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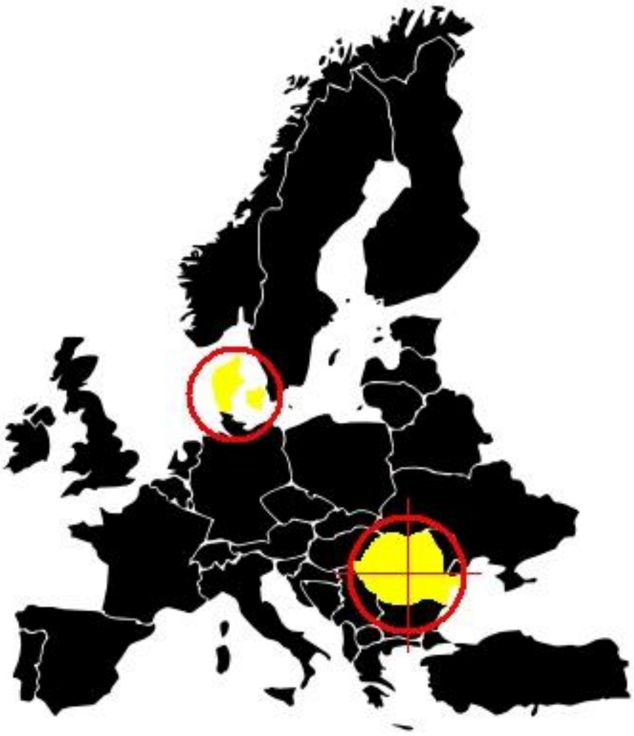
Factors Influencing Foreign Direct Investments in Romania

The Case of Danish FDI in Romania



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Summary

This thesis is about Danish foreign direct investments (FDI) in Romania. Its purpose is to study the key factors influencing Danish FDI in Romania.

To discover the factors that hinder or enhance the Danish foreign investments in Romania a macro and micro economical approach are discussed. For a more comprehensive image over the economic situation of Romania and Denmark a macro and micro perspective of their business climate is presented.

The institutional based theory and the transaction cost theory are used to provide an adequate theoretical basis for this research. After the theoretical part is debated, analytical frameworks based on six main factors that influence the way of doing business in Romania are explained. Consequently four hypotheses are formed that link the FDI with the main factors that influence its flow.

For reaching valuable and accurate results, an empirical research was done. The empirical research is built from interviews conducted with Danish investors in Romania.

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Abbreviations

ARIS	Romanian Agency for Foreign Investments
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CCIB	Bucharest Chamber of Commerce and Industry
GCR	Global Corruption Report
IBW	Institutional Based View
IJV	International Joint Ventures
M&A	Mergers and Acquisitions
SEE	South Eastern Europe
TCT	Transaction Cost Theory
TI	Transparency International
WB	World Bank
UNCTAD	United Nations Conference on Trade and Development

1 Introduction

Multinational companies through their foreign direct investments (FDI) influence and are influenced by a number of factors in the countries they operate. This research focuses on Romania's economy after the 1990 and how the business environment in the Romanian economy changed after the fall of the communist regime. More specifically, how the foreign direct investment works in Romania and which are the factors that are influencing it. For determining that the empirical research is constructed on the Danish FDI flow in Romania, intending to find out what are the reasons of these investors to approach this market, what are their entry modes, and what were the factors that enhanced or hindered their investment in the second largest country of the CEE (Central and Eastern Europe).

The world economy tends to be more and more global; in this case a relevant example of globalization is the enlargement of the European Union (EU), where Romania is also a member since the last EU extension wave on the 1st of January 2007. Here FDI plays a major role, especially in Central and Easter European (CEE) markets, because the foreign capital through FDI has been an important factor in the process of privatization and restructuring of the CEE economies. FDI is today a crucial factor that stimulates sustained economic growth, expansion of capital stock, increase in productivity, employment, innovation and technology transfer.

FDI has been advocated as an engine in the transition to market and a powerful force for integration of this region into the global economy (IMF '97; UNCTAD '98). Many experts have suggested that "without massive inflows of foreign capital, successful transition [from planned to market economies] in Central and Eastern Europe is unlikely" (Schmidt 1995:268; Bandelj, 2008).

This paper focuses particularly on Danish inward FDI in Romania, as one of the most important channel to develop and upgrade Romania's economy after the 90's. There are of course other alternatives to look at, while researching the economic transformation, as it would be international trade. Even if some researchers (e.g. Ditsakis, 2004) found a positive outcome between exports, investments and economic development, anyway the same author argues later on in his studies that trade itself, without FDI, does not lead to long term efficiency.

In order to render a comprehensive image of the FDI in Romania, this research is based on the institutions and on the importance they have when talking about FDI flow, both entry and development. The analytical framework is constructed on six issues that stay at the basis at the hypotheses, explaining and debating the institutional problems at macro and micro economical level. The fact that institutions play a major role in emerging economies is no exception for Romania. For a detailed elaboration on that, I will use in the following paper secondary data for the macroeconomic perspective, and for the micro economical view, Danish FDI in Romania are used as empirical evidence.

Romania is a new member of the European Union since 2007 and the 19th largest economy in Europe by total Gross Domestic Product (GDP).[1] Although Romania stands to benefit from the size of its market (nearly 22 million people), the second largest population (after Poland) among the 10 Eastern European countries, it ranks sixth in terms of GDP.[2]

1.1 Importance of the study

FDI in CEE countries has played an important role in promoting the market economy and competition; it also contributed to increasing the level of competition in the emerging markets.

Romania is an interesting case due to its inheritance, economy development curve after 1990 and its culture. As FDI was forbidden before the 1990 in the Central and Easter Europe (CEE), this study is particularly valuable because it provides a natural experiment setting and offers an opportunity to examine the evolution of FDI markets (Bandelj, 2008). Romania is the second largest market in the so called “transitional economies” (Dicken, 2003) of the Eastern Europe that is a part of the European Union today.

In our days Danish FDI flows are concentrated on the Asian market and in Europe on the South and Eastern part, but not much in the Romanian market. Poland is the nearest country and the one that absorbs the most flow of the Danish investment. The problem that raises up here, is why Romania is attracting such a low investment percent from the Danish FDI flow, taking into consideration the opportunities that this market can offer. Such as large market, low cost, both for labor and supplies, high resources regarding knowledge and a quite similar culture.

After the 1989, the fall of the Soviet Union, the countries from the communist block suffered dramatic changes. The transition from a centrally planned economy to a capitalist market seems to be a great challenge for these countries that find themselves in different stages of transition.

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[1] World Bank, ‘Romania and World Bank’

[2] http://www.undp.ro/profile_romania.php

2 Problem statement

Even if the countries of the communist bloc were all characterized by a stubbornly stability, specific to the Soviet-type societies, after 90's it became a source of destructive instability (Nagy, 1994). It seems that the more immobile those societies were, the more unstable they became after the system changed. Symptoms of the growing crisis included misallocation, deterioration of living conditions, shortages of all kind, deterioration of worker morale; all those were very visible from outside, but from inside the country as well. Many efforts to reform failed, leading to a continuous failure of the system. (Ibid p.302). In this problematic context Romanian economy and living standards suffered unfavorable conditions. In order to reach the international standards and to be competitive on a global scale, Romania has to learn to use its potential and to make itself attractive for the foreign direct investment. The transfer from an industrial society to a capitalist one seems to be more problematic in reality than every economist could predict. In the transition period, the foreign direct investment seems to be the right path in reaching economic recovery, and bring the country back to an international player position. As explained more detailed later on in this research, Romania encounters difficulties in attracting foreign investors as any other transition or emerging economy, but among all the barriers that can slow this process, the issue discuss in this paper focus on the institutions. The purpose of this study is to emphasis the positive aspects, and to shed light over the Romanian opportunities, and in the same time to discover what are the hindrances that stay in front of a sound FDI flow?

After a profound research of the economic environment in Romania, the main problem that has negative consequences over the flow market transaction is institutions. In this case the research question is:

How do institutional factors affect the foreign direct investment flow from Denmark to Romania?

To answer this question, the empirical research is based on the Danish foreign investments in Romania. How did they do it and what were the main problems that they encountered and had to overcome in order to have a successful business?

The empirical tests of this research are based on a sample of Danish firms that have entered the Romanian market in a period of high institutional transformation. The goal is to find out what were their choice of entry modes and how did they cope with the national institutional change in this new market.

This research paper intends to be a guide for the Danish investors that are interested in doing business in Romania.

For a better understanding of the problems encountered today in this market, background information of the inheritance of the Socialist regime is necessary. The next part is covering some of the basic elements of what communism meant in the region of the world.

2.1 Economy in transition - background of the problem

The road of the Central and East European countries to transition has been and still is a bumpy one, but more hazardous in some countries than in others. After almost 20 years from the fall of communism, countries in the CEE are still struggling to define themselves, to develop appropriate strategies for reforms, and to respond to the public impatience with the pace of change. (Hardt & Kaufman, 1996).

For example in Romania what supposed to be political change and a start towards a new democratic system, turned out to be a re-enforcement of the old communists to power. The goal of the communist regime was to transform *homo sapiens* into *homo sovieticus* (Hardt and Kaufman, 1996, 12), but this was impossible to do, due to the weight of accumulated economic inefficiencies of the system. The underlying structure of the communist system was not a market one, but a state-orientated one where property rights were poorly defined (Ibid).

As Kaminski argues in his article the way in which the communism was implemented in different parts of Eastern and Central Europe was different, but the target was only one: "to establish a carbon copy of the system that Stalin built in the 1930s" (Hardt and Kaufman, 1996: 11). The world was very particular. Its institutional design was based on the rejection of the three Western innovations: 1) the market as a mechanism of stimulating and coordinating economic activity; 2) democracy as a mode of governance to mediate between conflicting group and individual interests as well as assuring accountability of the rules to the ruled; and 3) the rule of law (Rechstaad) subduing the discretional intervention by the state. This was an aspiration to total control by a political apparatus, and a central role of Marxist-Leninist ideology (Kaminski and Soltan, 1989).

Bunce explains in her research the difference in implementing capitalism in Western world comparing with the CEE countries (Hardt and Kaufman, 1996). In the first ones it was a process lightly shaped by the state, but by the interests of economic and political entrepreneurs, and it also fallowed a particular sequence, which is capitalism first and liberal democracy second. In the Western world this process was developed in a slow motion over centuries, while in East Europe this process was more revolutionary than evolutionary (Hardt and Kaufman, 1996: 50). In this context, we don't have to forget the institutional background of this transformation. As mentioned by Bunce this is not a case of ambling to capitalism and democracy, is rather a race to both of them (Hardt and Kaufman, 1996). The way in which Romania succeed to perform in this race is extremely important for its future development. The political orientation, the economic reforms and the social development are the features that form the base of its integration in the world economy.

3 Theoretical Framework- literature review

The theory is created to answer the *why* question and it offers a rational structure that explains the facts, process and the action of human action. The theoretical part explains what are the entry and growth strategies of the foreign entrepreneurs in Central and Eastern Europe (CEE) that since 1990 has provided "unique societal quasi-experiments" (Peng, 2005) in the international business and management studies. CEE research has an important impact over the evolution of the development theories due to its novel background and output. The researches done in this area highlighting the significance of the local context over the business life, and how important is the influence of the institutions on the economic development. In order to stress the importance of the institutions and the local context over the economic development of a country, a series of articles by Daniel Kaufman, Aart Kraay and Massimo Mastruzzi that focus on governance have been taken into consideration. "Governance Matter" series (I to VII), from the World Bank cover the period from 1996 to 2009 and it is an outstanding study in pinpointing the governance indicators that hindrance the development of an emerging or transition economy. This indicators are based on disaggregate individuals variables that measure different dimension of governance from 212 countries , 35 data sources provided by 33 organizations, and reflex the views of governance of public sector, private sector, NGOs, thousands of citizen and worldwide firm surveys as well.

While reviewing research on emerging economies, Hoskisson et al. (2000) and Wright et al. (2005) identify that – organizational economics theories, namely, transaction cost theory and agency theory, resource-based theories, and institutional theories have emerged as leading foundations theories in CEE research (Peng & Mayer, 2005). However, for this research are chosen only two main theories, from both macro and micro economical perspective, in order to explaining the business Romanian potential.

The theoretical part of the research is based on a pair of theories that try to explain the entry, evolution and strategies adopted by foreign firm that do business in Romania. These are transaction cost economy (TC) and institutional based view (IB). However the main thread here is to unveil the explanatory and predictive power of theories. For a more comprehensive perspective those theories are presented from a macro, but a micro economical perspective in the fallowing chapter. The macro view intends to present the Romanian business perspective from a global and regional point of view, while the micro economical one focuses on the individual Danish firms that extended their business there.

3.1 Macro perspective

3.1.1 Entry Modes and Institutions

Lasserre (2003) suggests that there are three essential things regarding the entry strategy: entry objectives, answering the question *why*; the time of entry, or *when*; and mode of entry or *how* to approach a new market. The design of an entry strategy thus has to match the needs and resources of the company with the opportunities and constraints in the local environment (Meyer and Yen, T. T. Tran 2004). Adding up on Lasserre's findings, Klaus Meyer states that setting up business operation require several strategic considerations, including entry mode, location, timing, marketing, human resources, and logistics. The issue of foreign direct investment (FDI) is further distinguished as the company's share of equity ownership, weighing pros and cons of acquisition vs. Greenfield investments (Meyer, 2008).

Entry mode decision is a key component of a firm's international strategy. Entry modes are divided into two main categories: relational entry modes and hierarchical entry modes Brouthers and Hennart, 2007; Hitt et al., 2000; Peng, 2003; Wright et al., 1998). A relational entry refers to the market entry of a foreign firm that draws on business relations with one or more partners, for example a joint venture (Xia, Boal, Delios, 2009). On the other side a hierarchical entry refers to an independent entry, as an example an acquisition (Ibid). The question that is raised here is which entry mode a foreign firm would choose, a relational entry or a hierarchical entry, given the facts of a major change in a country's institutional environment. Multinational firms prefer hierarchical modes to relational modes for many reasons (Xia, Boal, Delios, 2009). From an institutional perspective, hierarchical entry strategies tend to achieve a higher level of internal isomorphism (Davis *et al*., 2000) and have a greater internal consistency (Kostova and Zaheer, 1999). In a hierarchical entry, headquarters can transfer knowledge, skills, and routines to geographically dispersed subunits to achieve a high level of internal consistency (Gupta and Govindarajan, 1991; Zaheer, 1995). In transition economies, by using hierarchical entry strategies, firms can maintain their familiar mode of operations to enhance their global capabilities (Peng, 2003; Peng and Heath,1996).

In the following theoretical discussion, will, therefore, seek knowledge about the variables that affects foreign companies entry strategy. This will as a result help us to answer which entry strategies should pursue in Romania in terms of entry mode, timing & commitment and market positioning.

Entry mode includes either equity or non-equity investment, depending on companies, resource allocation to specific markets (Canabal and White III 2008, 267). Through equity investments, companies must exercise higher levels of control, due to the high degree of involvement in foreign market operations (Pan & Tse, 2000). On the other side, non-equity modes require lower degrees of control since these are often based on arm length transactions and thereby less capital intensive (Canabal and White III 2008, 267).

In the choice of *timing and commitment* to a new market, companies may consider an early market entry in order to pursue first mover advantages. First movers advantages, among other, may be building reputation and consumer loyalty, goodwill with local authorities, and establish relationships with key stakeholders and customers. Therefore followers may benefit from a less uncertain business environment, and from observing the first mover, its customers and the local authorities (Meyer 2008; Meyer and Yen, T. T. Tran 2004; Lasserre 2003; Meyer 2004a, 259-276). Developing country markets tend to be highly segmented, both in income and consumer patterns, which can make an interesting research for a company to determine its market position.

3.2 Institutional Theory

The theoretical framework that can best describe the Romanian business environment and also explain the long process of transition from an authoritarian regime to a democratic one is composed of a pair of two theories. The one with the highest weight is the institutional based theory that explains the important role of institutions in the business world in transition period; the other one is transaction cost theory that completes the first theory and create a more comprehensive image of the CEE market and its main struggles.

As McKinley (1999) state a theory gains acceptance when they prove the following features: continuity, novelty and scope. Institutional theory (IT)s, as used in CEE, seem to have a relatively low degree of continuity, by pushing factors usually considered as 'background' in institutional based theory (IB) and management research to the 'front stage' (Ingram and Silverman, 2002). On the other hand, ITs offer the highest degree of novelty, in this highly unusual and novel context (Meyer and Peng, 2005). The transaction cost approach assumes perfect market information and thereby knowledge about the costs of applying certain entry modes for international expansion (Whitelock 2002: 345-346). According to theory, market entry decisions are made in a rational manner based on the information of the cost of a transaction. However, increased focus on emerging markets and least developed countries challenges the TCT and, to come around this dilemma, combine different theoretical perspectives to extend the TCT and to explain MNEs strategic intent to enter emerging markets by applying the institutional perspective (Meyer, K. in Wright et al. 2005: 4).

Since no firm can be immune to institutional frameworks in which it is embedded there is hardly any dispute that institutions do matter (Peng 2002: 251). The role of institutions in an economy is to reduce both transaction and information costs through reducing uncertainty and establishing a stable structure that facilitates interactions (Hoskisson et al. 2000: 253).

3.2.1 Institutional based theories (IB) at a macro level

Institutions are defined by North (1990, 3) as the "rules of the game in a society" which include formal rules (law and regulation) and informal constraints (customs, norms, and cultures). The institutions shape the strategy and performance of firms – both domestic and foreign – in emerging economies (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005). Berger and Luckman refer to institutions as "man's self-production is always, and of necessity, a social enterprise. Men *together* produce a human environment, with the totality of its socio-cultural and psychological formations". The core claim of the IB is that "actors pursue their interests within institutional constraints" (Ingram and Silverman 2002:1).

Peng defines institutions as „the set of fundamental, political, social and legal ground rules that establishes the basis for production, exchange and distribution" (Peng 2002: 252). Peng further suggests that in situations where formal constraints fail, informal constraints will come into play to reduce uncertainty and provide constancy to organizations (Peng 2002: 253). No matter which definition you adhere to, the institutional theory has gained influence during recent years and current research on emerging markets has pushed the institutional theory to a leading position on the strategy research agenda (Wright et al. 2005: 6). Peng argues that institutions should be seen as independent variables in creating firm strategy, and when focusing on the dynamic interaction between institutions and companies, the outcome is strategic choices for the MNE within the given macro-economic context (Peng 2002: 253).

The "strategy tripod" developed by Peng seems to be an ingenious way in explaining the institutions and the challenges they raise for foreign firms in approaching the emerging countries. Peng's research has a precise objective 1) explicitly arguing for the emergence of an institution-based view of IB strategy, and (2) positioning it as one leg that helps sustain a ''strategy tripod'' (the other two legs being the industry- and resource-based views). The words "institutions matter" is controversial for the IB, but what is interesting, it is *how* they matter (Davis, 1971; Smith, 2003). The main argument is that IB strategy research, especially its recent focus on competition in emerging economies, affords us a wonderful opportunity to shed light on the ''how'' question and to contribute one leg – an institution-based view – to help sustain the ''strategy tripod'' (Peng, 2005).

What exactly are institutions? Building on the *''rules of the game''* metaphor, North (1990: 3) more formally defines institutions as ''the humanly devised constraints that structure human interaction''. In this sense, institutions can be broadly classified as formal and informal ones (Peng, 2005). Institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship) (Ibid). A country's political environment has been emphasized in the political risk literature (Butler & Joaquin, 1998; Kobrin, 1982; Nigh, 1985). Nations differ in political risk, which affects the stability of their markets (Simon, 1984). A substantial IB literature centered on culture has been developed (Leung et al., 2005). It is also necessary to stress on the relationship between cultures and institutions to cite Hofstede, Van Deusen, Mueller, Charles, and Business Goals Network (2002: 800), who suggest that culture is ''a substratum of institutional arrangements''. More precisely, we can view culture as a part of informal institutions in the environment that ''underpin formal institutions'' (Redding, 2005: 123; see also Hofstede, 2007; Singh, 2007).

When a government decides to host foreign investment inflows as a part of the economic development strategy, political institutions determine the success of failure to maximize domestic benefits and minimize negative externalities (Kehl, 2009). As Frances Hogopian and Samuel Huntington argue, "economic forces are in-determinant; their influence on outcomes must be filtered through political institutions" (Ibid). In this environment, government policy and changes in the institutional framework are of pivotal concern to foreign investors (Meyer, 2001b). The transition has created specific policy- induced entry barriers, but also windows of opportunity for investors that established good relations or negotiated successfully with host governments. Thus strategic flexibility and the ability to adapt to volatile rules and regulations can become crucial competitive advantages (Meyer & Peng, 2008). The transition economies experienced an "institutional collapse" (Campos and Coricelli, 2002).According to the EBRD (2000:23-5), institutional reform has been slow and has lagged other reforms. Svejnar (2002: 7) summaries the fallowing consensus: "virtually no transition country succeeded in rapidly developing a legal system and institutions that would be highly conducive to the preservation of the private property and the functioning of a market economy… this lack of a market-oriented legal structure appears to have been the Achilles' heel of the first dozens years of transition" (Campos and Fidrmuc, 2003). Institutions are central to good economic prosperity, governments develop institutions to raise revenue and stimulate economic growth as a response to political and economic interests as Kehl debates. In order to satisfy these needs, institutions have become "larger, considerably more complex and resourceful, and prima facie more important" (Levi from Kehl 2009:3) especially in developing countries (Kehl, 2009).

Yet, limitations of institutional voids can allow enterprises to react to and play a more active role in an institutional environment if companies have an adaptive ability that allows them to move beyond institutional constraints (Aulakh, Kotabe, and Teegen 2000: 342-361; Hoskisson et al. 2000: 249-267). As long as companies cannot use the same strategies in all developing countries they operate, they can generate synergies by treating different markets as part of the system in their value chain despite the differences in the social infrastructure, for example. This indicates that the MNE should treat emerging markets as sources of knowledge and innovation – a way in which they should engage if they wish to secure their future in these markets (Khanna, Palepu, and Sinha 2005: 63-76).

It is common for foreign firms to consider that international joint ventures (IJV) governance costs are largely offset by access to this intangible and specific asset of the local partners (Meschi, 2009). By relying on the local partners' knowledge of political stakeholders and government officials and their ties to the government, the foreign partners reduce the transaction costs with the emerging economy's political environment and government institutions (Ibid). As the same author argues, foreignness is a liability, especially in emerging economies with high levels of corruption and political uncertainty. If a foreign firm (particularly if it is a multinational) enters an emerging economy through an IJV, it is more likely to lose its foreignness than through an acquisition or a wholly owned subsidiary (Ibid). A foreign firm involved in an IJV benefits from a legitimation process on the part of the political stakeholders and government officials (Scott, 1995; Zaheer & Mosakowski, 1997) and gradually acquires the status of a "quasi-local player." As a consequence, the foreign firm is less threatened by the government's change of attitude towards foreign direct investment, and, more generally, less exposed to government corruption than other foreign firms that are present in the country but which operate different modes of investment than the IJV (Meschi, 2009).

Other issue that represent a problem for the CEE countries are explained by some scholars by the market memory. The time of extraordinary politics and the pace of reform depend on each country's so-called market memory (Wolf and Havrylyshyn, 2002). Some countries were considered among the developed economies prior to World War II while others have gone directly from a feudal or early capitalist system to a socialist system.

Moreover, the distinct cultural and systemic inheritances influence informal institutions such as norms and values in these countries. Consequently, Eastern Europe may develop distinctive forms of capitalism (Meyer, Peng, 2005).

The World Bank's *Global Development Finance Report* suggests that good polices and good governance, along with strong institutions, is critical to using private foreign investment inflows productively (WB 2004).

3.2.2 Transactional Cost Theory (TCT)

3.2.2.1 Transaction Cost Economics: Overall

The foundations of contemporary transaction cost economics were established by Ronald Coase (1937, 1960). The logical starting for a transaction cost approach to governance and organizational issues is Coase's (1960) insight that if it weren't for transaction costs, all gains to trade would be exhausted and this could take place under any organizational arrangement. The argument in that paper is that the assessment of the net benefits of organizational and governance alternatives must proceed in terms of a comparative analysis of the costs of transacting under the relevant alternatives (Barzel and Kochin, 1992).

