The internationalization Strategies of French Companies in Romania

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Summary

Central and Eastern European countries (CEECs) are currently attracting important flows of direct investments, after being closed to inflows of foreign capital before 1990. The governments of these countries have been multiplying measures and incentives for encouraging the presence of Multinational Companies (MNCs), during the past years. They are doing it because they consider this fact to represent an important growth vector.

This current article will be focusing on Romanian situation. Statistical data indicate that Romania has attracted less foreign investments per inhabitant compared to the other countries in the region. Therefore, the article is aiming to analyze some of the strategies that are followed by companies intending to invest in foreign countries.

We will analyze the strategic variables that have determined 62 French companies to invest and implant in Romania, based on the results of a specific survey we have conducted. The main conclusion is that the large majority of them were pursuing a "market seeking" strategy, and only a minority was pursuing a "search for resources" strategy.

Key words: entry strategy, multinational company, Central and Eastern European countries, Romania

Introduction

Systemic change that happened in Central and Eastern European countries (CEECs) included the liberalization of the foreign capital entries, as one of the most important reforms. Essentially important for their integration into the world economy, foreign direct investment (FDI) flows into these countries are being perceived as a factor generating positive effects and as also an instrument capable to stimulate growth, technological innovation and the restructuring of the production system. FDI's represent a source of financing that is not

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generating debt, and a fast and effective way of transferring technological and managerial know how.

This article is attempting to analyze strategies that influence the decision to invest in foreign countries. Based on the results of a survey of 62 French companies doing business in Romania, executed between 2004 and 2005, the aim of the paper is to offer new information related to the dominant strategic motivation of French companies in Romania. We will first describe the main strategies of multinational companies and the results of econometric studies referring to this issue (section 1), second, we will focus on the survey we will use (section 2) and third, we will discuss the main results of the survey (section 3)

1. Conceptual framework

The opening of CEECs towards exterior has led to spectacular increases of FDI inflows to the region. However, FDI was unequally divided between countries in the region, although they were in he same situation, in the beginning. Rankings based on FDI entries/capita, or based on other composed indices, (taking into account the economic strength of a country) indicate the existence of important differences between recipients in the area. While countries such as Hungary, Czech Republic and Estonia attracted the most important FDI amounts in the region, other countries such as: Romania and Bulgaria are occupying last places (Figure 1).

Figure 1. Value FDI/capita (USD) (ranking, based on the 2006 value)

	1995	2000	2006
ESTONIA	499,26	1959,26	9422,62
HUNGARY	1194,68	2293,88	8114,33
CZECH	716,37	2109,55	7556,34
CROATIA	106,29	801,80	6036,02
SLOVAKIA	150,28	692,63	5627,57
SLOVENIA	885,93	1454,27	3720,42
LETONIA	261,70	886,81	3283,35
LITHUANIA	101,15	670,69	3214,52
POLAND	202,92	885,56	2715,52
BULGARIA	55,42	281,07	2682,95
ROMANIA	51,25	288,77	1897,32

Source: calculation based on statistical data of UNCTAD, WIR, various numbers.

The empirical literature is full of econometric (statistical) studies analyzing the determinant factors for FDI entries in CEECs[3]. Some variables such as: GDP, GDP/capita, GDP growth, level of wages, employment rate, and also composite indices (estimates related to country risk, privatization, transition advancement level, democratic state, and corruption) are usually used in order to analyze the attractiveness of a country/group of countries. However, the results of these econometric studies proved to be contradictory quite often, fact that led us to, on one hand, to ask ourselves if the indicators used were really relevant, and, on the other hand, to search for other deductive logical frameworks. Therefore, we were able to identify that relationship between variables are changing their direction (positive or negative) based on the characteristics of the host country, their implantation form, the strategic motivations of investors, and other.

Strategic motivations of investors are also deeply studied in literature (Michalet, 1976; Dunning, 1993; Mutinelli and Piscitello, 1997; Andreff and Andreff, 2002; Asiedu, 2002; Makino et al. 2002, Brancu 2007a, Brancu, 2007b), each approach in presenting its own vision related to various strategies followed by foreign investors. The most known approach is that of Dunning (1993) that is defining four groups of strategies used by foreign investors: first, “resource seeking” strategy, who is oriented towards getting physical resources; second type of strategy is focusing on getting access to new markets (“market seeking strategy”); third strategy attempts to improve the overall efficiency of a group of companies through production costs reduction (“efficiency seeking strategy”); and fourth strategy aims to get strategic assets through mergers and acquisitions (“strategic (asset) seeking strategy”).

