



NEARSHORING TO ROMANIA

A practical guide for entrepreneurs that consider to expand their business to Romania.

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Foreword Executive Director NRCC

Dear reader,

This comprehensive guide to Nearshoring to Romania has been initiated by the Netherlands Romanian Chamber of Commerce (NRCC) in order to provide information about Romania as a destination to expand your business. In a realistic and objective manner we present the advantages and challenges in doing business in Romania, which makes this guide a must-read for any entrepreneur that considers nearshoring to Romania. The guide contains do's and don'ts from entrepreneurs that are currently active in Romania as well as advice from consultants.

Nearshoring from the Netherlands to Romania, and possibly the other way around too, is beneficial for both the outsourcing company and the partner - a win-win situation and fully in line with our purpose. The NRCC believes that nearshoring from the Netherlands to Romania brings benefits to:

- The company that outsources, by increasing its competitiveness on the market;
- The Romanian branch or partner, by bringing in high quality work;
- The Romanian society and its government, who will benefit e.g. from the influx of work and its contribution against brain drain;
- The European Union, since the work might otherwise be outsourced outside the union.

The first edition of this guide to Nearshoring was published in November 2013. Since the publication of the first edition already many entrepreneurs in the Netherlands and other European countries read our guide. This fourth edition is updated and changes in the chapter structure were made, which makes it even easier to read.

The NRCC supports and promotes the Dutch-Romanian business community. We do this through creating business opportunities within our active community of members, through a close contact with Embassy of the Netherlands in Romania, as well as Romanian government relations where necessary. The NRCC also provides information to members and potential members about doing business in Romania and the Netherlands.

For more information, please visit our website www.nrcc.ro, follow us on social media or contact us at info@nrcc.ro.

Maurits Dohmen
Executive Director
Netherlands Romanian Chamber of Commerce



Foreword Economic and Commercial Counsellor of the Embassy

Dear reader,

The economic relation between Romania and the Netherlands is strong and growing. A large number of Dutch companies have already found Romania to be the ideal nearshoring location. Romania offers an array of business opportunities.

The strengths of both countries are complementary. The entrepreneurial spirit, innovative approach and strong international presence of Dutch companies form a perfect combination with the highly skilled and ambitious labour force, attractive cost levels and the strategic location of Romania. Because Dutch and Romanian companies both need to compete in a global environment, working together enables them to be competitive on the international market.

In contrast to outsourcing to the Far-East, nearshoring to Romania enables Dutch-Romanian business partnerships that are closer in proximity, not only geographically, but also culturally. This proximity enhances the ease of doing business together and increases the chance of success. On a broader scale, the development of Dutch-Romanian business partnerships benefits both countries. It keeps, as well as creates jobs in the European Union.

Nearshoring can therefore foster win-win relationships between Dutch and Romanian companies. The Economic Department of the Netherlands Embassy supports Dutch businesses looking for business opportunities in Romania and works in close collaboration with the Netherlands Romanian Chamber of Commerce (NRCC). Together, our aim is to strengthen the economic relations between the Netherlands and Romania.

Huub von Frijtag Drabbe
Economic and Commercial Counsellor
Embassy of the Kingdom of the Netherlands in Bucharest



Executive summary

This practical guide to Nearshoring to Romania is written for entrepreneurs that consider to expand their business by setting up a branch, or starting a collaboration with a partner in Romania. A key question is: ‘why go to Romania?’ After answering this question information is provided about two options: setting up a branch or collaboration with a partner. Information is presented in an objective and realistic manner, making thus this guide a must-read for any Dutch entrepreneur that considers nearshoring to Romania.

Nearshoring and offshoring

When business or IT processes are transferred to the same or another company in a nearby country, often sharing a border with the home country, where both parties expect to benefit from one or more of the following dimensions of proximity: geographic, temporal (time zone), cultural, linguistic, economic, political, or historical linkages, we speak about *nearshoring*. Nearshoring is doing business in a country close to the home country, in comparison to *offshoring* which means transferring business or IT processes to a country in the Far East countries (e.g. India). Read more about nearshoring and offshoring in chapter 1.

Benefits of working in Romania

The main benefits of working in Romania, as identified by experienced NRCC members, are framed in three categories: employment advantages, cultural compatibility of Romania with the Netherlands and ease of running an office in Romania.

Challenges when working in Romania

Keep in mind that cultural differences can bring challenges and that Romania is more bureaucratic than e.g. the Netherlands. When starting your team it is important to keep in mind that hierarchy is more important in the Romanian work ethics than in the Netherlands. Read more about the benefits and challenges in working in Romania in chapter 2.

Steps to take when deciding to nearshore to Romania

Once a decision has been made to move work to Romania one of the biggest decisions that follows is whether the work will be moved to a partner in Romania or a branch will be set up in Romania. This decision depends on e.g. the time that a company wants to be present in Romania, the protection of company specific intellectual property and the willingness to invest in training of local team members. More information about these topics can be found in paragraph 2.2.

Setting up own branch

When you decide to set up your own branch you need to register the company. We recommend to work with a specialized company. In chapter 3 you find more information about registering a company, accounting, recruitment and training of staff, employment contracts and cultural differences in working relationships with Dutch and Romanian team members.

Nearshoring to a partner

It is advisable to choose your nearshoring partner carefully, because your own company will depend on it. It will require considerable investment to have the nearshoring partner work productively. In chapter 4 we provide information on how to find the right partner and tips for fruitful collaboration.

