

LEGAL ENVIRONMENT AS A FACTOR IN THE INFLOW OF FOREIGN DIRECT INVESTMENT: CASE OF SERBIA

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ABSTRACT

The economic growth and development of a country depend on the inflow of foreign direct investment, and the legal environment factors play an important role in securing it. Compared to other countries in South-Eastern Europe, Serbia has achieved remarkable results in terms of FDI inflows over the last ten years. The research goal of this study is to examine the impact of the legal environment on FDI inflows in Serbia. The study was conducted using a quantitative approach and a survey technique based on a structured questionnaire. The basic set of the research consists of the 300 most prominent foreign investors (response rate of 28%) who invested capital in Serbia in the period 2011-2019. The results of the conducted research show that ownership in Serbian companies is the most important factor in the legal environment that influences a foreign investor's decision to invest capital in these companies. Also, the results show that labor legislation, law enforcement, and confidence in the legal system can significantly contribute to a foreign investor's decision to invest capital in Serbia. The legal environment's implications on FDI inflows are diverse, influencing investor decisions and shaping the overall investment climate of a country. A well-structured and investor-friendly legal framework will increase Serbia's competitiveness and attractiveness for foreign investments.

Keywords: legal environment; property; FDI; foreign investors; Serbia

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INTRODUCTION

Sustainable growth and economic development stand as a central objective for nations worldwide. In this endeavor, foreign direct investment (FDI) plays a pivotal role, catalyzing job creation, technology transfer,

poverty reduction, and overall economic progress (Topalli et al. 2021). According to Vasa & Angeloska (2020), the growth and development of a nation are significantly influenced by foreign direct investment. A favorable legal framework is instrumental in

attracting foreign investments, as it provides a predictable and transparent environment that ensures that foreign investors have clear and enforceable rights (OECD, 2018). To delve into the subject's complexity, this paper, supported by empirical evidence, investigates the significance of the legal environment as a determining factor in the inflow of FDI in Serbia.

Since 2007, Serbia has attracted over 42 billion dollars in FDI, and in 2020, it was ranked as the global number one country regarding the number of FDI-created jobs per million inhabitants (Development Agency of Serbia, 2023). Scrutinizing all the states within the SEE region, Serbia emerges as the highest recipient of foreign investment in 2022, with \$4.646 billion in inflows (UNCTAD, 2023). Bearing in mind that "the establishment of a stable and consistent legal framework is in itself an incentive and a signal to investors" (World Bank, 2010), our study aims to highlight the crucial factors within the legal environment that are significant for foreign investors in Serbia, thereby providing valuable insights to domestic policymakers.

A gap exists in the current body of literature between the comprehensive analysis of the impact of the regulatory framework and the rule of law on attracting FDI to different markets. As highlighted in the papers of White et al. (2015) and Uddin et al. (2019), extending similar investigations to other countries to explore whether the observed relationships between different institutional factors and FDI inflow hold consistent patterns in other emerging markets was proposed. In the realm of Western Balkan markets, prior studies have investigated the relationship between FDI and institutional quality in the Western Balkan region (Mucha & Fetai, 2023; Minović et al., 2021; Domazet et al., 2023) and underscored the significance of institutional capacity for attracting FDI in the Western Balkan countries (Stevanović et al., 2022; Jovanović et al., 2023). This study builds upon the same foundation by explicitly examining the distinct factors within the legal environment in Serbia and their impact on the inflow of FDI. It also addresses the importance of legal aspects such as the validity of business regulations, the impact of labor legislation, the level of trust in the legal system, the accessibility of legal aid, the effectiveness of law enforcement, the efficiency of courts, the enforcement of court decisions, and the regulation of ownership

relations. Empirical evidence shows these elements impact the decision-making process of foreign investors when considering investments in Serbia. As far as our knowledge extends, no similar research has been conducted to specifically examine the distinct factors within the legal environment in Serbia and their impact on the inflow of FDI.

