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Iulia Muntean

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A.o. Univ. Prof. Dr. Josef Windsperger
Lehrstuhl für Internationale Unternehmensführung

Betreut von
A.o. Univ. Prof. Dr. Josef Windsperger
Lehrstuhl für Internationale Unternehmensführung
Institut für Betriebswirtschaftslehre
Universität Wien

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Iulia Muntean

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1 Introduction

Nowadays companies are more and more focused on efficiency and effectiveness matters, on cost reduction policies and especially expanding multinational companies cannot, under any circumstances, afford failures anymore. The competitiveness is much higher, the pressure exercised by the market conditions on the performance of the international ventures also, as the assigned responsibility to each existing subsidiary to continuously obtain better results. Therefore the decision regarding the strategy that will be pursued internationally, the choice of the entry mode on a precise targeted new market becomes a very complex process. The importance of factors like the existence and availability of resources is being completed by cultural influences, the institutional framework of the local environment and even a new emerged communication-theory tries to explain to some extent few of the internationalizing choices.

Within this master thesis, I strived to avail myself of the theoretical foundations regarding equity market entry modes, focusing especially on greenfield investments and acquisitions, while trying to get a better insight into the similarities, but much more into the differences between these two types of ventures and the motives triggering the choice for one, respectively the other. While doing so, my work concentrates on the major principles of the two equity market entries, whilst examining the interdependencies between them and other research domains like institutional or resource based theories. The structure of the thesis consists of two major sections. The first part attends to theoretical aspects and starts with a broad overview on characteristics and reasons for opting for a greenfield investment or an acquisition. Reviewing literature on these topics, several perspectives are presented considering arguments sustained by the resource-based view, principles established by the institutional theory or new ones trying to be introduced by the communication-based theory. All these theories contribute to establishing a set of propositions that should provide support to answering my research question: why does a multinational company choose to enter a new market through a greenfield investment, or an acquisition venture? This examination should offer support to pointing out the decisive aspects of setting up an expanding strategy and of choosing between these two ownership modes, as well as the possible influences of the chosen entry strategy on the future performance of the new subsidiary. In detail, the research question deals with important theoretical foundations that, from the theorists' point of view, lead to the investors' tendency

towards choosing a greenfield venture or an acquisition entry mode. The research topic shall be consequently tested in terms of practical adequacy and should point out which of the underlined strategic factors actually affect the decision process of the market entry mode and which rather do not. As an environment for testing the practical relevance and eloquence of these theories was chosen Romania, analysing the development of the equity market entries in question from the late 90's until the present. During that period, the country being mainly considered an emerging economy, the main decision faced by foreign investors was between a greenfield venture on one side and an acquisition on the other. That is why the main focus is on these two market entry modes. For probing the theoretical basis on hand of the defined propositions a more detailed analysis was performed by using a single case study method , which allows a more profound explanation of the foreign investors motives during this decision-making process.

In section two, four case studies will be presented. All of them represent a foreign direct investment in Romania performed during the last ten years. The selected companies opted all for an equity market entry, two of them chose a greenfield investment mode and the other two acquired an already existing company. Three of the investing companies are of Austrian origin and the fourth is a Turkish based one. Although they offer a large spectrum of products, the main activity of the four considered companies fit into the wood industry sector. The choice of all the studied companies from a related field of work is not accidental, a major objective was trying to identify potential tendencies and patterns that are valid and applicable to all four chosen cases. Therefore, additional information regarding their work field is reviewed briefly for permitting a better understanding of the status-quo of each of the four ventures. Trying to get a detailed insight into their organization and international strategy, their short and long term goals for the Romanian subsidiaries and for the whole group, an important amount of background information for all the four MNCs was gathered and extensively examined. The local environment with the existing institutional background, the structure and the availability of the required resources on the local market were only two of the main factors looked into. The main objective was to discover if the considered theoretical framework can be supported for these cases or not. Concerning the factors considered for their market entry choice and the mode opted for eventually, the performance of each of the Romanian subsidiaries in the years after their setting up is analysed and discussed. A comparison of the obtained results and some final

considerations regarding which of the four proved to be a more successful strategy for these initiatives, serves as conclusion.

2 Section One

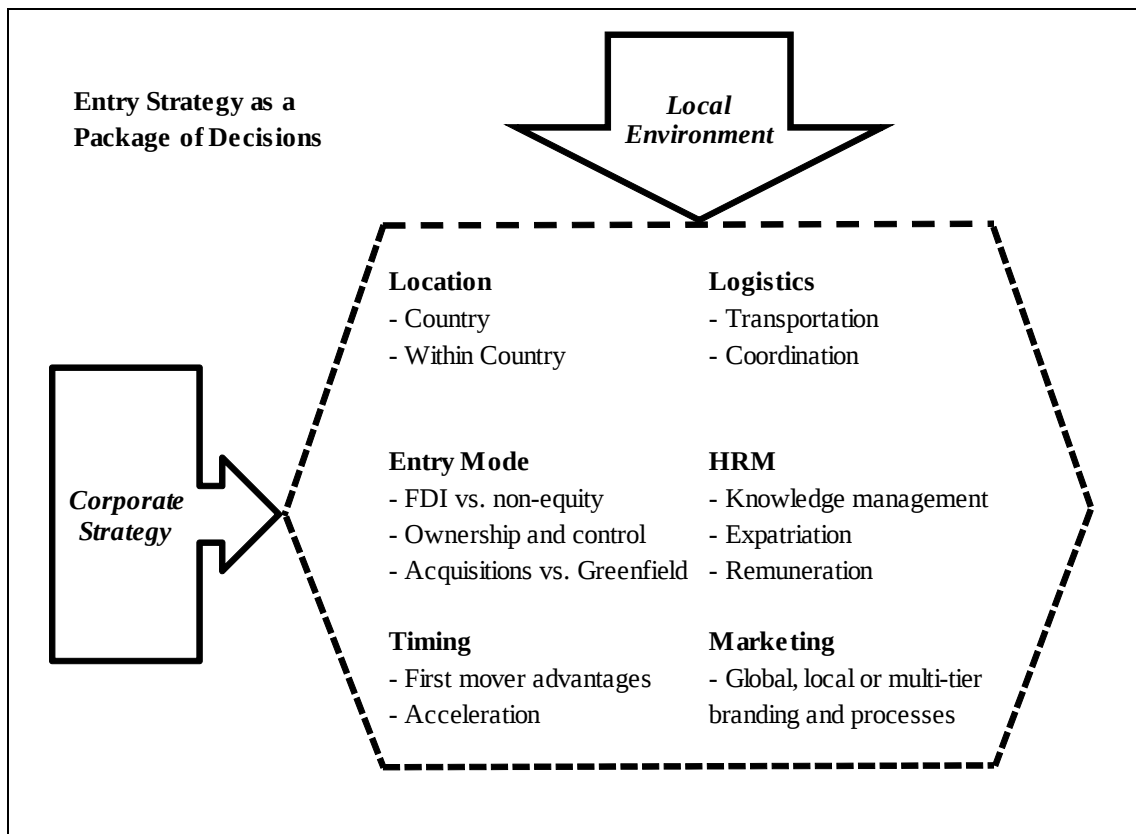
2.1 Equity Market Entry Modes – Greenfield and Acquisition

2.1.1. Theoretical Foundations

Considering recent developments, but mostly many companies' mischiefs, it is by now clear that going abroad does not bring success undoubtedly to every firm. The timing is crucial, because internationalizing prematurely might cause major losses and have a great negative impact on overall firm performance, especially in the case of small firms whose margin for error is very low (Peng, 2009, Global Strategic Management, p. 158). This applies also to the large companies, who are not keen spending money without any clear warranty of future success. Assuming that the decision to internationalize is taken, MNCs' must make further decisions regarding the location "where", timing "when" and the mode of entry "how". Answering these questions leads to a decision drawn from three main perspectives: industry-based, resource-based and institution-based considerations. From the industry-based perspective, factors like: rivalry among firms, entry barriers and scale economies, bargaining power of suppliers and buyers or the existence of substitutes (products or services) need to be considered. Concerning the resource-based considerations the Value-Rarity-Imitability-Organization framework is most relevant and in terms of institutions, aspects like trade barriers, regulatory risks, currency risks, cultural distance or formal and informal institutional norms cannot be overlooked (Peng, 2009, Global Strategic Management, p. 161). The decision regarding the location, the new market which will be entered, is based mainly on the MNCs' strategic goals and the cultural and institutional distances between the parent and the local firm. For natural resource seeking companies, location specific advantages like possession of certain resources, for e.g. oil in the Middle East, Russia and Venezuela, and the related transport and communication infrastructure are the main driver in choosing the location for their foreign subsidiary. The abundance of a strong market demand and of customers willing to pay (for seafood in Japan) is the location specific advantage a market seeking MNC is looking for. Economies of scale and the existence of low cost factors, like labour or even energy in some cases permitting to enhance

efficiency by lowering total costs, are key issues for efficiency seeking companies when deciding where to go abroad. Silicon Valley or Bangalore for the IT business field, New York and London for financial services or Russia for aerospace are locations for innovation seeking companies which “target countries and regions renowned for generating world-class innovations” in these activity areas (Peng, 2009, *Global Strategic Management*, p. 166). In addition to the strategic goals, institutional and cultural distance between the parent and the local firm, are another set of considerations with an impact on the location decision of the internationalizing MNC. It is argued that firms will enter in their early stage of internationalization culturally similar countries and in the later stages, culturally more distant countries (Barkema and Drogendijk, 2007; Meyer and Gelbuda, 2006 – as cited in Peng, 2009, *Global Strategic Management*, p. 167). Actually, an entry strategy is built up on a series of decisions including also the available infrastructure and logistics system of the local environment and several other factors, as shown in the figure below:

Figure 1. Entry Strategies as a Package of Decisions



Source: “Acquisition Strategies in European Emerging Economies”, by Klaus E. Meyer and Saul Estrin, eds. Palgrave Macmillan, forthcoming, 2006.

But as stated earlier, timing and entry mode are also important considerations. The main decision regarding timing is whether to enter early or rather later a certain country. Companies entering earlier can benefit from first mover advantages like gaining proprietary and technological leadership, pre-emption of scarce resources, possibility to establish entry barriers for late entrants, building up solid relationships with key stakeholders such as governments and customers (Dowell and Swaminathan, 2006; Frynas, Mellahi and Pigman, 2006; Lieberman and Montgomery, 1988 – as cited in Peng, 2009, *Global Strategic Management*, p. 168). The first movers might encounter also disadvantages, which turn into late mover advantages, these having the opportunity to free ride on first mover investments, to overcome the possible first mover's difficulty to adapt to market changes and as first movers face greater technological and market challenges, late movers enter after some of the uncertainties were removed – for e.g. MNCs like IBM and Matsushita are known to put such a strategy in practice (Peng, 2009, *Global Strategic Management*, p. 169). Obviously entry timing cannot be viewed per se as the sole determinant of success or failure of foreign market entrants. Entry timing has an impact on the MNCs performance in the new market, but only in interaction with other variables, some of which were already mentioned (Peng, 2000; Suarez and Lanzolla, 2007 – as cited in Peng, 2009, *Global Strategic Management*, p. 169).

In terms of entry modes, the first decision to make is choosing between equity and non-equity market entry. Looking at this matter from a simplistic point of view, it can be boiled down to an ownership issue. Non-equity modes, exports (direct and indirect exports) and contractual agreements (licensing, franchising, turnkey projects, R&D contracts, etc.) do not require large commitments to overseas markets and no independent establishments are necessary. Compared to these, equity entry modes (joint ventures, strategic alliances, wholly owned subsidiaries – greenfield operations and acquisitions) imply the existence of an independent overseas establishment, partly or fully controlled, and require larger commitments (Peng, 2009, *Global Strategic Management*, p. 171). Once the MNC decided upon going abroad, on the location and the timing of entry, the next step concerns the form of entry – if the decision is for a non-equity market entry then the next step on the agenda is to choose between exports and contractual agreements and then step by step considering all options until a final decision is made. The same decision process is valid if choosing an equity entry mode, although very complex, with a lot of variables to consider until reaching the point when

the decision between a joint venture, or a greenfield investment or an acquisition is made. Further on, the topic concerning these equity entry modes, especially greenfield investments and acquisitions, will be elaborated in more detail.

2.1.2. Greenfield Investments

2.1.2.1. Definition and Characteristics

According to the Oxford Dictionary of Business (Oxford University Press, New York, 1996, p. 235) a greenfield project is “a project that starts from scratch, e.g. building a factory on a virgin site in the country”. There are also a lot of other definitions for greenfield investments and considering the most proper, suitable, relevant and eloquent one is not simple, but nevertheless: a greenfield investment is “a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees” (www.answers.com, accessed on 17.08.2012) or “foreign start-ups (or greenfield investments or de novo entries) entail building an entirely new organization in a foreign country from scratch” (Barkema and Vermeulen, 1998, p. 8-9). The real estate on which the plant will be built is purchased locally and employees are hired also locally and trained using the parent firms’ management skills, technology, know-how and capital (Meyer and Estrin, 2001, p. 576). A greenfield investment implies that the entering MNC relies on important financial capacity, not only for the purchase per se and all the following necessary investments, but also for supporting the subsequent arising costs of adaptation.

According to Peng (2009, Global Strategic Management, p. 174) pursuing such a strategy presents three advantages. First, a greenfield wholly owned subsidiary confers to the MNC total control over the operations, thus eliminating possible interferences from the local partner. Second, the complete and undivided control makes a better protection of the proprietary knowledge and technology, possible. And third, such a wholly owned subsidiary permits for a centrally coordinated global strategy of the MNC, which subsequently could lead to economies of scale and further cost reductions and efficiency maximization. One of the major drawbacks of a greenfield investment is that it is very costly and therefore risky, not only financially but also politically (Peng, 2009, Global Strategic Management, p. 175). Politically, because such an endowment

could cause extreme nationalistic sentiments on the locals side and thus these might manifest strong rejection behaviour towards the parent firm (Peng, 2009, Global Strategic Management, p. 175). Another possible disadvantage could be the fact that a greenfield operation means adding capacity to the existing industry and therefore also creating greater competition on the entered market (Peng, 2009, Global Strategic Management, p. 176). At the same time, compared to acquisitions, entering through a greenfield is a more complex and time-consuming process, manifested in a slower entry speed (Peng, 2009, Global Strategic Management, p. 176).

2.1.2.2. Reasons for Greenfield Investments

A greenfield operation represents a good choice of market entry, when the size of the investing firm can sustain such costs and all its implications. As stated by Brouthers and Brouthers (2000, p. 90) – “the smaller the relative size of the investment the more likely a firm is to prefer a greenfield diversification mode”. As already stated, a greater size, a more important organization, and a more stable overall financial state allows a company to engage in more expensive international operations such as a greenfield investment. It is obvious that the strong structure a big company is built upon can also serve as a safety net if the worst case scenario becomes reality and the international initiative fails. For a relative small company such a failure would not be sustainable, while a more important company in terms of size could not only sustain, but also recover from it. The international experience of the expanding company plays also an important role in the entry mode choice – “firms with higher levels of multinational experience will tend to prefer greenfield diversification modes” (Brouthers and Brouthers, 2000, p. 91). Companies who have already an established position on the global market and have developed an organizational and operational routine in performing internationally, will choose a greenfield entry mode, because their over years gained experience smoothen their performance in the chosen environment. The product or services portfolio of the entering MNC and their strategy is also an important factor considered during the entry mode choice process – “less diversified firms will tend to prefer greenfield ventures” (Brouthers and Brouthers, 2000, p. 92). Companies which have an overall organizational strategy similar to that practiced on the market targeted for entry will opt for a greenfield investment, because the transaction costs in this case will be lower, like the adaptation costs, and also the costs for retraining the existing work force and transmitting the MNCs philosophy to the local management team might be very low or

even nonexistent in some exceptional cases. Remaining in the same area – “firms entering markets with related products will tend to prefer greenfield modes” (Brouthers and Brouthers, 2000, p. 92). It is easier and therefore more economic to transfer firm-specific assets (like knowledge and technology) when choosing a greenfield investment over an acquisition, because of the increased possibility to control these synergies.

The type of activity of the internationalizing company is also an important factor when considering the mode of entry – “the greater a firms’ technological intensity, the more likely it is to prefer a greenfield diversification mode” (Brouthers and Brouthers, 2000, p. 90). In this context the intangible assets of the entering firm play a very important role in the entry mode choice. Such companies try to protect their know-how from opportunistic behaviour which could lead to copycats and thus obviously diminishing their chances of gaining competitive advantage on the targeted market. From another point of view it is rather difficult and more costly for a company with an intensive technological activity to transfer their routines to an already existing structure with its own organizational strategy, rather than to build everything from the ground, through a new start-up as a greenfield investment.

When deciding to enter a foreign market, MNCs evaluate its attractiveness also based on the existing investment risks and its future development possibilities – “in high growth markets, greenfield ventures will be the preferred mode” (Brouthers and Brouthers, 2000, p. 91). A fast growing market allows for capacity growth through a greenfield investment and at the same time augments the opportunity costs for the absent companies. Another aspect which is not ignored when deciding upon the type of entry is cultural distance – “when cultural distance is small, greenfield ventures will be the preferred mode” and remaining in the same context “firms entering markets with high uncertainty avoiding cultures will tend to prefer greenfield modes” (Brouthers and Brouthers, 2000, p. 91 – 92). When the perceived cultural distance between the parent and the local firm is small, the entering MNC can easily transfer and implement its management philosophy through a greenfield investment. At the same time the perceived investment risk is lowered and the company embraces the opportunity of maximizing its firm-specific advantages. In high uncertainty avoidance cultures, managers are reluctant to accepting newness and therefore to handle differences in an efficient and effective manner, which leads only to an enlargement of the already existing cultural gap and a deterioration of the relationships, employees becoming even

less willing to accept change. Through a greenfield investment these situations can be if not completely removed, at least heavily reduced and such handlings degenerating in major cost inefficiencies avoided.

2.1.3. Acquisitions

2.1.3.1. Definition and Characteristics

Acquisitions are “purchase of stock in an already existing company in an amount sufficient to confer control” (Kogut and Singh, 1988, p. 421). According to Meyer and Estrin (2001, p. 576) – “the new affiliate joins the investing company as a going concern that normally possesses production facilities, sales force and market share”. The main difference to the greenfield investment, lies in the fact that through an acquisition the acquiring company uses primarily the assets of the local firm, combining them with their own resources (Meyer and Estrin, 2001, p. 576). An acquisition enables a quick entry in the targeted market and to the local resources. It offers also a better option for local firms who need restructuring, even though the initially acquired firm ceases to exist after the purchase per se is finalised. In addition to sharing all of the benefits of the greenfield wholly owned subsidiary (like complete equity and operational control, protection of know-how and the ability to coordinate globally), acquisitions have other two advantages: as already mentioned, the faster entry speed and also by entering through such a mode of diversification, no new capacity is added to the targeted market, which means that there is no adjacent competitive pressure created (Peng, 2009, Global Strategic Management, p. 175). According to Peng (2009, Global Strategic Management, p. 175), apart from the two disadvantages encountered also in the case of greenfield investments – possible high development costs and potential political problems and risks, concerning acquisitions the post-acquisitions integration problems must be additionally confronted and are not only time consuming, but also generating higher costs. The acquired company needs to learn new rules, procedures, conventions and organizational strategies (Levitt and March, 1988 – as cited in Barkema and Vermeulen, 1998, p. 9). At the same time, acquiring a firm in a country with a different culture, might lead to tensions and hostility and reluctance to implement the required changes (Barkema and Vermeulen, 1998, p. 9). All this implies much more financial support and effort from the parent firm for the local acquired one which therefore means higher adaptation costs for the multinational investing venture. This process is not simple also for the acquired firm, which needs to unlearn old routines or

even beliefs, behaviour patterns, culture and knowledge, before being able to learn the new routines imposed by the acquiring parent firm (Bettis and Prahalad, 1995; Hedberg, 1981; Prahalad and Bettis, 1986 – as cited in Barkema and Vermeulen, 1998, p. 9). According to Hofstede (1991 – as cited in Barkema and Vermeulen, 1998, p. 9) culture is “programming of the mind” and in some cases acquisitions might need to reprogram the minds of the local firm, but unlearning a culture is very difficult (therefore very costly) and unfortunately sometimes even impossible, leading to a higher probability that the acquisition will fail. When these situations occur a greenfield investment, a start-up, proves to have been a better option for the investing MNC.

In terms of strategy and management, compared to greenfields, acquisitions tend to operate more independently with lower levels of control exercised over them (Harzing, 2002, p. 222). According to Harzing (2002, p. 222), this is also reflected in the lower level of expatriate presence in acquisitions in general and the positions occupied in the acquired firm together with the lower importance of functions of expatriates reflecting the dependence on headquarters. Of course this depends on the level of interdependence required between the subsidiary and the parent firm, because if the interdependence is strong and complex then headquarters-level managerial capabilities are required and acquired ventures tend to consume more of such resources than greenfield investments (Tan, 2009, p. 1048). Acquisitions contribute with managerial resources on the subsidiary level and economize on the cost of setting up the venture, but as mentioned before they incur adjustment costs as the parent firm integrates them into the MNCs network (Tan, 2009, p. 1049). But if the interdependence between the headquarters and the subsidiary is weak, the acquired firm operates relatively autonomously (Slangen and Hennart, 2008 – as cited in Harzing, 2002, p. 215) and the MNC obtains immediately the necessary subsidiary-level managerial capabilities, which otherwise would need more time to acquire through a greenfield entry mode (Hennart and Park, 1993 - as cited in Harzing, 2002, p. 211).