Contents

Foreword Executive Director NRCC	3
Foreword Economic and Commercial Counsellor of the Embassy	4
Executive summary	5
1 Introduction – Taking your business abroad	7
1.1 Why take your business abroad?	7
1.2 Offshoring	7
1.3 Nearshoring	7
1.4 Offshoring versus Nearshoring	8
2 Nearshoring to Romania – Opportunities and challenges	9
2.1 Why go to Romania?	9
2.2 Nearshoring to a partner versus setting up your own branch	11
2.3 Where to go?	11
3 How to start and run a branch in Romania	13
3.1 Company registration	13
3.2 Accounting and taxes	13
3.3 Building your team	14
3.4 Culture	20
4 How to nearshore to a partner in Romania	22
4.1 Partner selection	22
4.2 IT nearshoring	23
4.3 Starting the cooperation	24
4.4 Continuing the cooperation	25
5 More information	26
6. Contact details NRCC members in alphabetical order [ads]	27

1 Introduction – Taking your business abroad

This chapter contains information about taking your business abroad: the terms nearshoring and offshoring will be defined and the processes of nearshoring and offshoring will be compared.

1.1 Why take your business abroad?

In general the decision to move part of a business abroad is based on one of the following reasons:

- Opportunities for running a business at reduced costs, because the destination country can provide raw materials or labour at lower costs than the home country.
- Access to the local marketplace for the products produced by the company.
- Taking benefit of particular skilled labour, not (sufficiently) available in home country.
- Production of product with an expiration date close to the marketplace.
- The destination country's location is favourable in the sense that it can act as a logistic hub for a new market.

It is important for companies to have a thorough understanding of why they want to go abroad, because these reasons will be the driver for their consequential decisions: set up a branch or find a local partner? Nearshoring or offshoring? In the following two paragraphs the terms offshoring (1.2) and nearshoring (1.3) are explained.

1.2 Offshoring

Offshoring is the move of a supportive or primary business service outside the home country. In the past decade offshoring has become equivalent with moving jobs to the Far East (e.g. India), especially in the IT sector. The biggest perceived benefit of moving services to the Far East is the reduction in costs it brings. The main benefits of offshoring are:

- Cost savings;
- Access to a new market;
- An attractive labour market;
- Can help to fulfil offset obligations.

Not all offshoring projects are successful (in IT a 50% failure rate is reported by McCue, 2005). The problems associated with offshoring are:

- Infrastructure of the destination country;
- Governance of the overseas branch or partner;
- Cost of oversight;
- Inefficient communications;
- Problems in cross-cultural collaboration;
- Expenses related to overseas travel.

1.3 Nearshoring

Nearshoring is very similar to offshoring, except for the distance (both in physical distance as well as cultural distance) between the home and destination country. 'Nearshoring is "the transfer of business or IT processes to the same or another company in a nearby country, often sharing a border

with your own country", where both parties expect to benefit from one or more of the following dimensions of proximity: geographic, temporal (time zone), cultural, linguistic, economic, political, or historical linkages.' The idea behind nearshoring is that it provides a more sustainable business climate because it offers the same benefits as offshoring with fewer drawbacks. The main benefits of nearshoring are:

- Cost savings;
- Access to a new market;
- An attractive labour market;
- Corporate Social Responsibility (CSR) considerations.

Compared to offshoring, the following downsides can still be present for nearshoring and should be looked at by companies that consider nearshoring:

- Infrastructure of the destination country;
- Governance of the out-of-country branch or partner;
- Inefficient communications;
- Expenses related to travel.

1.4 Offshoring versus Nearshoring

The conclusions of paragraphs 1.2 about offshoring and 1.3 about nearshoring are summarized in the table below.

		Offshoring	Nearshoring
Benefits	Cost savings	Green	Green
	Access to a new market	Green	Green
	An attractive labour market	Green	Green
Problems	Infrastructure of the destination country	Red	Red
	Governance of the overseas branch or partner	Red	Orange
	Cost of oversight	Red	Green
	Communications	Red	Orange
	Cross-cultural collaboration	Red	Green
	Expenses related to travel	Red	Green

2 Nearshoring to Romania – Opportunities and challenges

2.1 Why go to Romania?

Romania offers particular benefits for nearshoring from the Netherlands. The main benefits of nearshoring to Romania are described in paragraph 2.1.1. At the same time companies should be aware that there are issues that need to be taken into account when planning to nearshore to Romania. The most pertinent issues are discussed in paragraph 2.1.2.

2.1.1 Benefits

The two main reasons to move work to Romania are that working in Romania: 1) provides access to the Romanian market and 2) gives access to resources (including well-qualified workforce) at an attractive price. Each of the reasons individually can be enough to decide to move work to Romania or a combination of the reasons makes the move attractive. In all consideration the transport costs of the end product are also an important factor to consider in the decision to move work to Romania. Based on the experience of NRCC members the main benefits of working in Romania are:

Employment

- It is relatively easy to hire well educated and well-trained employees in Romania.
- The Romanian education system focuses on theoretical knowledge, thus employees have a solid background they can build on during their career.
- Especially compared to the surrounding countries Romanians have excellent language skills. All educated persons speak English. If needed it is relatively easy to find people that speak French, Italian, Spanish, German, Hungarian or Russian.
- The job market in Romania is lively, so when a vacancy is announced there is usually a lot of response. This enables a company to build up a team of substantial size quickly.
- The wages in Romania are lower than those in the Netherlands; in 2013 the net wages in Romania were the equivalent of 25-75% of those in the Netherlands, depending on the industry and the level of the employee.

Culture

- Cultural differences with the Netherlands are relatively small, however, the existing differences should not be ignored. More information on the Romanian culture can be found in paragraph 3.6.
- The Romanian work ethics generally speaking includes the following positive points:
 - Flexibility
 - Motivation
 - Hard work
 - Overtime
 - Willingness to travel

Other benefits

- There is a big and active business community in Romania, which makes it easy to get support.
- There are frequent flights from the Netherlands to Romania (2-3 times a day).
- Romania is part of the EU and NATO.
- Office space, internet connection (Romania ranks top in Europe when it comes to internet speed) and other local expenses are cheaper than in the Netherlands.

