The Transformation of the Romanian Economy Through Privatization and Internationalization*

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Abstract

In the late 1980s, Central and Eastern European nations (CEE) rejected communism and embarked on a journey towards free-market democracy. As part of this transformation, the Romanian economy transitioned from communism to capitalism. The purpose for our paper is to suggest insight from the Romanian experience that may be useful for nations in Asia, Africa, Middle East or South America that maybe be undergoing a similar transition. The main results of our paper is to substantiate the precepts of institutional theory, that a system is best transformed through external, international pressures. Our contribution illustrates this transformation through the case studies of Romtelecom, Dacia, and Petrom, Romanian state-owned enterprises (SOE) privatized by foreign multinational corporation (MNC). We distinguish between formal and informal institutions with the latter tending to be overlooked by traditional researchers. Through these longitudinal surveys we argue that multinational corporations are possibly the best generators of informal institutions.

Keywords: Privatization, Internationalization, Informal Institutions
JEL Codes: D21; F23; L21

1. Introduction

At the end of World War II, with the presence of occupying Soviet troops, Central and Eastern European (CEE) nations were forced to adopt communistic political ideologies and nationalized and centrally planned economic systems. By the late 1980s, starting with Poland and ending with Romania, the CEE nations rejected communism and returned to free-market democracies. While each CEE nation had its unique context, most CEE nations have privatized and internationalized their economies, and many are integrated into structures such as NATO, European Union (EU), and the Schengen area.

From a research perspective, this dynamic transition is worthy of investigation utilizing a diverse theoretical tool kit (Meyer and Peng, 2005; Schwartz and McCann, 2007; Staroňová and Gajduschek, 2019; Ipsmiller and Dikova, 2021),

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and in our paper, we shall utilize the institutional theory framework comparing formal with informal institutions. This approach may offer valuable insights for organizations and nations undergoing transitions throughout the world (Dixon et al., 2010; Aksom et al., 2019). Lessons learned from the CEE transition may be useful for nations such as North Korea, Cuba, Vietnam, and others, as they transition from a centralized towards a free-market economy.

The CEE transition was influenced by several global trends coinciding. First, the privatization impetus, emerging from the Anglo-Saxon sphere, suggested that private companies are more efficient and offer higher quality products and services than their publicly owned counterparts (Dunleavy and Hood, 1994). Second, the telecommunication and digital revolution of the late 80s and early 90s was already transforming western economies through the personal computer, the internet, and mobile communication (Powell and Snellman, 2004). Third, China was being integrated into the global economy for pragmatic and economic reasons affecting the economical balance of power (Yeung and Liu, 2008). Fourth, with the disintegration of the Warsaw Pact, the European Union (EU) expanded its scope eastwards and invited CEE nations to join, providing the main impetus of reform in the region (Raik, 2004).

This paper focuses on Romania since it is arguably the most diverse nation in CEE. Given its unique historical, social, and political context, the lessons learned here could have the broadest applicability to other transitional economies. Romania comprises three historically distinct geographical regions belonging to three different cultures and unified only in 1918 (Huntington, 2000). It has a Latin background with few cultural and linguistic ties to the mainly Slavic bloc of the Warsaw Pact, and it is the northernmost nation in the Balkans, having a substantial Ottoman legacy. The brand of communism Romania experience was heavily influenced by the dictatorship and personality cult of Nicolae Ceausescu, who skillfully played the nationalist card internally and the dissident card internationally.

Economically, Romania never experienced “perestroika” and politically, there was no substantial opposition to the communist political system (Tismaneanu, 2008). Therefore the 1989 revolution was more against Nicolae Ceausescu's dictatorship than the communist ideology, which may explain why privatization and internationalization were delayed until the late 1990s. Reforms were eventually enacted but mainly determined by the conditionality of joining the international community and accessing western funding, not by an intrinsic belief in the merits of a private and international economy (Dragoş and Neamţu, 2007). By the late 1990s, Romania was on the path towards NATO integration, and it joined the EU in 2007 along with Bulgaria. Romanian’s GDP has more than tripled in the past three decades, scaling from a $171.70 billion (PPP) on 23 million habitants to $606.20 billion (PPP) on 19.89 million habitants by 2020. In

the meantime, its GDP per capita experienced a growth rate close to 400%, from $7,319.00 (PPP) in 1990 to $31,243 (PPP) by 2020 as presented by World Bank.

2. Review, scope, and methodology

To understand this transition of Romanian economic system we shall analyze the privatization and internationalization of Romtelecom, Petrom, and Dacia. Those are three Romanian state-owned enterprises (SOEs) by the multinational corporations (MNC) Deutsche Telekom, OMV, and Renault. We propose that "informal institutions" such as culture, habits, and daily practices must complement "formal institutions" like laws, directives, and regime change to transition successfully. We further argue that multinational corporations (MNC) originating in developed economies with a proven track record, although far from perfect, are ideally positioned to implement these new institutions in post-transitional economies such as Romania (Hansen and Rugraff, 2011; Rindzevičiūtė, 2021).