3.2.2.2 Transaction Cost Theory: Macro Perspective

Transaction cost theory state that a corrupt government is a critical factor for an international business environment, which leads to different levels of uncertainty. From the experience of foreign firms, any governmental uncertainty in emerging countries has a direct consequence on increasing the transaction cost. Within this theoretical framework, the foreign firms are presented as a governance structure that minimizes the transaction costs between the foreign partner and the local environment of the emerging economy (Teece, 1986; Husted, 1994; Meschi & Hubler, 2003; Reuer, 2001).

In the transition context, TCs are specially high due to the 'weak institutions' and high uncertainty (Peng & Meyer, 2005). For example, the lack of information systems and effective courts raised search and monitoring costs, and constraints on opportunistic behaviour may become ineffective (Swaan, 1997). More than that scholars find it difficult to measure the pertinent TCs. This is a general problem of TCT research (Boerner and Macher, 2004), but it becomes particularly relevant in CEE, for example the rise of TCs in Western studies may not be that relevant, because the drivers of TCs are different and are mature markets (Peng & Meyer, 2005). An example is that TCT research associates intangible assets with market failure, yet in transition economies markets for tangible assets, such as real estate, are also subject to high TCs (Estrin et al., 1997). Thus in order to create new theory the researcher must discover what drives TCs in transition economies across countries, industry and industry segments.

International joint ventures and the foreign direct investments use a local partner to be able to succeed and avoid local corruption. It is the local partner, and, more precisely, its knowledge of political stakeholders and government officials, its social networks and its ties to the emerging country's government that enable the foreign partner to protect itself against government corruption. In an uncertain environment, the joint ventures and the local partner are considered by the foreign partner as sources of reliable information, protection and external legitimacy (Rodriguez et al. 2005). The knowledge of political stakeholders and government officials and the ties to the government constitute an intangible and specific asset (Teece, 1986; Williamson, 1975) belonging to local partners. In order to benefit from this asset, foreign firms that wish to invest in an emerging economy agree to share the ownership, control and profit of international joint ventures with local firms and, more generally, to bear the high governance costs of international investments (Reuer, 2001).

Where arms-length transactions would not lead to efficient outcomes, firms may rely on alternative mechanisms to ensure quality of delivery: network relationships or reputation (Meyer, 2005). More on Meyer argues that business networks reduce operating costs in imperfect markets in the fallowing ways: they facilitate the exchange of confidential information prior to assigning a contract, and may also create incentives to deliver high quality in expectation of a continuing relationship. For example, being part of financial networks gives internationalizing venture capital firms access to local syndication networks (Wright and Lockett, 2003).

Meyer defines *reputation* as an alternative way to overcome market failures based on information asymmetries. With information asymmetries, foreign entrants build legitimacy with local constituents (Kostova and Zaheer, 1999) and establish a reputation. Perception of brand image by purchasers is thus an important competitive advantage, especially in services (Boddewyn *et al*., 1986). Cross-border brand transfers generally occur for few global brands with globally mobile customers (Dunning and McQueen, 1981). Consumers tend to have strong attachment and trust in local brands (Meyer and Tran, 2006). In consequence, strong incumbent brands and high advertising expenditures serve as effective barriers against Greenfield entry (Kessides, 1986).

As TCs are moderated by the peculiarities of the institutional environment, scholars applying TCT to explain the choice of organizational forms in CEE often integrate institutions in their TCT reasoning (Ibid). For example, Meyer (2001b) follows North (1990) in arguing that institutions shape TCs, which in turn determine investors' internalization decisions. Constructing on Oxley's (1999) TCT-based work on intellectual property rights and FDI, Meyer (2001b) proxies institutional development with transition indicators of the European Bank for Reconstruction and Development (EBRD), and finds that lower TCs of establishing local operations make it more likely that foreign investors will establish wholly owned operations rather than JVs or contractual cooperation.

On the other side there are other studies that explore how high TCs may discourage FDI. Bevan et al. (2004) proxy TCs by the same EBRD indicators as Meyer (2001b), but in a disaggregated form, and finds that some aspects such as foreign trade liberalization significantly facilitate the inflow of FDI, whereas others such as domestic price liberalization would not. Javorcik (2004) finds that weak intellectual property rights (and thus high enforcement costs) put off FDI in high technology sectors, but do not deter FDI in sales and distribution (Peng & Meyer, 2005).

However as Peng and Meyer argue in their study, probably there are few studies that apply TC as the main theoretical base. TC is a tool of a more mature stage of development. Nevertheless, TC is a theory that suits more to a stable market, has proved some potential for the further development in dynamic and instable environment as CEE. Moreover, the transition context provides opportunities to drill down further nuances of the TC parameters by exploiting the regional variation across and within countries (Peng & Meyer, 2005).

3.3 Theoretical Framework from a Micro Economical View

3.3.1 Institutional Based Theory from a micro view

Due to path dependency of institutions, extraordinary policies during this period and the inheritance from the previous regime shape the future institutional frameworks (North 1990, Stark 1992). Policy decisions during the period of radical change around 1990, such as methods of privatization, had a long- lasting effect on institutions, but also on the distribution of wealth and power (Meyer, 2005). In many countries, the institutional vacuum and weak legal framework in the early 1990s permitted a large extent of opportunistic behavior, rent shifting, bribery and corruption; and in some countries, vested interests have inhibited the pace of reform (Stiglitz 1999, EBRD 1999). Consequently, the process of building institutions in transition economies has taken more time than most reform scenarios envisaged in 1990 (Meyer and Peng, 2005).

A new generation of research suggests that institutions are much more than background conditions, and that ‘institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy, and to create competitive advantage’ (Ingram and Silverman, 2002: 20, from Meyer, 2008). Nowhere is this point more clearly borne out than in emerging economies, where institutional frameworks differ greatly from those in developed economies (Khanna, Palepu, and Sindha, 2005; Meyer and Peng, 2005; Wright *et al*., 2005; Gelbuda, Meyer, and Delios, 2008). Given these institutional differences, how do foreign firms adapt entry strategies when entering emerging economies?

The literature has so far investigated the role of institutions at aggregate levels (Meyer, 2001; Wan and Hoskisson, 2003; Dikova and van Witteloostuijn, 2007) or focused on indirect effects such as uncertainty due to unstable institutions (Delios and Henisz, 2000; Brouthers and Brouthers, 2003). Meyer, Estrin, Bhaumik and Peng (2008) have argued that it is their effect on the effectiveness of markets—or their reduction of institutional voids (Khanna and Palepu, 2000; Kedia *et al*., 2006)—that provides the incentives to internalize resource acquisitions and thus influences entry choices.

However, where institutions are weak, firms may rely to a large extent on network- and relationship-based interaction (Peng and Heath, 1996), yet such network and relationship resources are hard to value as well (Meyer, Estrin, Bhaumik and Peng, 2008) Furthermore the same authors argue that acquisitions are strongly negatively associated with certain countries of origin, namely those in the Near East and in emerging economies. This may be because MNEs from these countries have fewer financial resources to draw upon, or they lack experience in this mode due to the relatively inactive market for corporate control in their own home countries (Tsang and Yip , 2007 from Meyer, Estrin, Bhaumik and Peng, 2008). Institutions cover both formal institutions such as laws and regulations and regulations and informal institutions such as business practices and customs (North, 1990).

3.3.2 Criticism & Conclusion

The criticisms of these theories after Roberts & Greenwood (1985) is that TCT does not take into consideration the market pressures that often dictate market relationships. This implies that under conditions whereby perfect-competition is not possible, maximal decision processes are not possible thus directing decision making processes. Moreover, the institutional framework is often neglected when ascertaining the governance choices of firms under TCT (Roberts & Greenwood, 1997).

As its *modus operendi*, institutional theory stresses that organizations are embedded – both socially and economically – within environments that reward those who comply with these pressures (Granovetter, 1985). This conformity that often ensures the success of these firms to operate skillfully within the predominant structure, however, also creates environments where homogeneity and collusion may burden the business evolution (Oliver, 1997, Powell and DiMaggio, 1991).

Nevertheless, TCE in particularly has been subject to heavy criticism from management scholars who have indicted the theory for it purportedly being "bad for practice."(Foss, 2008).

The assessment of international business literature, entry modes, institutional and transaction cost theory results in a number of factors and variables that are being identified and that influence a foreign investor entry strategy, time and market position when investing in Romania. Having this strong theoretical background, there is need for establishing an overview and a framework that enables an extensible understanding of the variables that influence the institutional frame in Romania and have a considerable consequence for the inward FDI.

After analyzing the theoretical framework and taking into considerations the factors that influence foreign direct investment in transition countries, I assume that the indicators used by the World Bank Research Paper in measuring governance are the ones that best describe the FDI in a transition country context (Kaufman, et al., 2009). Paying attention to the macro and micro perspectives, I conclude that the six variables succeed explaining the best the complexity of the issues encountered in this context. Those variables are manly inspired from the World Bank paper "Governance Matter VII" and are: access to information, political stability, government effectiveness, regulation, rule of law, and control of corruption.

4 Analytical framework

After debating the theories from a macro and micro point of view, the analytical framework depicted in the next part, presents the emerging businesses in Romania, and intends to give a clear view of the factors and variables that influence the foreign investors' entry modes, market choice, time, commitment, market positioning and nevertheless institutions.

In order to answer the research question, here are presented the main factors that characterize the institutions in Romania and affect the FDI in this country. The factors that are emphasized in the following part are the same used by the World Bank, Development Research Group, Macroeconomics and Growth Team (2009). This paper "Governance Matters VII: Aggregate and Individual Governance Indicators 1996-2008" by Daniel Kaufmann, Aart Kraay, Massimo Mastruzzi is a complex report on the World Wide Governance Indicators. This research project covers 212 countries and measures six dimensions of governance between 1996 and 2008.

These factors as presented by the authors are: access to information, political stability, government effectiveness, regulations, rule of law, and control of corruption, and they represent the dimensions that describe the institutions in Romania. For a better picture, a description of what they stand for is necessary, and also how do they reflect the institutions in Romania.

1) *Access to Information* refers to the difficulty in getting information from the Romanian authorities/institutions and knowledge regarding new businesses, changes of regulation, duties and rights.

2) *Political Stability* is capturing the perceptions of the likelihood that the government will be destabilized or overthrown. In Romania's case there is also a frequent change of policies that is directly correlated to the governing party.

3) *Government Effectiveness* refers to the quality of public service and the civil service and the degree of its independence from political pressure; the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. In case of Romania it is also related to the lengthiness of adaptation to EU rules and regulations after the adherence period.

4) *Regulation's* quality refers to the government capability to formulate and implement sound policies and regulations that support and promote the private sector development. Here are also included the lack of transparency, frequent changes of

rules and regulations, and their substantial cost or delays that affect the new investors and the one being already active in the market.

5) *Rule of Law* refers to the level of confidence in the rules of the society, the quality of contract enforcement, property rights, police, the court.

6) *Control of Corruption* refers to the extent to which public power is exercised for private gain, including bribes, and grand forms of corruption, and also the "capture" of the state by elites and private interests.

The purpose of the analytical framework is thus to support the process of answering the hypothesis. There are four hypotheses based on the factors presented above, and are described as follows:

1) Lack of efficiency in institutions makes it difficult for investors to approach emerging markets.

Although emerging economies pose numerous challenges, the primary reason for failures in strategies has less to do with weak local infrastructure (Arnold and Quelch 1998, 7-20; Khanna, Palepu, and Sinha 2005, 63-76). In many countries, the institutional vacuum and weak legal framework in the early 1990s permitted a large extent of opportunistic behavior, rent shifting, bribery and corruption; and in some countries, vested interests have inhibited the pace of reform (Stiglitz 1999, EBRD 1999). In this environment, government policy changes in the institutional framework, is of pivotal concern to foreign investors (Meyer, Jensen, 2005). During such periods of radical institutional change, businesses cannot base their investment decisions on present institutions, as they are often transient and in some cases even inconsistent (Ibid). Thus strategic flexibility and the ability to adapt to volatile rules and regulations can become crucial competitive advantages. This leads to the idea that transition has moreover created specific policy-induced entry barriers, but also windows of opportunity for investors that established good relations or negotiated successfully with host governments (Ibid). On the other side the remaining inconsistencies of institutions increase transaction costs, especially for new business relationships, and thus inhibits many potential transactions, in particular those of complex or long-term nature (Meyer, Jensen 2005). Western MNEs lack information on their partners; and they have to confront unclear regulatory frameworks, inexperienced bureaucracy and the weak enforcement of property rights (Meyer, 2001, Bevan et al. 2004).

2) When the government structure changes, the information flow from authorities to investors worsens.

As Hoskisson (2000)state the major difference between emerging economies and developed markets has been described in terms of less macroeconomic stability, less developed market institutions, unclear definitions of property rights, lack of institutional features such as skilled labour, and lack of trust towards foreign firms. In general, the international business literature focuses on the consequences of a different institutional environment and developing countries and the firm's strategic attempts to overcome the transactions cost connected with institutional barriers (Ibid).

An institution based view channels Leung et al.'s (2005) and Redding's (2005) call for a heavier emphasis on thick descriptions of the context, such as cultures and institutions, toward a clear strategic focus: how do such institutions impact on firm strategy and performance? (Peng, Wang, and Jiang, 2008). Moreover how do organizations play the new game when the new rules are not completely known (Peng, 2003: 283)? Knowledge of political stakeholders and government officials as well as good relations with the government constitutes an intangible and critical asset for foreign firms (Meschi, 2009). This asset provided by local partners to the IJV (International Joint Ventures) is one of the most critical for the foreign partners when there is a high level of government corruption in the emerging economy. Therefore, the higher the government corruption, the more the foreign partners will be dependent on local partners for their asset, and the more they will be willing to keep the IJV stable (Ibid).

3) If a country is a new member of the EU, the investors have a low confidence in the rules of that society.

Foreign investors expect to deal with a heavy system prior to their investment, due to the well-known reputation of the emerging countries and former communist societies in adapting to a democratic system. Moreover, the incomplete institutional framework poses special challenges for inexperienced newcomers, as they have to deal with weakly enforced property rights and high transaction costs (Meyer, 2002).

Foreign firms consider that internationals joint ventures governance costs are largely offset by access to this intangible and specific asset of the local partners (Meschi, 2009). By relying on the local partners' knowledge of political stakeholders and government officials and their ties to the government, the foreign partners reduce the transaction costs with the emerging economy's political environment and government institutions (Ibid). In other words, foreign firms trade ownership, control and profit of IJVs in emerging economies for information, protection and external legitimacy (Ibid).

Starting a FDI investment with a local partner reduces the cost of the foreign investor. These costs can be defined as "all additional costs that a firm operating a facility in a market overseas incurs compared to a local firm" (Zaheer & Mosakowski, 1997: 445). Foreignness is a liability, especially in emerging economies with high levels of corruption and political uncertainty (Meschi, 2009). If a foreign firm (particularly if it is a multinational) enters an emerging economy through an IJV, it is more likely to lose its foreignness than through an acquisition or a wholly owned subsidiary (Ibid). A foreign firm involved in an IJV benefits from a legitimation process on the part of the political stakeholders and government officials (Scott, 1995; Zaheer & Mosakowski, 1997) and gradually acquires the status of a "quasi-local player" (Meschi, 2009) As a consequence, the foreign firm is less threatened by the government's change of attitude towards foreign direct investment, and, more generally, less exposed to government corruption than other foreign firms that are present in the country but which operate different modes of investment than the IJV (Ibid).

4) If there is a high perception of corruption in transition economies, than the FDI flow is hindered.

The widespread government corruption experienced by some emerging economies is far from causing a massive exodus of foreign firms; anyway foreign firms faced with an increase in government corruption adopt contrasting attitudes (Meschi, 2009). On the one hand, some foreign firms consider it as a signal of the weakening of host government and local institutions that in turn adversely affects the enforcement of property rights and contracts as well as the level of economic growth and financial stability (Ibid). Consequently, such firms are likely to divest or limit their presence in the country (Aidt, 2003; Heineman & Heimann, 2006; Jain, 2001; Luo, 2004; Rodriguez et al. 2005). On the other hand, some foreign firms would tend to increase their investment in corrupt emerging economies because they view government corruption as an opportunity, not as a constraint, that allows them to overcome the liability of foreignness and to influence government decisions to their sole advantage (Anand, Ashforth, & Joshi, 2005; Rodriguez et al. 2005; Shleifer & Vishny, 1993, 1998). These contrasting attitudes show that the relationship between government corruption and survival of foreign firms in emerging economies is far from being mechanical and negative (Meschi, 2009).

5 Methodology

“A methodology is the theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted” (Saunders, Lewis & Thornhill, A. 2003: 103). The methodology role is to explain in which way the research question is answered and what are tools used in this process. The overall structure of this section intends to depict the case study step by step until the research problem is totally solved.

5.1 Research Strategy

Transition process from a communist regime to democracy brings change, but also a heavy legacy, as the institutional system. The adherence to the European Union in January 2007 brought many legal and institutional transformations, but still Romanian institutions seem to be an issue when doing business there.

Foreign direct investment is well known in the business world as one of the best way to bust an economy that is the reason why I research in the following paper what are the obstacles that stay in front of FDI when talking about Romania’s economy.

This study intends to be a deductive one, where the conclusion will infer from the variables presented in the following part. In order for the deduction process to be accurate, and the conclusion to be real, the premises that stay at the bottom of research must be true and valid. There are six case studies used in this research for bringing up important facets of foreign investors in Romania. As Saunders argues case studies are usually used in researches involving an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence (Saunders et al. 2005:139; Yin, 2003:13).

The independent variable is normally the variable being transformed and the dependent variable is the observed outcome of the independent variable being operated. In the case of this research, dependent variables are represented by the foreign investors that do business in Romania and the strategy their companies use in doing that. The independent variables are shaped by the Romanian institutions and the factors that influence and explain their heavy working process. Institutions in Romania are affected by the accession process to the EU in a significant way.

5.2 Research Design

The research design as seen by Cooper & Schindler constitutes the blueprint for the collection, measurement, and analysis of data (Cooper, et al., 2008). According to Robson (2002: 80) research design is pretty much where the scholar puts down on paper the strategy whereby he wants to solve the task he is dealing with. A *hypothetical deductive* approach therefore seems the most appropriate choice as it implies the development of an analytical framework based on existing theories for analyzing empirical findings (Andersen, 2003 p.39).

A research can either be exploratory or descriptive (Ruane; 2005, 12). The distinction between them is the degree of structure and the immediate objective of the study. Exploratory research serves as mean of understanding or getting insight into a social phenomenon or topic that has been little researched where the researcher gets deeply involved into the process through close and face-to-face interviews in order to get firsthand information (Ibid). This approach will typically force the researcher to work with a small sample universe that yields qualitative data (Ibid), in this case data is provided from interviews with five company representatives that do business in Romania, and one embassy official. The exploratory and descriptive studies don't exclude each other, more than that they complement one another.

5.2.1 Research method

The research methods I chose for this project is a **qualitative research**, because it embraces the ability of revealing variability in a population and to test hypotheses. Qualitative methods are the most popular way of collecting data in social studies because they focus on significance that derives from the data. Those methods are used for both exploratory and formal studies. The difference between qualitative and quantitative data is that the first ones focus on understanding the subject, and the second one to measure it. One advantage of qualitative methods is that is based on flexibility and had the ability to capture both cognitive and emotional aspects from the respondent. Another quality of this method is the fact that it is individualized, based on the personal perception, not on a group, as in quantitative methods. The qualitative methods seek to reveal the authenticity of subjective representation, while the quantitative one aims at standardizing and structuring the responses. The purpose of the qualitative methods is not to generalize, as in the case of quantitative methods, but to go in depth with an issue and to understand the subject's personal perception of the matter.

In a few words, the methods section serves to draw the lines around the techniques to be applied in order to gather the data, analyzed it , and explain how its validity is insured (Robson; 2002, 80). Having presented all those reasons, I conclude that the qualitative method is the most suitable in this research

5.2.2 Data collection

Data collection contains both **secondary** and **primary data**. Secondary data correspond to the chosen documentary method and the latter corresponds to the chosen interview method (or field research). In the theoretical part, I have used the documentary method, and in the empirical part I used the interview method for collecting data. The reason of doing that is the accuracy of these methods in providing interesting information for the research.

There are different types of collecting data, as e.g. Andersen talks about four ways of collection methods: documentary, interview, questionnaire and observation. In order to have a broad and complete view of the Romanian business climate, I used during this research all four types of collecting data. Starting with analyzing different reports about Romania done by international organizations, continuing with building questionnaires, doing interviews with Danish investors in Romania, Romanian officials from Danish Embassy in Romania, newspapers, different websites (both national and international) and using also my own observation skills, and experience in revealing an accurate and valid image of the Romanian business climate.

From the Danish Embassy’s officials in Romania I found out that at the moment are about 400 companies with Danish capital doing business in Romania. From these, there are about 50-60 companies that are in contact with the Danish Embassy from Bucharest. The same officials provided me a list of about 44 Danish investors in Romania. After contacting all those companies and asking for the possibility of doing an interview with them, I received both affirmative and negative answers.

The **primary data** of this research is provided from interviewing five managers that have been or are working to develop their company business in Romania. I have also received negative feedback to my emails, mentioning that the personal that was developing the business in Romania, is no longer working there or they are not interested in sharing their experiences due to time/work pressure. One of the interviewee for my research was a Romanian official from the Danish Embassy in Bucharest. The firms selected for the interview were from distinct types of markets: agriculture (as one of the fastest growing Danish industry in Romania in the last years), manufacturing, pharmaceuticals, consultancy and tourism.

There have been a total number of six interviews; whereas four were done in English and two in Romanian.

In an alphabetical order here are presented the primary data sources of this research, together with the interviewees' positions. The interviews were done in the spring of 2009, two of them in face to face interaction and the other four over the phone. The interviews were based on a questionnaire with opened questions, where the responders were asked about their motivations to enter Romanian market, their entry mode, timing, and the way they have operated their business in Romania, an cost-benefits overall view of doing business there, and last, what are their future perspective in this market (Interviews available in the Appendix).

From **First-Farms**, which are one of the largest firms in agriculture industry in Central and Eastern Europe, I had an interview with Kim Stockholm, the CEO of the company. The interview was done over the phone, with duration of about 25 minutes.

From **Kuma**, a manufacturing company in Romania I conducted an interview with the founder and managing director Hans Christiansen over the phone. The interview duration was about 27 min.

From **Lundbeck** Denmark, a pharmaceutical firm, I interviewed Erik Allikmets, the Regional Vice President of Northern and Eastern Europe that was in charge with opening the sells office in Romania in 2002-2003. The interview was face to face, about 35 min long and took place at Lundbeck headquarters' office.

At **Rambøll** Denmark, an international consultancy company, I have talked with Susanne Pedersen, who is the Head of Department of International Project Management at Rambøll Denmark, and also the founder and managing director of the consultancy firm in Romania from 2005 to 2007. It was a face to face interview of about 40 minutes, at Mrs. Pedersen office at Rambøll, Lyngby.

At **Schreiber –Tour** Denmark which is a Danish SME with core activity on rural tourism in Romania, I had an over the phone interview with the managing director Lori Panaite of about 30 minutes.

The last interview was done over the phone as well, with the **Economical Director from the Danish Embassy** in Romania, Razvan Stroe, who also provided me the contact information of the Danish companies investing in Romania. The interview was about 25 minutes.

In the documentary method, **secondary data** were obtained from both internal sources within a company, and external sources of companies. There is a wide variety of internal sources as analysis as year reports, web page, organizational diagrams, mission statements, etc. The external data come from outside the business or organization. They can be official statistical reports, previous studies on the same subject, articles from newspapers or magazines, expert assessments, online databases, the library books, internet resources, and courses material.