2.1.2 To keep in mind

Working in Romania is not without problems; companies that consider nearshoring to Romania should keep some things in mind. The Romanian culture puts less emphasis on several topics that may seem natural to someone with a Dutch background. Anyone starting to work in Romania should not consider one or the other approach as right or wrong, just different.

Culture

- Time and punctuality are not considered as important as they are in the Netherlands.
- While organization, communication, own initiative and planning are considered essential skills in the Dutch work environment, the Romanian work environment focuses more on the employees' technical skills e.g.: is he a good programmer? And is she a good engineer? This links with the Romanian educational system which puts accent on the theoretical knowledge of its students.
- The Romanian work environment is more hierarchical than in the Netherlands. If a boss gives an order that is obviously wrong, the employees will be hesitant to contradict the order. This view of the workplace also means it is harder for Romanians to admit a mistake than it is for Dutch employees.
- Performance evaluation is not used in all companies and employees are not always used to this form of scrutiny. For this reason they may respond in an unexpected way when they receive praise or criticism.
- In Romania there is a focus on solving problems quickly. Sometimes once the problem is solved everybody moves on and forgets to address the root cause of the problem. In Romanian this behaviour is described with the sentence: "*asta e*" which means: it is as it is.

Administration

- Romania is more bureaucratic than the Netherlands. Civil servants generally focus on their own area of expertise and offer little support when it comes to questions outside their own responsibility. For example, the division of Bucharest in sectors is not facilitating business because it creates unnecessary paperwork when, for instance, moving from one sector to another.
- Contradictory to what one might expect, the total taxes on labour and associated social contributions are roughly equivalent to the Netherlands.

Whether companies choose to start their own branch or work with a partner it will take investment to start working in Romania, especially at the start of the transition. For this reason it is important to have a long-term perspective when moving work to Romania. It is not realistic to expect a high

output from the start; at the same time there are many companies that find out that after the initial teething troubles their Romanian teams outperform teams in the Netherlands.

2.2 Nearshoring to a partner versus setting up your own branch

Once a decision has been made to move work to Romania one of the biggest decisions that follows is whether the work will be moved to a partner in Romania or a branch will be setup in Romania. Factors that should be taken into consideration here are:

- The time the company expects to be present in Romania.
- The money the company will spend on training the team in Romania and the time it will take to break even on that investment.
- The protection of company specific intellectual property.
- The additional expense and profit that come with starting an own branch in Romania and how those two factors are expected to develop over time.
- The risk the company is willing to take on when starting to work in Romania.
- The ability of the staff of the home company to work in and with another culture.

Further discussion on setting up a branch in Romania can be found in chapter 3 and working with a partner in Romania will be discussed in chapter 4.

2.3 Where to go?

When selecting a location for your branch or selecting a partner be aware that travelling across the country will take longer than in the Netherlands. However, the quality of the road network is improving, with stretches of highway being opened every year. Romanian roads are rather busy, so take this into consideration when thinking of travel by car, either from your home country or within Romania. Train travel is possible but infrequent and generally much slower than travel by car. Note that the best location for working in Romania will be highly dependent on the specific sector and the needs of the companies that consider nearshoring to Romania. The NRCC has several members that can give solid advice based on your needs. It is always recommended to spend at least a week in the location where you are considering setting up a branch. Below you will find a list of Romania's biggest cities and some keywords describing them.

Bucharest: Romania's capital, more expensive to live in than other cities, houses all major universities, country, heavy traffic, but best public infrastructure (metro, bus, trolleybus, tramways, main train hub, international airport). Note that Bucharest concentrates 20 to 25% of the economic activity of the entire country, wages being higher than in the rest of the country.

Cluj-Napoca: second city of Romania, financial centre, high focus on attracting foreign investors, much oriented to Western Europe (Germany, The Netherlands), a good and respected university, limited international airport, fog in autumn (airport closed). Well-known companies like Bosch and DeLonghi have operations in Cluj.

Timișoara: large city, mainly thriving on industrial producers (Continental, Draxlmaier) and services (FM Logistics, Flextronics, Alcatel), much oriented towards Italy, Germany and Serbia.

Iasi: isolated in the Northeast of the country, Iasi has the advantage of a good university, though few job opportunities. Still people want to stay in their hometown, which creates low wages, good

education and excellent language skills. The city has a strong IT sector (including Amazon.com, Bitdefender, Continental VDO, SCC, Capgemini and Pentalog), as well as well developed manufacturing companies in the automotive and pharmaceutical industry. Iasi has a small international airport.

Constanța: biggest port on the Black Sea and fourth largest port in Europe. Constanta is a main industrial, commercial center, with a large shipyard. Neighbouring beaches (Mamaia, Eforie) makes it an attractive tourist destination. It has a small international airport.

Craiova: has a strong automotive history. Automobile Craiova is now in the hands of Ford. Craiova has a medicine, economics and agriculture university. Craiova has an airport.

Galați: has the largest iron and steel plant in Romania, the ArcelorMittal Galați, employing about 9.000 people. Also Romania's largest shipyard (Damen Santier Naval) is located in Galați. Galați is also a border checkpoint to Moldova, houses two universities with faculties in economics, shipbuilding, food science and social studies.

Brașov: abundant heavy industry (Romanian trucks, agricultural tractors and machinery, hydraulic transmissions, and helicopters). There are also chocolate factories and a large brewery, besides a pharmaceutical plant owned by GlaxoSmithKline. Brașov houses the Technical University of Transylvania. The city has no airport. Nearby Poiana Brasov is a popular ski resort.

Sibiu: although only the 14th city in size in Romania, Sibiu is one of the most prosperous cities of Romania and has a good name for foreign investment. Sibiu was the European Capital of Culture in 2007. Sibiu has the largest stock exchange after Bucharest and has one of the most modern international airports in Romania, with direct connections to Germany, Austria, England and Spain as well as to other Romanian cities.