Considering all these factors and characteristics, as shown by the table below, there are several types of acquisition available as an option for expanding MNCs, depending on the reasons and purpose of their venture and the capacity to deal with the incurring disadvantages and the limitations of such an initiative, these might choose between the following:

Table 1. Typology of acquisition strategies

Type	Description	Purpose	Drawbacks
Staged acquisition	Occurs in several stages with the foreign investor acquiring only an initial equity stake and gradually increasing it to 100%.	Staged acquisitions allow the continued involvement of previous owners when they are unwilling to sell outright or enhancing legitimacy with local consumers.	Shared control as a source of conflict; uncertainty over eventual full takeover.
Multiple acquisition	Entry by acquiring several independent businesses and subsequently integrating them.	Through multiple acquisitions global players can build a strong nationwide position in a traditionally fragmented market.	Simultaneous integration of multiple acquisitions is challenging.
Indirect acquisition	An acquisition outside the focal market of a company that also allows an affiliate in the same emerging economy.	The prime objective of the indirect acquisition may be outside the country. Rarely, the affiliate may be a strategic asset sought by the acquirer.	The local affiliate may or may not fit with existing local operations.
Brownfield acquisition	An acquisition in which the acquirer invests subsequently more resources, such that it almost resembles a Greenfield project.	Brownfield acquisitions provide access to crucial local assets under the control of local firms that are, in many other ways, uncompetitive.	Post-acquisition investments may exceed the price originally paid for the acquired firm.

Source: "Acquisition Strategies in European Emerging Economies", by Klaus E. Meyer and Saul Estrin, eds. Palgrave Macmillan, forthcoming, 2006.

Unlike greenfield investments, several entry strategies can be labelled as acquisitions, all of these presuppose acquiring 100% of the equity stake of the local company, the main goal behind such an initiative being to create a higher aggregated shareholder value than that of the two singular companies.

2.1.3.2. Reasons for Acquisitions

Acquiring another company represents a feasible option for the expanding MNC because it generates several positive synergy effects (according to www.wirtschaftslexikon24.net, accessed on 24.08.2012), like:

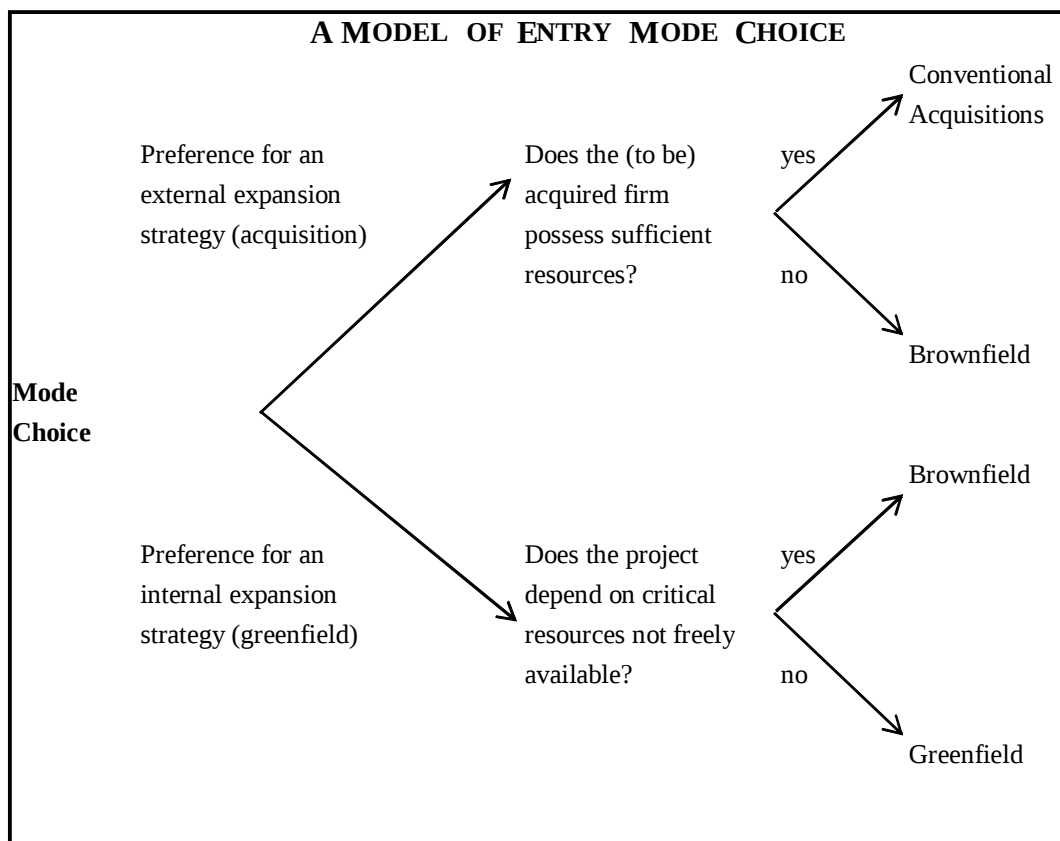
- Ø common usage of resources and capabilities
- Ø common usage of know-how and market knowledge
- Ø advantages through economies of scale and scope
- Ø advantages through vertical integration
- Ø possibility to target together other entries on new markets
- Ø advantages through risk diversification

An acquisition allows the company to acquire new technological resources, as substitutes for the internal development of technological skills (Prahalad and Hamel, 1990; Hitt, Hoskisson and Ireland, 1990 – as cited in Barkema and Vermeulen, 1998, p. 9). So the main reason for acquisitions emerges right from the terms definition – “acquisitions are a mechanism used to exchange capabilities that are otherwise not possible to efficiently redeploy” (Capron, Dussuage and Mitchell, 1998; Seth, 1990; Lubatkin, Schulze, Mainkar and Cotterill, 2001 – as cited in Anand and Delios, 2002, p. 120). Wilson (1980) also eloquently summarised the aim of an acquisition – “companies without significant foreign experience may find it necessary to buy existing firms for the purpose of acquiring the capability of dealing with the local environment” (as cited in Anand and Delios, 2002, p. 120). But nevertheless the most important motive for choosing an acquisition strategy is economies of scale and scope (Ghauri and Buckley, 2003, p. 211). Economies of scale are aimed to be achieved through merging of resources and capabilities of the two companies or creating economies of scope by acquiring a company and whilst obtaining product and/or market diversification. Other motives include also achieving a dominant position in the industry by acquiring the local firm and consolidation of the industry (Ghauri and Buckley, 2003, p. 212). Overall, the expanding MNC seeks to create additional value by pursuing this acquisition strategy.

Once the MNC opted for a wholly owned subsidiary, depending on its expanding strategy, the parent firm decides (as already mentioned) between an acquisition, a brownfield or a greenfield investment. The brownfield investment is, although a large

part of the local firms existing resources are being replaced, yet a form of an acquisition strategy, it “is a foreign acquisition undertaken as part of the establishment of a local operation. From the outset, its resources and capabilities are primarily provided by the investor, replacing most resources and capabilities of the acquired firm” (Meyer and Estrin, 2001, p. 576). Depending on the pursued goals and the existing capabilities, a possible model for a MNCs entry mode choice might follow the sequent pattern:

Figure 2. Model of Entry Mode Choice



Source: “Brownfield Entry in Emerging Markets”, by Klaus E. Meyer and Saul Estrin, *Journal of International Business Studies*, 2001.

Apart from these considerations, other decision criteria like availability of human capital, cultural distance or integration and adaptation costs contribute to this decision making process. If the MNC possesses the necessary physical resources and capabilities, the knowledge based and the complementary resources for assuring the success of the foreign venture, then a greenfield investment is chosen. This is also applicable if the human capital needed for completing such an initiative is available or from a cultural point of view, if the cultural distance between the country of the entering company and that of the local one is high. As mentioned, the integration and the adaptation costs, like for example also the relocation costs, are in addition an important

factor to consider – when these are rather high, a greenfield is the best choice, otherwise (in case of low integration and adaptation costs) opting for an acquisition entry mode is more advisable. When the possessed resources are insufficient or they are not freely available, when the necessary human capital is lacking, or when the national and the organisational cultures of the two companies are rather similar (low cultural distance), than a MNC choice for an acquisition entry mode is highly probable.

Considering all the discussed theoretical aspects, a more detailed insight into the factors affecting the choice between greenfield investments and acquisitions will be presented further on starting from the resource-based view, continuing with the institutional theory and concluding with a rather new theory introduced by Slangen (2011) – the communication-based theory.

2.2 Resource-Based View

As a brief introduction, resources are: “the tangible and intangible assets firms use to conceive of and implement their strategies” (Barney and Arikan, 2001, p. 138). The resource-based view sustains that a company can gain competitive advantage over its competitors by using this owned tangible and intangible assets and capabilities (Barney, 1986; Barney, 1991; Collis, 1991; Dierickx, Cool & Barney, 1989; Grant, 1991; Grant, 1996; Hamel & Prahalad, 1993a, 1993b; Penrose, 1959; Prahalad & Hamel, 1990; Wernerfelt, 1984 – as cited in Cheng, 2006, p. 204). The theory focuses on the **Value Rarity Imitability Organization** framework concentrated on these four aspects of resources and capabilities having an impact on a firm gaining competitive advantage (Barney, 2002 – as cited in Peng, 2009, Global Strategic Management, p. 71). In terms of value, for creating competitive advantage, resources and capabilities need to be value-adding. At the same time companies need to admit and remove resources which are non-value-adding or became like that over time, for not damaging their performance, whilst developing new value-adding ones. But possessing valuable resources and capabilities is not sufficient, these also need to be rare, because valuable but common resources lead to competitive parity and not advantage (Peng, 2009, Global Strategic Management, p. 72). But even if the owned resources have both this qualities, they are valuable and rare, it is still not enough if the competition can easily imitate them. Although this allows firms to profit temporally from the obtained competitive

advantage, this is not going to be sustainable. On the other hand, valuable, rare and hard-to-imitate resources and capabilities may potentially lead to sustainable competitive advantage (Peng, 2009, *Global Strategic Management*, p. 74). If not properly organized, even all these valuable, rare and hard-to-imitate resources, might not allow the company to obtain a sustained competitive advantage. The essential point is creating an organization with a mission, structure and strategy that sustains the development of its resources and capabilities at their full potential (Peng, 2009, *Global Strategic Management*, p. 74).

The resource-based view approach, concisely put, leads to the fact that a company will choose to “perform its production and/or marketing activities at a location where it enjoys the competitive advantage in these activities” (Sharma and Erramilli, 2004, p. 9). This implies that the multinational company needs to be able to successfully transfer its competitive advantage creating resources and capabilities to the host country. At the same time the transferred firm-specific resources need to be compatible with the relevant host country factors, for permitting their efficient and/ or effective absorption (Sharma and Erramilli, 2004, p. 10). Considering these two main factors, the expanding company can make a decision regarding its optimal type of entry in each of the occurring situations. Given certain circumstances, “the higher the likelihood of a firm’s establishment of competitive advantage in both the production and marketing operations in a host country but the ability to transfer those advantage generating resources to the local partners is lower, the greater is its probability of choosing the wholly owned subsidiary mode for that country” (Sharma and Erramilli, 2004, p. 14). Therefore if the entering company owns not easily transferable resources it will probably opt for establishing a wholly owned subsidiary in the host country and as a next step will need to additionally choose between a greenfield investment and an acquisition. For obvious reasons, the first impulse would lead to choosing a greenfield venture, but if the host country environment is rather hostile and the success of the new subsidiary depends on previous established local networks, then an acquisition mode is preferred. Furthermore, according to Brouthers and Hennart (2007, p. 404) “firms’ organizational abilities related to the resources could be used as an advantage in the international markets”. On the other hand, companies may decide to enter foreign markets in order to gain resources. Companies from developing markets are mostly interested in sharing financial resources, technical capabilities and knowledge of their partners, while companies from developed markets focus on gaining access to the targeted market,

obtaining market knowledge from more than one partner (Hitt et. al., 2000, p. 461-463). While developed market companies seek partners who can ease them the entrance on the local market, partners with experience and already strong networks, the developing market companies mostly search for partners from whom they can learn strategy, management, organizational skills and gain technical knowledge (Keskin et. al., 2010, p. 405). While the MNCs value the access to local markets, indigenous firms prefer not only the partners' technical capabilities, but mostly its financial assets - for e.g. in countries like China, Mexico, Poland and Romania (Hitt et al., 2000; Shenkar and Li, 1999 – as cited in Peng, 2001, p. 816). In countries like those mentioned above, where the formal institutional constraints (e.g. laws and regulations) are still weak, the informal institutional constraints (e.g. interpersonal ties) play a far more important role in “facilitating economic exchange and hence assert a more significant impact on firm performance” (Peng and Heath, 1996 – as cited in Peng, 2001, p. 818). In this sense, the resource-based view suggests that such social assets embedded in these interpersonal ties, in these networks can be considered an intangible resource, very difficult to replicate, thus giving local firms possessing such capabilities a significant advantage (Peng and Luo, 2000; Mitchell et al., 2000 – as cited in Peng, 2001, p. 818). Also, according to Meyer et al. (2009, p. 62) companies entering developing economies with a weak institutional framework prefer a cooperation venture, because such strategy enables them quick access to important resources. But when the institutional framework is stronger and the market activity is higher, acquisitions are preferred. This is also the case when there are no local partners available for the entering companies, which need to obtain access to resources in this new market (Anand and Delios, 1997, p. 582). A MNC with high technological capabilities will choose a greenfield investment as an entry mode. A greenfield permits easier entrance for parent firms with higher technological competences, because knowledge transfer proves to be less difficult in this case. Another important factor to consider is the size of the investing firm, which as stated by Ekeledo and Sivakumar (2004, p. 78) is considered an important antecedent for gaining competitive advantage. Also big companies are capable to eliminate risks and costs related to such a greenfield investment and are more prepared to handle unforeseen unbalancing situations (Chang and Rosenzweig, 2001, p. 756). At the same time it has been argued that the larger the investing MNC, the greater its acquisition competence, therefore more chances for a successful new market entry (Larimo, 2003, p. 801).

2.3 Institutional Theory

The institutional theory became at the beginning of the 80's an important issue within the social sciences (Meyer and Peng, 2005, p. 610). Institutions can be defined as the “rules of the game in a society” (North, 1990 - as cited in Peng, Wang and Jiang 2008, p. 2), including the formal regulations like laws and the informal ones like norms, customs and cultures (Meyer and Peng, 2005, p. 610). Living in a society implies that all these institutional constraints need to be accepted and respected. Moving slightly away from the social perspective and focusing more on the economic aspect, the “institutional framework is the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution” (Davis and North, 1971 – as cited in Peng 2002, p. 252). This is valid for all companies undertaking their daily activities, striving to achieve their goals and objectives, whilst respecting all these formal and informal regulations. The formal regulations refer to political rules, judicial decisions and economic contracts and the informal ones, comprise the „socially sanctioned norms of behaviour, which are embedded in culture and ideology“(Scott, 1995 – as cited in Peng 2002, p. 252). According to Slangen and Hennart (2008) companies conform to these institutional constraints in order to gain credibility and to increase their chances for a successful and long lasting activity.

The application of the institutional theory to MNCs was developed first by Rosenzweig and Singh (1991) (as cited in Slangen and Hennart 2008, p. 7). All MNCs have several subsidiaries, which operate locally in different institutional environments. These subsidiaries need to conform on one hand to the external institutional constraints like local regulations, laws and behavioural rules, business practices and consumer preferences, and on the other hand to the internal ones imposed by the MNE parent (Slangen and Hennart, 2008, p. 8-9). This implies that all these initiatives of the investing MNC generate costs, which are called integration costs, regarding the adaptation costs of the foreign subsidiary to the requests and conditions of the parent MNC, and the costs sustained by the subsidiary for the adaptation to the local (host-country) environment are called liability to newness (Slangen and Hennart, 2008, p. 5). Considering greenfields, these investments are more prone to suffer due to the liability of newness, the costs of adaptation to the local business environment and its requirements being higher than in the case of acquisitions. Their required input level is also much higher and at the same time, they “lack relationships with the local

stakeholders” (Slangen and Hennart, 2008, p. 12). Regarding acquisitions, they tend not be affected by a liability of newness, because they continue to perform based on the already established relationships and settled networks (built over time by the acquired company). On the other hand, in terms of integration costs – acquisitions are costlier to integrate by the parent MNC, respect to greenfields, for which this aspect is not an issue. These costs affect the performance of the companies, mainly during the first years after their establishment, but the negative effects of both liability to newness (greenfields) and integration costs (acquisitions) usually diminish quickly afterwards (Buono and Bowditch 1989, Jemison and Sitkin 1986, Zaheer and Mosakowski 1997 – as cited in Slangen and Hennart 2008, p. 5).

Apart from these aspects, the strength of the institutional framework in the host country has also an important impact on the costs of doing business incurred by the entering MNC. The institutional development in different emerging economies and not only, directly affects the entry strategies considered by the foreign investor. Therefore, in an undeveloped, weak institutional environment, entering through acquisitions (instead of greenfield investment), which provide and/or ease access to the local networks could help lower this relative costs. Similarly, an improved institutional framework, with reduced restrictions on FDI and fewer formalities and requirements, may reduce the need of relying on the relationships of a local partner (Oxley 1998 and Meyer 2001 – as cited in Meyer, Estrin, Bhaumik and Peng 2009, p. 68) and thus favour greenfield entries. At the same time, the stability/instability of the institutional framework in the host country has an impact on the foreign investors’ perceived risk of entering this market through greenfield or acquisition. When the perceived host country investment risk is high, the foreign investor will tend towards choosing a greenfield market entry over an acquisition mode (Demirbag, Tatoglu and Glaister, 2008, p. 12). Meyer and Nguyen (2005, p. 76) sustain that “efficiency of institutions in supporting markets for critical resources encourages FDI in the form of greenfields”. Also, incentives granted by governments for greenfield investments (mainly the case of emerging economies, often present in East European countries) tend to create an advantage for this type of market entry compared to acquisitions, nevertheless depending still on the importance this aspect has during the decision making process of the MNC on whether choosing one mode or the other. Based on the taxation policy favouring greenfield investments practiced by several governments (for e.g. Hungarian, Romanian, the Czech Republic’s), many investors are prone to choose such an entry mode, if the advantages

offered by such an incentive are considered to be high enough (Demirbag, Tatoglu and Glaister, 2008, p. 14).

The investors' decision regarding the choice of a specific entry mode (greenfield vs. acquisition) is also based on the institutional context of the host country, which facilitates (or inhibits) access to the local resources. Related to its need for these resources, when the MNC seeks access to the local assets, an acquisition entry mode may be preferred over a greenfield investment. When the perceived input quality of the country of entry is higher, then the MNC entrant will also choose an acquisition over a greenfield entry (Demirbag, Tatoglu and Glaister, 2008, p. 14). But when, for example the MNC intends to transfer a labour-intensive business activity to a low-wage location, a greenfield investment choice prevails over an acquisition one (Antaloczy and Sass, 2001, p. 43). Of course that the low labour cost is not the only factor considered by the expanding MNC and not the only input that the host country can supply. According to Demirbag, Tatoglu and Glaister (2008, p. 15) "an existing marketing network and knowledge based resources, quality of the labour force, and complementary resources are also important factors in greenfield – acquisition decisions". Other case relevant aspects regarding the need of and access to the host country's resources were already discussed in more detail, when focusing on the resource – based theory in international business, therefore now it will be passed on to presenting some relatively new issues introduced by Slangen (2011) through the communication-based theory.

2.4 Communication-Based Theory

As previously stated, once a MNE decided to expand outside of the national boundaries, it has to make a choice regarding the market entry mode, and when considering an equity mode of investment subsequently implies choosing between establishing it through for example (in this case) greenfield or through acquisition. Also other factors like location within the country, the existing logistics system, the human resource capabilities as well as the most suitable marketing strategy to implement need to be taken into consideration. The prospective of having a subsidiary abroad is mainly sustained by the eventual gains obtained from the mutual knowledge transfer. Obviously such transfer between the expanding MNE and the established subsidiary involves communication and this aspect represents the core of recent research

developments like the “communication-based theory of the choice between greenfield and acquisition entry” introduced by Slangen (2011).

Communication is “a transmission process in which a message travels across space (a channel) from one point to another” (Krone et al., 1987, p. 21 – as cited in Slangen 2011, p. 1701). The message is mostly verbal, spoken or written, being transmitted from the sender to the receiver, in this case from the parent MNE to the subsidiary and vice versa. These messages can take an oral form like face-to-face discussions, telephone, video conferences or a written form like letters, faxes, e-mails (Nobel and Birkinshaw, 1998 – as cited in Slangen 2011, p. 1701).

Considering this, the theory mentioned above sustains that verbal communication is an important factor in choosing between a greenfield investment and an acquisition. Therefore the essential question to be answered is whether the existing verbal communication barriers have an impact on the MNCs choice of establishing a subsidiary through greenfield or acquisition (Slangen, 2011, p.1699). In this sense, assuming that parent firms engage with their subsidiaries in verbal communication, the international management literature highlights four reasons for it:

1. Exchange of technological or market knowledge (Gupta and Govindarajan, 1991 – as cited in Slangen 2011, p. 1701) – know-how exchange is very important, allowing partners to learn from each other, thus contributing to obtaining competitive advantage (Gupta and Govindarajan, 2000 – as cited in Slangen 2011, p. 1701)
2. Coordination of MNE activities with those of the subsidiaries (Bartlett and Goshal, 1989; Porter, 1986 – as cited in Slangen 2011, p. 1701) – the way in which the operational activities are undertaken in both the parent firm and the subsidiary, the adaptation of the subsidiary to the parent firms directives leading to an unitary administration process, which enables achieving “synergies in the form of economies of scale or scope” (Bartlett and Goshal, 1989; Porter, 1986 – as cited in Slangen 2011, p. 1701)
3. Subsidiaries monitoring: behavioural and output – the parent firm is monitoring how well the tasks given to the subsidiary are fulfilled either by monitoring their employees’ behaviour or by evaluating their obtained results. Behavioural monitoring is enabled by periodic visits of the subsidiaries by the parents’ firm

managers and information exchange with the subsidiary managers or through nominating expatriate managers from the headquarters with on-site supervision. The output monitoring (March and Simon, 1958; Ouchi, 1978 – as cited in Slangen 2011, p. 1702) consists in comparing the profits, sales, market share, etc. obtained by the subsidiary during a certain period of time to the pre-set targets (Slangen, 2011, p. 1702).

4. Socializing the subsidiaries workforce – trying to overcome cultural barriers by creating a global corporate culture accepted by all employees, which eventually leads to lowering the costs of parent-subsidiary communication (Slangen, 2011, p. 1702).

