

# FOREIGN OWNERSHIP, INTERNATIONAL MARKET ORIENTATION AND FIRM PERFORMANCE

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## *Abstract*

*The purpose of this paper is to examine if foreign ownership and international market orientation are related to firm performance in Romania and in Central and Eastern Europe, based on survey data and a case study in Romania. The results capture the applicability of the “liability of foreignness” in Romania and the growth advantages of international openness in the region. Additionally, the findings provide guidance for the creation of firm-specific competencies and the crafting of country reforms.*

## INTRODUCTION

The superiority of the foreign-owned firms over their domestic counterparts has been theoretically and empirically investigated with varied results. While Hymer’s research (1976) and subsequent studies in the same vein asserted the importance of the “liability of foreignness”, other lines of research focused on the advantages of foreign-owned companies. The link between foreign ownership and performance is most relevant in the context of countries and country groups and is currently inconclusive. The present paper aims to add to the knowledge on this topic in Romania and Central and Eastern Europe (CEE) by investigating whether there is a performance gap between foreign-owned and domestically-owned companies and whether foreign ownership and international market orientation affect performance. The study includes mostly small and medium-sized companies and compares data and results in Romania with data and results in the region.

## RELATED STUDIES AND HYPOTHESES DEVELOPMENT

Extant literature has addressed the advantages of foreign ownership extensively in the context of the multinational company (Dunning, 1979; Tallman and Li, 1996). Outside this context, foreign-owned firms were found to enjoy better financing options in comparison with domestic-owned firms (Beck et al., 2006) and higher resilience to crises (Kolasa et al., 2010). Foreign-owned firms are expected to have better access to international suppliers and partners, although domestic-owned companies can prevalently become preferred customers of their local suppliers (Steinle and Schiele, 2008). Large sample studies associated performance to firm ownership (Bellak, 2004), while other studies found that the

link is nuanced and depends partly on factors such as industry and longevity (Harris and Robinson, 2003). The idea that foreign-owned firms may not perform better than domestic-owned ones has been around for many years. In his seminal work, Hymer (1976) pointed to the costs and challenges of an unfamiliar business environment- the “liability of foreignness”. Recent studies found validity in this perspective. Zaheer (2002) connected foreign ownership to decreased legitimacy.

It is difficult to draw conclusions on the current relationship between firm ownership and performance. Chacar et al. (2010) found support for the assertion that foreign-affiliated firms perform better than domestic ones. In a meta-analysis, Bellak (2004) found that foreign ownership relates to performance to some extent, however, firm-specific assets, industry, size and multinationality are more important. There are limited studies on the link between foreign ownership and performance in CEE. Mihai (2012) found no significant relationship between foreign capital and firm performance. Some indirect evidence is conflicting. Recent studies in Romania noted that domestic-owned firms are likely to have an informational advantage (Wright, 2010). For subsidiaries of foreign companies, while lack of autonomy may be a detriment (Wright and Fellman, 2007), parent-firm capabilities can provide a performance edge (Wright, 2008). The present study tests the validity of recent contentions that foreign-owned firms are superior as *Hypothesis 1: Foreign firms outperform domestic firms.*

The literature noted that international expansion and accessing international markets positively influences performance, as companies acquire knowledge that can be used to build value-creating skills (Ghoshal, 1987) and to find more opportunities (Hitt et al., 1997). The present paper matches this perspective and proposes that international markets may offer higher potential for sales growth. A different perspective asserted that selling in foreign markets may not necessarily contribute positively to profitability and overall sales growth (Reuber and Fischer, 2002). The current study proposes that, for CEE companies operating in relatively small countries, an international market orientation (i.e., selling the main products or services predominantly on international markets rather than on national markets) allows for substantial opportunities (e.g., higher prices, lower sales taxes, growing customer segments) - *Hypothesis 2: Firms with an international market orientation outperform firms that sell predominantly on local or national markets.*