3 How to start and run a branch in Romania

When you decide to start up a branch for your company in Romania you have to register the company. The formalities are pretty straightforward and although there are for sure things to watch out for and take care of. In this chapter you will find more information about the legal set up for your new branch, recruitment of management and employees and other practicalities. Realistically speaking within maximum two months after your decision to start a branch office in Romania, you should be able to have it fully operational.

3.1 Company registration

It is recommended to use a specialized company to help you deal with the requirements of setting up an office in Romania. They normally take care of all formalities and paperwork for a fixed fee. Similar formalities will be necessary each time you decide to make changes in your company that affect your incorporation act (e.g. change of company's registered address, modification of shareholders' structure, etc.).

In the incorporation act of your company you need to classify the economic activity of the company using standardized codes, so called CAEN codes. Your business will have to be limited to the selected activities declared with the Trade Register, but these can be modified at any time provided that the necessary formalities are done.

Note that Romanian Law does not differentiate between a Romanian natural-person (*persoana fizica*) and a foreign-citizen natural person, for example with regard to becoming partners or occupying management functions in a company. The rights and obligations of parties in both circumstances are the same.

An important object in doing business in Romania is the stamp. Even though no specific legislation has been elaborated in this respect, use of stamp on official documents is expected and required from legal entities when dealing with institutions such as banks, fiscal authorities, trade register, etc. It is most often regarded as a proof that the stamped document is validly issued by that specific company. There are many small shops in Bucharest (signposted with "*ștampile*") that make company stamps within a few hours.

3.2 Accounting and taxes

After setting up your office, you will also need a company to take care of your accounting, payroll and with registering (labour) contracts. You can choose for this from a wide range of multifunctional local companies, but it is strongly advisable to get a few first hand recommendations before you start cooperation, especially also from companies working in the same field or with the same requirements. After starting to work with one it will be a lot of effort to switch later on.

Also the big international accountancy & law firms are present on the Romanian market. If you work in the Netherlands with one of the big firms, then this can be a good option. Especially when you do a lot of international business, the big international firms are more likely to be able to advise you correctly than the small local ones.

Regardless of your choice (local or international firm), it is important to make sure that the external companies handling your accountancy and HR matters are always up-to-date with legislative news as Romanian laws are constantly changing. More legal requirements (such as obligation to perform financial audit) may be applicable depending on the type of company.

From a fiscal point of view there are several deadlines to be met each month, most important one being the settlement of taxes (taxes corresponding to previous month should be paid to the state budget not later than 25th of the current month).

3.3 Building your team

Starting up a new division or department of your company in another country requires entrepreneurial skills and attitude strong leadership, clear organization and a medium to long term vision. The manager who will be responsible for the branch office will need to be a strong intermediary between on one hand the home office and on the other hand the new local employees.

3.3.1 Hierarchy in the organization

Hierarchy is more important in the Romanian work ethics than in, for example, the Netherlands. This has a few implications that need constant attention. First of all, some communication could be interpreted as a command or order rather than as just the remark it was meant to be. For example, a casual remark about something that needs attention at some point in the future could be interpreted as a command to start fixing it right away. This results in time spent on activities that have no high priority. For Dutch managers it is often difficult to get used to employees who do exactly what they say. This requires clearly formulating expectations, deadlines and results and not expecting employees will read between the lines and draw their own conclusions. Another implication is that orders coming from one person could be considered overruled by someone higher up in the hierarchy. To this end, make sure to know which communication end-points are in use. And make sure to be always able to see what the current activities are.

Dutch management style is open and informal. It is difficult for Romanians to understand the “polder-culture” and it takes time to know the informal organization structure that often exists along the formal one. Romanian employees are not used to that and are usually hesitant to go with problems to their boss. This also means that employees might decide to leave your company for reasons that would have been relatively easy to solve had the manager known about them. Key is to find a way to open up your employees without scaring them too much.

Be directive in the management of (new) employees. Don't assume they will probably find tasks to do by themselves. Targets and bonuses may help in giving clear directions to your organization and get results.

These things being said, in general Romanian corporate life is not much different from Dutch corporate life.

3.3.2 A Dutch or Romanian manager?

Especially at the start-up phase it makes things easy to have someone physically present all the time. The role of the so called *administrator* in a Romanian company is important for fulfilling all

formalities (signatures, etc.), but also when conducting first job interviews, hiring employees, dealing with the landlord, the leasing company and the bank it is useful to have the administrator around.

Basically you have two options for this manager: either you hire a local Romanian manager, or you send out a Dutch employee. A combination of the two (i.e. Romanian employee from your Dutch office or external Dutch manager living in Romania) could obviously have benefits.

Tips on how to start with a local Romanian manager

- Build up a local network in Romania first (for instance by attending events aimed at your work area) and find somebody through this network with strong expertise and experience.
- Note that foreign companies planning to start up a branch office might attract a very wide spectrum of interested potential managers. Good communication, professional (high) salary demands, an excellent CV and enthusiastic references are no guarantee for a good match. Make sure you double-check that someone fits your organization, that the CV is according to reality and that the second and third impressions are as good as the first. You should look for a professional with excellent business network, sound expertise and action oriented.
- Important to build up trust between home office and local manager. Get the new manager for the first month(s) to the Netherlands for training and building up relations with your Dutch staff.
- Have a clear hierarchical and formal organization structure; your Romanian manager must have no doubts as to whom he is reporting to. Dutch organizations are normally far less hierarchical than what Romanian employees are used to.

Advantages: local expertise, access to local labour market, result driven (if rewarded accordingly), knows local language and culture, potential long-term commitment.

Disadvantages: risk for making wrong choice, communication with home office, trust and transparency might be difficult, risk of leaving.