Obviously this parent-subsidiary communication process generates costs, which tend to “increase with the height of the communication barriers existing between them” (Slangen, 2011, p. 1702). These barriers can be geographic, referring to physical distance between the two locations or linguistic, concerning the native and foreign language differences. The native language barriers occur when the two languages are very different from each other or when the employees from the two countries do not master each other’s native language, even if these are related. On the other hand the foreign language barriers arise if the subsidiaries employees do not master the corporate language, most often English, which leads to even higher communication difficulties.

Furthermore, Slangen (2011, p. 1703) sustains that communication costs will increase faster for acquired companies compared to greenfield ones. Therefore, a greenfield market entry mode is considered to be the better choice for saving on the communication costs between the parent firm and the subsidiary. The main argument is that the cost increase is more dramatic in the case of acquisitions because they require more extensive parent-subsidiary communication than greenfields. That is why it was hypothesized that the “verbal communication barriers would have a positive effect on the likelihood that MNEs enter a host location through greenfields rather than through acquisitions” (Slangen, 2011, p. 1704). Considering this positive effect of the verbal communication barriers it is expected that its impact depends on the organizational structure chosen for the subsidiary. These barriers would have a greater impact on subsidiaries with a lower level of autonomy and their effect would be less positive on the likelihood of a greenfield mode of entry if it is planned that the future subsidiary has more autonomy. In this sense, the cases when the subsidiary is wholly owned and when

it is a joint venture, are considered. A positive relationship between the geographic and the native language communication barriers and the likelihood of greenfield market entry could be proven, although the results concerning the foreign language communication barrier were not significantly related to the same likelihood (Slangen, 2011, p. 1719). The hypothesis stating that the positive relationship between the choice of a greenfield entry mode and the existing verbal communication barriers would be higher for subsidiaries with lower planned autonomy levels, was supported by the obtained results for all three considered verbal communication barriers: geographic distance, linguistic – native and foreign language. The third tested hypothesis stating that – “the positive relationship between verbal communication barriers and the likelihood of greenfield entry would be weaker for joint ventures than for wholly owned subsidiaries” (Slangen, 2011, p. 1720) – was supported only for the physical distance (the geographic distance communication barrier). Another interesting aspect revealed, is that the verbal communication barriers play a more important role in the entry mode choice than hidden cultural ones. A reason for this could be the fact that MNCs decision makers, when confronted and having to choose between several modes of entry for a certain foreign market, are overwhelmed by the multitude of factors they have to consider and which might have an effect on the future success of the prospective subsidiary. This might lead to the fact that their decisions are based on more salient factors like geographic and linguistic distance, rather than on in depth research into additional possible existing cultural barriers (Barkema and Schijven, 2008 – as cited in Slangen 2011, p. 1720). An ulterior interesting finding is that formal institutional distance is also positively related to the likelihood of greenfield entry (Slangen, 2011, p. 1720). This is similar to Estrin et al. (2009) statement, which underlines that: “formal institutional distance is positively related to the likelihood that MNEs enter emerging economies through wholly owned greenfields rather than through cooperative modes (i.e. full and partial acquisitions and joint ventures)” - as cited in Slangen, 2011, p. 1720).

Although aware of the limitations of this communication-based theory, like for example considering only parent-subsidiary communication and not examining the performances of the establishment mode choices made by the chosen MNCs (Slangen, 2011, p. 1721-1722), it will still be considered in the development of the propositions and the analysis of the case studies. It might also set a good foundation for future international management research.

2.5 Foreign Direct Investments in Romania

In the following section the current situation of foreign direct investment, especially greenfield and acquisition in Romania, will be presented. To fulfil this purpose information provided mainly by the Romanian Centre for Trade and Investment was used. Important data in this sense was also provided by the Romanian National Trade Register Office and by the statistical database of the Romanian National Bank.

Foreign Direct Investments in Romania are studied, discussed and presented for obvious reasons starting with the 1990's. But, due to the economic reform, mainly the privatization of the state sector, the amount of FDI between 1990 and 1998 was very low. During this period the country experienced almost a decade of instability and even decline, due in part to the out-dated industrial heritage and the lack of a real economic and structural reform. Beginning with the late '90s the economy stabilised, registering high growth rates, low unemployment and declining inflation. All this positively influenced the investments attraction, after 1998 the stock of FDI and the stock of FDI/GDP having an ascending evolution, although the most dramatic increase was registered after Romania's adhesion to the European Union in 2007. About 80% of the total FDI stock came and still comes from the EU and around 50% from just three countries: Austria, the Netherlands and Germany (Pauwels and Ionita, 2008, p. 1).

2.5.1. Foreign Direct Investments – a 10 year perspective

Being the second largest East and Central European market (after Poland), Romania benefited after the 2000s from record FDI inflows (Badescu, 2007, p. 1). This played an important role in the privatisation process, consequently promoting and sustaining the market economy and the competition in this country. Foreign investors were primordially attracted by the market size (a population of over 22 million persons), its potential development and the cost of resources especially the low labour costs.

Regarding the FDI inflows in this country mainly a 10 year period, from 2001 to 2010, will be considered to better exemplify its evolution in the years before and after becoming an EU member state in 2007. Relevant information in this sense, as previously mentioned, is provided by the statistical database of the Romanian National Bank. Additionally, also the available data from 2011 and 2012 provided by the Romanian National Trade Register Office will be shortly presented.

Over the last twenty years about 180.000 foreign companies invested in Romania an amount of almost 32, 5 billion Euro (Table 2).

Table 2. Number of Foreign Direct Investments in Romania and Amount of Subscribed Capital

Year	Number of Companies		Amount of subscribed capital	
	No.	%	thousand EURO	%
1991	5.499	3,07%	817.975,6	2,52%
1992	11.765	6,56%	443.106,2	1,36%
1993	10.583	5,90%	322.970,3	0,99%
1994	11.053	6,16%	681.483,5	2,10%
1995	3.400	1,90%	183.741,8	0,57%
1996	3.630	2,02%	443.355,8	1,37%
1997	5.251	2,93%	278.192,2	0,86%
1998	8.801	4,91%	583.939,6	1,80%
1999	7.383	4,12%	729.940,9	2,25%
2000	8.567	4,78%	648.610,6	2,00%
2001	7.175	4,00%	1.190.959,4	3,67%
2002	7.518	4,19%	833.809,6	2,57%
2003	6.609	3,68%	996.235,1	3,07%
2004	10.167	5,67%	2.343.732,9	7,22%
2005	11.719	6,53%	2.434.525,4	7,50%
2006	12.823	7,15%	2.417.237,0	7,44%
2007	15.720	8,76%	2.389.392,2	7,36%
2008	12.264	6,84%	3.984.432,8	12,27%
2009	6.801	3,79%	3.512.610,5	10,81%
2010	6.302	3,51%	3.914.440,6	12,05%
2011	6.377	3,55%	3.329.432,4	10,25%
Total	179.407	100,00%	32.480.124,4	100,00%

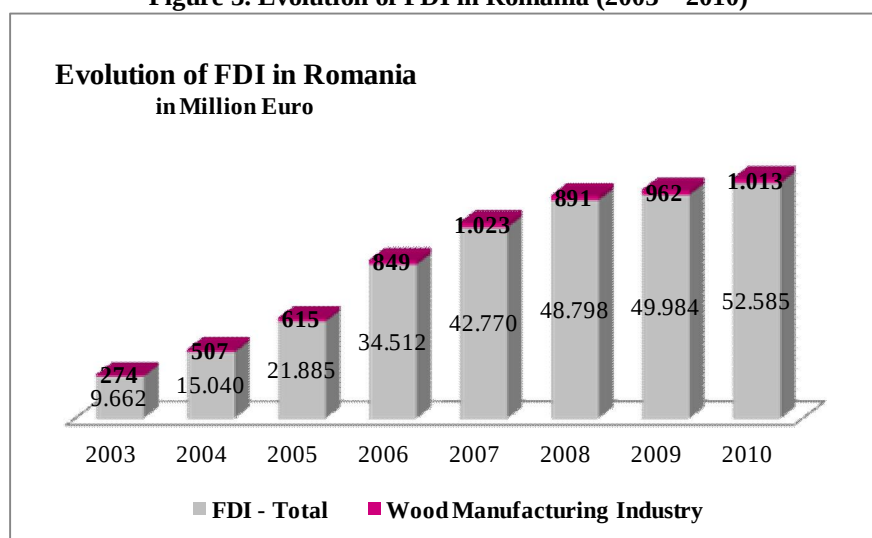
Source: Companies by FDI, 30 April 2012, Romanian National Trade Register

The economic instability perceived during the beginning of the 90's had also a negative impact on the MNC's interest to invest in Romania. This obstacle seemed to be overcome beginning with 2004, when not only the number of investors grew significantly, but also the amount of subscribed foreign capital surpassed the 2 billion Euros level. The record number of companies regarding this aspect was reached 2007 as expected with 15.720 foreign entrepreneurs investing in Romania. The record amount of subscribed capital with almost 4 billion Euros invested was registered in 2008 and although the number of companies decreased circa by 50%, the volume of invested capital remained almost constant during the last three years (2009 – 2011), fluctuating between 3,3 and 3,9 billion Euros.

After taking a closer look at the figures, it can be stated that the FDI in Romania increased over 5 times from 9.662 Million Euros in 2003 to 52.585 Million Euros in

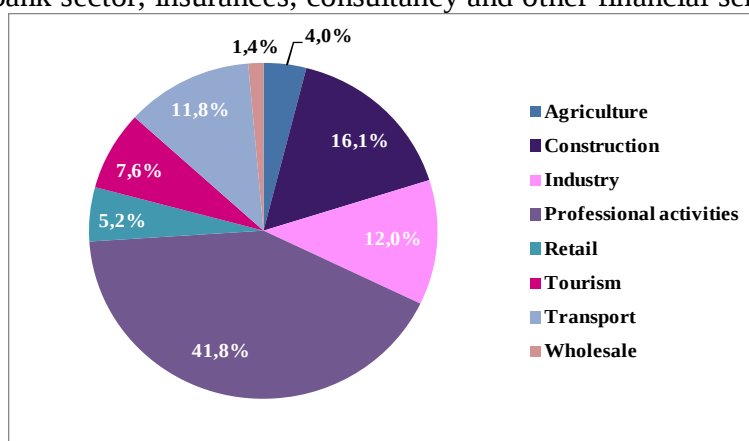
2010 and from 2006 to 2007 an increase of almost 25% was registered, as shown also in the figure below:

Figure 3. Evolution of FDI in Romania (2003 – 2010)



Source: FDI in Romania 2003 - 2010, Romanian National Bank

As previously mentioned this important increase in FDI inflows after 2007 was primordially due to the stabilisation of the overall economic situation of the country, but also to the EU adhesion. This could be observed also in the wood manufacturing industry, although this increase over the last couple of years was not dramatic (from 891 to 962 Million Euros) compared with other sectors. Between 1991 and 2011 (Figure 4) about 12% was invested in the industrial sector including the wood manufacturing industry, the majority with 41,8% being directed towards the professional activities (e.g. bank sector, insurances, consultancy and other financial services) and with 16,1% being



invested in real estate development.

Figure 4. Evolution of FDI in Romania by sectors (1991 – 2011)

Source: Companies by FDI, 30 April 2012, Romanian National Trade Register

By region, the largest amounts of FDI in Romania come from Europe and by country from the Netherlands with over 20% and 10, 903 billion Euros, as shown in the following table.

Table 3. Origin of Foreign Direct Investments in Romania

*Million Euro

The Netherlands	10.903	20,70%
Austria	9.346	17,80%
Germany	6.398	12,20%
France	4.384	8,30%
Greece	3.016	5,70%
Italy	2.808	5,30%
Cyprus	2.550	4,90%
Switzerland	2.021	3,80%
USA	1.349	2,60%
Spain	1.064	2,00%
Total	52.585	100,00%

Source: FDI in Romania in 2010, Romanian National Bank

Although Romania has attracted an important amount of foreign capital in the last year, this process is still evolving at a slower pace than expected. That is why measures for stimulating this phenomena in terms as for e.g. the reduction of the level of corruption, need to be taken.

2.5.2. Greenfields and Acquisitions in Romania

As previously stated, during the transition years 1990 – 2000, Romania attracted small amounts of FDI, mostly because of the slow privatisation process. During this period most of FDI was greenfield, only around 30% being acquisitions (Marinescu and Constantin, 2008). Over the next years, the amount of greenfield investments compared to acquisitions continued to drop, trend which was maintained throughout the following decade. The balance started to change starting with 2006, with almost half of the total FDI stock at the end of 2006 being distributed towards greenfields with 16.725 million Euros (48,5%). In contrast, acquisitions in amount of 17.787 million Euros (51,5%) were finalised. By sectors, as shown in the table below, the highest volume of greenfields as opposed to acquisitions can be found in trade (90,70%), followed by wood manufacturing, including furniture (61,48%), food and beverages (59,10%) and telecommunication (58,40%). All these sectors were severely underdeveloped in the communist period, mainly due to the prevalence of state-owned properties and companies and also a complete lack of a market economy. In terms of acquisitions, these prevail in the mining, metals, cement and transport equipment industry, as highlighted by the following table.

Table 4. Distribution of FDI stock on greenfields and acquisitions (million euro)

Selected sectors	Greenfield	%	Acquisition	%
Industry	4.912	32,40%	10.243	67,60%
- Mining	156	7,40%	1.949	92,60%
- Metals	243	8,50%	2.605	91,50%
- Food & Beverages	1.127	59,10%	781	40,90%
- Oil processing, chemicals, plastics	504	32,70%	1.037	67,30%
- Transport equipment	568	40,40%	838	59,60%
- Wood manufacturing, incl. furniture	522	61,48%	327	38,52%
- Cement, glassware, ceramics	225	20,90%	849	79,10%
Trade	3.819	90,70%	390	9,30%
Services	7.994	52,80%	7.154	47,20%
- Finance and insurance	2.929	38,10%	4.749	61,90%
- Post and telecommunication	1.653	58,40%	1.178	41,60%
Total	16.725	48,50%	17.787	51,50%

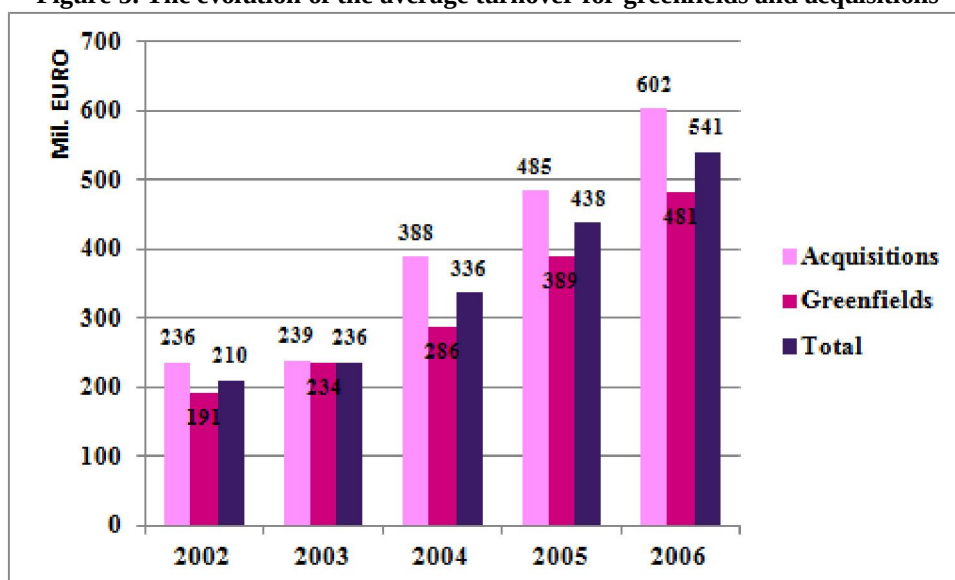
Source: FDI in Romania in 2006, Romanian National Bank

By country of origin, the Netherlands has the highest share in greenfield FDI stock in Romania, followed by Germany and Austria. This remains valid throughout the entire considered period (2003 – 2010). Considering the top 10 investing economies in Romania, the highest percentages of greenfields in the total FDI stock are registered by the USA (73,4%), the Netherlands (70,7%), Germany (68,9%), Cyprus (62,7%) and Italy (59,3%). Austria, France, Switzerland and Greece undertook mainly acquisitions (Marinescu and Constantin, 2008, p. 11). Countries like Germany, the Netherlands, Austria and Italy are interchanging positions, but always present in the top ten, if not top five investors in Romania.

Regionally, more than 50% of FDI were directed towards Bucharest. Except the capital city, the regions that attracted higher amounts of FDI were the West (68,3% of regional FDI) and Centre region (62,6% of regional FDI) of the country for greenfields and the South – Eastern region for acquisitions, amounting to 85,5% of all regional FDI (Marinescu and Constantin, 2008, p. 11).

Considering the top 100 companies in Romania, ranked by turnover, data supplied by Finmedia (2007), a constant increase in the average turnover of both forms of investment could be observed (Figure 5).

Figure 5. The evolution of the average turnover for greenfields and acquisitions



Source: based on data from the Top 100 largest companies in Romania (2002 – 2006)

The turnover figures of both forms of FDI followed an ascendant trend during 2002 and 2006. Observing the amounts in Figure 4, it can be stated that the turnover increased on average by around 100 million Euro per year. Regarding the 2002 and 2003 figures, the average turnover for both FDI types is similar, but starting with 2004 acquisitions have registered a significant higher increase compared with greenfields in terms of turnover. 2004 has been an important year for several privatisation deals, enabling important acquisitions to be undertaken. One of these, very mediatised, was that of the Austrian company OMV, which overtook the Romanian national oil company Petrom. Petrom, the largest Romanian company by turnover, was acquired in 2004 by its Austrian competitor, concluding this way its privatisation process and putting an end to the previous years of inefficiency. After the privatisation, OMV Petrom maintained its leading position in the top largest Romanian companies by turnover, becoming nowadays one of leading companies in the integrated oil & gas sector in South-Eastern Europe. Considering its importance for the Romanian industry this acquisition case will be discussed in more detail in the following section.

The amount of foreign capital invested in Romania continued to increase after 2004 and subsequently the performed acquisitions, considering the obtained turnover during this period, proved to be more efficient than the greenfield investments. Although the fact that the positive evolution of FDI continued over the following years the proportion in greenfields and acquisitions changed, culminating with the fact that in 2010, the level of greenfield investments was very low, with 46 million Euros representing only 1,1% of

the total amount of FDI. The situation was the same also for acquisitions with a total of 93 million Euros invested (2,3% of FDI). The difference of over 96% with 3.928 million Euros was represented by investments in the development of already existing companies.

Since 2004 the Romanian Centre for Trade and Investment sustained the development of almost 40 projects with foreign capital in Romania. Almost half of these were in the automotive industry, companies like Renault, Pirelli or Michelin deciding to invest in this country. The overall investment value of these projects is of almost 3 billion Euros and an expected number of 19.914 new jobs should be created. By origin, the majority comes from the USA with 8 implemented projects, followed by France, Germany and Austria. Two of the Austrian investors, Egger (greenfield investment in Suceava) and Holzindustrie Schweighofer (two greenfield projects – one in Sebes-Alba and the second one in Suceava), both developing their activity in the wood processing and manufacturing industry, will be further on discussed in more detail, as part of the case studies section.

2.5.3. The case of OMV Austria and the Romanian Petrom

In 2004, as part of the privatisation process, the Austrian company OMV decides to acquire the Romanian state oil company Petrom. With more than 50.000 employees, an outdated technology and in very bad condition, Petrom was a deeply inefficient company. Although having over 600 filling stations in Romania and 200 across Republic of Moldavia, Bulgaria and Serbia, its activity still did not generate profit. It was seen as a “problem child” of the Romanian economy, but the state could not afford to perform the necessary restructuring mainly due to the huge social impact in terms of unemployment that such an initiative would have caused. As this situation was no longer sustainable, the solution came from OMV Austria, which offered 669 million Euro for acquiring 33,34 % of the company’s shares. An additional 830 million Euro was proposed as an increase in the subscribed capital, which meant for the Austrian company obtaining the ownership of 51% of Petrom company shares. Although the terms of this acquisition are still nowadays a vivid debate theme, at that moment it was regarded as the only available option for the Romanian state in order to save this over dimensional and heavily inefficient company.

With the conclusion of the acquisition transaction the Austrian company inherited unfortunately also all of Petrom deficiencies, like the complete lack of a strategy or the faulty and inefficient organisation of the entire company. Also the overall state of the existing technology and equipment rose important problems. OMV started its restructuring program on site with an exclusively Austrian managing team together with circa other 70 of their colleagues. During the primary evaluation of the company a more detailed insight of all its structures and dynamics was gained. The condition of the existing equipment was very poor, the infrastructure system very old, all the machinery used in the production process was in very bad shape and so first initiatives were taken towards improving these aspects. In a next step a complete informatics system was built from scratch, introducing a SAP system, presently used by more than 11.000 employees. Starting with 2008 OMV Petrom has therefore an efficient IT and finance department. The employee number was reduced until 2006 to 36.197 (from ca. 50.000 in 2004) and the restructuring program continued. By the end of 2011 the company employed about 20.000 persons (0,5% of Romania's employment), being the largest private employer of the country. Major changes were necessary also in the organization of the company, mainly regarding the decision making process, which was previously guided by one general manager and seven operational ones. To speed things up, making work more efficient, this system was decentralized, responsibilities being delegated to a 50 managers' team, all being able to decide and take actions regarding the company's daily activity. The lack of an overall strategy, with main goals and objectives, was also one of the major issues, on which the Austrians started to work on right after the finalising of the acquisition. The activity was then and still is concentrated on three main segments, with precise objectives for each of them:

- Exploration & Production (focusing to stabilize production volumes and unlock potential, reaching an average oil & gas production of ca. 12.000 boe/day),
- Gas & Power (developing a power generation portfolio, focused on equity gas)
- Refining and Marketing (continuous optimization of refining operations, whilst maintaining a strong market position with a two-brand strategy in marketing)

After this profound restructuring and modernization process, OMV Petrom aims to become the key player in the regional energy market, proving to have been a 'life-saving jacket' strategy for the state-owned 'drowning' Petrom and thus a really successful acquisition (OMV Petrom, Company Strategy, May 2010).