A study of foreign ownership effects on performance or sales growth should also address the age of the company (Chacar et al., 2010). Older firms that benefit from learning and first mover advantages (Douma et al., 2006) may outperform new firms who face “liabilities of newness” (Stinchcombe, 1965). However, older firms may be less adaptable (Chacar et al., 2010). Previous research demonstrated the need to include control variables in models of firm performance (Mahsud et al., 2011), such as company size (Douma et al., 2006). Company size

was measured in relevant research (such as Fey et al., 2000; Mahsud et al., 2011) by the logarithm of a firm's full-time employees, also included in the present study. Another often used control variable is the industry (Mahsud et al., 2011), found relevant in the connection between foreign sales and performance (Douma et al., 2006; Harris and Robinson, 2003; Reuber and Fischer, 2002). Subsidies are also included as a factor of interest for this paper given the location of the study (Estrin, 2002). The study also accounts for the fact that some companies are part of a larger firm. Campbell et al. (1995) showed that parent companies can destroy value through misguided influence or increase performance via economies of scales, lower cost of debt, "specialty" capabilities and training programs.

Quality management and innovation were also included as potential factors in the present analysis. Studies found that quality dimensions (Forker et al., 1996) and quality certification (Heras-Saizarbitoria et al., 2011) are related to performance. The literature found a connection between innovation and performance (Andries and Faems, 2013). In a meta-analysis study on small and medium-sized companies, Rosenbusch et al. (2011) found that the connection depends on contextual factors such as company age, type of innovation, and local national culture. Van Auken et al. (2008) showed that innovation in products, processes and systems relates positively to performance for small and medium-sized manufacturers in Spain. A similar operationalization of innovation is used in the present paper. Firm performance in the current study is measured as sales growth. Previous reports identified the relevance and wide applicability of this measure (Chadee and Roxas, 2013). Notably, Commander and Svejnar (2011) included change in sales in their investigation of how exports and ownership affect firm performance.

The present study compares results from Romania to results from CEE. Extant literature is lacking comparative studies on company performance and research linking foreign ownership to performance in CEE. The goal of the present paper is to fill these gaps. Also, the literature does not address how firms in CEE may overcome the challenges of small, diminishing or saturated domestic markets. The present paper proposes that this can occur via international market orientation. The comprehensive framework of this study allows for conclusions on the individual impact of other contextual and structural factors on performance. The resulting insights are specific to Romania and CEE and unique in this regard. The CEE region is a distinctive business environment. Post-communist countries have experienced remarkable transformations (Roaf et al., 2014). Early transition to market was marked by major recessions, followed by strong growth in the early and mid-2000s that was halted by the global and euro-zone crises, which resulted in weak growth and imperfect regulatory environments (International Monetary Fund, 2014).

## DATA

The study uses company-level data from the 2012 Business Environment and Enterprise Performance Survey (<http://www.enterprisesurveys.org>, The World Bank). The data represents managers' responses for aspects corresponding to the variables described in Table 1.

**TABLE 1**  
**Variables Description**

Variable	Type	Measurement	Description
Performance	Continuous	Number indicating change.	Percent change in sales from three years prior to the current year (2012).
Foreign ownership	Nominal; binary	1= firms owed over fifty percent by private foreign individuals, companies or organizations; 0= firms owed over fifty percent by domestic foreign individuals, companies or organizations.	Identifies ownership as foreign or domestic.
Age	Discrete	Number of years.	Difference between the year the firm began operations and 2012.
International Orientation	Nominal; binary	1=main markets are international; 0=main markets are local or national.	Identifies the main markets in which the main products/services are sold.
Size	Discrete	Number of full-time employees.	Identifies scale.
Industry	Nominal	1=Retail and Wholesale; 2=Garments; Textiles; Tanning and leather manufacturing; 3=Machinery and equipment; Electronics; Office machinery; Communication equipment; Other transport equipment; Precision instruments manufacturing; 4=Furniture; Wood manufacturing; 5=Food manufacturing; 6=Publishing, printing and media; IT; 7=Hotels and restaurants; 8=Transport; Other related services; 9=Fabricated metal products; Basic metals manufacturing; 10=Chemicals; Plastics and rubber manufacturing; 11=Non-metallic mineral products manufacturing; 12=Construction.	Identifies industry category. Firms operating in sectors with strong government regulation (such as banking, electric power, rail transport, etc.) were excluded.
Subsidies	Nominal; binary	1=the firm received subsidies from the national, regional or local governments or	Identifies if the firm received