We chose the longitudinal case study method as a research method, which provides a unique window into *"a system of interest with its structure, dynamics, pathologies, and promise"* (Aligica and Tarko, 2014). It enriches and generalizes the theory by combining theoretical knowledge with practical observations (Yin, 1994; Rindzevičiūtė, 2021). Case studies are used for the discovery, describing and mapping of relationships, but they may also be used for theory testing (Woodside and Wilson, 2003; Gummesson, 2005), theory illustration (Siggelkow, 2007), hypothesis development (Tellis, 1997), prediction (Woodside and Wilson, 2003) and the identification of further research requirements (Siggelkow, 2007). The historical and longitudinal case study method can discover causal correlations (Rodgers and Jensen, 2001), attempt to explain the "how" and the "why" (Yin, 1994), and it provides a chronological narrative with easy-to-follow descriptions and analyses (Eisenhardt and Graebner, 2007).

Our purpose is to contextualize to Romania the principles of transformation within the institutional theory framework and to fill the literature gap on the importance of informal institutions to complement formal ones. We anticipate our research will further enrich the literature regarding the benefits of multinational corporations (MNC) as generators of informal institutions. We shall begin our article with a brief discussion of institutional theory and its contextualization within the CEE situation, along with selected concepts regarding the privatization of state-owned enterprises (SOEs). Next, we will focus on the particularities of the Romanian transition to better understand the privatization and internationalization of Romtelecom, Petrom, and Dacia, our chosen state-owned enterprises (SOEs), which we will discuss in detail. Finally, we shall conclude with a discussion and contribution section, including the limitations and further study recommendations.

3. Literature review

3.1. Relevant Research Areas

Institutional theory is one of the most important theoretical schools of thought within organizational studies (Alvesson and Spicer, 2019). It is complex, and with multiple approaches and utilizations covering sociology, political science, public administration, economics, management, legal studies, history, and others (Vogel, 2012; Alvesson and Spicer, 2019). It was developed in the late '70s, on the premise that the ultimate goal of organizations was acceptance and legitimacy, not necessarily effectiveness or efficiency (Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983). As a result, important questions were asked regarding what organizations were, and what was their optimal structure (Wagh and Ganesh, 1980). Empirical studies were used to explore institutionalization (Tolbert, 1985), the process of institutionalization (Tolbert, 1985), and the mechanics of institutionalization (Baron et al., 1986).

By the early 1990s, the field expanded beyond organizational studies to other disciplines (DiMaggio and Powell, 1983; Goodrick, 1996). There was continuous research on how institutions construct and maintain legitimacy (Suchman, 1995). However, areas such as network theory (Baum and Oliver, 1991), population ecology (Baum and Oliver, 1991), institutional entrepreneurship (Battilana et al., 2009), institutional logics (Thornton and Lounsbury, 2012), and institutional work (Lawrence and SUDDABY, 2006) were added. By the early 2000s, the field reached maturity and was increasingly viewed from two distinct angles: "old intuitionalism," which referred to formal and tangible institutions like laws and regulations, and "new institutionalism", which referred to intangible, informal institutions such as norms, beliefs, and behaviors (Aksom et al., 2019).

Douglas North was the political economist who perhaps contributed most to the popularization and internalization of institutional theory. He and his colleague contributed to the development of the "Washington Consensus," which was utilized in CEE and other developing regions in the 1990s as the conditionality for funding by international organizations such as the World Bank (WB) and the International Monetary Fund (IMF) (Eggertsson et al., 1990; Rutherford, 1995; Furubotn and Richter, 2005; Ménard and Shirley, 2005; Mercuro and Medema, 2006; Steiner et al., 2008; Menard and Shirley, 2012).

North defined institutions as "*rules of the game in a society, or, more formally, are the humanly devised constraints that shape human interaction*" (North, 1990). According to him, institutions were meant to reduce asymmetric information and transactions costs, making micro and macro systems more efficient. His thesis was that sustained economic growth necessitates an efficient and enforceable system of property rights and political authorities who do not interfere with the activities of private actors. His work focused on the influence of neoclassical economic principles such as property rights, the transference of successful

practices from Western institutions to developing nations, and the importance of formal and informal institutions in economic transformation (Faundez, 2016).

Years later, Guy Peters, in his seminal work "*Institutional Theory in Political Science: The New Institutionalism* (2019), points out that most of the reforms undertaken in CEE had focused on "old, formal institutions" such as laws and government agencies, with little emphasis on "new, informal institutions" such as beliefs, behavior and organizational culture. He outlined six categories of informal institutions necessary to complement the formal ones: "normative institutionalism," "rational-choice-theory institutionalism," "historical institutionalism", "empirical institutionalism," "discursive and constructivist institutionalism" and "sociological institutionalism" (Peters, 2019).

There is an increased interest from theoreticians and practitioners alike on the impact of informal institutions on regulating human behavior (World Bank, 2017). Some scholars in the CEE region attribute the regression of public administration reform, the low quality of public services, and even "state capture" to the underinvestment in informal institutions (Meyer-Sahling, 2011; Staronova, 2017). The impact of informal institutions depends on aligning rewards and punishment and striking the right balance with formal institutions to achieve the optimal outcome. Formal institutions, primarily legal and governmental structures, have received extensive attention from institutional theory scholars to the disadvantage of informal institutions studies (Helmke and Levitsky, 2004; Greve and Argote, 2015). This is the literature gap we propose to fill by outlining how the internationalization and privatization efforts of multinational corporations (MNC) can create functional, even if not perfect informal institutions.