3 Section Two

3.1 Theoretical Framework

As previously stated, current literature on market entry decisions reveals the institutional theory to be very important for trying to answer many of the questions concerning the investor's option towards preferring a greenfield venture instead of an acquisition or vice versa. This especially applies when deciding to enter an Eastern European country, so that is one reason why the chosen propositions will focus mainly on institutional theory based issues. In addition to that, matters of resource dependence and concerning the lately emerged communication-based theory will be dealt with.

Not only thanks to the published literature, but more important sustained by the daily business realities, experience is considered to be the primordial source of learning in organizations (Penrose, 1959 – as cited in Dikova and van Witteloostuijn, 2005, p.6). Considering the previous experience and always trying to reduce the level of uncertainty, a multinational company, entering a new market will most probably proceed with its own already proven successful strategies and structures, or for those of the competition (Tallmann, 1992 - as cited in Dikova and van Witteloostuijn, 2005, p.6). Based on this judgement, a MNC with a previous positive experience with a certain diversification mode will undertake the same type of investment in the case of a new venture. This means, for example that the greater the MNCs' prior greenfield experience, the higher the likelihood of choosing a subsequent greenfield investment. At the same time, according to Harzing (2000 & 2002 - as cited in Dikova and van Witteloostuijn, 2005, p.8) global companies tend to choose a greenfield venture for facilitating the transfer of core competencies from the parent to the host country firm. For preserving the parent's corporate culture, they also implement a strategy based on exercising strict control over the subsidiary (Dikova and van Witteloostuijn, 2005, p.9). The created subsidiaries are in the end, to a certain extent, copies of the parent company, which by standardization of production and marketing activities achieve economies of scale and might therefore overcome possible obstacles in the entered foreign market. Thus the following proposition deriving from this:

P1: *Firms with higher levels of multinational experience will tend to prefer greenfield modes over acquisitions.*

Technologically intensive companies face most often the difficulty of transferring their competitive advantage generating resources to the new subsidiary. Such competitive advantage is deeply embedded in organizational strategies and labour skills (Dikova and van Witteloostuijn, 2005, p.9). That is why, for these multinational companies the most efficient way of transferring such assets is by building up a subsidiary from scratch, through a greenfield investment. In most cases companies from developed countries tend to invest in developing or transition economies, where they have the possibility to hire cheaper local labour force and then train them according to their exigencies (Dikova and van Witteloostuijn, 2005, p.10). Often, these technologically intensive investors target local companies with underdeveloped and outdated technological capabilities, which they subsequently acquire for creating their new subsidiary. The main goal of such MNCs' is to raise the local subsidiary to a highly competitive level, by making important investments in facilities, by changing the local company's structure and the entire corporate strategy (Newman, 2000 and Meyer, 2001 – as cited in Dikova and van Witteloostuijn, 2005, p.10). Implementing all these initiatives might be difficult, when entering a developing market due to the high level of uncertainty and sometimes local managers rejecting attitude against change, who prefer to “stick to their old practices” (Villinger, 1996 – as cited in Dikova and van Witteloostuijn, 2005, p.10). Another major issue might be a possible incompatibility between the rules, procedures and practices of the foreign investor and the local company and/ or a very large gap between the levels of technological development of the two (Barkema and Vermeulen, 1998 – as cited in Dikova and van Witteloostuijn, 2005, p.10). As already stated, according to Barkema and Vermeulen (1998) the local company needs first to unlearn the existing practices before implementing the new routines of the investing MNC. This being a rather challenging process, it could be one reason for such investors preferring a greenfield diversification mode. Therefore, consistent with previous research, the following proposition:

P2: *The greater a firm's technological intensity the more likely it is to prefer a greenfield diversification mode, rather than an acquisition.*

Establishing a foreign subsidiary implies first of all sustaining a substantial amount of costs. The size of the undertaken investment plays an important role in the subsequent actions of the parent company. For example, building up a larger greenfield investment, compared to their own size, relies heavily on the availability of internal resources and

their constraints (Ionascu, Meyer and Estrin, 2004, p.10). Similarly a greenfield affiliate may be more difficult to finance and requires more attention from the MNC than a smaller operation, because its more powerful impact on the overall performance of the organization. Considering this, the transfer of necessary resources and capabilities becomes rather essential and even more difficult also because of the parent company having relatively fewer possibilities in this regard (Ionascu, Meyer and Estrin, 2004, p.11). Setting up such ventures requires an intensive collaboration process between the parent firm and the interest groups in the local environment and thus cross-cultural communication (Haspeslagh and Jemison, 1991 – as cited in Ionascu, Meyer and Estrin, 2004, p.11). Obviously, in these cases the integration costs also rise. Other empirical studies sustain that larger subsidiaries are less likely to take the form of a greenfield project (Caves and Mehra, 1986; Kogut and Singh, 1988; Hennart and Park, 1993; Padmanabhan and Cho, 1995; Brouthers and Brouthers, 2000 – as cited in Ionascu, Meyer and Estrin, 2004, p.11), therefore this leads to:

P3: *MNC's establishing a large affiliate (relative to their own size) are less likely to enter by greenfield investment than by acquisition.*

Most developing countries stimulate greenfield diversification modes (rather than acquisitions) through offering more incentives for these type of investments. This occurs, because these economies are primarily concerned in an increase of the employment rate. Apart from creating jobs, a very important aspect in this case is the possibility of huge technology and knowledge transfer to the developing economy through a greenfield venture (Demirbag, Tatoglu and Glaister, 2008, p. 13). Not only the incentives provided, but also the taxation policy of the entered market and the availability of resources of interest in special economic areas contribute to the location and the entry mode choice of multinational companies investing abroad. But at the same time, according to Mudabi (1998 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 13), multinational companies do not have a fixed pattern based on which they pursue their goals, instead they react to the behaviour of the existing competitive environment. In countries like Czech Republic, Hungary or Romania governments are very keen on increasing the employment and strengthening their export oriented industries, therefore these are high incentive sectors, the conditions for such incentives being easily met by greenfield investments (Demirbag, Tatoglu and Glaister, 2008, p. 14). The literature in this regard claims also that the institutional set up (like for e.g. local authorities and the

business environment) in emerging market economies sustains to a greater extent greenfield investments (Mudambi, 1998; Meyer and Nguyen, 2005 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 14). Thus following these ideas, the next proposition derives:

P4: *A MNC is more likely to choose a greenfield investment over an acquisition mode when investment incentives are perceived as important.*

In each undertaking activity, therefore any sort of initiative, companies strive to minimize their assumed risk. This applies also to multinational companies entering a new market, by trying to “minimize the risks associated with operating in the environment” (Demirbag, Tatoglu and Glaister, 2008, p. 11). This becomes a threatening issue when the perceived risk of entering a market is higher than the risk level considered as being manageable. Thus, this level of perceived risk plays a very important role in the entry mode decision (Franko, 1971 and Ahmed et al., 2002 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 12). On hand of the institutional theory, the foreign investors’ perceived risk in the local market is influenced by the stability or the instability respectively of the institutions in this host country, which consequently impact the MNCs’ entry decision choice. As a further step it is considered that the stability of the institutional environment, or the lack of it, influence the decision between a greenfield venture or an acquisition. This argument is also sustained by Meyer and Nguyen (2005, p. 76 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 12), who strengthen the argument that efficient institutions encourage foreign investments in form of greenfield diversification modes, which leads to the following proposition:

P5: *A MNC is more likely to choose greenfield over acquisition when the perceived host country investment risk is high.*

Another important factor considered when deciding to enter an economy is its market potential. Market growth obviously attracts new entries, as stated by Luo (2001, p. 452 & as cited in Demirbag, Tatoglu and Glaister, 2008, p. 13) – “industrial sales growth conditions in a host market affect expected net returns and firm growth during international expansion. This then affects resource commitments, strategic orientations and entry mode decisions”. If the market is growing one might be tempted to make a direct entry for capturing as much market share as possible and achieve quickly the set

growth goals (Porter, 1980 - as cited in Demirbag, Tatoglu and Glaister, 2008, p. 13), but for establishing an early market presence an acquisition might be more suitable than a greenfield diversification mode. When the circumstances are as such, the investor might need to make a fast move and capitalize on first mover advantages, which is why also for this reason an acquisition might be preferred to a greenfield investment. Therefore the acquisition of a local business enables rapid access to its established business network and thus to the targeted market (Demirbag, Tatoglu and Glaister, 2008, p. 13). On the other side choosing in such a situation to enter through a greenfield venture, might be too slow for achieving the investor's objectives. In emerging economies, it often happens that established businesses, with financial problems, are being acquired by entering foreign investors. These arguments are supported also by the institutional theory which sustains that market oriented firms are more interested in accessing the local networks and resources through their local partners, therefore they opt for an acquisition diversification mode, while export oriented companies rather choose a greenfield diversification mode, because their local network needs are relatively less (Demirbag, Tatoglu and Glaister, 2008, p. 13). As an exception, all this does not apply in the case of young industries which experience rapid market growth, because there may be no companies available for acquisition (Chatterjee, 1990 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 13). Therefore the following is being proposed:

P6: *A MNC is more likely to choose acquisition-mode over greenfield-mode when a significant market potential is perceived (market potential and/ or first mover advantages).*

The foreign investor's entry mode decision depends strongly also on the expected gains from the comparative costs in the local market coupled with the existing input quality in the host environment. This reduction on costs can depend on several factors like the available excess resources, the extent of competition in the targeted market or the number of other potential entrants (Chatterjee, 1990 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 14). When the reduction in costs is expected to be generated from the excess resources of the local market and the entering MNC is not dependent on other complementary inputs, than the likelihood of a greenfield investment is higher (Demirbag, Tatoglu and Glaister, 2008, p. 14). Hennart and Park (1993 – as cited in Demirbag, Tatoglu and Glaister, 2008, p. 14) sustained that an acquisition is considered

to be the better entry mode choice over a greenfield, when the investing MNC relies also on access to complementary resources and capabilities in the host market. Also when an entering MNC is motivated mainly by access to quality inputs, acquisition maybe preferred to greenfield investment (Demirbag, Tatoglu and Glaister, 2008, p. 14). This is the case when a local company with a strong established network and high reputation is acquirable. On the other hand, companies which are strongly cost oriented and offer a very labour-intensive product, tend to enter a low-wage location through a greenfield venture. However, such a location can additionally provide other resources and capabilities like a marketing network or quality of the labour force, which are factors that need to be considered when making greenfield – acquisition decisions (Demirbag, Tatoglu and Glaister, 2008, p. 14) and that is why, the next proposition emerges:

P7: *A MNC is more likely to choose acquisition-mode over greenfield- mode when the perceived input quality is higher in the country of entry (local inputs – cost complementarities between MNC and subsidiary and quality).*

Entering a foreign market, either through acquisition or through greenfield investment implies a certain amount of communication taking place between the parent firm and the local host company, which leads to development of costs, that are more likely to increase faster in the case of an acquired subsidiary, than in that of a greenfield one (Slangen, 2011, p. 1703). This because, considering equal circumstances and manifesting factors, entering through an acquisition requires more extensive communication, in terms of knowledge transfer, coordination activities, monitoring tasks and parent-subsidiary socialization, than in the case of a greenfield entry mode (Slangen, 2011, p. 1703). These additional communication-related costs supported by a foreign investing MNC tend to increase more rapidly when verbal communication barriers exist between the parent firm and the local subsidiary (Slangen, 2011, p. 1704). Therefore it is expected that in such situations, when verbal communication barriers exist, the communication costs in the case of an acquired company faster increase than if establishing a greenfield venture (Slangen, 2011, p. 1704). In consequence, the higher the verbal communication barriers between the local firm's location and the parent MNC, the more the entering investor will expect the communication costs of acquisitions to exceed those of greenfields (Slangen, 2011, p. 1704). Thus for achieving an equally balanced level of knowledge exchange, coordination and monitoring

activities and socialization behaviour, for the parent firm and within the local subsidiary, the following is being proposed:

P8: *The higher the verbal communication barriers between a MNCs home location and a host location, the higher the likelihood that the MNC will enter that location through a greenfield investment rather than through an acquisition.*

It is therefore expected that the existence of verbal parent – subsidiary communication barriers has positive effects on the MNC choice for a greenfield investment. At the same time it is assumed that these “positive effects of verbal communication barriers on the likelihood of greenfield entry to be weaker for prospective subsidiaries that will have more autonomy or local co-owners” (Slangen, 2011, p. 1704). In this case, the autonomy of the subsidiary refers to the strategic, tactic and operational decision-making power and authority granted by the investing MNC to the local established venture (Gupta and Govindarajan, 1991 and O’Donnell, 2000 – as cited in Slangen, 2011, p. 1705). The autonomy the MNC plans to transfer to the local subsidiary depends on the strategy it adopts and decides to pursue within the entered market. If the amount of knowledge transfer is rather limited and the MNC prefers to overlook mainly the obtained results of the subsidiary and not its behaviour, than the local venture will have autonomy at a more extensive level (Slangen, 2011, p. 1705). This means that the MNC plans to offer considerable autonomy to the subsidiary, while communicating only occasionally, which consequently prevents “verbal communication barriers from increasing the expected communication costs of acquisitions to a greater extent than those of greenfields” (Slangen, 2011, p. 1705). Considering these arguments, I come to proposing the following:

P9: *The positive effects of verbal communication barriers on the likelihood of greenfield entry will be weaker at higher planned levels of subsidiary autonomy.*

As already stated before, all these propositions, developed based on the existing theoretical fundamentals, will be tested, while at the same time serving as guidelines for the examination and discussion of the case studies in the following section.

3.2 Case Study – EGGER Romania SRL

3.2.1. Company Profile

In 1961, began the experience and activity of EGGER Group, founded as a family business by Fritz Egger. Their first wood-based fibreboard manufacturing unit started its activity the same year in St. Johann, Tirol, Austria. After expanding only locally at first, in 1984 they took over and started the construction of a new chipboard plant in Hexham (UK). For the next twenty years they invested in other six plants in Germany, two in France and another one in the United Kingdom, producing from raw chipboard, to thin medium density fibreboard (MDF), or even furniture components, while at the same time setting up their own lamination plants in two of the locations in Germany (www.egger.com, accessed on 15.01.2013). Embracing a very aggressive expansion strategy right from the start, by now they are present in seven European countries with 17 plants, while owning 23 sales offices worldwide (www.egger.com, accessed on 15.01.2013).

The EGGER portfolio comprises a wide product range starting with timber construction products and reaching to proposing even solutions for furniture and interior designs. They succeed to combine a broad product spectrum for the furniture and interior design, wood construction and flooring industries (www.egger.com, accessed on 15.01.2013). Their production is diversified into related product areas of the wood-based manufacturing industry (as stated by the assigned executive for the administrative and financial matters of the subsidiary based in Radauti, Suceava County, Romania – the interviewee of the present case study). The investment in Romania was initiated in 2007 and a year later the chipboard production in Radauti already had started (www.egger.com, accessed on 15.01.2013). The activity of this foreign subsidiary continued diversifying with the start of the construction of the resin plant in 2010. Because of this and other further investment developments the EGGER Group grew during the last year with more than 800 employees, reaching at the end of April 2012 the total number of 7.002 persons employed worldwide (www.egger.com, accessed on 15.01.2013). The production capacity also increased by 15% compared to the year before, this leading eventually to an increase in turnover by 11% to a total amount of 1,96 billion Euros, a new turnover record for the over 50-year history of the company (www.egger.com, accessed on 15.01.2013). Regarding the Romanian subsidiary, during

the last three years of their manufacturing activity they had an average number of employees of 535 persons, obtaining after only five years in operation average annual revenues in amount of 195 million Euros. Other aspects of even more interest for this case study concerning this foreign affiliate will be discussed in more detail within the following section.

3.2.2. Findings and discussion of the case study

The data necessary for the evaluation of this case study was collected by means of comprehensive questionnaire. In doing so, mainly 5 and 7 point Likert scales were used in order to allow a more accurate gradation and interpretations of the results. Also, the articles and communications on the company website as well as several press releases were used to create a profile containing all this gained information. The questionnaire was sent to and answered by the assigned executive for the administrative and financial matters of the subsidiary based in Radauti (Suceava County). The gathered data and all the statistics and figures refer to the date of December 2012. Although the company is based in Romania and the main management team, including the respondent know Romanian, the questionnaire was prepared and answered in English for minimizing the possible bias that could arise from misinterpretations due to different communication languages (German and/or Romanian).

Next, the propositions of the theoretical framework will be challenged by exposing the findings and results of the questionnaire. In doing so, the most important aspect is the fact that in this specific case we are dealing with a greenfield diversification mode.

The first proposition:

P1: *Firms with higher levels of multinational experience will tend to prefer greenfield modes over acquisitions.*

could be supported. During their over 50 years in operation, the EGGER Group extended its subsidiaries network worldwide, counting nowadays up to 17 plants and 23 sales offices all over the world, from Europe until South America or even Australia. The investment in Romania began in 2007 and a year later the chipboard production in Radauti started. As mentioned by the respondent, the EGGER Group detains the sole proprietorship of their foreign affiliate, having chosen as a market entry strategy for this foreign direct investment a start-up diversification mode. In terms of trying to assess the

distribution between the greenfield initiatives and the acquisition ventures of this MNC, the respondent specified that 60% of their foreign investments are start-ups, while the difference of 40% are acquisitions (see citation in Dikova and van Witteloostuijn, 2005, p. 6-8). As a family company with a strong equity base, they are able to largely finance foreign investments from their own resources, therefore the possible financial barriers emerging during the development and setting-up phase of such a greenfield subsidiary did not arise in this case (see Ionascu, Meyer and Estrin, 2004, p. 10-11). Moreover, during the last business year this MNC, as specified by the respondent, made not only growth but also maintenance investments of 406 million Euros, a 75% increase compared to the year before (EUR 232 million - 2010/2011). So, not only their high level of multinational experience built up in over five decades of operating abroad, but also the financial strength and security of the whole group permitted them to initiate and conclude successfully this greenfield investment in Radauti, Suceava. The respondent also underlined, as a brief insight into their present market entrance strategy, that they continue their expansion to the East with their latest acquisition and the 17th EGGER plant in Gagarin, Russia.

P2: *The greater a firm's technological intensity the more likely it is to prefer a greenfield diversification mode, rather than an acquisition.*

The second proposition could also be supported. The activity performed by the firm in question is greatly technological intensive and therefore considering the chosen location for establishing the subsidiary the only valid decision in this case was for a greenfield investment. Being secure from the financial point of view, after the MNC decided on the location of their investment, the option for the entry mode came almost automatically, as emphasised by the respondent. They did not want to face higher integration costs and have to deal with any adaptation measures, which would have incurred in case of an acquired subsidiary. At the same time, the availability of local raw materials was a very important factor, as the possibility to consequently enter neighbouring markets, so that is why they chose Radauti, as location for their foreign venture, a city situated in the north-eastern Romania, closely to the Ukrainian border and the Republic of Moldavia, enabling therefore quick access to these and other Eastern markets. Precisely the availability of good quality inputs (raw material, labour, etc.) was rated with 6 points out of 7 by the respondent, as a factor with significant importance in taking the decision to enter Romania by means of a greenfield investment

(with 1 – no importance and 7 – major importance). The same rate was attributed to the suitability of the Romanian market to access neighbouring markets and the geographical proximity, this being the three factors with the highest scores within this section regarding the most important aspects influencing this MNCs' market entry decision process. So after choosing the location, while being a highly technological firm, they went for a greenfield diversification mode, which permitted a better know-how transfer and an easier enforcement of their own set of rules (see Dikova and van Witteloostuijn, 2005, p. 9).

P3: *MNC's establishing a large affiliate (relative to their own size) are less likely to enter by greenfield investment than by acquisition.*

The proposition number three is supported. The relative size (compared to their own) of the established venture is rather small (see citation in Ionascu, Meyer and Estrin, 2004, p. 11). That was exactly the answer the respondent gave to the question regarding this matter – the relative size of the subsidiary versus that of the parent firm is very small, rated with 1 out of 7 points (with 1 being very small and 7 – very large). Considering the same relative size in terms of number of employees of the established venture compared to the size of the group the proportion is of 1 to 11, more precisely the average number of employees during the last three years of the foreign affiliate was of 535, while that of EGGER Group was of 6.063 (thus the proportion mentioned above). The total number of persons employed by the Romanian affiliate is split between different legal entities, but they are all part of the same EGGER investment initiative in this country and are to be seen as a whole, as a sole greenfield establishment. In this sense, the financial aspect, that needs to be considered for such an investment, emerges again (see Ionascu, Meyer and Estrin, 2004, p. 10). This means, that the larger the planned start-up subsidiary, the higher the financial burden on the parent firm. Although, as previously mentioned, the EGGER Group does not have any problems with their equity base, managing smoothly to auto-finance almost all their strategic initiatives, it is always a matter of how much they are ready to invest in such a venture. Therefore, because no financial support was needed for the Romanian establishment throughout the entire development of the investment, the MNC opted in this case for a greenfield entry mode, without having any concerns or ulterior problems.

P4: *A MNC is more likely to choose a greenfield investment over an acquisition mode when investment incentives are perceived as important.*

This fourth proposition could not be supported. In this case, the MNC made the choice to establish a greenfield investment, although the investment incentives were not perceived as being important. According to the respondent, the availability of incentives as a factor in their decision making process was rated with 2 out of 7 points (with 1 – no importance and 7 – major importance), while an even lower score was attributed to the availability of tax advantages, rated with the minimum possible (1 – no importance). A possible explanation for this fact could be, that at the time this investment was initiated the proposed incentives by the Romanian government were not as attractive, as maybe they were ten years ago, as to trigger a quick reaction towards establishing a greenfield venture. For sure the existent tax advantages at that moment in Romania, especially for start-ups were more than inviting compared to other economies, but no real active fiscal policies or of any other kind targeted in an aggressive manner the absorption of foreign direct investments. Being the two factors which scored the lowest points in the section, might mean that they were possibly not even considered during this market entry decision making process. Aspects like the availability of good quality inputs, for e.g. raw materials, the geographical proximity or the suitability of the Romanian market to access neighbouring markets, obtained from the respondent the highest score (6 points out of 7, with 1 – no importance and 7 – major importance) as host country specific motives for choosing this location for their investment and this entry diversification mode.

