

Mihai, Iuliana Oana; Mihai, Cosmin

## Article

# The impact of foreign ownership on the performance of Romanian listed manufacturing companies

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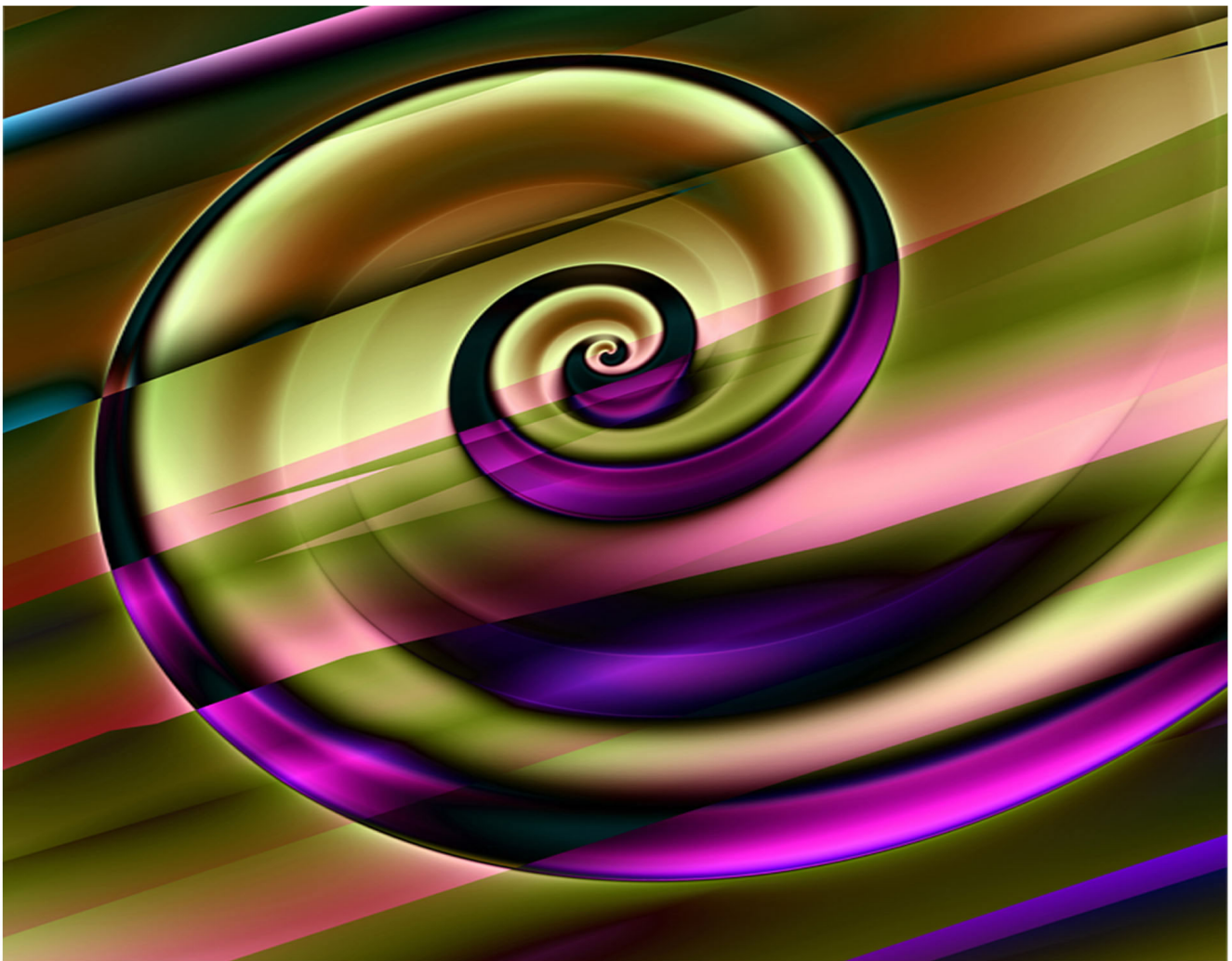
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## **The Impact of Foreign Ownership on the Performance of Romanian Listed Manufacturing Companies**

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### **Abstract:**

The main objective of this paper is to investigate the relation between the foreign ownership and manufacturing firm performance. The study was conducted for the companies listed on Bucharest Stock Exchange, in both segments regulated and non-regulated. The final sample included 261 companies. Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS) were used for measuring the economic and financial performance of the firms. The foreign ownership was measured by the percentage of shares held by foreign investors. Econometric tools like linear regression analysis were used for the analysis. The results of the study suggest that there is a non-significant link between economic and financial performance and the existence of foreign ownership.