3.2. Multinational corporation vs. state-owned enterprises (SOE)

Arguably, multinational corporations constitute an ideal setting where formal and informal institutions coexist to produce a positive outcome for their stakeholders (Park, 2021). Applying institutional theory in the CEE context from an international business (IB) perspective, Peng (2003) stated that the region underwent "*fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players*" (Peng, 2003). Institutional differences are mainly noted by multinational corporations (MNE) operating in multiple nations. Formal rules and governmental interactions typically regulate entry strategies (Brouthers and Bamossy, 1997), while informal institutions such as norms and values impact operations and the implementation of strategies (van de Laar and de Neubourg, 2006; Bachmann and Inkpen, 2007).

One of the pillars of institutional theory is that private companies are more efficient than their state-owned counterparts (Clifton et al., 2003). Governmental ownership and the principal-agent problem were viewed as the primary motive

for inefficiency, in contrast to private ownership (Cuervo-Cazurra et al., 2014; Bartels and Weiss, 2019). SOEs are viewed as an extension of the state, with social objectives, little concern for productivity, and managed by politically appointed administrators without intrinsic merit (Megginson and Netter, 2001; Arocena and Oliveros, 2012). Privatization was viewed as the best remedy (Vickers and Yarrow, 1988; Jormanainen and Koveshnikov, 2012) for this government-created inefficiency (Demekas & Khan, 1991; Bratu, 2018; Estrin & Pelletier, 2018). While a SOE can be made more efficient through competition within its sector (Bartels and Weiss, 2019), private ownership was perceived to generate better strategic and operational results in the long run (Vickers and Yarrow, 1988; Jormanainen and Koveshnikov, 2012)

Furthermore, in emerging economies such as Romania, a significant distinction was made between autochthon private ownership and foreign ownership (Jormanainen and Koveshnikov, 2012). Some local owners privatized state-owned organizations by corrupt means and lacked the managerial skills and incentives to operate in the new free markets (Vaduva, 2016). They habitually relied on governmental contracts and cronyism to sell goods and services, often disregarding quality, price, and the rule of law (Dinur et al., 2009; Marrez, 2015).

Cuervo-Cazurra et al. (2014) outline four main ideological reasons for the existence of state-owned enterprises (SOE). First, the communistic economic ideology justifies the creation of SEOs or the nationalization of private firms in response to the accumulation of "unjust" wealth by private owners and the "subjugation" of workers (Marx and Engels, 1888; Marx, 1906). Second, the nationalist economic ideology justifies the creation of SOE to haste the development of a nation and the lack of a private alternative (Bruton, 1998; Rodrik, 2007). Third, the social-economic ideology proposes the creation of SOEs for social purposes such as unemployment, emigration, education, healthcare, and poverty reduction (Aravacik, 2018; United Nations, 2020). Fourth, the strategic economic ideology rationalizes the creation of SOEs for strategic reasons such as defense (Ginting and Naqvi, 2020).

Once communism was abandoned in the CEE region, and with the adoption of the "Washington Consensus," which viewed private ownership supremely, many SEOs were radically redesigned with the state becoming either a minority owner or being fully privatized (Chase, 1998). Some attempts by reform laggards such as Romania to continue operating SOEs for social reasons proved unsuccessful and further justified their privatization (Buckley et al., 2007; Knutsen et al., 2011; Cui and Jiang, 2012; Shapiro and Globerman, 2012; Lazzarini et al., 2015).

4. The Romanian socio-economic context

Romania was the last CEE nation to reject communism and arguably, experienced the bloodiest, most confusing revolution, with some claiming it to be a coup d'état, not a genuine revolution (Siani-Davies, 1996). From a certain perspective, it was more of a revolution against Nicolae Ceausescu's dictatorship and personality cult than against the communistic political system and its command economy (Roper, 1994). According to some experts in the region, the Romanian communistic economic system was the most "Stalinist" with strict autarky, central planning, and an industrial policy that ignored market realities (M. D. G. Demekas and Khan, 1991; Stan, 1995; Earle and Telegdy, 1998; Daianu et al., 2001).

The Romanian communist party came to power at the end of World War II with the aid of Soviet tanks, outlawing political competition, and implementing a Soviet-style command economy (Tismaneanu, 2008). A brutal nationalization campaign ensued, with most factories and farms being transferred into the government's control by the mid-1960s. The owners and managers of Romania's private economy were eliminated and replaced by party loyalists, many of whom did not possess the necessary managerial skills and experience (Lache and Țuțui, 1978; Constantinescu, 1998). However, the whole communist revolution they were characterized by "*a high sense of destiny and an almost divine appointment sense of superiority"* (Kornai, 1992).

Romania was integrated into The Warsaw Pact, giving it a market for its goods and services regardless of their quality (Deletant, 2007). In the early years, due to the collectivization and technologization of its agriculture, it achieved decent productivity gains (Chirot, 1978). Through massive investment and artificial development of its industries, disregard of the environment and forced relocation of its population, the economy achieved decent performances (Stoica, 2005; Sucala, 2018). The educational and research sectors, respectable even before communism, received investment from the central government, giving it an edge even over their communist counterparts (Phillips, 2010). Upon coming to power in 1965, Nicolae Ceausescu positioned himself as a maverick within the communist camp, securing special favors, investments, and technology transfers from western nations and international institutions (Pacepa, 1990). He stood as an "indispensable" broker in the Middle East, procuring lucrative contracts in the region's energy and construction sectors (Kinder, 1989). However, despite its foreign policy successes, the centralized economy's inefficiencies and hypocrisies could not be masked. Consumer goods were in short supply and of questionable quality, the production processes were inefficient with outputs being less valuable than inputs, and the agricultural sector built on communal farms and false reporting, could not keep up with local demands (Stoica, 2005).