		European Union sources; 0= the firm has not received subsidies from the national, regional or local governments or European Union sources.	subsidies in the last three years prior to 2012.
Larger Firm	Nominal; binary	1=the company is part of a larger firm; 0=the company is a firm on its own.	Identifies if the company is part of a larger firm.
Quality Certification	Nominal; binary	1=the firm has an internationally-recognized quality certification; 0= the firm does not have an internationally-recognized quality certification.	Identifies quality certification.
Innovation	Nominal; binary	1= the firm introduced new or significantly improved products/services or methods for the production or supply of products/services; 0= the firm did not introduce new or significantly improved products/services or methods for the production or supply of products/services.	Identifies if the firm innovated during the last three years.

The Romanian sample includes 411 firms. The CEE sample has 1849 firms from the following countries: Albania, Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia and Lithuania. The samples are comparable for the variables included in the study, as described in Appendix 1. The majority of companies registered an increase in sales in the past three years, while 30-40% of the firms had a decrease in sales. Smaller percentages of companies recorded no change or significant positive change in sales. Most firms have been established after the fall of communist regimes and a very small percentage are over 50 years old. The data includes mostly small and medium-sized companies. About 60-70% of companies are in services, with the highest relative representation in retail and wholesale, followed by construction; fewest companies are in non-metallic mineral products manufacturing. The majority of firms are domestically-owned, do not have an international primary market and do not receive subsidies. The large majority are not owned by a larger firm. More than 60% of companies do not have an internationally-recognized quality certification. Innovation is the only area in which Romanian and CEE firms differ: most Romanian firms have introduced innovations in products or methods in the past three years, while the majority of CEE firms have not. The representations of companies across variables' categories and intervals are not balanced. The large samples help overcome this limitation. Chawla et al. (2004) and Crone and Finlay (2012) showed that sample imbalance is not problematic for relationship analysis and found no benefit in creating balanced samples for statistical modelling.

## RESEARCH METHODOLOGY AND RESULTS

The primary goal of the analysis is to investigate the relationships of foreign ownership and international market orientation with firm performance as sales growth. A secondary goal is to establish potential relationships between other structural or contextual factors and performance. The statistical methodology investigates the connections among variables and is not intended for predictive purposes. Table 2 presents means, medians and associated tests for significance of differences between foreign-owned and domestic-owned companies.

**TABLE 2**  
**Summary Statistics**

Variables	Means	Medians	Domestic Owned Means	Foreign Owned Means	Domestic Owned Medians	Foreign Owned Medians	t statistic <sup>a</sup>	Pearson Chi-squared <sup>b</sup>
<b>Romanian Companies</b>								
Per- formance	39.917	6.299	43.769	12.124	7.313	0	2.567*	1.077
Age	16.333	17	16.546	14.800	17	13	1.273**	1.628
Size	48.307	16	46.321	62.640	14	42.500	-1.594***	14.334*
No. firms	411	411	361	50	361	50		
<b>CEE Companies</b>								
Per- formance	23.853	5.769	23.377	28.491	5.263	10.011	-0.801	1.460
Age	18.227	17	18.423	16.314	18	15.500	1.924**	6.123*
Size	46.650	14	39.275	118.54 7	13	45.500	-5.933*	56.066*
No. firms	1849	1849	1677	172	1677	172		

<sup>a</sup>Unequal variance Welch t test for differences in means.

<sup>b</sup>Nonparametric k-sample test for the equality of medians, continuity corrected.

\*Significance at the 0.01 level.

\*\* Significance at the 0.05 level.

\*\*\* Significance at the 0.10 level.