Tips on how to start with a Dutch manager to Romania

- Needs to be open-minded, and prepared to learn about the Romanian culture. He/she should be stable and serious while open for new ideas.
- Previous international exposure is always a strong asset in order to ensure a proper management in a foreign country.
- In all fairness, expats who are sent to Romania as a lateral movement are not the best recipe for success.
- Send out someone who already has a broad experience in your company and who can get things done in the home office. He/she should be able to be directive and strict to his/her local employees.
- Romanian language is not needed, but following a course to at least a basic understanding is certainly an advantage on the work-floor and for business.
- Let the manager move to Romania, not travel from/to the Netherlands.

Advantages: good communication with home office, knows company culture and expectations, reliable.

Disadvantages: only for a few years, expat salary, communication with Romanian employees, local knowledge.

3.3.3 Recruiting employees in Romania

When hiring new employees, it is of course most important to find the people with the skills and motivation that match your business needs. This is the same in any country, but there are a few things that are worth mentioning as they are different from general practice in the Netherlands.

You can either do the recruiting all by yourself, or use a recruitment company that will allow you to focus on the start-up. There are several recruitment agencies available and their services could be useful, especially for the higher positions in your company. Costs for using external recruitment services are normally around one gross salary, depending on the complexity of roles (1.5x monthly gross salary for specialists up to 2x monthly gross salary for top management positions). Even when not doing the recruiting process by yourself, being closely involved is still important in order to get the right people.

When recruiting yourself, it is most common to use the internet. The two most used job portals are www.bestjobs.ro and www.ejobs.ro. If you search for people fluent in English, it is advisable to post advertisement in English. Be as specific as possible with your job title, criteria, education and skills. Note that Romanian job seekers often have long CVs. People stay often shortly at a certain job (2-3 years is common) and start working full time jobs at a young age (during university). Romanian job seekers are looking to improve their living standard (as average salary is 1/5 of the average Western Europe) and for professional development, a general and nice looking job profile can easily result in a couple of hundred reactions (depending on industry and position). Reasons for frequent job-hopping are salary, dynamic business life, companies closing down and conflicts with managers. When starting to hire, it is an idea to hire immediately a small team of 2-3 people. This will spread the risk of losing someone and also it will be easier to build up knowledge.

Check CVs, references and education also on the job interview. Some candidates exaggerate their experience. Generally speaking, written communication, planning and being very organized are not the strongest assets of the Romanian workforce, depending, of course on the seniority level. You should take into account the fact that Romanians are of Latin origin and with a Balcanic history and culture.. If these are skills you need from your new employees, make sure you test these. Tests are common and especially when receiving more than 100 first reactions, it is not strange to send the top 20% a first assignment per email to test the skills, expertise and quality of the candidates. Before finally hiring someone it is good practice to do an extra test / assessment to make sure the candidate really has the skills he says he/ she has.

Be aware that there is a big difference between Romanian generations. The youngest working generation is generally very adaptive, pro-active, English-speaking and independent. They are looking for jobs that fulfil their personal needs and aspirations and if not so they will quit the job. The older generations often educated in a more reactive environment and are most of the time less used to work in an international environment, but much more loyal to a fair employer.

3.3.4 Impact on your home organization

When business operations are moved to Romania it will have an impact on the home organization. To ensure a smooth transition management needs to be aware of the impact and actively support and guide the transition.

Employees in the Netherlands might think that the Romanian teams are taking their jobs, you should secure a thorough knowledge transfer process; these sentiments can result in attempts to derail the collaboration. The worries of Dutch employees should not be ignored and the management should take the time to explain to Dutch employees: why they are moving work to Romania, what their long-term vision is for the collaboration, how it fits the company strategy and most important be honest about the impact working in Romania will or will have on current and future jobs in the Netherlands. Even when all these conditions are met, it is very likely that during the initial phases of the collaboration things go wrong and the Dutch employees will blame the new team in Romania for the problems. It is up to management to research the cause of the problem and solve it at the root cause.

Apart from a possible Dutch manager, more employees from your home office will be involved in your local branch. Think of people like from your global IT, HR, Legal, Accounting (you should have your own CFO to ensure that operations are reflected correctly and you should choose the auditors), Finance departments, but also Dutch employees who will work together with their new Romanian colleagues.

- Communication. Make sure that your Romanian branch office has a clear position in your global organization and that the Romanian organization itself has a clear hierarchical structure.
- Make sure that everyone knows why they are working with the company and the know what has to be done.
- Make sure the management team is genuinely aligned with the company's vision and values.
- Make sure the Romanian colleagues are visible in your global organization and not seen as competition to the Dutch colleagues. Have all modern communication means in place.
- For colleagues who will work a lot together, it is worth investing in face-to-face meetings. Bringing Dutch people to Romania normally works better (and is cheaper) than vice versa. Romanian hospitality can take the Dutch employees by surprise. A visit of a few days can make cooperation afterwards much more efficient (but make sure your organization doesn't become dependent on face-to-face contact only).
- Make English the standard communication language in teams where both Romanians and Dutch colleagues work together. This means that your internal support departments must be able and willing to work in English.
- As a manager, invest time to get to know your people. Go out, organize teambuilding events, bond with your team

3.3.5 Hiring non-Romanians

When hiring a person from outside Romania, you have to make sure at least the highest educational diploma is officially recognized in Romania (by the Ministry of National Education). If hiring from outside EU, the procedure is not easy. You will need to prove that nobody from inside EU can be found for the job and you will also need to take care of the right residence and working permits. Services of specialized lawyers are advisable in this case: these procedures may take up to two

months or more, requiring the collection and submission of an impressive amount of documents with various authorities. An aspect not to be neglected in these matters is the financial part, as these services are rather expensive, so be sure you are prepared to make such an investment in the future employee.

For employees (including expats) unfamiliar in handling with Romanian language and authorities, it can be a hassle to obtain all required residence and working permits. There is not one central office that handles all these formalities for international workers and it is advisable to organize a Romanian familiar with these procedures to help.

A Dutch national working in Romania needs to have a Fiscal Code (“*Număr de Înregistrare Fiscală*”). When living in Romania, you need to register and obtain a “*certificat de înregistrare*”.

