THE IMPACT OF EU ACCESSION ON MARKETING MANAGEMENT IN ROMANIA

ANDREW R. THOMAS, University of Akron
NICOLAE-ALEXANDRU POP, Academy of Economic Studies (Bucharest)

As one of the newest members of the European Union, Romania is becoming a more attractive market to global companies than it was just a few years ago. Along with a burgeoning middle class and high economic growth rates, firms that would have in the past been put off by the country's socialist history are now giving a second look to one of the region's top performers. For marketers, this is providing opportunities to access new consumers and earn profits. Nevertheless, the perils of doing business in Romania can make it very difficult for the unsuspecting firm to succeed. This article will look at some of the important issues surrounding Romania's recent accession into the EU and how they relate to marketing management there. The primary areas addressed are currency exchanges and inflationary rates, infrastructure and public services, corruption levels, workforce preparation, and the collection of taxes.

INTRODUCTION

The economic story which is gaining increasing momentum this decade is the expansion of the European Union. Nevertheless, in the age of the 24/7 news cycle, there is a tendency among pundits and analysts to look for the next story before the last one has blown over. EU enlargement has many chapters, with very attractive opportunities for foreign investors continuing to arise.

The headline economic growth of the latest union members (those who joined in 2004 and 2007) makes the growth of the other Western economies look ponderous. In 2004, the EU underwent a historic enlargement to ten countries of Central and Eastern Europe and the Mediterranean: Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia, and Slovenia. It was a unique, historic enlargement which signified the re-unification of Europe after decades of division by the Iron Curtain. The accession of Romania and Bulgaria on January 1, 2007 completed this latest stage. The gross domestic product of these countries is relatively small but, with growth levels between four per cent and eight per cent a year, the impact of their membership will be large and the expectation is that this will continue. (Howard 2007)

The economic themes that apply to the new joiners are common, but they impact each country differently. The fundamental changes affecting the new members stem from EU moves to improve economic efficiency, such as investing in transport infrastructure, and the restructuring and liberalizing of the financial systems, as well as substantial foreign direct investment by corporations and private investors seeking to take advantage of the low wage economies.

The impact of these liberalization policies opens up the economies to more outside influences. Other private sector changes are also having direct impact on the new joiners, and some of the activity is driven by the needs of those outside the countries in question. This has fuelled the desire of investors in the developed economies to invest directly in the new joiners. (Lovasz and Finch 2006)

Many such investors did not know where Romania was ten years ago, but they are now better informed and see the role these massive economic changes can play for those investors as they seek growth opportunities. Upon its

The Marketing Management Journal
Volume 17, Issue 2, Pages 202-209

entry into the EU, the Italian Prime Minister greeted Romania's accession as the return "to the great European family it has always been part of." (BBC Monitoring Europe 2007) The Dutch Prime Minister said accession is the beginning of a new age, full of opportunities for Romania, and expressed his hope that his nation and Romanians will continue a fruitful collaboration. (BBC Monitoring Europe 2007).

It is tempting to join all the revelers who seem to believe that European Union membership promises untold riches. Romania is already growing strongly; EU money will help. Yet Romania differs substantially from previous EU entrants. For example, GDP per head in Romania is $4,490--against $9,240 for the eight entrants in 2004, and an EU-wide average of $29,330. And it is backward in many other ways. Economic uncertainty remains a concern. Infrastructure and public services are not as strong as in the rest of Eastern Europe; corruption is more entrenched; the workforce under-prepared; and, the tax structure is confusing and often not enforced. (Economist Intelligence Unit 2007)

THE INHERENT REALITIES OF THE ROMANIAN MARKETING ENVIRONMENT

Serious foreign companies looking to do business in Romania, as in any other emerging market, start with recognizing inherent realities and "minefields" that are characteristic with doing business in any target market. Emerging markets like Romania and their customs, traditions, and ways of doing things just are. Not good or bad. Not right or wrong. They just are. The sooner foreign businesspersons accept this, the far better off they will be in doing business there.