4.1. The transition era (1990 – 1996)

Considering the propaganda machine promoting the communist ideology and the vexing personality cult of Nicolae Ceausescu, even after the bloody revolution of 1989, most Romanians did not consider communism to be flawed economically as much as politically, socially, and culturally (Topan et al., 2018). This may explain why Romania embraced a gradual transition towards a free-market economy and seemed to have opted for a "*mixed, human and social market economy*" (Constantinescu, 1998). The early leaders of Romania were former communists seeking to reform the system, not abolish it. They opposed reform and global integration and attempted to deal with the international economy using outdated instruments and paradigms (Pop-Eleches, 2008; Dabija and Babut, 2012). The period after the revolution was characterized by former members of the Communist party fighting over the spoils of a newly privatized economy, encouraged by the western ideology of "*new public management*" (Văduva, 2016).

During this period, the main positives were the legal system's alterations which became the basis for an eventual reform. The constitution was changed in 1991 and 2003 to allow "*free access of the person to economic activity, free initiative and their exercise under the law*". The Romanian business framework was organized by law 31 of 1990, primarily inspired by the 1938 Commercial Code, which never entered into force. The law describes and regulates the main legal elements involving economic activity: labor code, civil code, criminal code, civil/criminal procedure, and administrative codes (Stoica, 2004).

4.2. Towards a free-market economy (1996 – 2008)

The election in 1996 of the Democratic Convention of Romania, a center-right coalition, signaled a clear break with the communist past, the embracement of the free market economy, and the desire to integrate into western international structures. Accordingly, the center-right coalition initiated an aggressive privatization program, integration into NATO and the European Union, and the attraction of foreign capital and managerial expertise (Popescu, 1997; Earle and Telegdy, 1998). Table 2 summarizes the major state-owned enterprises that were privatized during this period and the foreign company that acquired them, providing investment capital and managerial expertise.

This process was not void of controversy. There were debates regarding the companies' actual value and whether the sales proceeds should be utilized to upgrade the SOE or be used by the national budget (Szentpéteri and Telegdy, 2010). In addition, there were debates regarding the "*grandfathering*" of certain monopolistic positions and gradually introducing free-market competition. This was further complicated by the distinction between foreign operators and newly formed private Romanian companies competing to privatize state-owned assets

(McCollum and Schoening, 2002; Vătămănescu et al., 2014). In some instances, there were attempts of dual management where foreign managers "*co-manage*" along with their governmental appointed, Romanian counterparts.

Table 1. Major Romanian state-owned enterprises that were privatized (1997 – 2008)

State-owned firm	Name of Foreign Acquirer	Nationality	Year	Amount (millions)	Turnover in 2013 (millions)
BCR	Erste	Austria	2006	€ 2.2 billion	€ 14.470*
Petrom	OMV	Austria	2004	€ 670.00	€ 4.089
Romtelecom	OTE	Greece	1998	€ 675.00	€ 612*
Room	Large	France	1997	€ 200.00	€ 155
BRD	Societe Generale	France	1999	$ 200.00	$ 10.660*
Sides	ArcelorMittal	Luxembourg	2001	$ 70.00	$ 840
Automobile Craiova	Ford	USA	2007	€ 57.00	$ 1.096
Castle Hunedoara	HeidelbergCement	Germany	1997	$ 52.00	$ 164
Automobile Dacia	Renault	France	1999	$ 48.60	$ 4.164
Rulmenți Grei Ploiești	Timken	USA	1997	$ 40.00	$ 64
Also	Marco Int.	Italian	2002	$ 11.40	$ 444
Cost – SA.	Mechel Târgoviște	Romanian	2002	$ 25.00	$ 98

* **Source**: Ziarul Financiar, Aug 16, 2014

The privatization process's most visible and painful aspect was making the former state-owned enterprise efficient and profitable through laying off excess personnel, thus contributing to unemployment (Cindrea, 2007). Considering the communistic economic structures, many large enterprises were single employers in smaller towns, giving their downsizing a disproportionate negative social effect. This was especially true in the mining and heavy industrial sectors in Romania's southern and eastern parts. The situation was partially mitigated through emigration since by the early 2000s, Romanians could legally work in the European Union (Simionescu, 2016)

A significant aid for the Romanian economy in the late 1990s was the International Monetary Fund (IMF) and the World Bank (WB), which provided capital, managerial expertise, and moral guarantee for the attraction of foreign direct investment (FDI). As a result, by the end of 1999, 5.155 of the 6,300 state-owned firms had been privatized, with the balance waiting for privatization

or liquidation (Brown et al., 2006). In 1999 alone, the government successfully privatized Dacia, the national automotive company, Astra Vagoane, the national Railway stock manufacturer, the largest Danube shipyard in Galati, and two of the five state-owned banks (Douka, 2011). As a result, the national economy experienced an economic boom with a decrease in the poverty rate from an estimated 28.9% in 2002 to 5.7% in 2008 (Popa, 2012). Moreover, with the legislation changing in preparation for the European Union (EU) accession, the period between 2004 and 2008 was the height of Romania's economic boom. This development was fueled by western FDI and inexpensive credit from Western banks.