5.2.3 Interview method

In the social sciences the interview method is seen as an "encounter" (Goffman, 1967), as a "social interaction" (Fontana & Frey, 1998), as a "face-to-face interactionary performance" (Babbie, 1998, 2004) or as a "social performance" (Goffman, 1959). As there are different types of interviews, from "the family of qualitative interviews" (Rubin & Rubin, 1995) I choose for this research the semi standardized interview method. This interview method seems to be the most relevant one in this case for obtaining accurate data. The sounds reasons for choosing this method are its flexibility, possibility of in depth information, the freedom of interviewee in expressing personal experiences, and the social interaction that builds during the interviewer and interviewee. Other significant reasons for which this method has been considered the best for this research are: giving the possibility if reorganizing the questions during the interview, flexible wording, and the level of language may be adjusted, the possibility of the interviewer in making clarifications of his/her statements. Those features are all important and have a considerable influence on the development of the research. As Kvale (1996: 144) mentions, "the interview is the raw material for the later process of meaning analysis. The quality of the original interview is decisive for the quality of the later analysis, verification, and reporting of the interview".

For a high quality of analyzing and reveling data, the interviews were recorded, using an audio recorder "which frees the interviewer to concentrate on the topic and the dynamic of the interview." Some of the interviews were done "face – to - face", where it was physically possible (availability and convenience of interviewee), while others were done over the phone.

In both cases the interviews were audio recorded. A transcription of the interviews can be found in the Apendixes of this project.

5.2.4 Cases selection

For the empirical research of this project I contacted all the Danish companies listed on the embassies websites (both Romanian in Denmark, respectively Danish in Romania). I received as mentioned earlier positive feedback, but negative as well. In total I managed to interview six persons. Among the interviewees were managers of the companies doing foreign investment in Romania or the ones that initiated the investment there. The last of the interviewees was an embassy official from the Danish Embassy in Romania.

The firms that were willing to share their experience for research purposes are: **Rambøll, Lundbeck**, **Schreiber- Tour, Kuma**, **First-Farms** and the economical director of the **Danish Embassy in Romania**.

5.2.5 Delimitation of paper

One of the biggest limitations when studying SMEs is data accessibility, as lack of access to public financial data, and SME tight working programs that hinder them to join an academic research. Many of the company that were contacted, were not able to give me information because their business in Romania was not a FDI investments, the personal responsible for that part in the company was not employed there anymore or it just didn’t make their interest. Another limitation when studying SMEs in Romania, is reaching the trust of the Romanian people, and clearing their thought of any suspicions about the unveiled purpose of this research; moreover convincing the interviewees that the only purpose of the interview is an academic one.

5.2.6 Structure of the paper

This research paper is structured as follow: the first part is an introduction to the problem in the business environment in Romania regarding the foreign direct investors, followed by the main problem, research question.

In the next part is presented and overview of FDI both in Romania and Denmark, illustrating afterward a macro and a micro perspective of the FDI. First at a theoretical level, following up with macro economical perspective of FDI in CEE, an outlook over the EU enlargement, and the issues regarding Romania, and a micro perspective of FDI from the study cases. In the methodological part are introduced the companies that have been interviewed for this research, following an analytical framework and further more in the analysis are debated the results of data obtained from interviews.

In the last part are presented the final findings, the conclusions, and the perspectives for further research.

5.3 Assessment

In order to avoid any biased results, needs to be mentioned that a triangulation of methods is used in this research. In general terms data triangulation is the usage of different data collection methods, data sources, and observations which adds credibility and validity to the results yielded by a study (Beck and Manuel, 2004:226). As in this research the information that is used comes from different sources, both from Romania and outside the country, from both official and nonofficial documents, secondary and primary data. Data triangulation can be applied in terms of preparation of the data, analysis of the data, as well as on the conclusions achieved by any social study (Firebaugh, 2008:64). Data triangulation is frequently applied in social sciences studies in terms of data collection techniques connected to the same study (Berg, 2007:7). By triangulating the data gathered, a scholar can reduce the chances of reach false conclusions (Bergman, 2008:23). In order to render as accurate results as possible, different sources, methods and theories are used in this research. These are different spring of information that can bring interesting facts about Romanian FDI at both macro and micro perspective, national and international view, theoretical and factual standpoints that have been taken into consideration for bringing out authentic and essential data of my findings.

5.3.1 Reliability of the Study

The principle of reliability is a milestone in scientific methods, and is based on the idea that any significant result has an inherent repeatability under the same conditions, generating the same results. In academic terms reliability is defined as consistency of the data gathered or the result of yield by a study (Simon, 2003:21). The concept serves to measure operational definitions as well as measure methods (Ibid). Therefore the research, structure, and methods of this paper are trying to be optimal used along the paper, as well as the evidence of this research. The interview guide is available in the Appendix of the paper, but as it was a semi-structured interview, the order of the questions is slightly different from one interview to another.

Data validity, in academic sphere, serves to provide credibility to the results yield by a study (Simon, 2003:21). Validity can be applied to analyze either the whole project or some sections of it (Ibid). Validity in social researches is regularly explained by external and internal validity that are presented below.

5.3.2 External Validity

External validity handles the problem of generalization. Valid knowledge exists when one has established a correspondence between the empirical world and one's assertion about it through prediction (Prewitt, 1980). External validity is the requirement that causal relations in an experiment can be instantiated in the external world (Jones, 2008). Guala's (1998; 2005) main tool for assessing applicability externally is the 'field study' whereby experimentally verified phenomena are examined in uncontrolled natural settings. Experiments, therefore, are 'intermediaries' in the sense that they act as possible arguments against the applicability of theories in certain circumstances and create interesting phenomena which may exist in the external world (Jones, 2008). In this case the 'field of study' is represented by the Romanian market, where the empirical research is focusing on five Danish multinational companies that do business in Romania.

Guala argues that only the experiments that can be externally validated in reality have a direct correspondence with the outside world. As can be seen in his quote: Guala (2005:199):"The experiment, in fact, generates two kinds of evidence. Evidence of type 1 is used to discriminate between the two rival hypotheses; evidence of type 2 is used to bridge the gap between the laboratory and the real world by drawing an analogy with already existing field evidence. However, the analogy cannot be strong unless experimental and field evidence have been generated by systems that are similar in all relevant respects or, in other words, unless all sources of external validity error have been taken care of by means of accurate design. Strong external validity inferences begin and end in the field". As Guala argues here the validity of a study starts and ends in the field, I feel it is mandatory to mention that the finding of this research don't aim to have a general level over the Romanian FDI in general, but a well-documented perspective over the situation of FDI in Romania in relation with Danish FDI that have been used as a practical and empirical example.

While the external validity refers of generalizing a research result to a large group of people, the internal validity refers to the correctness of information used in the study. The external and internal validity are complementing each other, they are not in a dichotomous relationship.

5.3.3 Internal Validity

Internal validity is the criterion against which the results of a research are judged, or shortly refers to the correct use of data. In order to be internally valid the results of this project are considered to be accurate indications of the shared knowledge of the respondents that took part in the interviews. The problem that can rise up here is that the researcher can lose its sense of objectivity and influence in subjective way the results of the research. In order to avoid that the results of the research should be always held against the validity of the theoretical and empirical evidence discuss in the paper, for being able to determine at the end the quality, and the usefulness of this research findings.

The internal validity of this study intends to prove the high level of interaction between interdependent and dependent variable. According to the hermeneutics, the interpretation of interviews is not possible without prejudice. It is impossible for us as interpreters to see beyond our own understandings of the world, which is understood implicitly in our social constructivist approach to the theory of science construed in the beginning of the next chapter (Kvale, 2004:59).

This field is not an exact science, but a theoretical one that can be easily interpretive; that is why adding the view of interpretivism is a way of recognizing that knowledge is a matter of perception, meaning that the world is seen through different lenses all depending on the individual and the perception of the subject (Saunders, 2007).

6 Romania – background information and key facts

6.1 Legal framework with impact on direct investment

There are various laws that provide rules for foreign investments in Romania, e.g. the Commercial Register Law, the Competition Law and the Law on the Promotion of Direct Investments.

An important step taken by Romanian government for improving the relationship with the investors is the establishment of a governmental agency - Romanian Agency for Foreign Investment (ARIS) - responsible with attracting and maintaining the contact with foreign investors in Romania. The main objective of ARIS is to increase the volume of investments, to offer professional assistance to investors, but also to promote investment opportunities.

The new Taxation Law was introduced by the government at the beginning of 2005 and it is probably one of the most significant legal incentives with regards to direct investments. The law states that there is a standard corporate income tax rate of 16%, the lowest in European Union. That is a strong advantage when compared with 19% in Poland, 24% in the Czech Republic and 38% in Germany. Also the individual income taxation is flat at 16%. The standard VAT rate is 19% and the reduced VAT rate is 9%.

The Company Law determines all procedures necessary to start and run a business. It is predefined that investors can own or participate in a Romanian company to 100%, without any restrictions. Only in the sectors of Defence, State Monopolies and National Security the government has to approve the investments. [3] Furthermore it is lined, that "foreign investments are not to be subject to nationalisation, expropriation, requisition [...] except when this is in the public interest." [4] There are various bilateral investment guarantees and Romania also takes part in the Multilateral Investment Guarantee Agency (MIGA).

6.1.1 Changes regarding FDI

In order to promote foreign trade, rules and regulations have been continuously liberalized and now are, after the EU accession, mostly adjusted to EU standards. With some exceptions

[3] PriceWaterhouseCoopers, 'Guide to doing business and investing in Romania'

[4] PriceWaterhouseCoopers, 'Guide to doing business and investing in Romania'

(e.g. hazardous products), the import and export of goods is basically not tied to any licensing.[5] Due to 'the lack of clarity and transparency over state aid implemented by the government'[6], hesitation and suspicions amongst investors had increased in the past.[7] Thus, a new investment law was passed in 2008, that should provide domestic as well as foreign investors with a legal framework for financial incentives, like e.g. state aid that should draw the investors' focus from popular areas (e.g. investments in the capital city) to other areas (e.g. underdeveloped rural areas).[8] 'The law provides an umbrella framework in which processes of application and allocation of such grants can be made on consistent, transparent and non-discriminative basis.[9] Being non-discriminative, the law supports domestic as well as foreign investments, which are both critical to the country's economic growth. On one side local sources need to be reinforced, but foreign input is also significant, since it covers massive parts of the country's current account deficit. The fact that Romania is bound to the WTO as well as the EU has a big influence on its trade policies. As new laws and other trade liberalizations, and also the compliance to EU guidelines should facilitate foreign investments in the country. The WTO Report on trade policies in Romania (2005) confirms Romania's trade liberalization efforts, which had a positive impact on the national overall economic performance.[10]

Furthermore, in order to promote foreign investments, privatization efforts are made, mainly in the energy and financial sector[11]. Due to these programs, the economy is developing and inflows of foreign direct investment are increasing steadily.[12] 'The share of foreign trade in Romania's GDP is nearly 85 %, which will now improve further after becoming an EU member.'[13]

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[5] PriceWaterhouseCoopers, 'Guide to doing business and investing in Romania'

[6] http://www.romanianewswatch.com/2008/07/romania-boosting-investor-confidence.html

[7] www.musat.ro publications.pdf

[8] http://www.romanianewswatch.com/2008/07/romania-boosting-investor-confidence.html

[9] http://www.romanianewswatch.com/2008/07/romania-boosting-investor-confidence.html

[10] http://crib.mae.ro/index.php?lang=en&id=6011, see more in WTO report 2005

[11] http://crib.mae.ro/index.php?lang=en&id=6011, see more in WTO report 2005, PriceWaterhouseCoopers, 'Guide to doing business and investing in Romania'

[12] http://crib.mae.ro/index.php?lang=en&id=6011, see more in WTO report 2005

[13] http://www.fita.org/countries/romania.html

6.2 Economic Risk Factors

After adhering to the EU, Romania has shown a constant and solid economic development. The GDP figures increased from US$38.1 bln in 1987 to US$166 bln in 2007.[14] Moreover, from 2006 to 2007 GDP increased by 6.2%. The sector that contributes most to the GDP increase is the service sector with 65.4% in 2007, it increased by 4.3% during the last ten years.[15] This fast development can be attributed to the booming tourism industry in Romania, mainly around Bucharest. The second fast growing sector of the Romanian economy is the industry sector with 26.4% in 2007. The share of the industry sector is big because the country has a vast supply of wood resources and therefore, invests in the development of wood industry as well as heavy industry in general (steel products, machinery, transport, chemicals). The sector with the least contribution to the GDP growth is the agricultural sector with 8.3% in 2007. However, the agricultural sector is an important employer in the country, as nearly 25% of the active population work in agriculture.[16]

Due to current improvements in technology, Romania enhanced its external competitiveness. The country achieved higher production capacity as well as more quality and diversification of its export products.[17] The main trade partners are Italy, Germany, Russia and Turkey.

According to the total GDP for 2007 of US$166[18], the GDP per capita is ~US$7,545 which is relatively low in comparison to other EU countries, for instance the GDP per capita of Czech Republic is US$16,800.[19]

The forecasts made by the World Bank estimate lower, but still positive average annual growth rates from 2007 to 2011 - 5.5% annual growth of the GDP and 5.7% of the GDP per capita. In comparison to 2006, when the growth rates peaked at 7.7% and 7.9%, the estimated rates are rather low, but still increasing gradually. This may be due to the prosperous phase around

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[14] World Bank, 'Romania at a glance 2008'

[15] World Bank, 'Romania at a glance 2008'

[16] http://www.fita.org/countries/romania.html

[17] International Monetary Fund, 'Selected Issues 2008'

[18] International Monetary Fund, 'Selected Issues 2008'

[19] GDP US$168 bln / 10 mln population (http://worldbank.org)

the EU accession year, when substantial investments were made in the country. However, 'Romania is expected to sustain an average growth rate of 5% over the next few years'.[20]

6.2.1 Competitive advantage of location for Romania in EU business

In order to analyze the competitive advantages of location, here are illustrated the main strength and weaknesses of Romania in attracting foreign investment. The geographical advantage of Romania is essential. The country offers for the first time a land link between the main EU members and as a link to Turkey, a new EU candidate. Another advantage of the EU enlargement in the South – East Europe, a region with a trouble history, is to bring a stabilizing effect in this area. The main aspects of competitive advantages of Romania being a member EU are derived from its economic and social characteristics. First of all regarding the population, Bulgaria and Romania together increase the EU population from 430 million to 460 million (8 million in Bulgaria and 22 million in Romania). Considering the slow or even negative population growth in Western Europe, and the fact that majority of enterprises are market seekers, I can deliberately sustain that this is a key advantage for Western companies, and for Romania likewise.

For the efficiency seekers advantages offered by Romania are a well-educated and highly motivated labor force at low wages. As noteded by these scholars, the only thing Romania and relatively Bulgaria should do is to create a business environment as favorable and stable as China, so they could become the manufacturing center–the 'workbench'–of the EU, and all this in a geographical proximity and within the boundaries of the customs union (Kalotay, see also Hunya and Iara, 2006). Here one also has to take into consideration the dynamics in Romanian average wages. In the long run the gross domestic product of Romania gets closer to the ones of the EU members, than the salaries will increase as well.

Another factor that has a strong impact on the competitiveness in Romania for attracting inward FDI is the high percent of migration. According to Eurostat official numbers, in the period 1994-2005 in Romania, the net cumulative balance of migration was 665 thousand people. Emigration has an ambiguous effect on inward FDI (Sosdean, 2002) because on the short term it deprives the country of labor force, which leads to a negative effect on attracting FDI, but on a long run, the prospects of return labor may add to attractiveness. After the World Bank report 2003, the workers remittances can improve life conditions at home, and

[20] Foreign Investors Council, 'Immediate measures to Increase Foreign Direct Investment in Romania'

expatriates can play an instrumental role in selecting their country of origin for new projects. Romania has also to a limited extend natural resources to explore, but more in non-fuel mining than hydrocarbons.

As for the general business environment, investors can enjoy the competitive advantages of Romania in the context of a hard-won macroeconomic stability (Andrei, 2005, Jamal et al., 2006, Economist, 2007). Comparing Romania to the other countries that joined EU in 2004, instability in Romania was law before 1990s. Further on, Romania followed a more gradual path to stability.

6.2.2 Competitive Disadvantages for Romania being in EU

Despite the competitive advantages presented in the previous chapter of Romania and Bulgaria in the European Union, still they do not seem to mirror China's development in Asia. The problem here seems to be poorness of these countries in the EU context. The income levels of Bulgaria and Romania are so low that, while they added more than 7% to the population of the EU with their entry, their contribution to additional national income is less than one per cent (Kalotay, 2008:18).

The low income of the new countries doesn't create such a big barrier for integration in the EU. In the same situation were also the Baltic countries that joined the EU in its first extension wave, but the issue with Romania especially seem to be the weak institutions system and high level of corruption. After the evaluation of Transparency International (2006) Romania ranks 84th in terms of transparency, out of 163 sampled countries. Out of the 27th EU members, Romania ranks as the least transparent, being actually even less transparent than China.

The transition process to a market economy has been a painful and difficult one for Romania. As Kalotay (2008) argues, the main reason behind this is the very unfavorable historical baggage of these societies which made the building of market institutions particularly laborious.

While the forced creation of heavy industries meant waste and human suffering in Romania, and had probably a negative impact of the preparedness of the population for transition, some of these industries (especially automotive) had established certain technical and engineering skills, which are partly transformed into skills used in efficiency seeking FDI projects (Ibid). Moreover, the late privatization process, heavy and not flexible institutions made the business system in Romania to move in a slowly pace. Large privatizations to foreign investors is still a new phenomenon, but it is taking place at least half a decade after the Czech Republic and Poland, and almost a decade later than Hungary (Kalotay 2008 and Hunya, 2000).

6.3 Corruption

It is not just the creation of a market economy that matters, but the improvement of living standards and the establishment of the foundations of sustainable, equitable, and democratic development. (Joseph E. Stiglitz; Noble Prize Laureate in Economics, 2001)

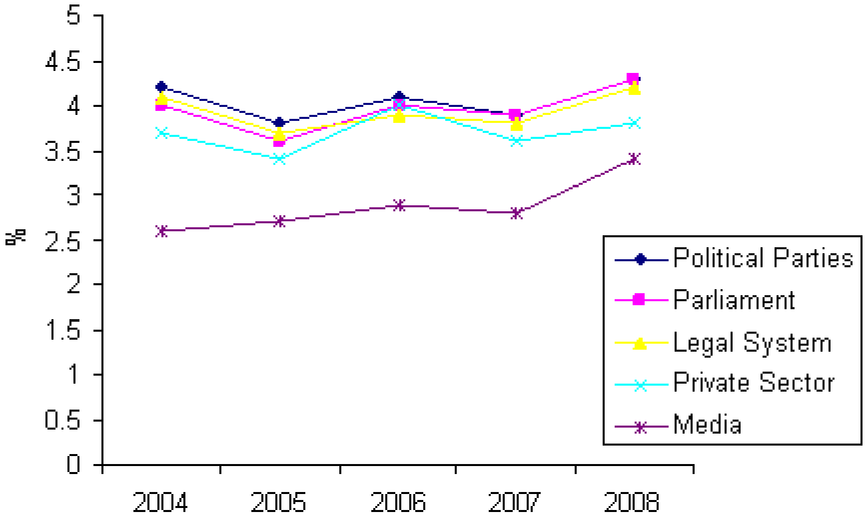

Figure 1. The evolution of Institutional corruption in Romania (2004-2008)
Source: Transparency International, Global Corruption Barometer 2009

All these are important but hard to succeed when corruption at all levels and institutions is an issue. Gabrisch and Holscher (2006) define corruption as the misuse of public power for private benefit that reflects the mistrust of private agents in law, enforcement, and markets, the losses binding of state officers to the rules of giving state orders. They state that it also reflects mismatch between reforms of the state administration and the engagement of state officers according to education and qualification. The same authors argue that corruption yields economic losses: the transaction costs of a corrupt society are higher than those of a non-corrupt society, for a corrupt society is less transparent.

Corruption can take various forms that influence a country's political, social, economic, and business environment. Transparency International (TI) agency shows that among all types of corruption mentioned here, the political one is the most problematic in Romania. Even if political corruption has been a mandatory require to be solved in order to become a member of the European Union, from the last analysis done in Romania, one can obviously see that that condition has not been accomplished.

In June 2007 in a report of the European Commission, where Romania's progress on corruption issues was assessed, revealed that, while the government had successfully achieved the effective drafting of laws, action plans and programs, but little real change had been achieved in practice[21]. This assessment was backed up in relation to corruption.

In the private sector, as 2007 Global Corruption Barometer found that 25% of Romanians polled perceived the private sector as extremely corrupt, compared to only 3% who did not see it as at all corrupt[22]. As visible in the table above, the institutions in Romania have little credibility, and more than that the tendency seems to be a crescendo one if comparing the situation before and after the Romania's adherence to EU. As a practical example of this situation, Bucharest Chamber of Commerce and Industry (CCIB) addressed a letter to both the government and the president highlighting the impact of the high level of corruption and the influence of interest groups on overall economic activity. The reason is that CCIB considers corruption one of the major obstacles to economic development, particularly in the tourism and food industries. However CCIB did not approach the relevant authorities that work on corruption issues, that is why, its impact is likely not to trigger any reaction by the authorities[23].

According to the former president of the CCIB, Dragos Seuleanu, the Romanian business environment is mainly affected by the bad political system, but there is also the case, where the political system is influenced by corrupt business men. After him in Romania there are two types of corruption, quotidian, a small one, that is daily routine embedded in the work conduct of the administrative personal, that has a negative national impact for the citizens; and a there is the other type of corruption, the big one, which is based on the MNC that have the power to influence the government's decisions[24].

The *Global Corruption Report 2009* (by TI) findings are troublesome, because corruption is a central and growing challenge for business and society, from informal vendors in the least developed countries to multinational companies in industrialized ones, for citizens, communities and nations, all over the world. Data gathered by the Global Corruption Report

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[21] EC, Report on Romania's Progress on Accompanying Measures Following Accession (Brussels: EC, 2007).

[22] Global Corruption Barometer 2007; www.transparency.org.ro/politici_si_studii/indici/bgc/2007/GCBsurvey

Romania.pdf.

[23] www.bursa.ro/on-line/?s=print&sr=articol&id_articol=23205s

[24] www.bursa.ro/on-line/?s=print&sr=articols&id_articol=23205s

2009 (GCR), proves that bribery and corruption in the value chain present a challenge and more negative effects than previously understood.

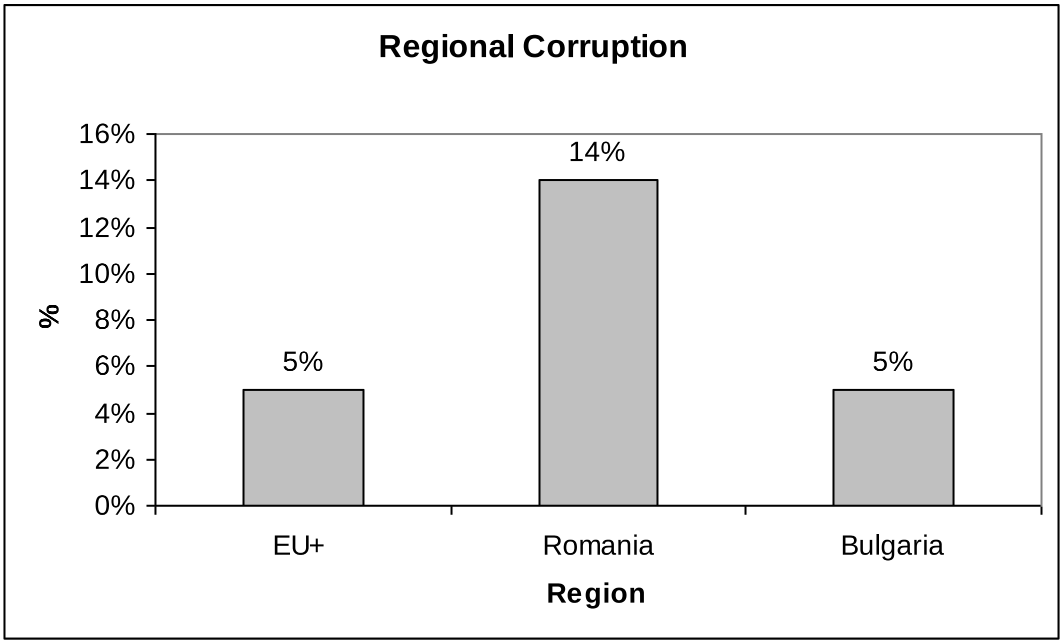

Figure 2. Regional corruption
Source: Transparency International, Global Corruption Barometer 2009
Note: The EU10 refers to Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The EU10+1 include Croatia.