In Romania, the average performance of foreign-owned companies is significantly lower than the average performance of domestic-owned companies. Foreign-owned firms, on average, have fewer years of operations. Less significance (but still notable) corresponds to larger average size of foreign-owned firms. The non-parametric k-sample test finds that there are no significant differences in medians for performance and age. The size differences are significant. In CEE, foreign-owned firms have large size on average and fewer years of operation. The non-parametric k-sample test for the equality of medians is also significant for size and age. Performance does not differ in CEE. An interesting result is that performance averages in absolute values are higher for domestic-owned firms in Romania and higher for foreign-owned firms in CEE. Performance differentials are found to be statistically significant in Romania

only. This may indicate that Romania's business environment poses more challenges for foreign-owned companies. In support of this assertion, research has shown that Romania made less progress in governance systems (such as controlling corruption and enforcing the rule of law) in comparison with other countries in the region (Kaufmann et al., 2011). Reports also alleged that the European crisis deepened Romania's economic weaknesses (such as a "bubble" in real-estate and excessive consumption financed by short-term private foreign debt) while adding other negative consequences, like postponed structural reforms (in the labor market, agriculture, competition and energy) and low absorption of European Union funds (Constantin et al., 2011).

Regression analysis is used for investigating whether foreign ownership and international market orientation are each causally related to performance. As argued in the development of hypotheses and discussion of related studies, a number of other variables are also included in the analysis. The model accounts for age as a potentially relevant variable (e.g., it may provide for learning effects). Size and industry are introduced as control variables. In a region with some occurrence of subsidies from governments and the European Union it is plausible that such subsidies are related to company performance. The regression model is thus defined as:

$$\begin{aligned} (\text{Firm Performance})_i = & \beta_0 + \beta_1 * (\text{Foreign Ownership})_i + \beta_2 * (\text{Age})_i \\ & + \beta_3 * (\text{International Orientation})_i + \beta_4 * (\text{Size})_i + \beta_5 * (\text{Industry})_i + \beta_6 * (\text{Subsidies})_i + \\ & e_i \end{aligned} \quad (1)$$

A second regression model takes into consideration other factors that may also impact company performance. A number of companies in the samples are part of a larger firm. The literature review identified that being part of a larger firm may allow a company to benefit from internal subsidizations and strong corporate capabilities or resources. It is expected that quality certification provides for alignment of processes, higher customer appreciation and better access to suppliers- all positive impacts on firm performance. Finally, reports have described the benefits of innovation in products and methods, with some evidence that the relationship with firm performance depends on location, which makes a finding on such relationship in Romania and CEE valuable in itself. The extended model accounts for these additional variables:

$$\begin{aligned} (\text{Firm Performance})_i = & \beta_0 + \beta_1 * (\text{Foreign Ownership})_i + \beta_2 * (\text{Age})_i \\ & + \beta_3 * (\text{International Orientation})_i + \beta_4 * (\text{Size})_i + \beta_5 * (\text{Industry})_i + \beta_6 * (\text{Subsidies})_i \\ & + \beta_7 * (\text{Larger Firm})_i + \beta_8 * (\text{Quality Certification})_i + \beta_9 * (\text{Innovation})_i + e_i \end{aligned} \quad (2)$$

The raw data for each of the continuous and discrete variables is positively skewed. The "Firm Performance" variable shows substantial positive skewness with zero values. This variable was transformed with the common logarithm on the initial values plus a constant added so that the smallest score became 1. The

“Age” and “Size” variables were transformed with the common logarithm. These transformations followed the guidelines suggested by Tabachnick and Fidell (2007) and allowed for a more robust regression model by ensuring the distribution assumptions of the quantitative variables. The logarithmically transformed variables make the effective relationship non-linear, while still preserving the linear model for regression analysis (Benoit, 2011). As an added benefit, the logarithm transformation avoids disproportionate effects of large values (Fey et al., 2000).

The regression analysis results for both models are presented in Table 3. Regression diagnostics are shown in Table 4. The variance inflation factor diagnostic indicates no multicollinearity. The Breusch-Pagan/ Cook-Weisberg test found slight but not concerning heteroskedasticity problems. Pairwise correlation coefficients for the independent variables also showed no problem of multicollinearity and a plot verification of outliers found none. These additional verifications were not reported for conciseness purposes.