Using four criteria that explore the major aspects of the marketing environment in an emerging market, it is more likely that the impacts, both positive and negative, of EU accession on Romania will be ascertained. These include: currency and inflationary uncertainty, infrastructure and public services, corruption, an under prepared workforce, and the tax-free or tax-less markets. (Caslione and Thomas 2001)

Reality 1: Currency and Inflationary Uncertainty

The possibilities of unexpected currency shifts and inflationary rises within Romania make it critical for business leaders to develop their sales and distribution strategic planning accordingly. Another major concern is long-term stability of many sectors of the economy. Romania will continue to be monitored by the European Commission to ensure that it meets its membership obligations in crucial areas concerning currency and overall economic policy. It seems the focus in the short term will be on the remaining large privatizations, restructuring the energy sector and investing in health, education and infrastructure. Fiscal consolidation will become more important after 2008, once national elections are out of the way, as the authorities seek to contain external deficits. However, with EU membership now secured, the removal of the accession "policy anchor" may lead to further policy slippages.

Strong demand should result in real GDP growth of just over 6 percent in 2007, following growth of 7.6 percent in 2006. Growth is expected to average just over 4 percent per year in 2008-11. There may be a slowdown in 2010-11, owing to efforts to bring down inflation, as Romania strives to meet the criteria for euro adoption, although Romania is not likely to enter the euro zone until around 2013-14. (Economist Intelligence Unit 2007)

A further rise in the current-account deficit in 2007-08, and a modest decline thereafter to just below 10 percent of GDP by the end of the forecast period is expected. These deficits should be easily financed, as expected net inflows of foreign direct investment (FDI) are to average more than US$5 billion per year in 2007-11.

When EU accession became apparent in 2006, Romania's currency reflected the confidence

TABLE 1
Romania Forecast 2006 -2011

Key indicators	2006	2007	2008	2009	2010	2011
Real GDP growth (%)	7.6	6.2	5.2	4.5	4.1	3.1
Consumer price inflation (av %)	6.6	4.8	4.7	4.0	3.2	3.0
General government budget balance (% of GDP)	-1.2	-2.9	-2.9	-1.9	-1.2	-1.1
Current-account balance (% of GDP)	-11.1	-12.0	-12.0	-11.3	-10.9	-9.8
Commercial bank lending rate (end-period; %)	13.5	15.0	12.6	11.0	9.0	8.0
Exchange rate Lei:US$ (av)	2.81	2.58	2.60	2.66	2.68	2.64
Exchange rate Lei:€(av)	3.52	3.51	3.52	3.43	3.40	3.33

(Source: Economist Intelligence Unit)

shown by outsiders, which led the *lei* to surpass all other European currencies to become the world's best performer for that year. (Condon 2007) The *lei* rose 20 percent against the dollar in 2006, passing a six-year high. The *lei* broke its six-year high against the dollar on November 28, 2006 after Germany became the final EU member to ratify Romania's entry.(Condon 2007) In relation to the euro, significant flows of foreign capital have strengthened the *lei* against the euro over the past two years. This has helped tame inflation during that time from 12 per cent to less than 5 per cent, but could reverse quickly. (Economist Intelligence Unit 2007)

For those looking to expand their marketing activities in Romania, the assumption should be that the *lei*, and the uncertainty that comes with it, will remain firmly in place for many years to come, despite EU accession. It seems Romania will resist European Central Bank exhortations to bring forward its target date for adopting the euro, opting instead for a more cautious path towards the single currency. To adopt the euro in 2014, Romania would have to comply with Maastricht and enter the so-called ERM II, the euro zone's waiting room, in 2012. (Elledge 2007)

Reality # 2: Infrastructure and Public Service Constraints

The wonders of efficient, modern sales and distribution systems are only fully appreciated in their absence. Many countries in the world are "logistically challenged". In other words, things simply don't work very well. Romania has been no exception. Transportation, communication, energy, and water and sanitation deficiencies all affect cost and effectiveness when doing business in emerging markets. Firms, therefore, must adapt their marketing operations to Romania's infrastructure constraints.

Generally speaking, things were bad under the Soviet system and have become only a bit better after two decades of post-communist penury. Romania has just 250km of motorways, despite being two-thirds the size of the UK, which has more than 7400km. A number of tenders have been launched, notably for roads, but no schemes are operational. Romania, for example, tendered for a series of motorways as early as 2002. But most of the contracts never got to signature. One that did, a motorway across Transylvania, hit legal problems after American contractor Bechtel won the deal without an open tender. To date, not a mile of the new road has been built. (Business Wire 2006).