4.3. The integration period (2008 – 2020)

On January 1, 2007, Romania joined the European Union along with Bulgaria, making them the last former communist nations to do so. However, several phenomena characterized the period before. First, there were numerous legal attempts to harmonize the Romanian with the European legislation, primarily to diminish corruption, which was viewed as the major impediment to integration (Carp, 2014; Crisan-Mitra et al., 2016). Second, dynamic attempts to access EU funding for public and private initiatives ensued with questionable results, especially in the early years which contained substantial "*trial-n-error*" (Miroiu and Vlasceanu, 2012). Third, massive migration to the European Union was accentuated by the 2008 – 2010 financial crisis. As a result, the Romanian economy changed from a predominantly producer of agricultural and industrial goods into a reliant nation on diaspora remittance and a consumption economy (Vătămănescu et al., 2014; Bunduchi et al., 2019). The financial crisis of 2008 – 2010 was a blow to the Romanian economy, causing its GDP to contract substantially. Inflation rose again, and there was a decline in external demand for Romanian goods and services, plummeting Romania into a severe recession. The government decided to access a €20 billion loan from the international financial community, with strict austerity measures, especially governmental expenditures.

5. The privatization and internalization of State-Owned Enterprises (SOEs)

Similar to other Soviet-style economies in the region, the Romanian economy was dominated by SOEs, which after the revolution, attempted to compete in the global economy through a combination of hybrid government and market forces. Overnight, the managers of SOEs and the government officials entrusted to direct them had to contend with ideas such as efficiency, market orientation, strategic management, individual responsibility, and entrepreneurship (Kelemen and Hristov, 1998). By the late 1990's it became clear that SOEs could not

reform themselves to provide the same level of goods and services as their foreign counterparts, which were now flooding the Romanian market.

At the behest of the international community, the newly elected government of 1996 decided to privatize the SOEs to western multinational corporations (MNC) with the necessary experience, capital, and technology to reform them. The transformation was difficult as organizations accustomed to collective ownership, rewarded for meeting a central plan and who existed for social reasons, had to compete in a free-market economy with foreign goods and services. However, the privatization and internationalization process undertaken by western MNC was possibly the most successful generator of informal institutions to complement formal institutional reforms at the macro-level. In a region where little attention and effort were invested in implementing informal institutions such as norms, values, and behaviors, the internationalization and privatization of SOEs by western MNC was a seemingly successful experiment (Ullberg, 2016; Jaklič et al., 2020).

5.1 The privatization and internationalization of Romtelecom

Telecom Romania comprises two distinct activities reflecting the telecommunication ecosystem: landlines and mobile telecommunications. Although Telecom presents a unified brand to its customers from a marketing perspective, behind the scenes, it operates as two distinct entities. This section shall outline the history of both fixed landlines and mobile operations and their various partnerships, controlling interests, and external pressures to exemplify how informal institutions were eventually created.

5.1.1. Landlines: the traditional Telecom

Romtelecom was nationalized in 1948 and, like other government-owned companies, was subservient to the government's political agenda of modernizing the economy. Investments were made in industrial and urban centers to the disadvantage of rural dwellers who often had just one telephone per village. Romtelecom operated 44 autonomous subdivisions, employed close to 50,000 individuals but serviced only 3 million subscribers out of a population of 23 million people (Aligica and Tarko, 2014).

After the revolution, it was renamed Rom-Post-Telecom and transformed into a joint-stock company with 100% of the shares owned by the Romanian government. It received a $150 million loan from the World Bank and formed partnerships with Alcatel-Alsthom SA of France, Siemens AG of Germany, and Telefonica of Spain. By 1992 it had the technology and the position to enter the mobile phone market but was held back by the internal culture and the pressures to increase telephone landlines.

By the election of 1996, the reality was that state-owned companies like Romtelecom were inefficient and corrupt, and that the solution was their privatization to foreign companies with the necessary capital and expertise (D. G. Demekas and Khan, 1991). Romtelecom was evaluated at $3.5 billion, and 30% was made available to international bidders (Ziua, October 27, 1997). OTE of Greece who was privatized only a year earlier to Deutsche Telekom of Germany, acquired the package for $675 million, causing significant charges of corruption. This was further aggravated by a clause giving Romtelecom monopolistic privileges until 2002. OTE, not having majority control of the company, could not implement any significant reforms, and the sale proceeds were not utilized to modernize the company's operations.

In 2003 OTE purchased an additional 19% shares of Romtelecom, giving it the necessary control to implement managerial reforms indirectly imposed by Deutsche Telekom. Excess staff was dismissed, operations were made more efficient, and customer service improved. Several innovations were introduced, such as broadband internet on ADSL technology and CyberHost data centers catering to the business market. Efforts were made to bundle land services with mobile services, and the Romtelecom stores were transformed into genuine telecom retail stores. Satellite and smart television services were introduced in lockstep with international standards and practices transferred from Deutsche Telekom.

5.1.2. Mobile telecommunication

Romtelecom started its mobile initiatives in 1992 in partnership with Telefonica of Spain and considering its experience in radio technology and physical infrastructure. Until 1997, Telemobil, as the joint venture was called, enjoyed an almost exclusive market dominance due to its expertise and brand recognition (Oaca, 2000). This was not favorably viewed by the dominant landline division who perceived mobile technology as an internal competitor and made steps to keep it underdeveloped. With the liberalization of 1997, Telemobil was forced to compete against global giants like Orange and Vodafone with an antiquated network and incompatible mobile devices and as a result it was sold to RDT, an investment fund. In 2000, it was sold again to Saudi Oger and Qualcomm's joint venture and rebranded into “Zapp” but it dropped to less than 1% of the market.