Comparing Romania with the countries surrounding it, TI concludes that the corruption percent's are triple than the neighboring countries. This also explains the following findings. From the research interviews, I have found out that the investors in Romania had to deal with corruption at different levels. This was requested in forms of bribes, to the local authorities or to other business partners to favor their contract proposal, to hurry up the paper work or to be the first to know about investment opportunities. The general feeling was that some public institutions are up for sale to the highest bidder. Following the GCR 2009, about two in five business executives have been asked to pay bribe when dealing with public institutions, whereas half of the business executives approached estimated that corruption raised projects cost by at least 10%.

All the interviewees for this project have experienced a situation, at least once, where they were requested to bribe somebody, but the Danish companies code of conduct banned this actions, even if it meant losing a customer or a project (in case of Rambøll), but in this way they created a trusted and incorruptible image of the Danish company in the business environment in Romania.

6.4 The global financial crisis

Romania's situation in the financial crisis is not very encouraging for foreign investments. The global financial crisis has negative consequences around the world, but in Romania it is accentuated by political instability and quite low economic development. In the same time the future does not seem to be very bright. On this basis the experience from previous capital account crises shows that capital flows do not recover to pre-crisis levels for years. This is likely to slow the upturn in the EU10 region [25] which depends on capital inflows to support investment (WB, 2009).

The downward revision in the economic outlook is expected to reduce employment by over 1.5 million in 2009 and 2010. The job losses of EU10 migrants in the EU15 countries add to labor market pressures in home countries through return migration (2009).[26]

The financial crisis has depressed foreign direct investment (FDI) to the EU10 region. The reasons for that are: slower growth that squeezed the profitability of most multinationals; tighter credit conditions and weaker global demand. All these are expected to limit the ability and willingness of multinationals to expand there (WB, 2009). However the decline in FDI is not the same in the entire region. FDI had an increase of more than one percent GDP in Romania and Hungary during 2008. In 2009 in the first two months FDI performed well in Romania, Hungary and Lithuania, but declined by close to 30 percent year-on-year in Bulgaria and Poland, and by more than half in the Czech Republic, Estonia and Latvia (WB, 2009). As pictured in the Figure below reserve assets in the region have increased for most of the CEE countries with one exception, Hungary.

[25] The EU10 refers to Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

[26] World Bank Report 2009 (WB)

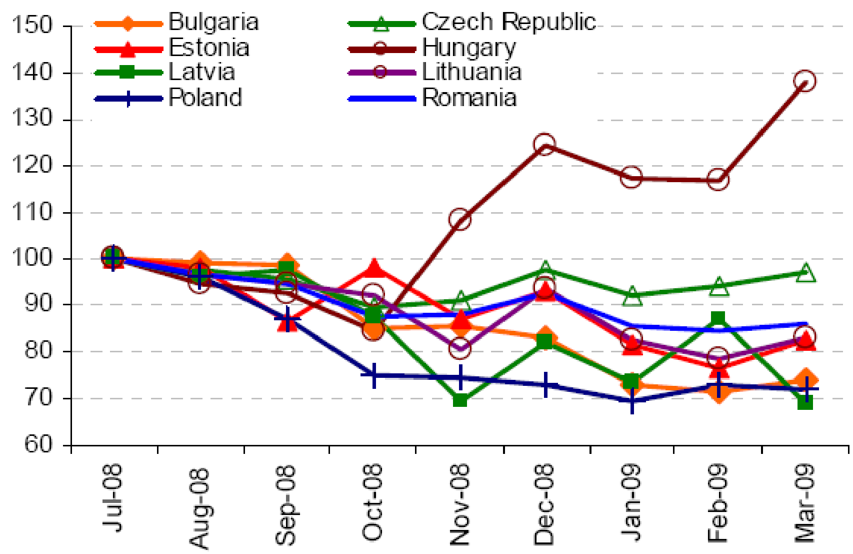

Figure 3. International Reserves Assets of CEE countries (Jul 2008-Mar 2009)
Source: IMF, World Bank Staff Calculations

On the other side in Romania the credit growth to the private sector that was the principal financial source of economic growth, has declined sharply. Banks have imposed tighter lending standards and borrowers reduce demand in view of uncertain economic prospects (Ibid). As Figure 3 illustrates the interest in credits for the private sector has declined significantly in Romania in a quite short span as a consequence of the international financial crisis.

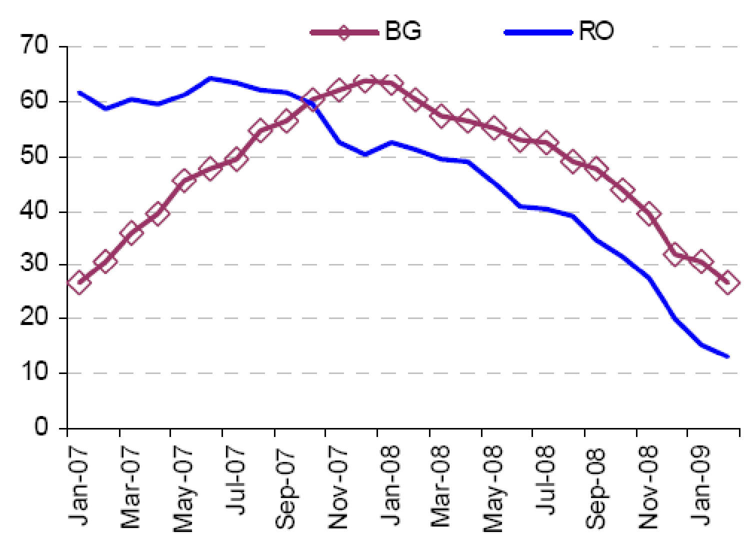

Figure 4. Evolution of Credit to Private Sector in Romania and Bulgaria (Jan 2007 – Jan 2009)
Source: ECB, World Bank Staff calculations.

6.5 Social factors influencing FDI in Romania

In order to understand the present and future of the Romanian business life, is necessary to know the past and the background of this country, from both economic and social point of view. As Bandalj (2008) argues, a resourceful approach of FDI in CEE countries would be from a relational, social-constructivist perspective, considering the fact that the economic theories are embedded in the social processes. She supports the idea that FDI is a relational social process more than just profit maximisation for the both sides, host or investors' perspective. In Central and East Europe as in other regions as well, has been noticed that FDI flows are different from one country to another, and also within one country. It seems "to be a pattern in who invests where, suggesting that a set of relations between individual post socialist countries and world investor countries can be more important in post socialist country's economic prosperity or political turbulence" (Bandelj, 2008). In order to understand why certain FDI efforts pan out while others don't', one needs to research beyond the efficiency calculations of investors, and examine how the organizational behaviour of both investor and host firms is shape by the social structures, cultural understanding, and power relations in which they are embedded (Bandelj, 2008). "Foreign investment in Central and East European countries is based too much on emotional prejudices and daily political needs and is far from rational economic considerations" adds Dunning (Dunning and Rojec 1993, 12). For understanding the socially embedded economic situations of high uncertainty, Bandelj (2008) suggests that one needs to step outside of the confines of the rational action model. Knight (2002) argues that in times of high uncertainty, when cultural ideas of valued economics goals are changing, when new economic and non-economic institutions are being built hastily, and when sudden changes among ruling political elites are commonplace, FDI transactions are not a matter of rational profit maximization of economic agents because not all uncertainty can be turned into risk. Uncertainty in economic process contributes to substantive variability in economic action, as the author argues. In this situation, substantively, are many competing ideas as to what valuable economic goals should be, but actually are great differences between what were important goals during the socialism, as full employment, and those promoted in the post socialist period, as shareholder value. The "true nature" of markets in these societies is to be void of social influences (Bandelj, 2008). But social structures, distribution of power, and cultural understanding are integral parts of market organization, as they shape every economic transaction. In this case the social constructivist view is highly important due to the fact that it pays simultaneously attention to three key mechanisms that structure the economic organization and action. Those are: repeated patterns of social interactions that manifest themselves in institutions and social networks, allocations of power, and cultural understanding (Ibid, 2008).

6.6 Migration of labor force

Another factor that has a strong impact on the competitiveness in Romania for attracting inward FDI is the high percent of migration. According to Eurostat official numbers, in the period 1994-2005 in Romania, the net cumulative balance of migration was 665 thousand people. Emigration has an ambiguous effect on inward FDI (Sosdean, 2002) because on the short term it deprives the country of labor force, which leads to a negative effect on attracting FDI, but on a long run, the prospects of return labor may add to attractiveness. After the World Bank report 2003, the workers remittances can improve life conditions at home, and expatriates can play an instrumental role in selecting their country of origin for new projects.

6.7 Sub conclusion

Summing up this part one can conclude that Romania has experienced an incomparable period of changes during the last years. The expectation of EU accession as well as the real entrance has led to great efforts to reach the European standards. That resulted in reforms on all levels, with various results. The country is continuing to work on the national development and tries to live up to EU expectations. 'The future speed of sustainable real convergence will largely depend on advancing structural reforms.'[27]

Nevertheless, the report at hand pointed out that there are some limitations that still need to be overcome in order to get the country risk to the lowest point. The figures of FDI inflows show that Romania is more and more attractive in terms of being a favourable trading partner and target for investors.

The future increase of the political risk is undefined. However, reforms in the governmental sector based on EU membership should help stabilizing the regime, as an example new election rules ensure stronger hold of parties in the government. If Romania is capable of achieving more political stability, the economic stability will be able to follow.

Even though risk rankings for Romania have been enhanced after EU accession, the country is still in a transition period and substantial changes on the global level can affect it probably more than other members of the EU. For instance, the financial crisis the world is confronting today may drive to risk aversion on the side of international investors. Being frightened of

[27] International Monetary Fund, 'IMF Country Report No.08/208'

financial risks thereby financial loss, the investors might select countries with a more stable economic position.

Altogether Romania has the potential to develop. The country has a good stand to build on and the national goal, of becoming an equal EU member. Still, it needs more time to implement and follow all the essential reforms and create macroeconomic stability.

7 FDI in Romania and in the region

After the report published by the United Nations Conference on Trade and Development (UNCTAD), the World Investment Report 2007, Romania ranks second among countries in Southeastern Europe (SEE) and the Commonwealth of Independent States (CIS) in terms of foreign direct investments attracted in 2006, and occupies seventh place worldwide for initiated and ongoing green field projects in 2006. The 19 countries of SEE and CIS attracted $69.3 billion (48.91 billion euros) up 68 percent in FDI worldwide investment in 2006. FDI inflows were concentrated in five countries: the Russian Federation, Romania, Kazakhstan, the Ukraine, and Bulgaria, together accounting for 82 percent of total incoming FDI to the region[28].

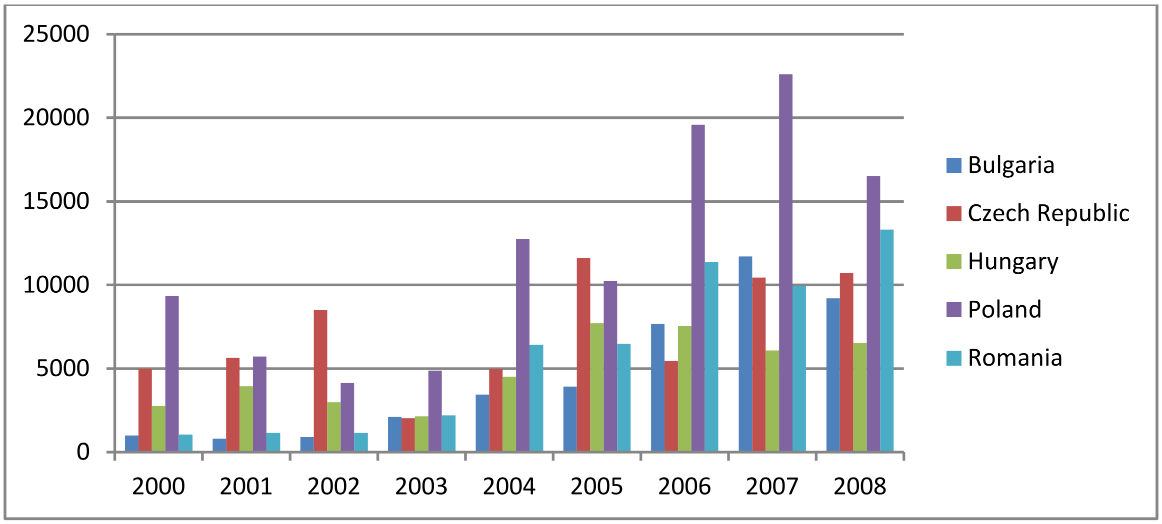

Figure 5. Inward FDI flow in Bulgaria, Czech Republic, Hungary, Poland, Romania (2000-2008)
Source: UNCTAD FDI Statistics, http://stats.unctad.org/fdi/

Even though Romania is among the biggest country in CEE, the FDI stock by 2000 was one of the lowest comparing with the other transitions economies from CEE. In Figure 5 Romania's FDI inflow and FDI stock is compared with the ones in Bulgaria, Czech Republic, Hungary and Poland, until 2008. If the values are very low in 2000, the picture changes dramatically in the next years and in 2008 Romania attracted almost as much FDI as Poland.

On a global scale, FDIs increased by 38 percent every year, up to $1,306 billion (921.87 billion euros), which is the biggest growth registered in the past six years. Mergers and acquisitions

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[28]http://www.ambbukarest.um.dk/da/menu/Eksportraadgivning/Markedsmuligheder/SidsteNyt/RomaniaRanks7thOnGreenfieldProjectsWorldwide.htm

(M&A) is the partial explanation of this increase that continued to be the main driver for most of the FDI. Regarding M&A Romania had a value of $5.4 billion (3.81 billion euros), while foreign direct investments summed up to $41 billion (28.94 billion euros) by the end of 2006. This amounting half of the sum registered by Hungary and 2.5 times less than that reported by the Czech Republic.

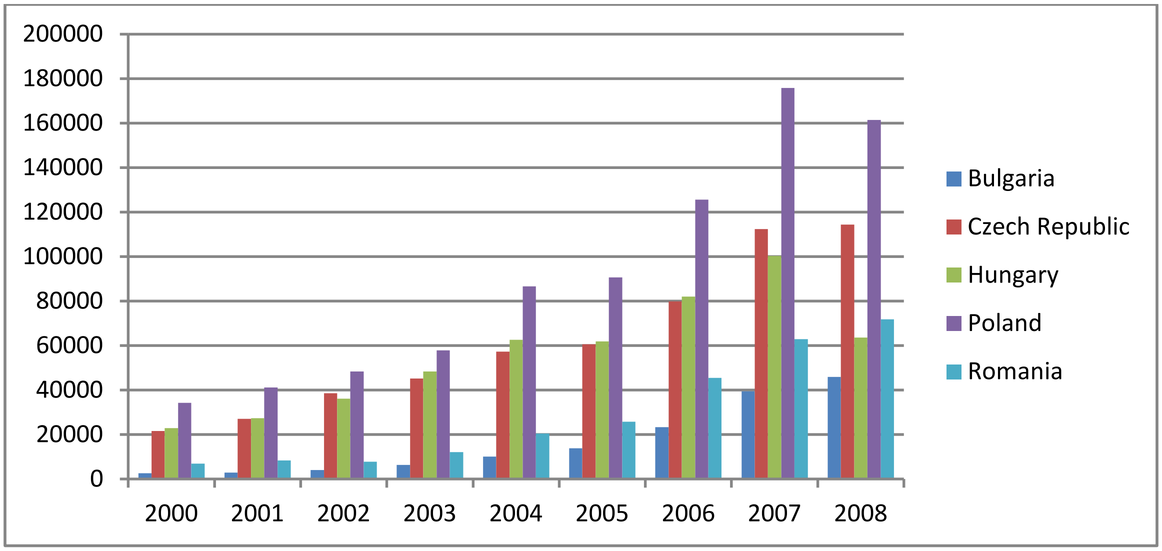

Figure 6. FDI stocks in Bulgaria, Czech Republic, Hungary, Poland, Romania (2000-2008)
Source: UNCTAD FDI Statistics, http://stats.unctad.org/fdi/

In Figure 6 Romania's FDI stock is compared with its neighboring countries. If FDI stock was quite low on 2000, in 2008 FDI stock raised considerably, Romania being an important player in the region. According to UNCTAD, Romania has improved the performance of foreign direct investments in 2006, climbing five positions, and ranking 21st in the top 141 countries in the world, based on the investment performance index. Even if in 2006 was the best year of FDI in Romania, forecasts on investment growth rate are affected by the uncertainties on the financial market, and still not strong economic system of Romania. 2007 was a slow year of FDI, but 2008 was a year with unexpected positive surprises.

In 2008 Romania was the second FDI top destination within the group of the new EU member states (UNCTAD). With an FDI volume of USD 13.305 billion registered last year, Romania overrun its traditional competitors represented by Czech Republic (USD 10731 million), Hungary (USD 6514 million), and Bulgaria (USD 9205 million). The same FDI level allows Romania to rank 9th in the top of EU27 capital receivers, outrunning countries like Denmark, Finland, Greece, Ireland, Holland, and Portugal[29].

Regarding the Greenfield projects, Romania ranks second in the region of Central and Eastern Europe, and 6th in the European Union. Currently ARIS[30] provides assistance to a total of 77 investment projects (22 of which started to be monitored in 2009), with a total value of Euro 8712 million and 35 650 new jobs created in sectors like energy, real estate, construction of renewable energy equipment's, wrapping industry, automotive components, equipment and tools, textile industry, and services.

Top 5 countries by the share of total FDI stock as at 31 December 2007 are: Austria (21.4% of total stock at the end of 2007, down from 23% a year earlier), the Netherlands (16.3%, slightly down from 17.1% in 2006), Germany (11.7%, increasing from 10.1%), France (8.8% compared with 8% in 2006), and Greece (7,5% staying flat year after year)[31]. As Table 1 shows, the Danish investments in Romania are not that high, summing in total less than 100 million Euro in 2008.

	EUR million	
	Value	% of total FDI
TOTAL, of which:	48,798	100
Austria	9,186	18.8
The Netherlands	8,402	17.2
Germany	7,509	15.4
France	4,294	8.8
Italy	3,585	7.3
Greece	3,154	6.5
Switzerland	2,298	4.7
Cyprus	1,896	3.9
Luxembourg	1,107	2.3
Hungary	878	1.8
USA	869	1.8
United Kingdom	727	1.5
Spain	604	1.2
Turkey	578	1.2
Czech Republic	354	0.7
Finland	250	0.5
Belgium	233	0.5

[29] http://arisinvest.ro/en/news/view/150

[30] ARIS stands for Romanian Agency for Foreign Investments

[31] National Bank of Romania, Own Statistics

Canada	219	0.4
Sweden	206	0.4
Israel	197	0.4
Gibraltar	193	0.4
British Virgin Islands	180	0.4
Lebanon	159	0.3
EBRD (European Bank for Reconstruction and Development)	152	0.3
Other *	1,568	3.3
*) countries which invested less than EUR 150 million		

Table 1. FDI in Romania as of 31 December 2008 – FDI stock distribution by country of origin.
Source: National Bank of Romania, National Institute for Statistics, Foreign Direct Investment (FDI) in Romania as of 31 December 2008

7.1.1 Evolution of FDI in Romania between 1990 to Present

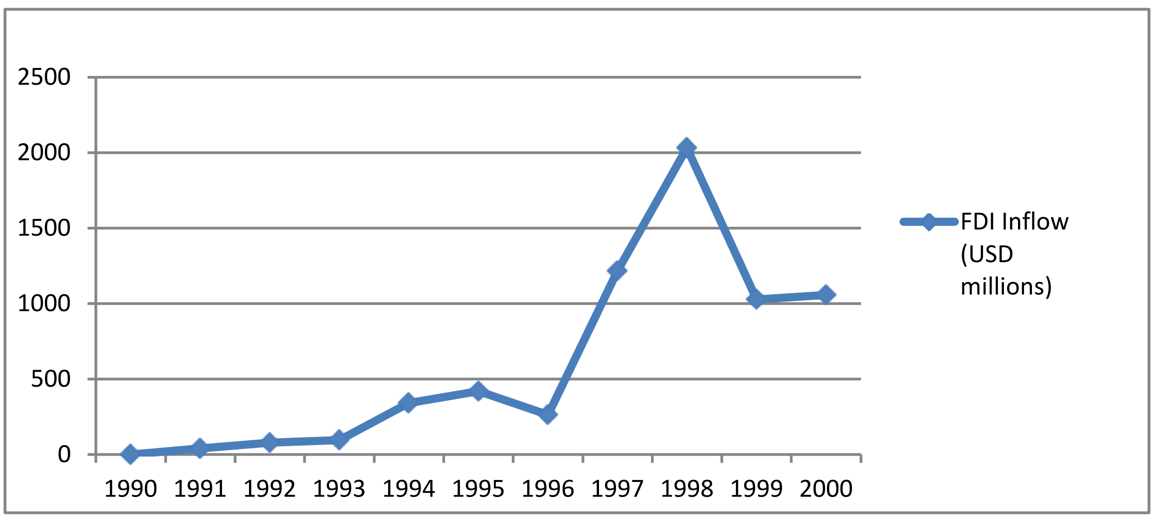

Figure 7. Evolution of FDI inflows in Romania (1990 - 2000)
Source: UNCTAD FDI Statistics, http://stats.unctad.org/fdi/

Figure 7 clearly shows a very weak foreign direct investment between 1990 and 1996. The reason for this stagnations is the economic reform, including the privatization of the state sector, started later than in the other CEECs, that had a slow and hesitating progress.

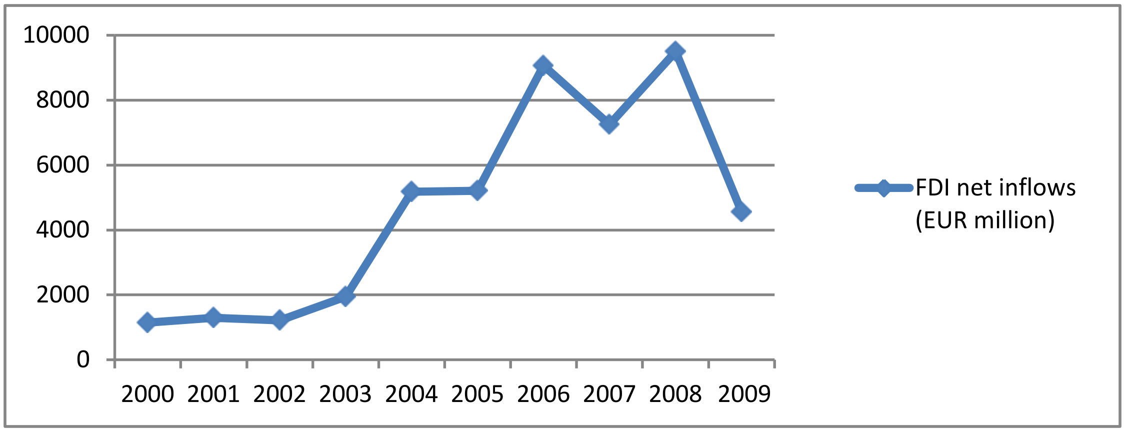

Figure 8. The evolution of FDI in Romania - net inflows (2000-2009)
Source: ARIS INVEST - The Romanian Agency for Foreign Investment

Figure 8 presents the development of FDI inflows for the second post-communist decade. In this period the FDI flow started with small increase for the first years, and had a progressive growth by 2006; and from 2007 to now inflows FDI having negative and positive upturns.