**Keywords:** foreign capital, manufacturing, ownership, performance.

### **1. Introduction**

One of the achievements of the transition process in Romania was the opportunity to attract foreign capital as far as the Romanian economy has become more open. Among different sources of financing, foreign investment plays a major role in transition economies. According to Romanian legislation, there are two types of foreign investment: foreign direct investments and portfolio investments. Portfolio investments involve acquisition of securities on capital markets and do not imply direct participation in the management of the company. On the other hand, foreign direct investments imply the direct



participation of a foreign investor in establishing or expanding a business in any of the legal forms provided by law, the acquisition of shares in a company, excluding portfolio investments. Also, foreign direct investments may contain the establishment or expansion of a branch in Romania by a foreign company. The main difference between portfolio investment and direct investment is that a direct investment allows foreign investor to exercise a control over company's management and assets.

This paper investigates the causal relationship between foreign ownership and firm performance. The general assumption is that foreign-owned companies perform better than domestic-owned companies. However it is not very clear if foreign ownership per se improves productivity. In many cases foreign owners choose the best domestic firms to invest in or firms belonging to high-productivity industries, in that case foreign-owned companies would appear to have a productivity advantage that has little to do with the transfer in ownership. Examination of how foreign capital affects firm performance has particularly important policy implications for governments worldwide. These governments spend impressive sum of money and resources for programs aimed to attract foreign investment with the hope of collecting the benefits of globalization (UNCTAD, 2000). The general perception is that foreign ownership is a way to attract innovative technologies, know-how, managerial skills for integration into international networks of distribution and production, and also to increase the competitiveness of firms and countries' economic performance. Thus, foreign ownership has an important role for economic development of the host country. However the benefits of foreign capital do not automatically appear. There are considerable variations in the "quality" of foreign capital and its impact on the economies of the host countries. In some countries, the economic environment is less favorable for foreign capital to achieve a positive impact regardless the strategy or operational policy of the foreign investors.

Starting from these situations, the overall objective of this paper was to investigate the impact of foreign ownership on the performance of listed manufacturing companies, by testing the relationship between equity structure and profitability.

Analyzing numerous studies and articles about the impact of foreign capital on firm performance, we found that majority of them are realized on companies listed on capital markets. The capital market is considered a "barometer" of the national economy, so a study conducted for listed companies is considered to be representative for all the companies and would allow us to draw some general conclusions on the economic environment as a whole.

In Romania, the problem is that there is no tradition of capital market, so capital market is not considered a possible alternative for financing. In contrast, in the United States, 70% of companies are financed through capital market and 30% through the banking system. In Europe, almost 60% of

European companies are financed by banking system, while 40% of European companies prefer capital markets as alternative source of finance. In Romania, less than 1% of companies are choosing capital market for funding.

## 2. Literature Review

There is a substantial literature on whether and how ownership structure affects corporate performance (see, for example: Jensen & Meckling, 1976; McConnel & Servaes, 1990; Demsetz & Villalonga, 2001; Farooque et al., 2007; Bargezar & Babu, 2008). Many studies were conducted to explore the effects of different types of ownership structure on firm performance in both developed and transition economies. Ownership structure can be examined along a number of dimensions: the influence of managerial ownership, family ownership, state ownership or foreign ownership, the impact of ownership concentration in general and blockholders (typically institutional investors) in particular; and, more generally, the identity of owners. The literature has the roots in the identification of agency-related conflicts within the firm, which can be traced to the work of Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property*, 1932.

This paper investigates the foreign and domestic ownership dimension of ownership structure. Although the role of firm performance is investigated widely, foreign ownership effects on Romanian companies remains unexplored. For that reason we focus on whether foreign capital has significant different effects on performance of Romanian manufacturing companies listed on both section of Bucharest Stock Exchange.

Internationally there is a rich literature based on empirical studies comparing the productivity of companies whose capital comes from abroad with the productivity of the companies with domestic capital (see, for example, Doms & Jensen, 1995; Aitken & Harrison, 1999; Perez-Gonzalez, 2005; Petkova, 2008; Arnold & Javorcik, 2005). Thus, several studies have investigated the causal link between the existence of foreign capital and operating performance, if the target company is located in an emerging market and investor comes from a developed economy.