In our endeavor we have opted for grouping strategic implantation motivation into two categories: market seeking and resources seeking. The main objective of a **“market seeking” strategy** is to better serve local market. Consequently, goods and services produced in the host country are sold mainly on the host country market. This type of strategy is also named “horizontal integration strategy”, and consists of creating in the host country of a similar company to the company in the country of origin. The purpose of such a strategy is twofold: 1) reducing costs relate to local market servicing (transportation costs and/or custom taxes), and 2) increasing company competitiveness through being closer to local preferences, taste and peculiarities. Basically, it is about exploiting distinctive competencies of the mother company to identify and develop new markets.

[3] For a detailed presentation of literature results, see Brancu (2006), « Les déterminants et les impacts des investissements directs étrangers. Le cas des investissements français en Roumanie », PhD thesis, Université de Lille 1.

One of the conclusions from literature review indicates that foreign investments in CEECs are mainly attracted by the size of the internal market of each country from the region. Many studies prove that size of the market, (either measured through GDP value, either through size of population) is a variable that explains with little exception the flows of FDI towards CEECs (being positively correlated at significant level).

The **“resources seeking” strategy** is explained by cost differentials between various locations and by the availability of complimentary production factors. The investment profitability increases if the cost of resources is smaller than in the country of origin. This type of strategy is also defined as “vertical integration strategy”, or “production cost-minimizing strategies” (Lim, 2001). It is characterized, mainly, by the outstanding interest of investors for a large, well trained, and cheap local work force.

Although CEECs are being acknowledged for the fact that they have a well educated, large and much less costly work force comparatively to some developed countries, the results of several studies are less convincing when pursuing a resource seeking strategy: some studies indicate that lower wages are attractive for companies wishing to reduce costs (significant negative correlation), while some other studies reach to the conclusion that a larger wage expresses a higher level of education and therefore of productivity (significant positive correlation). There are also several studies pointing out the lack of any significant correlation between wage level and FDI inflows to CEECs.

2. Methodology

As we have already stressed out, empirical research based on econometrics is abundant in testing out the role of a large number of variables, able to express, either, the pursuit of a market seeking strategy (GDP, GDP/capita, GDP growth, etc.), either of a resource seeking strategy (wage level, unemployment rate, level of education, etc.) However, their results are often divergent, and prevent us from reaching relevant conclusions related to the dominant strategy followed by foreign investors in CEECs. Moreover, empirical literature for the Romanian situation is less abundant, and obtained results explain mostly the capital flows, and less the strategic orientation of investors. Based on the above, we have decided to use a survey-based method in order to analyze the strategic orientation of investors. In our opinion, survey-based method has the advantage to determine with great precision the strategic intents of investors, being expressed qualitatively in this case, and not in quantitative terms as in the case of econometric studies.

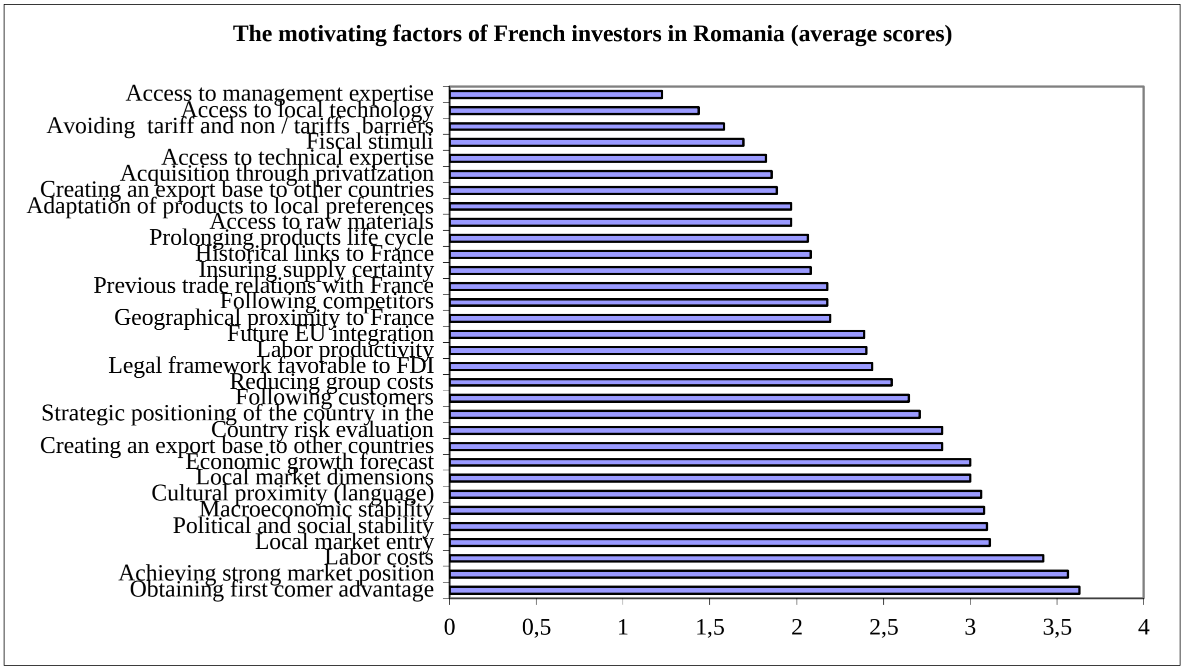
The survey we undertook in 62 French companies based in Romania, between 2004/2005, allowed us to better understand the behavior of French investors and to describe their detailed profile. In order to reach this goal, we have conceived and administered a questionnaire, and in some cases we followed with an interview. The investigated population is covering 20 fields of activity, divided between industrial sector (70.9%) and service sector (29.1%), indicating that our study had a large area of analysis in terms of nature of industry.