P5: *A MNC is more likely to choose greenfield over acquisition when the perceived host country investment risk is high.*

This proposition could not be supported. The MNC opted for a greenfield although at the time that the subsidiary was built up the investment risk of Romania, as a host country, was not evaluated as being high. Obviously there was an investment risk, but not of a preoccupying level (see Demirbag, Tatoglu and Glaister, 2008, p. 11). Actually the political stability in Romania was an important factor for EGGER in the decision of choosing it as a location for their foreign venture, being rated by the respondent with 5 out of 7 points (with 1 – no importance and 7 – major importance). Not only the political, but also the economic state of the host country had a role in the MNC location

and diversification mode choice – rated with 4 out of 7 points, a slightly lower score than the political aspects (with 1 – no importance and 7 – major importance), but still significantly relevant (see citation in Demirbag, Tatoglu and Glaister, 2008, p. 12). The growth rate of the Romanian economy was also a very important factor in the decision making of the entry mode, scoring again 5 out of 7 points (with 1 – no importance and 7 – major importance), the respondent mentioning that because of the fast growing economy and developing market, a greenfield investment would have permitted them to gain much more market share on the targeted markets and thus quickly achieve their set goals (see citation in Demirbag, Tatoglu and Glaister, 2008, p. 13). Regarding the market size of the host country, it is also considered to be a relevant factor in this MNCs' entry mode decision (rated with 4 out of 7 points – with 1 being no importance and 7 – major importance), but as further discussions revealed, the Romanian subsidiary was intended to be export oriented, therefore not dependent on local networks and the domestic customers pool, which enforced the option for a greenfield venture (see citation in Demirbag, Tatoglu and Glaister, 2008, p. 13).

P6: *A MNC is more likely to choose acquisition-mode over greenfield-mode when a significant market potential is perceived (market potential and/ or first mover advantages).*

Continuing the discussion initiated above, the EGGER Group was not focused that the Romanian subsidiary gains important domestic market share, thus in correlation with this the proposition six is supported – “A MNC is more likely to choose a greenfield-mode when a significant market potential is not perceived”. Of course that they strived also to establish a solid local customer base, but becoming leader on the Romanian market was never an issue. Moreover, from the received answers the larger perspective of a wider expansion strategy throughout other Eastern markets emerges (see Demirbag, Tatoglu and Glaister, 2008, p. 13). And in this ambitious strategy the Romanian subsidiary has a small, but still significant role. It could be seen as the means to reach an end, a higher goal – that is allowing quick access to the neighbouring markets and thus gaining market share on an international level. The respondent confirms this fact, by stating that the value of the market share obtained by the Romanian subsidiary on the domestic market during the first two years after becoming operational was good, rating of 4 points out of 7 (with 1 being very bad and 7 – very good), while the sales level scored a promising 6 out of 7 possible points. It was also confirmed that the location of

the investment was strategically chosen to enable a quicker supply of the other neighbouring markets.

On the other hand, by 2007 with the finalization of the investment and the production start, EGGER Romania SRL was not the sole company operating in the business sector of wood-based panels manufacturing in this market anymore, so gaining from first mover advantages on a local level was also not the case anymore.

P7: *A MNC is more likely to choose acquisition-mode over greenfield- mode when the perceived input quality is higher in the country of entry (local inputs – cost complementarities between MNC and subsidiary and quality).*

Proposition seven could not be supported. According to the respondent one of the most important factors that determined the option for this diversification mode and the location of their equity venture, was the existence of low cost inputs in the host country. Therefore, although the perceived input quality in the country of entry was high, the MNC choose a greenfield-mode over an acquisition (see Demirbag, Tatoglu and Glaister, 2008, p. 14). The availability of good quality inputs (raw maerial, labour, etc.) was considered to be one of the aspects with a great importance in making the decision to choose Romania as a location for this foreign subsidiary, being rated by the respondent with 6 out of 7 points (with 1 – no importance and 7 – major importance). The availability of low cost inputs, as mentioned above, also scored a 5 out of 7 points, being another factor with a significant impact on the decision regarding this market entry (see citation in Demirbag, Tatoglu and Glaister, 2008, p. 14). Consequently, as stated, less than 20% of the necessary inputs of the Romanian subsidiary are outsourced to the parent company, mainly tasks regarding the groups marketing strategy.

Scoring other 5 out of 7 points were factors like the level of industry competition and the repatriability of profits or the growth rate of the Romanian economy and the economic stability in Romania (as mentioned, with 1 being factor with no importance and 7 – a factor with major importance). In terms of the level of industry competition, although they could not gain from first mover advantages anymore, the competition intensity during the first two years after the established venture became operational was retained to have been less aggressive, rated with 3 points out of 7, with 1 – very little competition intensity to 7 – very much competition intensity (see citation in Demirbag, Tatoglu and Glaister, 2008, p. 14). An important part seems to be the point concerning

the repatriability of profits, therefore it was further detailed during the discussion with the respondent leading to the acknowledgement that obviously the MNC intended after several years of operation to regain from the Romanian affiliate at least the amount invested initially. That is why this factor had an important significance during the market entry decision process, thus allowing the MNCs' to develop continuously its auto-financing expansion strategy.

P8: *The higher the verbal communication barriers between a MNCs home location and a host location, the higher the likelihood that the MNC will enter that location through a greenfield investment rather than through an acquisition.*

The proposition eight could be partially supported. Although it cannot be sustained that the verbal communication barriers between the parent firm and the host country are very high, the MNC entered Romanian through a greenfield and not an acquisition. Actually the existing verbal communication barriers between the host country and Romanian counted for less than 20% in the entry mode decision for the MNCs' equity venture. The top management team was built up and still consists of Austrian expatriates from the MNCs' headquarters, considered to be the most suited to implement the groups vision and achieve their international goals. This fact facilitated the needed knowledge transfer and contributed to narrowing the cultural gap between the investing MNC and the foreign affiliate. The monitoring and coordination costs were also diminished through this decision, because by having always the representatives of the parent firm on site contributed to enabling an easy acceptance and absorption of their corporate "way of doing business" (see Slangen, 2011, p. 1703-1704).

P9: *The positive effects of verbal communication barriers on the likelihood of greenfield entry will be weaker at higher planned levels of subsidiary autonomy.*

This last proposition could neither be supported, nor rejected. Based on the respondents' answers, the start-up subsidiary in Romania does not enjoy very much autonomy. The Romanian affiliate's core team can autonomously select and train its local employees, but considering the aspect underlined shortly before, that the top managers were once part of the headquarters main staff, this fact is to be interpreted as accurate only to a certain extent (5 out of 5 points attributed to 'Selection and Training of Employees' – with 1 being very little autonomy and 5 being very much autonomy). It is stated at the same time, that the subsidiary's management team has much autonomy regarding the

packaging aspects of their activity – rated with 4 out of 5 points. All the issues regarding the procurement of products and services, the production process, the services offered, the pricing of their product portfolio and matters concerning job design are being decided in straight cooperation with the parent firm, the affiliate’s management team having moderate decisional powers in this sense – according to the respondents statements, which attributed 3 out of 5 points for the subsidiary’s degree of autonomy concerning the managing of these matters. The subsidiary’s degree of autonomy regarding its research & development activities and the design of its reward system was considered by the respondent to be little (rated with 2 out of 5 points with 1 being very little autonomy and 5 being very much autonomy), while the product and service design, the use of brand names and all the advertising and sales promotion tasks are being decided at the headquarters level, the foreign venture having very little autonomy in this regard – rated with 1 out of 5 points. Baring in mind that the verbal communication barriers were not seen as an obstacle from the beginning for the establishment of EGGERS’ greenfield venture in Radauti, the resulted positive effects in terms of reduction of communication costs were, due to the rather low degree of autonomy attributed to this foreign subsidiary, that much higher (see Slangen, 2011, p. 1704).

3.3 Case Study – S.C. Holzindustrie Schweighofer S.R.L.

3.3.1. Company Profile

The Schweighofer Group is also an Austrian family owned company, with more than 50 years of business experience. The actual success story starts in 1956, when Franz and Maria Schweighofer took over the saw mill in Brand, Lower Austria. At that time the annual mill capacity was of about 1.000 m³ of round wood per year (www.schweighofer.at, accessed on 20.01.2013). By 1997, Holzindustrie Schweighofer reached a total sawing capacity of 3 million m³ in six different mills, two of them in the Czech Republic and four in Austria. In 1998 they decided to merge with Enso Timber, becoming this way the third largest saw milling company in the world, but surprisingly three years later they moved even further by selling all their shares and thus all factories to their newly gained partner (www.schweighofer.at, accessed on 20.01.2013). Then, only two years after that in 2002 they decide to start new by establishing their first saw

mill in Romania. And so they are nowadays once again a leading company in various business sectors from forestry to agriculture and even real estate (www.schweighofer.at, accessed on 20.01.2013). Their core business remains the forest-based industry, all their production facilities being located in Romania, where they have achieved by now market leadership in wood processing (www.schweighofer.at, accessed on 20.01.2013). Moreover, they are active in agriculture and forestry, as well as energy generation from biomass, operating the biggest biomass-fired combined heat and power plants in Romania (www.schweighofer.at, accessed on 20.01.2013). In Austria, they still have their headquarters in Vienna and the Schweighofer Fiber, another company part of the holding, based in Hallein, which focuses on production of cellulose and bioenergy (www.schweighofer-fiber.at, accessed on 20.01.2013).

Getting back to the groups wood-based manufacturing activity, the first Romanian sawmill of the Schweighofer Group was built in Sebes in 2002, followed by a second one in Radauti in 2007. Two years later, Schweighofer acquired the production site for laminated wood panels in Siret, their most recent acquisition being the block board plant in Comanesti in 2010 (www.schweighofer.at, accessed on 20.01.2013). As noted by the respondent, the major advantages of the Romanian manufacturing locations were the availability of high quality raw material from sustainably managed forests, the well trained personnel, and the facilities of the international port of Constanta at the Black Sea, because from Constanta they can ship their products to customers worldwide. These arguments explain concisely their main motivation and the decisive factors for choosing Romania as a location for these four equity ventures (www.schweighofer.at, accessed on 20.01.2013). The following discussion will provide a closer insight into the findings regarding the Groups' first greenfield investment in Romania, the sawmill in Sebes, Alba County.

3.3.2. Findings and discussion of the case study

P1: *Firms with higher levels of multinational experience will tend to prefer greenfield modes over acquisitions.*

The first proposition could not be supported. Although the level of multinational experience of the Schweighofer Group is not high, they still preferred for the Romanian location a greenfield diversification mode. During the 90s' they owned six different sawmills of which only two of them outside of Austria, precisely in the Czech Republic.

After the sell, the Groups' first investing initiative was the one in Sebes, Alba County, Romania. The overall circumstances on site for such a manufacturing company, with their type of activity, suited better a start-up investment. The main reason for this market entry decision was based on the existence of good quality inputs, precisely of raw materials and qualified local personnel. Apart the fact that the location proved to be perfect for such a type of initiative, from the financial point of view it was very convenient to go through with it, considering the relative investment costs for that region, compared to other parts of Romania or even Austria at that time. According to the respondent, the investing parent firm received also a great deal of support from the local officials, which also facilitated their integration – very important aspect, which led to reducing substantially their incurred adaptation costs. Therefore, based on the location choice, a greenfield entry mode seemed to be the parent firms only option and thanks to the Groups highly stable financial status, sustaining the costs of such an investment was not even an issue for them. So, as all the relevant factors for the investing company existed and the needed means were available, by 2004 the saw mill in Sebes-Alba was already operating at its full capacity.

P2: *The greater a firm's technological intensity the more likely it is to prefer a greenfield diversification mode, rather than an acquisition.*

The second proposition could be partly supported. The activity performed by Holzindustrie Schweighofer is significantly technological intensive, but as stated by the respondent, this was not one of the main reasons they chose this diversification mode for the plant in question. An interesting fact to underline is that the entire Groups' production activities take place in Romania, all their four plants being dispersed over the country. There is also one sales point located near Bucharest. Additionally they have two branch offices one in Prague and one in Bratislava and one purchasing unit in Ivano-Frankivsk in the Ukraine. These last three are mainly responsible for the raw material purchase, while the Romanian subsidiaries overtake the manufacturing responsibilities from saw milling, to pellets and briquettes production or even combined heat and power production (www.schweighofer.at, accessed on 20.01.2013). Obviously all these activities imply a certain level of technological intensity, but not that high as to create insurmountable know-how transfer problems or even costs. When choosing this market entry mode, the investors were not concerned, that they will encounter knowledge transfer difficulties if establishing a start-up saw mill in Sebes, meaning that

the technological intensity of their performed activity was not a factor to consider when making the diversification mode choice (argument also sustained by the respondent). This is the main reason why it is considered that the proposition above was supported only in part, and not because Holzindustrie Schweighofer is not an intensively technological firm, or because the level of their technological intensity is not high enough.

P3: *MNC's establishing a large affiliate (relative to their own size) are less likely to enter by greenfield investment than by acquisition.*

The third proposition could not be supported. Actually the affiliate's size, relative to the parent firm's, is much larger, the premises in Vienna serve only as a coordinating and supervising centre. The general management team is based at the Austrian headquarter and also the controlling and sales department, the communications office and the research & development department as well as the branch responsible of the real estate development. On the other hand all the production sites are based in Romania, the one subject of this case study, S.C. Holzindustrie Schweighofer S.R.L., located in Sebes-Alba, being the largest one of the Group – considering for example their production capacity of sawing 1,3 million cubic meters of round wood per year (www.schweighofer.at, accessed on 20.01.2013). At the same time initiating such a type of investment and of these proportions implied sustaining a substantial amount of costs, which as noted by the respondent, did not create any concerns for the Austrian parent firm, relying on the availability of these necessary resources internally. The fruitful cross-cultural communication between the parent firm and the local stake-holders contributed also to the success of this foreign start-up. An intensive collaboration process took place between all the parts involved in the development of this project and, as underlined by the respondent, it facilitated the MNCs' adaptation to the local business environment. All the communication barriers were quickly overcome, the investing company enjoying the privilege of a very welcoming local set-up, which eventually led to an additional reduction of its integration costs. Even though it was expected that such an important investment would have a significant impact on the overall Groups' performance, the observed effect was not as powerful as prognosticated, the manifested scenario of the initial business plan being the optimistic rather than the pessimistic one.

P4: *A MNC is more likely to choose a greenfield investment over an acquisition mode when investment incentives are perceived as important.*

The proposition number four could be supported. In this case, the MNC perceived the investment incentives as being very important for the establishment of their start-up in the chosen location. Based on the respondents' statement, the availability of incentives as a factor in their market entry decision was considered to be of major importance, being rated with the maximum score possible 7 points out of 7 (with 1 – no importance and 7 – major importance). During that period and in that precise region, the officials were intensively engaged in attracting foreign direct investments. This was mainly because of the stringent necessity of job creation for enabling the county's further development and economic growth. Starting with a few hundreds of employees during the first years of operation, the Schweighofer Groups' subsidiary in Sebes employs by now over 1.200 persons, detail revealed by the respondent, being thus the most important private company within the Alba County. The public support was massive in this case, from local politicians to representatives of the judicial, administrative and fiscal authorities, all acted as real consultants sustaining the MNC actively during this investment process. The local business environment also favoured and deeply encouraged this new market entry, meaning that the entire institutional set-up facilitated to a more than significant extent the establishment of this MNCs' greenfield venture in Sebes (see citation in Demirbag, Tatoglu and Glaister, 2008, p.14). Another important aspect underlined by the respondent in this regard was the taxation policy in force at that time, the availability of tax advantages as a factor in their decision making process to establish such a diversification mode in that location, being also rated with 7 points out of 7 (with 1 – no importance and 7 – major importance). Also the stimulating local governments' policy towards foreign direct investments contributed to the diversification mode and location decision, factor to which the respondent attributed a score of 6 out of 7 points (with 1 – no importance and 7 – major importance). Therefore considering investment incentives as important the choice, of Schweighofer Group was to build up a greenfield establishment in Sebes, their first one in Romania, as already mentioned above.

P5: *A MNC is more likely to choose greenfield over acquisition when the perceived host country investment risk is high.*

The proposition five was not supported. Even though the overall image and impression concerning Romania during the 90s' and the years after was, of a corrupt country, with an, in part struggling economy and a weak institutional environment, this did not stop investors such as Schweighofer Group to enter the market. But in 2002 these were not essential concerns for this investing company anymore, because after several visits in Romania, of which two in Sebes and after meeting the main local stake-holders, all the previous doubts, uncertainties and even prejudices were lifted – useful insight information provided by the respondent, who already met the owners on their second trip to Sebes, when he was introduced to them as a potential key-employee for the foreign subsidiary. According to his statements the host country investment risk was not perceived as being high. Despite this fact, a greenfield mode was still preferred over an acquisition one, therefore this proposition could not be supported. From this investors point of view the institutions, at least those at local level, were functioning efficiently, the entire institutional environment being evaluated as stable, thus the perceived investment risk was not high, existing still, but considered with certainty manageable in this particular case (see citation Demirbag, Tatoglu and Glaister, 2008, p.12). Being convinced that at local level the institutional system is functioning, aspects like the political and economical stability in Romania were rated with only 2 points out of 7 (with 1 – no importance and 7 – major importance), in the range of factors that had an impact and played a role in the investors' market entry decision and the choice of the diversification mode. A relevant point nevertheless, was the value, a maximum score of 7, attributed by the respondent to the importance of the growth rate of the Romanian economy. As in the other cases, this response does not come as a surprise, because the rapid and significantly positive development of the Romanian economy during that period was a powerful stimulus for all foreign investors planning to enter new markets.

P6: *A MNC is more likely to choose acquisition-mode over greenfield-mode when a significant market potential is perceived (market potential and/ or first mover advantages).*

The proposition six could not be supported. Continuing with the previous argument, the importance of the growth rate of the Romanian economy was rated with 7 points out of 7 by the respondent, being considered to be a factor with major importance in the market entry decision and thus the diversification mode choice. As during that period the Romanian market was continuously growing, this obviously attracted new entries,

one of which that of the Schweighofer Group (see citation in Demirbag, Tatoglu and Glaister, 2008, p.13). As confirmed by the respondent, the parent firm opted for a direct entry, a start-up investment, because they intended to gain as much market share as possible and thus achieve their initial set of goals within the first years of operation (see citation in Demirbag, Tatoglu and Glaister, 2008, p.13). All this means, that although a significant market potential was perceived by this foreign investor, they chose a greenfield-mode over an acquisition-mode, therefore this proposition could not be supported. But, as in the case of this performed wood processing activity, precisely the sawmilling, the Romanian industry could be considered at that time rather ‘young’ in terms of level of technology and product diversity on one side and on the other, due to the fact that there were no suitable companies to acquire in that location, the argument regarding a quick market entry and gaining first mover advantages through an acquisition diversification mode, did not apply for the Schweighofer Groups’ venture (see citation in Demirbag, Tatoglu and Glaister, 2008, p.13).

P7: *A MNC is more likely to choose acquisition-mode over greenfield- mode when the perceived input quality is higher in the country of entry (local inputs – cost complementarities between MNC and subsidiary and quality).*

The proposition seven could not be supported. One of the main reasons of entering the Romanian market and more precisely of choosing that particular location to enter was for the Schweighofer Group, the sustainable availability of resources in the region. Not only the wood resources, but also the availability of complementary resources and capabilities like qualified personnel at very competitive costs, contributed to the decision of establishing a start-up in Sebes-Alba. From one point of view, their entry mode choice could be explained through the fact that being strongly cost-oriented (like most companies nowadays), offering labour-intensive products and entering still a lower-wage location compared to many at that time, they obviously tended towards setting-up a greenfield venture (see Demirbag, Tatoglu and Glaister, 2008, p.14). Thus the availability of low cost inputs, as a factor influencing the decision to choose Romania and subsequently a greenfield diversification mode for their market entry was rated by the respondent with 7 points out of 7 (with 1 – no importance and 7 – major importance). Within the same section – importance of factors in the decision to choose the location and consequently the mode of market entry - the availability of good quality inputs (raw material, labour, etc.) was rated with 6 points out of 7, because as

explained by the respondent, in connection with the level of costs of these inputs, precisely this quality-cost relationship determined the location choice of the Schweighofer Groups' greenfield investment. Even in the case they would have wanted to acquire an already existing venture on site, no local company, meeting their requirements and needs, was available at that time, therefore for one additional reason the choice for a greenfield entry mode.

P8: *The higher the verbal communication barriers between a MNCs home location and a host location, the higher the likelihood that the MNC will enter that location through a greenfield investment rather than through an acquisition.*

The proposition eight was partly supported. The Schweighofer Group entered Romania through a greenfield investment and considering the existing verbal communication barriers between the parent firms' location and the host country they could be referred to as being high, so in this sense the proposition could be supported. But in this particular case, based on the information gained from the performed in-depth interview, it can be concluded that the verbal communication barriers between the home and the host location did not have a significant impact on this company's market entry mode decision, therefore the subsequent statement that this proposition could be supported only partly. Precisely, the question regarding the proportion that the verbal communication barriers had in their entry mode decision in Romania was answered by the respondent indicating less than 20%. Obviously communication costs did occur as a consequence of this initiative, but as expected the amount was not that high as to have a real impact on the investments overall value. The question as how did the parent firm overcome the verbal communication barriers, was quickly answered, mentioning that there is always an Austrian expatriate, member of the top management team, present on site, while all its other local members are not only proficient in English, but also German, meaning that a language barrier did in practice not even exist. Also in terms of knowledge transfer, coordination and monitoring, the entering company did not face any difficulties and did not have to struggle at all to implement their new set of rules and regulations. Even though the only point raising question marks was the socialization behaviour, this also did not lead to any kind of problems, the foreign entering investor being quickly not only accepted, but really embraced by the local community, mainly due to the significant job creation which served as a real economical relief for the entire region.