3.3.6 Education system and internships

Hiring students can be very attractive because of the low costs and a motivated and flexible workforce. Also, recruiting talented students during their studies is easier than recruiting them after they have a job already.

The quality of education in Romania depends mostly on the institutions. When talking about universities, it is important to check which university was attended. The state universities (including ASE and Politehnica) are more difficult to enter than the private ones as there are admission exams and the best people usually can be found there. Interesting is also to know if someone had received a *bursă* (scholarship) from the government, as normally only the best X% of the students receive such a grant. In general, a good university is a good selection criterion for recruiting.

The university system follows the bachelor/master structure. Note that some master educations (also at state universities) offer evening courses and most students combine work with study in that case. Romanian students often combine work and study, especially in the last years at university. Many studies also require *practică de specialitate* (practical work) to be done at a company in the last year of university. However, while an internship (as done in the Netherlands) is aimed at improving the professional capabilities (organizational skills, written communication, punctuality) of students, the contents and requirements of this *practică de specialitate* are not comparable with those of an internship or bachelor/master thesis at a Dutch institution. In Romania, in general, this is merely seen as a formality. Nevertheless, the major players in Romania have developed complex internship programs in order to attract the most talented candidates in the freshmen market. These internships take usually 6 months and are paid.

Note that the Romanian legislation is not very suited for part-time contracts. Part-time contracts are possible, but for instance a 50% contract is interpreted as working 4 hours per day rather than working 2.5 days per week. Although in practice this doesn't cause any problems, clarifying this legal conundrum would make part-time contracts more appealing to both employers and prospective employees.

You can also use a part-time contract with working hours distributed unevenly, hence gaining flexibility and giving the employees the time they need.

3.3.7 Training and development of staff

International companies are popular with Romanian workforce because of (financial) reliability and opportunities for growth. Training is an important aspect, both internal and external ones. Additionally, Romanian labour legislation stipulates certain minimum training requirements on the part of the employer.

For work-content-related training, training sessions inside your own company, for instance at your corporate HQs, are often a good solution. For training focused on specific business skills (for instance presentation and communication skills, sales, project management, etc.) there are specialized companies that can take care of this. Recommended places for certified language training are the national institutes (British Council, Goethe Institut and Institut Français).

Companies normally pay the costs of the training, while employees invest their own time if they need time to study. For high-level and expensive professional training, it is a good idea to sign an agreement with your employee to make sure they will keep working at your company after they have finished the training.

3.3.8 Employment contracts and salaries

It is common practice to have the first employment contract for limited period (i.e. 6 months). Negotiations are often about the net EUR salary, although the employment contract will be in gross in RON. Because the employer handles all tax payments (also those for the employee), the employee is normally only interested in the net amount.

Many companies also correct for exchange rate differences by paying a monthly or quarterly bonus. Choosing to do this compensation brings additional administrative work and shifts some of the exchange risks from the employees to the company.

As a rough indication, one can say that the factor between net salaries for employees and employment costs for company (incl. taxes and social benefits) is around 1,7. In other words, if an employee earns 1.000 EUR net, the total costs for the company are approx. 1.700 EUR).

Note that salaries in Bucharest are on average 20% higher than in the rest of Romania and about 10% higher than in the ten largest cities in the country. Also note that for IT professionals (depending on the studies they completed), there is a special program that exempts them from paying 16% income tax.

The labour contract has to be registered with the labour authorities (see legal). It is wise to also sign a confidentiality agreement with your employees. Note that in Romania the position that you can give an employee in your company is dependent on his/her diplomas. Without the proper (and in Romania recognized) university degrees, you can have difficulties in hiring for a specific position. Official position title on the contract has a meaning for the Romanian authorities and some details, like length of standard probation period, are dependent of this. Authorities require that all HR related documents are in Romanian (contracts, job descriptions, evaluations, internal regulations). It is advisable to let a third party (for instance payroll partner) to take care of this.

You can also hire someone as freelancer (*PFA* or another type of independent entrepreneur). In that case labour contract is replaced by a contractor agreement. Please note that there are specific conditions for working with PFAs (they should for instance provide own equipment and cannot work full time in your office).

In any case, make sure that all contracts and tax payments are well organized. Unfortunately, there are cases on Romanian market, where companies pay employees (partially) outside the official channels to avoid paying taxes and contributions. Although this practice is slowly decreasing, it is useful to know that this unfair competition on the labour market does exist.

Common other benefits for employees:

- Meal vouchers. For every day at work, most Romanians receive a meal voucher from their employer of approx. 9.5 RON each.
- Health insurance. Many companies have a collective insurance with a private health insurance company.
- Bonus. Often companies hand out small bonuses at Christmas or Easter and result-oriented bonuses depending on position.
- Retirement plan. Some companies offer this as extra benefits.
- Tax benefits for certain branches. Check with your accountant. For instance employees working in IT sector in some cases do not have to pay 16% income tax.

For work-related traveling abroad and in the country, you are obliged to pay a *diurnă* (daily allowance). The Romanian Government published a list of the minimum payable daily allowances (different per country) for work-related traveling abroad (HOTĂRÂRE Nr. 518 din 10 iulie 1995). The maximum is 2.5 times the minimum, above which the amounts are considered non-deductible expenses and included in the calculation of taxable income. The current minimum daily allowance for travel to the Netherlands is 35 EUR a day. Travel insurance for the stay abroad is obligatory in certain countries. The maximum period that a Romanian national may be requested by his/her employer to travel for work-related purposes in the Netherlands (or any other EU country) is 60 calendar days in 12 months; longer periods are possible but only with employee's approval.

