to provide adequate infrastructure and appropriate inputs. The obtained research results regarding the training of employees and the implementation of modern technical and technological achievements completely coincided, which leads us to the conclusion that these two processes are mutually conditioned. Increasing the implementation of modern technical and technological achievements requires increased investment of companies in training and development of employees, which together affects the increase of business productivity.

CONCLUSION

In order to adequately approach the increase in the inflow of foreign investments, it is necessary to continuously monitor their trend in developed market economies, as well as in neighboring countries. The forms, as well as the types of foreign investment, are constantly changing and very often have cyclical fluctuations. The reason for this lies in adapting to specific markets, as well as the economic conditions prevailing in the global market. Although in the previous period the largest economic powers were in recession, some countries, primarily those from Latin America, managed to impose themselves and attract a significant number of foreign investments. The biggest consequences of the recession were felt on European soil, in terms of foreign investment inflows. In countries that have traditionally had a high level of foreign investment inflows, there has been a significant reduction.

The inflow of foreign investments, from the aspect of the country in which the investment is made, is a stimulating factor of economic growth and development. Such projects lead to an increase in the number of employees and an increase in the average gross salary, which automatically affects the increase in gross domestic product and the standard of living of the population.

Very often, foreign investments affect the improvement of the infrastructure of the country in which the investment is made, and invest in the education and health system. First of all, foreign investments have an extremely large impact on the internal environment of the company, and through the improvement of the organizational structure, financial potential, human resources, technical and technological, as well as managerial know-how, they improve the market performance of the company. This progress is now reflected in the deepening of the product range, increasing the number of markets in which it operates, increasing sales, etc.

Foreign investments represent an extremely large potential for the companies that absorb them. First of all, it provides an inflow of funds, as well as managerial and technological know-how. In this way, companies reach a higher level of business compared to competitors, and by constantly improving their business, they reach a high level of market share, and become a kind of market leader.

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