As for representation, in our sample are represented 8 out of 50 largest French companies in production and services, such as: Carrefour (2^{nd} place in top 50), Renault (9th), Véolia Environnement (11th), Alcatel (25th), Lafarge (27th), Groupe Danone (30th), Valeo (41st) and Schneider Electric (42nd). In this group, which excludes banking and insurance sector, we could add Société Générale, company that belongs to our survey.

3. Results obtained

Questioned managers (CEO or country managers) were asked o evaluate (on a scale from 1 to 5), the importance given, when deciding to invest in Romania, to a large number of variables (22). Each of these variables expresses either a “market seeking” strategy, either a “resource seeking” strategy. At the first level of overall evaluation of results, using the method of “average score”, the dominant strategy is “market seeking” strategy. Out of the first five average scores, four of the motivations of French investors express the search for markets, and only one variable, “the work force costs”, situated on the third position, indicate a resource seeking strategy (See Figure 2).

Figure 2.



Source: our survey

Secondly, we had asked investors to classify, according to their importance, the first three motivating factors of choosing Romania as location country. The synthetic table below, (Figure 3), based on their answers, clearly indicates that strategic motivations (such as labor costs, achieving a strong market position on Romanian market, and obtaining first comer advantage) dominate the determinants related to general needed conditions, such as political and social stability, or future EU integration.

Figure 3. The first three motivating factors of French investors in Romania

First motivation	Labor costs
Second motivation	Achieving strong market position on Romanian market
Third motivation	Cultural proximity

Source: our own survey

The GLOBE Research for Romania indicates according to (Bibu, Brancu, 2008) that there is a certain degree of cultural similarity between the Romanian societal culture and the Latin cluster, including France. The Proximity Matrix indicates the degree of similarity between Romania and each of the considered clusters. Their result for societal culture practices, 0,931239, indicates a very strong similarity to Eastern Europe cluster, and a less strong one to Latin Europe cluster, including France, (0.848702). Their result for societal culture values, 0.863953 indicates also a strong similarity to EE cluster, however smaller than in the previous case, while for LE cluster it is (0.826215). This indicates that Romanian societal culture at values level is differentiating from EE cluster and to a lesser extent from LE cluster, too. It is quite expected that Romania is close to Eastern Europe cluster because it belongs to the region, sharing many of its history, geography, civilization, religion and culture. There are two main distinctions: first, the Latin character of Romanian language, unique in the region. The second distinction is the predominance of Christian Orthodox religion, due to the early adoption of the Christian faith, in the first century AD, and the consequent belonging to the Orthodox Church, and little adoption of Catholicism, or of protestant religion (Bibu, Petrisor, e.a., 2007).

Subsequently, the divergence from EE cluster is greater than the divergence from LE cluster in the case of societal values. The conclusion is that Romanian managers would like their societal culture to evolve from EE cluster towards LE cluster, including France. We agree with (Bibu, Petrisor, e.a., 2007) that Romania is in the process of westernization of its institutions and its societal culture.