**TABLE 3**  
**Summary of Regression Analysis for Variables Explaining Company Performance**

Variable	Romanian Companies		CEE Companies	
	Model 1	Model 2	Model 1	Model 2
Intercept	2.363	2.346	2.170	2.167
Foreign Ownership	-0.141*	-0.147*	0.007	0.013
Age	-0.248*	-0.250*	-0.148*	-0.150*
International Orientation	0.042	0.041	0.081*	0.082*
Size	-0.002	-0.001	0.003	0.009
Industry	-0.004	-0.004	0.001	0.001
Subsidies	0.038	0.035	0.032**	0.031**
Larger Firm		0.044		-0.018
Quality Certification		-0.011		-0.020
Innovation		0.040		0.012
<i>F-value</i>	3.770*	2.760*	9.640*	6.810*
<i>Adjusted R<sup>2</sup></i>	0.039	0.037	0.027	0.028
No. firms	411	411	1849	1849

\*Significance at the 0.01 level.

\*\* Significance at the 0.05 level.

Regression analysis results include a statistically significant F-value, which shows that the proposed relationship between performance and the set of predictors is statistically reliable for both models for the two samples. The F-statistic criterion is for a two-tail test. The F-values are relatively low, particularly for the models applied to Romanian companies. However, the p-values are also low. In general, to be confident, we expect large F-values to entail smaller p-values.



**TABLE 4**  
**Regression Diagnostics**

Diagnostic Tests	Romanian Companies		CEE Companies	
	Model 1	Model 2	Model 1	Model 2
<i>Diagnostic of multicollinearity among independent variables: Average variance inflation factor (VIF)<sup>a</sup></i>	1.100*	1.110*	1.120*	1.160*
<i>Diagnostic of heteroskedasticity: Breusch-Pagan/Cook-Weisberg test (Chi Squared)<sup>b</sup></i>	14.420**	22.260**	17.220**	21.510**

<sup>a</sup> Variance inflation factors measure how much the variances of the estimated regression coefficients are inflated compared to the variances when the independent variables are not linearly related.

\*VIF values close the 1 indicate that no one independent variable is related to the other independent variables, meaning that there are no multicollinearity problems (Neter et al., 1990).

<sup>b</sup>The Breusch-Pagan/Cook-Weisberg test verifies that the variance of the error term is constant.

\*\*Chi Squared values are not excessively high; heteroskedasticity has to be severe before it leads to serious bias in the standard errors (Allison, 1999).

The results reported in the current study are influenced by the degrees of freedom determined by the large data set. The smaller F-values are more likely to be significant, as in this situation, with more independent data points (Hurlbert, 1984). With larger sample sizes, we are more likely to obtain significant results if the data points are independent due to the fact that the degrees of freedom reflect the true sample size and not the total dataset. More degrees of freedom mean smaller p-values (more significant results) (Meyers at al., 2006). The power of the statistical evaluation is thus aided by the high degrees of freedom. We can conclude that the F ratios show that more than zero percent of the variance is explained and thus that the independent variables included in the models have an effect on the company performance. The adjusted R-squared is very low. A high R-squared may not be very relevant for this research, where the interest is in the relationship between variables, not in prediction (Meyers at al., 2006). A number of independent variables are statistically significant.

The results show that, after controlling for potential factors that might influence a firm's performance, the relationship between foreign ownership and performance is negative and significant at the 0.01 level for Romanian firms (in both models). This disproves the first hypothesis. The finding is contrary to expectations that foreign-owned companies' growth stems from capabilities developed in their home countries or from access to foreign financing and partnerships. The finding validates the view that foreign-owned firms face more obstacles to growth than domestic-owned firms. Such obstacles could be additional costs, lack of legitimacy and lower integration into local networks of partners. As suggested earlier, Romania's environment may pose additional challenges to foreign-owned firms in terms of governance and institutions. Romania's business climate and institutions may differ from the region overall, which could support the finding that the foreign ownership's relationship with performance is significant in

Romania but not in CEE. The fact that the sample includes mainly small and medium-sized companies that are not part of large multinational organizations may also affect this result. This is a meaningful insight, given the increase in small and medium-sized foreign-owned firms in Romania since the early 2000s (Kaminski and Ng, 2004).