Serbia's recent history is marked by a series of economic reforms aimed at aligning its legal and regulatory framework with international standards, in line with its European Union accession aspirations. These reforms have been instrumental in improving the country's investment climate, but challenges persist, and the effectiveness of these legal changes remains a subject of ongoing scrutiny (Uvalić, 2018). As Serbia endeavors to realize its economic potential and foster sustainable growth, an in-depth exploration of the legal environment's role in attracting FDI is not only timely but also essential.

This study unveils the critical importance of ownership within the legal environment for foreign companies investing capital in Serbia. Further exploration indicates that the nature and dynamics of ownership wield a substantial influence over investment decisions, business operations, and the overall success of FDI projects in the country. These findings provide valuable insights for researchers and policymakers aiming to comprehend and improve the investment climate in Serbia.

LITERATURE REVIEW

The current state of the relevant literature regarding the impact of the legal environment on FDI inflows reveals a substantial body of research that underscores the paramount importance of legal frameworks in influencing investment decisions. Existing studies have examined the role of legal factors, such as property rights protection (Awokuse & Yin, 2010; Yi & Naghavi, 2016), contract enforcement (Ahlquist & Prakash, 2010; Pandya & Leblang, 2017; Li, 2005), and regulatory efficiency (Contractor et al., 2021) in attracting foreign capital. Scholarly consensus underscores that fostering market-based institutions, marked by a well-established rule of law and protection of property rights (Domazet et al., 2024), enhances the allure of FDI inflow, as it assists in cultivating a stable business environment by mitigating risks, decreasing

uncertainty, and protecting foreign investors (Bailey, 2018; White et al., 2015). Moreover, the literature has highlighted the global significance of this concept, particularly in the context of emerging economies (Kang, 2018), where legal reforms have been linked to increased foreign investment and economic development (Zhang, 2011).

The concept of the legal environment as a factor in FDI constitutes a pivotal dimension of economic research, encompassing a multifaceted set of attributes. Central to this concept is the rigorous examination of a nation's regulatory framework, encompassing an intricate web of laws, regulations, and policies that profoundly influence capital investment decisions. Its essence lies in the cultivation of investor confidence through the assurance of equitable treatment (Ortino, 2019), safeguarding assets (Qumba, 2018), and the predictability of legal processes (Butler & Subedi, 2017), thereby mitigating investment risks attributable to legal uncertainties and political instability (White et al., 2015). This concept exerts a discernible influence on foreign investors, shaping a nation's economic growth trajectory and enhancing its global competitiveness (Meyer & Habanabakize, 2018; Ra, 2020). Consequently, the implications derived from such investigations hold considerable significance for policymakers, offering valuable insights into the imperative need for legal reforms to attract investments and catalyze robust economic development (Megits et al., 2023; Abuova & Ra, 2018).

A robust and effective legislative system plays a pivotal role in shaping the attractiveness of a nation for capital investments (Paul & Jadhav, 2020). A well-functioning, impartial, and transparent legislative framework that incorporates effective governance and upholds the effective rule of law is fundamental in cultivating an environment conducive to investment and in drawing in capital resources (Marjanović et al., 2022; Alfalih & Bel Hadj, 2020; Bailey, 2018; Dauti, 2015). Countries that boast efficient governance and adherence to the rule of law can significantly reduce trade costs and thereby create a conducive business environment, which is indispensable for the attraction of FDI (Carril-Caccia et al., 2019; Peres et al., 2018). In contrast, countries marked by weak legal structures, frequently obscured by a lack of openness and solid institutional standards

or adherence to regulations, often lead to an increase in operational expenses and discourage potential investors (Vučković et al., 2020). In the Western Balkans, poor rule of law is recognized as one of the primary barriers to capital investment (Marjanović & Domazet, 2021b). Minović et al. (2020) argued that investors lack confidence in institutions and the judicial system to safeguard property and contract rights adequately.

The role of ownership relations and labor legislation in influencing foreign investors' decisions to invest in a host country has been the subject of scholarly interest (Peres et al., 2018; White et al., 2015; Javorcik & Spatareanu, 2005; Domazet et al., 2022). Ownership relations encompass property rights, land tenure systems, and regulations governing foreign ownership. Scholars such as Tykvová (2018) argued that the consensus is that secure property rights are fundamental in attracting foreign capital. Conversely, ambiguity in property rights can create uncertainty and deter investors.