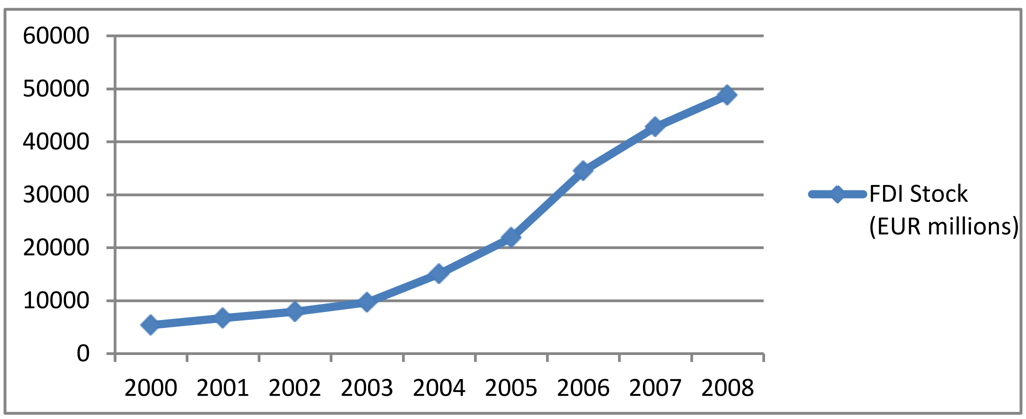

Figure 9. Evolution of FDI stock in Romania (2000-2008)
Source: National Bank of Romania, Annual Report 2006 and Report on Foreign Direct Investments 2008

The way in which the privatization process was done in Romania, (mass privatization) was not favorable to FDI, and there was no strategy towards attracting FDI; on the contrary, the slogan was "*we do not sell our country*" (Birsan, Buiga, 2008). In the first years after the '89es the most FDI had a trial character; this was an important period of time where Romania missed the favorable conditions due to lack of political will to reform the economy. (Birsan, Buiga, 2008). In the late '90s Romanian FDI started to be present on the market. Since this period FDI in Romania continues to grow substantially, reaching the highest value in 2006 and then in 2008.

8 Danish FDI in Romania

8.1 Danish Investment Profile

Denmark is one of the wealthiest countries in the world even though it has no particular natural resources, no major industry, and an economy mainly based on manufacturing and services, with most important sectors being foods, construction, maritime, healthcare.

EU accounts for most of the outwards Danish FDI while developing countries and Eastern Europe have an increasing share in the last years. The largest part of Danish FDI is carried out by small and medium-sized companies.

According to Corruption Perceptions Index published by Transparency International every year, Denmark is one of the least corrupt countries in the world. However, it happens that Danish companies operate in countries with widespread corruption and they have to deal with it without compromising their values and code of ethics.

According to (Hansen) and (Hansen, 2004) the motives for which Danish companies invest in LDCs and Eastern Europe are divided in 5 groups:

1. Market access investments from different reasons:

- Better knowledge of the foreign market and enhance the scanning capability of the company
- Transportation costs, some products are too expensive to export
- Many products require a service
- Organization in the country where the product is sold
- Investment and foreign exchange regulations in host countries

2. Production based investments, to take advantage of cost factors in emerging economies

3. Raw materials seeking investments, for example access to ingredients in foodstuffs, wood, etc.

4. Investments made as part of turnkey-projects;

5. Reasons other than strategic or economic

8.2 The Economic relations Denmark-Romania

Finding information about the Danish FDI in Romania proved to be a very challenging task. This is because Denmark is definitely not one of the top countries investing in Romania. According to statistics provided by National Bank of Romania (2008), Denmark is not in the top 25 investing countries. These statistics do not list any countries which invested less than EUR 150 million.

There is little or no information about Danish FDI in Romania publicly available at Romania's institutions.

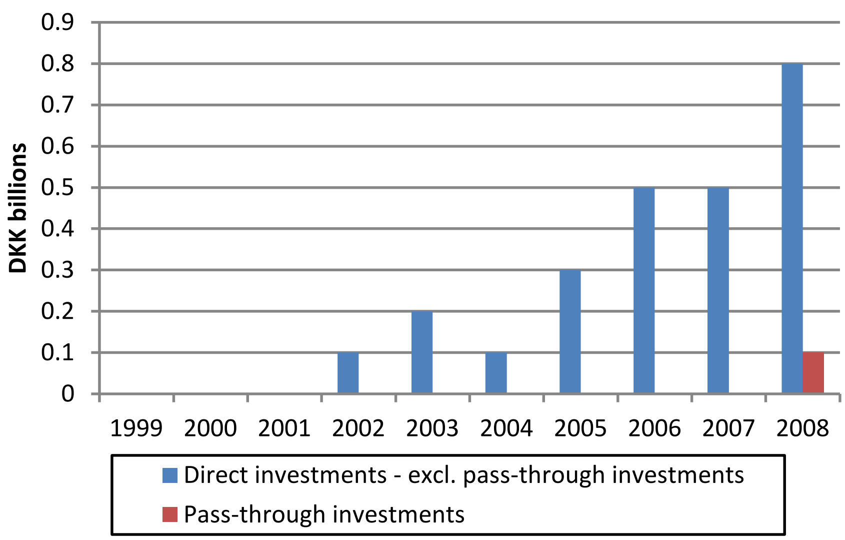

Figure 10. Yearly stock statistics on Danish direct investments in Romania
Source: Statistics Denmark

As shown in Figure 10 Danish investments in Romania were very low at the beginning of 2000, but they start increasing progressively in the last eight years.

Figure 11 presents the Danish Direct Investments in Romania in 2008 by the area of activity. As one can see the most developed area is the service area followed by manufacturing and non-financial holding companies.

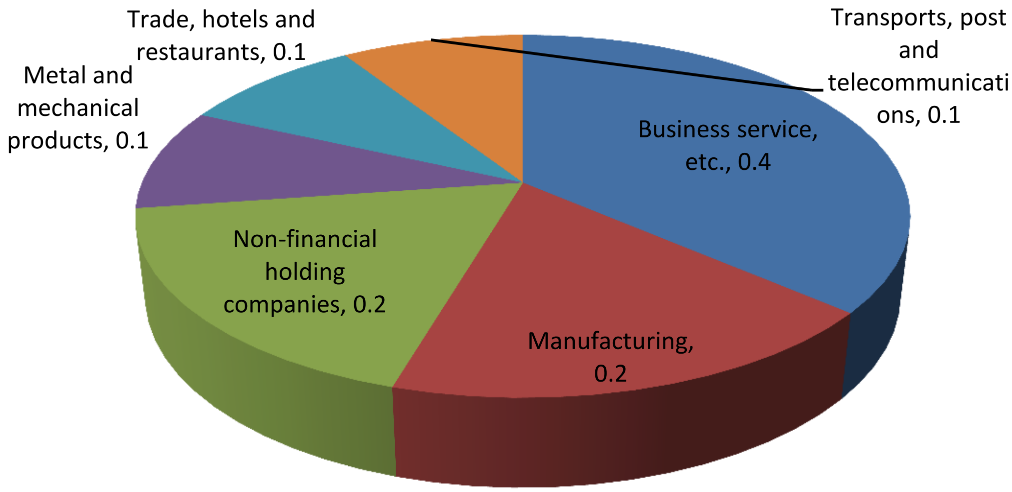

Figure 11. Danish Direct investments in Romania in 2008 - excl. pass-through investments by economic activity (in DKK billions)
Source: Statistics Denmark

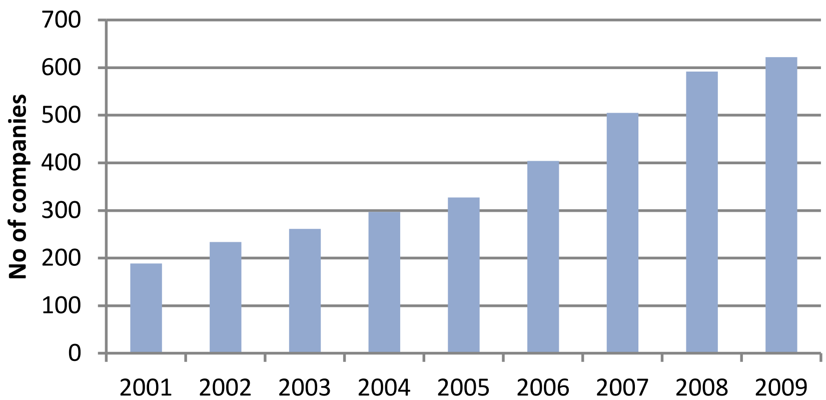

Figure 12. Number of companies with Danish capital registered in Romania
Source: Romania's National Trade Register Office (2002) (2003) (2004) (2005) (2006) (2007) (2008) (2009)

Figure 12 presents the number of companies with Danish capital registered in Romania, as the chart shows there is a continuous increase of Danish capital coming to Romania in the last years.

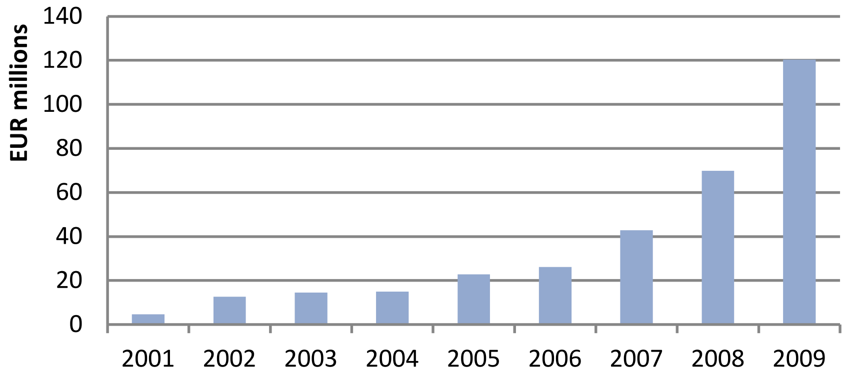

Figure 13. Subscribed capital of companies registered in Romania
Source: Romania's National Trade Register Office (2002) (2003) (2004) (2005) (2006) (2007) (2008) (2009)

Figure 13 provides a visual representation of the subscribed capital of companies registered in Romania that had a progressive growth reaching its pick in 2009.

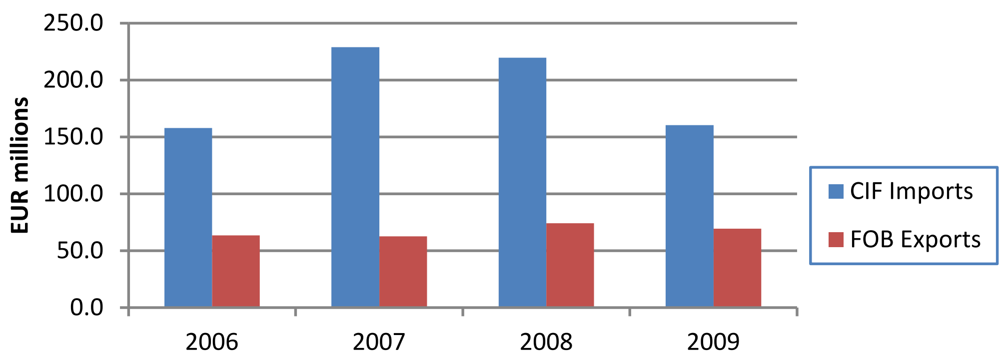

Figure 14. Romania's Imports and Exports from/to Denmark
Source: Romania's National Institute of Statistics (2007) (2008) (2009)

For a clear visualization of trade between Denmark and Romania, Figure 14 was added. As presented here the imports from Denmark to Romania are quite substantial, while the exports from Romania to Denmark represent about a third part of the previous one.

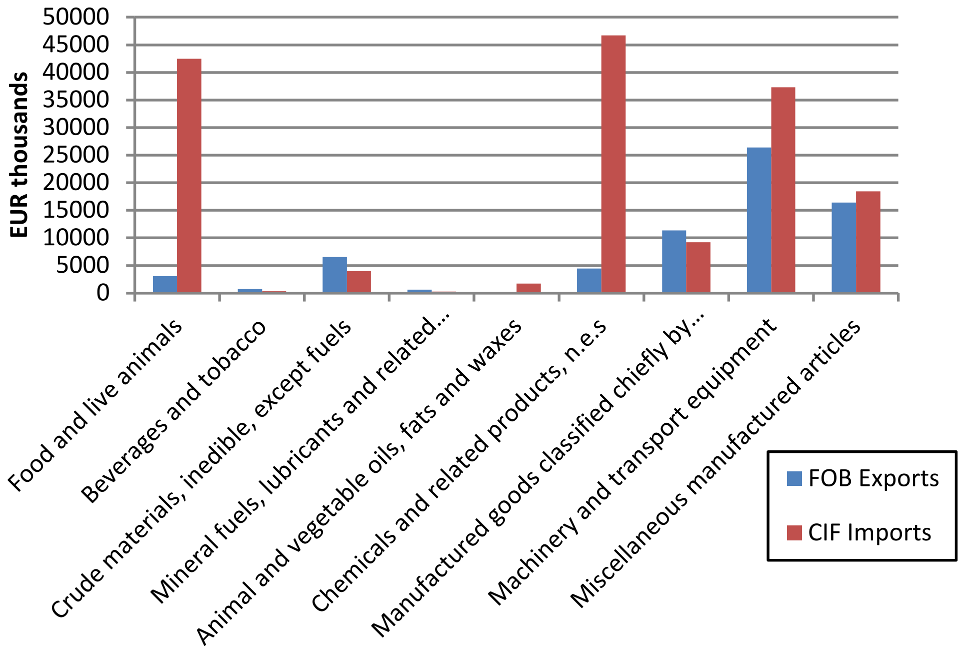

Figure 15. Romania's Imports and Exports from/to Denmark in the period 01/01/2009 - 11/31/2009
Source: Romania's National Institute of Statistics (2009)

Figure 15 illustrates the imports and exports from and to Denmark in 2009 on different sectors. As one can see the highest imported products to Romania in the last year are chemicals, food, machineries and transport equipment.

8.3 Trade exchanges between Denmark and Romania

At the end of 2008 the rate of trade exchange between Denmark and Romania amounts 293, 94 millions €, with 0,80% more than the same period of 2007. Danish trade exchanges represent 0,33% from the total exchange trade rate of Romania.

In December 2008 there were resistered at the National Trade Register Office, 592 trade firms with Danish capital (87 more than in 2007), with an investment of 68,88 millions € (with 19 millions € more than in 2007), representing 0,32% from the foreign investment in Romania. Danish investments place themselves on the 26 position in the top of foreing capital investments in Romania.

Danish investment in Romania covers a wide area of activities, among these there is agriculture, as one of the fastest growing field of development. At this moment, over 3000 hectares of farm land have been sold to Danish farmers.

8.3.1 Micro level

One of the most common inconveniences about opening a business in Romania is the complicated institutional system and bureaucracy.

For example an issue when doing business in agriculture for a foreign investor is that according to Romanian law, the foreign citizens cannot own farm land as individuals, but foreign ownership is possible through a Romania registered company, either a registered partnership with personal liability or a limited partnership. Farm land acquired this way can easily and profitably be sublet to local farmers or other foreign farm companies.[32]

8.3.2 Value chain configuration

The way that the value chain activities of the Danish investors in Romania is organized, constitutes an important imagine of organizations structure and strategy. As Porter (1986) suggests if MNC are localizing values chain activities *across* the borders one may speak about global values chain configuration. Porter (1986) makes a clear distinction between *dispersed* and *concentrated* value chain configurations. In the first case, a company locates its international activities in a scattered way, where value chain activities are replicated from country to country (Hansen, Petersen, Pedersen, 2007). In some countries, only a few activities, such as marketing and sales, are carried out, whereas in other countries the corporation may replicate the full range of activities of the value chain, in this way forming 'minireplica' (Ibid). This is the way some of the Danish companies work in Romania, the ones that have created a "minireplica" is the Danish manufacturing company Kuma, and Rambøll,

[32] http://www.jantzendevelopment.com/NewProjects/tabid/616/Default.aspx

the consultancy firm. Both have invested in greenfields investments in Romania, and they perform their operation at home and in the emerging market.

In the other case, firms may configure their value chain in such a way that the individual activity is carried out in only one location (Hansen, Petersen, Pedersen, 2007). This is the case e.g. of the tourism agency Schreiber Tour that is using Romania as a location for its activities, but with the headquarters in Denmark. In the extreme case, all value chain activities of a firm are carried out in different countries, taking full advantage of factor endowment differentials. This is how the local subsidiary becomes the sole supplier of specific activities in the firm's value chain and, as such, it is assigned a corporate world mandate. In other words, an international division of labor unfolds within the value chain of the corporation (Hansen, Petersen, Pedersen, 2007).

8.4 Companies Profile

As stated above for this research have been interviewed four persons that hold key positions in large Danish multinationals companies that do business in Romania and one staff member from the Danish Embassy in Romania. In an alphabetical order I will be presented shortly the companies that provided information for the empirical research of this project.

8.4.1 FirstFarms

FirstFarms is a public limited company, with headquarters in Billund, Denmark, that invests in agriculture and land in Eastern Europe. FirstFarms strategy is to purchase and modernize farming companies and land for optimizing their operations, so the agricultural production will be competitive in terms of cost and quality[33].

In December 2006, FirstFarms A/S was publicly listed on the stock exchange and acquired approximately 2,600 shareholders and a share capital of DKK 471,224,100, which has been invested in farming companies and land in Slovakia and Romania[34].

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[33] http://www.firstfarms.com/about/

[34] http://www.firstfarms.com/about/history/

In May 2007, FirstFarms purchases farming companies and land in Romania and run the agricultural companies in Romania, creating a Romanian platform where the Romanian subsidiary, FirstFarms s.r.l., was founded.

8.4.2 Kuma

Kuma is a Danish company specialized in the production of molded washbasins and sinks for bathrooms and kitchens established in 1988 in Gadbjerg, Denmark. In 1999 after ten years of successful activity in Scandinavia, Kuma established a manufacturing plant in Campina, Romania. The main reason for outsourcing its production was the high competitive Scandinavian market, and the low labor cost, especially at that time in the host country. At this moment, the company has 110 employees, whereas 70 working in Romania. The company started its investment in Eastern Europe as an international joint venture, but today the company owns its own manufacturing plant and has hired Romanian staff in all levels. Kuma Romania started as a joint venture with a local partner, continued with a green field investment, being today a 100% independent company. After more than ten years of outsourcing its production, 10-20% of the total annual revenue of the company is produced outside Denmark.

8.4.3 Lundbeck

Lundbeck founded in 1915 as a trading company, works today in pharmaceutical industry and is a research based company. They conduct research into developing, marketing, manufacturing, selling and distributing pharmaceuticals. Their goal is to find new drugs for treatment of the central nervous system disorders, depression, schizophrenia, Alzheimer's disease, Parkinson's disease and insomnia. Lundbeck employs 5,500 people worldwide, 2,100 of whom are based in Denmark. They have employees in 55 countries, and have products registered in more than 90 countries. They have production facilities in Italy and Denmark and research centers in Denmark and the USA. Lundbeck generated revenue of approximately DKK 11,3 billion in 2008. In the same year, 55% of our revenue derived from Europe, 22% from the USA and 21% from the international markets region. From the 55% revenue provided from Europe, 10% were generated in Romania only.

8.4.4 Scheiber Tour

Schreiber Tour is the youngest company that I have interviewed and a prosperous SME both in Denmark and Romania. Established in 2006 in Tørring, Denmark the company started its first activity in tourism, but later on extended its area of activities with nursery home, and trading of organics products from Romania to Denmark. The company is also very active in intercultural exchange between Denmark and Romania, not only in the tourism, but also arranging for work exchange for its Romanian employees in Denmark.

8.4.5 Rambøll

Rambøll is an international consultancy company established for more than 60 years in Denmark, and it is today in the top league of European consultancy companies. In 2008 was yet another year where the consultancy increased revenue, profit and the number of employees significantly. Since 2004 Ramboll has doubled its number of employees. In 2008 alone, around 1,900 people joined the company and the group now employs 8,848 experts working within the areas of: Buildings & Design, Infrastructure & Transport, Energy & Climate, Environment & Nature, Industry & Oil/Gas, IT & Telecom and Management & Society[35].

[35] www.ramboll.com

9 Analysis

The following section aims at validate the hypothesizes based data collected from the interviews by examining whether the factors identified in the analytical framework represent a threat or an opportunity for the Danish investors in Romania, and in the second part/*Discussion* is focused on analyzing theories.

The hypotheses apply to Danish investors in Romania, and they concentrate on the issues that came out along the study. For this research there have been interviewed five companies and one Embassy official from the Danish Embassy in Romania. These companies are each functioning in a different industry, so they all perceive in a different way the factors that influence the FDI flow in Romania.

There are still some common factors that all the interviewees have agreed upon. The facts are that Romania becomes a more transparent and trusty investment market after being a part of the EU, its bad infrastructure and instable institutions are not a hindrance when it comes to doing business there, it is a growing and a promising market for the next decades, and for example, they don't see corruption as a barrier to investment.

5) Lack of efficiency in institutions makes it difficult for investors to approach emerging markets.

From the primary data collected for this research, I have learned that most of the problems that the Danish investors had to overcome in Romania were the institutional ones. Even if Romanian authorities are trying to solve this issue, a lack of transparency and trust still exist. There seems to be a social constructive problem regarding the institutions. Even if there are two decades since the fall of the communist regime, Romanian institutions still bear the features if the authoritarian system in their work flow, constituting a barrier that hindrances the development of FDI.

As Kim Stockholm form the FirstFarm states: "Is a bit complicated to do some administrative issue an example is the EU regulations to introduce EU agricultural problems, subventions to be paid out for hundreds of hectares, funds to help agricultural development, because simply the admin behind it is not working smoothly, and greedy administrators are too preoccupied to make personal profit. It is not unusual for a new EU member, in Slovakia was the same the first year. But in Romania was very difficult due to greedy personal".

On the other side some respondents were very positive while talking about the institutions, but they all admitted that without a local contacts their chances of success would have been quite limited or would have taken much longer time. Loli Panaite from Schreiber Tour also added to that "we had a Romanian partner that helped to do the business in Romania, because for a lonely Dane it was impossible to overcome all the bureaucracy that was/is required there."

The lengthiness of the Romanian authorities and the bureaucratic methods used in evaluating the foreign firms is another impediment that slows the activity of the foreign based companies. As Rambøll former managing director in Romania says "the requirements posed by the Romanian authorities to a young company can kill it, if the start-up resources are not sound". Here she is referring at the fact that only after one year of activity in Romania as a consultancy company, Rambøll Romania had to rapport all its activities to the Romanian authorities in Romanian language. Due to the fact that the Romanian auditors didn't speak any English, Rambøll had to translate all its official papers into Romanian. This was a very costly process that a young company had to face in order to be "legal" after the Romanian market standards. If there wasn't a strong support from the mother company, Rambøll Denmark, the Romanian subsidiary couldn't have survived this challenge. The overwhelming requirements of the authorities can just destroy a young company, as the former manager in Romania states. More on the same manager expressed her frustration here regarding the inefficiency of administrative system. When they needed information as a company, Rambøll Romania former director says "we have often encountered that the authorities were unable to answer, because they simply didn't know themselves."

Even if Romanian institutional system is still struggling and didn't grow to a mature stage, as Razvan Stroe, Economical Director at Danish Embassy in Romania argues : "Danish investors see the Romanian local administration as a heavy legacy and harsh to deal with, but I have never heard about a company that would leave Romania from such a reason."

As argued by Meyer (2004) and other scholars, the entry modes in an emerging country are explained by using the transaction cost theory, however the recent studies showed that the international companies strategic intent to enter emerging markets is explained through institutional lens. Peng (2005) also states, institutions rule over social transactions in all the layers of society, in politics, law and society. More on that Meyer and Peng (2008) argue that the flexibility and the ability of a company to adapt to volatile and changing system becomes a competitive advantage in an uncertain environment.

Based on the data collected from the interviews this hypothesis is sustainable. Even if the inefficiency in Romanian institutions slows all the activities, transactions and plans of the investors, they perceive this as a legacy of the old system and a custom that they have to accommodate with in order to have success.