International orientation has a positive and significant effect (at the 0.01 level) on performance in CEE, but no effect in Romania. The difference in findings for the second hypothesis suggests that markets in Romania may provide growth opportunities that are comparable to overseas markets or that other factors affect sales growth to a greater extent. Generally, in the region, the result indicates that firms might find superior growth when taking advantage of opportunities in international markets. These opportunities could be advantageous pricing, taxation and demand characteristics. The relationship between age and performance is negative and significant at the 0.01 level across models and samples. This may be tied to the fact that older firms have a communist legacy or are companies that have weathered more changes in institutions during transition. For the CEE firms only, a positive relationship is found between performance and subsidies at the 0.05 significance level. This finding advises that subsidies have a role in performance enhancement not only during transition, as the literature proposed, but also at the end of transition. The lack of such finding for companies in Romania may indicate ineffectiveness of subsidies. The first model seems stronger than the extended model, which has a lower F-value (still statistically significant) for both samples. No noteworthy statistical evidence was found for the variables included in this model only.

## **DISCUSSION OF RESULTS**

The results of the study demonstrate the inferiority of Romanian foreign-owned firms in terms of sales growth. Theoretically, foreign ownership has been associated with better firm performance based on arguments related to superior assets, advantageous external financing, higher resilience to crises and improved access to global suppliers. The finding of this research provides support for the opposite perspective. Alleged superior resources or capabilities cannot overcome the “liability of foreignness” in the form of lower legitimacy and added obstacles to growth. These obstacles might be environmental, as a result of economic weaknesses and uneven reforms (e.g., taxation regimes, competition legislation) or structural, at the foreign-owned firm level, such as a lower ability (in comparison to domestic-owned firms) to create a network of relevant relationships with business partners and agencies, to integrate with local value chain partners or to maintain advantages over time.

It is interesting that, in contrast to the situation in Romania, while foreign ownership has no impact on performance, reaching out to predominantly international markets is positively related to sales growth in CEE. The

advantages of international markets may be tied to better pricing prospects, beneficial taxation and increasing demand for the firms' offerings. Markets outside the country of operation expand a company's options to access high growth customer segments, overcome weaknesses in local industries and escape national competitive pressures. A consistent result for both Romanian and CEE firms is that age is negatively related to performance. Older firms may have fewer prospects to increase sales, either because of internal structures (e.g., bureaucracy, out-of-date manufacturing infrastructure, etc.) or external factors (e.g., reliance on traditional but low-growth markets, compounding effects of unfavorable institutional changes during transition, etc.). Newer companies may enjoy the benefits of recognizing and entering sectors with high growth. This outcome is similar with more recent conclusions in the literature.

The finding that subsidies are not related to performance supports the lack of their effectiveness in Romania. However, they are found to be useful in supporting companies' growth in the rest of the region. The difference in findings may indicate variations in types of subsidies (e.g., subsidies oriented towards certain programs that have more impact on sales) or their implementation (e.g., overall better processes for taking advantage of subsidies). The latter is supported by recent reports mentioned in the previous section. Being part of a larger firm is not related to sales change, meaning that parent capabilities and competencies are not important for companies in the region. It is somewhat surprising that quality certification and innovation do not affect performance. A reasonable interpretation could be that, on its own, none of these aspects impacts performance significantly, as other factors may play a more important role. A brief illustration described below provides additional insights on the hypotheses and on other determinants of firm performance included in this study.

### **A CASE STUDY IN ROMANIA**

Tecade is a small wood construction company that started operations in 2001 and became the only distributor of acetylated wood in Romania for Accsys Technologies PLC, a UK-based chemical technology group. Tecade operates in Brasov, a large city in Romania. According to various reports (100% Construct, <http://www.100construct.ro/>), at the start of the study's timeframe, the local construction market was severely affected by a saturated residential real-estate market and by low-cost pressures in public construction compounding the effects of the economic crisis. In interviews, managers in the industry stated that Romanian-owned companies have been more resilient and willing to weather hard times, while foreign-owned companies were more opportunistic and postponed or dropped projects quickly. Local managers noted that the export markets have been decreasing, with dire consequences on firms with an international market orientation. The managers suggested that government subsidies are needed and that policy-makers should focus on initiatives for

stimulating local demand, such as state-funded construction projects, subsidies for investments and hiring, lower taxes and increased access to credit.