Labor legislation, as studied by Negi and Bardhan (2018), also holds significant sway over investment decisions. Investors often scrutinize labor laws for their impact on hiring and firing practices, wage determination, and collective bargaining. And countries with labor laws that reach a fair trade-off between worker protection and flexibility in regulations tend to be more attractive to foreign investors.

The substantial impact of business regulations on the inflow of FDI has been the subject of previous research. Uddin et al. (2019) found that, following labor costs, business regulations emerge as the predominant catalyst for FDI in Pakistan.

Confidence in the legal system, a vital component of the investment climate, has been examined extensively in the literature. Paul and Jadhav (2020) highlighted the importance of judicial independence in bolstering tertiary FDI. This evidence was substantiated by the findings of Tag (2021), whose research empirically demonstrated the existence of positive correlations between net FDI inflows and the measures of judicial independence and judicial impartiality. Evidence from Pakistan shows that, alongside other institutional factors, the legal framework and substantial property rights exert a pronounced positive impact on the influx of FDI (Uddin et al., 2019). Investors seek assurance that

their property rights will be safeguarded, contracts will be enforced, and disputes will be reasonably resolved. A lack of confidence in the legal system within a particular market has the potential to discourage foreign investment. This phenomenon is evident in Southeast Asia, where FDI tends to decline in environments characterized by legal uncertainty (White et al., 2015). Analyzing legal frameworks, institutional quality, and FDI trends in Africa, Bokpin et al. (2017) highlighted the prevalent challenges faced by numerous African countries in terms of weak institutions, which act as a deterrent, impeding the flow of foreign direct investment to the continent through both legal systems and institutional constraints. A reliable legal system that can effectively and promptly enforce court judgments is critical for foreign investors who may face contractual disputes in the host country. Therefore, scholars like Contractor et al. (2020) have emphasized that the efficiency of contract enforcement mechanisms is pivotal.

The availability of legal aid services has garnered attention in the literature as a factor influencing foreign investment decisions. Investors, mainly those unfamiliar with the local legal landscape, often rely on legal counsel and support to manage the complexities of the host country's legal system (Marjanović & Domazet, 2021a). In the absence of such support, investors may perceive heightened risks and uncertainty, which can dampen their enthusiasm to invest. Thus, understanding the accessibility and quality of legal aid services becomes integral to comprehending the factors that shape investor confidence and ultimately influence foreign investment flows.

METHODOLOGY

The main goal of this study is to determine if the legal environment affects the inflow of FDI in Serbia. That is, to what extent are the factors of the legal environment important for foreign investors when deciding to invest in Serbia? Since the choice of method used in empirical research has a direct impact on the research results and determines whether the researcher succeeds in finding an answer to the questions posed, it is necessary to determine the appropriate strategy on which the research will be based before collecting data (Bryman & Bell, 2007). When it comes to empirical research, there are two general approaches a researcher

can take - qualitative and quantitative. Since the main purpose of the quantitative approach is to collect data, compare it, and establish two-way correlations, we opted for the survey method in the research, i.e., the interview technique (via e-mail) based on a structured closed-ended questionnaire. The survey method was chosen due to several advantages over other research techniques: (a) it is easy to administer, (b) the answers obtained are consistent as respondents are limited in their answers to a few fixed alternatives, and (c) the coding, analysis, and interpretation of the data obtained are relatively simple. The e-mail survey was chosen because of its speed of implementation, its low cost, the exclusion of possible interviewer bias, the quality and quantity of the data obtained, and the usefulness of this type of survey research for the study of the selected target group, i.e., for conducting research in the field of business, where the use of e-mail is routine and standard.

The research was conducted from February to May 2023, with the aim of obtaining data on the opinions, values, expectations, and perceptions of foreign investors who invest capital in Serbia. The Ministry of Economy of the Republic of Serbia provided a list of the 300 most prominent investors who made investments in Serbia between 2011 and 2019 (excluding the years 2020–2021, as this is the period of the Coronavirus pandemic), which served as the foundational sample for the research. An invitation letter and a questionnaire intended for the top management, i.e., company managers, were sent to the e-mail addresses of all companies from the received list. The response rate was 28% (out of 300 foreign investors to whom the questionnaire was sent), and 84 investors/respondents responded positively (completed the questionnaire).