P9: *The positive effects of verbal communication barriers on the likelihood of greenfield entry will be weaker at higher planned levels of subsidiary autonomy.*

The proposition nine was partly supported. It is assumed that by choosing a greenfield investment, which is the case here, already has positive effects on costs caused due to the existence of verbal communication barriers, but these will be weaker if the subsidiary has much autonomy – but this investor did not experience such negative effects and cost creation due to the verbal communication barriers, as mentioned before, these actually did not raise any difficulties whatsoever. Furthermore, the foreign subsidiary does enjoy a significant level of autonomy, as underlined by the respondent. The Austrian parent firm only deals with the controlling, sales, communication and research & development group activities, these being all centralized. All the other issues concerning procurement from raw materials until services, the production process, the product packaging, the job design and the selection and training of employees, are completely managed by the local subsidiary core team. To all these mentioned items the respondent attributed the maximum score of 5 points out of 5 (with 1 – very little autonomy and 5 – very much autonomy) in terms of the degree of the subsidiary's autonomy, precisely the extent to which the subsidiary's management team is free to run the venture at its own discretion. At the same time, the research and development activities are overtaken at the headquarters, in this case 2 out of 5 points being attributed (with 1 – very little autonomy and 5 – very much autonomy) by the respondent. The parent firm manages also the advertising and sales promotion initiatives (item rated with 1 point out of 5) and other marketing activities like the use of brand names (item rated with 1 point out of 5), while the pricing issue is being settled in straight collaboration with the subsidiary (item rated with 3 points out of 5). Therefore it could be concluded that although the foreign subsidiary enjoys an extended degree of autonomy, due to the diversification mode choice, it did not have a less positive effect on the costs created by the existence of the verbal communication barriers between the home and host location.

3.4 Case Study – Kronospan Sebes SA

3.4.1. Company Profile

Kronospan was established in 1897 as an Austrian family company and is considered to be nowadays the world's largest wood-based panel manufacturer (www.kronospan-worldwide.com, accessed on 02.01.2013). Presently they own 34 wood-based panel manufacturing sites, being represented in 27 countries (www.kronospan-worldwide.com, accessed on 02.01.2013). Their product range begins with the production of particleboard (PB), medium density fibreboard (MDF), laminate flooring until various types of resins for wood-based panels. At the same time, they are the number one manufacturer of oriented strand board (OSB) in Europe (www.kronospan-worldwide.com, accessed on 02.01.2013). The company also produces speciality and decorative paper as well as melamine-faced panels, worktops, wall panels, window sills and lacquered high density fibreboards (HDF) (www.kronospan-worldwide.com, accessed on 02.01.2013). All these products have a wide range of applications in the flooring, furniture and the refurbishment industries. This company strives to implement a vertically integrated supply chain, which allows them to constantly improve and further develop their products for being able to satisfy their customers' needs at affordable prices, react quickly to market and technology changes and be the most service-oriented and innovative provider of wood-based panels and associated products that they possibly can.

Regarding their internationalization strategy it needs to be specified that beginning with the 1980s', in connection with the collapse of the Iron Curtain, they recognised the huge opportunities arising from entering the east and south-east European markets and thus started their expansion towards this direction, the first investment of this type being concluded in 1989 in Szczecinek, Poland (www.kronospan-worldwide.com, accessed on 02.01.2013). This development strategy continued during the next years with establishing other subsidiaries in Germany (1993), Luxembourg (1994), Czech Republic (1995) and even China (2000). In 2003 they entered Slovakia and in 2004 five new entities were added to the Kronospan group: one in Russia, one in Croatia, one in the Ukraine, one in Hungary and the one in Sebes-Alba, Romania. This last one proved to be only the first venture in Romania, because in 2009 the second one in Brasov followed. With the groups around 11.000 employees, 70% of the total product sales are

being achieved in emerging markets (www.kronospan-worldwide.com, accessed on 02.01.2013). From these, the Romanian subsidiary in Sebes-Alba, with its over 500 employees (registered in average during the last three years) obtained in the last past couple of years average annual revenues in amount of over 200 million Euros. More details concerning the issues of interest will be presented in the following part, more precisely the evaluation and the interpretation of the obtained results of the case study in question.

3.4.2. Findings and discussion of the case study

As in all cases and as already noted, data was collected by means of comprehensive questionnaire. Although the company is based in Romania and the main management team, including the respondent are Romanians, the questionnaire was prepared and answered in English for minimizing the possible bias that could arise from misinterpretations due to different communication languages (German and/or Romanian). Additionally, in-depth interviews were performed with this member of the core management team on site. In this sense, the questionnaire was sent to and answered by the assigned executive for the administrative and financial matters of the subsidiary based in Sebes-Alba (515800 Alba County), who subsequently offered the opportunity of understanding the motivation behind his responses during an follow-up interview. The gathered data and all the statistics and figures refer to the date of December 2012.

Next, the propositions of the theoretical framework will be challenged by exposing the findings and results of the questionnaire and the subsequently performed interview. In doing so, the most important aspect is the fact that we are dealing with an acquisition entry mode.

The first proposition:

P1: *Firms with higher levels of multinational experience will tend to prefer greenfield modes over acquisitions.*

could not be supported. Starting their activity over 100 years ago, Kronospan is present by now in 34 locations placed in 27 different countries, which translates in a rather high level of multinational experience (see citation in Dikova and van Witteloostuijn, 2005, p.6). Although this is the case, they chose for entering Romania an acquisition diversification mode. The venture in Sebes-Alba is completely owned by the parent

firm, the MNC holds the sole proprietorship of the foreign affiliate, the acquisition being finalised in 2004. Based on a set of more detailed questions, trying to figure out the exact circumstances in which this initiative was taken, an interesting aspect emerged: because the infrastructure and the most part of the technology investments were already made by a previous investing Italian company, the most suitable way for the Austrian wood-based panel manufacturer was to pursue an acquiring strategy in this particular case. Obviously further investments were necessary, but since this was the easiest, less expensive and quicker way to enter the market, it proved to be the better choice for the establishment of such a foreign venture. It can be stated that thanks to their extended multinational experience, Kronospan recognised this great chance and did not miss opportunity of overtaking the existing company and thus gaining the first mover advantage in this sector on the Romanian market (see Demirbag, Tatoglu and Glaister, 2008, p.13). Their international expansion strategy continued and nowadays they are considered to be the globally leading manufacturer of particleboard (PB), medium density fibreboard (MDF), laminate flooring and resins for wood-based panels (www.kronospan-worldwide.com, accessed on 02.01.2013).

P2: *The greater a firm's technological intensity the more likely it is to prefer a greenfield diversification mode, rather than an acquisition.*

Analysing the gathered information, the second proposition could also not be supported. But this is also comprehensible because of the important aspect mentioned before, that they acquired a firm which was active on the same field of wood-based panels manufacturing. The activity per se is strongly technological intensive, but as in this exceptional case, the ground investment in technology previously made was, an acquisition was actually the only valid option in this situation. The initial investment made by the predecessors was greatly technological intensive and thanks to this fact, the Austrian investors entering in a following step only needed to complete the missing parts and to adapt the existing status-quo to their groups' requirements (see citation in Dikova and van Witteloostuijn, 2005, p.10). Evidently the undertaken investment was still important, also because additionally to the wood-based panels' production they built a chemical factory, manufacturing products not only for their own use but also with external destination. This second part of the investment could be viewed as a greenfield diversification mode, although there needs to be considered that the structure and the network it was built upon, was already existing and it was developed

consequently to the prior acquisition of the wood-based panels' manufactory. The quick entry enabled by the existing ground situation was in this case the most important factor for the diversification mode choice. Obviously that Kronospan was not the only company in this business field interested in the acquisition, so it was even more important for them to succeed in their initiative, because this meant gaining at least another period of competitive advantage in this market.

P3: *MNC's establishing a large affiliate (relative to their own size) are less likely to enter by greenfield investment than by acquisition.*

The third proposition could be supported. Unexpected actually from a MNC with such a wide international experience and worldwide presence, in terms of size (relative to the parent firms') the Romanian foreign affiliate is larger, being one of the groups' most important subsidiaries (see citation in Ionascu, Meyer and Estrin, 2004, p.11). This was also confirmed by the received response, the relative size of the subsidiary versus that of the parent firm being rated with 5 out of 7 points, 1 being very small and 7 – very large. After making more precise questions, the received answers cleared this matter up, meaning that the Austrian MNC from the beginning was intended to have a headquarter with leadership responsibilities only, like setting up the ground rules of operation for all companies part of the group, setting all the strategic goals and seeing them through, with exclusively organizational and management tasks. At the same time, all marketing activities are coordinated from top down, like for example the use of brand names, in case of which the foreign established venture has very little autonomy (rated with 1 out of 5 with 1 – very little autonomy and 5 – very much autonomy). Also, for example, the design of reward systems is being conceived by the parent firm, allowing the local management team very little 'playing space', scored therefore also 1 from 5 maximum points (with 1 – very little autonomy and 5 – very much autonomy). Not only due to the fact that the entering MNC intended to impose a general framework for the entire group, but also as a consequence of the assessment performed locally, a greenfield investment was not an option in this case. It would have requested a greater amount of financial means and resources and the establishing time would have been longer, just to point out two of the most important aspects highlighted by the respondent (see Ionascu, Meyer and Estrin, 2004, p.10). Even after performing the evaluation of the integration costs needed to be sustained, the decisional balance pointed to the same direction, that of an acquisition and not a greenfield diversification mode. All the factors considered to be

relevant were in favour of moving forward with this investment and the performance results obtained over the following years only reassured the decision makers of having made the right choice in this regard.

P4: *A MNC is more likely to choose a greenfield investment over an acquisition mode when investment incentives are perceived as important.*

This proposition was supported by the provided responses to several of the asked questions. The one regarding which role played the availability of incentives as a factor in taking the decision to choose this diversification entry mode and this market as location for establishing their venture, was rated by the respondent with 1 – no importance, the lowest score possible (with 1 – no importance and 7 – major importance). Also factors like repatriability of profits and the political and economic stability of Romania came right after this one with a rate of 2 out of 7 (1, being – no importance and 7 – major importance). Still in the part, with the lower scores, were included matters like the government's policy towards foreign direct investments and the availability of tax advantages, rated with 3 out of 7 points (with 1 – no importance and 7 – major importance). It needs to be underlined that by 2004, when the acquisition was finalised, Romania was already having a stable and positively developing economy and therefore the state's implication at a national level in stimulating and attracting foreign direct investments became less aggressive then in the beginning of the 90's when a huge inflow and support in terms of mostly financial and technological means was deeply needed (see Demirbag, Tatoglu and Glaister, 2008, p.14). Compared to west European economies there was obviously still a long way to go (and still is), but the overall business environment was very favourable to new investments. To this contributed also the existent tax rates in terms of governmental assistance, which were rather mild to such new expanding endeavours as that of Kronospan in Sebes-Alba.

P5: *A MNC is more likely to choose greenfield over acquisition when the perceived host country investment risk is high.*

This fifth proposition could be supported. Actually, *as the perceived host country investment risk low was, the MNC chose an acquisition over a greenfield.* As already stated various times before, by the time the investment was initiated, Romania had a balanced business environment, not being considered a high risk investment location anymore. The respondent also mentioned that as they considered the market being

already on the right path of development, the political and economical status showing promising results, the perceived investment risk was not perceived as a possible obstacle anymore. For obvious reasons, it was evaluated and taken into consideration, but this was not a ‘deal – maker respectively – breaker’ factor for the future planned initiative. Therefore the economical and political stability of Romania, as factors in their decision making process, were rated with 2 out of 7 points by the respondent (with 1 – no importance and 7 – major importance), meaning that even if they realised that their forthcoming acquisition will need to overcome a certain arising investment risk, this aspect was less important than the other manifesting factors speaking in favour of pursuing with the establishment of the foreign subsidiary (see citation in Demirbag, Tatoglu and Glaister, 2008, p.12). Moving forward, a factor with a more powerful effect is the growth rate of the Romanian economy, scoring a 4 out of 7 (with 1 – no importance and 7 – major importance). The respondent added that, Kronospan recognised early the huge potential of this market with such an economic growth, among the fastest in Europe (officially 8,4% in 2008 and more than three times the EU average - www.zf.ro/articol_172008) and therefore did not hesitate to act upon it. At the same time, Romania was a part of their expansion plan within the markets of east and south-east Europe (www.kronospan-worldwide.com, accessed on 02.01.2013). The supportive policies and actions of the local authorities played also an assuring role during the decision making process and afterwards when acquiring this foreign venture in Romania.

P6: *A MNC is more likely to choose acquisition-mode over greenfield-mode when a significant market potential is perceived (market potential and/ or first mover advantages).*

The proposition above could also be supported. By recognising the significant market potential and most importantly that no other comparable wood-based panels’ manufacturer in this product range on the Romanian market at that precise moment in time present was, the acquisition entry mode enabled gaining from first mover advantages (see citation in Demirbag, Tatoglu and Glaister, 2008, p.13). After the finalisation of the investment, the entering MNC became an important local supplier for the furniture industry in this market, aspect that also encouraged and contributed to the decision of other such producers to enter. At the same time, the importance of the level of industry competition as a decisional factor for entering the Romanian market was

rated by the respondent with a 4 out of 7 score (with 1 – no importance and 7 – major importance). It means that competition was retained as important, but at the same time it was not the most relevant factor leading to making the entry mode decision. This was then supported also by the future developments of the subsidiary and its activity, which according to the respondent did encounter little competition during its first two years of operation after the acquisition – rate of 3 out of 7, with 1 – very little competition and 7 – very much competition. But more interestingly, the response regarding the suitability of the Romanian market for providing access also to the neighbouring markets obtained the highest rate of 7 points out of 7 (with 1 – no importance and 7 – major importance). This acquisition was part of a more elaborate market entry strategy including also other east European countries like Hungary, Bulgaria or Poland so that is why, even only from the logistical point of view, Romania was evaluated as a must-win market. The geographical proximity aspect played another significant role in the market entry decision making process, being rated with 6 out of 7 points (with 1 – no importance and 7 – major importance), which is rather comprehensible related to the present transportation costs - also scored a 6 out of 7 points – the importance of international transport and communication costs in taking the decision to choose Romania as a location (with 1 – no importance and 7 – major importance) being the exact tested factor. Surprisingly the local market size played a slightly less important role for this MNC in the entry mode and location choice of their equity venture, rated with 5 out of 7 points (1 – no importance and 7 – major importance), even if compared to other east and south-east European countries, Romania with an overall population of about 21 million inhabitants represents a set-up for a very solid target group.

P7: *A MNC is more likely to choose acquisition-mode over greenfield- mode when the perceived input quality is higher in the country of entry (local inputs – cost complementarities between MNC and subsidiary and quality).*

could be supported. From the start, this MNCs' main intent was to establish a production site locally, meaning therefore that for making this investment possible the necessary inputs had to be available in the country of entry. Obviously apart from being available, these resources and capabilities should meet a certain level of quality while being offered at a fair price (see citation in Demirbag, Tatoglu and Glaister, 2008, p.14). Therefore the importance of both factors influencing the market entry decision making process, namely the availability of qualified local personnel and of good quality inputs

(raw material, labour, etc.) were graded by the respondent with 6 points out of 7 (with 1 – no importance and 7 – major importance). For having even the smallest chance to make such an investment succeed, the mentioned two aspects are inseparable, the local availability of the needed raw materials and that of the qualified personnel able to put everything into practice. As in all situations, it is also a matter of costs, of local inputs – cost complementarities between the investing MNC and the subsidiary and their quality, because for turning such an investment profitable the costs of bringing the affiliate to an operational level should be kept within very narrow limits, while providing to the customers the quality of products and services they were not only used to, but for which the company stands for (see citation in Demirbag, Tatoglu and Glaister, 2008, p.14). All these necessary conditions for Kronospan to proceed with the acquisition were met by this specific local business environment and the input cost-quality relationship was more than favourable, thus the investment was not only finalized but it became a real success in no time.

P8: *The higher the verbal communication barriers between a MNCs home location and a host location, the higher the likelihood that the MNC will enter that location through a greenfield investment rather than through an acquisition.*

The tested proposition eight could also be supported by the obtained results, but rephrased as follows: *“The lower the perceived verbal communication barriers between a MNCs home location and a host location, the higher the likelihood that the MNC will enter that location through an acquisition rather than a greenfield investment”*. Being a very active company internationally, operating worldwide, for Kronospan the existing verbal communication barriers between its home and the host location were not an issue in this case. In fact, the respondent indicated that the impact the verbal communication barriers had in their entry mode decision in Romania was actually 0%. Going further into details, it was shown that actually as expected, the investing MNC did not encounter any difficulties regarding the existing communication barriers. It was a given fact that all the personnel in key positions was not only English, but also German speaking and that their experience and gained professionalism contributed to closing the initial cultural gap, that might have existed between the two corporate mindsets. No problems turned up regarding the know-how transfer or the necessary knowledge exchange and further on also all the coordination, monitoring and socializing activities developed just as planned. Again, considering the location of the foreign affiliate, the

verbal communication barriers did not raise any difficulties, although obviously that a certain level of integration costs was registered nevertheless. But, in this case, these costs had an almost negligible level, because the member of the operational core team were locals enabling thus to go beyond any potential differences that might have manifested in this sense. The top management was at the beginning represented by expatriates from the parent firm, but only during the transition period, by now very few of them being still present on site, and according to the respondents' statement they did not encounter any integration difficulties in implementing their organisations' vision, principles and strategy and thus in achieving their pre-set development goals.

P9: *The positive effects of verbal communication barriers on the likelihood of greenfield entry will be weaker at higher planned levels of subsidiary autonomy.*

Considering this proposition and regarding this case study it cannot be stated whether it could be supported or not. Concerning the previous proposition, it was concluded that the verbal communication barriers between the parent firm and the host affiliate were not considered as being a defining factor in the MNCs' entry mode choice and it was proven consequently that these did not have in fact such an impact to really make a difference on the outcome of the decision making process. But still, the respondent answered the questions regarding the level of the subsidiary's integration and explained to which extent its management team is free to run the established venture at its own will. In terms of procurement, product design and production processes the subsidiary enjoys very much autonomy, scoring the maximum rate 5 out of 5 points (with 1 – very little autonomy and 5 – very much autonomy). This reflects the fact that the investing MNC relies strongly on the existence of the necessary raw materials at local level, on the national suppliers (as shown above), the production being also highly localized. Regarding the research & development matters and those concerning the product packaging, as the selection and training of employees, the local management team was granted with considerable autonomy, rated with 4 points out of 5 (with 1 – very little autonomy and 5 – very much autonomy). Following closely with 3 out of 5 points are aspects regarding the pricing policies, advertising and sales promotion and the customized job design. Indeed it could be concluded that the operational policies and their implementation are handled by the local management team, while the strategic ones, including the most relevant marketing issues are being created and carried forward

by the parent firm, mostly because it is intended to achieve a standardized approach worldwide.

3.5 Case Study – Prolemn SA (Kastamonu Romania)

The following section is dedicated to the case of Prolemn S.A., which became KASTAMONU ROMANIA, a member of the Turkish group of companies Kastamonu Entegre. Kastamonu Entegre A.Ş. (Kastamonu Integrated Wood Industry and Trade Company) is one of the worlds' largest wood panels' producer. The company is producing raw and melaminated particle boards (Yongapan, Yongalam, Teknopan, Teknolam), raw and melaminated medium density fibreboards (Medepan, Medelam), laminate flooring (Floorpan, Artfloor), skirtings', door skins (Doorpan) and other related value adding products in this category (www.kastamonuentegre.com, accessed on 02.12.2012).

3.5.1. Company Profile

The Kastamonu Integrated A.Ş. was founded in 1969 in Istanbul and two years later their first chipboard production plant was established in Kastamonu city. Throughout the next almost thirty years the company continued its expansion on a local level initiating extensive investments towards the augmentation of its product portfolio. To the initial raw particle boards production (chipboard), the melaminated ones were added (Yongapan, Yongalam), continuing with an impregnation plant, investment completed in Kastamonu city at the beginning of the 90s' (www.kastamonuentegre.com.tr/eng, accessed on 02.12.2012). Their international adventure, if it may be called like that, began in 1998 with the groups' first overseas investment in Romania. This was followed by ventures in Bulgaria (2000) and Bosnia-Herzegovina in 2004. By the end of 2001 the investments to the Gabrovnitsa plant in Bulgaria were finalised and the production of raw and melamine faced chipboards started. In Romania, the production began in 2002 with moulded door panels, door skins (Doorpan) and the investment for a hdf (high density fibreboard) plant was initiated later that year. After a 100 million dollars investment, these "Doorpan" door panels became an important export item within the companies' portfolio. They gained a 40% market share in Europe, with a 10% of the worlds' production capacity, occupying the 4th place worldwide in this

sector. Due to this success, the MNC decided to build a second door skin production line, increasing thus its capacity by 100%. This second “Doorpan” line started production in June 2006 and Prolemn became an important player on this market. The investments in the Romanian acquired company continued with building up a melamine faced chipboard factory, which became active by the end of 2011.

Being in operation already over 40 years by now, the Kastamonu Entegre A.Ş. employed on average during the last three years about 7.000 persons. Its average annual revenue during the same mentioned period (2008-2011) was of 750 million Euros. In this regard, its Romanian subsidiary had on average during the last three years 800 employees and mean annual revenues of 40 million Euros. Considering only the declared revenue figures it may be presumed that this acquisition, even if the process started over 14 years ago, still needs major support from the parent firm, not only by heavy investment, but more important for developing a sustainable operational strategy. Being aware of the necessary changes and long needed improvements, the local management team of the Romanian subsidiary was completely renewed during the past year and as a consequence the positive results already began to emerge.

Furthermore a more detailed discussion of the purposes of investing in Romania, the reasons for the chosen entry mode and the emerged results including future goals of the Romanian venture, will be presented.