Tecade is a somewhat typical company for the industry. During the three years relevant for this study, the company recorded variations in sales, with a drop in total revenues of almost 40% in 2012. The number of employees decreased to half at the end of the three year period of the study. Tecade's ownership is Romanian. In a personal interview (18 February 2015), Tecade's owner and CEO, Mr. Gheorghe Munteanu, noted that domestic ownership may be a disadvantage because, in Romania, banks and insurance companies do not offer services for wood construction. Foreign-owned firms can access such services overseas in advantageous conditions. Foreign ownership may also give a company more opportunities and authority in networking with international suppliers and business partners. The owner underlined the importance of reliable suppliers of certified quality sustainable wood for his company. Conversely, Tecade's owner noted that domestic firms may be more proficient in finding partners to take advantage of local opportunities. Examples for his company are opportunities for integrating wood structures into mortar construction and for promoting the heating efficiency of wood construction in "green" projects.

The sales have been going down since the company stopped selling on what used to be its main market prior to 2012, France. The company abandoned this market due to a decrease in demand and intense price competition, when the additional costs of using its own employees overseas and the pressures from banks and developers led to unacceptable profit margins. Tecade's owner noted that not being part of a large company means quick decision-making but more effort to obtain the trust of partners and customers. Tecade has ISO 9001 quality certification. Detailed industry regulations in Romania imply that quality certification is not a condition for success in the company's current market. The company innovates in products (e.g., treated wood tiles for roofing) and methods (especially for increasing productivity), without direct impact on sales growth yet. This illustration supports the statistical finding of a negative relationship between foreign ownership and sales growth. Foreign-owned companies are quicker to drop projects in difficult economic times, are fickle during crises and have a lower ability to establish domestic partnerships. The proficiencies to strike international partnerships and access financing may be company-specific. The link between international market orientation and performance may depend on the firm's overall capabilities to find underserved markets.

## **IMPLICATIONS**

The evidence presented in this paper cautions managers of foreign-owned companies in Romania about liabilities associated with their companies' "foreignness" and suggests a need for careful consideration of the potential weaknesses in the institutional and business environment. These managers should

observe and perhaps follow some of the strategies of their domestic competitors, such as creating trusted business partnerships, becoming preferred clients of national strategic suppliers, and building legitimacy. Practitioners in domestic-owned firms in Romania may learn that their local ownership is a source of advantage and use it to shape firm-specific strengths, such as a robust local brand and trustworthy relationships with value chain partners. For country policy makers in Romania, the results indicate that there is room for improvement in governance systems and regulatory environment so as to provide equal growth opportunities to foreign and domestic-owned firms. This study provides support for the theory of “liability of foreignness” in Romania. Since the paper finds no evidence of a relationship between foreign ownership and performance in the region overall, the study also shows that the theory may not be generalizable at the regional level.

For managers of companies in CEE, this research points out to the superior growth opportunities that an export orientation may give a company. Firms for which an export orientation is not practical may benefit from searching some opportunities overseas, such as niche markets and government incentives. This information could be used by policy-makers in support of initiatives to narrow current account deficits, such as policies to stimulate local demand and to enhance the viability of small and medium-sized businesses. At the theoretical level, the study advances current knowledge on international expansion and its influence on firm’s performance – an important business research avenue. The consistent finding that company age and sales growth are negatively related suggests to managers that an entrepreneurial approach may be needed to overcome the legacy of communism and transition. The paper alerts managers to the potential dangers of inertia and lack of adaptability that come with longer years of operation. It also suggests that first mover advantages may not carry forward in the long run. The study adds to the theory of “liability of newness” and brings more current and location-specific knowledge to the scholarship agenda on learning effects. The study recommends to managers and policy-makers that subsidies from governments or the European Union can still make a positive difference on companies’ performance in CEE. This information encourages managers to pursue access to subsidies and reassures efforts by policy-makers to create a framework for their effective distribution. The results may modify some of the theoretical assumptions in regards to subsidies, particularly for transition economies.