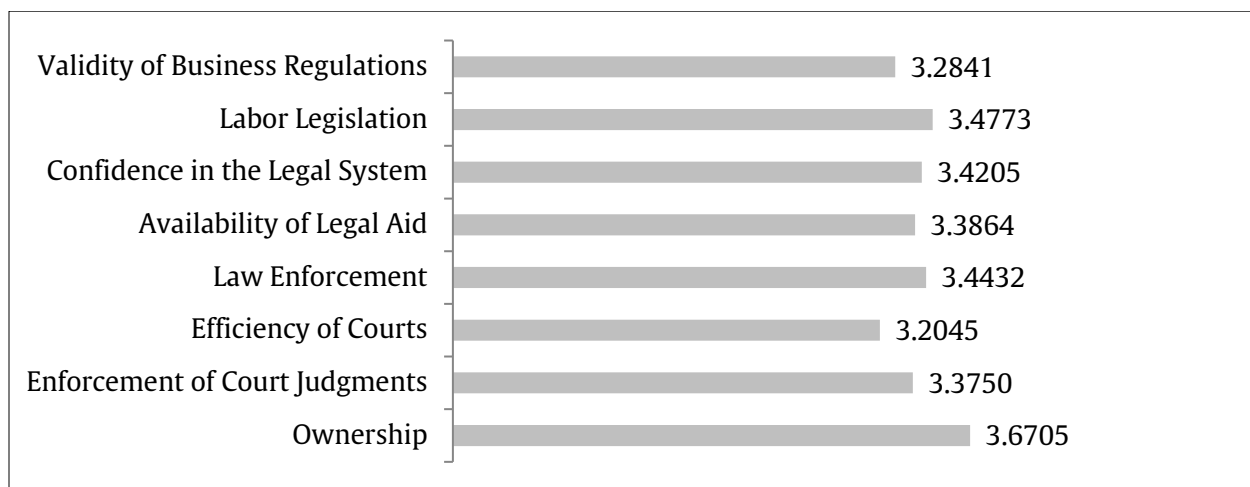
Based on the responses received and the characteristics of the foreign investors (FI), the following classification was made in the form of a frequency and percentage distribution:

- a) C.1 - Model of entering the Serbian market:
direct investments - 53.6% (number of FI: 45)
and indirect investments - 46.4% (number of FI: 39).
- b) C.2 - Investment size: up to 10 MEUR (28.5%, number of FI: 24), 11-50 MEUR (41.7%, number of FI: 35), 51-100 MEUR (15.5%, number of FI: 13) and over 100 MEUR (14.3%, number of FI: 12).

It was essential to use the right approach based on how many different groups of foreign investors there were when assessing the collected data to see if there is a statistically significant difference (hereafter: SSD) in the respondents' responses. ANOVA (one-factor analysis of variance of different groups) was applied when three or more groups of respondents were being compared. The T-test for independent samples was used whenever it was essential to compare two groups.

RESULTS

As part of the factors of the legal environment, foreign investors evaluated the importance of the validity of business regulations, labor legislation, trust in the legal system, availability of legal aid, law enforcement, the efficiency of courts, enforcement of court decisions, and regulation of property relations for their business in Serbia. Graph 1 shows the average ratings for each of the examined aspects of the legal environment based on the assessments of international investors conducting business in Serbia.



Graph 1: Legal environment as a factor of FDI

Source: Author's work.

In this research, foreign investors identified the factors of the legal environment that affect their business in Serbia: Ownership ($M = 3.6705$), Labor Legislation ($M = 3.4773$), Law Enforcement ($M = 3.4432$), confidence in the Legal System ($M = 3.4205$), Availability of Legal Aid ($M = 3.3864$), Enforcement of Court Judgments ($M = 3.3750$), Validity of Business Regulations ($M = 3.2841$) and Efficiency of Courts ($M = 3.2045$).