One reason for the slow progress is that Romania's leaders seem to think they don't need to do much, assuming Brussels will be throwing cash at them. By 2013, the EU plans to give Romania e32 billion, much of that to be earmarked for infrastructure. (Business Wire 2006) Moreover, corruption, cronyism, and crime remain big problems in Romania, as these relates to the infrastructure. These slow improvements. There are complaints of poor quality public officials, who lack commercial understanding and have painfully bureaucratic mindsets. This can make it very difficult for contractors to establish exactly what risks they're taking on, pushing bid costs up.

Despite the current infrastructure constraints, a combination of growing consumer demand as standards of living rise, plus the increase of "near-sourcing" by multinational manufacturers has combined to fuel logistics market growth rates of about 20percent a year. (Condon 2007) Many manufacturers, especially automotive and textile makers, have already been attracted to Romania. It seems Europe's center of logistics gravity will once again move eastwards. However there are problems which will have to be overcome. Security and risk will be increasingly important issues for logistics suppliers. Not only do these countries themselves have a recent turbulent past, they border nations which are highly insecure. Organized crime, especially as it affects the movement and storage of goods, can not be underestimated. (Business Wire 2007)

Reality #3: Staffing

Emerging markets like Romania are chronically short on experienced managers. An alarmingly large portion of multinational corporations readily admit that the shortage of competent white-collar personnel restricts growth. This leaves ex-patriots as often the only option to fill key management positions. However, "ex-pats" are incredibly expensive. Housing in Bucharest can easily cost more than US$15,000 per month for a decent two-bedroom apartment. It is normal to pay the lease two years in advance – in cash! In many cases, companies have paid as much as US$200,000 - US$300,000 to refurbish apartments in order to bring them up to livable, US-style standards.

EU member states such as the UK and Ireland, which had previously pursued an open-door policy with respect to immigration from new member countries, have imposed restrictions on migrant workers from Romania. This may turn out to be a blessing in disguise. In Romania, like other countries of the Former Soviet Union, centralized governments trained people in the pure sciences and applications in the production of military hardware, not in market-oriented practices. As a result, in Romania there is a shortage of experienced, well-trained managers. Moreover, for the relatively few trained and experienced personnel that do exist, U.S. companies entering these markets fiercely compete for the incredibly scarce amount of qualified and competent workers. Consequently**,** employee retention is a critical issue confronting many firms doing business in emerging markets like Romania. Companies are often forced to bid-up pay scales to attract and retain local nationals. Competitors are always seeking to lure employees away because of their knowledge and experience

Still, despite the challenges, there is promise. There is a growing pool of talent that business leaders are recognizing in Romania. No one less than Bill Gates sees this. In early 2007, software giant Microsoft Corp. opened a Global Technical Support Centre in Bucharest. "The opening of this Global Technical Support Centre is a confirmation of the great technical skills developed in Romania," said the Microsoft Chairman, at the opening ceremony. Microsoft said last year the investment in the centre would total 13 million euro (US$16.9 million). (SeeNews 2007).

On the face of it, Romania's software industry could hardly be doing better. Foreign firms such as Microsoft, Alcatel and Hewlett-Packard are piling in, attracted by cheap, skilled and multilingual programmers, and proximity to rich Europe. It is part of a wider boom stretching from well known hotspots such as Estonia (home to Skype) to autocratic Belarus. (Economist 2007).

iQuest, which writes software for companies including Virgin Atlantic and Lloyd's of London, now employs 160 people after ten years in Romania. But business is getting harder. Programmers' salaries are now at 50 percent of Western levels and are rising by as much as 20 percent a year. When the discount to Western salary levels drops to around a quarter, it might be scarcely worth going abroad. (Economist 2007).

That squeeze is common across the region as a whole, and Romania in particular. Over the past decade foreign firms have snapped up workers with excellent math and thrifty programming habits honed by the educational system and hardware shortages of the communist era. As it struggles to respond, Eastern Europe's software industry faces two big tests. The first is to move away from low-margin offshoring towards higher-value work. The second test is getting enough graduates of sufficient quality out of an ossified education system. Ukraine, with a population of 47 million, produces 30,000 computing graduates a year. This gives it an edge over Romania, with a population of 22 million, which produces only 8,000. (Economist 2007).

Yet across Romania, higher education (almost always state-run) has been remarkably resistant to reform. In many ways, universities are run as "fiefs" where innovations such as teaching by outside practitioners are strongly resisted. Higher demand for graduates tends to result in corruption in entrance requirements or a drop in standards, rather than better teaching.