Having sold Telemobil, Romtelecom launched a separate mobile company called “Cosmodrome,” trying to compete with the new international entrants and its former Telemobil. However, its operations were inefficient and non-innovative, while its customer service was substantially inferior to Orange and Vodafone, who had access to international capital, technology, and managerial expertise. In 2005, after the full takeover of OTE, Cosmorom was rebranded into “Cosmote” and positioned itself as a low-cost provider with the acquisition

of Germanos, one of the largest retailers of mobile hardware. However, in 2006 the Romanian Inspectorate for Communication and Information Technology (IGCTI) did not renew its 3G operating license forcing Cosmote to acquire Zapp in 2009 at a premium.

5.1.3. German informal institutions transferred to Romtelecom

In 2013, Nikolai Beckers, a Deutsche Telekom insider, was named CEO of both companies with a clear mandate to merge them as one brand and transform the operating culture from competition to collaboration. This was based on the experiences of western European telecommunication operators who achieved economies of scale by combining fixed, mobile voice and data along with entertainment and TV services (Boniecki et al., 2016). It instituted modern corporate practices of measuring efficiency and integrating technology into daily operations, ensuring staff will reaches maximum productivity. In addition, it made significant investments in fiber optics for improved data, voice, and entertainment delivery and offered innovative business services such as cloud, M2M solutions, and digitalization (Telekom, 2015).

The transformation of Romtelecom is illustrative of the transformation of the Romanian economy from a centralized communistic dictatorship to a free market, internationally integrated economy. Under the communist regime, Romtelecom was expected to provide the social service of communication to the Romanian population and employment for thousands of individuals. Following the collapse of the communist regime, Romtelecom retained its monopolistic position for an additional 12 years, attempting to reform itself with various loans and partnerships. Unfortunately, it was unable to provide adequate service for the Romanian population during the communist era, and it was unable to reform itself during the transition period regardless of financial help, international partnerships, and dynamic technological innovations. However, when the telecommunication industry was liberalized, allowing for free competition and international managerial practices from Deutsche Telekom, Romtelecom was reformed in earnest.

5.2 The privatization and internationalization of Dacia

Dacia began as a small, private auto manufacturing company in 1943, as part of Uzina de Autoturisme Pitești, a local company designed to compete with Ford Motor Company, the famous US giant present in Romanian before World War II. Since the Antonescu nationalistic regime ruled Romania, the company had a patriotic undertone, taking its name after the Dacians, the ancient dwellers of Romania. In 1948, it was nationalized along with most other large private companies and given almost monopolistic privileges to produce Dacia, the new national car. Significant investments were made into the company, which were

in line with the nation's goals of industrialization. The rural population was forced to move to the cities as a source of cheap labor, and universities made substantial investments into their technical programs to support the manufacturing industry.

5.2.1. The communist period

In the late 1960s, after the installment of Nicolae Ceausescu as the undisputed leader of Romania, Dacia established a licensing agreement with Renault, the French automobile producer, and began producing automobiles with the French technology. This made Dacia a success giving it orders from other communist nations and the Romanian customers waiting months, sometimes years, for their brand-new automobiles. However, by the early 1980s, the company entered a declining period due to political interference, operational inefficiencies, and the attempt to bypass the agreement with Renault. The communist dictator personally decided that Dacia should build an economical car, no longer than three meters, and that it should be produced by Technometal, another SEO without any automobile manufacturing experience to bypass the Renault agreement. The result was the Dacia 500 "Lastun" produced in an edition of 6.000 models with almost none of them functioning properly (Rus, 2018).

5.2.2. The transition period

After the 1989 revolution, Dacia was transformed into a joint-stock company, with 100% of the shares being owned by the Romanian government. The removal of border controls eliminated Dacia's monopolistic position, and with the disintegration of the Warsaw Pact, its international markets. It began facing significant competition from international firms such as Volkswagen, Audi, Opel, Hyundai, and others who although were more expensive, were of better quality (Nedelcu, 2015). During this period, given Romania's relaxed environmental standards and lenient border controls, it also became a lucrative market for western secondhand cars.

The main factor which hindered Dacia's ability to respond to these international pressures were the internal informal institutions maintain by the influence of traditional labor unions who were also heavily involved in the government of the early 1990s (Varga and Freyberg-Inan, 2015). As previously stated, in the early 1990s, the leaders of Romania did not ideologically reject the premises of communism as an inherently flawed system but instead attempted to reform it using traditional socialistic tools. As a result, by the late 1990s, the company could not reform itself, was heavily in debt, with a bloated workforce and producing cars few people were buying.

5.2.3. The internationalization and privatization of Dacia

In 1999, the State Property Fund of Romania set in motion the privatization offer for the Dacia plant and Renault was declared the winner. Similar to other privatizations at the time, the process was controversial regarding the firm's actual value and the laying off of excess personnel (Cristina, 2014). Nevertheless, despite significant resistance from the labor union, the restructuring of its 29.000 staff was completed with foreign management being brought in who instituted new policies and practices (Săvoiu et al., 2010). Informal institutions and practices were transferred from France and other parts of the world and contextualized to the Romanian realities through management trainings and international production standards.