Table 1 shows, in the form of descriptive statistics, the results obtained based on research into the factors of the legal environment and based on an assessment of foreign investors doing business in Serbia.

Table 1: Analysis of the legal environment factors

Legal environment factors	Evaluation ratio					<i>M</i>	<i>SD</i>	<i>V</i>
	1	2	3	4	5			
	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)			
Validity of Business Regulations	7 (8.3)	11 (13.1)	25 (29.8)	31 (36.9)	10 (11.9)	3.2841	1.11364	1.240
Labor Legislation	4 (4.8)	10 (11.9)	32 (38.1)	18 (21.4)	20 (23.8)	3.4773	1.10357	1.218
Confidence in the Legal System	4 (4.8)	15 (17.9)	24 (28.6)	26 (30.9)	15 (17.8)	3.4205	1.11130	1.235

Table 1: Continued

Availability of Legal Aid	8 (9.5)	10 (11.9)	24 (28.6)	27 (32.1)	15 (17.9)	3.3864	1.17866	1.389
Law Enforcement	4 (4.8)	11 (13.1)	25 (29.8)	32 (38.1)	12 (14.2)	3.4432	1.02675	1.054
Efficiency of Courts	8 (9.5)	11 (13.1)	31 (36.9)	24 (28.6)	10 (11.9)	3.2045	1.10546	1.222
Enforcement of Court Judgments	7 (8.3)	11 (13.1)	22 (26.2)	31 (36.9)	13 (15.5)	3.3750	1.16769	1.364
Ownership	8 (9.5)	11 (13.1)	16 (19.1)	17 (20.2)	32 (38.1)	3.6705	1.34525	1.810

Source: Author's work.

The first analysis segment was focused on the evaluation of the legal environment factors that influence how a foreign investor enters the Serbian market. In this context, foreign investors were classified according to whether they

entered the Serbian market through direct or indirect investment. Since this is a comparison of two groups of respondents, a T-test was used (see Table 2).

Table 2: Rating of the legal environment factors: C.1 - Model of entering the Serbian market

	<i>M</i> (<i>SD</i>)		<i>MD</i>	95% <i>CID</i>		<i>t</i>	<i>p</i> *
	Direct investment N=45	Indirect investmen t N=39		Lower	Upper		
Validity of Business Regulations	3.4255 (0.97233)	3.1220 (1.24890)	0.30358	-0.16779	0.77495	1.280	0.204
Labor Legislation	3.7872 (0.93102)	3.1220 (1.18733)	0.66528	0.21583	1.11473	2.943	0.004
Confidence in the Legal System	3.6596 (1.04832)	3.1463 (1.13051)	0.51323	0.05132	0.97515	2.209	0.030
Availability of Legal Aid	3.6170 (0.99024)	3.1220 (1.32656)	0.49507	0.00276	0.98738	1.999	0.051
Law Enforcement	3.6596 (0.91549)	3.1951 (1.10044)	0.46445	0.03719	0.89171	2.161	0.033
Efficiency of Courts	3.2766 (0.87730)	3.1220 (1.32656)	0.15464	-0.31653	0.62582	0.652	0.516
Enforcement of Court Judgments	3.5532 (1.05930)	3.1707 (1.26298)	0.38246	-0.10969	0.87461	1.545	0.126
Ownership	3.7234 (1.34653)	3.6098 (1.35790)	0.11365	-0.46063	0.68793	0.393	0.695

* There is an SSD if $p < 0.05$.

Source: Author's work.

The result of the analysis shows that there is an SSD in the evaluation of certain factors of the legal environment when it comes to FI that has entered the Serbian market through direct or indirect investments, namely:

1. Labor Legislation, $t(82) = 2.943$, $p = 0.004$, $MD = 0.66528$, 95% *CID*: from 0.21583 to 1.11473. According to the findings and the model of entry into the Serbian market, labor legislation is more significant for FI that invested their capital in

Serbia directly ($M = 3.7872$, $SD = 0.93102$) than for FIs that did so indirectly ($M = 3.1220$, $SD = 1.18733$). The amount of the difference between FI direct and indirect investments in Serbia is as follows: $\eta^2 = 0.091$, which can be regarded as a medium-sized discrepancy.