In Venezuela, Aitken and Harrison (1999) demonstrated on a sample of Venezuelan firms that the existence of foreign capital is closely linked to productivity improvements, but only for small firms. In Mexico, Perez-Gonzalez (2005) demonstrated that controlled subsidiaries of multinational companies have improved the overall productivity of production factors, especially those working in areas that rely on technological innovations, which are transferred by the parent companies. Petkova (2008)

demonstrated that Indian firms acquired by foreign investors recorded significant growth of productivity in a horizon of three years from the date of acquisition. A similar study was conducted in Indonesia by Arnold and Javorcik (2005). They have shown that Indonesian firms acquired by foreign investors recorded substantial improvements in productivity both in the year of acquisition and in the following years.

Another set of studies were conducted in countries with developed economy. For example, Doms and Jensen (1995) showed that U.S. firms with foreign capital are more productive than companies with domestic capital, but on average are less productive than U.S. multinationals. Girma (2005, 2007) found for U.S. firms substantial growth rates immediately after their acquisition by a non-American investor. But these studies did not take into account the foreign investor's home country, if it comes from an emerging economy country or a country with developed economy.

Antkiewicz and Whalley (2006) highlighted the tendency of Chinese firms to acquire companies in the OECD. This trend is dictated by facilitated access to resources, new technologies and distribution networks in target countries.

Greenaway, Guariglia and Yu (2009) conducted a study on a sample of 21,582 Chinese firms during 2000-2005 and they concluded that the most profitable companies are joint ventures companies, compared with firms that have full Chinese capital or with firm that have full foreign capital. In essence the study suggests that a minimum domestic capital is required to ensure local optimum performance.

In Canada, Boardman et. al (1997) found important differences between subsidiaries of Multinational Enterprises and Domestic Corporation. In India, Douma, Rejie and Kabir (2002) found a positive and significant correlation between firm performance and foreign ownership.

In a transnational study, conducted in three countries, Bulgaria, Romania and Poland, Konings (2001) investigates whether the financial performance of companies with foreign capital is better than the financial performance of companies with domestic capital. The results obtained by Konings for Romania and Bulgaria suggest that foreign firms do not have better performance than domestically-owned firms. In contrast, for Poland, the results showed a positive and significant impact of foreign capital. The main explications for this result are the delays in carrying out the reforms in Romania and Bulgaria. Konings explained that time is required for the positive effects of foreign capital to come. Munday et. al. (2003) conducted an analysis on panel data covering the period 1994 to 1998 to compare the productivity of companies with domestic capital with the productivity of foreign affiliates in the UK. Results showed relatively poor performance of foreign affiliates in manufacturing industries, Japanese firms having the weakest performance. Barbosa and Lourie (2005) in a comparative study conducted in Greece and

Portugal did not find significant differences between multinationals and domestically-owned firms in terms of economic profitability. They demonstrated that the performance of companies in Portugal is not affected by the existence of foreign capital after controlling for firm and industry characteristics.

The general idea that emerges from all these papers and studies is that of a higher profitability of foreign capital. Also, most of the studies were conducted for companies listed on stock markets. There are however, some studies which do not confirm the hypothesis of superior profitability of companies with foreign capital. Therefore, we can say that we found mixed results. There is still no consensus, despite numerous empirical studies conducted both in developed countries and less developed countries or emerging economies. The opinions differ significantly between developed and developing countries. There is no guarantee that the results obtained in developed countries, with mature capital markets are also available for the new market economies of Central and Eastern Europe. In these countries there are heated debates and controversy about foreign investment. The opinions are pro and cons for foreign investment (Eriksson and Pytlikova, 2010). Often the subject of foreign capital is used for political purposes. In general, the location of foreign capital in these countries is explained by lower production costs, especially labor costs and proximity to some of the new expansion markets (Russia - in particular).

### **3. Data Description**

For assessing the impact of foreign capital on the economic and financial performance and for evaluating if the companies with foreign ownership perform better than companies with domestic ownership, this paper uses firm level data from 261 manufacturing companies listed on both segments of Bucharest Stock Exchange.