The other factor that explains the strong preference of Romania based on cultural similarity, is the fact that Romania is a francophone country. The modernization of Romanian language, civilization, statehood and culture was decisively influenced and supported by the French culture, state and civilization. French language is widely spoken in Romania, and easy to be learned due to their common Latin roots. Beginning with 19th century, ties between France and Romania became increasingly strong and complex, leading to the current situation when political and cultural links are more developed than economic links. The massive influx of French foreign direct investment after 1990 started to change the situation. We consider that our survey results are sustained by the above results of GLOBE Romania research.

For the third analysis, we have regrouped the answers into two categories: “important” and “of little importance or not important”. This method proves also that the “market seeking” strategy type is dominant: on the first four positions we find motivations linked to the access to the Romanian market, while the “work force costs” is situated on the 5th place (as compared to 4th place in the case of average score method). It is about motivations such as: “Obtaining first comer advantage”, “Achieving a strong market position”, “Economic growth forecast”, “Local market dimensions”, motivations linked to the “market seeking strategy”, that are situated on the first places in the ranking based on the survey results.

The central motivation of the market seeking strategy is improving competitiveness through price. The French Economic Mission in Romania underlines the fact that, in order to confront the competition from globalization, companies seek more and more to establish foreign operations in order to preserve their competitiveness: "*Competition and company operations are done at world level. Together with globalization, products arrive from all over, while the consumer will buy whatever it finds as the best quality-price offer. That fact influences all economic sectors for which geographical proximity is not essential (such as fresh products, some types of services). For all the others, this fact is paramount*." In order to stay competitive, companies must act on two directions: by reducing their cost and by insuring a high quality. In our survey, "group costs reduction" that summarizes the whole "resource seeking strategy", comes only on third place as motivation factor in the French investors ranking. More than half of them consider it a low or not at all important motivation in their own situation.

We also checked indirectly the above results through analyzing the distinction between the investors that are exporting and non-exporting investors. This distinction is quite useful, due to the fact that usually, the resource seeking strategy is identifying through the intention of exporting (exploiting the lower costs of the host country is achieved through selling the production on other markets, either on the country of origin market, either on third country market). At the first level of analysis, the analysis exporting/non-exporting investors in our case did not generated relevant information, due to an equal divide between the two categories (50% are exporting investors, and 50% are not). A more profound analysis, based on the percentage of exportations in total sales, allowed us to have a much clearer answer. So, more than 75% of the companies do not export or export less than 25% of their total sales. Based on the above numbers, we consider that we are in a position to state that the dominant strategy of French companies doing business in Romania is a "market seeking" type of strategy.

The results of our survey confirm the dominance of the "market seeking strategy" in the Romania situation, as being common to the CEECs countries. Although, studies based on a survey are rare (Pye,1998; Mutinelli and Piscitello, 1997; Altzinger, 1998), their results point out very clearly the interest of foreign investors for the markets of CEECs, that is the same conclusion as our study. The survey realized by Pye (1998), in some CEE countries, indicates the fact that market-related variables (market growth potential, desire of investors to capture local market and increase their own market share, etc.) appear as the main motivation factors for 34% of respondents. We identified also that the interest for CEECs markets represents the main factor independently of the investors' nationality: survey of Austrian investors (Altzinger, 1998), and Italian investors (Mutinelli and Piscitello, 1997), indicate that local market access was on the first place in their decision to relocate in CEE countries. Other two studies (Ziacik, 2000; Picciotto, 2003), based on the results of surveys, reach the same conclusions: investors in CEE countries are motivated in the first place by their desire to access local markets.

Conclusions

This article has analyzed the strategic motivations of French companies doing business in Romania, based on a comprehensive qualitative survey. The answers of CEO or country managers of 62 companies have indicated that French investors were attracted mainly by the advantages offered by their access to Romanian market. Our analysis confirms that the dominant strategy of French companies doing business in Romania was "market seeking", because more than three quarters of analyzed population was pursuing it.

Our results indicate that nearly three quarters of companies involved in the survey are motivated by seeking for new markets, and only one quarter are motivated by seeking for resources. The investors in the first category are motivated essentially by achieving first entrant advantage, by the market growth forecast, by getting a strong market position and by the dimensions of the local market. These results confirm that Romanian market is attractive for foreign investors. Although market size and market growth are important motivating factors, we have to outline that FDI flows are also linked to the absorption capacity of the market, that in influenced by the strength of the Romanian economy.

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