2) When the government structure changes, the information flow from authorities to investors worsens.

As the primary data demonstrate there are some issues when talking about the governmental structure changes in Romania. The main reason for this is that the change of leading political party drives changes through the whole system. As our interviewee from Rambøll says, once the political party is changed, all the key personal in local administrations is changed. This leads to an absolutely new order of priorities, consequently to a big loss in projects for investors. As Susanne Pedersen, Head of Department at Rambøll states: "I don't think it is affecting our market development, but it is affecting some projects we are working on; we work a lot advising ministries, and with municipalities, and prepare investments for municipalities, etc., and the changes after elections (e.g. change of the ruling party, personnel, hierarchies, almost all aspects of the public life), that cycle of massive changes that are in the staff members is very negatively affecting our ability to perform our services. First of all, there is a period of limbo of 3-4 months when no decision can be taken, no decision maker are willing to take any decision leading up to elections, after the elections, and then there is a change of ruling party. It is at least in our market pretty difficult environment for us to operate with because at least in those projects where we are helping with big infrastructure investments for Romania, getting EU founds, loans and investments for very big projects (e.g. a highway, water treatment plant) you need a long planning horizon and you need a stable commitment both from the government and municipal level, and it is very difficult when that is changing every 2 or 4 years, and all the work you have done preparing one option can then be changed over the night and the new mayor wants something else. Then you can throw everything into the bin. So we are affected in our work."

More on that as explained in the hypothesis above, the change in government regulations and conditions has been an impediment for investors, due to the authorities that didn't have the means to help them out. As the former director of Rambøll Romania says: "because maybe when starting from the government they have an issue, the administrative orders to the ministries, to the institutions, the whole way around to the municipality you are reporting to; laws and regulations have simply not been adopted and communicated so that the people you were supposed to get your advice from weren't able to tell you what to do. So you were left in a limbo, sometimes even for months." Moreover she added "Investing in a foreign country of course means different rules, but understanding and knowing what you have to do is, I would say, number one in order to be able to act properly in a new country." Here she supports her dissatisfaction with a relevant example that her company had to overcome in Romania due to administrative changes.

A similar experience had the pharmaceutical company, Lundbeck: “We have been waiting for the reimbursement for this particular Parkinson product, it was already signed by the ministry, and the ministry was changed and then we had to wait another two years.”

As internal political instability creates troubles for investors, the fact that Romania is a full EU member makes many foreign investors to think of it as a safe long run investment. As the CEO from FirstFarms says: ”one of the reasons why Romania is interesting is that it entered the EU, more secure legally, there is not political risk anymore, I don’t imagine a political situation where companies are nationalized, or things like that.” The CEO from Kuma added on that that:" the logistics are bad in Romania still, but they have improved much in the last 10 years, even if it is not competitive to the rest of the world; the same with the bureaucracy, due to the EU the export and import of raw materials is done much easier now than before."

If making a comparison with the communist regime, Romania is far more safe and advance in adapting to international regulations and standards, but for those investors that perceive the EU membership as a mature political stage, things are not quite so.

On the other side all the interviewees were mentioning, the government in Romania doesn’t represent a problem for their investment, even if there is a high fluctuation of laws and regulations, as long as the investors’ access to information is not limited, and as long as they are given the liberty to do their work there. For example Hans Christiansen, the CEO of Kuma Denmark argues: “we are satisfied as long as we can do our job and are allowed to navigate in the system.” But on the other side, he admits the fact that Kuma doesn’t use the Romanian market yet, and that gives them the advantage of not being influenced by the frequent changes in the system.

If possible to do business in Romania without relying so much on a local tie, but more on institutions more investors would consider it in their investment and growth portfolios. the reason for that would be accessibility, low transaction cost, and even more important growth potential, geographical location, both proximity to Western Europe, and former Russia, and link point to the Orient.

This hypothesis is supported by the data collected from the interviews. All the companies investigated in this study talked about the frequent changes of rules and regulations in the Romanian legal system and the cost and benefits that these changes reflected in their work. Some of them had no problems handling the changes, and were not affected in developing their business, but others had to struggle to overcome the Romanian bureaucracy and administrative system. Any time the government changes all its structures are changing this leading to a cascade of new rules and regulations that are not easy to access for the foreign investors. All these transformations in the system and the difficulty in communicating information bring higher investment costs and losses for all the companies.

In conclusion one can state that changes in political parties, respectively in institutions personal are a problem that investors have to learn to deal with in Romania, but it seems that this is not an obstacle that scares the investors away. More on it represents a challenge that most of the investors are ready to confront with in this market.

3) If a country is a new member of the EU, the investors have a low confidence in the rules of that society.

Romanian institution try hard to align themselves with the EU standards and to be competitive on an European level, but if one follows the international and national press in Romania, one can see that the effort is not really paying off. Government and the institutional system are the most criticized institutions and moreover, the ones that the investors blame most, local and international ones.

Hans Christian from Kuma feels that: "A lot have improved, the infrastructure and the logistics are very bad in Romania still, but they have improved much in the last 10 years, even if it is not competitive to the rest of the world. The same with the bureaucracy, due to the EU the export and import of raw materials is done much easier now than before. It is better now to do business in Romania than in another country in the region which is not in the EU, for example Ukraine".

Erik Allikmets from Lundbeck states that: "Romania started late, and when they joined the EU people were discussing was it a good time, should we have waited other five years? With this speed in pharmacy industry and other industries, Romania got the basics right, taking Poland for example that has still old legislation in place. Poland was much more advance 10-15 years ago, but it is more rigid now, but Romania is more dynamic."

Our interviewee from Rambøll argues that Romania has a lot to suffer due to its political system and incapacity of making full use of the EU funds: "I would say for Romania also it makes it difficult to get full use of the EU assistance and EU founding and all the investments because the planning horizon and the political will to plan ahead is very much distracted by the way the political system works."

Razvan Stroe's argument here is that even if the system is a troubling one, still: "I have never heard about a company that would like to leave the country due to the unprofitable business. Romania is becoming a very large market for the EU, and it didn't reach its peak yet". All in all it seems that against all the bad publicity that Romania became famous, it is a promising market for many investors.

This hypothesis proves to be valid, and to support the low confidence of the investors in the local government and institutions. As Romania is a new member of the EU most of the later comers expect Romanian business climate to be as safe and stable as in the Western countries. There are no doubt many improvements in the administrative system that came along with the EU adherence, but lack of transparency and bureaucracy still is an issue in many cases. All the companies investigated in this study talked about the frequent changes of rules and regulations in the Romanian legal system and the cost and benefits that these changes produced to them. Some of them had no problems handling the changes, and had no negative influence in developing their business, but others had to struggle to get over the Romanian bureaucracy and administrative system. As implying from the interviews, all the firms that were questioned about their mode of entry the Romanian market, stated that without a local connection, dealing with the institution and bureaucracy in Romania, their success would have been limited or would have involved discouraging transaction costs. The interviewees talked about the importance of the local ties for foreign investors, and on the advantages of cutting high transaction cost by relaying of the local partners contribution.

4) If there is a high perception of corruption in transition economies, than the FDI flow is hindered.

This hypothesis is false if taking into consideration the interviewees that do business in this transition market, and the statistical reports that show the last years investments in Romania. Many foreign investors expect to deal with corruption issues when doing business there, this image are created by checking the statistical reports or the newspapers, but once they are there, this problem seems to be a regular one. As Kim Stockholm says "there are problems with corruption, it is a new member of EU and things need to be sorted out. Romania is a new member of EU but it is not more difficult than in Slovakia, but you can be cheated all over the world."

The CEO of Kuma , the manufacturing company, states that "We didn't use bribe, maybe we are the only company that didn't used that. Our Romanian partner is very much against bribing people and against cliché in Romanian systems, because we think this is the right attitude to have."

The same positive answer was received form the Director of Lundbeck that also stated that Romania is no different than other country when it comes to corruption, and that did not represent an issue for their business there.

The former manager at Rambøll Romania mentioned corruption as one of the problems that they had to confront with sometimes, but because their code of conduct is totally against a practice like that they had to support the consequences, like losing some projects, but they did not work against their principles. As she states: "It is very much against the policy of Rambøll to work in that matter, we don't do that. We know examples where we have not been awarded contracts because we were not willing to take part in this." She also mentioned, they have showed that they can take legal measure if necessary; they needed theirs lawyers help in order to remind their clients about the contractual obligations and to make them understand that they can take the issues to the next level, but fortunately things solved without "legal battles to fight". Related to Rambøll's future performance in Romania, she mentioned: "It is very clear that certain sectors in Romania are still dominated by non-transparent practices. This is the challenge; can they grow enough and have enough income generated the way we would like it to be generated, in a market that has historic traditions for a mixed type of non-transparent award of our contracts."

The manager from Schreiber Tour mentioned corruption as a being a barrier in doing business in Romania, but fortunately with the help of their Romanian partner they could manage it very smoothly without using bribe in their industry. She mentioned as well, the importance of a trust worthy Romanian partner in doing business, otherwise for a foreigner an investment like that would be a burden.

Corruption is one of the factors that sends the most negative signals about Romania's business image both inside and outside the country because it affects institutions, that become less trusted, and higher transaction costs for foreign investors (for example, to pay a bribe).

Summing up, even if in many articles and researches corruption is seen as an inhibiting factor for FDI, the answers from the interviews show the opposite. Investors are not discouraged or hindered in their endeavor by corruption, moreover they have learned their way around it and can activate without being a part of it.

9.1 Discussion

As presented earlier in the paper, this research is pointing on a macro and a micro economic perspective over the foreign direct investment in Romania, the micro perspective being based on Danish investments in Romanian market. To answer these two perspectives two theories were analyzed and tested along the paper. Institutional theory and transaction cost theory succeed to create the most relevant and explanatory image of the Romanian business environment. Even if transaction cost theory usually explains entry strategy into a new market, in the case of Eastern European countries, respectively Romania, the entry decisions are based on institutional theory (Meyer and Peng, 2005). The role of the institutions in this context is to reduce the transaction and the information costs, consequently to make the country attractive for foreign investments.

The way a company entries a foreign market is a deciding step in its strategy and further development. The companies that made the subject of this research entered the Romanian market through a relational entry mode or arm-to-arm length using a local partner in starting up their business. As Peng (2003:290) states when referring to performance in emerging markets "who you know is more important than what you know", as all the interviewees answered that they had local contacts in Romania and that was one of the decisive factor to invest in the country. This fact reveals that for a foreigner investor without local connection, an entry in this market can be quite gloomy. The entry mode takes also into consideration the size and the resources of the foreign investors; in our case we deal with SMEs investments or distribution offices of the large companies (as Lundbeck) in Romania that put the start-up process on the hands of the local partner.

After establishing the entry mode, the institutions are the main features when considering transition markets, especially in CEE. The institutions that have been referred in this paper are the formal ones. The role of institutions in an economy is to reduce both transaction and information costs through reducing uncertainty and establishing a stable structure that facilitates interactions (Hoskisson et al. 2000: 253). As Peng (2002: 251) states institutions do matter, as confirmed by the interviewees the institution role is crucial when investing in a new market. Without knowing the "rules of the game in a society" (North, 1990:3) that include formal rules (law and regulation) and informal constraints (customs, norms, and cultures) one investor cannot become a player in the economical game. As our interviewee from Rambøll affirmed "the authorities were unable to answer, because they simply didn't know themselves." This implies that without being familiar with the mode of working of the institutions in the county of operations a firm's strategy and performance can be affected. Furthermore Peng defines institutions as „the set of fundamental, political, social and legal ground rules that establishes the basis for production, exchange and distribution‟ (Peng 2002: 252). Not being able to know the basic rules, a foreign investor cannot expend and develop its business, neither locally or internationally. That is the argument that the Rambøll manager used in the interview while discussing the company's issues in their fight with the Romanian authorities. The words "institutions matter" is controversial for the IB, but what is interesting, it is *how* they matter (Davis, 1971; Smith, 2003). As debated in the analysis one can see how the institutions matter from the investors' perspective. Institutions are fundamental for the economic growth; the government creates institutions with the scope of raising revenues and to accomplish their political and economic interests.

One can argue that the fluctuations in government structure and political instability lead to lower Danish investments in Romania. If taking the theories into consideration one can argue that when a government decides to host foreign investment inflows as a part of the economic development strategy, political institutions determine the success of failure to maximize domestic benefits and minimize negative externalities (Kehl, 2009). As Frances Hogopian and Samuel Huntington argue, "economic forces are in-determinant; their influence on outcomes must be filtered through political institutions" (Ibid). These arguments stress even more on the importance of the government policies and variations in the institutional frame that are of maximum concern to foreign investors. The political instability that characterizes transition economies is also an issue for Romania´s foreign investors. Some have been affected more and some less, but taking the overall picture into consideration, it is easy to conclude that Romania still has to work on fixing its weak political system.

On the other side being able to adapt to a turbulent business environment is a strong competitive advantage. As Meyer and Peng argue, the transition has created specific policy-induced entry barriers, but also windows of opportunity for investors that established good relations or negotiated successfully with host governments. Thus strategic flexibility and the ability to adapt to volatile rules and regulations can become crucial competitive advantages (Meyer & Peng, 2008). With a good management in place and using the advantages of being a member of the EU, as legislation, streamlining, more predictable and transparent practices, made Lundbeck activity in Romania being a success. As the VP from Lundbeck, Erik Allikmets states: "Romania is the fastest growing subsidiary in the Eastern Europe or in the whole EU region […] if you take the percentages; we are now from one man in 2003 to about 20-25 men in Romania". The same success stories are shared by the other investors in Romania, as Schreiber Tour, the tourism company, by the manufacturing company, Kuma, First Farm, and Rambøll.

Taking transaction cost theory into consideration, a main argument that comes up is that a corrupt government is a critical factor for an international business environment, which leads to high levels of uncertainty. Within this theoretical framework, the foreign firms are presented as a governance structure that minimizes the transaction costs between the foreign partner and the local environment of the emerging economy (Teece, 1986; Husted, 1994; Meschi & Hubler, 2003; Reuer, 2001). When access to information is limited and the ones entitled to provide knowledge are not able to do so, the situation created is of a big disadvantage for both, the local and foreign investors. As it results from the interviews with the Danish companies investing in Romania, a more goal oriented political lead in Romania could convey to more positive outcomes for the economic development, because "Romania is more dynamic" as Vice President from Lundbeck states (referring here to the East- European countries).

In Table 2 and Table 3 are highlighted both the positive and the negative factors that influence the FDI in Romania as they appear along the research paper, but there are only six factors that have been analyzed prior in the analytical framework. All the factors are important and are a part of the whole picture when describing the FDI flows to Romania, but the six variables that shape the hypotheses are the most representative due to their focus mainly on the institutions, as one of the main hindering feature when investing in a transition economy, such Romania.

After analyzing and debating the macro and micro factors that influence the FDI flow in Romania in the theoretical, analytical part, and analysis in the figure below are outlined both the positive and the negative elements that resulted after this research. As shown in this scheme the FDI is affected by macro factors in its initiated steps, while the micro factors are the ones influencing FDI operating level. Of course there isn't a strict delimitation between the two categories of factors, as they can interfere and counterbalance during a specific investment. But after my research, after primary and secondary data collection, and observation this is the order and the aspects that stand out.

For a more comprehensive view over these factors, a table explaining what they are precisely referring to follows right below.

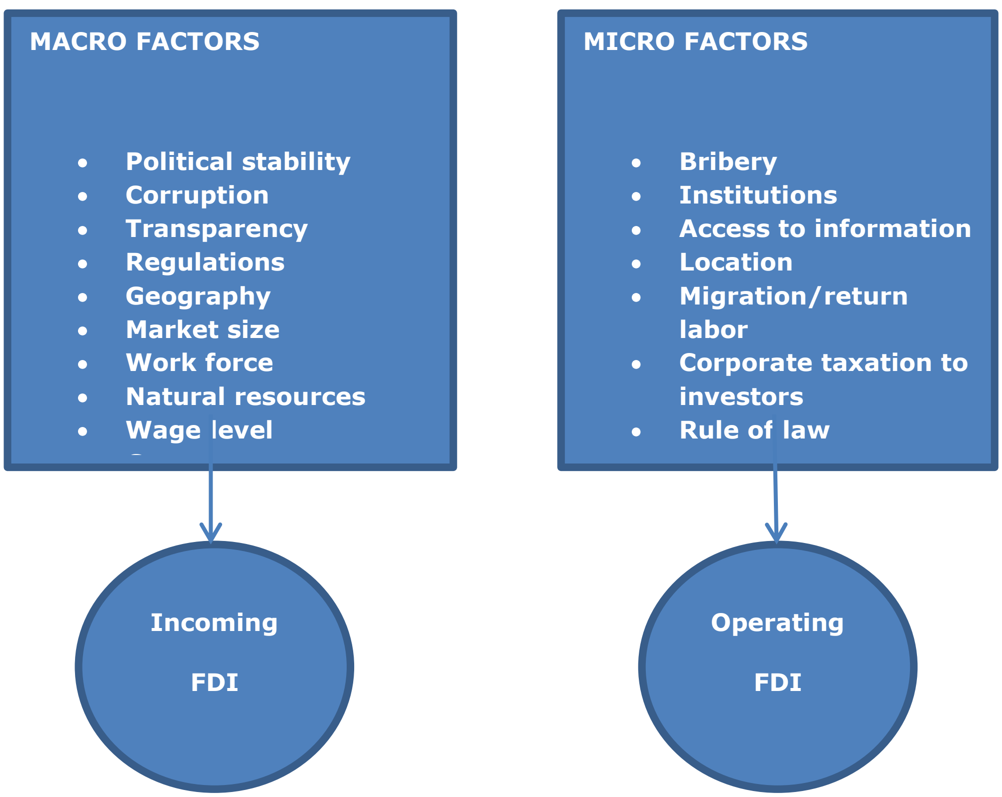

Figure 16. FDI factors

In the table below are shortly explained the factors that influence the FDI flow in Romania, both the macro and the micro economical ones, as they result from the analysis.

	Macro Factors Influencing Incoming FDI in Romania	**Explanation**
1	Political Stability	The risk of government to change structure or be overthrown
2	Corruption	The use of public power for private interests
3	Transparency	Lack of clear regulations and policies that affect economic relations
4	Regulations	Government capability to support and promote the private sector development
5	Geography	The proximity to strategic regions for trade
6	Market size	The second largest market in Easter Europe
7	Work force	Well trained and qualified work force
8	Natural resources	Raw materials, land at low prices and with ownership rights (agriculture land as well)
9	Wage level	Very competitive for foreign investors when compare to Western countries

Table 2 Macro factors influencing FDI in Romania

	Micro Factors Influencing Operating FDI in Romania	**Explanation**
1	Institutions	All the authorities that investors need to access for investing in Romania like: banks, local authorities, court, police, etc.
2	Bribery	A form of corruption that involves money of gift in order to influence the action of an official or public person
3	Access to information	Difficulty of getting information from authorities about new regulations
4	Location	Strategic location in South-East Europe connects the EU with the potential EU member, Turkey.
5	Migration/return labor	Brain drain, but also return labor that increases the economic competitiveness of the country

6	Corporate taxation to investors	It is flat tax of 16% for both personal income and corporate profit, resulting in the country having the lowest fiscal burden in the European Union
7	Rule of law	Confidence in the rules of the society, property rights, police, court.

Table 3 Micro factors influencing FDI in Romania

9.2 Other Results. Report on Process and Solutions

In addition to what has been discussed previously, some more findings that were not discussed previously are presented in details below.

Most of the companies that invest in Romania are the **market seekers.** This is also the case of Rambøll that approach Romania because it had a long history of project contracts and also benefited of the first movers advantages, even if came to Romania relatively late in 2005, as an FDI. The large market, qualified work force and first mover advantages were factors that were hard to meet in the neighboring eastern countries. Another market seeker was Lundbeck, with a famous name in pharmaceutical products and the advantage of state reimbursements for some drugs managed to be one of the leaders in pharmaceutical industry in the Romanian market. The facts that attracted Lunbeck were the market size, harmonization with the EU rules, well trained work force, all in all "no major problems" in doing business there, as the VP of Lundbeck affirmed.

Some investors point to some negative aspects as **infrastructure**. With a better infrastructure in place the VP from Lundbeck added "maybe we can sell 5-10% more, for the roads are not the best quality in certain areas, payment culture needs to be improved, but I wouldn't say this is a major head ache in the country". The CEO from Kuma, stated the infrastructure as a problem, but a surmountable one: "The infrastructure and the logistics are very bad in Romania still, but they have improved much in the last 10 years, even if it is not competitive to the rest of the world".

Other aspects that attracted the Danish investments in Romania are **low investment costs** and **cheap labor**. The CEO from Kuma argues that for his business the low production cost is mandatory "the products are labor heavy to produce, so it is important that we have cheaper labor". The managing director from Schreiber Tour also mentioned the low costs investments when they have started the business in Romania, by achieving old houses that were remodeled and transformed in mini hotels; for doing that using Romanian labor was much more profitable for their business. First Farm's CEO also states that one of the reasons for investing in Romania was the "land at reasonable price". Starting up with relatively low costs and taking into consideration the big potential of the market, Romania seems to be the optimal choice for many investors.

Culture proximity as the VP from Lundbeck states "Romania's connection to France, not only geographically, but emotionally is more tight […] Romanians are much more French than German or Danish". This example stresses on the fact that the historical background has a strong significance when deciding where to go for developing your business. And it is more likely for Romania to attract FDI from the countries with a similar culture, as the Latin countries than from countries with a different background.

For some companies, **low competition** is an attractive reason for approaching a new market. In agriculture industry the CEO from First Farms affirms that there is a "deficit of agriculture in the country". Due to the ardent need of modernizing the agriculture in Romania, its big potential and growth, the CEO from First Farm sees it as a great advantage for their industry. Low competition in the market was also motif for the Schreiber Tour to start their agro-tourism investment in Romania, due to retracted location and unique offer, their business managed to grow substantially from one year to another.

Ending up the interviews with **a cost-benefit** question referring to the investments the interviewees have done in Romania, I learnt that for some investors as Rambøll "it has taken too long time and we have spent too much money on something that has grown too slowly […] in relation with such a big country and such a big market." Having interviewees from different industry, their profitability and experience on the market has been different. For Lundbeck the cost and benefits balance is different "in Romania I think it was easier than in other places […] it's a good country". More on that the Regional Vice President from Lundbeck , Erik Allikmets states that: "if you take the percentage Romania is the fastest growing, we are now from one man in 2003 to about 20-25 men in whole Romania." The other interviewees talked about a positive balance of costs and benefits of their business in Romania and all the investors said their businesses had all the chance to grow substantially in the next decade.

As the economical director of the Danish Embassy in Romania states, the macro problems of Romania for attracting FDI investments are the main issues that hinder a vast FDI flow. Those are infrastructure, and lack of facilities for a foreign business man to be located in Romania. He mentioned for example, the lack of international airports across the country that would connect the important cities form Romania with big cities from Europe, the lack of internationals schools for somebody that would like to bring the family along. Excluding the capital city, in Romania there aren't enough international schools that would attract an investor for a period of time.

Another issue that Romania is ranking quite high in the statistics is corruption. Taking a look in the newspapers and different development organizations that measure corruption around the world, as Transparency International, one can see that Romania ranks high. But the Danish investors´ experience in Romania tells a different side of this story. Even if all the Danish investors were confronted with situation where bribes or corrupting people could have been an easy way to do business, they chosen not to do so, and respected their code of conduct. Even so, their business didn't suffer a lot. Concerning corruption the interviewees unanimously answered that corruption is there, but one can simply avoid it without harsh consequences for their business.

10 Conclusions

In this research the Romanian transition economy was put under the microscope and observed through the prism of foreign direct investment.

Romania is a special, interesting and a unique case, with an evolution marked by major changes, e.g. the transition from communism and dictatorship to democracy and market economy, EU accession. The Romanian institutions passed through a long and rough transition period that left its prints in many areas of the society. In this light, the research question aimed to reveal how the institutions influence the FDI flow from Denmark to Romania.