The data were obtained from several sources, but the main source was AMADEUS database of comparable financial information for public and private companies across Europe. Other necessary information was collected from the publicly available database of Bucharest Stock Exchange. This database contains information regarding shareholders, annual reports and other financial information. The major items of interest were: balance sheets, income statements, ownership structure, and the percentage holdings of all direct shareholders at the end of 2010. The balance sheets and income statements are usually available for listed firms as the law requires disclosure. The companies from the sample are spread among 100 subsectors of manufacturing industry. To attain a rational number of

observations for industry dummy variables it was necessary to aggregate by two digits codes NACE codes. Seven aggregate manufacturing industries groups were formed, as shown below:

Group 1 = manufacturing of food products, beverages and tobacco (codes 10, 11, 12)

Group 2 = manufacturing of textiles, clothing, leather and related products (codes 13, 14, 15)

Group 3 = manufacturing of wood products, paper, printing (codes 16, 17, 18, 31)

Group 4 = manufacturing of coke and chemical products (codes 19, 20)

Group 5 = manufacturing of pharmaceutical products (codes 21)

Group 6 = manufacturing of rubber and plastic products and other nonmetallic mineral products (codes 22, 23)

Group 7 = manufacturing of metals, machinery, electrical equipment, recycling, transport (codes 24, 25, 26, 27, 28, 29, 30).

#### **4. Variables and Hypotheses**

Significant differences can exist between companies with foreign ownership and companies with domestic ownership. Companies with foreign shareholders presumably have superior access to technical and financial resources (Douma et. al 2006). Thus, the hypothesis of this paper can be stated as follow:

##### **H1: Foreign ownership has a positive impact on the firm's performance**

Another objective of this paper was to examine the influence of different categories of foreign shareholders. According to Thomson and Pedersen (2000) and Kirchmaier and Grant (2006), different types of shareholders have different incentive and different goals and these incentives and goals have different implications for the strategy and performance of the company. According to OECD report there are five categories of shareholders which control the companies listed on BSE: Strategic investors, employees associations (PAS), institutional investors, state and natural persons.

Institutional investors are either specialized financial institutions like mutual or venture capital funds, or holding structures. These organizations have significant resources and shall regularly proceed to financial investment and they usually manage large portfolios of financial securities. These organizations include insurance companies, pension funds, investment funds, banks, financial companies, and so on). McConnell and Servaes (1990), Thomson and Pedersen (2000) argued that institutional investors characteristics is not to interfere directly in the management or control of the company holding shares. The financial institutions do not usually take majority positions in a company, but there are companies listed on BSE where the institutional investors have more than 50% of the issued shares.

Even if a lot of empirical studies have investigated the relationship between institutional investors and firm performance, using both accounting based measures and market based measures of performance, the nature of the relationship remains unclear. Some studies identified a positive and significant impact of institutional investors on company performance (Gurbuz and Aybars, 2010; Jaafar and El Shawa, 2009) while other studies identified a negative influence of institutional investors on firm performance (Haniffa and Hudaib, 2006). Thus we hypothesize that

### **H2: Foreign institutional ownership negatively affects firm performance**

During the last two decades there was an increasing tendency towards international equity investments of portfolio inflows. Therefore, there is a pressing need to make a difference between the effects of foreign ownership in a firm belonging to a foreign industrial corporation activating in the same industry and those belonging to foreign private individuals, foreign financial institution or foreign offshore ownership. Foreign corporations holding a stake in a domestic company are likely to invest in companies related to their core business (Douma et. al 2006). Thus foreign companies as strategic investors will bring relevant knowledge and know-how raising the performance of Romanian companies.

Strategic investors are non-financial companies or industrial companies usually involved in industrial activities, trade or non-financial services. In Europe dominates financial links between companies. Pyramidal financial links between firms located in different points of the value chain of manufacturing industry makes sense only in conditions of high asset specificity and frequency of transactions (Williamson, 1985). Pyramid ties can facilitate Transfer of knowledge (Thomsen, 2004). Kester (1992) stated that the risks of a corporate structure are the loss of flexibility and poor monitoring. When a group controls several companies from the same industry, this can attract resources from some companies for the purpose of allocating these resources to other companies from the same group. For example adopting certain politics of transfer prices the tax burden for some companies can be relieved. These politics can serve to a legitimate interest of the group but in the same time can provoke the expropriation of minority shareholders (Conac et al., 2007). These arguments can guide us to the third hypothesis.