Reality #4: Governmental Policies

More often than not, the Romanian government has played and will continue to play a major role in marketing management strategy within the country. Protectionist policies, state control of public distribution systems, and state run companies are all used by the national government to control product development within its borders. Although free-trade and anti-protectionism are the stated policies of the Romanian government, high import taxes and stringent government controls are still placed on selective products so as to protect local industries.

The issue of institutionalized corruption is never too far under the surface in Romania. As Romania has become part of the European Union, Brussels is seen constantly begging for progress in the fight against top level corruption. And it seems that finally Romania is listening. In a huge criminal justice shake-up, Romania is replacing most of its judges and prosecutors and thrusting more transparency onto those who serve in the judiciary. (Economist 2006)

Reality #5 Tax- Free or Tax-Less Markets

No other of the realities detailed here may come as close as tax-free markets to challenging the views and beliefs of the U.S. businessperson. Throughout the developing world, including Romania, many high-end and fast-moving goods are readily available through thriving contraband markets. Remembering that the fundamental goal a marketing strategy is to get the product into the marketplace, a great majority of domestic and foreign firms operating in Romania have viewed the underground economy as a necessity, without regard for the perceived moral or ethical elements of this activity.

In addition, the grey market remains a strong issue facing global manufacturers and distributors. The unauthorized import and sale of products intended for sale in another, high-priced market is generally defined as grey marketing. Grey markets tend to occur when the consumer price differential between countries causes people to shop for the same product in a country with lower prices.

Smuggled cigarettes and coffee coming from the Ukraine, spread in Romanian towns alongside the border, provide an example. They are sold in markets and bazaars across Romania. They are sold even in the streets, as a Danish television crew in 2003 revealed. The most important bazaar for grey market goods brought from the Ukraine, most of them illicit merchandise, is the bazaar in Suceava. Goods from Moldava, Turkey, and China arrive here, and they are exchanged for smuggled goods from all over the world. (Danish Association for Investigative Journalists 2003)

Whatever the reasons or causes for tax-free or tax-less markets, they are certain to be around as long as governments seek to raise revenues through the collection of high import tariffs. A failure on the part of foreign companies to recognize the importance of tax-free markets and, more importantly, take advantage of them when possible, will more than likely lead to a weakened position and lost profits in Romania.

Some foreign companies seek to overcome the sales and distribution concerns in Romania through parallel invoicing schemes. This is particularly true in the fast moving consumer goods sector. That is, the amount declared to customs is less than the actual value of the goods purchased. This activity covers two major areas of interest for the importer. First, the amount of hard currency to be sent from the receiving country is minimized and therefore, less costly. Normally, the difference in the value of the two invoices is made up through the transfer of funds from off-shore bank accounts. Secondly, the lower declared value reduces the amount of import duties the importer will pay to the local customs authorities.

It goes without saying that the parallel invoice method is commonly used in international trade, especially in those countries with excessively high import duties and/or hard currency shortages, as Romania has experienced in past years. However, it would be remiss to not point out that it is still illegal in virtually every country in the world and contrary to every international trade agreement currently in use.

COLLABORATIVE APPROACHES TO MANAGING THE MARKETING REALITIES

Collaborative ventures have been around for many years, but they can continue to contribute much to firms' international marketing performance, especially in emerging markets like Romania. While collaboration can take place at similar or different levels of the value chain, most ventures focus on research and development (R&D), production, or marketing. Collaboration makes possible the achievement of projects that exceed the capabilities of the individual enterprise. It enables the foreign firm to better manage the inherent realities of the local market, and to spread the risk.

Groups of firms sometimes form strategic alliances to accomplish large-scale goals such as development of new technologies, or the construction of major projects, such as building power plants. They draw on a range of complementary technologies, accessible only from other firms, to innovate and develop new products. The advantages of collaboration help explain why the volume of such partnerships has grown substantially in the last few decades. (Kotabe, Teegen, Alukah et. al. 2000)

Firms are more likely to collaborate if, relative to other international entry modes, collaboration reduces the partners' *transaction costs*, that is, the general costs of doing business and *risk exposure* to the factors within the local environment. Firms also enter collaborative arrangements for strategic reasons. That is, they transact internationally by whichever mode helps them achieve strategic objectives, leading to long-term profit maximization. Consistent with *organizational learning theory*, firms may also collaborate in order to share organizationally embedded knowledge or technology that is not easily conveyed in written or explicit form. (Kogut 1998)

Western firms often seek joint ventures to access markets in Eastern Europe. The partnership allows the foreign firm to access key market knowledge and gain immediate access to a distribution system and customers. Project-based, non-equity alliances are increasingly common in international business. They involve pooling resources and capabilities among firms in order to pursue a well-defined project in a finite period. Once the venture bears fruit, the partners may shift their approaches and compete in more traditional ways.