2. Confidence in the Legal System, $t(82) = 2.209$, $p = 0.030$, $MD = 0.51323$, and 95% *CID*: from 0.05132 to 0.97515. According to the findings and the model used to enter the Serbian market,

confidence in the legal system is more significant for FI who made direct investments in Serbia ($M = 3.6596$, $SD = 1.04832$) compared to FI who made indirect investments ($M = 3.1463$, $SD = 1.13051$). The difference between FI who made direct and indirect investments in Serbia has a magnitude of $\eta^2 = 0.053$, which is regarded as a medium-sized difference.

3. Law Enforcement: $t(82) = 2.161$, $p = 0.033$, $MD = 0.46445$, 95% CID: 0.03719–0.89171. According to the findings and the model used to enter the Serbian market, Law Enforcement is more crucial for FI that invested money directly in Serbia ($M = 3.6596$, $SD = 0.91549$) than for FI that invested money indirectly ($M = 3.1951$, $SD = 1.10044$). The difference between FI who made direct and indirect investments in Serbia has a

value of $\eta^2 = 0.051$, which is regarded as a medium-sized difference.

The second study section focuses on the assessment of the legal environment's elements in relation to the volume of foreign investment in Serbia. According to the size of their investments, foreign investors are categorized in the following ways:

- 1) up to 10 MEUR,
- 2) 11-50 MEUR,
- 3) 51-100 MEUR,
- 4) over 100 MEUR.

A one-factor analysis of the variance of the various groups (ANOVA) was employed because this is a comparison of four groups of subjects (Table 3).

Table 3: Rating of the legal environment factors: C.2 - Investment size

		<i>SM (SD)</i>	<i>95% CIM</i>		<i>F</i>	<i>p*</i>
			Lower	Upper		
Validity of Business Regulations	Up to 10 MEUR, N=24	3.4400 (1.15758)	2.9622	3.9178	0.554	0.647
	11-50 MEUR, N=35	3.1111 (1.18990)	2.7085	3.5137		
	51-100 MEUR, N=13	3.2857 (1.06904)	2.6685	3.9030		
	Over 100 MEUR, N=12	3.4615 (0.87706)	2.9315	3.9915		
Labor Legislation	Up to 10 MEUR, N=24	3.8800 (1.20139)	3.3841	4.3759	1.949	0.128
	11-50 MEUR, N=35	3.2222 (1.07201)	2.8595	3.5849		
	51-100 MEUR, N=13	3.5714 (1.08941)	2.9424	4.2004		
	Over 100 MEUR, N=12	3.3077 (0.85485)	2.7911	3.8243		

Table 3: Continued

Confidence in the Legal System	Up to 10 MEUR, N=24	3.5200 (1.22882)	3.0128	4.0272	0.142	0.934
	11-50 MEUR, N=35	3.3333 (1.04198)	2.9808	3.6859		
	51-100 MEUR, N=13	3.4286 (1.22250)	2.7227	4.1344		
	Over 100 MEUR, N=12	3.4615 (1.05003)	2.8270	4.0961		
Availability of Legal Aid	Up to 10 MEUR, N=24	3.6400 (1.11355)	3.1803	4.0997	0.532	0.661
	11-50 MEUR, N=35	3.2778 (1.27864)	2.8451	3.7104		
	51-100 MEUR, N=13	3.2857 (1.06904)	2.6685	3.9030		
	Over 100 MEUR, N=12	3.3077 (1.18213)	2.5933	4.0220		
Law Enforcement	Up to 10 MEUR, N=24	3.5200 (1.15902)	3.0416	3.9984	1.052	0.374
	11-50 MEUR, N=35	3.2222 (1.12405)	2.8419	3.6025		
	51-100 MEUR, N=13	3.7143 (0.72627)	3.2949	4.1336		
	Over 100 MEUR, N=12	3.6154 (0.65044)	3.2223	4.0084		
Efficiency of Courts	Up to 10 MEUR, N=24	3.2400 (1.01160)	2.8224	3.6576	0.835	0.478
	11-50 MEUR, N=35	3.0556 (1.21760)	2.6436	3.4675		
	51-100 MEUR, N=13	3.1429 (1.02711)	2.5498	3.7359		
	Over 100 MEUR, N=12	3.6154 (1.04391)	2.9846	4.2462		