### **H3: Foreign corporation ownership has a positive impact on firm's performance**

Individuals or families as shareholders often manifest a dual role, as both shareholders and managers of the company. A company controlled by the individuals or families will have as a long term objective the

aversion for risky operations and survival of the company (Krivogorsky, 2012). On the other hand a company controlled by individuals or families can set as objectives achieving some personal benefits and expropriation of the minority shareholders (Fama and Jensen, 1985, La Porta et al., 1999). This argument can guide us to the fourth hypothesis:

**H4: Individual or family ownership affects the performance of the company**

The determinants of performance are estimated by regressing performance ratios on ownership structure variables while controlling for firm and industry characteristics. For each performance measure, different specifications of the following cross-sectional regression are estimated:

Let Y and FOR represent performance and foreign ownership variables respectively. If foreign ownership does not have any impact on performance, it would be found that there is no correlation between Y and FOR.

$$Y_i = \alpha_0 + \alpha_1 (FOR\ variables)_i + \alpha_2 SIZE_i + \alpha_3 LEV_i + \alpha_4 DVI_i + \alpha_5 STATE_i + \alpha_6 (industry\ dummy) + \varepsilon_i$$

The following measurements are employed for the dependent and independent variables.

*Dependent variables: Profitability*

In order to estimate the link between ownership and performance it is necessary to decide on the proper performance indicators. A traditional measure of performance in developed economies is Tobin's Q. Such measure of firm's performance cannot be employed in countries, with undeveloped stock market, as Bevan et. al, (1999) suggests. Even in developed countries performance measures based on capital market are criticized for the lack of precision, not to mention transition countries. As an alternative, the researchers refer to labor productivity, total factor productivity, proportion of sales exported, investment propensity, firm growth, and profitability ratios as performance measures.

Three ratios are typically used to measure firm performance: return on assets (ROA), return on equity (ROE) and return on sales (ROS). Many authors point out that a potential problem with the use of accounting measures is that they are subject to discretionary reporting choices that can reduce comparability across firms. The focus in this paper will be on the ROA measure as it is commonly used in other studies and serve as comparison base.

Return on assets (ROA) is calculated as operating income divided to total assets. Return on Equity (ROE) is calculated as net profit divided to equity. Return on sales is the ratio between net profit and sales.

*Independent variables:*

*Presence of foreign capital*

FOR = Percentage of foreign capital in total capital

FORc = Percentage of foreign corporation ownership in total capital

The main independent variable is the percent of foreign equity in total equity of the company. The presence of foreign investors is expected to increase firm performance for a number of reasons. First, they add pressure on managers by providing additional monitoring. Second, they are able to provide new capital and managerial expertise. Third, they assist in integrating local firms into international markets, resulting in a lower cost of capital (Douma et. al, 2006).

*Control variables:*

*Firm size (SIZE)* is expressed as logarithm of total assets

Firm size has an uncertain effect a priori on firm performance. On the one hand, monitoring and agency costs are likely to be greater in larger firms, resulting in a negative impact on performance. Also, because larger firms tend to be more diversified, lower risk premiums could induce a negative impact on performance. On the other hand, large firms might enjoy economies of scale and scope (Boardman and Vining, 1989) implying a positive relationship between firm size and performance. The logarithm of firm total assets is used to measure size.

*The ratio of total debt to total assets (LEV)*

The ratio of total debt to total assets reflects the dependence of company by various creditors and the ability to attract new loans. This ratio is expected to be negatively related to performance because of the financial costs that come with the debts.

*Degree of vertical integration (DVI)* – is calculated as logarithm of the ratio value added to sales. Vertical integration means the expansion of the company to other activities previously made by clients or suppliers. Theoretically, vertical integration will boost firm performance, but this is not a guarantee. Vertical integration will increase the complexity of the business (Mpoyi, R.T. and Bulington, 2010), so new problems will appear, like finding new financing sources, development of managerial skills, integration of the new production method or applying vertical development strategy. Through vertical



integration, a company can obtain scale economies, decrease of production costs, growth of competitiveness and a superior control of the business.

*Tangibility (TANG)*

Tangibility is measured by the share of tangible assets in total assets. The size of this rate is primarily dependent on the nature of the activity. In general, the tangibility is considered a key determinant of a company's performance. Muritala (2012) states that a company with high tangibility of assets will incur lower financial costs than a company based on intangible assets. The same author states that when a company is unable to judiciously utilize available tangible assets, asset tangibility impact on firm performance will be negative. The relationship between tangibility of assets (asset structure) and firm performance is ambiguous.