3.5.2. Findings and discussion of the case study

As in the other three cases, the data was collected by means of the same comprehensive questionnaire. This questionnaire was sent to and answered by the assigned person for restructuring and expanding the venture based in Reghin (545300 Mures County). The gathered data and all the statistics and figures refer to the date of December 2012. Also as mentioned before, although the company is based in Romania and the main management team, including the respondent are Romanians, the questionnaire was prepared and answered in English for minimizing the possible bias that could arise from misinterpretations due to different communication languages (German and/or Romanian).

Next, the propositions of the theoretical framework will be challenged by exposing the findings and results of the questionnaire. In doing so, the most important aspect is the

fact that Kastamonu Entegre A.Ş. acquired the Romanian Prolemn, therefore we are dealing with an acquisition entry mode.

P1: *Firms with higher levels of multinational experience will tend to prefer greenfield modes over acquisitions.*

Analysing the obtained information, the first proposition can be supported, but transformed into: “*Firms with lower levels of multinational experience will tend to prefer acquisitions over greenfield entry modes*”. Until this considered moment, the Turkish based multinational has performed only three foreign investments of which two were acquisitions and one greenfield investment, meaning that the distribution of the foreign ventures is split between two acquired local companies and one foreign start-up (see citation in Dikova and Witteloostuijn, 2005, p.6). Lacking a deep experience at international level the MNC prefers to acquire the Romanian state company during its privatisation process by applying a strategy that has proven to be successful for them in the past. A prior positive experience regarding this entry mode and the observed operation modes of the competition on the local level, determined such a choice (see citation in Dikova and Witteloostuijn, 2005, p.6). It is as though the MNC seems to have found at some point the recipe for obtaining success and therefore tries to replicate it also to its next initiatives. Considering the fact that the company does not seem to pursue an aggressive internationalization strategy, by establishing a lot of foreign subsidiaries, it can be stated that their international experience is rather low with only three such ventures. Nevertheless, two out of these were acquisitions so it can be concluded that there is a slightly higher tendency towards this entry mode, although a definite pattern cannot in any case be established.

P2: *The greater a firm's technological intensity the more likely it is to prefer a greenfield diversification mode, rather than an acquisition.*

Proposition two could not be supported. The Turkish parent firm acquired the Romanian subsidiary and therefore the acquisition diversification mode was preferred. At the same time the activity of this company is highly technological intensive. In 1998, when the acquisition took place, the major part of companies in the Romanian industry suffered from the lack of up-to-date technology, old equipment and in a very poor condition. The main and more difficult task of the Turkish investing company was putting an end of the long period of inefficiency within the local firm, trying to raise the productivity by

making its technical know-how available and by initiating a series of technological intensive investments (see Dikova and Witteloostuijn, 2005, p.9-10). Although choosing such a type of market entry rose adaptation costs and it was rather difficult to transfer to the subsidiary the assets generating competitive advantage, the parent firm enjoyed of great acceptance from the local employees, being thus able to built up a very efficient local core team. The availability of qualified local personnel and of good quality while low cost inputs (raw material, labour, etc.) are a few of the most important host country specific motives (scoring 7 out of 7, as major importance) that lead the MNC to choosing Romania as a location for their acquisition. Due to the low costs of inputs, but still the availability of highly skilled personnel in some sectors permitted the MNC, even choosing to enter through acquisition, to maintain their competitive advantage and perform at the standards set by their technologically oriented activity.

P3: *MNC's establishing a large affiliate (relative to their own size) are less likely to enter by greenfield investment than by acquisition.*

Considering only the employee level, the subsidiary stands only for a little more than 11% of the average number of persons employed by the parent firm. Taking this into consideration, it might be stated that the proposition three is not supported. This third proposition suggests that there is a positive relationship between establishing a large affiliate (relative to the parent firms' size) and the option for an acquisition. Actually in this case, although the relative size of the subsidiary is significantly smaller than that of the investing MNC, they still chose an acquisition over a greenfield diversification mode (scoring 2 out of 7 concerning the "Relative Size of Subsidiary vs. Parent Firm" reaching from 1 – very small to 7 – very large). According to their statement, they preferred to sustain the adaptation costs and opted for a quicker entry, than supporting the consequences generated by the liability to foreignness, considering the fact that the cultural gap between Turkey and Romania cannot in any case be ignored (see Ionascu, Meyer and Estrin, 2004, p.11). At the same time, by acquiring the local company they gained quick access to the locally based resources like the raw materials needed for the production of door-skins and eventually chipboards. Being dependent on one major area of related products, all produced from wood as a vital source, the already established network of suppliers was of major importance for them. Also, from their point of view, it was much easier to deal with all the institutional constraints by joining efforts with a local partner.

Pursuing further with this topic, regarding institutions, the impact of investment incentives offered by the local administration was tested by the following proposition:

P4: *A MNC is more likely to choose a greenfield investment over an acquisition mode when investment incentives are perceived as important.*

which proved to be partially supported. Although the availability of investment incentives was stated to have had a rather mild, neutral impact on the MNCs' mode choice for entering the market in question, the availability of tax advantages played a rather slightly more important role. Therefore this proposition is considered to be in part supported, because even though during the decision making process the existence of investment incentives are not considered to be of major importance (scoring 4 out of 7, from 1 - no importance to 7 - major importance), the discussion and answers regarding the availability of tax advantages proved to be a bit more important (scoring 5 out of 7, from 1 - no importance to 7 - major importance). Based on the received answers, the existence of investment incentives and the availability of tax advantages were not the main decisional factors in the MNCs' choice for the diversification mode, but they were still considered to be of significant importance during the decision making process (see Demirbag, Tatoglu and Glaister, 2008, p.13). The most important factors are obviously for a company active in this sector the availability at a local level of the necessary resources and capabilities, permitting them to gain or to maintain their competitive advantage in this market (see Demirbag, Tatoglu and Glaister, 2008, p.14). The type of activity the company develops and the raw materials needed for the production were the main drivers for the strategic choices they made. Not only the availability of resources and capabilities and the existing positive circumstances, but also the cost effectiveness and the possibility of creating added value under favourable conditions contributed to this entry mode choice.

P5: *A MNC is more likely to choose greenfield over acquisition when the perceived host country investment risk is high.*

The proposition five was supported, but rephrased into: "*A MNC is more likely to choose an acquisition over greenfield when the perceived host country investment risk is low*". At the moment of entrance (1998), the Romanian market was still in a developing stage, Kastamonu Entegre A.Ş. being one of the 8.801 companies daring to invest in this economy. The general framework for setting the foundation of an

investment with important potential was present, from the political and economic point of view it was considered by the Turkish MNC to be a quite stable market, this being two factors with significant importance in their location choice for this type of equity venture (score of 5, with 1 – no importance and 7 – major importance). At the same time the growth rate of the Romanian economy was considered to be very important, scoring a 6 (with 1 – no importance and 7 – major importance) in the list of choices regarding the factors that mainly influenced their decision. Fact is, that almost all companies investing in Romania during that period proved to be successful. Being a rather stable, but still a transitional economic environment during that period, the Romanian market had a lot of potential, making it easy for almost every business to succeed (see citation in Demirbag, Tatoglu and Glaister, 2008, p.13). For the Romanian government it was highly important during those years to attract as much foreign investors as possible, because they lacked the means and the know-how to rescue the collapsing state-owned industry. This was the case of every state-owned company, which was struggling to keep the pace with the developments and had sadly failed to overcome the obstacles that came with the emerging market economy realities. That is why the Romanian governments' policy towards foreign direct investments was very open, flexible, stimulating and supportive, this being also a factor of much importance for the Turkish-based MNC choice (score of 5, with 1 – no importance and 7 – major importance).

P6: *A MNC is more likely to choose acquisition-mode over greenfield-mode when a significant market potential is perceived (market potential and/ or first mover advantages).*

Proposition six could be supported. One of the factors considered to be more relevant for the entry mode decision was the market size, scoring 6 out of 7 (with 1 – no importance and 7 – major importance). At the same time the level of industry competition was also relatively important graded with 6 out of 7 (with 1 – no importance and 7 – major importance). The parent firm acknowledged the significant market potential, first considering the large customer base to be targeted and second being aware of a less intensive competition in this sector. They did not gain from the first mover advantages but also did not have to compete with numerous and/ or strong competitors, which enabled the established venture to perform good during the first two years after it became operational and continued improving ever since. The respondent

also mentioned that although the sales level and the gained market share during these very first years were situated at a somehow medium level - both aspects graded with 4 (1 – very bad performance to 7 – very good performance) – the overall performance of the local subsidiary was slightly higher (graded with 5 points out of 7, with 1 – very bad performance to 7 – very good performance). After the moment of entry, the acquired Prolemn and afterwards Kastamonu Romania, as stated already, did not face a lot of competition, which permitted them to focus at the beginning on investments into initiatives leading to productivity and efficiency improvement. Being one of the first players on the market assured them significant sales and therefore revenue levels with less effort, proving that entering through acquisition was the right strategy for this investing MNC. To all these aspects, needs to be added one more, a factor considered to be of major importance in the entry mode and location choice, respectively the geographical proximity to the parent firm and other targeted markets confirming therefore the suitability of the Romanian market to access also other neighbouring ones, rated with the maximum score of 7 points (1 – no importance to 7 – major importance) implying that other strategic expansion goals were and still are to be achieved.

P7: *A MNC is more likely to choose acquisition-mode over greenfield- mode when the perceived input quality is higher in the country of entry (local inputs – cost complementarities between MNC and subsidiary and quality).*

This proposition could also be supported. The availability of low costs inputs in the local market was a decisive factor for the Turkish parent firm to establish their subsidiary in Romania, choosing an acquisition as a market entry mode. Not only that the costs of the needed resources and capabilities were lower in the host market, but these were considered also to be of good quality (see citation in Demirbag, Tatoglu and Glaister, 2008, p.14). Both aspects - quality and low costs of inputs – were therefore assigned with major importance by the investing MNC, fact also confirmed by the respondent, by attributing to the answers of the questions regarding this matter the maximum score 7 points out of 7 (with 1 – no importance and 7 – major importance). Obviously for reaching the set production capacity the core circumstances needed to be present, like the availability of the necessary raw materials and at a certain level of cost. At the same time the availability and the needed professional level of the existent skilled labour had to be assured. Because all resources are limited, but in this case due to all the players in the market, there is a strong competition for acquiring the necessary

wood capacities for a determined period of time. Therefore in this case the rapidity of action was and still is essential. In consequence, an acquisition diversification mode permits the MNC to, although sustaining higher adaptation costs, access the market in a quick manner. Through the existing structures and networks of the local firm, which offered the necessary initial set-up, the parent company did not encounter difficulties in establishing the newly 'reinvented' subsidiary in this economic environment (see Demirbag, Tatoglu and Glaister, 2008, p.14).

P8: *The higher the verbal communication barriers between a MNCs home location and a host location, the higher the likelihood that the MNC will enter that location through a greenfield investment rather than through an acquisition.*

Proposition eight could not be supported. Even though the verbal communication barriers between the MNC's home location and the host location were pretty high, an acquisition entry mode was preferred. This aspect was taken into consideration during the decision making process, but it did not weigh as one would have expected in theory. According to the respondent, as a proportion the existing verbal communication barriers did account only for 1 – 20% (from 0% to over 50%) in their choice of the location and mode of entry. Despite the fact that it was expected that the communication costs of the acquisition reach concerning amounts, in reality this did not occur (see Slangen, 2011. p.1703). It was explained by the respondents' statement according to which the corporate language being English and the hired new personnel and the acquired employees in key positions being all proficient in it, the verbal communication did not raise any major issues. Considering the existing cultural gap it was also expected that the acquired employees were less willing to contribute to the development and eventually success of the MNC, but this was also not confirmed in reality (see Slangen, 2011. p.1704). The existing personnel proved to be very open, embracing this investment like a huge opportunity for them to evolve and to secure the future of the company and their own. So they were receptive to the transferred knowledge from the MNC and at the same time willing to share their own knowledge and experience. An important point regarding the coordination and monitoring activities of the acquired subsidiary was the fact that they decided to have a local core management team, which facilitated the implementation of their directives and brought the coordination performance between the MNC parent and the local entity to the level they intended.

P9: *The positive effects of verbal communication barriers on the likelihood of greenfield entry will be weaker at higher planned levels of subsidiary autonomy.*

In addition to proposition eight, proposition nine could also not be supported. This proposition already implies the option for a greenfield entry mode. Having as a starting point an acquisition, it is already expected that the level of the subsidiary's autonomy is higher than in the case of a greenfield investment. It refers mainly to the extent to which the subsidiary's management team is free to run the venture independently and in this case the Romanian subsidiary of the Turkish MNC has been granted considerable autonomy, even though the knowledge exchange is extensive and the coordination level of their activities is significant (see Slangen, 2011, p.1705). For matters regarding procurement, product packaging, pricing, advertising and sales promotion, the selection and training of employees and the design of reward systems, the respondent sustains that the local management team has been granted very much autonomy from the parent firm (rated with 5 out of 5, with 1 – very little autonomy and 5 – very much autonomy). This means that although the verbal communication barriers between the two ventures are considerable, by setting English as corporate language many possible drawbacks were eliminated from the start, thus preventing the increase of the communication costs in this case. Additionally in terms of product design, of the organization of the production process, of job design and even the use of brand names the level of the subsidiary's autonomy was rated by the respondent with 6 points (with 1 – very little autonomy and 5 – very much autonomy), which also sustains the previous statements and judgements, concluding that the local firm can act almost completely independent. An important fact though, concerning the research and development activities, the subsidiary has little autonomy (rated with 2 out of 5, with 1 – very little autonomy and 5 – very much autonomy), which leads to expected higher communication costs of knowledge transfer (exchange), or at least to a greater extent than those of coordination, monitoring and socialization.

4 Comparison and discussion of the case studies

As already mentioned above, for the case studies four different companies active within related business segment were chosen, all part of the wood-based processing and manufacturing industry. In a subsequent step, being important for means of comparison to have for each analysed diversification mode two companies, therefore the choice for two greenfield investments, EGGER Romania SRL and S.C. Holzindustrie Schweighofer S.R.L., and two acquisitions, Kronospan Sebes SA and Prolemn SA (Kastamonu Romania). Two of these (S.C. Holzindustrie Schweighofer S.R.L. and Kronospan Sebes SA) were established in the same location, in Sebes-Alba, the Transylvania region, while the Prolemn SA (Kastamonu Romania) is located in the same central part of the country as the two mentioned shortly before. Only the foreign subsidiary EGGER Romania SRL is located in the north-eastern part of the country, in Radauti, Suceava County. Another relevant part, that three of the four foreign affiliates have in common is the fact that their parent firm is Austrian based - EGGER Romania SRL, S.C. Holzindustrie Schweighofer S.R.L. and Kronospan Sebes SA, while for the fourth and the remaining one, the home location of the investing MNC is Turkey. Taking a closer look at the chronology of these market entries, the first established subsidiary was that of Kastamonu Group in 1998, followed by S.C. Holzindustrie Schweighofer S.R.L. in 2002, Kronospan Sebes SA in 2004 and eventually the EGGER Romania SRL in 2007. Retaining that the most interesting points regarding the general characteristics of these considered case studies are contained in the summarized information presented shortly before, I will pass onto the next section and discuss in more detail the similarities and differences between first the greenfield cases, followed by the acquisitions.

4.1 Comparison and discussion of the greenfield – cases

The two greenfield establishments have Austrian based parent firms, but their headquarters play different roles and occupy different positions in the day to day business operations of their Romanian subsidiaries. Both of them perform highly technological intensive activities, but while EGGER Romania SRL is one of the groups 17 plants spread over seven different European countries, the S.C. Holzindustrie Schweighofer S.R.L. is the Schweighofer Groups first out of four production sites in Romania, the only ones outside of Austria. From the multinational point of view, it can

therefore be stated that the experience held by EGGER is more divers and at the same time remotely higher than that of the Schweighofer Group. Despite this fact and for several other different reasons, this did not represent an impediment for the Schweighofers' to enter the host location choosing also a greenfield diversification mode. In both cases the availability and sustainability of resources and capabilities, mainly of raw material (the most important – wood) and good quality labour force played an essential role in both MNCs entry mode choice. Interestingly enough, investment incentives and public authorities' policies did not have in both cases the expected impact during this market entry mode decision making process. Actually the proposition number four regarding this aspect could only be supported in the case of the Schweighofer Groups' established venture. A common result for both foreign investing companies was the perceived host country investment risk, which proved to be considered a less relevant factor in their entry mode choice. Both respondents offered subsequently similar insight information, underlining that even if an investment risk regarding the entered business environment was perceived, its level was considered to be in any case manageable. Further details concerning the other obtained results respecting these two analysed greenfield case studies, are being provided by the following table:

Table 5. Summary of the Results of the Greenfield Case Studies

Proposition	Investigated Factor (with higher level)	Predicted Tendency for Greenfield	Findings of the Case Studies	
			EGGER	HOLZINDUSTRIE
P1	Multinational Experience	+	supported	not supported
P2	Technological Intensity	+	supported	partly supported
P3	Subsidiary's Relative Size	-	supported	not supported
P4	Investment Incentives	+	not supported	supported
P5	Host Country Investment Risk	+	not supported	not supported
P6	Market Potential (First Movers')	-	supported	not supported
P7	Input Quality Country of Entry	-	not supported	not supported
P8	Verbal Communication Barriers	+	partly supported	partly supported
P9	Level of Autonomy	-	N/A	partly supported

By observing the findings, one can state that obviously the two parent companies had, to some extent and concerning some of the discussed issues, different reasons for not only entering the chosen market, but also for choosing a greenfield as diversification entry mode. The EGGER Group was very much interested in what the location had to offer in terms of geographical proximity and possibility to enter in addition neighbouring markets, as part of their rather aggressive expansion strategy towards the east. On the other hand, the Schweighofer parent firm was mainly concerned with the potential of development offered by the local market, in gaining quick market share and thus achieving their set of goals in terms of obtained revenues within the first couple of years of operation. For both, the quality of inputs made available by the host country was another major factor that contributed to their decision for the location and the mode of entry. Taking into account the issue of verbal communication barriers existing between the home and the host location and their influence on the level of integration costs, there is an essential similarity between the two cases, since both respondents named this factor to have an almost insignificant impact on their entry mode choice. At the same time, if looking at the degree of autonomy granted by the parent firm to its foreign subsidiary, it appears that in the case of EGGER Group there is no connection between this factor and the integration costs created through the existing verbal communication barriers, even if these were perceived as having very little influence on the investments final balance sheet. On the other side, even if Holzindustrie Schweighofer was granted autonomy to a greater extent, the existence of a clear relationship between this aspect and the positive effects of the verbal communication barriers on the integration costs sustained by this established venture could not be completely confirmed.

4.2 Comparison and discussion of the acquisition – cases

The acquisition selected case studies are also two companies operating in the wood-based manufacturing industry, namely Kronospan Sebes SA and Prolemn SA (Kastamonu Romania). As previously stated, the first one mentioned has an Austrian based headquarter while the other ones' parent firm is being located in Turkey. The Turkish parent firm overtook the Romanian company in the late 90s', while the Austrian one followed almost six years later, in 2004. The circumstances between the two moments of market entry and the institutional set-up obviously differed, as the

business environment evolved during that period of time, thus the two investing companies were confronted in this sense with continuously developing frameworks. An important characteristic regarding both investing companies is also their multinational experience, because like for the greenfields', one of them (Kronospan) has a higher degree of multinational experience, compared to Kastamonu, which could be considered to be still at the beginning of their expansion at an international level. The product range of both companies is very similar, with a vast portfolio based on manufacturing of wood-based panels and fibreboards. The technological intensity of their activities is therefore fairly equal, while being rather high (as in the case of the greenfield investments). As a consequence, the proposition number two concerning the MNCs technological intensity influencing their mode of entry could not be supported. This is one of the similarities emerged in all of the analysed case studies, not only for the acquisitions. Regarding the entering strategy adopted by the investors in the case of the acquired foreign firms, three of the propositions (five, six and seven) could be simultaneously supported. The table below offers a more detailed image of the rest of the obtained results for the performed acquisitions:

Table 6. Summary of the Results of the Acquisition Case Studies

Proposition	Investigated Factor (with higher level)	Predicted Tendency for Acquisition	Findings of the Case Studies	
			KRONOSPAN	KASTAMONU
P1	Multinational Experience	-	not supported	supported
P2	Technological Intensity	-	not supported	not supported
P3	Subsidiary's Relative Size	+	supported	not supported
P4	Investment Incentives	-	supported	partly supported
P5	Host Country Investment Risk	-	supported	supported
P6	Market Potential (First Movers')	+	supported	supported
P7	Input Quality Country of Entry	+	supported	supported
P8	Verbal Communication Barriers	-	supported	not supported
P9	Level of Autonomy	+	N/A	not supported

Observing the results obtained for the acquisition cases, a greater consensus emerges if compared to the greenfield ones. As expected, major differences exist regarding the verbal communication barriers and their effects for the Turkish investor and its established subsidiary. But even if the verbal communication barriers between the Turkish parent firm and the foreign affiliate are pretty high, they counted as an influencing factor for actually less than 20% during the entry mode decision making process. This answer was in fact received also in both greenfield cases, while for Kronospan the attributed proportion concerning this issue was the lowest (with 0%), the verbal communication barriers did not impact whatsoever the market entry mode decision. As for all cases, integration costs incurred nevertheless, but again for Kronospan these were not affected by existing cultural differences between the home and the host location. More on the main similarities and differences between all four selected case studies will be presented next, in a concise overview.

4.3 Overall comparison and discussion

From the four chosen companies for the case studies two of them operate within the exactly same business segment, but engage in different internationalization strategies concerning their market entry mode – EGGER Romania, greenfield investment and Kronospan Sebes, an acquisition – and other two companies performing in a related sector, within the same wood-based manufacturing industry – Holzindustrie Schweighofer, the second analysed greenfield venture and Kastamonu Romania, the other observed acquisition. The subjects of the case studies were selected from closely related and even exactly the same business segment for allowing a better comparison and possibly identifying other industry specific factors affecting their diversification mode decision. One major point to consider is that three of these investing companies are Austrian based, the forth being Turkish.