Table 3: Continued

Enforcement of Court Judgments	Up to 10 MEUR, N=24	3.4400 (1.15758)	2.9622	3.9178	1.409	0.246
	11-50 MEUR, N=35	3.1667 (1.25357)	2.7425	3.5908		
	51-100 MEUR, N=13	3.2857 (1.20439)	2.5903	3.9811		
	Over 100 MEUR, N=12	3.9231 (0.75955)	3.4641	4.3821		
Ownership	Up to 10 MEUR, N=24	3.6800 (1.34536)	3.1247	4.2353	0.772	0.513
	11-50 MEUR, N=35	3.6667 (1.24212)	3.2464	4.0869		
	51-100 MEUR, N=13	3.2857 (1.72888)	2.2875	4.2839		
	Over 100 MEUR, N=12	4.0769 (1.18754)	3.3593	4.7945		

* There is an SSD if $p < 0.05$.

Source: Author's work.

The conducted analysis shows that there is no SSD at the level $p < 0.05$ in the evaluation of the factors of the legal environment (validity of business regulations, labor legislation, confidence in the legal system, availability of legal aid, law enforcement, efficiency of courts, enforcement of court judgments and ownership in Serbia) between different groups of foreign investors classified by the amount of investment in Serbia, namely:

- FI who invested up to 10 MEUR and FI who invested 11-50 MEUR,
- FI who invested 11-50 MEUR and FI who invested 51-100 MEUR,
- FI who invested 51-100 MEUR and FI who invested over 100 MEUR,
- FI who invested up to 10 MEUR and FI, who invested over 100 MEUR.

DISCUSSION

The principal objective of this study has been to investigate the influence of the legal

environment on the inflow of FDI in Serbia. The study's findings underscore the significance of ownership in shaping the legal landscape for foreign investors in Serbia. This discovery aligns with earlier research findings that indicated a positive correlation between robust protection of property rights and the inflow of FDI (Tag, 2021). Additionally, our research reveals that foreign investors assign varying degrees of importance to distinct elements within the legal environment. Noteworthy results illuminate systematic differences in the assessment of legal environment factors among FIs, contingent upon their chosen mode of entry into the Serbian market—whether through direct or indirect investment.

While our findings coincide with certain aspects of prior research, it is crucial to recognize that exploring relevant literature provides additional perspectives and nuanced considerations in specific areas. According to the findings and the entry model applied in our study, labor legislation plays a more pronounced role in shaping the investment decisions of FIs engaging directly with the Serbian market

compared to those who opted for indirect investments. Regarding labor legislation, which was ranked as the second most important factor of the legal environment that affects FI business in Serbia, evidence provided by Javorcik & Spatareanu (2005) suggests that there is a positive correlation between the decision on the location for FDI and the amount of FDI invested with the degree of flexibility in the host country's labor market and the disparity in labor market regulations between the host and source countries.

Our study aligns with established findings that demonstrate a positive correlation between host country judicial institutions and regulatory factors and their impact on FDI inflow, as indicated by recent research (Tag, 2021; Contractor et al., 2021). This alignment is reinforced by the high ratings given by FI to law enforcement and confidence in the legal system. Nevertheless, research conducted by Bhasin and Garg (2020) established that foreign investors are drawn to invest in emerging economies because of the opportunities to exploit their less stringent legal frameworks. However, it is noteworthy that foreign investors still anticipate a fundamental supportive environment with efficient regulations to alleviate potential complications.

The results of our study indicate that the level of confidence in the legal system and law enforcement plays a more substantial role in influencing the investment decisions of FI engaging directly with the Serbian market compared to those who opt for indirect investments. On the contrary, Li and Fuller (2007) argued that in countries with a low rule of law, investors tend to opt for direct investment over indirect investment, asserting that the preference for direct investment stems from the perception that it offers greater control and private protection in the absence of impartial and transparent public rule-making and enforcement.