*Industry category* reflects the classification into one of four aggregates of NACE sectors

The final control variable included is industry membership. A number of papers examine the relationship between industry membership and performance, with industry effects typically predicting somewhere between 17 and 20% of financial performance. It is argued that firms are constrained to a certain degree, particularly in the short run, by opportunities available to the industry as a whole (Campbell, 2002). The companies in the sample are spread among 100 different sectors of manufacturing industry, identified by four digits of NACE codes. To attain a rational number of observations for industry dummy variables it was necessary to aggregate by two digits codes NACE codes. Seven aggregate manufacturing industries groups were formed and we have constructed 6 dummy variables for the 7 industrial aggregate sectors of manufacturing industry mentioned before (IND1, IND2, ...IND6). Group 7 is the reference group.

**5. Results**

The descriptive statistics is adopted first to investigate the situations and characteristics of Romanian listed manufacturing companies with foreign or domestic ownership. The purpose of descriptive statistics is to help the study in achieving concrete understanding and insights for foreign ownership companies before doing further regression analysis. Table 1 shows us the descriptive statistics of main variables for the considered samples. It shows that the general level of performance in 2010 for Romanian manufacturing company is negative, with an average of ROS of -47,6%, an average of ROA of -2,27% and an average of ROE of -7,8%. The average level of foreign capital in the manufacturing industry is 17,06%. The most part of foreign ownership belongs to foreign industrial corporations (13%). There are 65 listed companies in manufacturing sector which have foreign ownership (24,9% from the sample).

From the companies with foreign ownership, 49 companies have more than 50% foreign ownership and 16 companies have foreign ownership between 10% and 50%. The average participation of state is 2,6%.

**Table 1 – Descriptive statistics**

	Mean	Median	Maximum	Minimum	Std. dev.	Observations
FOR	0,170600	0,000000	0,994900	0,000000	0,329380	261
FORC	0,130120	0,000000	0,994900	0,000000	0,295964	261
FORI	0,023841	0,000000	0,974800	0,000000	0,125858	261
FORF	0,016639	0,000000	0,977400	0,000000	0,112354	261
ROA	-0,02269	0,004183	0,371570	-1,38078	0,167343	261
ROE	-0,07804	0,005516	2,170082	-5,18696	0,512495	243
ROS	-0,47595	0,003942	1,777520	-40,5519	2,965636	260
DVI	0,409240	0,402661	6,038358	-6,11292	0,896377	254
LEV	0,462564	0,369858	4,556320	0,011774	0,454735	261
TANG	0,534201	0,528483	0,997944	0,005545	0,230960	261
STATE	0,026331	0,000000	0,916600	0,000000	0,120043	261
FOR ≥ 10%	0,249042	0,000000	1,000000	0,000000	0,433289	65
10% < FOR < 50%	0,187739	0,000000	1,000000	0,000000	0,391254	49
50% ≤ FOR ≤ 100%	0,061303	0,000000	1,000000	0,000000	0,240346	16

The results of the cross-sectional regressions for 2010 are reported in Table 2, (performance expressed by ROA and the principal independent variable total foreign capital) and in Table 2 (performance expressed by ROA and the principal independent variable foreign capital owned by foreign corporation). Three different models are reported in table no. 2 for 2010.

**Table 2 – Results of regression**

Variable	ROA		ROE		ROS	
	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.
Constant	-0.032372	0.5330	-0.133218	0.5007	-0.917588	0.0902
FORC	-0.017256	0.5685	-0.126881	0.2794	-0.499139	0.1136
FORI	-0.059193	0.3548	-0.141676	0.5769	0.061861	0.9259
FORF	0.003533	0.9597	-0.048392	0.8454	0.215808	0.7668
SIZE	0.033851	0.0088	0.085964	0.0725	0.375591	0.0053
LEV	-0.187027	0.0000	-0.696705	0.0000	-0.761031	0.0001
DVI	0.063284	0.0000	0.161035	0.0000	0.957393	0.0000
TANG	-0.087088	0.0190	-0.024952	0.8564	-1.750494	0.0000
STATE	-0.272467	0.0001	-1.167754	0.0000	0.563672	0.4353
IND1	0.025342	0.2943	0.064879	0.4613	0.501736	0.0466
IND2	-0.023915	0.3926	-0.128513	0.2019	0.043986	0.8798
IND3	0.017789	0.5170	-0.025306	0.8003	0.398634	0.1634
IND4	-0.021939	0.6344	-0.267521	0.1690	-1.124324	0.0198