The thesis provided background information, methods and theoretical concepts in order to explain many of the existing trends and the current situation of Romania's economy. The analysis was based in particular on the Danish FDI in Romania and in general on the challenges that foreign investors should face when investing there. The goal of this thesis was to shed light on the factors that both favor and hinder the FDI flow in Romania, especially the Danish one. In order to render a clear and comprehensive illustration of Danish FDI in Romania, five companies representative were interviewed, and an official representative of the Royal Danish Embassy in Romania. The method used for collecting data was the qualitative one, because it focuses on the significance of the data and reveals the ability of testing hypothesis. Data collection contained primary and secondary data. Secondary data corresponds to chosen documentary method, while the primary data corresponds to the field research, in this case, the interviews. The companies selected for the research covered a wide range of industries, like agriculture, manufacturing, pharmaceuticals, consultancy and tourism. This large spectrum intended to reveal as many interesting aspects as possible about the different business branches in Romania. The primary data collection was not easy to gather, first of all due to a relatively small number of Danish companies investing in Romania, second, the skepticism of some investors that didn't trust the pure academic interest of this research, third, the busy schedule and work pressure of many firms' representatives that were contacted.

For a comprehensive image of the Danish FDI in Romania, it was necessary to present Romania's economy from different perspectives: the historical one that explains its economic position in the world, the international one, especially its position as new member in the EU, and the internal economic situation of the country. For doing this a theoretical framework was required. From different theories that could explain FDI in Romania, I limited my research to Institutional Base Theory and Transaction Cost Theory. The institutional theory was chosen because it explained the societal transaction in all the layers of the society, from politics, law and society, from a macro and micro-economic view. The success of FDI in Romania at the macro level is based on the ability of political institutions to handle the inward investment, maximizing the country revenue and creating economic growth. At the micro economic level, institution theory explained the capability of the Danish investors to adapt to unknown situation, and to confirm with frequent changes in the Romanian administrative system in order to have a successful business in the country. It should be emphasized here that the formal institutions are the main target in this research. The second theory used here, transaction cost states that the governmental uncertainties in a market attract high costs for the investors. At a macro level this uncertainties are translated into weak institutions, as the lack of information or difficulties in communicating the new rules and regulations by the administrative system. At the micro level, concerning the Danish investors in Romania, one can easily observe that they all started their business in Romania with a local partner or based on a social network. Among the reasons for doing that was the easiness to navigate in the system when one has the "local knowledge", and the need to avoid corruption and use personal ties in order to reach governmental officials or political stakeholders.

By analyzing the Danish FDI patterns it is obviously that the Danish investors stick to their moral code of conduct both in their country and abroad. As most of the interviewees admitted they were facing situation when bribing local administrators or corrupting official persons would bring them a favorable outcome, but they unanimously stated that they didn't embrace such practices. Of course they had to support the consequences of their action, like losing projects or contracts, but they all argued that they prefer the transparent way of doing business. After the Transparency International's corruption index, Romania ranks close to the top of the most corrupted countries, while Denmark ranks at the bottom, as one of the least corrupted. Even if the two countries find themselves in the opposite polls, they can do business together successfully, and are also able to avoid the bad practices that shadow the Romanian economic image.

Even though in 2008 Romania was the second FDI top destination within the group of the new EU member states (UNCTAD), as a general trend, one can observe there is a low interest coming from the Danish companies to invest in Romania. Some of them invoke the proximity of the other large emerging markets, as Poland or the Baltic countries, while others invoke the lack of knowledge about this market.

The research question of this study intended to clarify *how* the institutional factors enhanced respectively inhibited the Danish FDI flow in Romania. In order to answer the research question and to determine these factors, an analytical framework was put in place. The analytical framework was based on six factors that characterize the Romanian institutions, inspired from "Governance Matters VII: Aggregate and Individual Governance Indicators 1996-2008" by Daniel Kaufmann, Aart Kraay, Massimo Mastruzzi that was a complex report on the World Wide Governance Indicators (WGI), covering 212 countries and measuring six dimensions of governance between 1996 and 2008. Those dimensions were relevant for my research because they covered many aspects of the Romanian institutions and their issues. These factors were the fundament of the hypotheses, as enumerated here: access to information, political stability, government effectiveness, regulations, rule of law, and control of corruption. Access to information refers at the difficulty of getting knowledge in the administrative system; political stability refers to the likelihood of the government to be overthrown, but also to the high fluctuations of policies; government effectiveness points to the quality of the public and civil service and their independence from political pressure; regulations means the government capability to formulate and implement sound regulations and to promote the private sector; the rule of law envisions the confidence in the society rules, property rights; control of corruption means the extent to which public power is used for private gains.

The analytical framework was based on four hypotheses that develop the burden problems encountered by Danish investors in Romania. The hypotheses formulated on the above factors treat stringent issues as: 1) the lack of efficiency of Romanian institutions; 2) information flow from authorities to investors that worsen when government structure changes; 3) even if Romania is a part of EU, there still is a low confidence in the rules of society. These hypotheses proved to be valid; therefore I conclude that the role of institutions is crucial in Romania when it comes to foreign direct investments. The last hypothesis, concerned with the perception of corruption proved to be unsupported by the interviewees. Arguing that this hypothesis is not valid brought a new perspective over the micro Romanian business environment. Even if Romania ranks high on the Transparency International corruption index, it seems that this is not a reason for Danish investors to keep their business away from this country. Moreover, they see their business growing in the years to come and are positive over Romanian economic growth potential. Summing up, even if corruption is an important influential factor at the macro level, the primary data here shows that at micro level it is not significant. The Danish companies had no problems in handling corruption and don’t see it as a problem in their business future.

Danish investors interviewed for this research came in Romania from different reasons: market seeking, first movers advantages, low competition in the market, low labor cost and low production cost, skilled workers, geographical position, market size, ownership rights, natural resources. They all had to deal with institutional problems, infrastructure disadvantages, administrative issues, but, all in all, they see a great potential growth and a promising market for their business in Romania in the coming years.

Limitations

The generalization of results is limited by the fact that it provides data on only five Danish companies investing in Romania. Therefore the results cannot be generalized to all the Danish firms that activate in the Romanian market, but it can definitely be used as guiding information for the new investors to enter this market.

Methodological consideration

The theoretical scope of this research was concentrated on two main theories, and the analytical scope has been fairly wide. Hence an in depth debate of the theory was provided, as the deductive approach was meant to prove the validity of this study. Thus, a specific emphasize has been put on the theories and their explanatory power of the study cases. This was also a way of consolidating the internal validity of the analysis.

Future research

In this research five Danish companies investing in Romania were analyzed. The focus of the study was based on the malfunctioning of institutions in Romania. As a future research it would be interesting to study other factors as potential barriers for foreign investors to enter on Romanian market. Examples of such factors could be the transfer of best practices, different human resources management approaches of the Romanian partners, working-culture differences, etc. Another interesting outcome can result from a study of foreign companies investing in Romania other than Danish, in order to find out if they encounter the same problems in their FDI process.

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Royal Danish Embassy in Romania - Interview with Razvan Stroe, Commercial Officer

How many Danish companies are in Romania?

There are about 400 firms with Danish capital in Romania, and about 50-60 firms that have only sales offices in Romania. And about 50 registered with the embassy.

Which is the most common way of entering the Romanian market?

Through sales offices, sale agents; most of the Danish firms have only sale agents in Romania, not a direct investment.

Are the institutions a problem for Danish investors to start their business in Romania?

Many Danish investors see Romanian authorities as an impediment, but not impossible to pass. They are advised by the embassy to work in collaboration with accountants or Romanian lowers that can help at creating a favorable business network in the Romanian market. The advantage of this strategy is: the local knowledge and local networking.

Do foreign companies find skilled workers in Romania?

Romanians are people that adapt fast to a new environment and have high ambitions that is the reason why, the Danish companies in Romania see the people as a very good asset.

Which is the reason for Danish investors to come to Romania?

First of all the cheapest labor force in Europe, low cost of investment, large market (second in EE), high demand in the long term.

What are the industries that the Danish investors are mostly interested in?

Many of the Danish investors come in Romania for the large market, and for selling their production. Romania imports right now technologies, chemical products, agriculture tools. The areas that they are interested in are: agriculture, pharmaceuticals, farms (pig growing), shipping, and food industry.

At the moment there are some Danish companies that are very interested in buying land for agriculture in Romania. The reason for this is the very low cost, and the high perspectives that it offers in a long run. Another reason is that Danish farmers don't have such a good business period in Denmark, so they try to extend and use the technologies they have in developing agriculture in countries where their investment is going to pay off. The problem here is that Romania land owners have in possession less than 1 ha of land; so it is going to take about three more years for the Danish investors in some parts of Romania to be able to buy/own big areas of land, and start using it.

Do the ways of working of Romanian institutions hinder the foreign investors?

Even if many foreign companies, I'm referring here to the Danish one especially, see the Romanian local administration as a heavy legacy and harsh to deal with, but I have never heard about a company that would leave Romania from such a reason. And I have never heard either about a company that would like to leave the country due to the unprofitable business. Romania is becoming a very large market for the EU, and it didn't reach its peak yet.

Why there aren't so many Danish investors in Romania?

There aren't too many Danish investors in Romania, because Romania didn't know how to create a good image for the foreign investors. The Danish investors are driving their investment to larger countries like Russia, China, and India where they preview a high return on investments in the long run.

What are the bigger problems that a foreign investor has to overcome in Romania?

A big problem in Romania is the infrastructure and the opportunities offered to a foreign investor. For example, most of the Danish firms in Poland have a Danish leader. In Romania they have chosen to use a local lead. The reasons are bad infrastructure and hard to reach other international destinations from Romania. For example excepting Bucharest, there is no international school for kids. There are no direct flights excepting Bucharest, to fly to Copenhagen or to other important capitals in Europe on a daily basis. It is also cheaper to hire locals in the leading position, than it is to relocate a Dane to do that job.

How are Danish companies seen in the Romanian market?

The bigger investors in Romania are Italy, France Germany, Austria, and Holland. Comparing to Italian products for example, Danish products have a much higher credibility. There are a lot of Romanian companies that are interested in doing business with Danish products because of their high quality.

FirstFarm - Interview with Kim Stockholm, CEO

What was strategic choice in investing in Romania?

Strategic choice looking to invest in Eastern Europe in new EU countries, and Ukraine, Russia, we chose Romania because is a new EU state and because it is very new, it answered to our possibility to establish agriculture in large scale.

There are 3 criteria that we looked at when deciding to invest in Romania: availability of land, land at reasonable price, and deficit of agriculture in the country.

What entry mode did you chose in Romania?

They have raised capital on the CPH stock exchange; our strategic goal was to enter Romania, so I engaged a country manager from Denmark with agriculture knowledge and started investment from scratches /green field investment.

Why did you choose Romania for extending your business?

Because it is possible to buy agricultural land, in some other countries in EU is just possible to land the land, not to buy, but just to lease the land. That is why we did not choose Hungary or Czech Rep.- because is possible to buy the land in Romania.

We are primary producers' selling to grand dealers in the local market, not to consumer, to grand dealers. As Romania entered the EU the prices are almost like the other countries in the EU, and it is an open market. That is another reasons we wanted to invest there.

Agriculture in Romania is not capable of producing enough for its own market, from that reason was a vacuum; this was an advantage. ..The whole thing collapsed there is plenty of room, the need to investment to modernize agriculture production. It is a big potential and a big growth there. The market is there and a big growth.

Do you have big competitors in the market?

We are competing with the rest of the European farmers, but locally I don't see it as such, because is a deficit of agricultural production, not in grains, but mainly in terms of milk and meat, animal production.

Do you perceive any improvements since Romania entered EU?

One of the reasons why Romania is interesting is that it entered the EU, it is more secure legally, and there is not political risk anymore, I don't imagine a political situation where companies are nationalized or things like that. But of course people must be carefully, there are problems with corruption, it is a new member of EU and things need to be sorted out. They are new members of EU but it is not more difficult than in Slovakia, but you can be cheated all over the world. Romania is just an immature market yet. When you buy land it is important not to get cheated, we have good lawyers down there and a good network right now.

Is a matter of being careful and taking precaution, there is no problem with organized crime and stuff like that; not at all.

Did you encounter any institutional problems in your work in Romania?

Is a bit complicated to do some administrative issue an example is the EU regulations to introduce EU agricultural problems, subventions to be paid out for hundreds of hectares, funds to help agricultural development, because simply the admin behind it is not working smoothly, greedy administrators are too preoccupied to make personal profit. It is not unusual for a new EU member, in Slovakia was the same the first year, but it was very difficult in Romania due to greedy personal. It is happening anywhere but it is a bit more difficult in Romania.

Our main focus is an EU structured policy Romania is in a transit period where agriculture policy will be introduced for us this is very important.

How do you see your company in the future?

We definitely see ourselves as staying in Romania and continuing our investment in the country, we still believe it is a good opportunity to establish a good business in agricultural production…. in big scale, for the time being we are just planting/cultivating.

How much of your revenue is produce in Romania?

Our business revenues are produced at the moment as 2/3 in Slovakia and 1/3 in Romania, so the whole is produced outside of the home country, Denmark.

We are sure will be up with 3 firms in Slovakia, in Romania there are 2 centers for cultivating corn, wheat, grains, and animal production that will increase significantly.

Did your business suffered from governmental fluctuations?

I just hope that it would be important for business that political government will carry out reforms to change Romania into a modern EU state, if not the business will take other ways. It is a big job for the politicians. This is not stopping us for being there, it is the new advantage Romania has as a new EU member state. If that fails, investment will take somewhere else; I am very optimist, that corruption is solved, especially for the employees in the civil services.

Did you have problems finding the right personal in Romania?

Our policy is to use skill people from Romania, I have a Danish country manager and another field manager from Denmark, but the rest is people from Romania, we feel we are able to find fine skilled people.

What is the cost –benefits results of your investment?

Agricultural business is in very, very big problem all over the world, hard time, high cost and hard selling, under production cost (corn, wheat, milk, meat). It is a worldwide problem but it's hurting the new developing countries very much, bed cost selling for the EU countries, it hurts all the countries, not only Romania.

KUMA – interview with Hans Christiansen, CEO

What was the main reason that made you chose Romania?

The main reason to go to Romania was the high competition in production from low cost countries in the North, I mean the Baltic countries, and to produce cheaper, the salary level was 1 to 10 of what it was in Denmark at that time we have started. Our products are quite related to heavy manufacturing.

We normally hire uneducated people and do the training ourselves.

How much of your revenue is produced outside your home country?

From the total of revenue 10%- 20 % are produced outside of Dk.

How many employees has your company?

In Romania are 70 employees, and the rest in Denmark, in total 110.

How did you start your business in Romania?

In 1999, the Danish company established a new successful manufacturing plant in Campina in Romania. We started with a joint venture that developed to a green field investment, now we have our own location and hired Romanian people to all levels. There is only one Danish man that works there. 38% procents to a shareholder that was bought out due to some problem of misunderstandings.

What are the core competencies of your company?

The core competencies of our firm are in manufacturing of wash basins, carving manufacturing and production in Romania and Denmark.

Why did you choose Romania?

It was pressure from others manufacturers, competitors from low cost countries, so we had to do something to lower our production costs in Denmark.

In Romania it was the first time we involved in foreign direct investment, respectively manufacture investment in a foreign country.

The main focus: to produce cheaper, lower production cost, low salary scale 1/10 to what was in Denmark. The products are labor heavy to produce, so it is important that we have cheaper labor.

In some extend they found skilled people. We hire uneducated people and train them ourselves inside the company.

It started as a joint venture, 38% main shareholder to the director there, 35% shareholder to the director in the company now. The other partner was bought out due to the miss understanding of the scope of the company.

Do you use Romania as a hub for the region?

Not that much, but in a way we have other near markets, with Bulgaria, Italia, Greece.

How much research did you do before choosing Romania?

It was in some extends coincidence to have chosen Romania we had a friend that worked with democracy courses in Denmark. He had 2000 Romanian people in Denmark to teach them democracy. We have facilities them to do the course, and after 3-4 months they invited us to go there to see what/how it was. That is how it all started in Romania.

From turnover we have in Denmark our export is about 15-20%, the major market is Denmark.

Did you encounter difficulties in starting your business in Romania?

10 year ago it was very hard to start business in Romania, at that time this job was our partner's to navigate to the bureaucracy and legislation in Romania. At that time the Romanian didn't see the foreign investment as an asset, but they felt used by using cheap labor.

Did you deal with corruption or corrupted people in Romania?

We didn't use bribe, maybe we are the only company that didn't used that. Our Romanian partner is very much against bribing people and against cliché in Romanian systems, because we think this is the right attitude to have.

How do you see the Romanian market after entering in the EU?

A lot have improved, not because of the EU only, some… but not too much, there is still a good deal of way to go. The infrastructure and the logistics are very bad in Romania still, but they have improved much in the last 10 years, even if it is not competitive to the rest of the world; the same with the bureaucracy, due to the EU the export and import of raw materials is done much easier now than before. It is better now to do business in Romania than in another country in the region which is not in the EU, for ex. Ukraine.

Did you deal with any government problems in doing your business in Romania?

We didn't really have any particular problems from the government, we are satisfied as long as we can do our jobs, and are allowed to navigate in the system.

We knew that is not the place to sale our product at that moment, but of course the Danish market was the one that we had focus on, so we tried to produce in a doable way.

In doing your work are you affected by Romania political instability?

Not really, because we work on our own and don't use Romania as a market for now. And this gives us an advantage in a way… to avoid the effect of the changing systems.

Did you take into consideration other European countries before choosing Romania?

We didn't look to other countries in Europe, we did a very limited research. And we didn't look at the Romanian market as a market, but as a production place, a doable one. We have extended our sales, last year we increased our share from 55% to 70%, the Danish market have been very good in the last years, while the Romanian market was going low.

What of your core competencies did you transferred to Romania?

We transferred everything to Romania all the manufacturing and *know-how,* the company in Romania is like a twin. We only have one person from Denmark in Romania, because it is too expensive to transfer Danish people to Romania.

How do you see the company in 10 years?

In 2006 we opened a new factory, a green field investment, a new factory down there. In 10 year they will employ about 200 people there. As I said we have already 70 people employed in Romania. The major part of investment has been done in Romania in the last 5 years. And the main production will be in Romania in the coming years.

We moved the same manufactory to the new plant, and we take new people and train them in the company. We have 10 years of training experience in Dk. Every year we have 12 Romanian in Denmark to train as in an exchange program. A lot of Romania's were in Denmark to keep the motivation and the spirit in both companies and to take the best from both sides.

Do you feel that Romania was a good cost-benefit investment?

Because we haven't tried other countries, we have been satisfied to chose Romania, if we would have chosen Poland, where there were many Danish investors, and the costs would have been higher; the same for Ukraine..

In the last 10 years the market in Romania haven't develop so fast, but it is going to develop the next 20 years, and that is a plus for us, cause we will be growing a lot there.

We don't see Romania as a resource asset, regarding our raw materials for now, they are

are more expensive in Romania. They come from all over the world. Romania has improved a lot after entering the EU. At the moment we are both manufacturing in Romania and Denmark, but in the next 10 years we hope that most of the manufacturing will be done in Romania.

Lundbeck - Interview with Erik Allikmets, Regional Vice President, Northern and Easter Europe

How did you start your business in Romania?

In Romania we started with an agreement in 1994, with modest sales by 2000- 2001, the distributors were there but the magnitude of sales was four hundred thousand to a million per year. We launched worldwide two new products, and last year two more products. At this time Romania started harmonization with EU legislation, streamlining, and you had this transparency committee, so the things became much more transparent and kind of predictable. And together with our new products we got registration, and then we got reimbursements, which is crucial for our products in all countries, not only Romania, cause we have exclusive, expensive CNS products, and in none of the countries people pay full price, it has to be supported or reimburse by the state.

Of course from one end is because of Romanian development, but the other reason is also that we have pretty good management in place and opened the office in Bucharest, and now we are selling about more than hundred million Danish crones. Romania is the fastest growing subsidiary in the Eastern Europe, or in the whole region, Europe, of course France is growing very fast and Spain as well. But if you take the percentage Romania is the fastest growing, we are now from one man in 2003 to about 20-25 men in whole Romania.

Which were the core competencies that you transferred to Romania?

We have the full operational office, we have the rep office for Lundbeck export, this is sales office, it is a complex, we have people who take care of the registration of the products, we have full sales marketing organization, to explain Romanian doctors why our products are the best comparing with the competition. We have medical doctors to take care of the reporting of the side effects, and to full fill all the requirements.

We have production only in Italy, outside Denmark, UK, and in Mexico a small packaging unit because of the local requirements. We do clinical studies in Romania, like in many other markets, to work out and taste medicine; we do it in local hospitals and we keep our eyes from Vienna office, look at different countries respecting the international protocol. We have certain centers/hospitals that we look at.

Romanian transition period has a big influence over your business there?

The growth is maybe faster in Romania, because the system wasn't that transparent, the general leaving standard has increased a lot, and maybe even more after EU accession, and we got kind of two waves in 2006-7 we got very good growth, and also last year we got reimbursement for two new products one was for Parkinson and one for schizophrenia. They are also growing. So it has been very nice growth.

The other thing is that we have to lower the prices for some products now; Romania is looking after a reference price, still it is one of the richest countries in Europe. It is not different from other countries like Hungary or Norway, Finland, demographics are also bigger that other countries etc. and because of this reimbursement our products are more accessible to people. Because in old days they were some basic products, our products were considered for privileged, elite people, expensive grounds.

We have good products and good people, if you take the average medical personal they are highly educated and speak the languages, I was there many times.

Did you encounter difficulties while transferring best practices?

I don't know, I don't think we do things much different, we try to secure the business in Romania, but we have to establish the same kind of processes and guide lines, because Romania is part of the big machine and Lundbeck as well. But it has been followed pretty nicely; we didn't have more problems regarding people or incompetence than in other Eastern countries.

When you started doing business in Romania, was it a joint venture or green field investment, association?

No, we don't have our distribution network, in all countries basically we select our national distributor and ship the products to our distributor, and they take care of the distribution to the hospitals, we didn't invest much, we did some marketing, and provided information for doctors in order to secure that we are talking the same story around the globe.

We opened the office in Romania 2003 and hired about 10 people and then hiring about 2-3 people every year now.

Is Romania a hub for the Eastern Europe?

No, we had the office in Bulgaria earlier, for the Balkan, we have a good functional office in Slovenia that takes care of former Yugoslavia and Albania. One reason for which we don't have a sub-regional office is because the history and politics and we have discussed this in house, it will take time, we cannot appoint Croatian manager in Serbia, for example, there are still some discussions between Romania and Hungarians.

But we are independent and Romanian manager is reporting to me as a Swedish or Danish manager, we treat them equally.

How do you see yourself in the future?

We will continue definitely, of course every country has its own problems; I think we are better off in Romania than in other places. Romania started late, and when they joined the EU people were discussing was it a good time, should we have waited other five years? And with this speed, in pharmacy industry and other industries, Romania got the basics right, taking Poland for example that has still old legislation in place. Poland was much more advance 10-15 years ago, but it is more rigid now, but Romania is more dynamic. Bulgaria I think they are struggling more with old existing legislation.

Did you encounter institutional problems?

Romania legislation is changing all the time, it is difficult because of the size of the country, I mean it is easy to change in Baltic countries, big shift going slowly. But I think it has been pretty successful, yes, we are still happy.

Did you have problems with corruptions or political instability?

We have had few issues when we have been waiting for the reimbursement for this particular Parkinson product, it was already signed by the ministry, and the ministry was changed and then we had to wait another two years. But other than that I think we have not been treated differently, it just takes time. In Romania there is also a big dept by the state to the national distributors and hospitals, they have used some money from privatization to close this gap, but it was about 2 billion dollars to get money from insurance health house.

Do you feel any political stress doing business in Romania?

The pharma industry has its own life, in hospitals they have to decide if they lower the prices of the pharmaceuticals or to lower the medical staff salary. Of course the result was to reduce the price of the pharmaceuticals, especially in Romania the development was very fast, now I heard they want to revise the price of the pharmaceuticals, and the reimbursement. This is all over the same. There has been some instability when the prime minister said the president is stupid and not suitable for the position.