## CONCLUSIONS

This study relies on survey data to provide a medium-term view on the relationships of foreign ownership and international market orientation with performance. The use of primary data is a strength of the study but could also be a weakness, as individuals’ interpretations may be flawed. Performance is evaluated as sales growth only and a number of nominal variables are included in

the statistical models. These variables are essential for the research questions and sufficient evidence is provided to support the robustness of the methodology. Generalization across the CEE region delivers valuable insights, especially in comparison to results in Romania. A limitation of this regional investigation is that countries in the region are heterogeneous in regards to reforms and level of integration into European structures, which may affect the results. Future research could evaluate the two hypotheses proposed here in other countries. Further comparative approaches may identify differences at various locations. Upcoming research could also attempt longer-term studies that evaluate the research questions at the start, during and after transition to market. More case studies are needed to find detailed information about why there is liability of foreignness for companies in Romania and to what extent firm-specific characteristics and environmental factors play a role. Future applications could reveal more about the performance implications of international market orientation and age.

What is new about this study is the current, comprehensive and comparative research that sheds light on longstanding theories in international business. The study shows the endurance of the “liability of foreignness” theory at a time of increased globalization and regional integration. An important inference from the results of this paper is the managerial need to develop and nurture local firm competencies in Romania. The findings recommend openness to international markets for companies in the region.

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### APPENDIX 1 FIRMS DISTRIBUTION

<i>Variable</i>	<b>Romanian</b>		<b>CEE</b>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Performance (percent change in sales):				
<i>Negative change</i>	135	33	689	37
<i>No change</i>	43	10	152	8
<i>Positive change (up to 200% increase, inclusive)</i>	208	51	949	51
<i>Significantly positive change (over 200% increase)</i>	25	6	59	3
Age:				
<i>Under 10 years, inclusive</i>	106	26	387	21
<i>10-20 years, inclusive</i>	215	52	914	49
<i>20-50 years, inclusive</i>	84	20	486	26
<i>Over 50 years</i>	6	1	62	3
Size:				
<i>Small (fewer than 49 employees)</i>	320	78	1473	80
<i>Medium (50-249 employees)</i>	79	19	306	17
<i>Large (more than 250 employees)<sup>a</sup></i>	12	3	70	3
Industry <sup>b</sup> :				
<i>Retail and Wholesale</i>	176	43	702	38
<i>Garments; Textiles; Tanning and leather manufacturing</i>	31	8	89	5
<i>Machinery and equipment; Electronics; Precision instruments manufacturing</i>	29	7	139	8
<i>Furniture; Wood manufacturing</i>	17	4	113	6
<i>Food manufacturing</i>	19	5	120	6
<i>Publishing, printing and media; IT</i>	13	3	78	4
<i>Hotels and restaurants</i>	12	3	81	4
<i>Transport; other related services</i>	33	8	136	7
<i>Fabricated metal products; Basic metals manufacturing</i>	15	4	103	6
<i>Chemicals; Plastics and rubber manufacturing</i>	10	2	71	4
<i>Non-metallic mineral products manufacturing</i>	8	2	46	2
<i>Construction</i>	48	12	171	9
Foreign Ownership:				
<i>Yes</i>	50	12	172	9
<i>No</i>	361	88	1677	91
International Orientation (main markets):				
<i>International</i>	53	13	273	15
<i>Local/National</i>	358	87	1576	85
Subsidies:				
<i>Yes</i>	42	10	385	21
<i>No</i>	369	90	1464	79
Larger Firm:				
<i>Yes</i>	15	4	168	9
<i>No</i>	396	96	1681	91
Quality Certification:				
<i>Yes</i>	155	38	582	31
<i>No</i>	256	62	1267	69
Innovation:				
<i>Yes</i>	230	56	672	36
<i>No</i>	181	44	1177	64
<i>Total</i>	<i>411</i>	<i>100</i>	<i>1849</i>	<i>100</i>

<sup>a</sup> Firms with more than 900 employees were excluded.

<sup>b</sup> Industry corresponds to classification in the Business Environment and Enterprise Performance Survey.