IND5	0.024128	0.7138	0.044202	0.8507	-0.684548	0.3176
IND6	-0.031712	0.2684	-0.065184	0.5303	0.320527	0.2821
R squared	0.472271		0.262465		0.399869	
Adjusted R. squared	0.441358		0.215953		0.364715	
S.E. of regression	0.124167		0.439468		1.291507	
F-statistic	15.27745		5.643034		11.37475	
Prob(F-statistic)	0.000000		0.000000		0.000000	

As we can observe in table no. 2 the signs of the coefficients on the foreign ownership variable are negative in every model, suggesting that the presence of foreign ownership decrease the firm performance. However, the coefficient is not statistically significant so no strong conclusion can be drawn.

In the first model, ROA is used as the dependent variable to measure the operating profitability of the firms. The results of the first model indicate that there is no significant relationship between ROA and the explanatory variable of foreign ownership.

Some conclusion can, however, be attained concerning the control variables: firm size, capital intensity, degree of financial leverage, and total debt to total assets ratio. The firm size variable has a positive impact on performance. The results of all models show us that the firm performance is positively and significantly affected by firm size, which is consistent with previous empirical work. This means that larger firms perform better than smaller ones as a result of their competitive power and operational efficiency. The other control variables show that tangibility of assets, on the other hand, has a negative impact on performance, which is contrary to the expectations. This fact shows us that the manufacturing firms are not capable to use efficiently the available tangible assets. The leverage variable shows us that the larger proportion of debt is the lower performances are. This is in line with expectations. The growth of debt generates the growth of financial costs which has a negative impact on the performance.

The relationship between firm performance and vertical integration is positive and statistically significant. This can be explained by the advantages of vertical integration, consolidation of market share, the growth of clients, the reductions of costs, the improvement of inventory management.

The results show us that there is a probability of 95% percent that the models are statistically significant. The dependent variables "return on assets", "return on sales" and "return on equity" are significantly influenced by the simultaneous variation of independent variables. Estimated value of R square show us that 44,135% of variation of ROA is explained by simultaneous variation of independent variables,

21,59% of variation of ROE is explained by simultaneously variation of independent variables and 36,47% of variation of ROS is explained by simultaneously variation of independent variables.

Our results do not confirm the hypothesis of superior performance of companies with foreign capital. These results are not in line with the expectations. However, this is not a singular result. Barbosa and Lourie, in 2005, did not find any significant differences between multinationals and domestically-owned firms in terms of economic profitability. Gurbuz and Aybars, in 2010, also reached a similar conclusion. Konings, in 2001, obtained similar results for Romania in his comparative study with Bulgaria and Poland.

These results must be analyzed and interpreted in the context of the current economic situation. The analysis was conducted for the period 2010, a period characterized by poor performance for most listed companies, regardless the origin of capital. Manufacturing industry is one of the industries worst affected by the economic crisis. Since 2008 manufacturing industry was marked by a worldwide collapse in corporate profits and therefore profits reinvested. For Romania, this meant a decline of industrial production and falling demand, with direct implication on performance measures.

## **6. Concluding Remarks**

This study runs three different sets of models, each employing a different dependent variable, to capture whether the existence of shares held by foreigners affects economic performance of the firms. The paper uses firm-level data on 261 Romanian manufacturing enterprises in 2010 to analyze the relationship between different categories of foreign ownership and corporate performance. Although the signs of the regressions coefficients suggest that the presence of foreign ownership may decrease performance, the coefficient is not statistically significant. The control variables, however, are found to have a significant impact on performance. The larger firms in the sample outperform the smaller firms. Given the contradictory results produced by the current study and the prior studies using Romanian data, it is clear that there are many questions relating to the relationship between foreign shareholding pattern and performance of the firm, which remain unsolved. One possible extension of this study is the mechanisms for the determination of shareholding pattern and corporate governance practices. Another direction would be to include additional variables measuring market conditions such as trade or tax policy changes, to see whether ownership structure changes dramatically or not, if so to what extent and why? However, these are left for future research.

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