From Renault's perspective, this was an opportunity to enter the CEE car market and access low labor costs and favorable government conditions (van Tuijl, 2013). Once instituting new management policies and practices among its workforce, Renault began a massive modernization and upgrade campaign, bringing in the latest technology along with the necessary employee training, thus creating new practices and habits (van Tuijl, 2014). This investment in informal institutions extended to local suppliers and community leaders who needed to be trained in the basics of a free-market economy and international standards of behavior. Renault further invested in technology and engineering centers, harnessing the value of its human potential and the possibility of developing and transferring products and practices to other regions of the world. Eventually, the good practices developed in Romania were utilized by the firm's new facility in Morocco, with many of its Romanian managers and engineers being transferred there to service the African market (Čirjevskis, 2021).

Although some saw the privatization of Dacia to a foreign MNC as a symbol of nationalistic failure, this was vindicated after the crisis of 2008 – 2010 crises when Dacia Logan was introduced to western European consumers as an alternative to purchasing a secondhand car (Adăscăliței and Guga, 2020). Dacia's true international success came with the introduction of the Dacia Duster model, which was one of the best-selling cars in its class. Both models were designed and manufactured almost exclusively in Romania, making Dacia one of the few successful Romanian brands accepted by western consumers. The managers and employees of Dacia wanted to make their brand an international success even before privatization and internationalization. With every formal tool at their disposal, the government officials charged with overseeing its operation spend almost a decade trying to make Dacia at least a national success. However, its full potential was not realized until Renault instituted proper informal institutions to complement the formal ones.

5.3. The Privatization and internationalization of Petrom

Romania began its oil production in 1857, with the first oil refinery in Europe at Mehedinteanu, near Ploiesti. By the beginning of the 20th century, Romania was one of the largest oil producers in Europe, attracting significant foreign direct investment (FDI) from the US, UK, Germany, and the Netherlands. In the 1920s, Romania was considered one of the top oil producers globally, benefiting from a vibrant private sector (Buzatu, 2006). Unfortunately, during World War II, most of its oil fields were destroyed by the Allies since they were a strategic resource for the Axis powers, leaving the Romanian oil industry demolished.

5.3.1. The communist era

The communist nationalization of 1948 consolidated the Romanian oil industry into a single national company called SovRom Petrol which the Soviet Union partly owned. This brought the necessary investment and some Soviet technical expertise along with international customers within the Warsaw Pact. It also diversified its activities to include a broader range of energies such as natural gas. This development, however, was undertaken disregarding the environment and forcing people to relocate from the rural to the urban settings, sometimes against their will. Typical of command economy SOEs, there was little concern for operational efficiency and innovation since the company operated primarily for social and geopolitical reasons rather than profit maximization (Popescu, 1995; Woodard, 1995). As part of Ceausescu's nationalistic and independent drive and with high production levels and high prices during the 1970s, the Soviet interests were redeemed, leaving the company in the Romanian's hands, and renamed Petrom. However, the low energy prices of the 1980s reduced the government's appetite to continue upgrading extraction and refinement capabilities, choosing instead to lease its qualified personnel to nations in the Middle East (Nelson, 2019).

5.3.2. The transition era

After the revolution of 1989, Petrom was transformed into a joint-stock company wholly owned by the Romanian government. Given the communistic inclinations of the governments prior to 1996, and the historical value of energy production in Romania, many efforts were made to modernize it. Although there were many formal directives meant to reform the energy giant, similar to other SOEs, it lacked the informal institutions to implement then. Furthermore, many of those efforts were obstructed by former Petrom executives establishing their own private enterprises in a newly liberalized energy market (Bartels, 2015). Given its size and prominence, some argue that Petrom was made a showcase by the international financial community, which refused to finance its modernization without private and foreign ownership (Baltasiu and Bulumac,

2011). By the early 2000s, its privatization and internationalization became a conditionality for EU accession, which may explain the unusual tension and debates surrounding the sale of 51% of its shares to OMV AG of Austria in 2004 (Jurnalul National, 2011).

Similar to other privatization and internationalization efforts, the tender of Petrom on the international market was primarily a result of failed modernization efforts by the companies' managers and its governmental supervisors. Furthermore, numerous corruption charges levied against Romanian officials included transactions in the energy sector, giving the international community an extra impetus for privatization (Frederick, 2009). Although OMV was the largest company listed on the Austrian stock exchange, it was producing only about 14.000 barrels of oil per day, in contrast to Petrom, which was a about 220.000 barrels of oil per day (HotNews.ro, 2004; OMV Petrom, 2005). This disproportionality led many to charge the Romanian socialist government (PSD) who were the descendants of the former communist party, with corruption accusations and the international community with “neo-imperialism” (Hunya, 2007; Baltasiu and Bulumac, 2011; Sitnikov and Bocean, 2012). As a result, numerous voices were asking for additional time, optimistic that they would turn Petrom into a world-class operation without its internationalization and privatization.

It was nevertheless privatised by OMV who integrated it into their Eastern European strategy. With new managerial practices, performance mechanisms and marketing expertise, new institutions were transferred and generated which complemented the formal desire of the company. Besides bringing in new managerial and marketing expertise, OMV also invested over 13.5 billion euros between 2005 – 2017, helping the new company diversify its production, refinement, and energy distribution. Additional energy operations in Bulgaria, Serbia, and Monte Negro were purchased and integrated under the OMV umbrella. New energy wells have been developed such as Neptun Deep in the Black Sea, Totea for onshore gas, Delta for offshore oil, Padina for gas, and JV Huntoil. In addition, new gas treatment plants were open at Burcioaia, Hurezani, Madulari, the refinery at Petrobrazi was modernized, and the Brazi power plant became the most significant private greenfield project in electricity generation in the nation.