The firm enters a collaborative venture when it ascertains that a necessary link in its value chain is somehow weak or inadequate. If this is the case, it then chooses a partner that can replace the function of the weak link. In this way, the firm can meet its growth and other strategic objectives faster or more effectively. More specifically, firms enter collaborative arrangements in order to gain access to new markets or opportunities, reduce the costs and risks of international business, gain access to knowledge or other assets, create synergies for innovative activities, placate government authorities or access protected markets, and prevent or reduce competition.(Terpstra and Simonin 1993)

Despite many good intentions, about half of all collaborative ventures fail within their first five years of operation. The majority fall short of partners' expectations. (Doz 1996) International ventures are especially problematic because in addition to involving complex business issues, they also entail the additional burden of dealing across culture and language, as well as differences in political, legal, and economic systems. (Terpstra and Simonin, 1993)

International collaborative ventures sometimes break down due to cultural differences. The partners may never arrive at a common set of values and organizational routines. The undertaking is especially complex when the parties are from very distinct cultures.

SUMMARY

Romania is poised for a promising future, given the alignment of its future with the European Union. Still, for companies looking to expand their marketing, sales, and distribution presence in Romania, the current situation will remain challenging for years to come. Change will come, but not as quickly as many would like. The current realities (read: risks) facing companies doing business in other emerging markets are being fully felt by firms operating in Romania. This should not stop forward-thinking companies to look at Romania as a strong opportunity. Still, a failure to ascertain the risks makes it nearly impossible to manage them effectively.

REFERENCES

Business Wire, "New Report: Bulgaria and Romania Set to Fuel Eastern Europe Logistics and Express Markets", December 7, 2006, http://www.businesswire.com.

"Brains Boxed In; Eastern Europe's Technology Boom" (2007), *Economist* March 3, pp. 39-40.

Caslione, John and Andrew Thomas (2001), *Growing Your Business in Emerging Markets: Promise & Perils*, (London: Quorum, 2001).

Condon, Christopher (2007) "Romania Refuses to be Rushed on Euro Entry: Interview with Mugur Isarescu", *Financial Times*, March 2, 2007, p. 8.

Danish Association for Investigative Journalists (FUJ) coordinated by the Romanian Centre for Investigative Journalism (CRJI) (2003). The program ran on Danish and Romanian television in December 2003.

Doz, Yves (1996), "The Evolution of Cooperation in Strategic Alliances: Initial Conditions or Learning Processes", *Strategic Management Journal*, 17 (Summer), pp. 55-85.

Elledge, John (2007), "Focus on Romania and Bulgaria", *Financial Times*, February 10, p. 4.

Hoon-Halbauer, Sing Keow (1999), "Managing Relationships within Sino-Foreign Joint Ventures," *Journal of World Business*, 34 (4), pp. 334-7.

Kogut, Bruce (1988). "Joint Ventures: Theoretical and Empirical Perspectives" *Strategic Management Journal*, 9, pp. 319-32.

Kotabe, Masaaki, Hildy Teegen, Preet Aulakh, Maria Cecilia Coutinho de Arruda, Roberto Santillan-Salgado and Walter Greene (2000), "Strategic Alliances in Emerging Latin American: A View from Brazilian, Chilean, and Mexican Companies," *Journal of World Business*, 35 (2), pp. 114-32.

Lovasz, Agenes and Gavin Finch (1996), "Romania's EU Entry is Set to Give Currency New Lift", *Marketplace by Bloomberg*, December 11, 2006, p. 18.

"Netting the Untouchables: Romania and the EU" (2006), *Economist*, February 4, p. 48.

SeeNews (2007), "Microsoft Opens Global Technical Support Centre in Romania", February 1 http://www.insurancenewslink.com.

Terpstra, Vern and Bernard Simonin (1993), "Strategic Alliances in the Triad", *Journal of International Marketing* 1(1), pp. 4-25.