Irrespective of the invested amount, ranging from up to 10 MEUR to over 100 MEUR, no significant systematic differences were identified in FI's assessments of legal environment variables. This suggests a uniformity in the evaluation of the legal landscape across varying financial scales.

These findings contribute valuable insights for stakeholders and policymakers aiming to craft

strategies tailored to the specific needs and priorities of foreign investors in Serbia. The nuanced understanding of how entry strategies influence the perceived importance of distinct legal factors, coupled with the uniformity in assessments across investment magnitudes, provides a foundation for informed decision-making in the realm of foreign investment in the country.

CONCLUSION AND RECOMMENDATION

By attracting FDI, SEE countries can access capital, technology, and expertise, create jobs, stimulate economic growth, and enhance their position in the global economy. It is crucial, however, for SEE countries, and therefore also Serbia, to develop and implement sound investment promotion policies and strategies to maximize the positive impacts of FDI while addressing potential challenges and risks. The legal environment of a country is a crucial factor that significantly influences the inflow of FDI. A favorable legal environment provides the legal protections and assurances that foreign investors seek, mostly leading to increased FDI inflows in Serbia. Therefore, policymakers often focus on improving legal frameworks to make Serbia more conducive to investment. Policymakers often recognize the importance of improving the legal environment to enhance FDI inflows, as it can contribute to economic growth, job creation, and technological transfer.

Studying published scientific papers on a similar topic, it is evident that the previous research was mainly concerned with the analysis of the influence of factors of the economic and social environment on the inflow of FDI. Considering the fact that researchers have paid less attention to the analysis of legal environment factors on FDI inflows, we were all the more motivated to tackle this type of research and fill a certain gap that exists in the analysis of legal environment factors. Accordingly, Serbia was included in the research as one of the countries of SEE and as a country leading the Western Balkan region in terms of the level of FDI inflows over the last decade. The data obtained through this research is a novelty in academic research, as it is primary data showing the actual situation of foreign investors in Serbia. This primary data, as well as the results obtained showing the influence of the legal

environment factors on foreign investors in Serbia, constitute the originality of this work.

According to the research conducted, ownership is the most important factor in the legal environment for foreign companies investing capital in Serbia. The nature and dynamics of ownership can influence investment decisions, business operations, and the overall success of FDI projects. In addition to ownership, foreign investors in this research also indicated the degree of importance of other factors of the legal environment (importance of labor legislation, law enforcement, confidence in the legal system, legal assistance availability, enforcement of court judgments, validity of business regulations and efficiency of courts). Determining the existence of an SSD in the appraisal of the variables of the legal environment between foreign investors operating in Serbia was, therefore, our primary research objective. In this context, we divided foreign investors into different categories based on how they entered the Serbian market (directly or indirectly) and how much they invested there (up to 10 MEUR, 11-50 MEUR, 51-100 MEUR, and over 100 MEUR).

Based on the formulated research hypotheses, the conducted research, and the analysis of the obtained data, the following conclusions are drawn:

- First, based on the T-test results it turns out that there are SSD between FI in the evaluation of the factors of the legal environment, depending on the type of entry into the Serbian market (direct or indirect investment), in the following factors: (a) labor legislation (more important for FI which had a direct investment as model of entering the Serbian market); (b) confidence in the legal system (more critical for FI which had a direct investment as model of entering the Serbian market); and (c) law enforcement (more important for FI which had a direct investment as model of entering the Serbian market).
- Second, the ANOVA findings of the various groups reveal that there were no SSD between FI in their assessments of the legal environment variables depending on the amount of money invested in Serbia (up to 10 MEUR, 11-50 MEUR, 51-100 MEUR and over 100 MEUR).

The results of the conducted research show several limitations in our study that can be avoided if future research considers specific recommendations. Since the analysis of the legal environment factors was performed only for Serbia (i.e., only one country was included in the study), the first recommendation refers to increasing the number of countries participating in the research (e.g., SEE countries). The second recommendation refers to the methodology that can be used in the survey. In addition to the survey method (via e-mail), the survey can also use a direct approach, such as a face-to-face, video conference, or telephone interview.

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