The privatization of Petrom was probably the most controversial privatization in the Romanian post-communistic economy. Its timing coincided with EU and NATO accession, and it was privatized by a smaller firm from a nation that formerly ruled Transylvania, the western region of Romania. Petrom had the physical capacity to purchase OMV along with other rivals in the region. However, lacking the informal institutions such as management, marketing, and especially the trust of the international financial community, it had no choice but to be privatized by a firm who possessed them.

6. Conclusions and further discussions

In comparison with other CEE nations, Romania was a laggard in the transition from a command to a free-market economy (Burtic, 2012, p. 201; Armeanu et al., 2015; Fotea et al., 2017; Țundrea, 2017; Cicea et al., 2019). Under communism, it suffered from a despotic regime characterized by extreme centralization, population controls, corruption, and the absence of an ideological opposition. As a result, while neighboring nations were undergoing reforms even before abandoning communism, Romania remained true to its Stalinist policies. The transition period coincided with the global technological revolution, which was transforming individuals, firms, and nations. From a public policy perspective, the international community was undergoing the Teacher – Regan revolution where national firms were being privatized and the economy was liberalized. This Washington consensus determined the policies of western leaders and international financing organizations, which made privatization and internationalization the conditionality of their loans and investments.

This transformation from a centralized to a free-market economy sparked substantial theoretical debate within institutional theory. Most practical and academic efforts seem to have concentrated on the adoption of formal institutions such as laws and governmental agencies, to the detriment of informal institutions such as habits and behaviors. However, in most cases, it proved that the formal institutions of communism were much easier to replace than the informal ones, which persisted despite an ardent desire to change them. Formal institutions necessitate informal ones to ensure proper implementation and contextualization. The transformation of the Romanian economy through the privatization and internationalization seems to demonstrate this point. Further, informal institutions seem to be best generated by western MNC such as Deutsche Telecom, Renault, and OMV who were responsible for the successful privatization and internationalization of Romtelecom, Dacia, and Petrom.

6.1. Institutional theory implications

The first implication we would like to propose is that formal institutions such as laws and governmental agencies have to be complemented by informal institutions such as habits and behaviors. The creation of these informal institutions must be an intentional process without which formal institutions will have limited transformative power. We look forward to additional research on this topic in various cultural and geographical contexts.

The second implication of our study is that foreign MNC are arguably befitting to generate informal institutions. We are aware that MNC have negative reputations in certain parts of the world, since they are perceived as instruments of neocolonialism, selfishly exploiting the natural resources of developing nations. However, with proper oversight and transparency, MNC can be a force for good.

They possess the incentives, experience, flexibility, swiftness, and pragmatism to experiment and contextualize the optimal informal institutions for most situations.

The third implication we propose is that SOEs can seldom perform social services such as maintaining employment, and still be efficient and profitable. All three of our Romanian case studies were prohibited from laying off excess staff in the early 90s, and it was not until foreign management was brought in that they became efficient and profitable. The privatization process is fraught with possibilities of scandal and corruption charges, and it should be made as transparent as possible. However, it is better than the alternative of reminding an inefficient and unprofitable SOE.

6.2. Further research

The first major area of discussion based upon our research is whether there are other generators of informal institutions better suited than foreign MNC. Traditionally, educational, and religious systems were the major generators of informal institutions. Perhaps in a future study, these two significant systems should be evaluated along with the private corporate sector.

The second area of discussion should be regarding informal institutions' transferability outside the MNC. For instance, does an employee who leaves Telecom for a Romanian private company, or a governmental agency takes the informal institutions with him/her? This is a crucial area of discussion as millions of Romanians are currently working in Western Europe, and in the eventuality of their return, will they bring the informal institutions of their adopted countries back with them?

The third area of discussion is regarding the genuineness of the informal institutions' adoption. Have the Romanians employed by the foreign MNC genuinely adopted the informal institutions, or do they just pay it lip service to continue working there? This leads to a deeper conversation about the sustainability of informal institutions.

6.3. Limitations and research gaps

Our study's first theoretical limitation is that there is no universally accepted definition of what constitutes a successful transition. Unfortunately, there is no clear consensus among theoreticians and practitioners if Romania can be considered a successful transition from communism to capitalism. There is a substantial body of literature arguing, for instance, that China, a communist economy became wildly successful without privatizing and internationalizing its economy.

The second limitation of our study is that privatization and internationalization of state-owned enterprises are typically bound by the historical, political, and cultural context. What might be considered a successful privatization in Romania may not have a similar connotation in other parts of the world. Perhaps a geographical and cultural framework may emerge to outline best practices in the privatization and internationalization of state-owned enterprises depending upon geography and culture.

The third limitation of our study is that we do not possess sufficient data on the informal journey of Romtelecom, Dacia, and Petrom as they were privatized and internationalized. As mentioned throughout our paper, charges of corruption and foul play were occasionally raised against its managers and government owners, yet there are limited studies on this topic.

The third limitation of our study is that we did not interview the managers, employees, and owners of Romtelecom, Dacia, and Petrom as they transformed a state-owned enterprise into a multinational company. This internal perspective warrants future investigation.

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