3.4 Culture

Despite some obvious differences, Dutch and Romanian culture are not too far apart. Especially Romanian business life in multinationals is very similar to that in other European countries. Finally, a few remarks that could help you in understanding better the needs of your local workforce in Romania:

- Romanian employees will not quickly go against the opinions of their manager. This can sometimes result in employees doing exactly what they have been asked, no matter if they believe that what they are doing is wrong.
- Work relations can be seen as formal from one perspective (shaking hands every day with your colleagues), but highly personal from another (colleagues being also close friends in private life).
- Celebrations are important. The most important ones are: name days, birthdays, women's day, 1st of March, Easter, Christmas. It is generally appreciated if the employer pays attention to these occasions.
- Many Romanian companies take all their employees at least once a year on a teambuilding event, which normally takes one long weekend.
- There are some specific regulations from the Romanian labour authorities with which you have to comply as regards, for example, the health and safety of employees. The "Labour Inspection Authority" ITM (*Inspectoratul Teritorial de Muncă*) can pay impromptu visits to businesses — the

potential fines being rather large. Fortunately, there are specialized companies who can make sure everything in your company is in compliance with the Romanian legislation. It is recommended to hire such a company, since they usually also make sure that:

- the employees are well-briefed and aware of the health and safety regulations;
- there is a contract with an occupational physician (*medic de medicina muncii*) licensed by the ITM in order to evaluate the employees so that they are fit for the job they have.
- miscellaneous items are in order: licensed cash registers (if needed), fire extinguishers, medical kits, evacuation plans, etc.

4 How to nearshore to a partner in Romania

Once the decision has been made to nearshore to a company in Romania rather than setting up a branch, the biggest challenge is to find the right nearshoring partner. In this chapter we focus on the situation of nearshoring software development services as it is one of the most common nearshoring activities and because it can act as a template for other types of similar services. The implication is that it is very important to choose a nearshoring partner carefully. Your own business will depend on it and it will require considerable investment to have the nearshoring partner work productively. Once production has been moved to the nearshoring partner it will take a continuous effort to keep harvesting on the initial investment and keep gaining from the advantages that nearshoring has to offer.

4.1 Partner selection

There are many potential nearshoring partners active in Romania and searching for one on the internet will yield a lot of results. Obviously, not all of these will be a perfect fit for your situation. One of the best ways of finding the right partner is by referral from a trusted source. Having considered the possibility of nearshoring, have recourse to the experiences of others in the field. Talk to these relations to find out how they found their partner, how they work with them, what their positive and negative experiences are, etc. Another possibility is of course to contact an organization such as the NRCC, which, having knowledge of the local companies, can direct you to potential partners. Regardless of how a potential partner is found, there are some criteria to keep in mind during the selection process. We will outline both pre- and post-selection criteria, where the pre-selection criteria apply to all potential partners and post-selection to partners that are seriously considered.

4.1.1 Pre-selection criteria

The following list is not a complete one by any measure but it will help eliminate potential partners and point out those that are worth investing more time in.

Keep it local

Many, if not most, nearshoring companies in Romania are of foreign origin. Many of those still have foreign management and have close ties to the country of origin. It is best to choose a partner that has close (cultural) ties to your own country of business.

Communication

Nearshoring (in software development) is all about communication. And communication is all about language and culture. One of the major hurdles in the nearshoring process is to bridge the cultural and linguistic gap between the two parties involved. This takes effort on both the receive and supply side. You and your staff have to adjust to working with and talking to people from Romania. At the same time, the employees in Romania have to adapt to working with people from your country. Your expectations will likely be different from those anticipated by the Romanian staff. At the same time, you will direct and manage in a way that is different to what people in Romania are used to.

If the nearshoring partner is of a foreign origin that is not your own, a second cultural bridge is introduced. Within the nearshoring company everyone will have accommodated to the existing

cultural boundary. This holds true both at the management and employee level. Working with such a company would mean having to work with “foreigners” (i.e. not Romanian) on the management level. At the same time the Romanian employees of the partner would have to work with a foreign partner that is of another origin than their management and most of their customers. In other words, on every level a second cultural gap will be introduced.

Selecting a purely Romanian partner would probably introduce fewer risks than selecting a partner that is from another (non-Romanian) country than your own. The only extra challenge in that case would be to work with Romanian staff both on the management and operational level.

Willingness to travel

It is inevitable that, at regular intervals, people travel to the other location in order to discuss matters face-to-face. Ease of travel is therefore a factor in the decision process. Are key-people from the nearshoring partner willing to travel to your local branch? And if so, under which conditions and for how long? Planning ahead will reduce costs for plane tickets and possibly hotels. Usually there will be a daily allowance involved for people coming to the local branch and it will help to know these costs.

4.1.2 Post selection criteria - fieldtest

The only way to find out if a partner is a good match is by doing something of a “field test”. In production, this would mean to have the potential partner produce samples of the goods to be examined by you. In software or services, the best way to do this is by assigning a real world task to the partner and evaluating the results.

For you as a client, the extra effort is well invested considering the risks of working with the wrong partner. You do have to consider, however, the investments the potential partner has to make. The tasks should not be so elaborate that the partner will shy away from taking it on out of fear for not getting a return on investment. For the field test it is very important to work with the partner as would be done in the actual collaboration. Make sure the key people on your side communicate with the people in Romania, not just someone from HR or another person that will no longer be around once the real work starts. Also, keep deadlines and quality standards in place as you would in a real project.

4.2 IT nearshoring

In the following paragraphs we will discuss a few points that are specific to IT nearshoring to a partner in Romania.

Technology

The development technologies that should be used play an important role in the selection criteria for a nearshoring partner. Many companies, particularly the smaller ones, focus on a certain platform and/or development technology, e.g. Microsoft Windows or Linux environments. Your prospective partner should have ample experience with the required technologies and be prepared to work with them. There is a tendency among certain communities (especially the younger IT staff) to always want to use the newest tools and technologies. This can contradict with the interests of the customer, who often is dealing with legacy systems and cannot always keep all its projects updated at all times.