Looking at the multinational experience, two of the companies, one from each group, have already developed an extended internationalization strategy, being already globally present, while the other two are still at the beginnings of their foreign expansion activities. The proposition regarding this investigated factor could not be overall supported as predicted – MNCs' with higher level of multinational experience do not tend to choose always a greenfield entry mode over an acquisition.

Taking into account the technological intensity, there is an essential similarity between the chosen companies of the two diversification modes, mainly due to the fact that they all operate in tight related activity sectors, part of the same industry. This implies that their activity is almost equally technological intensive, which according to the tested proposition would lead the investing firm to prefer a greenfield diversification mode and not an acquisition. For the start-up ventures, this proposition was supported by the obtained results, but for the acquisitions, as expected, it was not.

Comparing the evaluated answers concerning the subsidiary's size relative to that of the parent firm, two of the foreign affiliates are considered to be actually larger than the home-located company and because one of them is a greenfield venture (Holzindustrie Schweighofer), this proposition could only be supported for the Kronospan acquisition. The size of the other two investments EGGER and Kastamonu is remotely smaller relative to the size of the establishing MNC, therefore in both cases the theoretical proposition could not be confirmed in practice. Unfortunately also in this case, a general tendency valid for all the selected ventures could not be observed.

Reviewing the received responses in terms of proposition number four, it can be concluded that only in one case, that of Holzindustrie Schweighofer, the investment incentives were perceived as important and had therefore a significant role as an entry mode decisional factor. It needs to be underlined that they enjoyed an important amount of support at a local level, assistance provided mainly by the local authorities and stakeholders. In all the other cases, this aspect was not considered to be a factor with major influence during the MNCs' entry mode decision making process.

Further on, taking a detailed look at the findings regarding the perceived host country investment risk, again these were surprising to some extent, because all the four investing MNCs' did not consider the risk of investing in Romania as being high, existing yes, but already taken into consideration and dealt with. Therefore this is the first proposition for which a general trend could be observed, sustained in all the four foreign investment cases.

For the sixth proposition the obtained results enforced the initial presumption, that almost all of the investors will recognise and attribute the right amount of importance to the market potential of the location. But because the EGGER Group adopted an export oriented strategy, being interested primordially in the possibilities made available by the

geographical position of the entered market, their choice for a greenfield venture reconfirms the theoretical argument regarding this matter, also supported by the institutional theory. All the other three investors were 'pushed' to enter the market being attracted by its significant growth, but only two of them chose an acquisition, in theory the most suitable diversification mode in this case, allowing them a quick entry and capitalizing on first movers advantages. That is why, for Holzindustrie Schweighofer this proposition could not be supported, because although being a market oriented company they still opted for a start-up investment. In their case, other aspects regarding the importance of establishing such a venture weighted more during the choice of the market entry mode. Preparing to conclude, only the influence of the verbal communication barriers during this same decisional process remains open for discussion. Optimistically viewed, it can be stated that the two proposed arguments in this sense could be partly supported for the greenfield cases and as expected not for the acquisitions, except than for the Kastamonu case. For Kronospan, the verbal communication barriers between their home and host location were perceived as having actually no influence on their entry mode decision, therefore the proposition was considered to be supported in this case. In terms of the degree of autonomy granted by the parent firm to its foreign affiliate the new local management team at Kastamonu Romania was attributed with decisional power to a great extent. All the other established subsidiaries can independently manage the daily operations, while all the business strategies or marketing and public relations matters are being coordinated by the parent firm.

5 Conclusions

Comparing the four case studies one needs to recognise each company's specificity and uniqueness in creating and managing their internationalization strategy. At a closer look several similarities and overlaps begin to emerge, common motivations and set-up conditions that had driven them to initiate such an investment in Romania. The timing of market entry slightly differs, but the intention of all these four investing companies was obviously to capture the advantages proposed by an economy in transition at first, passing to a very attractive development phase with a market growth level that was not only tempting, but very promising also. For all of them, based on the responses received

during the conducted interviews, the investment was a success and the positive results already started to show in their annual performance figures after only a few years in operation. As underlined shortly before, their selection was not by chance, the thought behind choosing companies from the same wood-based manufacturing industry entering the same market through two different diversification modes, was having the possibility of identifying and capturing patterns or completely opposite reasons triggering their entry mode decision. Based on this, the theoretical approaches were discussed and the propositions to be tested developed. In a next step the data was gathered by means of comprehensive questionnaire and follow-up in-depth interviews with key-employees from each of the established ventures. Already during the discussions, interesting aspects started to take shape, concerning mainly the most important motives and factors influencing first their decision to enter and then their choice for a greenfield investment rather than an acquisition or vice-versa. A general remark regarding all the interviewees is the fact, that although all of them reassured several times the perception that this market was by all means considered to be a stable business environment to enter, the problematic regarding mainly corruption issues and malfunctions of the institutional system could still be sensed as present even if not directly verbalized as such.

The topic that came up most often during the interviews for all four case studies concerned the availability of low cost inputs, mainly raw material in form of sustainable wood resources and skilled labour force. These were the two factors with great importance during all MNCs' market entry decision making process and as expected, the proposed theoretical approach was not supported for the greenfield ventures. Therefore it can be concluded that this represents one of the major similarities encountered throughout the entire study and analysis of the observed establishments. Another significant matter, with a huge impact on the location and subsequently on the mode choice was the perceived potential of the entered market. In three of the four cases, except for EGGER, the market potential of the location was a factor that proved to be of strategic relevance for the entry choice. The Schweighofer Group opted for a greenfield venture, which allowed them to capture significant market share and enabled the achievement of their set goals in a quick manner. The foreign affiliate of the EGGER Group adopted on the other hand an export oriented strategy, not depending on the access to the local networks, being more interested on the possibility to enter also neighbouring markets and therefore follow through their expansion strategy towards other eastern countries.

But from a daily business practice point of view, based on the information provided by analysis of these case studies, a common judgement deriving is that there is a major focus on the present developments of the local market conditions, all investors being highly receptive to any kind of changes in this regard.

Unfortunately the theory regarding the existing verbal communication barriers and their relevance for the entry mode choice could not be sustained for these case studies by solid results, as did the influence of the relationship between these and the subsidiary's level of autonomy on the MNCs' adaptation costs. Thus, still remaining a point to look more into and for sure up to more extended research is this one regarding the verbal communication barriers between the home and the host location and their effects on the diversification mode choice. In this sense, a possible further step would be creating the adequate prerequisites for the performance of a more detailed empirical study, which could reveal if these theoretical foundations can be supported in practice for this particular considered location or not.

Furthermore, concerning the location and based on the information gathered through the performed evaluation of each case study's results, it cannot be definitely concluded which of the two diversification modes is more suitable for the market in question. Nevertheless a tendency over the past decade towards a majority of acquisitions entry modes in Romania can be observed. From the investing companies' point of view, choosing this diversification mode enabled them a quick entry in the targeted market and access to the local resources. These were also two of the major advantages perceived in the case of the acquisitions considered for this study, but at the same time the availability of local inputs in form of raw material (wood supplies) and labour force was a very important factor for the established greenfield investments, too. Simultaneously, for that particular period, MNCs' entering Romania through acquisition offered better possibilities for the local firms to sustain their much needed modernization and restructuring process. Thus, for the sake of the reconstruction and development of the Romanian industry and economy, local authorities and stake-holders at a regional level offered their support in an extensive manner to all established foreign ventures, even though there were no specific governmental national programmes at that time stimulating and assisting such initiatives. This aspect was confirmed for all four studied cases, the greenfield investments and the acquisitions. All respondents underlined, that the local business environment was more than welcoming and no

hostility or reluctance to implementing the upcoming changes was perceived at any time. Such an acquisition might generate for the investing company further development and integration costs or other additional problems due to potential political and economical risks. Fortunately, for the considered local acquired ventures the financial effort from the parent company was held within limits and the incurred adaptation costs were also rather modest, therefore the impact of the investment risk was almost irrelevant for these entry mode choices. Actually, the perceived investment risk of Romania as a host country for both diversification modes, was much lower as expected, not directly affecting the investors entry mode decision, which is a really encouraging aspect for the future development of this country's economy.

On the other hand, entities like the EGGER Group, that pursue a centrally coordinated internationalization strategy, tend to prefer a greenfield entry mode, also applicable to Romania. Although the entry process in such a case more time-consuming and significantly more financially intensive was, for such companies with a solid equity base entering a safe institutional environment, these aspects do not raise any problems. When entering Romania, they valued more the country's potential to access other neighbouring markets and its sustainable raw material supplies, as competitive labour force. This case study per se represents a contradiction to all the main tendencies that could be observed in the Austrian investor's behaviour entering Romania during the last ten years: they chose a greenfield diversification mode, although foreign investments originating from Austria were mainly acquisitions and while over 80% of the entries in the Eastern part of the country, acquisitions were, they went for a start-up investment. Fact is, that all four foreign established ventures have achieved their previously set strategic goals and their performances are continuously improving, meaning that the intended success can be reached either through a greenfield investment, or an acquisition no matter the reasons influencing the entry mode decision. Therefore, because the obtained results were so diverse, overall and within the structures of the same entry mode, a straight forward recommendation towards establishing one or the other type of foreign equity venture in Romania can not be made. At the same time a general positive consideration is that although somewhat reluctant at first, no foreign investor can deny the high potential this market has, this country's available resources and capabilities and its strategic geographical position – all prerequisites for achieving more than satisfying results, if managed properly.

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7 Appendix

A. QUESTIONNAIRE (in part)

Thank you very much for your cooperation. Please be assured that the information submitted via this questionnaire will be treated confidentially and used exclusively for the purposes of the thesis.

Firm's general information

Q1. Please provide a **profile of the parent firm** (by answering the following questions)

- (1) Please specify the average number of employees during the last 3 years _____
- (2) Please specify the average annual revenues during the last 3 years _____
- (3) Please specify the total number of years in operation _____
- (4) Please specify the industry sectors your operating in _____
- (5) Please specify the key products/ services _____

Q2. Please provide a **profile of the foreign affiliate** (by answering the following questions)

- (1) Please specify the average number of employees during the last 3 years _____
- (2) Please specify the average annual revenues during the last 3 years _____
- (3) Please specify the total number of years in operation _____
- (4) Please specify the industry sectors your operating in _____
- (5) Please specify the key products/ services _____

Q3. Please specify the type of the foreign affiliate's capital **stock owned** by the parent firm. Please select only one.

- i. Sole Proprietorship
- ii. Majority Ownership
- iii. Half Ownership
- iv. Minority Ownership

Q4. Please specify the parent firm's FDI **mode choice strategy** in the host market. Please select only one.

- i. Acquisition (the purchase of a foreign established firm's stocks in an amount sufficient to confer control)
- ii. Greenfield (the start-up investment in the foreign market)
- iii. Other _____ (please specify)

Q5. Please specify the total number of the parent firm's **foreign investments** _____ and the **distribution** (proportion) of their entry mode choice strategies (in %)

_____ Acquisition

_____ Greenfield

_____ Other _____ (please specify)

Host Country Specific Motives

Q6. How important were the following factors in your decision to choose Romania as a location for the equity venture?

No importance  Major importance

Market Size	
Growth rate of Romanian economy	
Political stability in Romania	
Economic stability in Romania	
Availability of qualified local personnel	
Romania's government policy towards foreign direct investments	
International transport and communication costs	
Repatriability of profits	
Availability of incentives	
Availability of good quality inputs (raw material, labour, etc.)	
Availability of low cost inputs	
Availability of tax advantages	
Geographical proximity	
Level of industry competition	
Suitability of Romanian market to access neighbouring markets	
Other _____	

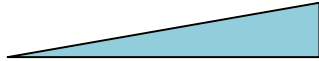
Communication Barriers

Q7. Please indicate what proportion had the verbal communication barriers in your entry mode decision with Romania as a location for the equity venture. Please tick.

- i. 0 %
- ii. 1 – 20%
- iii. 21 – 50%
- iv. Over 50%

Subsidiary Integration

Q8. The degree of subsidiary autonomy is the extent to which a subsidiary's management team is free to run the venture at its own discretion. How much autonomy did your management team give to the foreign established venture? Please answer this question for each of the following functions that apply:

Very little autonomy  Very much autonomy

Procurement	
Product/Service Design	
R&D	
Production/Service Process	
Use of Brand Names	
Packaging	
Pricing	
Advertising and Sales Promotion	
Design of Reward Systems	
Job Design	
Selection and Training of Employees	

Impact Dependency to Affiliate

Q9. Please indicate what proportion of inputs of your Romanian affiliate is purchased from your company. Please tick.

- v. 0 %
- vi. 1 – 20%
- vii. 21 – 50%
- viii. Over 50%

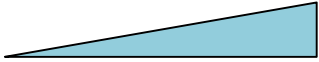
Parent Diversity

Q10. Which of the following **best describes** your company? Please tick.

- i. Dependent on single product
- ii. Dependent on one major area of related products
- iii. Diversified into related product areas
- iv. Diversified into unrelated product areas

Subsidiary size

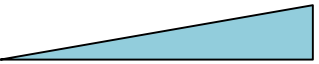
Q11. What was the **relative size** (in terms of number of employees) of your established venture compared to the size of your entity at the time of the acquisition/ establishment? Please tick.

Very small  Very large

Relative Size Subsidiary vs. Parent firm	
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Competition

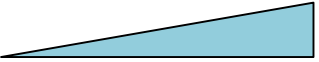
Q12. How much **competition** did your established venture encounter during the first two years after it became operational/ after the acquisition? Please tick.

Very little  Very much

Competition Intensity	
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Subsidiary performance

Q13. How did your **established venture perform** on each of the following aspects during the first two years after it became operational? Please tick.

Very bad  Very good

Sales Level	
Market Share	
Overall Performance	

B. Abstract (English)

Nowadays companies are more and more focused on efficiency and effectiveness matters and on cost reduction policies. Expanding multinational companies especially cannot, under any circumstances, afford failures anymore. The competitiveness is much higher, the pressure exercised by the market conditions on the performance of the international ventures also, as the assigned responsibility to each existing subsidiary to continuously obtain better results. Therefore the decision regarding the strategy that will be pursued internationally, the choice of the entry mode on a precise targeted new market becomes a very complex process. The importance of factors like the existence and availability of resources is being completed by cultural influences, the institutional framework of the local environment and even by a new emerged communication-theory that tries to explain to some extent their internationalizing choices.

This master thesis seeks to address the theoretical foundations, considered to be the most relevant ones, regarding equity market entry modes, focusing especially on greenfield investments and acquisitions, while trying to offer a better insight into the similarities, but much more into the differences between these two types of ventures and the motives triggering the choice for one, respectively the other. While doing so, the study concentrates on the major principles of the two equity market entries, whilst examining the interdependencies between them and other research domains like institutional or resource based theories. Four foreign ventures based in Romania were chosen as case studies for performing the qualitative analysis and probing the theoretical basis on hand of the defined propositions: two greenfield investments – EGGER Romania SRL and S.C. Holzindustrie Schweighofer S.R.L.; and two acquisitions – Kronospan Sebes SA and Prolemn SA (Kastamonu Romania). Furthermore it was explored if common similarities or differences emerged while analysing the motives for each of the market entry mode choice.

The obtained results were very diverse, overall and within the structures of the same entry mode, a straight forward recommendation towards establishing one or the other type of foreign equity venture in Romania is not possible. At the same time a general positive consideration is that although somewhat reluctant at first, no foreign investor can deny the high potential this market has, this country's available resources and capabilities and its strategic geographical position – all prerequisites for achieving more than satisfying results, if managed properly.

C. Abstract (Deutsch)

Heutzutage sind Unternehmen viel mehr auf Effizienz, Wirksamkeit und Kostenreduzierungsmaßnahmen fokussiert. Expandierende internationale Unternehmen können sich auf keinem Fall irgendwelche Misserfolge mehr leisten. Die Auswirkungen der Wettbewerbsfähigkeit sind viel ausgeprägter, die Marktbedingungen und deren ausgeübten Druck auf die Leistung der internationalen Unternehmungen sind wesentlich wichtiger, so wie die ständig wachsende Verantwortung jeder Filiale bessere Ergebnisse zu erbringen. Die Entscheidung betreffend die Strategie, die auf internationaler Ebene durchgeführt wird und die Wahl der Einstiegsmethode in einen neuen Markt wird dementsprechend zu einem komplizierten Prozess. Die Wichtigkeit der Faktoren wie die Existenz und das Vorhandensein von Ressourcen wird von den kulturellen Einflüssen, den institutionellen Rahmenbedingungen der lokalen Umwelt und sogar von einer neu entwickelten Kommunikationstheorie, die in einigen Maßen ihre Internationalisierungsentscheidungen zu rechtfertigen versucht, vervollständigt.

Diese Masterarbeit versucht die theoretischen Grundlagen, bezüglich der gewählten Markteinstiegsmethode, konzentriert auf Greenfield-Investitionen und Firmenübernahme, zu argumentieren. Es wird versucht einen besseren Überblick sowohl der Gemeinsamkeiten als auch der sehr interessanten Verschiedenheiten zwischen den beiden Methoden, und auch der Entscheidungsgründe, die zu einem oder anderen Unternehmertyp bewegen, zu verschaffen. Weiterhin, bezieht sich diese Studie auf den wichtigsten Prinzipien der zwei gewählten Kapitalmarkteintrittsmethoden, während die Interdependenzen zwischen den beiden und gegenüber anderen Forschungsthemen wie die Institutions- oder Ressourcen-Theorie ausführlicher analysiert werden. Vier ausländische Unternehmen mit Sitz in Rumänien wurden als Fallstudien für die qualitative Analyse und die Prüfung der theoretischen Grundlagen anhand der festgelegten Behauptungen, gewählt: Zwei Greenfield-Investitionen – EGGER Romania SRL und S.C. Holzindustrie Schweighofer S.R.L.; und zwei Firmenübernahmen – Kronospan Sebes SA and Prolemn SA (Kastamonu Romania). Außerdem wurde erforscht, ob allgemeine Gemeinsamkeiten oder Verschiedenheiten bei der Analyse der Hintergründe jeden der beiden Markteintrittsentscheidungen aufgetreten sind.

Die erhaltenen Ergebnisse waren allgemein und in den Strukturen derselben Markteintrittsmethode sehr unterschiedlich, eine einheitliche Empfehlung bezüglich der

Option für die Gründung eines oder des anderen Unternehmenstypen in Rumänien kann nicht gemacht werden. Dabei ist die allgemeine Schlussfolgerung positiv: Trotz Zögerungen am Anfang, kann letztendlich keiner der ausländischen Investoren behaupten, dass der rumänische Markt kein hohes Potential hätte. Sie können auch nicht leugnen, dass wertvolle Ressourcen und Kompetenzen vor Ort vorhanden sind und erkennen auch die strategische geografische Position des Landes – unter der richtigen Leitung sind all diese Voraussetzungen für die Erhaltung von zufriedenstellenden Ergebnissen.

D. Lebenslauf

Curriculum Vitae

Personal information

First name / Surname

Nationality

Date of birth

Iulia Muntean

Romanian

16/11/1980, Alba-Iulia, Romania

Work experience

Dates

Occupation or position held

Main activities and responsibilities

09/2009 – 07/2011

Junior Consultant

§ Development of Tourism Projects
domestic and foreign market

§ Analysis, research of potential customer models

§ Strategic acquisition of new projects and clients

§ Analysis and development actions in the Romanian market

Name and address of employer

Type of business or sector

Kohl&Partner Wien GmbH, 1010 Vienna, Austria – www.kohl.at

Consultancy company – focus on tourism

Dates

Occupation or position held

Main activities and responsibilities

07/2009 – 10/2010

Junior Consultant

§ Contribution in developing Logistics Projects

§ Preparation of presentations and company profiles

Name and address of employer

Type of business or sector

JG Consulting, 1130 Vienna, Austria – www.jgconsulting.at

Consultancy company – focus on logistics

Dates

Occupation or position held

Main activities and responsibilities

Name and address of employer

Type of business or sector

08/2006 – 05/2009

Import – Export Manager

§ Management of the supply, transport and delivery activity

Consult Trading srl, Str. Morii nr. 5, Alba-Iulia, Romania

Commercial company

Dates

Occupation or position held

Main activities and responsibilities

Name and address of employer

Type of business or sector

12/2003 – 08/2006

Logistics Manager

§ Management and coordination of the Logistics System

§ Strategic Client and Supplier Acquisition

Ciatti HT Sebes srl, Str. Industriilor nr. 6, Sebes – Alba, Romania

Furniture production

Dates

Occupation or position held

Main activities and responsibilities

Name and address of employer

Type of business or sector

07/2002 – 12/2003

Executive Assistant

§ Customer Assistance

§ Preparation of presentations and company profiles

Giotoni srl, B-dul Lucian Blaga nr. 3A, Sebes – Alba, Romania

Consultancy company – focus on foreign investments

Education and training

Dates	since 05/2009
Type of qualification awarded	Master in International Business Administration
Principal subjects covered	Major in International Management & Marketing
Name and type of organization providing education and training	University of Vienna, Faculty of Business, Economics and Statistics

Dates	09/1999 – 08/2003
Type of qualification awarded	Diploma in International Business Administration
Principal subjects covered	International Economics and Business Relationships
Name and type of organization providing education and training	“Babes-Bolyai” University, Cluj-Napoca, Romania

Internships

Dates	07/2001 – 08/2001
Occupation or position held	Trainee
Main activities and responsibilities	Support in the Marketing Department - current activities
Name and address of employer	Raiffeisen Bank , Sebes Branch, Romania
Type of business or sector	Banking, Financial Services

Dates	07/2000 – 08/2000
Occupation or position held	Trainee
Main activities and responsibilities	Analysis of financial statements and data preparation for internal purposes
Name and address of employer	City Administration , Sebes, Romania
Type of business or sector	Financial Administration and Accounting Department

Personal skills and competences

Mother tongue	Romanian
Other languages	Italian – proficient English – excellent German – excellent
07 / 2002	§ German Language Certificate Goethe Institute (Grade – “very good”)

Hobbies and Interests	Travelling, music, foreign cultures, photography
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Driving license	B Category
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