There is a lot of work to do there, we are busy, but yet, we are not treated differently.

Have you had some privileges because you are foreign investors in Romania?

It is quite reverse, in the last two years some other company have bought local distribution companies or local generic manufacturers factories. Generic product is when we work out a product; we have 25 years protection to get the money back. When we work out a product we get over 25 years kind of protection, all the clinical trial is in there. We have basically about 25 years to earn back our money, because the production of one CNS product takes one billion dollar. That is why there are 2 different associations in every country, one is the original, and there are the generic producers, when we have lost our patent, everybody can produce our molecules and they are doing it 5 or 10 times cheaper. And these generic producers have been bought 3 or four of the local producers by European companies.

Do you see a big competition in Romanian market, local or international?

Yes, we are fighting with everybody, if you take these classes Alzheimer disease, Parkinson, schizophrenia, depression, in which we are active, in any of these classes we see 4 or 5 big international companies present in Romania, like anywhere else, on the top of that the local generic producers that are cheaper, on the top of that we, we are fighting the governmental pressure to lower the prices, to reduce the number of the patients, I think that in Romania there are Alzheimer centers like in Hungary.

Did you do a lot of research before doing business in Romania?

No, we were there… I think the main reason was that we had good products, the size of the country, and I got the feeling that if it was working in Slovenia, Hungary, Czech, Bulgaria and the countries around, why it shouldn't go there?

Your presence in Romanian market was it a good cost and quality investment?

Yes! Good people, no major problems.

Did you have to deal with infrastructure problems?

Romania is not different, it is everywhere when you take the movements of goods or vat registrations. Of course one might think that if you have a kind of bigger distributor or regional warehouse, maybe we can sell 5-10% more, for them the road are not the best quality in certain areas, payment culture needs to be improved, but I wouldn't say this is a major head ache in the country.

Do you have any workers that are transferred there?

No, we have all local people in all countries. There are competitive people locally, and it is less and less of a problem to speak the local language, all speak foreign languages.

Where do you see yourself in the next 10 years in Romanian business?

I hope we can be 10 times bigger. Maybe we cannot double every second year; we are a little bit different than other companies because we are very focused and this sets the limits. They are expensive products; I hope that we can double the profits every second years.

If we cannot have new products we cannot grow, is not like other industries, we have to develop by innovation.

The salaries in Eastern Europe are also growing I know that Finnish and Swedish companies take their companies away from the Baltic countries cause is not so cheap anymore. Capital has no nationality.

Romania has not been a strategic country for Denmark, because they stared from here to look left and right, to Scandinavia first and then Germany, and maybe Poland due to the common border, and then to Czech Republic there are not only historical or political reasons, but more geographically.

We are happy in Romania, but if you take other companies, there are more Danish companies that have invested in this countries, but not Romania.

...

Europe has regionalized in a way, let's say Romania's connection to France, not only geographically, but emotionally is more tight, for example the French car industry. You are much more French than German or Danish. If you take Austria and Austrian companies, they have started in Hungary because they know the market, the mentality and they feel safe.

While it is like now, we start our business slowly in countries like Kosovo, Albania, Azerbaijan I don’t have this feeling, I don’t know…, and don’t have the local knowledge.

In Romania I think it was easier than in other places, once again, it’s a good country.

Rambøll – Interview with Susanne Pedersen, Head of Department of International Project Management at Rambøll Denmark, and also the founder and managing director of the consultancy firm in Romania from 2005 to 2007.

Would you please give a short introduction about yourself, Rambøll Romania, and connections with Rambøll Romania?

I am the head of international project management department here in Rambøll Denmark. Rambøll Romania is 100% owned daughter of the Danish company.

I was founder and a managing director for 2 years, and then in September 2007 handed over the directorship to a Romanian managing director. So what I can tell you what happened in R. development in the last 15 years in Romania, but I am not responsible as such.

I am a member of a board of the Danish Rambøll, so I know about the abroad perspective and about what is going on in Romania.

I was responsible for opening that company in Romania.

What is the number of employees in Rambøll Romania?

I think it is probably 25 permanent staff members, and then about 50-60 project based staff members, employees for a specific amount of time and specific project.

What are the competencies of Rambøll Romania?

It mirrors the core competencies of the Rambøll mother company, which is a consult company that works within eight services areas. In Romania we started out with developing 3 out of the 8 service areas. That was: energy consultancy, environmental consultancy, and transport. Now in the last year and a half try to developing in the building sector, maybe we are developing from 3 legs to stand on into 4, and maybe into 5-6 as we are expending, and up to 7-8.

How do you define the motive for engaging in FDI in Romania?

It was market seeking, in the sense that most of our clients are international financing IFI institutions EU, UN, IAB, development assistance. And as we saw that the Romania was on the verge on including into the EU, we sat up the company to decided who should get the contract, the content of the project was such that more and more Romanian staff members were required on the project, as Romanian enters EU, Romanian language applies, Romanian rules applies to the project along to the financial institution, became more and more unrealistic that you could do something without Romanian entities.

Why did you choose Romania as a location for your FDI?

The reason for choosing Romania is partly historical and partly due to its specific characteristics. First of all Rambøll has worked in Romania since 1989 at least, so we did lots of projects there continuous for 10years setup. It was a chance or a pure coincidence, we had this history with Romania we happened to be working in Romania, and after when selecting Romania, we have been there, we had a lot of contacts.

Also when you look at east Europe you have two big countries, Poland and Romania. Poland you can say in a way we were probably not fast enough to become the first movers in the polish market, while going into Romania in July 2005, we could still be consider among the first movers to get in to one of the major countries in Central Eastern Europe. I personally had an idea that we could use Romania perhaps as a hub for other Balkan countries, but this is not materialized yet, because is simply enough to do in Romanian market itself. There is no capacity in the company so far, and maybe even no use, no need to go outside Romania, so for now the focus now is on Romania, maybe in the future.

What are the reasons for investing in Romania?

We hope and consider the fact that one of the 8th sector of Rambøll is oil and gas, and Romania is one of the few countries in Europe that has an well-developed gas sector, and even an oil and gas industry university in Ploiesti, we thought that we could perhaps recruit people from both the university and that sector to help us with our activities outside Romania, in the oil and gas sector.

Do you have important suppliers in Romania?

No, as we do more or less consultancy, we don't have any physical supplies, but we do have collaborations and partnerships with other actors in the Romanian market.

Did you start the business in Romania as a joint-venture or it was green field investment?

It was, you could say, a green field investment.

Do you have a big competition on the Romanian market? How is it to be there for such long time?

Well… it is a very competitive market, at least in our part of the market. It's a lot of big international companies which established daughter companies, or representative offices in Romania. So many of our competitors, at least in the European market, are also present in Romania, so the competition is pretty tuff and, at least a few Romanian companies have also become very competitive in the consultancy business.

Among the other locations around Eastern Europe, except Poland that is so big, why did you choose Romania? What about the other smaller countries around?

Well, again, you could say it is partially historical reasons, particular to Rambøll. We are present into Baltic countries, we have a company in Lithuania, one in Estonia, and we used to have one in Latvia, also. In a way you could say that market wise, there is no particular reason to choose the Baltic countries over other countries in the south-eastern Europe but, historically, the Baltic States have been close to the Nordic countries, so it was more historical reasons, really. And we have not had so close relations, historically, trade wise, etc., with south-eastern Europe. So I would say it is probably more realistic that is going to be the next step of expansion in the years to come, that we would definitely consider other Balkan countries.

Talking about institutional framework of Romania, did you encounter a lot of problems just to transfer your best practices from here to Romania? Did you have many barriers to overcome?

I would say, I don't think you could say we have had any real institutional barriers. We have had some difficulties, let's say, in reconciling the financial reporting done to Romanian authorities, with reporting practices that we used here in Denmark. To give you an example, when you set up a system reporting your income, earning and expenditures per month, you have very detailed, very particular system of reporting in Romania, and the auditing done in Romania at the end of the year is very, very expensive. I mean, first time our company was audited in Romania, I think 3-4 auditory from Romanian tax authorities spent 6 weeks full time in our office investigating basically everything. Even our contracts, which were often in English, because the contracts with the clients were in English, we had to translate everything into Romanian, because these people don't speak English. We had to do so much work to basically enable them to check I would say more or less every single piece of supporting document or invoice that have ever been produced in the company; which is, I would say, definitely an administrative burden on a young company starting up, and 8 months later there is such an extensive auditing and for us we felt it was quite a costly exercise, because all that reporting and demonstration versus the Romanian auditors is not reconciled with the way we want reporting done up here. So, in fact, we have 2 reporting systems in the company, one that is directed to the specific of the Romanian reporting system, and then they have to more or less convert the same data into a different format, to report to Rambøll and Danish management information system that we use for financial reporting. That, I believe, it was a very, very difficult exercise as well.

And we also had some difficulties with the tax or VAT regime being different in Romania. Of course, it is complying with EU regulations, but it's sort of interpreted and done in a different way than it is in Denmark. We feel that we are spending a lot of time and money handling that, and also when Romania entered the EU it was actually very, very difficult for all companies in Romania. This is on the 30th of December 2006, the day before you entered into the EU, the Romanian authorities had basically no plan for what would happen in terms of financial reporting, VAT regime, etc. So we and other companies could basically almost not act for the first 3, 4 months of the EU accession, because we didn't know what reporting system to comply with, we had to change all our existing contracts to have them re-negotiated, according to a system that you didn't know what was. So we spent 10 months after EU accession basically reformulating all contracts, employment contracts, client contracts, service contracts, everything, and for months with didn't know what we were supposed to pay in taxes, how much we have to hold in VAT… it was a complete mess, and the result for us it was that the contract Rambøll Denmark had together with Rambøll Romania meant that we had payment worth of I believe 5 million euro outstanding for a year and a half. We couldn't get any payments because we hadn't settled these issues with our contracts so for long, long time we had a lot of money outstanding. Had we not such a big company supporting Rambøll Romania being able to basically offer Rambøll Romania loans to get the cash flow rolling in that period of time the company would have gone bankrupted, even if we had a lot of contracts. In the first year and a half, when I was managing director, we had one contract worth of 30 million euro. And we would have simply gone bankrupted without the cash flow from Denmark.

I think, the companies starting up now, with the systems being, let's say, in a clearer place, where all authorities know exactly how to apply the EU rules and regulations, will not face the same problems.

I can respect that any country has a set of rules you have to apply, but the most difficult thing is that when we asked the authorities "what am I, as a company, concretely supposed to do in this situation", we have often encountered that the authorities were unable to answer, because they simply didn't know themselves. Because maybe when starting from the government they have an issue, the administrative orders to the ministries, to the institutions, the whole way around to the municipality you are reporting to, administrative orders, laws and regulations have simply not been adopted and communicated so that the people you were supposed to get your advice from were able to tell you what to do. So you were left in a limbo, sometimes even for months. This is the difficult thing, at least if you know what you have to do and it's your obligation as a company to hear to that, then it's much easier. Investing in a foreign country of course means different rules, but understanding and knowing what you have to do is, I would say, number one in order to be able to act properly in a new country.

Besides the authorities that were unable to answer your questions, did you have similar problems with the people you employed being unable to adapt to a Danish work environment?

No, not at all. I would say the core staff that was employed in the beginning, were in fact people that we had worked with and known in the previous periods, people that worked with us before either as stuff members or partners or even clients, people that we somehow knew, and they knew us. Quite a few of them had in fact been in Denmark before, visited us, we had a relationship somehow so we knew that they would at least be capable of understanding our way of thinking and our way of acting and also respect ethical codes and all the things we want to be known for. The newer addition to the company, and even in the future we could have more and more staff that are not necessarily converted into the Danish way of doing things. But at least among the core staff the founding staff, there will be a group able to instruct and advice the new colleagues on how we would like the things done in Rambøll Romania. So we didn’t experience any problem at all. The only small issue we had, which wasn’t a big issue, was that in certain parts of Romanian labor market there was maybe this understanding of negotiating salary on the basis of what do I get in my hand, not being fully realizing what that means for a company that is complying with all the rules and regulations of all the deductions you have to make, what you have to pay into social security, insurance and this and that. We had difficulties of reconciling a common understanding of what is the cost to the company for staff members, and what is the staff member get in hands, and getting a common understanding of what level of salary and what practice should be applied when you negotiate the price of an employee.

In Denmark, for instance, is the other way around: is the cost to the cost to the company and the total cost that you negotiate, is not of the concern so much to the company what the employee gets in hand. We don’t go into discussing with our staff members what sort of tax deductions they have, maybe some staff will have a lot in hand, and some others will have less, depends on the situation, but this is never an issue for discussion among a Danish employer and a Danish staff member. There was partially a cultural thing and partially just a different way of understanding things that took some time on both parties to get a common understanding.

When you started, did you have a long negotiating period? The staff you already knew helped a lot since they were there and had the local knowledge in hands about negotiations and integration in the market?

I think they helped a lot. We had a few staff members that did a lot of work in terms of anything from helping to find the location that we should rent or equipping the office, hiring the IT service providers, to getting into contact with the accounting firm that we wanted to outsource our accounting, to the lawyer we wanted to employ. They were very helpful in suggesting and pointing us in various directions and I, as the managing director, then of course negotiating the final contracts with the various sourcing suppliers we used at least in the beginning. Romanian staff came with recommendations that helped along the way.

Do you feel that the unstable political climate in Romania affects your development?

I don't think it is affecting our market development. But it is affecting some projects we are working on, because we work a lot advising ministries, and work with municipalities, and prepare investments for municipalities, etc., and the changes after elections (e.g. change of the ruling party, personnel, hierarchies, almost all aspects of the public life), that cycle of massive changes are in the staff members is very negatively affecting our ability to perform our services. First of all, there is a period of limbo of 3-4 months when no decision can be taken, no decision maker are willing to take any decision leading up to elections, after the elections, and then there is a change of ruling party. It is at least in our market pretty difficult environment for us to operate with because at least in those projects where we are helping with big infrastructure investments for Romania, getting EU founds, loans and investments for very big projects (e.g. a highway, water treatment plant) you need a long planning horizon and you need a stable commitment both from the government and municipal level, and it is very difficult when that is changing every 2 or 4 years, and all the work you have done preparing one option can then be changed over the night and the new mayor wants something else. Then you can throw everything into the bin. So we are affected in our work. I would say for Romania also it makes it difficult to get full use of the EU assistance and EU founding and all the investments because the planning horizon and the political will to plan ahead is very much distracted by the way the political system works.

In this - let's say - difficult climate did you have to corrupt or bribe somebody in order to get the things done, or to continue a project if we refer to your example with the mayor changing?

It is very much against the policy of Rambøll to work in that matter, we don't do that. We know examples where we have not been awarded contracts because we were not willing to take part in this. For us, if a project is delayed or changed, or whatever, we work very much to keep it flowing even if it is difficult or alternatively we have to stop the work and wait for a new decision or even be ready to show that we are ready to take legal measures if we are not able to come to an agreement with the clients on the issues of payments or honoring the contractual obligations. For the most part we have been able to resolve all our differences by means of exchanging for example written letters and referring to contractual obligations, and having meeting pointing this out, having our lawyers helping us voice our opinions on how to interpret a contract and, so far, we had not really any legal battles to fight, but we have shown that we are ready to take it if necessary.

Is it a big part of Rambøll revenue generated in Romania or is just as much as the company will support itself?

So far, we had the company for 3 and half years of operations and if you look at the entire Rambøll portofolio of the Rambøll's group the income generated in Romania is very small turnover. From that perspective the company has not proven itself to be an important part of the Rambøll's group activities. But Rambøll Romania has also suffered a bit at least in the starting period of having all its projects been delivered in a way by Rambøll Denmark in the sense that we were the big company coming in and getting the contracts and the using Rambøll Romania as a sub-consultant and partner in the projects. Until very recently Rambøll Romania has not really had the opportunity to generate contracts in its own name, in its own right, on its own books. They had been a supplier of services to Rambøll Denmark. But this is changed in the sense that the company is now well enough established and ready to take on that responsibility of generating income for itself and generating contracts and handling contracts on its own. So they have just won their first 2 big contracts in Romania and a couple of minor contracts and, if you ask again one year from now, I would say it is very likely that Rambøll Romania will have a much larger income generated in Romania in their own name, which has not been the case so far, but their turnover has been bigger and bigger per year and in the years to come I'm sure it is going to be much, much bigger and they will even be able to do lots of things in their own right and won't need any help or support from Rambøll Denmark.

This is very much related to my next question: where do you see Rambøll Romania in the Romanian service industry in the next years?

Our initial ambition is that when we establish a real daughter company or a 100% own company in its own right, they should be within the top 3 firms in the country they operate in, within 2-3 years period. This is not the case for Rambøll Romania right now and it will be envisaged that they will have to grow quite dramatically in order to be among the 3 top firms in terms of size in turnover in Romania in this sector. Rambøll Denmark is ready if possible to support in maybe investments for buying up another company, for expansion plan that could make that happen. I think Rambøll Romania is successful in many ways but they have not succeeded in growing sufficiently fast by themselves. This is going to be the big challenge for the next year or next 2 years. Something will have to be done in order to generate that growth.

How do you see it in 10 years from now?

If they do succeed and they do fulfill the ambitions set out for the company then, ideally, they should be among the top 3 consulting, engineering or consulting firms within the technical field. With the size of Romania, and the size of the market they should be at least 500-800 people there in 10 years, in order to fulfill that ambitions.

Do you feel there is a real chance to achieve that, considering that you have been there and have the local feeling and knowledge?

The market is there. I think they have a chance. After EU accession and with the change of governing regulations, with everything is in Romania, on Romanian terms, with Romanian clients, Romanian decision makers, the biggest challenge for Rambøll Romania is basically to function in that atmosphere and still respect the code of conduct that Rambøll is dictating that they should do. The big question is whether they can win enough contracts to sustain the operations based on their merits and qualifications, without being in conflict with our code of ethics. It is very clear that certain sectors in Romania are still dominated by non-transparent practices. This is the challenge: can they grow enough and have enough income generated the way we would like it to be generated, in a market that has historic traditions for a mixed type of non-transparent award of our contracts.

Currently, do you have Danish employees in Romania, or everybody is Romanian over there?

Now they are all Romanian. It was only me who had been there for a while, now they are on their own, they have an advisory board, a sort of board of Danish directors, but it is purely Romanian now, with Romanian managing director, all staff members are Romanian so they are supported to a certain degree in terms of managerial and organizational backup, and we also backed them up with the systems, communication packages, we extend to Rambøll Romania many of the same framework services that all the companies within the group have. They get that as hopefully an added benefit but, apart from that, they are completely left with their own devices in terms of securing their place in market.

All in all, do you think it is a good investment in terms of costs and benefits, or maybe you feel it was better to do it in a different country?

It is very difficult to say because on the one hand we did win a lot of contracts there, but Rambøll Romania was delivering into those projects, so you cannot see on the balance sheet of Rambøll Romania that they were probably an instrument for us in winning those projects. You cannot see in the balance sheet if they had a positive impact. Of course, we have invested a lot of management resources from Rambøll Denmark to get it up and running and maybe the organic growth method that we have used has taken too long time and we have spent too much money and time on something that has grown too slowly. You can say the financial resources, such as, have been positive; after 6 months of operations we generated a surplus, so we are not losing, we are still making money but, if you compare the time and effort, I would say that the margin is still - in real terms, in actual money - on the bottom line. It is not big enough yet to give the impression that it has been worth investment all the time. I'm hoping that the next one or two years will show that it was worth, and they will get enough share of the market to start generating the type of turnover and surplus worth in relation with such a big country and such a big market. Now there is really small turnover comparing with the size of the market. Time will show; it is all I can see at this stage.

Schreiber Tour – Interview with Loli Panaite, Managing Director

How many employees do you have in your company?

We have 34 employees in Denmark, and 45 employees in Romania only, so we have a total of about 80 employees.

What is the main core of your company?

The main core activity is tourism with one main destination Romania, and from this year Hungary.

We also own a small packing factory, and also "Satellite institution" for reintegrating former prisoners in society. It is a private prison with 10 young people that do their sentences. They have executed the time in prison and they are reeducated in our institution by working in their factory, etc. We also organize courses in team building, in different areas just to help these young people reintegrate.

Another company under the same roof is Schreiber Life that imports massive quantities of products from Romania. The Romanian partner company collects the products, sells them to us and we distribute them in Denmark to farms, mills, to big producers (5-6 trucks with wheat or other products per week). Schreiber Life is a new company from 2008 only, but it is very competitive, it works as good as the tourist one.

Was Romania the first time you did foreign direct investment?

Yes, Romania was the first time we started to do business abroad. The owner of the company, Torben Schreiber knew somebody there that told him about the beauty of these places that s how he traveled there to see the places. He liked the place very much and thought that if he liked the country so much, some other Danes must like it too . He saw a very cheap house and old style Romanian house on sale, bought one at the beginning at a very low price and that is how the tourism idea to Romania started.

The price was very low so that s how he bought a few more and renovated them.

First of all we started offering houses to rent in Romania for the summer season, but no one was interested. Afterward we provided bus transportation, but that didn't work either because the distance it too big. After we rented an airplane and that was how the business got started; now we have about 27 flights per season, and the next season is fully booked.

The owner had a lot of courage to start this business. We had a Romanian partner that helped to do the business there, because for a lonely Dane it is impossible to overcome all the bureaucracy that is required there.

What were your reasons for choosing Romania?

We have chosen Romania due to the links we had there, and the possibility of doing a successful agro-touristic business with low start-up costs, and because of the authentic experience this location offers. In Hungary we have started a new business where we buy the services from other local companies.

Where are the most of your revenues generated?

We use the Romanian natural resources and the touristic attractions selling trips to the Danish tourists, but all the money are made here. By now we have only Danish tourists; the Romanians customers use the flights only sometimes.

How did you start your business in Romania?

We had and still have a lot of help form our Romanian partners that run the business over there. For a lonely Dane it is impossible to overcome all the bureaucracy and to handle all the issues in Romania. It is still hard now, but it is working now.

Do you deal with a high competition in Romania?

There isn't competition at all in this region, in our branch of agro-tourism. There is other company that organizes trips by bus, but they don't represent a competitive factor for us, because we do business in bigger scale than they do.

Did you have to deal with corruption in Romania?

No, we had a lot of visits for validating our business in Romania from all kind of institutions, but all knew that coming from Denmark we had repulsion towards corruption and this kind of practices. As we have our documents made after the book and a very transparent company politic, they all respect that and we haven't even been put in the situation of bribing somebody because they didn't dare doing that.

Did you encounter problem when you transferred your best practices to Romania?

Yes we did encounter problems, especially with the mentality and due to different work culture. We bring employees from Romania here to see how people work here, "they got a shock" but that helped improve their work when they came back to Romania.

Did you deal with political problems?

No, we didn't have any political problems, and we have not been influenced by the political changes. As long as we haven't been stopped in our work we were satisfied, and we didn't encountered this kind of problems. All the institutions representatives were very positive about our business, and they followed our business since the beginning in local media, we were popular around when we started.

Was the language a barrier when working in Romania with Romanians?

Yes, the language is still creating some problems sometimes. If we were in a big city it would have been different, but because we work with people coming from the rural area we have encountered some problems in sending the right messages. But we have organized Danish language courses for the Romanians coming here and for the employees in Romania. They have learnt something so we are quite satisfied.

Do you see an improvement in doing business in Romania since the EU adherence?

Yes, it is a bit easier but not much more. It is still hard in Romania it's a continuous fight to work with a bureaucratic system.

Where do you see yourself in the next 10 years?

In ten years we expect to extend in the region, but maybe not so much in Romania. We don't want to destroy the way the village is built. We don't want to develop an "Ibizza" style location. We want to keep the charm of the traditional Romanian village as it is now.

But we have different ideas for future projects in tourism, maybe we will extend to the mountains area doing ski tourism, Black Sea region, but all those are just ideas yet.

Do you see Romania as a good cost-benefits investment?

The quality of our tourism is good, and we are proud of it, because we are the ones that set the quality standard in our houses. We are very satisfied regarding the way the business develops here and there and perceive a constant growth in the next seasons.