Agile versus waterfall

When selecting a nearshoring partner, it may be helpful to consider what kind of development methodology will be used in the cooperation. The traditional waterfall method may seem more suited for a situation where a team is working remotely. The requirements are clear before the project starts and the project can run more or less independently until the end of the last phase. An agile methodology may seem better suited for a local team because it involves a lot of communication between stakeholders. On the other hand, leaving a remote team to work independently for a longer time increases the risk of having an unusable product in the end. Whereas the frequent communication that is inherent to an agile methodology will keep the remote team involved and committed to the local operation. In general terms, neither method has a clear preference but it would be good to consider the possibilities and see if the prospective partner is willing and able to use the desired methodology.

4.3 Starting the cooperation

Get off to a good start of the cooperation by some relatively simple measures. A little investment in the beginning could be very fruitful in the end by ensuring a good start.

Meet and greet

The first thing to do when you start working with your Romanian partner is to arrange a meeting. Depending on the amount of people involved on either side this could either be at your location or in Romania. What matters is that the key players know each other personally and know their respective surroundings. Instead of dealing with a black box that delivers goods or services, people will be dealing with someone they know. When talking on the phone or through Skype they can picture the other person in his working environment. Another obvious advantage of an initial meeting is that it provides an opportunity for an initial knowledge transfer.

Change your language

All communication with the Romanian partner is likely to be in English, while much of the in house communication is probably in your own language. Once you start working with the nearshoring partner it is wise to start using English for all aspects of the work that is being nearshored. This includes documents or information that is initially only targeted at the local office, since much of this may eventually need to be communicated to the Romanian partner. The earlier in the communication pipeline the English language is used, the easier it is for all parties involved to unambiguously discuss the matters.

To this extent, it is also wise to have a uniform way of translating terms from one language to the others, i.e. to have established terminology in both languages. This prevents misunderstandings resulting from terms being translated (and therefore interpreted) differently at different moments in time.

When work is moved to Romania it will require communication in English. It seems obvious, but many Dutch organizations find out they are not ready for communicating in English after they start the collaboration. Despite all modern means of communication face-to-face communication is still essential to good collaboration. Be sure to include enough in your budget for travels between the Netherlands and Romania.

Communicate expectations

For people working off-site it is always difficult to form a complete picture of what is going on at the receiving end. This lack of overview may hinder their potential to optimize efforts towards the end result, for example by focusing on aspects that are irrelevant to customers or end users. The separation of the IT department from the core business may already expose this problem in a traditional situation; only exaggerating it when IT tasks are being offshored.

For this reason it is essential that all people working off-site have a clear picture of the requirements and most importantly the expectations on the receiving end. This requires an effort from both local and remote management.

4.4 Continuing the cooperation

Starting the cooperation and the combined process is one thing, keeping things running smoothly is another. Once the cooperation becomes more of a routine people could become sloppy in keeping to the rules and levels of communication. This, in turn, could induce the “dangers” that are specific to nearshoring. It is essential to stay disciplined and put an effort to keep the cooperation fruitful for both parties.

Involve

A potential pitfall when working with two teams on different locations is that teams can get alienated. In a nearshoring situation this would imply that in due course the nearshoring team feels less connected to the “mother ship”, resulting in loss of motivation and quality of work. When everything is new and there is movement this will not happen so quickly. But once the cooperation reaches a certain level of self-organization and becomes routine, this danger becomes present. People in the remote team could feel less appreciated or involved in the project and as a result become less motivated or even start looking for another job. In order to prevent this, the remote team should continue to be involved in the process. This can be done by regular trips, (video-) presentations to the remote team, combined team building activities etc. (anything that can be done to keep the remote team involved in the process that happens on your side).

Keep track of progress

The more the remote teams are working independently, the higher the risk that they will deviate from the planned track. In order to prevent this it is essential to keep tabs on the remote team. This goes above and beyond tracking reports or asking local management. Regularly sampling the actual output yields a clearer picture of the end result and will forewarn deviations. In software development, using agile development methods will facilitate this. Agile development calls for incremental development, where requirements can be changed on a regular basis because of customer demands or insights based on tests with earlier versions.

5 More information

Netherlands Romanian Chamber of Commerce

The Netherlands Romanian Chamber of Commerce (NRCC) supports and promotes the Dutch-Romanian business community. The NRCC does this through creating business opportunities within her active community of members, through a close contact with Embassy of The Netherlands in Romania, as well as Romanian government relations where necessary.

The top sectors on which the NRCC focusses are: Agriculture & food, Logistics, IT&C and Creative Industries. Around 110 members of the NRCC benefit from the strong network of partners, have access to networking events, trainings and knowledge centers and the NRCC generates wide exposure for her members.

The NRCC also provides information to members or aspirant members about doing business in Romania and the Netherlands. To the NRCC nearshoring from the Netherlands to Romania creates a way of working that is beneficial to:

- The outsourcing company, by increasing its competitiveness on the market;
- The Romanian branch or partner, by bringing in high quality work;
- Romanian society and its government, who will benefit amongst other things from the influx of work and its contribution against brain drain;
- The EU, since the work might otherwise be outsourced outside the union.

Because of these benefits the NRCC believes that stimulating nearshoring will help the organization to achieve its mission.

Online resources

For the latest news about Dutch-Romanian business the NL-RO trade app, which is launched by the Embassy of The Netherlands in Romania, can be downloaded. The app can be found in the app store and on www.hollandtrade.ro. More online resources:

Netherlands Romanian Chamber of Commerce	www.NRCC.ro
Embassy of The Netherlands in Romania	www.netherlandsemb.ro
	www.hollandtrade.ro
Romanian Chamber of Commerce	www.ccir.ro
Dutch Business Club Cluj	www.dutchbusinessclubcluj.nl
Dutch-Romanian Network	www.dutchromaniannetwork.nl

6 Contact details NRCC members in alphabetical order
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